Tennessee Board of Regents
Middle Tennessee State University

For the Year Ended
June 30, 1998

Arthur A. Hayes, Jr., CPA
Director

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Jane Russ
Editor

February 18, 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 E. Walker, President
Middle Tennessee State University
110 Cope Administration Building
Murfreesboro, Tennessee 37132

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Middle Tennessee State University, for the year ended June 30, 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. Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/ms
99/017

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit
Middle 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.

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is qualified. Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter.

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

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

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

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INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

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

ORGANIZATION

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

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 except as indicated in the Independent Auditor’s Report. Financial statements are presented for the year ended June 30, 1998, and for comparative purposes, the year ended June 30, 1997. Middle Tennessee State University is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

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 1, 1998. A follow-up of the prior audit finding was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the university has corrected the previous audit finding concerning the recalculation of Pell awards when students did not begin attending some classes.

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*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered a qualified opinion on the university's financial statements. Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the university's disclosures with respect to the Year 2000 issue made in Note 16.

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 13, 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 Middle Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the year ended June 30, 1998, and have issued our report thereon dated November 13, 1998. Our report was qualified. Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the university's disclosures with respect to the Year 2000 issue made in Note 16. 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 less significant instance 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

Independent Auditor's Report

November 13, 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 Middle Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 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.

Except as discussed in the following paragraph, 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.

Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues,* requires disclosure of certain matters regarding the Year 2000 issue. The university has included such disclosures in Note 16. Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the university's disclosures with respect to the Year 2000 issue made in Note 16. Furthermore, we do not provide assurance that the university is or will be Year-2000 ready, that the university's Year-2000 remediation efforts will be successful in whole or in part, or that parties with which the university does business will be Year-2000 ready.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding Year-2000 disclosures, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Middle Tennessee State University, as of June 30, 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 Notes 14 and 15 to the financial statements, the university implemented GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* and GASB 16, *Accounting for Compensated Absences,* 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 November 13, 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
MIDDLE 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 2 and 3)	$ 15,312,082.93	$ 14,426,449.24
Investments (Notes 3 and 4)	300,000.00	-
Accrued interest receivable	410.96	95,095.89
Accounts receivable (net of allowance of $746,074.36 at June 30, 1998, and $576,080.26 at June 30, 1997)	1,500,930.47	1,446,079.58
Appropriations receivable	386,200.00	-
Inventories	447,396.67	451,174.75
Prepaid expenses	206,646.36	263,515.27
Due from restricted current funds	712,621.85	818,914.15
Total general	18,866,289.24	17,501,228.88
Auxiliary enterprises:		
Cash and cash equivalents (Notes 2 and 3)	2,103,535.70	2,192,160.62
Accounts receivable (net of allowance of $74,329.76 at June 30, 1998, and $30,215.43 at June 30, 1997)	485,653.87	610,899.67
Inventories	1,713,252.44	1,651,990.29
Total auxiliary enterprises	4,302,442.01	4,455,050.58
Total unrestricted	23,168,731.25	21,956,279.46
Restricted:		
Grants receivable	1,931,890.17	1,978,804.30
Total restricted	1,931,890.17	1,978,804.30
Total current funds	$ 25,100,621.42	$ 23,935,083.76
Loan funds:		
Cash and cash equivalents (Notes 2 and 3)	$ 426,880.84	$ 368,191.99
Notes receivable (net of allowance of $809,705.55 at June 30, 1998, and $704,578.77 at June 30, 1997)	3,670,904.92	3,742,112.98
Accrued interest receivable (net of allowance of $145,128.44 at June 30, 1998, and $124,779.00 at June 30, 1997)	48,189.73	45,876.30
Total loan funds	$ 4,145,975.49	$ 4,156,181.27
Endowment and similar funds:		
Cash and cash equivalents (Notes 2 and 3)	$ 238,053.24	$ 165,000.00
Investments (Note 4)	636,173.14	-
Total endowment and similar funds	$ 874,226.38	$ 165,000.00

LIABILITIES AND FUND BALANCES	June 30, 1998	June 30, 1997
Current funds:		
Unrestricted:		
General:		
Liabilities:		
Accounts payable	$ 804,098.76	$ 858,535.77
Accrued liabilities	5,886,679.79	5,804,131.96
Student deposits	109,254.71	82,738.56
Deferred revenue	4,540,018.00	4,164,289.50
Compensated absences	2,701,411.43	2,682,663.49
Other liabilities	28,602.55	36,513.94
Total liabilities	14,070,065.24	13,628,873.22
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital	1,184,005.06	1,228,146.74
Allocation for encumbrances	915,688.60	866,066.04
Allocation for designated appropriations	5,343.99	6,944.02
Discretionary allocations:		
Allocation for subsequent budget	2,192,320.00	1,747,260.00
Allocation for athletic contingency	65,294.72	63,967.01
Allocation for technology access fee	83,462.48	199,500.22
Allocation for compensated absences	(2,701,411.43)	(2,682,663.49)
Unallocated	3,051,520.58	2,443,135.12
Total fund balances	4,796,224.00	3,872,355.66
Total general	18,866,289.24	17,501,228.88
Auxiliary enterprises:		
Liabilities:		
Accounts payable	85,466.01	229,320.07
Accrued liabilities	53,262.11	44,026.77
Student deposits	599,606.99	654,391.03
Deferred revenue	223,759.50	216,010.50
Compensated absences	224,407.57	215,503.26
Total liabilities	1,186,502.18	1,359,251.63
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital	2,282,560.66	2,330,546.96
Allocation for encumbrances	187,706.79	159,389.17
Discretionary allocation:		
Allocation for contingencies	859,730.00	804,540.00
Allocation for compensated absences	(224,407.57)	(215,503.26)
Unallocated	10,349.95	16,826.08
Total fund balances	3,115,939.83	3,095,798.95
Total auxiliary enterprises	4,302,442.01	4,455,050.58
Total unrestricted	23,168,731.25	21,956,279.46
Restricted:		
Liabilities:		
Accounts payable	264,480.74	179,857.03
Accrued liabilities	26,256.24	18,524.06
Due to unrestricted current funds	712,621.85	818,914.15
Total liabilities	1,003,358.83	1,017,295.24
Fund balance	928,531.34	961,509.06
Total restricted	1,931,890.17	1,978,804.30
Total current funds	$ 25,100,621.42	$ 23,935,083.76
Loan funds:		
Fund balances:		
U.S. government grants refundable	$ 2,623,195.00	$ 2,666,211.73
University funds:		
Restricted - matching	633,758.10	614,193.77
Restricted - other	864,611.28	852,414.16
Unrestricted	24,411.11	23,361.61
Total loan funds	$ 4,145,975.49	$ 4,156,181.27
Endowment and similar funds:		
Fund balances:		
Quasi-endowment:		
Restricted	$ 719,126.38	$ 9,900.00
Unrestricted	155,100.00	155,100.00
Total endowment and similar funds	$ 874,226.38	$ 165,000.00

Exhibit A (Cont.)

TENNESSEE BOARD OF REGENTS
MIDDLE 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 2 and 3)	$ 10,273,615.78	$ 6,572,124.34
Investments (Note 4)	-	6,300,000.00
LGIP deposit - capital projects	9,032,618.85	10,757,394.99
Funds on deposit with State Treasurer (Note 4)	-	4,849.79
Accounts receivable	181,521.37	81,280.79
Other assets	-	1,500.00
Total unexpended plant	19,487,756.00	23,717,149.91
Renewals and replacements:		
Cash and cash equivalents (Notes 2 and 3)	9,702,260.55	8,170,487.89
Total renewals and replacements	9,702,260.55	8,170,487.89
Retirement of indebtedness:		
Cash and cash equivalents (Notes 2 and 3)	1,630,059.09	1,133,054.36
Interest rate reserve with Tennessee State School Bond Authority (Note 7)	95,810.76	-
Accrued interest receivable	141,919.62	129,510.52
Accounts receivable	-	118,867.22
Total retirement of indebtedness	1,867,789.47	1,381,432.10
Investment in plant:		
Land	1,295,276.97	1,164,177.97
Buildings	116,932,409.42	97,359,560.48
Improvements other than buildings	22,839,297.69	21,579,432.98
Equipment	41,463,590.72	42,199,222.53
Library books	30,646,080.00	30,398,400.00
Other library holdings	6,726,014.00	6,523,784.00
Construction in progress	51,263,119.60	38,235,578.18
Livestock	268,030.00	276,525.00
Total investment in plant	271,433,818.40	237,736,681.14
Total plant funds	$ 302,491,624.42	$ 271,005,751.04
Agency funds:		
Nonfoundation funds:		
Cash and cash equivalents (Notes 2 and 3)	$ 677,055.88	$ 523,926.70
Accounts receivable	1,259.73	2,040.33
Total nonfoundation funds	678,315.61	525,967.03
Foundation funds:		
Cash and cash equivalents (Notes 2 and 3)	3,292,329.62	3,621,381.41
Investments (Notes 3 and 4)	15,074,030.17	12,165,601.07
Accrued interest receivable	141,480.58	140,329.48
Real estate	4,363,367.31	4,363,367.31
Equipment	694,021.66	651,412.90
Livestock	57,851.00	58,460.66
Construction in progress	328,066.33	-
Other assets	1,775.50	1,775.50
Total foundation funds	23,952,922.17	21,002,328.33
Total agency funds	$ 24,631,237.78	$ 21,528,295.36

LIABILITIES AND FUND BALANCES	June 30, 1998	June 30, 1997
Plant funds:		
Unexpended plant:		
Liabilities:		
Accounts payable	$ 81,466.68	$ 1,897,636.48
Tennessee State School Bond Authority indebtedness (Note 7)	-	4,849.79
Total liabilities	81,466.68	1,902,486.27
Fund balances:		
Restricted	10,901.44	67,410.63
Unrestricted (Note 5)	19,395,387.88	21,747,253.01
Total fund balances	19,406,289.32	21,814,663.64
Total unexpended plant	19,487,756.00	23,717,149.91
Renewals and replacements:		
Liabilities:		
Accounts payable	18,886.18	-
Fund balance:		
Unrestricted (Note 5)	9,683,374.37	8,170,487.89
Total renewals and replacements	9,702,260.55	8,170,487.89
Retirement of indebtedness:		
Liabilities:		
Accrued interest payable	261,764.21	181,881.61
Fund balances:		
Restricted	95,810.76	-
Unrestricted	1,510,214.50	1,199,550.49
Total fund balances	1,606,025.26	1,199,550.49
Total retirement of indebtedness	1,867,789.47	1,381,432.10
Investment in plant:		
Liabilities:		
Lease obligation payable (Note 6)	25,448.96	-
Tennessee State School Bond Authority indebtedness (Note 7)	47,936,524.55	23,239,534.26
Total liabilities	47,961,973.51	23,239,534.26
Fund balance:		
Net investment in plant	223,471,844.89	214,497,146.88
Total investment in plant	271,433,818.40	237,736,681.14
Total plant funds	$ 302,491,624.42	$ 271,005,751.04
Agency funds:		
Nonfoundation funds:		
Liabilities:		
Accounts payable	$ 71,456.77	$ 18,535.20
Deposits held in custody for others	402,992.34	308,677.21
Other liabilities	203,866.50	198,754.62
Total nonfoundation funds	678,315.61	525,967.03
Foundation funds:		
Liabilities:		
Accounts payable	13,993.21	26,984.21
Notes payable (Note 7)	-	2,000,000.00
Deposits held in custody for foundation	23,938,928.96	18,975,344.12
Total foundation funds	23,952,922.17	21,002,328.33
Total agency funds	$ 24,631,237.78	$ 21,528,295.36

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

Exhibit B

TENNESSEE BOARD OF REGENTS
MIDDLE 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	$ 110,396,582.71	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	17,194,552.58	-	-	-	-	-	-	-
Tuition and fees	-	146,427.25	-	-	-	-	-	-
State appropriations	-	352,800.00	-	-	11,318,595.57	-	76,343.71	-
Federal grants and contracts	-	8,950,804.23	58,927.00	-	292,124.49	-	72,134.00	-
State grants and contracts	-	2,341,489.89	-	-	-	-	-	-
Private gifts, grants, and contracts	-	1,467,976.88	30,551.21	632,262.17	224,863.46	-	-	1,000.00
Endowment income	-	533,604.31	-	-	-	-	-	-
Investment income	-	-	20,253.18	-	1,060,897.17	402,654.14	238,948.16	-
Interest on loans receivable	-	-	117,097.91	-	-	-	-	-
Reduction in doubtful accounts	-	-	1,355.38	-	-	-	-	-
Net increase in the fair value of investments	-	-	-	76,964.21	-	-	-	-
Debt proceeds	-	-	-	-	25,558,022.60	-	-	-
Decrease in indebtedness	-	-	-	-	4,849.79	-	-	-
Equipment use charges	-	-	-	-	-	1,117,419.13	-	-
Student debt service fees	-	-	-	-	-	-	1,715,849.55	-
Expended for plant facilities (including $4,591,804.92 charged to current fund expenditures)	-	-	-	-	-	-	-	39,590,582.81
Retirement of indebtedness	-	-	-	-	-	-	-	865,882.10
Capital lease acquisition	-	-	-	-	-	-	-	7,985.00
Equipment inventory adjustments	-	-	-	-	-	-	-	45,594.58
Other	-	-	13,143.75	-	-	14,188.84	-	29,040.00
Total revenues and other additions	127,591,135.29	13,793,102.56	241,328.43	709,226.38	38,459,353.08	1,534,262.11	2,103,275.42	40,540,084.49
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	107,252,579.04	13,519,148.45	-	-	-	-	-	-
Auxiliary enterprise expenditures	13,971,834.33	23,418.06	-	-	-	-	-	-
Indirect costs recovered	-	278,371.55	-	-	-	-	-	-
Refunded to grantors	-	5,142.22	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	128,463.23	-	-	-	-	-
Provision for doubtful accounts	-	-	132,651.90	-	-	-	-	-
Administrative and collection costs	-	-	10,061.41	-	-	-	14,870.33	-
Expended for plant facilities	-	-	-	-	34,418,780.94	579,996.95	-	-
Expended for noncapital items	-	-	-	-	10,268,430.46	347,746.69	-	-
Retirement of indebtedness	-	-	-	-	-	-	865,882.10	-
Interest on indebtedness	-	-	-	-	-	-	1,493,266.58	-
Increase in indebtedness	-	-	-	-	-	-	-	25,562,872.39
Library holdings revaluation	-	-	-	-	-	-	-	1,166,117.02
Disposal of plant facilities	-	-	-	-	-	-	-	1,656,105.05
Other	-	-	-	-	-	-	-	8,495.00
Total expenditures and other deductions	121,224,413.37	13,826,080.28	271,176.54	-	44,687,211.40	927,743.64	2,374,019.01	28,393,589.46

TENNESSEE BOARD OF REGENTS
MIDDLE 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:								
Loan fund matching grant	(19,642.33)	-	19,642.33	-	-	-	-	-
Principal and interest	(495,225.36)	-	-	-	-	-	495,225.36	-
Nonmandatory:								
Unexpended plant	(50,000.00)	-	-	-	3,819,484.00	(1,800,984.00)	(1,968,500.00)	-
Renewals and replacements	(2,707,352.01)	-	-	-	-	2,707,352.01	-	-
Retirement of indebtedness	(2,150,493.00)	-	-	-	-	-	2,150,493.00	-
Total transfers	(5,422,712.70)	-	19,642.33	-	3,819,484.00	906,368.01	677,218.36	-
Net increases (decreases) for the year	944,009.22	(32,977.72)	(10,205.78)	709,226.38	(2,408,374.32)	1,512,886.48	406,474.77	12,146,495.03
Fund balances at beginning of year	6,968,154.61	961,509.06	4,156,181.27	165,000.00	21,814,663.64	8,170,487.89	1,199,550.49	214,497,146.88
Cumulative effect of change in accounting principle (Note 14)	-	-	-	-	-	-	-	(3,171,797.02)
Fund balances at beginning of year, as restated	6,968,154.61	961,509.06	4,156,181.27	165,000.00	21,814,663.64	8,170,487.89	1,199,550.49	211,325,349.86
Fund balances at end of year	$ 7,912,163.83	$ 928,531.34	$ 4,145,975.49	$ 874,226.38	$ 19,406,289.32	$ 9,683,374.37	$ 1,606,025.26	$ 223,471,844.89

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

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 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	$ 105,005,642.03	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	16,090,712.67	-	-	-	-	-	-	-
Tuition and fees	-	113,263.80	-	-	-	-	-	-
State appropriations	-	361,299.00	-	-	20,383,675.41	-	76,701.36	-
Federal grants and contracts	-	7,806,339.28	33,061.00	-	469,083.48	-	72,134.00	-
State grants and contracts	-	2,449,897.47	-	-	-	-	-	-
Private gifts, grants, and contracts	-	1,308,314.99	26,526.50	-	549,631.00	-	-	-
Endowment income	-	474,233.88	-	-	-	-	-	-
Investment income	-	-	19,867.03	-	926,462.81	476,761.48	438,507.59	-
Interest on loans receivable	-	-	122,147.88	-	-	-	-	-
Reduction in doubtful accounts	-	-	56,044.42	-	-	-	-	-
Debt proceeds	-	-	-	-	4,319,887.14	-	-	-
Decrease in indebtedness	-	-	-	-	2,282,603.03	-	-	-
Equipment use charges	-	-	-	-	-	1,150,183.85	-	-
Student debt service fees	-	-	-	-	-	-	1,663,734.35	-
Addition to debt service reserve	-	-	-	-	-	-	-	974,394.11
Expended for plant facilities (including $3,601,924.27 charged to current fund expenditures)	-	-	-	-	-	-	-	36,762,101.90
Library holdings revaluation (Note 13)	-	-	-	-	-	-	-	16,872,788.28
Retirement of indebtedness	-	-	-	-	-	-	-	1,239,417.52
Equipment inventory adjustments	-	-	-	-	-	-	-	243,671.17
Other	-	-	17,110.89	-	-	4,936.14	-	156,859.28
Total revenues and other additions	121,096,354.70	12,513,348.42	274,757.72	-	28,931,342.87	1,631,881.47	2,251,077.30	56,249,232.26
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	104,635,600.51	12,147,766.85	-	-	-	-	-	-
Auxiliary enterprise expenditures	13,281,382.85	18,782.09	-	-	-	-	-	-
Indirect costs recovered	-	135,418.95	-	-	-	-	-	-
Refunded to grantors	-	6,166.45	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	124,800.75	-	-	-	-	-
Provision for doubtful accounts	-	-	321,140.09	-	-	-	-	-
Administrative and collection costs	-	-	71,194.79	-	-	-	6,891.49	-
Expended for plant facilities	-	-	-	-	32,110,878.87	1,049,298.76	-	-
Expended for noncapital items	-	-	-	-	3,188,126.10	361,272.50	-	-
Retirement of indebtedness	-	-	-	-	-	-	1,239,417.52	-
Interest on indebtedness	-	-	-	-	-	-	1,096,849.74	-
Increase in indebtedness	-	-	-	-	-	-	-	7,882,252.69
Disposal of plant facilities	-	-	-	-	-	-	-	2,928,623.72
Total expenditures and other deductions	117,916,983.36	12,308,134.34	517,135.63	-	35,299,004.97	1,410,571.26	2,343,158.75	10,810,876.41

TENNESSEE BOARD OF REGENTS
MIDDLE 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:								
Loan fund matching grant	(11,020.26)	-	11,020.26	-	-	-	-	-
Principal and interest	(577,455.65)	-	-	-	-	-	577,455.65	-
Nonmandatory:								
Unrestricted current funds	1,917,000.00	-	-	(728,000.00)	(539,000.00)	(650,000.00)	-	-
Unexpended plant	(267,450.00)	-	-	-	13,564,825.00	(4,947,375.00)	(8,350,000.00)	-
Renewals and replacements	(2,022,241.31)	-	-	-	(7,032.18)	2,029,273.49	-	-
Retirement of indebtedness	(2,141,733.75)	-	-	-	-	-	2,141,733.75	-
Total transfers	(3,102,900.97)	-	11,020.26	(728,000.00)	13,018,792.82	(3,568,101.51)	(5,630,810.60)	-
Net increases (decreases) for the year	76,470.37	205,214.08	(231,357.65)	(728,000.00)	6,651,130.72	(3,346,791.30)	(5,722,892.05)	45,438,355.85
Fund balances at beginning of year	6,891,684.24	756,294.98	4,387,538.92	893,000.00	15,163,532.92	11,517,279.19	6,922,442.54	169,058,791.03
Fund balances at end of year	$ 6,968,154.61	$ 961,509.06	$ 4,156,181.27	$ 165,000.00	$ 21,814,663.64	$ 8,170,487.89	$ 1,199,550.49	$ 214,497,146.88

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

Exhibit D

TENNESSEE BOARD OF REGENTS
MIDDLE 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	$ 40,236,924.23	$ 170,712.01	$ 40,407,636.24
State appropriations	64,468,900.00	356,842.37	64,825,742.37
Federal grants and contracts	177,095.27	8,722,637.69	8,899,732.96
State grants and contracts	128,279.55	2,208,696.34	2,336,975.89
Local grants and contracts	2,726.34	29,900.62	32,626.96
Private gifts, grants, and contracts	0.00	1,488,399.41	1,488,399.41
Endowment income	8,574.52	541,960.01	550,534.53
Sales and services of educational activities	4,515,637.19	0.00	4,515,637.19
Sales and services of auxiliary enterprises	17,194,552.58	23,418.06	17,217,970.64
Other sources	858,445.61	0.00	858,445.61
Total current revenues	127,591,135.29	13,542,566.51	141,133,701.80
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	58,842,050.71	1,336,315.32	60,178,366.03
Research	1,404,582.66	693,005.08	2,097,587.74
Public service	2,060,965.34	2,516,205.24	4,577,170.58
Academic support	9,732,196.29	82,834.83	9,815,031.12
Student services	11,397,560.43	1,079,670.60	12,477,231.03
Institutional support	9,709,999.03	194,995.33	9,904,994.36
Operation and maintenance of plant	9,869,524.87	11,817.29	9,881,342.16
Scholarships and fellowships	4,235,699.71	7,604,304.76	11,840,004.47
Total educational and general expenditures	107,252,579.04	13,519,148.45	120,771,727.49
Mandatory transfer for:			
Loan fund matching grant	19,642.33	0.00	19,642.33
Nonmandatory transfers for:			
Unexpended plant	50,000.00	0.00	50,000.00
Retirement of indebtedness	2,150,493.00	0.00	2,150,493.00
Total educational and general	109,472,714.37	13,519,148.45	122,991,862.82
Auxiliary enterprises:			
Expenditures	13,971,834.33	23,418.06	13,995,252.39
Mandatory transfer for:			
Principal and interest	495,225.36	0.00	495,225.36
Nonmandatory transfer for:			
Renewals and replacements	2,707,352.01	0.00	2,707,352.01
Total auxiliary enterprises	17,174,411.70	23,418.06	17,197,829.76
Total expenditures and transfers	126,647,126.07	13,542,566.51	140,189,692.58
OTHER ADDITION (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	0.00	250,536.05	250,536.05
Indirect costs recovered	0.00	(278,371.55)	(278,371.55)
Refunded to grantors	0.00	(5,142.22)	(5,142.22)
Net increase (decrease) in fund balances	$ 944,009.22	$ (32,977.72)	$ 911,031.50

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

Exhibit E

TENNESSEE BOARD OF REGENTS
MIDDLE 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	$ 36,098,132.36	$ 94,677.52	$ 36,192,809.88
State appropriations	63,529,000.00	366,499.97	63,895,499.97
Federal grants and contracts	102,740.79	7,775,859.09	7,878,599.88
State grants and contracts	121,213.27	2,296,122.02	2,417,335.29
Local grants and contracts	2,900.08	15,470.43	18,370.51
Private gifts, grants, and contracts	-	1,131,258.67	1,131,258.67
Endowment income	10,391.46	467,879.15	478,270.61
Sales and services of educational activities	4,283,341.70	-	4,283,341.70
Sales and services of auxiliary enterprises	16,090,712.67	18,782.09	16,109,494.76
Other sources	857,922.37	-	857,922.37
Total current revenues	121,096,354.70	12,166,548.94	133,262,903.64
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	57,031,050.03	1,174,965.12	58,206,015.15
Research	1,369,784.12	607,978.00	1,977,762.12
Public service	1,954,784.97	2,357,894.38	4,312,679.35
Academic support	9,084,406.41	51,187.09	9,135,593.50
Student services	11,574,686.81	682,023.45	12,256,710.26
Institutional support	9,991,266.76	143,208.93	10,134,475.69
Operation and maintenance of plant	9,745,861.93	1,471.64	9,747,333.57
Scholarships and fellowships	3,883,759.48	7,129,038.24	11,012,797.72
Total educational and general expenditures	104,635,600.51	12,147,766.85	116,783,367.36
Mandatory transfer for:			
Loan fund matching grant	11,020.26	-	11,020.26
Nonmandatory transfers for:			
Endowment and similiar funds	(728,000.00)	-	(728,000.00)
Unexpended plant	(271,550.00)	-	(271,550.00)
Renewals and replacements	(650,000.00)	-	(650,000.00)
Retirement of indebtedness	2,141,733.75	-	2,141,733.75
Total educational and general	105,138,804.52	12,147,766.85	117,286,571.37
Auxiliary enterprises:			
Expenditures	13,281,382.85	18,782.09	13,300,164.94
Mandatory transfer for:			
Principal and interest	577,455.65	-	577,455.65
Nonmandatory transfer for:			
Renewals and replacements	2,022,241.31	-	2,022,241.31
Total auxiliary enterprises	15,881,079.81	18,782.09	15,899,861.90
Total expenditures and transfers	121,019,884.33	12,166,548.94	133,186,433.27
OTHER ADDITION (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	346,799.48	346,799.48
Indirect costs recovered	-	(135,418.95)	(135,418.95)
Refunded to grantors	-	(6,166.45)	(6,166.45)
Net increases in fund balances	$ 76,470.37	$ 205,214.08	$ 281,684.45

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

Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements
June 30, 1998, and June 30, 1997

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 and family housing, food services, student stores, vending, the post office, the recreation center, telecommunications, and the parking authority. 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. Textbooks included in the inventory are recorded on a first-in, first-out basis. All other items are maintained on an average cost or first-in, first-out basis.

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. The amount of these liabilities and their related benefits are recorded in the current funds. Since the liability is expected to be funded primarily from future unrestricted revenue sources, a related allocation has been made to the current fund balances so that these fund balances reflect current available funds.

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.

Middle Tennessee State University Foundation

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

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. 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 $14,485,074.67 in bank accounts, $115,085.00 of petty cash on hand, $27,570,186.54 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $1,485,527.42 in money market accounts. At June 30, 1997, cash and cash equivalents consisted of $13,042,843.80 in bank accounts, $96,735.00 of petty cash on hand, $23,462,084.58 in the State of Tennessee Local Government Investment Pool, and $571,113.17 in a money market account.

NOTE 3. DEPOSITS

Deposits with financial institutions are required to be categorized to indicate the level of risk assumed by the university. Category 1 consists of deposits that are insured or collateralized with securities held by the university or by its agent in the university's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the university's name. Category 3 deposits are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the university's name.

Some of the university's 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.

At June 30, 1998, the carrying amount of the university's deposits was $16,370,605.09, and the bank balance including accrued interest was $18,275,060.72. Of the bank balance, $17,062,586.54 was category 1, and $1,212,474.18 was category 3.

At June 30, 1997, the carrying amount of the university's deposits was $20,113,962.97, and the bank balance including accrued interest was $21,988,445.43. Of the bank balance, $21,517,332.26 was category 1, and $471,113.17 was category 3.

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 4. INVESTMENTS

The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. The Middle Tennessee State University Foundation is authorized to invest funds in accordance with its board of directors' policies. 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 3 to determine the adequacy of collateral security pledged.

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

June 30, 1998	Fair Value
Category 2:	
U.S. government securities	$ 7,141,005.31
Corporate stocks	7,833,021.86
Investments not susceptible to credit risk categorization:	
Mutual funds	636,173.14
Certificates of deposit classified as investments	400,003.00
Total investments on the balance sheet	$16,010,203.31

June 30, 1997	Carrying Amount	Fair Value
Category 2:		
U.S. government securities	$ 6,004,182.82	$ 6,005,609.20
Corporate stocks	5,961,412.25	6,915,419.37
Certificates of deposit classified as investments	6,500,006.00	6,500,006.00
Total investments on the balance sheet	$18,465,601.07	$19,421,034.57

Funds on deposit with the State Treasurer in unexpended plant consisted of loan proceeds that had not been expended.

NOTE 5. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 1998, amounted to $476,891.60 for unexpended plant and $60,058.12 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 1997, amounted to $89,096.27 for unexpended plant and $85,079.25 for renewals and replacements.

NOTE 6. CAPITAL LEASES

The university has a capital lease agreement for recording industry equipment. This agreement has a beginning date of March 23, 1998, an ending date of March 23, 2002, and an imputed interest rate of 9.75%. The asset balance was $33,433.96 at June 30, 1998. The following is a schedule by years of future minimum lease payments under the capital lease together with the present value of the net minimum lease payments at June 30, 1998:

Year Ending June 30	
1999	$ 7,985.00
2000	7,985.00
2001	7,985.00
2002	7,985.00
Total minimum lease payments	31,940.00
Less amount representing interest and exactor costs	6,491.04
Present value of net minimum lease payments	$25,448.96

NOTE 7. NOTES PAYABLE AND TSSBA INDEBTEDNESS

Land purchased for the future site of the Tennessee Miller Coliseum by the foundation was financed by a note. The note bore an interest rate of 8% and was to be repaid over three years. The balance owed as of June 30, 1997, was $2,000,000. The note was retired during the year ended June 30, 1998.

During the year ended June 30, 1997, the university, through the Tennessee State School Bond Authority (TSBBA), issued $593,819.31 of current refunding bonds to provide resources, along with an equity contribution, for the purpose of generating resources to pay principal, current interest, and the call premium on $646,531.77 of the Series 1987A Refunding Bonds.

Bond issues, with interest rates ranging from 4.1% to 7.0% for Tennessee State School Bond Authority bonds, are due serially to 2026 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 $1,909,413.54 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	$ 911,319.35	$ 969,262.24	$ 1,880,581.59
2000	957,680.64	922,004.55	1,879,685.19
2001	925,226.25	872,039.67	1,797,265.92
2002	858,953.22	822,159.72	1,681,112.94
2003	691,409.42	776,895.05	1,468,304.47
2004-2026	13,353,439.47	9,163,904.39	22,517,343.86
	$17,698,028.35	$13,526,265.62	$31,224,293.97

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, $32,147,909.74 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 Plan

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

$1,164,227.68, $2,400,240.10, and $2,039,363.00. 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 $3,275,584.19 and for the year ended June 30, 1997, was $3,059,535.12. 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 $20,592,567.94 on deposit at June 30, 1998, and $16,846,443.85 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 $312,611,600 for buildings and $135,754,700 for contents. At June 30, 1997, the scheduled coverage was $275,392,700 for buildings and $128,285,300 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 $26,424,413.23 at June 30, 1998, and $25,158,389.29 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 $129,154.19 and for personal property were $88,713.14 for the year ended June 30, 1998. Comparative amounts for the year ended June 30, 1997, were $108,787.24 and $42,212.34. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1998, outstanding commitments under construction contracts totaled $8,326,270.24 for utility/infrastructure improvements, the Library Building, and the Business/Aerospace Building, of which $1,932,625.44 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
Federal Family Education Loans	$150.00

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, 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 $17,732,400 and $215,868, and net investment in plant, under the investment in plant fund subgroup, increased by $17,948,268 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 $3,171,797.02

NOTE 15. PRIOR-YEAR RESTATEMENT

The university implemented GASB Statement 16, *Accounting for Compensated Absences.* As a result, prior-period amounts were restated as noted below:

Fund	Account	Amount
Exhibit A		
Unrestricted general	Compensated absences	$ 2,682,663.49
Unrestricted general	Allocation for compensated absences	$(2,682,663.49)
Unrestricted auxiliary	Compensated absences	$ 215,503.26
Unrestricted auxiliary	Allocation for compensated absences	$ (215,503.26)
Exhibit C		
Unrestricted	Educational and general expenditures	$ 67,265.74
Unrestricted	Auxiliary enterprise expenditures	$ 4,417.29
Unrestricted	Beginning fund balance	$(2,826,483.72)
Exhibit E		
Unrestricted	Instruction	$ (27,594.03)
Unrestricted	Research	$ 6,757.68
Unrestricted	Public service	$ 4,495.44
Unrestricted	Academic support	$ 80,300.58
Unrestricted	Student services	$ 22,281.15
Unrestricted	Institutional support	$ (37,057.32)
Unrestricted	Operation and maintenance of plan	$ 18,082.24
Unrestricted	Auxiliary enterprises	$ 4,417.29

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		
Unexpended plant	Notes payable	$ (4,849.79)
Unexpended plant	Tennessee State School Bond Authority indebtedness	$ 4,849.79
Retirement of indebtedness	Deposits with trustee	$ (1,909,413.54)
Retirement of indebtedness	Restricted fund balance	$ (1,909,413.54)
Investment in plant	Notes payable	$ (6,585,037.35)
Investment in plant	Bonds payable	$(18,563,910.45)
Investment in plant	Tennessee State School Bond Authority indebtedness	$ 23,239,534.26
Investment in plant	Net investment in plant	$ 1,909,413.54
Exhibit C		
Retirement of indebtedness	Addition to debt service reserve	$ (974,394.11)
Retirement of indebtedness	Beginning fund balance	$ (935,019.43)
Investment in plant	Addition to debt service reserve	$ 974,394.11
Investment in plant	Beginning fund balance	$ 935.019.43

NOTE 16. YEAR 2000 DISCLOSURES

The Year 2000 Issue (Y2K) arises because most computer software programs allocate two digits to the data field for year on the assumption that the first two digits will be 19. Such programs will thus interpret the year 2000 as the year 1900, the year 2001 as 1901, etc., absent reprogramming. Y2K affects both computer hardware (i.e., the embedded logic of computer chips) and the computer software and could affect both the ability to enter data into the computer programs and the ability of such programs to correctly process data.

The university has established a Y2K Coordinator to facilitate Y2K remediation efforts. The university has assessed the impact of Y2K on its computer systems and other electronic equipment. "Computer systems" are defined as both (1) programmed application systems that provide fiscal and administrative services, and (2) supporting hardware and software computer systems infrastructure upon which the application systems reside and are processed. Other electronic equipment includes systems and devices other than traditional computer information systems that may utilize embedded chips in their operations.

The university has determined that certain computer systems are mission-critical, some are critical, and some are supportive. Mission-critical computer systems are those for which there are no reliable manual alternatives, and for which failure to be in Y2K compliance would prevent the university from fulfilling its mission. Critical computer systems are those for which there are manual alternatives, but the university would be unlikely to fully or efficiently perform the functions manually because of the volume of manual activity that would be required. Supportive computer systems are those for which there are manual alternatives, and the university expects to be able to perform such functions manually, if necessary.

The university has identified three critical computer application systems—the Financial Records System (FRS), the Human Resource System (HRS), and the Student Information System (SIS). FRS and SIS have completed the validation/testing stage. This stage is defined as validating and testing the changes that were made during the remediation stage. HRS is in the assessment and remediation stages. The "assessment stage" is defined as identifying the systems and components for which year 2000 compliance work is needed. The "remediation stage" is defined as making changes to systems and equipment. We expect HRS to be fully compliant and to complete the validation/testing stage by June 1, 1999.

The university's mid-level computer system provides the supporting computer system infrastructure upon which the university's application systems reside and are processed. The mid-level system represents multiple hardware and software components to include a central processor, workstations, and network operating system. The university determined that these components are currently in the remediation and validation/testing stages.

The university identified other electronic equipment items as critical to conducting operations. The university determined that these systems are currently in the remediation and validation/testing stages.

The university's Y2K initiatives did not result in the commitment of significant financial resources as of the end of the reporting period. The university is not aware of any circumstances or costs to achieve Y2K compliance that will have a negative impact on the operations or financial status of the university.