Tennessee Board of Regents
Middle Tennessee State University

For the Year Ended
June 30, 1999

Arthur A. Hayes, Jr., CPA, JD, CFE
Director

FINANCIAL AND COMPLIANCE

Charles K. Bridges, CPA
Assistant Director

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INVESTIGATIONS

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Editor

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

April 18, 2000

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles W. Manning, 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, 1999. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The university's administration has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/cj
99/096

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, 1999

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

Students' Financial Aid Eligibility Not Adequately Monitored
In the eligibility testwork that was performed, six instances were noted in which the Financial Aid office awarded aid even though the applicable requirements had not been met. Costs of $10,831 are questioned. The failure to follow established policies resulted in awarding of aid to ineligible students. Since available federal funds are limited, some eligible students may not have been served (page 7).

SPECIAL INVESTIGATIONS

Former Financial Aid Director Violated University Policies and Procedures and Federal Financial Aid Regulations in His Awards of Financial Aid
The former Financial Aid Director improperly approved disbursement of seven federal loans totaling $71,250 to himself and four of his relatives. He also instructed business office and Financial Aid office staff to personally obtain institutional financial aid checks payable to his relatives and provide the checks directly to him in violation of established university procedures. In addition, he instructed a Financial Aid office clerk to improperly change information on six federal financial aid applications to make the students appear eligible, and they received federal grant funds totaling $13,584. He also added information to two of his relatives' financial aid files after being instructed by university management not to make any changes. Finally, he awarded a university employee institutional financial aid totaling $33,797.50 to supplement the employee's salary (page 9).

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"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, 1999

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Tennessee Board of Regents
Middle Tennessee State University
For the Year Ended June 30, 1999

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, 1998, through June 30, 1999, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1999, and for comparative purposes, the year ended June 30, 1998. 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

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

TITLE IX OF THE EDUCATION AMENDMENTS OF 1972

Tennessee Code Annotated, Section 4-4-123, requires each state governmental entity subject to the requirements of Title IX of the Education Amendments of 1972 to submit an annual Title IX compliance report and implementation plan to the Department of Audit by June 30, 1999, and each June 30 thereafter. The university did not file its compliance report and implementation plan by June 30, 1999, in violation of this statutory requirement.

Title IX of the Education Amendments of 1972 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no one receiving benefits under a federally funded education program and activity is discriminated against on the basis of gender. The untimely filing of the compliance report and implementation plan required by state law does not necessarily mean that the university is not in compliance with the federal law.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

<u>Internal Control</u>

As part of the audit of the university's financial statements for the year ended June 30, 1999, 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.

<u>Compliance</u>

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 recommendations and management's responses, are included in the findings and recommendations.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the university's financial statements.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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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 26, 1999

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

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, 1999, and have issued our report thereon dated October 26, 1999. 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 certain immaterial instances of noncompliance that we have included in the Findings and Recommendations section of this report. We also noted certain other less significant instances of noncompliance, 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 solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

Arthur A. Hayes, Jr.

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

AAH/cj

FINDINGS AND RECOMMENDATIONS

FINANCIAL AND COMPLIANCE

1. <u>Students' financial aid eligibility was not adequately monitored</u>

Finding

One of the eligibility requirements related to federal student financial assistance is maintaining satisfactory academic progress based on criteria established by the institution. In the eligibility testwork that was performed, instances were noted in which the Financial Aid office awarded aid even though the university requirements had not been met.

The university's Policy III:00:11, Financial Aid Satisfactory Academic Progress, states that students must earn 66% of their cumulative credits attempted to remain eligible for financial aid. Also, the policy requires a certain grade point average (GPA) based on the hours attempted, and the required GPA will be monitored at the end of each semester. Any student failing to meet the required standard will be placed on financial aid probation for the subsequent term.

Two of 60 students whose eligibility was tested (3%) were not maintaining satisfactory academic progress and were not eligible to receive aid. One student was placed on financial aid probation for fall 1998 with the requirement that he pass all attempted hours with a "C" or better or financial aid would be suspended until he passed 12 semester hours at his own expense. Although the student did not pass all attempted hours with a "C" or better, he was sent a letter stating similar requirements for the spring 1999 semester and was awarded financial aid. He did not pass all attempted hours with a "C" or better for the spring 1999 semester, but he was awarded aid for the fall 1999 semester. The other student had not maintained satisfactory progress during the 1998 award year, and his financial aid should have been suspended for fall 1998; however, he was awarded aid for fall 1998. Costs of $7,812 are questioned. In addition, one of 60 students whose eligibility was tested (2%) did not make satisfactory progress for spring 1999 or summer 1999, but he was not placed on probation.

University policy in the *Undergraduate Catalog* states that students who do not earn any credits during a semester or withdraw from the university will have their financial aid suspended immediately. One of 60 students whose eligibility was tested (2%) had withdrawn in the prior semester and was not eligible to receive aid. The student withdrew during the spring 1999 semester, but she received aid for summer 1999. She also received aid for fall 1999. Costs of $3,019 are questioned. In addition, one of 60 students whose eligibility was tested (2%) withdrew during the spring 1999 semester and her financial aid should have been suspended, but she received aid for fall 1999.

The Financial Aid office's failure to follow established policies resulted in the awarding of aid to ineligible students. Since available federal funds are limited, some eligible students may not have been served.

Recommendation

The Financial Aid office monitors students' status prior to awarding financial aid using a 66% per semester satisfactory progress requirement; however, the university's Policy ? :00:11 as stated in the finding should be followed. The university may change the policies as long as they continue to meet federal regulations. Financial aid for all students who do not meet satisfactory progress requirements while on financial aid probation should be suspended. The Financial Aid office should require students to follow the university's established appeals process and allow the Board of Appeals to determine if a student should continue to receive financial aid.

Management's Comment

Although we concur with the finding and recommendation, we believe that the university was in compliance with federal regulations based on our interpretation of the university's policy. The policy was under revision during the audit period to mirror the actual practice used to monitor students' satisfactory progress. The new revised policy was implemented in fall 1999. The old appeals process required students to appeal their financial aid if they were placed on probation. The new policy states students will be notified of their probationary status and are not required to file an appeals form with the office. The university staff will use professional judgment to allow students to remain on probation if they pass at least 75 percent of their courses each semester while on probation until their cumulative percentage reaches 66 percent. Students who fail to pass 75 percent of their classes while on probation will have their aid suspended for the subsequent semester.

SPECIAL INVESTIGATIONS

2. The former Financial Aid Director violated university policies and procedures and federal financial aid regulations in his awards of financial aid

Finding

On October 31, 1997, Tennessee Board of Regents staff notified the Division of State Audit of the possible inappropriate awarding of financial aid by the then Middle Tennessee State University Director of Financial Aid (hereinafter referred to as the Financial Aid Director), to his relatives. The Tennessee Board of Regents Vice Chancellor for Business and Finance requested that the Division of State Audit conduct a review of the matter.

In an October 31, 1997, telephone conversation, the then Associate Vice President of Finance and Administration informed the auditors that on October 30, 1997, the university Financial Aid office requested the business office to process a $3,750 institutional foundation loan for a relative of the Financial Aid Director. Before processing the loan, a business office clerk reviewed the relative's financial aid screen, noticed that $16,287 in financial aid had already been awarded to the relative for the 1997 fall semester, questioned the propriety of the loan, and reported the matter to the Bursar. The relative was classified as an independent, undergraduate, in-state student with a one-semester cost-of-attendance budget of $7,050. Thus, there was an overaward of $9,237 for the semester. The business office halted the issuance of the $3,750 foundation loan to the Financial Aid Director's relative.

The objectives of the review were to determine the nature and extent of any impropriety relating to the awarding of financial aid to relatives of the Financial Aid Director; to determine if the Financial Aid Director inappropriately awarded financial aid to university employees or relatives of employees; to determine if the Financial Aid Director inappropriately obtained financial aid proceeds for personal use; and to examine the university's internal controls over the disbursement of financial aid checks. The review included an examination of relevant transaction data and interviews with relevant university staff and students. This office issued a special report on July 6, 1999, regarding the improper awards by the Financial Aid Director.

The review determined that the Financial Aid Director violated university policies and procedures and federal financial aid regulations in his awards of financial aid as follows:

- During the six-semester period January 1, 1996, through December 31, 1997, the Financial Aid Director improperly approved the disbursement of seven Federal Stafford Loans totaling $71,250 to himself and four of his relatives. In contravention of university policies and procedures and federal regulations, the Financial Aid Director personally obtained directly from the bank all of the checks generated for these seven loans and deposited the checks into his personal bank accounts.

- The Financial Aid Director violated established university procedures for disbursing financial aid by instructing business office and Financial Aid office staff to personally obtain institutional financial aid checks payable to his relatives and provide the checks directly to him. Their actions provided the Financial Aid Director unauthorized access to these financial aid checks and effectively concealed his actions in terms of the pertinent written documentation.

The auditors identified seven institutional financial aid checks totaling $20,424.50 that the Financial Aid Director deposited into his personal bank accounts. The Financial Aid Director improperly obtained five of these seven checks in the manner discussed above. The remaining two checks were apparently obtained from the business office by two of the Financial Aid Director's relatives and provided to the Financial Aid Director for deposit.

It should be noted that the institutional financial aid (in the form of Enrichment Scholarship funds) awarded by the Financial Aid Director to his relatives exceeded the average amount of financial aid awarded to the general student population (excluding the Financial Aid Director's relatives) by more than 600%.

- The Financial Aid Director instructed a Financial Aid office clerk to improperly change information on six federal financial aid applications. The effect of these changes was to make students who were actually ineligible for Federal Pell Grants appear to be eligible for the purpose of replacing institutional financial aid awarded during the beginning of the semester with Federal Pell Grant funds. When interviewed, the six students stated that they had not initiated the changes or authorized anyone to make changes on their behalf; that they were not informed of the changes; and that the information in the changes was false. Presently available information shows that these students received Federal Pell Grant funds totaling $13,584 for the 1996-1997 academic year for which they were not eligible.

- On October 31, 1997, after being instructed by university management not to make any changes to the financial aid files of his relatives, the Financial Aid Director prepared documentation and included it in the files of two of his relatives explaining the reason he provided them financial aid exceeding the allowable amount, apparently in an attempt to retroactively justify his overaward of financial aid. In addition, the Financial Aid Director requested Financial Aid office staff to replace institutional funds he had provided to another relative with Federal Direct Loan funds, presumably to reduce the total amount of institutional aid provided to his relatives.

- During the period June 1993 through April 1995, the Financial Aid Director awarded a university employee institutional financial aid totaling $33,797.50 to supplement the employee's salary. The employee admitted obtaining student status for himself solely to receive financial aid, not to pursue educational objectives. He stated that he deposited the checks into his personal bank account and used the money to pay his rent and child support. The $33,797.50 in institutional funds awarded to the employee reduced the amount of university financial aid funds available to students who were pursuing appropriate educational objectives and had legitimate financial need.

On February 4, 1999, the finding was submitted to the Office of the United States Attorney, Middle Judicial District (Nashville); the Office of Inspector General, United States Department of Education (Atlanta, Georgia); the Office of the District Attorney General, Sixteenth Judicial District (Murfreesboro); and the Office of the State Attorney General.

On June 7, 1999, the information developed during this review was presented to a Rutherford County Grand Jury in Murfreesboro, Tennessee. The Grand Jury indicted the Financial Aid Director on five counts of official misconduct, one count of theft over $60,000, and one count of tampering with or fabricating evidence. On February 1, 2000, the Financial Aid Director pled guilty in Rutherford County Circuit Court to five counts of official misconduct and one count of theft over $10,000. He was sentenced to six years probation. He was also ordered to repay Federal Stafford Loan funds he and his relatives obtained and to pay restitution to the university.

Action Taken by University Officials

In a letter dated November 14, 1997, the President and the then Vice President of Student Affairs terminated the Financial Aid Director's employment with the university effective November 14, 1997. The letter stated that as an administrative employee, the Financial Aid Director was entitled to 30 days' notice of such action. According to the letter, payment for 30 days' service was provided in lieu of the Financial Aid Director's continued employment. As an "at-will" employee, the Financial Aid Director could not appeal this decision.

Also, the employment of the employee who obtained student status for himself solely to receive financial aid was terminated. As an "at-will" employee, he could not appeal this decision. Furthermore, in letters dated January 27, 1999, university management administered written reprimands to three business office and two Financial Aid office staff who improperly released financial aid checks to the Financial Aid Director.

In a November 14, 1997, memorandum to all business office employees, the then Associate Vice President of Finance and Administration emphasized that no one is allowed to obtain financial aid checks for anyone else without a properly executed power of attorney. University management also developed written procedures regarding the disbursement of financial aid checks and disseminated them to all business office employees on March 25, 1998.

In the 1998 fall semester, university officials implemented new written guidelines for disbursing Enrichment Scholarship funds. These guidelines limit the award to in-state fees and an allowance for books, require recipients to meet minimum educational criteria and be a United States citizen, and require the approval of the Vice President of Finance and Administration or the Associate Vice President of Finance and Administration before Enrichment Scholarship funds can be awarded to Financial Aid office staff or their relatives.

Recommendation

University management in the Financial Aid office and the business office should continue to monitor the implementation of corrective actions to ensure compliance with federal student financial aid regulations and university policies and procedures.

University management should develop a continuous monitoring process, by staff external to the Financial Aid office, of all override adjustments made by the Financial Aid office to student accounts, such as accounts classified as “overaward” or accounts placed on hold because of “unsatisfactory academic progress.” This process should be formally documented, and any questioned items should be promptly investigated and formally resolved.

The Financial Aid office should implement measures and controls to ensure compliance with university guidelines established for awarding Enrichment Scholarship funds. It should also immediately stop its practice of replenishing institutional financial aid funds by replacing institutional financial aid awarded with federal financial aid for which the student is not eligible.

The Financial Aid office should immediately stop the practice of awarding Federal Pell Grant funds to ineligible recipients and ensure that all federal applications selected for verification contain appropriate information documenting compliance.

University management should consult with the Tennessee Board of Regents regarding appropriate recovery of financial aid funds inappropriately awarded by the Financial Aid Director.

Management’s Comment

We concur with the finding and recommendation. Measures have been implemented to stop the awarding of Pell grants to ineligible recipients, and university guidelines have been established for the awarding of enrichment scholarships. The Financial Aid office reviews overawards and makes the appropriate adjustments. Beginning in spring 2000, these adjustments will be reviewed by a second financial aid official. The MTSU Loan and Scholarship Committee, comprised of faculty, administrators, and students, reviews student satisfactory progress appeals which have been denied by the Financial Aid staff. We believe the corrective actions taken will strengthen compliance with federal regulations and university policies.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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Independent Auditor's Report

October 26, 1999

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

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, 1999, and June 30, 1998, 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.

In our report dated November 13, 1998, we qualified our opinion on the 1998 finanical statements because insufficient audit evidence existed to support the uiniversity's disclosures required by Govermental Accounting Standards Board (GASB) Technical Bulletin 98-1, *Disclosures about Year 2000 Issues.* The university's year 2000 disclosures are now reported as required supplementary information as permitted by GASB Technical Bulletin 99-1, *Disclosures about Year 2000 Issues—an amendment of Technical Bulletin 98-1.* Accordingly, our present opinion on the 1998 financial statements, expressed herein, is different from our prior report on the 1998 financial statements.

In our opinion, 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, 1999, and June 30, 1998, 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 13, during the year ended June 30, 1998, the university implemented GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* and changed the threshold for capitalizing equipment.

The Year 2000 Disclosures on page 37 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the university is or will become year 2000 compliant, 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 are or will become year 2000 compliant.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 1999, 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.

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

AAH/cj

Exhibit A

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1999, AND JUNE 30, 1998

ASSETS	June 30, 1999	June 30, 1998
Current funds:		
Unrestricted:		
General:		
Cash and cash equivalents (Notes 2 and 3)	$ 15,687,901.52	$ 15,312,082.93
Investments (Notes 3 and 4)	-	300,000.00
Accrued interest receivable	-	410.96
Accounts receivable (net of allowance of $836,795.45 at June 30, 1999, and $746,074.36 at June 30, 1998)	1,706,790.68	1,500,930.47
Appropriations receivable	-	386,200.00
Inventories	482,033.58	447,396.67
Prepaid expenses	174,873.70	206,646.36
Due from restricted current funds	826,965.02	712,621.85
Total general	18,878,564.50	18,866,289.24
Auxiliary enterprises:		
Cash and cash equivalents (Notes 2 and 3)	2,062,679.87	2,103,535.70
Accounts receivable (net of allowance of $72,972.66 at June 30, 1999, and $74,329.76 at June 30, 1998)	535,272.31	485,653.87
Inventories	1,874,736.56	1,713,252.44
Total auxiliary enterprises	4,472,688.74	4,302,442.01
Total unrestricted	23,351,253.24	23,168,731.25
Restricted:		
Grants receivable	1,933,605.96	1,931,890.17
Total restricted	1,933,605.96	1,931,890.17
Total current funds	$ 25,284,859.20	$ 25,100,621.42
Loan funds:		
Cash and cash equivalents (Notes 2 and 3)	$ 500,664.12	$ 426,880.84
Notes receivable (net of allowance of $996,384.90 at June 30, 1999, and $809,705.55 at June 30, 1998)	3,472,586.12	3,670,904.92
Accrued interest receivable (net of allowance of $185,998.88 at June 30, 1999, and $145,128.44 at June 30, 1998)	48,343.23	48,189.73
Total loan funds	$ 4,021,593.47	$ 4,145,975.49

LIABILITIES AND FUND BALANCES	June 30, 1999	June 30, 1998
Current funds:		
Unrestricted:		
General:		
Liabilities:		
Accounts payable	$ 1,073,465.86	$ 804,098.76
Accrued liabilities	6,394,610.98	5,886,679.79
Student deposits	124,981.62	109,254.71
Deferred revenue	4,860,285.76	4,540,018.00
Compensated absences	2,782,813.95	2,701,411.43
Other liabilities	15,682.30	28,602.55
Total liabilities	15,251,840.47	14,070,065.24
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital	1,262,880.70	1,184,005.06
Allocation for encumbrances	1,523,808.80	915,688.60
Allocation for designated appropriations	17,842.27	5,343.99
Discretionary allocations:		
Allocation for subsequent budget	2,447,347.00	2,192,320.00
Allocation for athletic contingency	87,840.05	65,294.72
Allocation for technology access fee	0.00	83,462.48
Allocation for compensated absences	(2,782,813.95)	(2,701,411.43)
Unallocated	1,069,819.16	3,051,520.58
Total fund balances	3,626,724.03	4,796,224.00
Total general	18,878,564.50	18,866,289.24
Auxiliary enterprises:		
Liabilities:		
Accounts payable	96,596.04	85,466.01
Accrued liabilities	47,755.34	53,262.11
Student deposits	568,055.09	599,606.99
Deferred revenue	267,192.75	223,759.50
Compensated absences	217,149.69	224,407.57
Total liabilities	1,196,748.91	1,186,502.18
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital	2,501,761.87	2,282,560.66
Allocation for encumbrances	92,339.94	187,706.79
Discretionary allocation:		
Allocation for contingencies	894,680.00	859,730.00
Allocation for compensated absences	(217,149.69)	(224,407.57)
Unallocated	4,307.71	10,349.95
Total fund balances	3,275,939.83	3,115,939.83
Total auxiliary enterprises	4,472,688.74	4,302,442.01
Total unrestricted	23,351,253.24	23,168,731.25
Restricted:		
Liabilities:		
Accounts payable	219,635.26	264,480.74
Accrued liabilities	36,009.95	26,256.24
Due to unrestricted current funds	826,965.02	712,621.85
Total liabilities	1,082,610.23	1,003,358.83
Fund balance	850,995.73	928,531.34
Total restricted	1,933,605.96	1,931,890.17
Total current funds	$ 25,284,859.20	$ 25,100,621.42
Loan funds:		
Fund balances:		
U.S. government grants refundable	$ 2,475,238.27	$ 2,623,195.00
University funds:		
Restricted - matching	650,285.68	633,758.10
Restricted - other	873,948.05	864,611.28
Unrestricted	22,121.47	24,411.11
Total loan funds	$ 4,021,593.47	$ 4,145,975.49

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1999, AND JUNE 30, 1998

ASSETS	June 30, 1999	June 30, 1998
Endowment and similar funds:		
Cash and cash equivalents (Notes 2 and 3)	$ 201,002.05	$ 238,053.24
Investments (Note 4)	689,588.67	636,173.14
Total endowment and similar funds	$ 890,590.72	$ 874,226.38
Plant funds:		
Unexpended plant:		
Cash and cash equivalents (Notes 2 and 3)	$ 12,753,698.29	$ 10,273,615.78
LGIP deposit - capital projects	3,625,085.70	9,032,618.85
Funds on deposit with State Treasurer (Note 4)	4,496,925.37	-
Accounts receivable	49,825.51	181,521.37
Total unexpended plant	20,925,534.87	19,487,756.00
Renewals and replacements:		
Cash and cash equivalents (Notes 2 and 3)	11,349,799.45	9,702,260.55
Total renewals and replacements	11,349,799.45	9,702,260.55
Retirement of indebtedness:		
Cash and cash equivalents (Notes 2 and 3)	857,065.60	1,630,059.09
Interest rate reserve with Tennessee State School Bond Authority (Note 7)	43,215.29	95,810.76
Accrued interest receivable	324,644.28	141,919.62
Accounts receivable	15,005.00	-
Total retirement of indebtedness	1,239,930.17	1,867,789.47
Investment in plant:		
Land	1,615,151.97	1,295,276.97
Buildings	170,534,782.24	116,932,409.42
Improvements other than buildings	23,009,764.20	22,839,297.69
Equipment	47,854,713.76	41,463,590.72
Library books	30,947,904.00	30,646,080.00
Other library holdings	7,007,231.00	6,726,014.00
Construction in progress	17,058,495.39	51,263,119.60
Livestock	267,960.00	268,030.00
Total investment in plant	298,296,002.56	271,433,818.40
Total plant funds	$ 331,811,267.05	$ 302,491,624.42
Agency funds:		
Nonfoundation funds:		
Cash and cash equivalents (Notes 2 and 3)	$ 674,788.47	$ 677,055.88
Accounts receivable	7,025.38	1,259.73
Total nonfoundation funds	681,813.85	678,315.61
Foundation funds:		
Cash and cash equivalents (Notes 2 and 3)	7,446,806.61	3,292,329.62
Investments (Notes 3 and 4)	14,955,770.90	15,074,030.17
Accrued interest receivable	-	141,480.58
Accounts receivable	20,908.70	-
Real estate	4,374,025.20	4,363,367.31
Equipment	732,082.18	694,021.66
Livestock	147,594.00	57,851.00
Construction in progress	991,600.36	328,066.33
Other assets	-	1,775.50
Total foundation funds	28,668,787.95	23,952,922.17
Total agency funds	$ 29,350,601.80	$ 24,631,237.78

LIABILITIES AND FUND BALANCES	June 30, 1999	June 30, 1998
Endowment and similar funds:		
Fund balances:		
Quasi-endowment:		
Restricted	$ 735,490.72	$ 719,126.38
Unrestricted	155,100.00	155,100.00
Total endowment and similar funds	$ 890,590.72	$ 874,226.38
Plant funds:		
Unexpended plant:		
Liabilities:		
Accounts payable	$ 68,451.17	$ 81,466.68
Tennessee State School Bond Authority indebtedness (Note 7)	4,496,925.37	-
Total liabilities	4,565,376.54	81,466.68
Fund balances:		
Restricted	2,241.54	10,901.44
Unrestricted (Note 5)	16,357,916.79	19,395,387.88
Total fund balances	16,360,158.33	19,406,289.32
Total unexpended plant	20,925,534.87	19,487,756.00
Renewals and replacements:		
Liabilities:		
Accounts payable	118,710.25	18,886.18
Fund balance:		
Unrestricted (Note 5)	11,231,089.20	9,683,374.37
Total renewals and replacements	11,349,799.45	9,702,260.55
Retirement of indebtedness:		
Liabilities:		
Accrued interest payable	469,480.00	261,764.21
Fund balances:		
Restricted	43,215.29	95,810.76
Unrestricted	727,234.88	1,510,214.50
Total fund balances	770,450.17	1,606,025.26
Total retirement of indebtedness	1,239,930.17	1,867,789.47
Investment in plant:		
Liabilities:		
Lease obligation payable (Note 6)	21,248.87	25,448.96
Tennessee State School Bond Authority indebtedness (Note 7)	65,526,079.73	47,936,524.55
Total liabilities	65,547,328.60	47,961,973.51
Fund balance:		
Net investment in plant	232,748,673.96	223,471,844.89
Total investment in plant	298,296,002.56	271,433,818.40
Total plant funds	$ 331,811,267.05	$ 302,491,624.42
Agency funds:		
Nonfoundation funds:		
Liabilities:		
Accounts payable	$ 71,914.70	$ 71,456.77
Deposits held in custody for others	463,980.41	402,992.34
Other liabilities	145,918.74	203,866.50
Total nonfoundation funds	681,813.85	678,315.61
Foundation funds:		
Liabilities:		
Accounts payable	258,451.46	13,993.21
Deposits held in custody for foundation	28,410,336.49	23,938,928.96
Total foundation funds	28,668,787.95	23,952,922.17
Total agency funds	$ 29,350,601.80	$ 24,631,237.78

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, 1999

	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	$ 123,211,912.76	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	17,893,655.52	-	-	-	-	-	-	-
Tuition and fees	-	131,333.25	-	-	-	-	-	-
State appropriations	-	363,400.00	-	-	8,163,321.06	-	74,834.35	-
Federal grants and contracts	-	9,548,509.50	49,650.00	-	-	-	72,134.00	-
State grants and contracts	-	2,808,265.26	-	-	-	-	-	-
Local grants and contracts	-	40,927.93	-	-	-	-	-	-
Private gifts, grants, and contracts	-	1,788,122.40	26,253.83	500.00	-	-	-	365,684.60
Endowment income	-	659,124.78	-	-	-	-	-	-
Investment income	-	-	14,943.23	-	823,865.96	421,381.32	429,622.84	-
Interest on loans receivable	-	-	116,048.88	-	-	-	-	-
Reduction in doubtful accounts	-	-	15,900.07	-	-	-	-	-
Net increase in the fair value of investments	-	-	-	15,864.34	-	-	-	-
Debt proceeds	-	-	-	-	22,177,615.22	-	-	-
Equipment use charges	-	-	-	-	-	1,383,183.95	-	-
Expended for plant facilities (including $5,666,421.80 charged to current fund expenditures)	-	-	-	-	-	-	-	29,607,185.37
Retirement of indebtedness	-	-	-	-	-	-	-	980,597.76
Capital lease acquisition	-	-	-	-	-	-	-	5,863.45
Equipment inventory adjustments	-	-	-	-	-	-	-	153,382.02
Other	-	-	17,653.44	-	-	32,197.78	-	24,201.00
Total revenues and other additions	141,105,568.28	15,339,683.12	240,449.45	16,364.34	31,164,802.24	1,836,763.05	576,591.19	31,136,914.20
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	119,342,484.21	15,111,762.64	-	-	-	-	-	-
Auxiliary enterprise expenditures	14,658,828.75	24,447.10	-	-	-	-	-	-
Indirect costs recovered	-	212,170.52	-	-	-	-	-	-
Refunded to grantors	-	32,134.60	183.00	-	-	-	-	-
Loan cancellations and write-offs	-	-	75,447.70	-	-	-	-	-
Provision for doubtful accounts	-	-	243,449.86	-	-	-	-	-
Administrative and collection costs	-	-	62,300.58	-	-	-	88,596.78	-
Expended for plant facilities	-	-	-	-	23,058,286.06	720,014.51	-	-
Expended for noncapital items	-	-	-	-	11,234,396.89	560,007.63	-	-
Retirement of indebtedness	-	-	-	-	-	-	980,597.76	-
Interest on indebtedness	-	-	-	-	-	-	2,870,528.35	-
Increase in indebtedness	-	-	-	-	4,496,925.37	-	-	18,570,152.94
Library holdings revaluation	-	-	-	-	-	-	-	909,750.39
Disposal of plant facilities	-	-	-	-	-	-	-	1,862,177.15
Reclassification of asset to foundation	-	-	-	-	-	-	-	504,962.15
Other	-	36,703.87	-	-	-	-	-	13,042.50
Total expenditures and other deductions	134,001,312.96	15,417,218.73	381,381.14	-	38,789,608.32	1,280,022.14	3,939,722.89	21,860,085.13

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1999

	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	(16,549.67)	-	16,549.67	-	-	-	-	-
Principal and interest	(3,028,584.00)	-	-	-	-	-	3,028,584.00	-
Nonmandatory:								
Unrestricted current funds	790,200.00	-	-	-	-	(790,200.00)	-	-
Unexpended plant	(1,350,000.00)	-	-	-	5,398,255.43	(1,598,255.43)	(2,450,000.00)	-
Renewals and replacements	(2,559,849.01)	-	-	-	(819,580.34)	3,379,429.35	-	-
Retirement of indebtedness	(1,948,972.61)	-	-	-	-	-	1,948,972.61	-
Total transfers	(8,113,755.29)	-	16,549.67	-	4,578,675.09	990,973.92	2,527,556.61	-
Net increases (decreases) for the year	(1,009,499.97)	(77,535.61)	(124,382.02)	16,364.34	(3,046,130.99)	1,547,714.83	(835,575.09)	9,276,829.07
Fund balances at beginning 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
Fund balances at end of year	$ 6,902,663.86	$ 850,995.73	$ 4,021,593.47	$ 890,590.72	$ 16,360,158.33	$ 11,231,089.20	$ 770,450.17	$ 232,748,673.96

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

Exhibit C

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 13)	-	-	-	-	-	-	-	(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.

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, 1999

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 48,341,448.49	$ 127,974.45	$ 48,469,422.94
State appropriations	70,575,900.00	369,364.06	70,945,264.06
Federal grants and contracts	135,180.68	9,537,036.29	9,672,216.97
State grants and contracts	156,496.12	2,668,280.11	2,824,776.23
Local grants and contracts	2,239.07	38,190.94	40,430.01
Private gifts, grants, and contracts	2,625.05	1,721,747.46	1,724,372.51
Investment income	1,083,956.41	-	1,083,956.41
Endowment income	7,715.57	649,169.33	656,884.90
Sales and services of educational activities	2,831,099.74	-	2,831,099.74
Sales and services of auxiliary enterprises	17,893,655.52	24,447.10	17,918,102.62
Other sources	75,251.63	-	75,251.63
Total current revenues	141,105,568.28	15,136,209.74	156,241,778.02
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	66,445,516.95	1,531,786.31	67,977,303.26
Research	1,517,570.18	775,434.10	2,293,004.28
Public service	2,068,264.02	2,846,330.27	4,914,594.29
Academic support	9,761,226.26	82,618.36	9,843,844.62
Student services	13,370,976.96	1,090,870.93	14,461,847.89
Institutional support	10,887,968.46	201,040.03	11,089,008.49
Operation and maintenance of plant	11,137,906.34	5,598.25	11,143,504.59
Scholarships and fellowships	4,153,055.04	8,578,084.39	12,731,139.43
Total educational and general expenditures	119,342,484.21	15,111,762.64	134,454,246.85
Mandatory transfers for:			
Loan fund matching grant	16,549.67	-	16,549.67
Principal and interest	2,402,479.77	-	2,402,479.77
Nonmandatory transfers for:			
Unexpended plant	1,350,000.00	-	1,350,000.00
Renewals and replacements	(679,073.53)	-	(679,073.53)
Retirement of indebtedness	1,948,972.61	-	1,948,972.61
Total educational and general	124,381,412.73	15,111,762.64	139,493,175.37
Auxiliary enterprises:			
Expenditures	14,658,828.75	24,447.10	14,683,275.85
Mandatory transfer for:			
Principal and interest	626,104.23	-	626,104.23
Nonmandatory transfer for:			
Renewals and replacements	2,448,722.54	-	2,448,722.54
Total auxiliary enterprises	17,733,655.52	24,447.10	17,758,102.62
Total expenditures and transfers	142,115,068.25	15,136,209.74	157,251,277.99
OTHER ADDITION (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	203,473.38	203,473.38
Indirect costs recovered	-	(212,170.52)	(212,170.52)
Refunded to grantors	-	(32,134.60)	(32,134.60)
Expired grants	-	(16.80)	(16.80)
Other deduction	-	(36,687.07)	(36,687.07)
Net decreases in fund balances	$ (1,009,499.97)	$ (77,535.61)	$ (1,087,035.58)

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, 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	-	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	-	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	-	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	-	19,642.33
Nonmandatory transfers for:			
Unexpended plant	50,000.00	-	50,000.00
Retirement of indebtedness	2,150,493.00	-	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	-	495,225.36
Nonmandatory transfer for:			
Renewals and replacements	2,707,352.01	-	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	-	250,536.05	250,536.05
Indirect costs recovered	-	(278,371.55)	(278,371.55)
Refunded to grantors	-	(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.

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. The university has adopted a policy of capitalizing all interest costs funded by Tennessee State School Bond Authority indebtedness. All other interest costs are expensed. 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, 1999, cash and cash equivalents consisted of $6,541,476.57 in bank accounts, $112,290.00 of petty cash on hand, $41,661,905.58 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $3,218,733.83 in money market accounts. 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, and $1,485,527.42 in money market accounts.

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, 1999, the carrying amount of the university's deposits was $9,760,210.40, and the bank balance including accrued interest was $11,193,292.81. Of the bank balance, $9,046,220.91 was category 1, and $2,147,071.90 was category 3.

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.

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, 1999	Fair Value
Category 2:	
U.S. government securities	$ 2,912,411.79
Corporate bonds	3,846,570.00
Corporate stocks	8,196,789.11
Investments not susceptible to credit risk categorization:	
Mutual funds	689,588.67
Total investments on the balance sheet	$15,645,359.57

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

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

Investments of endowment and similar funds are composed of the following:

	Carrying Value	
	FY 1999	FY 1998
Mutual funds	$670,641.16	$610,641.16

Assets of endowment funds are pooled on a market value basis, with each individual fund subscribing to or disposing of units on the basis of the value per unit market value at the beginning of the calendar quarter within which the transaction takes place. All of the units, each having a market value of $5.45, were owned by quasi-endowment funds at June 30, 1999.

The following tabulation summarizes changes in relationships between cost and market values of the pooled assets:

	Pooled Assets		Net Gains	Market Value
	Market	Cost	(Losses)	Per Unit
End of year	$689,588.67	$670,641.16	$18,947.51	$ 5.45
Beginning of year	$636,173.14	$610,641.16	25,531.98	5.60
Unrealized net losses			(6,584.47)	
Realized net gains			22,448.81	
Total net gains			$15,864.34	$(0.15)

The average annual earnings per unit, exclusive of net gains, were $0.15 for the year.

NOTE 5. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 1999, amounted to $3,102,792.79 for unexpended plant and $898,599.00 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 1998, amounted to $476,891.60 for unexpended plant and $60,058.12 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 $35,097.32 at June 30, 1999. The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments at June 30, 1999:

Year Ending June 30	
2000	$ 8,506.90
2001	8,506.90
2002	8,506.90
Total minimum lease payments	25,520.70
Less amount representing interest	4,271.83
Present value of net minimum lease payments	$21,248.87

NOTE 7. TSSBA INDEBTEDNESS

Bond issues, with interest rates ranging from 4.0% to 6.46% for Tennessee State School Bond Authority bonds are due serially to 2028 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 $1,237,375.37 at June 30, 1999, and $1,909,413.54 at June 30, 1998.

The university's debt service requirements to maturity for all bonds payable at June 30, 1999, are as follows:

Year Ending June 30	Principal	Interest	Total
2000	$ 1,717,804.00	$ 3,265,199.13	$ 4,983,003.13
2001	1,775,471.42	3,187,786.64	4,963,258.06
2002	1,652,432.70	3,094,268.72	4,746,701.42
2003	1,747,878.49	3,002,907.25	4,750,785.74
2004	1,832,450.59	2,916,404.10	4,748,854.69
2005-2028	51,096,167.82	38,308,132.72	89,404,300.54
	$59,822,205.02	$53,774,698.56	$113,596,903.58

The Tennessee State School Bond Authority also authorized the issuance of commercial paper to finance the costs of various capital projects. The amount issued for projects at the university was $10,200,800.08 at June 30, 1999, and $32,147,909.74 at June 30, 1998.

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 based on the amounts drawn. 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.

NOTE 8. PENSION PLANS

A. Defined Benefit Plans

Tennessee Consolidated Retirement System

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

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

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 5.43% 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, 1999, 1998, and 1997, were

$1,779,799.78, $1,164,227.68, and $2,400,240.10. 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, 1999, was $3,726,151.34 and for the year ended June 30, 1998, was $3,275,584.19. 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 $22,639,723.41 on deposit at June 30, 1999, and $20,592,567.94 on deposit at June 30, 1998, 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. During the year ended June 30, 1999, the state incurred losses in Clarksville and Jackson due to damage from tornadoes. Final settlement had not been made but is expected to be approximately $6 million. In the past two fiscal years, the state had not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of $8.219 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, 1999, the scheduled coverage for the university was $336,492,700 for buildings and $144,791,700 for contents. At June 30, 1998, the scheduled coverage was $312,611,600 for buildings and $135,754,700 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 $27,545,517.58 at June 30, 1999, and $26,424,413.23 at June 30, 1998.

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 $136,641.74 and for personal property were $157,778.60 for the year ended June 30, 1999. Comparative amounts for the year ended June 30, 1998, were $129,154.19 and $88,713.14. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1999, outstanding commitments under construction contracts totaled $2,651,190.44 for utility/infrastructure improvements, the Library Building, steam and condensate lines, and the Recreation Center addition, of which $1,728,018.81 will be funded by future state capital outlay appropriations.

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

Questioned Costs - As of June 30, 1999, the university had not resolved $150.00 of questioned costs resulting from the prior audit. In addition, the following costs were questioned as a result of the current-year audit.

Program	Amount Questioned
Federal Family Education Loans	$71,250
Federal Pell Grant Program	16,584
Federal Direct Student Loan	7,831
Total	$95,665

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

NOTE 13. 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.

Tennessee Board of Regents
Middle Tennessee State University
Required Supplementary Information
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 computer software, and could impact the ability to enter data into 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 as of June 30, 1999. 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 critical and certain are supportive. Critical computer systems are those for which there are manual alternatives, but the university would unlikely be able 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). All three have completed the validation/testing stage. This stage is defined as validating and testing the changes that were made during the remediation stage.

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

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

The completion of all stages identified as necessary to address the Y2K issue is not a guarantee that systems and equipment will be year 2000 compliant.

Tennessee Board of Regents
Middle Tennessee State University
Required Supplementary Information
Year 2000 Disclosures (Cont.)

The university's Y2K initiatives did not result in the commitment of significant financial resources as of the end of the university's 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.