Tennessee Board of Regents
Tennessee State University

For the Year Ended
June 30, 1998

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Jane Russ
Editor

March 2, 1999

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, 1998. 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 one deficiency, which is detailed in the Results of the Audit section of this report. The university's administration has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/ms
99/016

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, 1998

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.

COMPLIANCE FINDING

Some refunds due student financial assistance programs not calculated correctly
Six of 16 refunds calculated using the state refund policy (37.5%) were not accurate, resulting in underpayments totaling $3,644 (page 6).

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, 1998

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Tennessee Board of Regents
Tennessee State University
For the Year Ended June 30, 1998

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, 1997, through June 30, 1998, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1998, and for comparative purposes, the year ended June 30, 1997. 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.

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 8, 1998. 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 accounting for equipment inventory records, reporting of plant fund transactions, and recalculation of Pell awards.

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, 1998, 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 government auditing standards. 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 under *Government Auditing Standards*. Immaterial instances of noncompliance, along with the recommendation and management's response, are included in the finding and recommendation.

Fairness of Financial Statement Presentation

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

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

October 23, 1998

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, 1998, and have issued our report thereon dated October 23, 1998. 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 government auditing standards.

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 under *Government Auditing Standards*.

We did, however, note one immaterial instance of noncompliance that we have included in the Finding and Recommendation section of this report. We also noted certain other less significant instances of noncompliance, which 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 and its operation that we consider to be material weaknesses.

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

FINDING AND RECOMMENDATION

<u>Some refunds due student financial assistance programs were not calculated correctly</u>

Finding

The university is required to refund a portion of financial aid to applicable financial assistance programs when students receiving such funds withdraw from the university. Some of the refunds due Title IV student financial assistance programs—the Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, Federal Perkins Loan, and Federal Direct Student Loan programs—were not calculated correctly. Six of 16 sample refunds calculated using the state refund policy (37.5%) were not accurate.

The *Federal Student Financial Aid Handbook* states that "the Higher Education Amendments of 1992 define a 'fair and equitable refund policy' as one that provides for a refund of at least the largest amount under: applicable state law; specific refund requirements established by the school's … accrediting agency…; or the pro rata refund calculation." The 16 refund calculations noted above were based on the state refund policy. The Tennessee Board of Regents Guideline B-060, which is considered state policy for the university, allows the university to keep 25% of its institutional charges in the first two weeks after classes begin and 75% thereafter. The university's computer system is used to calculate the amount to be refunded to each program and to the student, if excess funds remain after program allocations. The housing department is responsible for making adjustments to the system for the appropriate percentage of room and board.

The housing department's failure to adjust the room and board created the majority of the errors, resulting in underpayments of $2,361.25 to the financial assistance programs and $44 to a student. The computer calculation was not performed correctly for two students, resulting in underpayments of $4. A check issued to one student was used to offset $9.75 of the refund amount. One student's refund was originally calculated correctly and returned to the appropriate programs, but later $1,225 of the refund was credited to the student's account. The total of the refunds due over the refunds returned, as calculated by the auditors, was $3,644—$865 for the Direct Student Loan program, $735 for the Federal Pell Grant program, $1,000 for the Federal Supplemental Educational Opportunity Grant program, $1,000 for the Perkins Loan revolving fund, and $44 to the student.

Recommendation

The Vice-President of Business and Finance should ensure coordination among the financial aid office, business office, and housing department so that the amounts credited back to the federal programs and refunded to the students will be calculated properly.

Management's Comment

We concur with the finding and recommendation. On December 7, 1998, the Housing Office, a division of Student Affairs, made corrections to the pertinent students' accounts. After these corrections and the other corrections to students' accounts by the Bursar's Office, the Financial Aid Office made the necessary adjustments to relevant federal programs. The Bursar's Office has updated the computer table to correct the computer calculation. By March 15, 1999, the Department of Computer Services will assist the Housing Office by providing them with a FOCUS report that will allow them to monitor student account adjustments involving room and board. With the assistance of the FOCUS report, the Housing Office will review the fall 1998 and spring 1999 semesters to ensure that the necessary housing adjustments have been made.

Independent Auditor's Report

October 23, 1998

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, 1998, and June 30, 1997, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the university's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

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

As described in Note 2 to the financial statements, the university has 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, 1998, and June 30, 1997, 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.

As discussed in Note 14 to the financial statements, the university implemented GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* in conformity with generally accepted accounting principles. Also, as discussed in Note 14, the university changed the threshold for capitalizing equipment.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 1998, 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/ms

Exhibit A

TENNESSEE BOARD OF REGENTS
TENNESSEE STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1998, AND JUNE 30, 1997

ASSETS	June 30, 1998	June 30, 1997
Current funds:		
Unrestricted:		
General:		
Cash and cash equivalents (Notes 3 and 4)	$ 791,954.53	$ 1,804,331.59
Investments (Note 5)	11,317,683.89	10,014,219.01
Accrued interest receivable	1,055,452.24	627,776.92
Accounts receivable (net of allowance of $504,746.26 at June 30, 1998, and $609,553.43 at June 30, 1997)	951,291.02	572,559.40
Inventories	39,547.06	32,126.03
Due from endowment and similar funds	571.03	-
Total general	14,156,499.77	13,051,012.95
Auxiliary enterprises:		
Cash and cash equivalents (Notes 3 and 4)	2,559,090.77	2,484,378.03
Accounts receivable (net of allowance of $1,572.42 at June 30, 1998, and June 30, 1997)	129,353.84	186,588.28
Total auxiliary enterprises	2,688,444.61	2,670,966.31
Total unrestricted	16,844,944.38	15,721,979.26
Restricted:		
Cash and cash equivalents (Notes 3 and 4)	613,526.45	2,269,197.68
Accrued interest receivable	2,186.30	876.99
Accounts and grants receivable	3,628,058.50	2,763,358.34
Total restricted	4,243,771.25	5,033,433.01
Total current funds	$ 21,088,715.63	$ 20,755,412.27
Loan funds:		
Cash and cash equivalents (Notes 3 and 4)	$ 297,066.91	$ 202,316.60
Notes receivable (net of allowance of $1,082,883.81 at June 30, 1998, and $1,373,469.68 at June 30, 1997)	2,293,752.93	2,053,432.79
Accrued interest receivable (net of allowance of $219,889.34 at June 30, 1998)	735,202.22	904,409.90
Total loan funds	$ 3,326,022.06	$ 3,160,159.29
Endowment and similar funds:		
Cash and cash equivalents (Notes 3 and 4)	$ -	$ 92,840.43
Investments (Notes 4 and 5)	280,132.37	177,572.86
Accrued interest receivable	4,382.11	3,042.10
Total endowment and similar funds	$ 284,514.48	$ 273,455.39

LIABILITIES AND FUND BALANCES	June 30, 1998	June 30, 1997
Current funds:		
Unrestricted:		
General:		
Liabilities:		
Accounts payable	$ 410,989.02	$ 687,675.97
Accrued liabilities	4,205,413.32	3,901,933.59
Deferred revenue	3,351,901.87	3,065,867.24
Student deposits	376,975.20	312,630.20
Checks payable	-	2,240,826.76
Other liabilities	403,955.09	282,905.06
Total liabilities	8,749,234.50	10,491,838.82
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital	503,520.82	192,476.73
Allocation for encumbrances	1,874,759.73	1,367,790.86
Allocation for extension service salary adjustment	89,897.06	68,903.64
Allocation for Center on Aging	7,353.28	3,429.48
Allocation for McMinnville Experiment Station	-	20,619.23
Allocation for Upward Bound	33,687.16	23,434.09
Allocation for African culture	1,428.65	1,428.65
Discretionary allocations:		
Allocation for subsequent budget	2,599,830.00	881,091.45
Allocation for athletic contingency	30,411.62	-
Unallocated	266,376.95	-
Total fund balances	5,407,265.27	2,559,174.13
Total general	14,156,499.77	13,051,012.95
Auxiliary enterprises:		
Liabilities:		
Accounts payable	110,134.20	99,820.85
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital	129,853.84	187,102.28
Allocation for encumbrances	664,260.49	386,547.24
Discretionary allocation:		
Allocation for contingencies	448,568.72	414,957.53
Unallocated	1,335,627.36	1,582,538.41
Total fund balances	2,578,310.41	2,571,145.46
Total auxiliary enterprises	2,688,444.61	2,670,966.31
Total unrestricted	16,844,944.38	15,721,979.26
Restricted:		
Liabilities:		
Accounts payable	681,842.05	413,888.20
Due to grantors	328,136.00	1,246,851.75
Total liabilities	1,009,978.05	1,660,739.95
Fund balance	3,233,793.20	3,372,693.06
Total restricted	4,243,771.25	5,033,433.01
Total current funds	$ 21,088,715.63	$ 20,755,412.27
Loan funds:		
Fund balances:		
U.S. government grants refundable	$ 2,441,874.74	$ 2,300,861.20
University funds:		
Restricted - matching	769,394.67	769,394.67
Restricted - other	114,752.65	89,903.42
Total loan funds	$ 3,326,022.06	$ 3,160,159.29
Endowment and similar funds:		
Liabilities:		
Due to unrestricted current funds	$ 571.03	$ -
Fund balances:		
Endowment	59,463.43	$ 58,977.28
Quasi-endowment - restricted	224,480.02	214,478.11
Total fund balances	283,943.45	273,455.39
Total endowment and similar funds	$ 284,514.48	$ 273,455.39

Exhibit A (Cont.)

TENNESSEE BOARD OF REGENTS
TENNESSEE STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1998, AND JUNE 30, 1997

ASSETS	June 30, 1998	June 30, 1997
Plant funds:		
Unexpended plant:		
Cash and cash equivalents (Notes 3 and 4)	$ 757,831.87	$ 1,869,074.90
LGIP deposit - capital projects	770,487.54	1,335,839.25
Accounts receivable	39,786.54	799,739.83
Total unexpended plant	1,568,105.95	4,004,653.98
Renewals and replacements:		
Cash and cash equivalents (Notes 3 and 4)	2,408,495.65	2,825,410.16
Investments (Note 5)	207,363.52	192,189.59
Accrued interest receivable	4,287.68	-
Total renewals and replacements	2,620,146.85	3,017,599.75
Retirement of indebtedness:		
Cash and cash equivalents (Notes 3 and 4)	291,127.21	294,075.48
Investments (Note 5)	280,140.14	331,697.77
Interest rate reserve with Tennessee State School Bond Authority (Note 7)	38,885.36	-
Accrued interest receivable	52,255.33	43,055.43
Total retirement of indebtedness	662,408.04	668,828.68
Investment in plant:		
Land	8,872,355.24	8,872,355.24
Buildings	87,035,344.21	73,877,352.37
Improvements other than buildings	39,126,782.66	39,002,494.43
Equipment	29,580,926.61	29,015,123.88
Livestock	31,855.45	34,951.50
Library books	23,112,672.00	22,702,608.00
Other library holdings	3,626,063.00	3,470,441.00
Construction in progress	60,540,963.67	57,166,887.59
Total investment in plant	251,926,962.84	234,142,214.01
Total plant funds	$ 256,777,623.68	$ 241,833,296.42
Agency funds:		
Nonfoundation funds:		
Cash and cash equivalents (Notes 3 and 4)	$ 164,543.43	$ 154,805.25
Accounts receivable	16,100.00	-
Total nonfoundation funds	180,643.43	154,805.25
Foundation funds:		
Cash and cash equivalents (Notes 3 and 4)	1,098,070.84	885,286.61
Investments (Note 5)	1,520,541.00	1,364,515.18
Accrued interest receivable	3,953.00	4,749.00
Notes receivable	-	13,564.16
Total foundation funds	2,622,564.84	2,268,114.95
Total agency funds	$ 2,803,208.27	$ 2,422,920.20

LIABILITIES AND FUND BALANCES	June 30, 1998	June 30, 1997
Plant funds:		
Unexpended plant:		
Liabilities:		
Accounts payable	$ 223,609.66	$ 847,820.61
Fund balance:		
Unrestricted (Note 6)	1,344,496.29	3,156,833.37
Total unexpended plant	1,568,105.95	4,004,653.98
Renewals and replacements:		
Liabilities:		
Accounts payable	1,585.00	-
Fund balances:		
Restricted	180,000.00	180,000.00
Unrestricted (Note 6)	2,438,561.85	2,837,599.75
Total fund balances	2,618,561.85	3,017,599.75
Total renewals and replacements	2,620,146.85	3,017,599.75
Retirement of indebtedness:		
Liabilities:		
Accrued interest payable	121,476.21	85,057.78
Fund balances:		
Restricted	380,999.11	332,356.81
Unrestricted	159,932.72	251,414.09
Total fund balances	540,931.83	583,770.90
Total retirement of indebtedness	662,408.04	668,828.68
Investment in plant:		
Liabilities:		
Notes payable (Note 7)	263,747.78	384,563.93
Bonds payable (Note 7)	132,000.00	260,000.00
Tennessee State School Bond Authority indebtedness (Note 7)	19,296,632.84	10,464,895.15
Total liabilities	19,692,380.62	11,109,459.08
Fund balance:		
Net investment in plant	232,234,582.22	223,032,754.93
Total investment in plant	251,926,962.84	234,142,214.01
Total plant funds	$ 256,777,623.68	$ 241,833,296.42
Agency funds:		
Nonfoundation funds:		
Liabilities:		
Deposits held in custody for others	$ 180,643.43	$ 154,805.25
Total nonfoundation funds	180,643.43	154,805.25
Foundation funds:		
Liabilities:		
Accounts payable	9,071.01	15,211.69
Deposits held in custody for foundation	2,613,493.83	2,252,903.26
Total foundation funds	2,622,564.84	2,268,114.95
Total agency funds	$ 2,803,208.27	$ 2,422,920.20

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, 1998

	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	$ 63,462,631.36	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	8,971,374.31	-	-	-	-	-	-	-
State appropriations	-	692,100.00	-	-	6,754,553.69	-	41,857.98	-
Federal grants and contracts	-	26,164,511.47	-	-	217,843.22	-	-	-
State grants and contracts	-	967,424.38	-	-	-		-	-
Local grants and contracts	-	828,099.49	-	-	-	-	-	-
Private gifts, grants, and contracts	-	1,038,080.24	5,381.14	-	-	-	-	15,311.66
Endowment income	-	3,757.69	-	-	-	-	-	-
Investment income	-	-	5,697.68	10,488.06	-	14,102.08	217,263.87	-
Net increase (decrease) in the fair value of investments	-	-	-	-	-	125.38	(1,391.17)	-
Interest on loans receivable	-	-	131,084.04	-	-	-	-	-
Reduction in doubtful accounts	-	-	72,553.39	-	-	-	-	-
Debt proceeds	-	-	-	-	9,634,111.07	-	-	-
Equipment use charges	-	-	-	-	-	120,000.00	-	-
Student debt service fees	-	-	-	-	-	-	873,207.88	-
Expended for plant facilities (including $3,973,846.91 charged to current fund expenditures)	-	-	-	-	-	-	-	21,039,354.30
Retirement of indebtedness	-	-	-	-	-	-	-	1,193,837.70
Library holdings revaluation	-	-	-	-	-	-	-	47,433.07
Other	-	-	7,382.54	-	-	-	-	21,445.00
Total revenues and other additions	72,434,005.67	29,693,973.27	222,098.79	10,488.06	16,606,507.98	134,227.46	1,130,938.56	22,317,381.73
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	62,590,409.36	28,377,209.15	-	-	-	-	-	-
Auxiliary enterprise expenditures	7,452,854.31	128,132.77	-	-	-	-	-	-
Indirect costs recovered	-	1,226,504.12	-	-	-	-	-	-
Refunded to grantors	-	60,933.63	2,379.67	-	-	-	-	-
Loan cancellations and write-offs	-	-	38,273.75	-	-	-	-	-
Administrative and collection costs	-	-	15,579.15	-	-	-	8,720.92	-
Provision for doubtful accounts	-	-	3.45	-	-	-	-	-
Expended for plant facilities	-	-	-	-	16,849,313.92	216,193.47	-	-
Expended for noncapital items	-	-	-	-	422,681.50	650,534.17	-	-
Retirement of indebtedness	-	-	-	-	-	-	1,193,837.70	-
Interest on indebtedness	-	-	-	-	-	-	780,205.29	-
Disposal of plant facilities	-	-	-	-	-	-	-	529,458.43
Increase in indebtedness	-	-	-	-	-	-	-	9,776,759.04
Other	-	40,093.46	-	-	219,289.64	-	-	80,835.86
Total expenditures and other deductions	70,043,263.67	29,832,873.13	56,236.02	-	17,491,285.06	866,727.64	1,982,763.91	10,387,053.33

Exhibit B (Cont.)

TENNESSEE BOARD OF REGENTS
TENNESSEE STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1998

	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	(801,802.65)	-	-	-	-	-	801,802.65	-
Nonmandatory:								
Unrestricted current funds	1,267,670.00	-	-	-	(1,267,670.00)	-	-	-
Unexpended plant	(340,110.00)	-	-	-	340,110.00	-	-	-
Renewals and replacements	(329,300.00)	-	-	-	-	329,300.00	-	-
Total transfers	(203,542.65)	-	-	-	(927,560.00)	329,300.00	801,802.65	-
Net increases (decreases) for the year	2,187,199.35	(138,899.86)	165,862.77	10,488.06	(1,812,337.08)	(403,200.18)	(50,022.70)	11,930,328.40
Fund balances at beginning 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	583,770.90	223,032,754.93
Cumulative effect of change in accounting principle (Note 14)	668,056.74	-	-	-	-	4,162.28	7,183.63	(2,728,501.11)
Fund balances at beginning of year, as restated	5,798,376.33	3,372,693.06	3,160,159.29	273,455.39	3,156,833.37	3,021,762.03	590,954.53	220,304,253.82
Fund balances at end of year	$ 7,985,575.68	$ 3,233,793.20	$ 3,326,022.06	$ 283,943.45	$ 1,344,496.29	$ 2,618,561.85	$ 540,931.83	$ 232,234,582.22

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, 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	-	-	-	-	-	-	-	1,171,341.78
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	856,174.91	23,843,863.14
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	-	-	-	-	-	-	1,171,341.78	-
Interest on indebtedness	-	-	-	-	-	-	563,205.74	-
Disposal of plant facilities	-	-	-	-	-	-	-	361,195.14
Increase in indebtedness	-	-	-	-	-	-	-	977,222.18
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	1,350,542.46

Exhibit C (Cont.)

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)	(479,114.56)	22,493,320.68
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	1,062,885.46	200,539,434.25
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	$ 583,770.90	$ 223,032,754.93

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, 1998

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 24,835,419.06	$ 20,407.67	$ 24,855,826.73
State appropriations	32,051,700.00	716,475.15	32,768,175.15
Federal grants and contracts	1,201,918.01	25,057,492.05	26,259,410.06
State grants and contracts	13,292.92	956,211.57	969,504.49
Local grants and contracts	-	709,042.15	709,042.15
Private gifts, grants, and contracts	25,778.19	917,580.56	943,358.75
Investment income	1,516,822.28	-	1,516,822.28
Sales and services of educational activities	3,449,728.56	-	3,449,728.56
Sales and services of auxiliary enterprises	8,971,374.31	128,132.77	9,099,507.08
Other sources	367,972.34	-	367,972.34
Total current revenues	72,434,005.67	28,505,341.92	100,939,347.59
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	30,900,326.42	7,559,777.11	38,460,103.53
Research	929,934.51	7,302,241.61	8,232,176.12
Public service	590,127.25	3,514,392.73	4,104,519.98
Academic support	4,829,799.83	1,074,962.64	5,904,762.47
Student services	7,626,361.18	1,092,483.77	8,718,844.95
Institutional support	7,313,047.40	454,150.16	7,767,197.56
Operation and maintenance of plant	6,609,302.13	1,302.75	6,610,604.88
Scholarships and fellowships	3,791,510.64	7,377,898.38	11,169,409.02
Total educational and general expenditures	62,590,409.36	28,377,209.15	90,967,618.51
Nonmandatory transfer for:			
Unexpended plant	(1,267,670.00)	-	(1,267,670.00)
Total educational and general	61,322,739.36	28,377,209.15	89,699,948.51
Auxiliary enterprises:			
Expenditures	7,452,854.31	128,132.77	7,580,987.08
Mandatory transfer for:			
Principal and interest	801,802.65	-	801,802.65
Nonmandatory transfers for:			
Unexpended plant	340,110.00	-	340,110.00
Renewals and replacements	329,300.00	-	329,300.00
Total auxiliary enterprises	8,924,066.96	128,132.77	9,052,199.73
Total expenditures and transfers	70,246,806.32	28,505,341.92	98,752,148.24
OTHER TRANSFER AND ADDITION (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	1,188,631.35	1,188,631.35
Indirect costs recovered	-	(1,226,504.12)	(1,226,504.12)
Refunded to grantors	-	(60,933.63)	(60,933.63)
Transfer to agency funds	-	(40,093.46)	(40,093.46)
Net increase (decrease) in fund balances	$ 2,187,199.35	$ (138,899.86)	$ 2,048,299.49

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, 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.

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, copying services, 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 on a first-in, first-out basis.

Checks Payable

This amount represents 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. Interest during construction has not been capitalized. Library books are valued at $48 per volume, and other library holdings are valued at various standardized values which approximate current costs. 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, 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 $3,006,446.18 at June 30, 1998, and $2,774,328.26 at June 30, 1997, increased the unrestricted current fund expenditures by $232,117.92 for the year ended June 30, 1998, and increased the unrestricted current fund expenditures by $193,985.42 for the year ended June 30, 1997.

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, 1998, cash and cash equivalents consisted of $4,066,024.39 in bank accounts, $3,550.00 of petty cash on hand, $4,893,908.78 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $18,224.49 in capital management account money funds. At June 30, 1997, cash and cash equivalents consisted of $2,294.62 in bank accounts, $3,264.00 of petty cash on hand, $10,661,723.82 in the State of Tennessee Local Government Investment Pool, $10,208.56 in capital management account money funds, and $2,204,225.73 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.

The university also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report.*

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. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase. 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, 1998	Fair Value
Category 1:	
University:	
U.S. government securities	$11,804,804.54
Foundation:	
U.S. government securities	331,694.00
Category 2:	
Foundation:	
Corporate bonds	532,930.00
Corporate stocks	442,868.00
Category 3:	
Foundation investments not susceptible to credit risk categorization:	
Mutual funds	192,587.00
Foundation deposit notes classified as investments	20,462.00
University certificates of deposit classified as investments	280,515.38
Total investments on the balance sheet	$13,605,860.92

June 30, 1997	Carrying Amount	Fair 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

June 30, 1997	Carrying Amount	Fair Value
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

NOTE 6. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 1998, amounted to $1,096,977.13 for unexpended plant and $96,480.77 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 1997, amounted to $75,311.65 for unexpended plant and $320,325.60 for renewals and replacements.

NOTE 7. NOTES PAYABLE, BONDS PAYABLE, AND TSSBA INDEBTEDNESS

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 $329,684.73 to provide financing for the Chiller Replacement Project is payable in annual installments of $65,936.95 over five years. The balance owed by the university was $263,747.78 at June 30, 1998, and $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 was 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.

Bond issues, with interest rates of 3.375% for revenue bonds ($132,000.00) and 4.1% to 7.0% for Tennessee State School Bond Authority bonds ($10,876,866.25), 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 bonded indebtedness with the Tennessee State School Bond Authority reported on the balance sheet is shown net of assets held by the authority in the debt service reserve. The reserve amount was $1,547,079.75 at June 30, 1998, and June 30, 1997. See Note 15 regarding the change in accounting policy and the 1997 restatement.

The university's debt service requirements to maturity for all bonds payable at June 30, 1998, are as follows:

Year Ending June 30	Principal	Interest	Total
1999	$ 1,112,737.74	$ 556,076.98	$ 1,668,814.72
2000	1,002,158.40	533,178.85	1,535,337.25
2001	903,161.12	510,072.55	1,413,233.67
2002	925,148.33	489,185.33	1,414,333.66
2003	656,310.88	461,172.98	1,117,483.86
2004-2021	6,409,349.78	4,574,170.12	10,983,519.90
	$11,008,866.25	$7,123,856.81	$18,132,723.06

Interim and short-term financing for various projects was secured through the Tennessee State School Bond Authority from a Bond Anticipation Notes (BANs) Program through November 30, 1997. Under the BANs Program, the final maturity of the notes was March 1, 1998; however, the notes were retired December 1, 1997, and redeemed with proceeds of the commercial paper program. The notes bore interest at a variable rate, which was paid monthly.

The Tennessee State School Bond Authority authorized the issuance of commercial paper on November 18, 1997, to finance the costs of various capital projects. The commercial paper also refinanced certain outstanding bond anticipation note indebtedness that the authority had previously issued. At June 30, 1998, $9,966,846.34 had been issued for projects at the university.

For the commercial paper program, the Tennessee State School Bond Authority maintains an interest rate reserve fund. The university contributes amounts to the reserve fund equal to $4.46 per thousand drawn in the tax-exempt program and $6.16 per thousand drawn in the taxable program. A contribution is required each time an additional draw is made from the program. The principal of the reserve will be contributed to pay off notes or credited back to the university when the notes are converted to bonds. The interest earned on the reserve is used to pay interest due during the month. The commercial paper bears interest at a variable rate, which is paid monthly. The maturity of the paper may not exceed 270 days, and the maximum interest rate may not exceed 12%. Upon maturity, the paper is remarketed by the commercial paper dealer, redeemed, or extinguished with long-term debt.

NOTE 8. PENSION PLANS

A. Defined Benefit 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 3.65% 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, 1998, 1997, and 1996, were $879,281.64, $1,706,353.75, and $1,299,802.98. 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. Effective October 1, 1997, federal statute increased the rate to 8.51% of the covered payroll. Contribution requirements are established and may be amended by federal statutes. Contributions to CSRS for the year ended June 30, 1998, were $51,219.57, which consisted of $27,532.29 from the university and $23,687.28 from the employees; contributions 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 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, 1998, was $2,005,900.88 and for the year ended June 30, 1997, was $1,848,648.25. 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 $2,056,228.08 on deposit at June 30, 1998, and $1,770,107.76 on deposit at June 30, 1997, with the State Treasurer for the university's 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, 1998, the scheduled coverage for the university was $211,576,200 for buildings and $17,035,900 for contents. At June 30, 1997, the scheduled coverage was $200,152,031 for buildings and $16,707,400 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is 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 $21,700,951.28 at June 30, 1998, and $20,720,415.73 at June 30, 1997.

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 $398,816.12 and for personal property were $288,288.93 for the year ended June 30, 1998. Comparative amounts for the year ended June 30, 1997, were $394,947.12 and $293,862.23. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1998, outstanding commitments under construction contracts totaled $2,199,476.19 for the following master plan projects: renovation of six buildings, repair/upgrade of various buildings, McMinnville Nursery Research Station, asbestos/hazardous material, downtown campus renovations, conversion of Administration Building, site development phase II, project management facility, Boyd Hall renovation, Industrial Arts Building renovation, McCord/Library renovation, new Performing Arts Building, infrastructure upgrade, Harned and McCord Hall renovation, north campus improvement, and parking improvement, of which $1,887,646.34 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 - The following costs were questioned as a result of the current-year audit.

Program	Amount Questioned
Direct Student Loan	$ 865
Federal Pell Grant	1,010
Federal Supplemental Educational Opportunity Grant	1,000
Perkins Loan	1,000
Total	$3,875

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, 1997, the value of library books was increased from $20 per volume 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.

NOTE 14. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 1998, the university implemented GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* which requires reporting at fair value certain investments with a remaining maturity of more than one year at the time of purchase. The cumulative effect of this change in accounting principle is reported in the accompanying financial statements as a restatement of the beginning fund balance. It was not practical to restate prior periods since all information necessary to conform to this accounting change was not available and the amounts were immaterial.

During the year ended June 30, 1998, the threshold for capitalizing equipment increased from $500 to $1,000. As a result of the change, equipment decreased by $2,728,501.11.

NOTE 15. PRIOR-YEAR RESTATEMENT

During the year ended June 30, 1998, the Tennessee State School Bond Authority informed the university that the authority had not in past years appropriately recorded a college savers bond issue. In order to implement the appropriate reporting, prior-period amounts were restated as noted below:

Fund	Account	Amount
Exhibit A		
Investment in plant	Bonds payable	$ 917,795.92
Investment in plant	Net investment in plant	$ (917,795.92)
Exhibit C		
Retirement of indebtedness	Retirement of indebtedness	$ 89,091.75
Retirement of indebtedness	Interest on indebtedness	$ (89,091.75)
Investment in plant	Retirement of indebtedness	$ 89,091.75
Investment in plant	Increase in indebtedness	$ 149,734.75
Investment in plant	Beginning fund balance	$(857,152.92)

The Tennessee State School Bond Authority maintains a debt service reserve for its bonds. This amount had previously been shown in the university's retirement of indebtedness fund as deposits with trustee. During the year ended June 30, 1998, there was a change in accounting policy whereby it was decided that the reserve should be netted against the related bonds payable and the net amount shown in investment in plant as Tennessee State School Bond Authority indebtedness. In addition, the commercial paper payable and the notes payable under the BANs program were to be included in the TSSBA indebtedness. As a result of the change in accounting policy, prior-period amounts were restated as noted below:

Fund	Account	Amount
Exhibit A		
Retirement of indebtedness	Deposits with trustee	$ (1,547,079.75)
Retirement of indebtedness	Restricted fund balance	$ (1,547,079.75)
Investment in plant	Notes payable	$ (333,500.21)
Investment in plant	Bonds payable	$(11,678,474.69)

Investment in plant	Tennessee State School Bond Authority indebtedness	$ 10,464,895.15
Investment in plant	Net investment in plant	$ 1,547,079.75
Exhibit C		
Retirement of indebtedness	Addition to debt service reserve	$ (449,200.00)
Retirement of indebtedness	Beginning fund balance	$ (1,097,879.75)
Investment in plant	Addition to debt service reserve	$ 449,200.00
Investment in plant	Beginning fund balance	$ 1,097,879.75