Tennessee Board of Regents
Tennessee State University

For the Year Ended
June 30, 1997

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Editor

March 31, 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. 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, 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 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/th
97/103

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, 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.

INTERNAL CONTROL FINDINGS

Equipment Inventory Records Not Accounted For Properly
Because of inadequate controls over the return of departmental moveable property inventory printouts, 36% of the year-end equipment value was not documented as existing (page 8).

Plant Fund Transactions Not Reported Accurately
Numerous reporting errors were discovered in the supporting Schedule of Changes in Fund Balances - Unexpended Plant (page 9).

COMPLIANCE FINDING

Pell Awards Not Recalculated When Students Do Not Begin Attendance in Some Classes
The university does not recalculate Federal Pell Grant awards to students who fail to begin attendance in some of their classes because there is no procedure in place to determine if Pell recipients do not begin attendance in some classes. The lack of a procedure could result in an overaward to some recipients (page 13).

Of the reportable conditions described above, we consider the following to be a material weakness: Because of inadequate controls over the return of departmental moveable property inventory printouts, 36% of the year-end equipment value was not documented as existing.

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 (page 8).

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, 1997

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Tennessee Board of Regents
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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, 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

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

ORGANIZATION

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

AUDIT SCOPE

The audit was limited to the period July 1, 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. 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

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The university filed its report with the Department of Audit on September 11, 1997. 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 previous audit findings concerning the reconciliation of student accounts receivable records with the general ledger, the calculation and timely payment of financial aid refunds, and reporting for the Federal Family Education Loans program, and has made significant improvements in the controls over deferments.

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. Reportable conditions, along with recommendations and management's responses, are detailed in the findings and recommendations. Consideration of internal control over financial reporting disclosed one material weakness.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*. Immaterial instances of noncompliance, along with recommendations and management's responses, are included in 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.

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 7, 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 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 7, 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*.

We did, however, note one immaterial instance 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the university's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the university's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable conditions were noted:

- Equipment inventory records were not accounted for properly.
- Plant fund transactions were not reported accurately.

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the following to be a material weakness:

- Equipment inventory records were not accounted for properly.

We also noted other 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

FINDINGS AND RECOMMENDATIONS

1. Equipment inventory records were not accounted for properly

Finding

The university's moveable property section, which is responsible for keeping up with all of the university's equipment, did not have an adequate system of follow-up to ensure that departments returned the moveable property inventory printouts. In order to conduct the annual physical inventory of equipment, the moveable property section distributes a moveable property inventory printout to each department listing the property for which the department is responsible. The department is supposed to verify that the information is correct, and if it is not, indicate the necessary changes and return the printout to the moveable property section so the property records can be updated, if necessary. As of September 30, 1997, the moveable property inventory printouts for 225 of 611 departmental accounts (37%) had not been returned. The dollar value of equipment for the 225 accounts was $8,706,292.45, which was 30% of the June 30, 1997, reported equipment inventory value of $29,063,668.14.

The printouts for an additional 146 accounts were returned late; 25 of those were more than 120 days late, which was beyond the date of financial statement presentation. Therefore, an additional $1,234,566.28 of equipment (4.25%) was not confirmed by the departments as of June 30, 1997. Also, according to a comparison of the inventory printouts and the moveable property inventory distribution records, several departmental account numbers were either inaccurate or expired, and there was no documentation to show that the applicable departments ever received the appropriate inventory printouts. The total dollar value of equipment assigned to these account numbers was $608,185.53.

Because of these discrepancies in moveable property inventory control, $10,549,044.26 of $29,063,668.14 of equipment inventory (36%) was not adequately accounted for as of the date of financial statement reporting.

The lack of adequate internal control over moveable property inventory printouts results in an incomplete physical inventory of equipment and may cause the financial statements to be materially misstated, since missing equipment may not be detected timely.

Recommendation

The Vice President for Business and Finance should monitor the activities of the moveable property inventory section to ensure that prior to financial reporting, moveable property inventory counts have been properly performed and adequately documented. The inaccurate departmental account numbers and expired account numbers should be corrected on the property inventory distribution records to ensure a complete distribution of the inventory printouts.

Management's Comment

We concur with the finding and recommendation.

All departments/account holders are required to have a representative attend the Annual Purchasing and Business Services workshop held in April. At that time, account holders are given specific instructions for completing inventory printouts and a designated time to return inventory printouts and supporting documents to Central Receiving for processing.

The importance of completing and returning inventory printouts no later than the date indicated along with follow-up measures to meet year-end close out requirements will be discussed and emphasized at the movable property inventory workshop in March 1998. Also, the Vice Presidents will be required to monitor and ensure submission of inventory reports for all departments under their supervision.

2. <u>Plant fund transactions were not reported accurately</u>

Finding

Plant fund transactions were not always reported accurately. Numerous reporting errors were discovered in the supporting Schedule of Changes in Fund Balances - Unexpended Plant. The unexpended plant funds group is used to account for the acquisition of physical properties, such as land, buildings, and equipment, for university purposes. It appears that the individual responsible for preparing the plant funds schedules had not been given adequate instructions regarding proper preparation, and his work had not been adequately reviewed. He indicated that he did not attempt to record the capital projects transactions monthly and reconcile his records with the State of Tennessee Accounting and Reporting System's (STARS') monthly project status reports by object code, which are produced by the Department of Finance and Administration, based on the transactions processed for each project. Instead, he waited until year-end and began with the ending balances on the STARS reports and tried to determine the additions and deductions for each project on the unexpended plant schedule. As a result, the following errors were noted:

a. The state appropriations expenditures on the fiscal year 1997 Schedule of Changes in Fund Balances - Unexpended Plant could not be reconciled with the amount reported on the year-end STARS project status reports by object code. The unreconciled difference was $9,523.16. The amount appears to be in the lump-sum adjustments to the unexpended state appropriations balance, but this could not be determined.

b. The $665,000 state appropriations amount for the Site Development Phase II project recognized state appropriations which were previously recognized in a prior-year adjustment. The amount of unexpended state appropriations was also overstated on the schedule; therefore, the net effect of the error was zero on the financial statements.

c. Prior audit adjustments were not reflected in the balances of three projects. Noncapital expenditures of $33,711.19 on the Project Management Facility project and capital expenditures of $5,522.34 on the Campus Center - Kean Hall project and $42.73 on the McMinnville Nursery Research Station project should have been included in the other deductions column as a prior-year adjustment. The amount of unexpended state appropriations should have been reduced by these amounts.

d. The $36,936.60 other deduction on the New Administration Building project should have been footnoted as a prior-year adjustment for expenditures of state appropriations rather than as Department of Finance and Administration project administration costs.

e. Based on the year-end STARS project status report by object code, the amount of new state appropriations allotted to the Project Management Facility project was $96,793.09. The amount reported on the schedule was $64,195.14.

f. The addition of $51,387.83 on the New Student Dormitory project and the credit of $931.00 on the Consultant Fees project should not have been included as new state appropriations on the schedule. The unexpended state appropriations should have been adjusted for these amounts.

g. Based on a Tennessee Board of Regents' memorandum, capital project administration costs should have been shown in the other deductions column and footnoted rather than being shown as noncapital expenditures.

h. Information related to the Central Power Plant project and the Repair/Upgrade Various Buildings project was mixed up on the schedule. The Repair/Upgrade Various Buildings project was misidentified on the STARS project status report by object code, which led to the confusion. The Central Power Plant project balance on the schedule agreed with the STARS year-end report, but the Repair/Upgrade Various Buildings project balance, based on the STARS year-end report, should have been $294,518.22, although the schedule reflected a zero balance. Because of the mix-up, capital expenditures related to these projects may not have been accurately reflected on the Schedule of Changes in Investment in Plant.

i. The Incubation Center project should have reflected federal, local grant, and university revenue additions rather than state appropriations of $560,660.61. Federal revenues of $448,528.49 were not reflected. The $560,660.61, on the Schedule of Changes in Fund Balances - Unexpended Plant, should have been capitalized as construction in progress - buildings. The Schedule of Changes in Investment in Plant did not agree; it reflected $548,040.44 in construction in progress - buildings and $12,620.17 in capital equipment. The correct amounts were $560,660.61 in construction in progress - buildings, $39,777.41 in noncapital expenditures, and $12,620.17 in capital equipment expenditures. The $39,777.41 and $12,620.17 were expenditures that were reflected in the university's accounting records but not on the STARS year-end report or the Schedule of Changes in Fund Balances - Unexpended Plant. This error caused the Schedule of Federal Assistance to be misstated.

j. The $22,499.29 other deduction on the New Engineering Renovation project should not have been made. That amount should have been reflected in the project's fund balance.

k. According to the STARS project status report by object code, the transfer from the Campus Improvements (Local) project to the Gentry Center Site Development project was overstated by $40,000.00.

l. The balance of the Chiller Replacement project reflected $9,200.00 in prior-year expenditures, and the balance of the Gentry Center Site Development project reflected $4,800.00 in prior-year expenditures which were not reflected on the year-end STARS project status report by object code. Invoices related to these expenditures have not been sent to the Tennessee Board of Regents for reimbursement.

m. The footnote for the other deduction on the Land Acquisition project for a credit of $249,904.17 indicated it was for an allocation by the Department of Finance and Administration for administrative costs. However, the correct credit amount was $250,060.17 and was from a consent judgment according to the related Tennessee Board of Regents memorandum, and the balance should have been reflected as new noncapital expenditures.

n. Tennessee State School Bond Authority expenditures of $261,268.33 on the Student Apartments project were not reflected on the schedule. The year-end STARS project status report by object code was not received for this project, and no follow-up was made to obtain one.

o. According to the STARS project status report by object code at June 30, 1997, the McMinnville Nursery Research Station project had a balance of $408,100.06. The schedule showed a balance of zero.

p. The balance of the Eppse Hall Renovation project reflected expenditures by the university of $8,209.97 and $1,209.69 which were not included on the year-end STARS project status report by object code. Invoices related to these expenditures have not been sent to the Tennessee Board of Regents for reimbursement.

q. Noncapital equipment expenditures of $22,792.00 on the Hale Hall Renovation project and noncapital equipment and supply expenditures of $239,650.10 on the New Administration Building project were incorrectly capitalized as construction in progress - buildings. The amounts should have been expensed.

r. According to the criteria for capitalization used for other renovation projects, for the Boyd Hall Renovation project, the $305,865.48 construction in progress - other improvements should have been construction in progress - buildings.

s. Capital expenditures of $72,231.85 on the Student Apartments project and $21,064.82 on the Telecommunications project, which were on the unexpended plant schedule, were not capitalized on the Schedule of Changes in Investment in Plant.

The financial statements may be materially misstated if plant fund transactions are not reported accurately. Audit adjustments and reclassifications were made as necessary to correct the financial statements. The untimely submission of university-paid invoices to the Tennessee Board of Regents for processing causes delays in reimbursement of university funds by the Department of Finance and Administration and delays in reimbursement of university funds by the federal granting agency.

Recommendation

The Vice President for Business and Finance should ensure that plant fund transactions are reported accurately in the financial statements and supporting schedules. This responsibility includes providing adequate instructions regarding preparation and also reviewing the statements and schedules for accuracy. When invoices are paid directly by the university, they should be submitted promptly to the Board of Regents for reimbursement.

Management's Comment

We concur with the finding and recommendation. Monthly reconciliations will be performed by the Financial Analyst III in General Accounting who will be provided adequate instructions regarding preparing the reconciliations, financial statements, and supplemental schedules to ensure transactions are reported accurately and properly. These documents will all be reviewed and approved as necessary by the Assistant Director for General Accounting and Accounts Payable as well as by the Director of Finance and Accounting. Invoices paid directly by the university will be submitted in a timely manner to the Tennessee Board of Regents for reimbursement.

3. Pell awards are not recalculated when students do not begin attendance in some classes

Finding

The university does not recalculate Federal Pell Grant awards to students who fail to begin attendance in some of their classes. The awards are not recalculated because the student financial aid office does not have a procedure in place to determine if Pell recipients do not begin attendance in some classes.

The *Federal Student Financial Aid Handbook*, Chapter 4, page 64, states, "If the student does not begin attendance in all of his or her classes, the school must recalculate the student's [Pell] award based on the lower enrollment status."

The lack of a procedure to determine if a Pell recipient has failed to begin attendance in some, but not all, classes could result in an overaward to some recipients.

Recommendation

The Vice President for Academic Affairs and the Vice President for Business and Finance should develop and implement a procedure to determine if Pell recipients begin attendance in all classes. Pell awards should be recalculated whenever a student does not begin attendance in some classes.

Management's Comment

We concur with the finding and recommendation. The university has established a new procedure to be effective spring semester 1998. A new grade will be assigned to students who never attend or cease to attend a class. This data will be compiled by the Registrar's Office after mid-term and sent to the Financial Aid Office for recalculation of Pell Grant awards for these students.

Independent Auditor's Report

November 7, 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 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, 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 7, 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 BOARD OF REGENTS
TENNESSEE STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1997, AND JUNE 30, 1996

ASSETS

	June 30, 1997	June 30, 1996
Current funds:		
Unrestricted:		
General:		
Cash and cash equivalents (Notes 3 and 4)	$ 1,804,331.59	$ 1,687,031.36
Investments (Note 5)	10,014,219.01	10,013,836.00
Accrued interest receivable	627,776.92	6,611.70
Accounts receivable (net of allowance of $609,553.43 at June 30, 1997, and $692,103.65 at June 30, 1996)	572,559.40	968,189.89
Inventories	32,126.03	41,442.25
Other assets	-	378.61
Total general	13,051,012.95	12,717,489.81
Auxiliary enterprises:		
Cash and cash equivalents (Notes 3 and 4)	2,484,378.03	1,375,400.74
Accounts receivable (net of allowance of $1,572.42 at June 30, 1997, and June 30, 1996)	186,588.28	189,970.29
Total auxiliary enterprises	2,670,966.31	1,565,371.03
Total unrestricted	15,721,979.26	14,282,860.84
Restricted:		
Cash and cash equivalents (Notes 3 and 4)	2,269,197.68	2,221,457.64
Accrued interest receivable	876.99	1,058.81
Accounts and grants receivable	2,763,358.34	2,721,954.54
Total restricted	5,033,433.01	4,944,470.99
Total current funds	$ 20,755,412.27	$ 19,227,331.83
Loan funds:		
Cash and cash equivalents (Notes 3 and 4)	$ 202,316.60	$ 55,045.94
Notes receivable (net of allowance of $1,373,469.68 at June 30, 1997, and $1,478,640.48 at June 30, 1996)	2,053,432.79	2,157,978.12
Accrued interest receivable	904,409.90	867,622.96
Total loan funds	$ 3,160,159.29	$ 3,080,647.02
Endowment and similar funds:		
Cash and cash equivalents (Notes 3 and 4)	$ 92,840.43	$ 28,580.83
Investments (Notes 4 and 5)	177,572.86	231,594.73
Accrued interest receivable	3,042.10	2,614.38
Total endowment and similar funds	$ 273,455.39	$ 262,789.94

LIABILITIES AND FUND BALANCES

	June 30, 1997	June 30, 1996
Current funds:		
Unrestricted:		
General:		
Liabilities:		
Accounts payable	$ 687,675.97	$ 975,882.41
Accrued liabilities	3,901,933.59	3,598,371.98
Deferred revenue	3,065,867.24	2,628,298.94
Student deposits	312,630.20	279,374.20
Checks payable	2,240,826.76	1,506,525.09
Other liabilities	282,905.06	312,338.89
Total liabilities	10,491,838.82	9,300,791.51
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital	192,476.73	636,723.30
Allocation for encumbrances	1,367,790.86	1,333,352.22
Allocation for extension service salary adjustment	68,903.64	87,375.15
Allocation for intracampus transportation	-	718.19
Allocation for Center on Aging	3,429.48	2,647.26
Allocation for McMinnville Experiment Station	20,619.23	149,549.51
Allocation for Upward Bound	23,434.09	17,495.71
Allocation for African culture	1,428.65	2,078.40
Discretionary allocation:		
Allocation for subsequent budget	881,091.45	1,186,518.61
Unallocated	-	239.95
Total fund balances	2,559,174.13	3,416,698.30
Total general	13,051,012.95	12,717,489.81
Auxiliary enterprises:		
Liabilities:		
Accounts payable	99,820.85	119,738.99
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital	187,102.28	190,484.29
Allocation for encumbrances	386,547.24	116,410.47
Discretionary allocation:		
Allocation for contingencies	414,957.53	360,149.21
Unallocated	1,582,538.41	778,588.07
Total fund balances	2,571,145.46	1,445,632.04
Total auxiliary enterprises	2,670,966.31	1,565,371.03
Total unrestricted	15,721,979.26	14,282,860.84
Restricted:		
Liabilities:		
Accounts payable	413,888.20	440,665.08
Due to grantors	1,246,851.75	1,702,647.50
Total liabilities	1,660,739.95	2,143,312.58
Fund balance	3,372,693.06	2,801,158.41
Total restricted	5,033,433.01	4,944,470.99
Total current funds	$ 20,755,412.27	$ 19,227,331.83
Loan funds:		
Fund balances:		
U.S. government grants refundable	$ 2,300,861.20	$ 2,198,067.71
University funds:		
Restricted - matching	769,394.67	769,394.67
Restricted - other	89,903.42	113,184.64
Total loan funds	$ 3,160,159.29	$ 3,080,647.02
Endowment and similar funds:		
Fund balances:		
Endowment	$ 58,977.28	$ 58,599.16
Quasi-endowment - restricted	214,478.11	204,190.78
Total endowment and similar funds	$ 273,455.39	$ 262,789.94

Exhibit A (Cont.)

TENNESSEE BOARD OF REGENTS
TENNESSEE STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1997, AND JUNE 30, 1996

ASSETS

	June 30, 1997	June 30, 1996
Plant funds:		
Unexpended plant:		
Cash and cash equivalents (Notes 3 and 4)	$ 1,869,074.90	$ 4,133,190.96
LGIP deposit - capital projects	1,335,839.25	-
Accounts receivable	799,739.83	169,177.33
Total unexpended plant	4,004,653.98	4,302,368.29
Renewals and replacements:		
Cash and cash equivalents (Notes 3 and 4)	2,825,410.16	3,070,952.26
Investments (Note 5)	192,189.59	177,788.52
Accrued interest receivable	-	3,618.30
Total renewals and replacements	3,017,599.75	3,252,359.08
Retirement of indebtedness:		
Cash and cash equivalents (Notes 3 and 4)	294,075.48	549,544.40
Investments (Note 5)	331,697.77	576,347.40
Assets with trustee (Note 5)	1,547,079.75	1,097,879.75
Accrued interest receivable	43,055.43	23,252.60
Total retirement of indebtedness	2,215,908.43	2,247,024.15
Investment in plant:		
Land	8,872,355.24	8,872,355.24
Buildings	73,877,352.37	73,789,770.37
Improvements other than buildings	39,002,494.43	38,641,483.21
Equipment	29,015,123.88	25,994,630.40
Livestock	34,951.50	58,825.30
Library books	22,702,608.00	9,272,420.00
Other library holdings	3,470,441.00	3,067,807.30
Construction in progress	57,166,887.59	52,594,921.11
Total investment in plant	234,142,214.01	212,292,212.93
Total plant funds	$ 243,380,376.17	$ 222,093,964.45
Agency funds:		
Nonfoundation funds:		
Cash and cash equivalents (Notes 3 and 4)	$ 154,805.25	$ 173,031.17
Total nonfoundation funds	154,805.25	173,031.17
Foundation funds:		
Cash and cash equivalents (Notes 3 and 4)	885,286.61	402,242.03
Investments (Note 5)	1,364,515.18	1,307,425.99
Accrued interest receivable	4,749.00	5,743.00
Notes receivable	13,564.16	63,057.10
Land	-	54,350.00
Total foundation funds	2,268,114.95	1,832,818.12
Total agency funds	$ 2,422,920.20	$ 2,005,849.29

LIABILITIES AND FUND BALANCES

	June 30, 1997	June 30, 1996
Plant funds:		
Unexpended plant:		
Liabilities:		
Accounts payable	$ 847,820.61	$ 291,313.87
Total liabilities	847,820.61	291,313.87
Fund balance:		
Unrestricted (Note 6)	3,156,833.37	4,011,054.42
Total unexpended plant	4,004,653.98	4,302,368.29
Renewals and replacements:		
Liabilities:		
Accounts payable	-	77,352.00
Fund balances:		
Restricted	180,000.00	180,000.00
Unrestricted (Note 6)	2,837,599.75	2,995,007.08
Total fund balances	3,017,599.75	3,175,007.08
Total renewals and replacements	3,017,599.75	3,252,359.08
Retirement of indebtedness:		
Liabilities:		
Accrued interest payable	85,057.78	86,258.94
Fund balances:		
Restricted	1,879,436.56	1,441,359.75
Unrestricted	251,414.09	719,405.46
Total fund balances	2,130,850.65	2,160,765.21
Total retirement of indebtedness	2,215,908.43	2,247,024.15
Investment in plant:		
Liabilities:		
Notes payable (Note 7)	718,064.14	3,337,509.64
Bonds payable (Note 7)	11,020,678.77	8,655,995.87
Total liabilities	11,738,742.91	11,993,505.51
Fund balance:		
Net investment in plant	222,403,471.10	200,298,707.42
Total investment in plant	234,142,214.01	212,292,212.93
Total plant funds	$ 243,380,376.17	$ 222,093,964.45
Agency funds:		
Nonfoundation funds:		
Liabilities:		
Deposits held in custody for others	$ 154,805.25	$ 173,031.17
Total nonfoundation funds	154,805.25	173,031.17
Foundation funds:		
Liabilities:		
Accounts payable	15,211.69	13,631.57
Deposits held in custody for foundation	2,252,903.26	1,819,186.55
Total foundation funds	2,268,114.95	1,832,818.12
Total agency funds	$ 2,422,920.20	$ 2,005,849.29

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, 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	$ 59,217,473.66	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	8,299,150.58	-	-	-	-	-	-	-
State appropriations	-	708,213.00	-	-	3,767,707.05	-	42,935.93	-
Federal grants and contracts	-	23,811,676.99	-	-	1,236,676.79	-	-	-
State grants and contracts	-	1,122,987.94	-	-	-		-	-
Local grants and contracts	-	779,533.86	-	-	-	-	-	-
Private gifts, grants, and contracts	-	1,090,251.13	-	-	-	-	-	5,141.20
Endowment income	-	3,008.86	-	-	-	-	-	-
Investment income	-	-	-	10,665.45	-	5,385.21	103,331.83	-
Interest on loans receivable	-	-	131,566.41	-	-	-	-	-
Reduction in doubtful accounts	-	-	106,663.24	-	-	-	-	-
Proceeds from notes	-	-	-	-	333,500.18	-	-	-
Equipment use charges	-	-	-	-	-	35,000.00	-	-
Student debt service fees	-	-	-	-	-	-	709,907.15	-
Addition to debt service reserve	-	-	-	-	-	-	449,200.00	
Expended for plant facilities (including $3,456,329.18 charged to current fund expenditures)	-	-	-	-	-	-	-	8,799,413.87
Library holdings revaluation (Note 13)	-	-	-	-	-	-	-	13,411,665.57
Retirement of indebtedness	-	-	-	-	-	-	-	1,082,250.03
Other	-	-	8,422.83	-	-	-	-	7,100.72
Total revenues and other additions	67,516,624.24	27,515,671.78	246,652.48	10,665.45	5,337,884.02	40,385.21	1,305,374.91	23,305,571.39
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	60,357,997.83	25,711,293.34	-	-	-	-	-	-
Auxiliary enterprise expenditures	5,915,038.81	115,837.41	-	-	-	-	-	-
Indirect costs recovered	-	1,050,905.07	-	-	-	-	-	-
Refunded to grantors	-	66,101.31	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	121,261.84	-	-	-	-	-
Administrative and collection costs	-	-	20,115.69	-	-	-	13,543.70	-
Provision for doubtful accounts	-	-	23,287.93	-	-	-	-	-
Expended for plant facilities	-	-	-	-	5,197,718.76	145,365.93	-	-
Expended for noncapital items	-	-	-	-	1,381,423.20	188,789.20	-	-
Retirement of indebtedness	-	-	-	-	-	-	1,082,250.03	-
Interest on indebtedness	-	-	-	-	-	-	652,297.49	-
Disposal of plant facilities	-	-	-	-	-	-	-	361,195.14
Increase in indebtedness	-	-	-	-	-	-	-	827,487.43
Other	-	-	2,474.75	-	39,397.12	-	-	12,125.14
Total expenditures and other deductions	66,273,036.64	26,944,137.13	167,140.21	-	6,618,539.08	334,155.13	1,748,091.22	1,200,807.71

TENNESSEE BOARD OF REGENTS
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	(746,488.35)	-	-	-	-	-	746,488.35	-
Nonmandatory:								
Unrestricted current funds	283,000.00	-	-	-	(283,000.00)	-	-	-
Unexpended plant	(210,040.00)	-	-	-	709,434.01	(165,707.41)	(333,686.60)	-
Renewals and replacements	(302,070.00)	-	-	-	-	302,070.00	-	-
Total transfers	(975,598.35)	-	-	-	426,434.01	136,362.59	412,801.75	-
Net increases (decreases) for the year	267,989.25	571,534.65	79,512.27	10,665.45	(854,221.05)	(157,407.33)	(29,914.56)	22,104,763.68
Fund balances at beginning 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
Fund balances at end of year	$ 5,130,319.59	$ 3,372,693.06	$ 3,160,159.29	$ 273,455.39	$ 3,156,833.37	$ 3,017,599.75	$ 2,130,850.65	$ 222,403,471.10

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, 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	-	-	-	-	-	-	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	-	-	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	-	-	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 D

TENNESSEE BOARD OF REGENTS
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	$ 21,434,967.18	$ 16,574.02	$ 21,451,541.20
State appropriations	32,227,100.00	679,231.26	32,906,331.26
Federal grants and contracts	1,028,704.80	22,806,003.08	23,834,707.88
State grants and contracts	13,370.20	1,088,941.10	1,102,311.30
Local grants and contracts	-	369,093.41	369,093.41
Private gifts, grants, and contracts	12,148.07	751,450.47	763,598.54
Sales and services of educational activities	3,079,860.77	-	3,079,860.77
Sales and services of auxiliary enterprises	8,299,150.58	115,837.41	8,414,987.99
Other sources	1,421,322.64	-	1,421,322.64
Total current revenues	67,516,624.24	25,827,130.75	93,343,754.99
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	29,986,768.40	6,147,908.75	36,134,677.15
Research	749,827.24	6,950,027.63	7,699,854.87
Public service	541,715.31	4,016,716.93	4,558,432.24
Academic support	4,795,318.42	1,295,494.70	6,090,813.12
Student services	7,421,056.57	791,696.66	8,212,753.23
Institutional support	6,805,623.32	380,756.71	7,186,380.03
Operation and maintenance of plant	6,753,987.34	174.37	6,754,161.71
Scholarships and fellowships	3,303,701.23	6,128,517.59	9,432,218.82
Total educational and general expenditures	60,357,997.83	25,711,293.34	86,069,291.17
Nonmandatory transfer for:			
Unexpended plant	(283,000.00)	-	(283,000.00)
Total educational and general	60,074,997.83	25,711,293.34	85,786,291.17
Auxiliary enterprises:			
Expenditures	5,915,038.81	115,837.41	6,030,876.22
Mandatory transfer for:			
Principal and interest	746,488.35	-	746,488.35
Nonmandatory transfers for:			
Unexpended plant	210,040.00	-	210,040.00
Renewals and replacements	302,070.00	-	302,070.00
Total auxiliary enterprises	7,173,637.16	115,837.41	7,289,474.57
Total expenditures and transfers	67,248,634.99	25,827,130.75	93,075,765.74
OTHER ADDITION (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	1,688,541.03	1,688,541.03
Indirect costs recovered	-	(1,050,905.07)	(1,050,905.07)
Refunded to grantors	-	(66,101.31)	(66,101.31)
Net increases in fund balances	$ 267,989.25	$ 571,534.65	$ 839,523.90

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, 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.

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 residence halls, the bookstore, food services, the post office, vending, parking, and telecommunications/student information. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

Loan Funds

Loan funds consist of resources made available for student loans.

Endowment and Similar Funds

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be used. Although quasi-endowment funds have been established by the governing board for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended.

Plant Funds

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

Agency Funds

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

LGIP DEPOSIT–CAPITAL PROJECTS

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

INVENTORIES

Inventories are valued at the lower of cost or market. 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 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. 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.

FEDERAL DIRECT LOAN PROGRAM

The university participates in the Federal Direct Loan Program. Activity of this program is not included in the financial statements of the university. The university acts as an agent for the U.S. government in disbursing funds to students.

NOTE 2. 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 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 $2,774,328.26 at June 30, 1997, and $2,580,342.84 at June 30, 1996, and increased the unrestricted current fund expenditures by $193,985.42 for the year ended June 30, 1997, and $206,382.01 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 $2,294.62 in bank accounts, $3,264.00 of petty cash on hand, $10,208.56 in capital management account money funds, $10,661,723.82 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $2,204,225.73 in a supersweep account. At June 30, 1996, cash and cash equivalents consisted of $28,367.80 in bank accounts, $3,039.00 of petty cash on hand, $55,447.59 in capital management account money funds, $6,394,781.31 in the State of Tennessee Local Government Investment Pool, and $7,214,841.63 in a supersweep account.

NOTE 4. DEPOSITS

The university's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

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

June 30, 1997

	Carrying Amount	Market Value
Category 1:		
University:		
U.S. government securities	$10,537,723.36	$11,217,126.01
Repurchase agreements	2,204,225.73	2,204,225.73
Foundation:		
U.S. government securities	466,380.08	448,012.00
Category 2:		
Foundation:		
Corporate bonds	400,422.70	397,126.00
Corporate stocks	358,058.04	381,108.00
Foundation investments not susceptible to credit risk categorization:		
Mutual funds	123,654.36	141,501.00
Certificates of deposit classified as investments:		
University	177,955.87	177,955.87
Foundation	16,000.00	15,983.00
Amount classified as cash equivalents	(2,204,225.73)	(2,204,225.73)
Total investments on the balance sheet	$12,080,194.41	$12,778,811.88

June 30, 1996

	Carrying Amount	Market Value
Category 1:		
University:		
U.S. government securities	$10,767,971.92	$10,799,220.28
Repurchase agreements	7,214,841.63	7,214,841.63

Foundation:		
U.S. government securities	138,311.08	133,970.00
Category 2:		
Foundation:		
Corporate bonds	674,470.78	521,857.00
Corporate stocks	422,986.24	371,053.00
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

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 $75,311.65 for unexpended plant and $320,325.60 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 1996, amounted to $399,266.77 for unexpended plant and $25,578.66 for renewals and replacements.

NOTE 7. NOTES AND BONDS PAYABLE

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 obtained two interest-free energy loans through the Energy Management Loan Fund within the Tennessee Department of General Services. One loan in the amount of $380,000.00 to provide financing for the Chiller Replacement project is payable in annual installments of $76,000.00 over five years. The balance owed by the university was $328,919.62 at June 30, 1997. The other loan in the amount of $222,577.24 to provide financing for the Summer Boiler Project is payable in annual installments of $55,644.31 over four years. The balance owed by the university was $55,644.31 at June 30, 1997.

The university's debt service requirements to maturity for all notes and bonds payable at June 30, 1997, excluding bond anticipation notes, are as follows:

Year Ending June 30	Principal	Interest	Total
1998	$ 1,103,627.46	$ 699,971.60	$ 1,803,599.06
1999	1,077,877.04	671,325.21	1,749,202.25
2000	973,782.15	639,782.60	1,613,564.75
2001	880,991.63	608,242.04	1,489,233.67
2002	857,824.70	581,428.58	1,439,253.28
2003-2021	6,511,139.72	5,589,861.10	12,101,000.82
	$11,405,242.70	$8,790,611.13	$20,195,853.83

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 $333,500.21 at June 30, 1997, and $2,975,509.64 at June 30, 1996.

NOTE 8. PENSION PLANS

A. Defined Benefit Plans

During the year ended June 30, 1997, 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.

1. Tennessee Consolidated Retirement System

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230, or by calling (615) 741-8202, 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 $1,706,353.75, $1,299,802.98, and $1,237,164.89. Contributions met the requirements for each year.

2. Federal Retirement Program

Plan Description - The university contributes to the Federal Retirement Program, a cost-sharing multiple-employer defined benefit pension plan administered by the Civil Service Retirement System (CSRS) for participants employed prior to January 1, 1984, and the Federal Employees Retirement System (FERS) for participants employed after December 31, 1983. Both systems provide retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. All regular full-time employees of the Tennessee State University Agricultural Extension Service who hold federal appointments for 51% or more of their time are required to participate in either one of the two Federal Retirement Programs. For both systems, benefit provisions are established in federal statutes. Federal statutes are amended by the U. S. Congress. All the university's extension employees currently participate in CSRS.

The CSRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Office of Personnel Management, Retirement Information Office, P. O. Box 45, Boyers, Pennsylvania, 16017-0045, or by calling (202) 606-0500.

Funding Policy - Participating employees and the university are required by federal statute to contribute 7% of covered payroll to the CSRS plan. Contribution requirements are established and may be amended by federal statutes. Contributions to CSRS for the year ended June 30, 1997, were $58,299.72, which consisted of $29,114.86 from the university and $29,114.86 from the employees; 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. 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.

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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 $1,848,648.25, which represented 10% of the covered payroll, and for the year ended June 30, 1996, was $1,808,460.31, which represented 10.9% 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 $593,855.75 on deposit at June 30, 1997, and $600,018.05 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. 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 $200,152,031 for buildings and $16,707,400 for contents. At June 30, 1996, the scheduled coverage was $203,302,300 for buildings and $16,315,793 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 12. 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 $20,720,415.73 at June 30, 1997, and $19,162,105.16 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 $394,947.12 and for personal property were $293,862.23 for the year ended June 30, 1997. Comparative amounts for the year ended June 30, 1996, were $292,332.78 and $298,892.29. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1997, outstanding commitments under construction contracts totaled $2,513,430.11 for the following master plan projects: renovation of six buildings, McMinnville Nursery Research Station, asbestos/hazardous material, downtown campus renovations, conversion of Administration Building, Hale Hall renovations, Eppse Hall renovations, Gentry Center roof repair, site development phase II, project management facility, power plant upgrade, new student dormitory (Rudolph), chiller replacement, Boyd Hall renovation, Industrial Arts Building renovation, new Performing Arts Building, infrastructure upgrade, Harned and McCord Hall renovation, and parking improvement, of which $2,144,409.52 will be funded by future state capital outlay appropriations.

Litigation - The university is involved in several lawsuits. For one case, a court decision was issued in favor of the plaintiff in July 1997. Issues concerning the amount of damages are still pending before the district court. The liability could reach $1,000,000 depending on the court's determination.

Questioned Costs - As of June 30, 1997, the university had not resolved $80,430.25 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
Payments to 1890 Land-Grant Colleges and Tuskegee University	$ 474.00
Federal Direct Student Loan	5,280.00
Minority Access to Research Centers	3,009.00
Total	$8,763.00

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

NOTE 13. 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/decreased by various amounts. As a result of the revaluation, library books and other library holdings increased by $13,243,188 and $295,846, and net investment in plant, under the investment in plant fund subgroup, increased by $13,539,034 at June 30, 1997.