Financial and Compliance Audit Report

Tennessee State University

For the Year Ended June 30, 2018

Justin P. Wilson
Comptroller of the Treasury

Division of State Audit

Deborah V. Loveless, CPA, CGFM, CGMA
Director

Robyn R. Probus, CPA, CFE, CGFM, CGMA
Edward Burr, CPA, CGFM
Assistant Directors

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Audit Manager

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In-Charge Auditor

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Tomlin Gale
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Technical Manager

Amy Brack
Editor

Amanda Adams
Assistant Editor

Comptroller of the Treasury, Division of State Audit
Cordell Hull Building
425 Fifth Avenue North
Nashville, TN 37243
(615) 401-7897

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Tennessee Comptroller of the Treasury

Justin P. Wilson
Comptroller

Jason E. Mumpower
Deputy Comptroller

September 21, 2020

The Honorable Bill Lee, Governor
Members of the General Assembly
Dr. Glenda Baskin Glover, President

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of Tennessee State University, an institution of the State University and Community College System of Tennessee, for the year ended June 30, 2018. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

Consideration of the internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Findings and Recommendations section of this report. The university's management 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,

Deborah V. Loveless

Deborah V. Loveless, CPA, Director
Division of State Audit

19/015

Audit Report

Tennessee State University

For the Year Ended June 30, 2018

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For the Year Ended June 30, 2018

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

As noted in the prior three audits, management needs to improve procedures for preparing and reviewing financial statements**

As noted in the prior three audits, Tennessee State University's procedures for preparing its financial statements and the accompanying notes to the financial statements are not adequate to ensure the accuracy, proper classification, and disclosure of information (page 69).

As noted in the prior audit, the university and the university foundation's accounting records show more cash on hand than the bank statements show; this variance is again unexplained*

As noted in the prior audit, business office personnel did not prepare and review bank reconciliations completely or timely (page 73).

As noted in the prior audit, the university did not have adequate policies and procedures for the collection of accounts receivable*

Our review of the university's accounts receivable collection procedures revealed two areas of concern: 1) the university was not consistently performing timely collection procedures and 2) the university did not have a written accounts receivable collection policy that it followed (page 75).

As noted in the prior four audits, Tennessee State University did not provide adequate internal controls in one area**

As noted in the prior four audits, the university did not design and monitor proper internal controls. We observed a condition in violation of university policies and/or industry-accepted best practices. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated* (page 79).

* This finding is repeated from the prior audit.
** This finding is repeated from prior audits.

TENNESSEE COMPTROLLER OF THE TREASURY

JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

Independent Auditor's Report

The Honorable Bill Lee, Governor
Members of the General Assembly
Dr. Glenda Baskin Glover, President

Report on the Financial Statements

We have audited the accompanying financial statements of Tennessee State University, an institution of the State University and Community College System of Tennessee, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the university's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

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expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Tennessee State University and its discretely presented component unit as of June 30, 2018; and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of Tennessee State University, an institution of the State University and Community College System of Tennessee, are intended to present the financial position, the changes in financial position, and the cash flows of only Tennessee State University. They do not purport to, and do not, present fairly the financial position of the State University and Community College System of Tennessee as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 18, the university implemented Governmental Accounting Standards Board Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2018. Our opinion is not modified with respect to this matter.

As discussed in Note 20, the financial statements of Tennessee State University Foundation, a discretely presented component unit of Tennessee State University, include investments valued at $10,073,242.27 (13.7% of net position of the foundation), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 15; the schedule of Tennessee State University's proportionate share of the net pension liability – Closed State and Higher Education Employee Pension Plan within TCRS on page 58; the schedule of Tennessee State University's proportionate share of the net pension asset – State and Higher Education Employee Retirement Plan within TCRS on page 59; the schedule of Tennessee State University's contributions – Closed

State and Higher Education Employee Pension Plan within TCRS on page 60; the schedule of Tennessee State University's contributions – State and Higher Education Employee Retirement Plan within TCRS on page 61; the schedule of Tennessee State University's contributions – Civil Service Retirement System on page 62; the schedule of Tennessee State University's proportionate share of the collective total OPEB liability – Closed State Employee Group OPEB Plan on page 63; and the schedule of Tennessee State University's proportionate share of the collective total OPEB liability – Closed Tennessee OPEB Plan on page 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the university's basic financial statements. The supplementary schedule of cash flows – component unit on page 65 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary schedule of cash flows – component unit is the responsibility of the university's management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedule of cash flows – component unit is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2020, on our consideration of the university's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the university's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA, Director
Division of State Audit
July 24, 2020

TENNESSEE STATE UNIVERSITY
Management's Discussion and Analysis

Introduction

This section of Tennessee State University's annual financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2018, with comparative information presented for the fiscal year ended June 30, 2017. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

The university has one discretely presented component unit, the Tennessee State University Foundation. More detailed information about the foundation is presented in Note 20 to the financial statements. This discussion and analysis focuses on the university and does not include the foundation.

Overview of the Financial Statements

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The financial statements are presented on a consolidated basis to focus on the university as a whole. The full scope of the university's activities is considered to be a single business-type activity, and, accordingly, is reported within a single column in the basic financial statements.

The university's financial report includes the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. Notes to the financial statements are also presented to provide additional information that is essential to a full understanding of the financial statements.

The Statement of Net Position

The statement of net position is a point-in-time financial statement. The statement of net position presents the financial position of the university at the end of the fiscal year. To aid the reader in determining the university's ability to meet immediate and future obligations, the statement includes all assets, liabilities, deferred outflows/inflows of resources, and net position of the university and segregates the assets and liabilities into current and noncurrent components. Current assets are those that are available to satisfy current liabilities, inclusive of assets that will be converted to cash within one year. Current liabilities are those that will be paid within one year. The statement of net position is prepared under the accrual basis of accounting, wherein assets and liabilities are recognized when goods or services are provided or received, despite when cash is actually exchanged.

From the data presented, readers of the statement are able to determine the assets available to continue the operations of the university. They are also able to determine how much the university owes vendors, lenders, and others. Net position represents the difference between the university's assets and liabilities, along with the difference between deferred outflows and deferred inflows of resources and is one indicator of the university's current financial condition.

The statement of net position also indicates the availability of net position for expenditure by the university. Net position is divided into three major categories. The first category, net investment in capital assets, represents the university's total investment in property, plant, and equipment, net of outstanding debt obligations related to these capital assets. To the extent debt or deferred inflows of resources have been incurred but not yet expended for capital assets, such amounts are not included. The next category is restricted net position, which is subdivided into two categories, nonexpendable and expendable. Nonexpendable restricted net position includes endowment and similar resources whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity. Expendable restricted net position is available for expenditure by the university but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the resources. The final category is unrestricted net position. Unrestricted net position is available to the university for any lawful purpose of the university.

The following table summarizes the university's assets, liabilities, deferred outflows/inflows of resources, and net position at June 30, 2018, and June 30, 2017.

Summary of Net Position
(in thousands of dollars)

	2018	2017
Assets:		
Current assets	$ 25,463	$ 35,441
Capital assets, net	160,304	162,149
Other assets	74,645	71,442
Total Assets	260,412	269,032
Deferred Outflows of Resources:		
Deferred amount on debt refunding	748	937
Deferred outflows of resources related to pensions	11,497	12,080
Deferred outflows of resources related to OPEB	837	-
Total Deferred Outflows of Resources	13,082	13,017

Liabilities:		
Current liabilities	24,965	23,710
Noncurrent liabilities	63,126	61,756
Total Liabilities	88,091	85,466
Deferred Inflows of Resources:		
Deferred inflows of resources related to pensions	1,325	1,484
Deferred inflows of resources related to OPEB	485	-
Total Deferred Inflows of Resources	1,810	1,484
Net Position:		
Net investment in capital assets	137,478	137,712
Restricted - nonexpendable	346	341
Restricted - expendable	6,097	4,181
Unrestricted	39,672	52,865
Total Net Position	$183,593	$195,099

Comparison of Fiscal Year 2018 to Fiscal Year 2017

- Current assets decreased because current cash decreased significantly due to an increase in operating activities. See the explanation for the increase in operating expenses below.
- Deferred outflows and deferred inflows of resources related to OPEB is the result of implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. See Note 18 to the financial statements for more details.
- Restricted expendable net position increased due to the change in presentation of LGIP-capital project balances, which were previously presented as unrestricted. At the end of fiscal year 2018, LGIP capital project balances totaled $1.7 million.
- The $12.2 million reduction in unrestricted net position was due to the implementation of GASB 75, which created a cumulative negative adjustment to beginning net position of $4.9 million, in addition to a $5.5 million decrease in net assets from operations for the year (see the explanation for the increase in operating expenses below).

The Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position presents the results of operations for the fiscal year. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received. The statement indicates whether the university's financial condition has improved or deteriorated during the fiscal year. The statement presents the revenues received by the university, both operating and nonoperating; and the expenses paid by the university, operating and nonoperating; and any other revenues, expenses, gains, or losses received or spent by the university.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the university. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the university. Nonoperating revenues are revenues received for which goods and services are not provided directly to the payor. Although Tennessee State University is dependent upon state appropriations and gifts to fund educational and general operations, under GASB standards these funding sources are reported as nonoperating revenues, as is investment income. As a result, the university has historically reported an excess of operating expenses over operating revenues, resulting in an operating loss. Therefore, the "increase in net position" is more indicative of overall financial results for the year.

A summary of the university's revenues, expenses, and changes in net position for the year ended June 30, 2018, and June 30, 2017, follows.

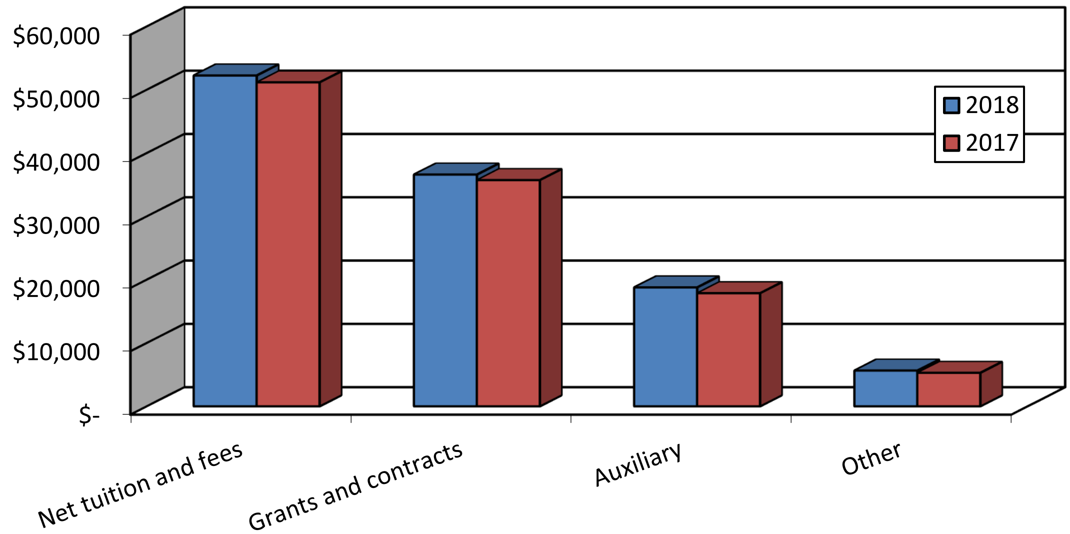
Summary of Revenues, Expenses, and Changes in Net Position
(in thousands of dollars)

	2018	2017
Operating revenues	$113,324	$110,094
Operating expenses	197,505	185,966
Operating loss	(84,181)	(75,872)
Nonoperating revenues and expenses	73,517	67,653
Loss before other revenues, expenses, gains, or losses	(10,664)	(8,219)
Other revenues, expenses, gains, or losses	4,060	3,720
Decrease in net position	(6,604)	(4,499)
Net position - beginning of year	195,099	199,598
Cumulative effect of change in accounting principle	(4,902)	-
Net Position at end of year	$183,593	$195,099

Operating Revenues

The following summarizes the operating revenues by source that were used to fund operating activities for the last two fiscal years:

Operating Revenues
(in thousands of dollars)

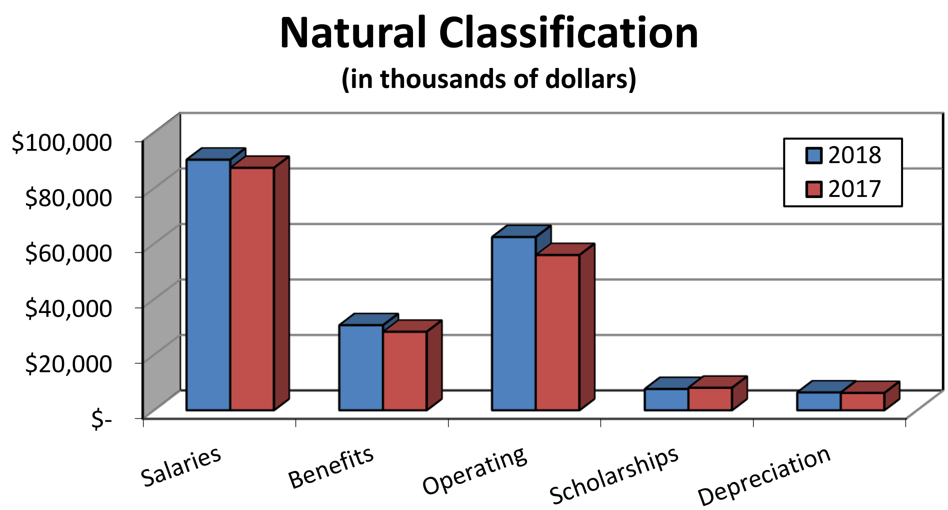


Comparison of Fiscal Year 2018 to Fiscal Year 2017

- No material variances were noted between fiscal years 2018 and 2017.

Operating Expenses

Operating expenses may be reported by nature or function. The university has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net position and has displayed the functional classification in the notes to the financial statements. The following summarizes the operating expenses by natural classifications for the last two fiscal years:

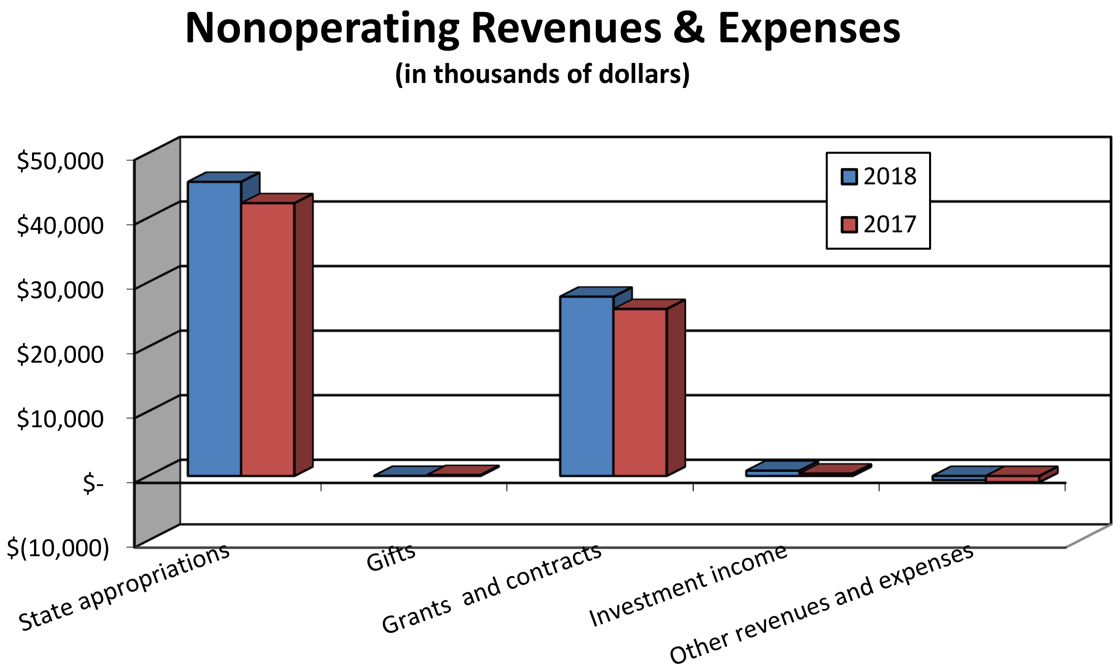


Comparison of Fiscal Year 2018 to Fiscal Year 2017

- The increase in operating expenses occurred due to increased purchases of supplies for the five-year Title III grant; increased rental and insurance costs due to increased leases of real property; and an increase in stores for resale due to an increase in food service costs for meal plans.

Nonoperating Revenues and Expenses

Certain revenue sources that the university relies on to provide funding for operations, including state noncapital appropriations, certain gifts and grants, and investment income, are defined by the GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the university's nonoperating revenues and expenses for the last two fiscal years:

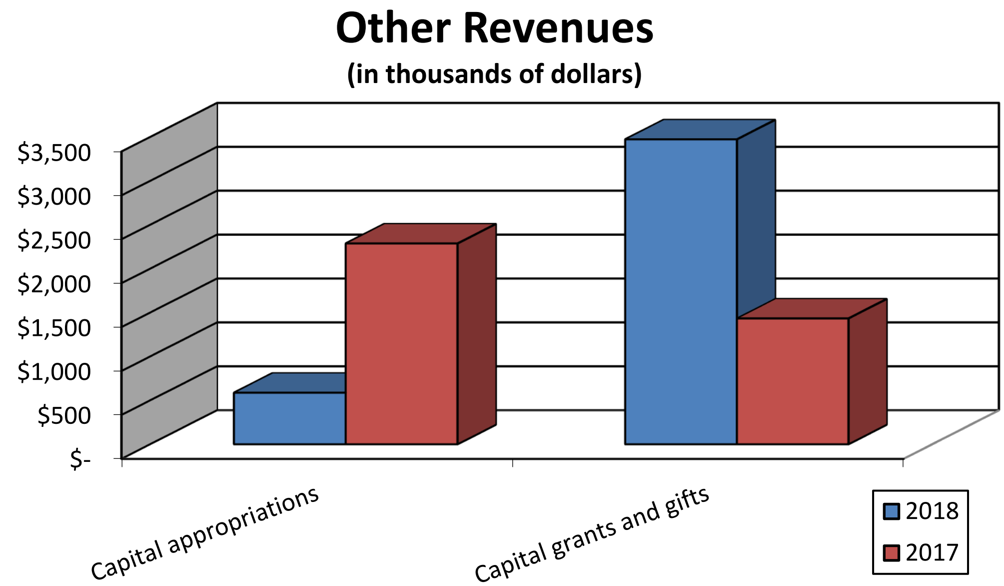


Comparison of Fiscal Year 2018 to Fiscal Year 2017

- No material variances were noted between fiscal year 2018 and 2017.

Other Revenues

This category is composed of state appropriations for capital purposes, capital grants and gifts, and additions to permanent endowments. These amounts were as follows for the last two fiscal years:



Comparison of Fiscal Year 2018 to Fiscal Year 2017

- The campus building elevator replacement and roof repair projects were completed during the fiscal year, which resulted in a $1.6 million reduction in capital appropriations.
- Capital grants had a net increase of $2.0 million, primarily from the U.S. Department of Education for the Title III Construction Infrastructure projects.

Capital Assets and Debt Administration

Capital Assets

Tennessee State University had $160,304,305.77 invested in capital assets, net of accumulated depreciation of $189,112,234.01 at June 30, 2018; and $162,149,383.06 invested in capital assets, net of accumulated depreciation of $183,569,530.74 at June 30, 2017. Depreciation charges totaled $6,418,733.84 and $6,250,952.78 for the years ended June 30, 2018, and June 30, 2017, respectively.

Schedule of Capital Assets, Net of Depreciation
(in thousands of dollars)

	2018	2017
Land	$ 9,801	$ 9,700
Land improvements and infrastructure	14,829	10,378
Buildings	123,760	126,678
Equipment	8,478	7,968

Library holdings	1,181	1,212
Projects in progress	2,255	6,213
Total	$160,304	$162,149

Significant additions to land improvements and infrastructure occurred in fiscal year 2018. These additions were from construction beginning on the new Health Sciences facility.

At June 30, 2018, outstanding commitments under construction contracts totaled $75,483,926.87 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $38,098,564.40 of these costs.

More detailed information about the university's capital assets is presented in Note 6 to the financial statements.

Debt

The university had $23,574,512.41 and $25,374,460.61 in debt outstanding at June 30, 2018, and June 30, 2017, respectively. The table below summarizes these amounts by type of debt instrument.

Outstanding Debt Schedule
(in thousands of dollars)

	2018	2017
TSSBA bonds payable	$21,103	$24,328
Unamortized bond premium/discount	1,698	1,046
Revolving credit facility	774	-
Total Debt	$23,575	$25,374

The Tennessee State School Bond Authority (TSSBA) issued bonds with interest rates ranging from 1.3% to 5% due November 2031 on behalf of Tennessee State University. The university is responsible for the debt service of these bonds. The current portion of the $21,103,249.74 outstanding at June 30, 2018, is $2,644,901.24.

The ratings on debt issued by the TSSBA at June 30, 2018, were as follows:

Fitch	AA+
Moody's Investor Service	Aa1
Standard & Poor's	AA+

More information about the university's long-term liabilities is presented in Note 8 to the financial statements.

Economic Factors That Will Affect the Future

The university is not aware of any factors that will have a significant effect on the financial position or results of operations.

TENNESSEE STATE UNIVERSITY
Statement of Net Position
June 30, 2018

	University	Component Unit
Assets		
Current assets:		
Cash and cash equivalents (Notes 2 and 20)	$ 1,735,948.80	$ 2,242,004.11
Investments (Notes 3, 4, and 20)	997,225.22	2,974,451.51
Accounts, notes, and grants receivable (net) (Note 5)	19,255,316.57	3,521.43
Due from State of Tennessee	1,456,760.64	-
Due from TSU	-	1,086,925.90
Inventories	35,043.27	-
Accrued interest	1,982,753.20	-
Total current assets	25,463,047.70	6,306,902.95
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 20)	55,792,074.33	2,260,834.11
Investments (Notes 3, 4, and 20)	17,109,804.03	58,510,124.15
Accounts, notes, and grants receivable (net) (Note 5)	1,396,275.70	-
Due from primary government	97,134.51	-
Capital assets (net) (Notes 6 and 20)	160,304,305.77	6,349,771.89
Net pension asset (Note 10)	249,842.00	-
Total noncurrent assets	234,949,436.34	67,120,730.15
Total assets	260,412,484.04	73,427,633.10
Deferred outflows of resources		
Deferred amount on debt refunding	748,460.38	-
Deferred outflows related to OPEB (Note 11)	836,578.00	-
Deferred outflows related to pensions (Note 10)	11,496,750.92	-
Total deferred outflows of resources	13,081,789.30	-
Liabilities		
Current liabilities:		
Accounts payable (Note 7)	4,311,502.14	39,324.18
Accrued liabilities	7,303,498.07	-
Due to grantor (Note 8)	281,081.48	-
Due to State of Tennessee	1,545,531.52	-
Due to TSU Foundation	1,086,925.90	-
Unearned revenue	4,786,829.93	-
Total OPEB liability (Note 11)	836,577.82	-
Compensated absences (Note 8)	1,387,196.72	-
Accrued interest payable	124,402.33	-
Long-term liabilities, current portion (Note 8)	2,644,901.24	-
Deposits held in custody for others	656,627.27	-
Total current liabilities	24,965,074.42	39,324.18
Noncurrent liabilities:		
Total OPEB liability (Note 11)	11,788,306.18	-
Net pension liability (Note 10)	21,545,247.00	-
Compensated absences (Note 8)	5,425,694.62	-
Long-term liabilities (Note 8)	20,929,611.17	-
Due to grantors (Note 8)	3,437,128.74	-
Total noncurrent liabilities	63,125,987.71	-
Total liabilities	88,091,062.13	39,324.18
Deferred inflows of resources		
Deferred inflows related to OPEB (Note 11)	485,129.00	-
Deferred inflows related to pensions (Note 10)	1,325,380.00	-
Total deferred inflows of resources	1,810,509.00	-
Net position		
Net investment in capital assets	137,478,253.74	6,349,771.89
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	346,032.68	9,281,115.50
Research	-	848,480.89
Instructional department uses	-	979,969.35
Endowment for Educational Excellence	-	48,813,391.49
Other	-	376,319.75
Expendable:		
Scholarships and fellowships	218,554.71	2,534,900.14
Research	618,277.56	247,868.77
Instructional department uses	1,430,922.34	742,815.53
Loans	785,261.98	-
Capital projects	1,731,841.77	-
Debt service	249,842.00	-
Pension	1,061,962.50	-
Endowment for Educational Excellence	-	337,764.86
Other	-	2,285,664.61
Unrestricted	39,671,752.93	590,246.14
Total net position	$ 183,592,702.21	$ 73,388,308.92

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

TENNESSEE STATE UNIVERSITY
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2018

	University	Component Unit
Revenues		
Operating revenues:		
Student tuition and fees (Note 12)	$ 52,264,068.09	$ -
Gifts and contributions	-	2,053,271.68
Governmental grants and contracts	35,345,130.59	4,000.00
Nongovernmental grants and contracts (Including $182,279.11 from component unit)	1,268,354.86	60,000.00
Sales and services of educational activities	122,101.48	-
Sales and services of other activities	5,376,531.37	383,189.15
Auxiliary enterprises:		
Residential life (Note 12)	5,201,276.78	-
Bookstore	2,390,579.32	-
Food service	10,204,548.87	-
Other auxiliaries	994,761.00	-
Interest earned on loans to students	156,848.23	-
Total operating revenues	113,324,200.59	2,500,460.83
Expenses		
Operating expenses (Note 16):		
Salaries and wages	90,319,394.10	-
Benefits	30,659,588.18	-
Utilities, supplies, and other services	62,441,347.03	1,200,040.78
Scholarships and fellowships	7,666,546.18	1,932,358.82
Depreciation expense	6,418,733.84	10,430.58
Payments to or on behalf of Tennessee State University (Note 20)	-	186,704.70
Total operating expenses	197,505,609.33	3,329,534.88
Operating loss	(84,181,408.74)	(829,074.05)
Nonoperating revenues (expenses)		
State appropriations	45,552,832.84	-
Gifts, including $4,425.59 from component unit	11,658.09	-
Grants and contracts	27,768,968.26	-
Investment income (expense) (net of investment expense for the component unit of $267,914.86)	820,457.07	3,670,487.43
Interest on capital asset-related debt	(620,614.08)	-
Bond issuance costs	(13,609.52)	-
Other nonoperating revenues (expenses)	(3,146.58)	181,549.93
Total nonoperating revenues (expenses)	73,516,546.08	3,852,037.36
Income (loss) before other revenues, expenses, gains, or losses	(10,664,862.66)	3,022,963.31
Capital appropriations	587,407.94	-
Capital grants and gifts	3,472,692.61	-
Additions to permanent endowments	-	552,406.74
Total other revenues	4,060,100.55	552,406.74
Increase (decrease) in net position	(6,604,762.11)	3,575,370.05
Net position - beginning of year, as originally reported	195,099,030.90	69,812,938.87
Cumulative effect of a change in accounting principle (Note 18)	(4,901,566.58)	-
Net position - beginning of year, restated	190,197,464.32	69,812,938.87
Net position - end of year	$ 183,592,702.21	$ 73,388,308.92

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

TENNESSEE STATE UNIVERSITY
Statement of Cash Flows
For the Year Ended June 30, 2018

Cash flows from operating activities	
Tuition and fees	$ 50,614,009.89
Grants and contracts	37,257,517.08
Sales and services of educational activities	122,101.48
Sales and services of other activities	5,318,495.32
Payments to suppliers and vendors	(64,426,492.73)
Payments to employees	(87,944,271.62)
Payments for benefits	(28,170,458.91)
Payments for scholarships and fellowships	(7,666,546.18)
Loans issued to students	(613,393.55)
Collection of loans from students	729,539.01
Interest earned on loans to students	75,284.74
Funds received for deposits held in custody for others	337,932.16
Funds disbursed for deposits held in custody for others	(245,055.37)
Auxiliary enterprise charges:	
Residence halls	5,201,276.78
Bookstore	2,628,296.20
Food services	10,203,359.88
Other auxiliaries	1,317,744.84
Net cash used for operating activities	(75,260,660.98)
Cash flows from noncapital financing activities	
State appropriations	45,487,200.00
Gifts and grants received for other than capital or endowment purposes, including $186,704.70 from Tennessee State University Foundation	27,780,626.35
Federal student loan receipts	55,717,826.00
Federal student loan disbursements	(55,717,826.00)
Principal paid on noncapital debt	(412,817.59)
Interest paid on noncapital debt	(112,961.78)
Net cash provided by noncapital financing activities	72,742,046.98
Cash flows from capital and related financing activities	
Capital grants and gifts received	3,623,655.47
Purchases of capital assets and construction	(3,288,027.49)
Principal paid on capital debt	(4,849,019.34)
Interest paid on capital debt	(58,739.37)
Net cash used for capital and related financing activities	(4,572,130.73)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	2,868,695.81
Income on investments	1,096,575.55
Purchase of investments	(4,322,873.65)
Net cash used for investing activities	(357,602.29)
Net decrease in cash and cash equivalents	(7,448,347.02)
Cash and cash equivalents - beginning of year	64,976,370.15
Cash and cash equivalents - end of year	$ 57,528,023.13

TENNESSEE STATE UNIVERSITY
Statement of Cash Flows (continued)
For the Year Ended June 30, 2018

Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (84,181,408.74)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Noncash operating expenses	6,576,265.70
Change in assets, liabilities, and deferrals:	
Receivables, net	(1,383,349.74)
Inventories	20,232.32
Prepaid items	(8,289.59)
Other assets	415,987.48
Net pension asset	(128,392.00)
Deferred outflows of resources	(1,268,526.43)
Net pension liability	(1,309,236.00)
Total OPEB liability	5,145,925.14
Deferred inflows of resources	326,280.00
Accounts payable	(381,113.34)
Accrued liabilities	960,303.85
Due to State of Tennessee	(191,347.34)
Unearned revenues	(549,658.42)
Compensated absences	267,771.82
Due to grantors	416,581.01
Loans to students	(81,563.49)
Other	92,876.79
Net cash used for operating activities	$ (75,260,660.98)

Noncash investing, capital, or financing transactions	
Unrealized losses on investments	$ (297,036.57)
Loss on disposal of capital assets	$ (3,146.58)
Proceeds from capital debt	$ 1,713,401.10
Capital appropriations	$ 587,407.94
Purchase of capital assets and construction	$ (1,288,775.64)

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 a part of the State University and Community College System of Tennessee (the system). The Focus on College and University Success Act of 2016 removed the six universities from the governance of the Tennessee Board of Regents, but they remain part of the system. The universities have their own local governing boards that provide governance, approve policies, set tuition and fee rates, and hire presidents. The system has limited oversight responsibilities during the transition period and continuing oversight responsibilities in the areas of budget approval and institutional debt. 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 significant financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

The financial statements present only that portion of the system's activities that is attributable to the transactions of Tennessee State University.

The Tennessee State University Foundation is considered a component unit of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by its donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements. See Note 20 for more detailed information about the component unit.

Basis of Presentation

The university and the foundation's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to governmental colleges and universities engaged in business-type activities as prescribed by the Governmental Accounting Standards Board (GASB).

Basis of Accounting

For financial statement purposes, the university is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all of the provider's eligibility requirements have been met. All significant internal activity has been eliminated.

The university has classified its revenues and expenses as either operating or nonoperating according to the following criteria: Operating revenues and expenses are those that have the characteristics of exchange transactions. Operating revenues include 1) tuition and fees, net of scholarship discounts and allowances; 2) certain federal, state, local, and private grants and contracts; 3) sales and services of auxiliary enterprises, net of scholarship discounts and allowances; and 4) interest on institutional loans. Operating expenses include 1) salaries and wages; 2) employee benefits; 3) utilities, supplies, and other services; 4) scholarships and fellowships; and 5) depreciation.

Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other activities that are defined as nonoperating by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* such as state appropriations and investment income.

When both restricted and unrestricted resources are available for use, it is the university's policy to determine which to use first, depending upon existing facts and circumstances.

Cash Equivalents

This classification includes instruments that are readily convertible to known amounts of cash and have original maturities of three months or less.

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 and sick leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time.

The amount of the liabilities for annual leave and compensatory time and their related benefits are reported in the statement of net position. There is no liability for unpaid accumulated sick leave since the university's policy is to pay this only if the employee is sick or upon death.

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, works of art, historical treasures/collections, and intangible assets, are reported in the statement of net position at historical cost or at acquisition value at date of donation, less accumulated depreciation/amortization. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

A capitalization threshold of $100,000 is used for buildings, and $50,000 is used for infrastructure. Equipment is capitalized when the unit acquisition cost is $5,000 or greater. The capitalization threshold for additions and improvements to buildings and land is set at $50,000. The capitalization threshold for intangible assets is set at $100,000. The capitalization threshold for art, historical treasures/collections, and similar assets is set at $5,000.

These assets, with the exception of works of art and historical treasures/collections deemed inexhaustible and land, are depreciated/amortized using the straight-line method over the estimated useful lives, which range from 5 to 60 years.

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plans' fiduciary net positions have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

Net Position

The university's net position is classified as follows:

Net investment in capital assets – This represents the university's total investment in capital assets, net of accumulated depreciation and net of outstanding debt obligations and deferred outflows/inflows of resources related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Nonexpendable restricted net position – Nonexpendable restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may be expendable or added to principal.

Expendable restricted net position – Expendable restricted net position includes resources that the university is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net position – Unrestricted net position represents resources derived from student tuition and fees; state appropriations; sales and services of educational departments; sales and services of other activities; and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the university and may be used at the university's discretion to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

Scholarship Discounts and Allowances

Student tuition and fee revenues, as well as certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the university and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the university's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the university has recorded a scholarship discount and allowance.

Note 2. Cash and Cash Equivalents

In addition to demand deposits and petty cash on hand, this classification includes instruments that are readily convertible to known amounts of cash and that have original maturities of three months or less. At June 30, 2018, cash and cash equivalents consisted of $7,741,888.25 in bank accounts, $3,800.00 of petty cash on hand, $14,078,840.03 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, $2,190,496.52 in LGIP deposits for capital projects, and $33,512,998.33 in money market funds.

The LGIP is administered by the State Treasurer and is measured at amortized cost. The LGIP is part of the State Pooled Investment Fund. The fund's required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

LGIP deposits for 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 LGIP account. As expenses are incurred, funds are withdrawn from the LGIP account by the system 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 the system releases any remaining funds.

Note 3. Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, as amended, and GASB Statement 72, *Fair Value Measurement and Application,* as amended, investments are reported at fair value, including those with a maturity date of one year or less at the time of purchase, unless otherwise noted.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. The university does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

At June 30, 2018, the university had the following debt investments and maturities:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	More than 10
U.S. Treasury	$ 1,673,243.01	$ -	$ 1,673,243.01	$ -	$ -
U.S. agencies	16,433,786.24	997,225.22	11,169,119.95	3,635,885.84	631,555.23
Total debt investments	$18,107,029.25	$997,225.22	$12,842,362.96	$3,635,885.84	$631,555.23

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The university is authorized by statute to invest funds in accordance with the system's 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. Securities are rated by Standard and Poor's, Moody's Investors Service, and/or Fitch Ratings and are presented below using the Standard and Poor's rating scale.

The policy restricts investments in bankers' acceptances and commercial paper. The policy requires that prime bankers' acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term debt rating by a majority of the ratings services that have rated the issuer. Prime bankers' acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible, the original maturity must not be more than 270 days, and it must 1) arise out of the current shipment of goods between countries or with the United States, or 2) arise out of storage within the United States of goods that are under contract of sale or are expected to move into the channel of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

The policy requires that prime commercial paper be limited to that of corporations that meet the following criteria: 1) Senior long-term debt, if any, should have a minimum rating of A1 or equivalent, and short-term debt should have a minimum rating of A1 or equivalent, as provided by a majority of the rating services that rate the issuer. If there is no long-term debt rating, the short-term debt rating must be A1 by all rating services (minimum of two). 2) The rating should be based on the merits of the issuer or guarantee by a nonbank. 3) A financial review should be made to ascertain the issuer's financial strength to cover the debt. 4) Commercial paper of a banking institution should not be purchased. Prime commercial paper shall not have a maturity that exceeds 270 days.

At June 30, 2018, the university's investments were rated as follows:

		Credit Quality Rating	
Investment Type	Balance	AA	Unrated
LGIP (amortized cost)	$16,269,336.55	$ -	$16,269,336.55
U.S. agencies	16,179,151.05	16,179,151.05	-
Total	$32,448,487.60	$16,179,151.05	$16,269,336.55

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the university's investment in a single issuer. The policy restricts investments in bankers' acceptances, commercial paper, and money market mutual funds. The policy limits bankers' acceptances to not exceed 20% of the total investments on the date of acquisition and limits the combined amount of bankers' acceptances and commercial paper to not exceed 35% of the total investments at the date of acquisition. The amount invested in any one bank shall not exceed 5% of total investments on the date of acquisition. Additionally, no more than 5% of total investments at the date of acquisition may be invested in the commercial paper of a single issuer. The policy further limits the total holdings of an issuer's commercial paper to not more than 2% of the issuing corporation's total outstanding commercial paper. The policy limits investments in money market mutual funds to not exceed 10% of total investments on the date of acquisition.

More than 5% of the university's investments were invested in the following single issuers:

Issuer	Percentage of Total Investments June 30, 2018
Federal National Mortgage Association	20.47%
Federal Home Loan Bank	30.50%
Federal Home Loan Mortgage Corporations	34.32%

Note 4. Fair Value Measurement

The university categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The university has the following recurring fair value measurements as of June 30, 2018:

	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at the Net Asset Value (NAV)
Assets by Fair Value Level					
Debt securities:					
U.S. Treasury	$ 1,673,243.01	$ -	$ 1,673,243.01	$ -	$ -
U.S. agencies	16,433,786.24	-	16,433,786.24	-	-
Total assets at fair value	$18,107,029.25	$ -	$18,107,029.25	$ -	$ -

Assets and liabilities classified in Level 2 of the fair value hierarchy are valued using a third-party investment manager (Wellspring Financial Solutions of Raymond James & Associates, Inc.).

Note 5. Receivables

Receivables at June 30, 2018, included the following:

Student accounts receivable	$20,208,469.81
Grants receivable	8,523,818.54
Notes receivable	50,300.78
Other receivables	274,435.48
Subtotal	29,057,024.61
Less allowance for doubtful accounts	(9,831,285.49)
Total receivables	$19,225,739.12

Federal Perkins Loan Program funds at June 30, 2018, included the following:

Perkins loans receivable	$ 5,243,801.98
Less allowance for doubtful accounts	(3,817,948.83)
Total	$ 1,425,853.15

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 9,700,408.80	$ 100,514.50	$ -	$ -	$ 9,800,923.30
Land improvements and infrastructure	51,692,898.02	-	5,960,703.96	-	57,653,601.98
Buildings	242,541,939.15	1,762.50	-	-	242,543,701.65
Equipment	29,856,593.23	2,220,405.72	-	418,560.56	31,658,438.39
Library holdings	3,034,247.94	251,695.63	-	460,616.59	2,825,326.98
Intangible assets	2,679,599.35	-	-	-	2,679,599.35
Projects in progress	6,213,227.31	2,002,424.78	(5,960,703.96)	-	2,254,948.13
Total	345,718,913.80	4,576,803.13	-	879,177.15	349,416,539.78
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	41,314,668.21	1,509,442.57	-	-	42,824,110.78
Buildings	115,864,031.22	2,919,336.27	-	-	118,783,367.49
Equipment	21,888,398.52	1,707,422.30	-	415,413.98	23,180,406.84
Library holdings	1,822,833.44	282,532.70	-	460,616.59	1,644,749.55
Intangible assets	2,679,599.35	-	-	-	2,679,599.35
Total	183,569,530.74	6,418,733.84	-	876,030.57	189,112,234.01
Capital assets, net	$162,149,383.06	($1,841,930.71)	$ -	$ 3,146.58	$160,304,305.77

Note 7. Accounts Payable

Accounts payable at June 30, 2018, included the following:

Vendors payable	$3,149,767.89
Other payables	1,161,734.25
Total accounts payable	$4,311,502.14

Note 8. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$24,328,368.15	$5,080,053.40	$ 8,305,171.81	$21,103,249.74	$2,644,901.24
Unamortized bond premium/discount	1,046,092.46	1,249,447.51	597,944.02	1,697,595.95	-

Revolving credit facility	-	773,666.72	-	773,666.72	-
Subtotal	25,374,460.61	7,103,167.63	8,903,115.83	23,574,512.41	2,644,901.24
Other liabilities:					
Compensated absences	6,545,119.52	1,612,872.33	1,345,100.51	6,812,891.34	1,387,196.72
Due to grantor	3,301,629.21	846,750.05	430,169.04	3,718,210.22	281,081.48
Subtotal	9,846,748.73	2,459,622.38	1,775,269.55	10,531,101.56	1,668,278.20
Total long-term liabilities	$35,221,209.34	$9,562,790.01	$10,678,385.38	$34,105,613.97	$4,313,179.44

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 1.3% to 5%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to November 2031 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; see Note 9 for further details

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2018, are as follows:

Year Ending June 30	Principal	Interest	Total
2019	$ 2,644,901.24	$ 700,263.06	$ 3,345,164.30
2020	2,737,864.58	628,723.56	3,366,588.14
2021	2,207,684.04	556,187.71	2,763,871.75
2022	2,263,020.63	484,564.77	2,747,585.40
2023	2,266,614.73	408,194.02	2,674,808.75
2024 – 2028	7,498,541.80	1,090,027.72	8,588,569.52
2029 – 2032	1,484,622.72	153,274.82	1,637,897.54
Total	$21,103,249.74	$4,021,235.66	$25,124,485.40

TSSBA Debt – Revolving Credit Facility

The Tennessee State School Bond Authority (TSSBA) receives loans from the revolving credit facility to finance the costs of various capital projects during the construction phase. When projects are placed in service, TSSBA issues long-term, fixed-rate debt to finance the project over its useful payback period and repays the revolving credit facility debt. The total outstanding loans from the revolving credit facility for the university were $773,666.72 at June 30, 2018.

More detailed information regarding the bonds and revolving credit facility can be found in the notes to the financial statements in the financial report for the TSSBA. That report is available on the state's website at https://comptroller.tn.gov/boards/tennessee-state-school-bond-authority.html.

Refunding of Debt

On September 21, 2017, the state issued $5,015,505.21 in revenue bonds with interest rates ranging from 2% to 5% to advance refund $4,892,115.50 of outstanding 2007C Series bonds with an interest rate of 5%. The net proceeds of $5,004,772.53 (after payment of $10,732.68 in underwriter's fees and issuance costs) were deposited with an escrow agent to provide for all future debt service payments on the bonds. As a result, the 2007C Series bonds are considered to be defeased, and the liability for those bonds has been removed from the university's long-term liabilities.

Although the advance refunding resulted in the recognition of a deferred gain of $54,631.67 to be amortized over the next 14 years, the university in effect reduced its aggregate debt service payments by $1,601,100.59 over the next 14 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $1,265,147.66

On September 21, 2017, the state issued $1,313,995.70 in revenue bonds with interest rates ranging from 2% to 5% to advance refund $1,135,545.00 of outstanding 2012A Series bonds with interest rates ranging from 2.5% to 5%. The net proceeds of $1,311,124.21 (after payment of $2,871.49 in underwriter's fees and issuance costs) were deposited with an escrow agent to provide for all future debt service payments on the bonds. As a result, the 2012A Series bonds are considered to be defeased and the liability for those bonds has been removed from the university's long-term liabilities.

Although the advance refunding resulted in the recognition of a deferred gain of $8,295.55 to be amortized over the next 9 years, the university in effect reduced its aggregate debt service payments by $107,680.13 over the next 9 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $86,922.52.

Note 9. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $21,103,249.74 in revenue bonds issued from May 2012 to November 2017 (see Note 8 for further detail). Proceeds from the bonds provided financing for dormitory renovations, Housing Phase 2, Research and Sponsored Programs Building, housing fire safety upgrade, energy savings performance contract, Hale Stadium improvements, student housing, Avon Williams Campus improvements, student housing fire suppression retrofit, and dormitory renovations. The bonds are payable through 2031. Annual principal and interest payments on the bonds are expected to require 1.88% of available revenues. The total principal and interest remaining to be paid on the bonds is $25,124,485.40. Principal and interest paid for the current year and total available revenues were $2,985,096.54 and $158,536,501.55, respectively. The amount of principal and interest paid for the current year does not include debt of $6,027,660.50 defeased through a bond refunding in the current year.

Note 10. Pension Plans

Defined Benefit Plans

Closed State and Higher Education Employee Pension Plan

General Information About the Pension Plan

Plan description – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov.

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of member's highest compensation for 5 consecutive years (up to Social Security integration level)	x	1.50%	x	Years of Service Credit	x	105%

Plus:

Average of member's highest compensation for 5 consecutive years (over the Social Security integration level)	x	1.75%	x	Years of Service Credit	x	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with 5 years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest.

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The university's employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by the university for the year ended June 30, 2018, to the Closed State and Higher Education Employee Pension Plan were $5,115,288.51, which is 18.87% of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability – At June 30, 2018, the university reported a liability of $21,545,247 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The university's proportion of the net pension liability was based on a projection of the university's contributions during the year ended June 30, 2017, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2017, measurement date, the university's proportion was 1.203914%. The proportion measured as of June 30, 2016, was 1.252600%.

Pension expense – For the year ended June 30, 2018, the university recognized a pension expense of $4,437,040.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2018, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,705,239.00	$ 628,803.00
Net difference between projected and actual earnings on pension plan investments	78,746.00	-
Changes in assumptions	3,668,889.00	-
Changes in proportion of net pension liability	440,208.00	674,328.00
University's contributions subsequent to the measurement date of June 30, 2017	5,115,288.51	-
Total	$11,008,370.51	$1,303,131.00

Deferred outflows of resources, resulting from the university's employer contributions of $5,115,288.51 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2019	$ 558,702
2020	$ 3,550,757
2021	$ 1,686,830
2022	$(1,206,338)
2023	$ -
Thereafter	$ -

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension liability as of the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.46% based on age, including inflation, averaging 4%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with mortality improvement projected six years beyond each actuarial valuation date.

The actuarial assumptions used in the June 30, 2017, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Changes in assumptions – In 2017, the following assumptions were changed: decreased inflation rate from 3% to 2.5%; decreased the investment rate of return from 7.5% to 7.25%; decreased the cost-of-living adjustment from 2.5% to 2.25%; decreased salary growth graded ranges from an average of 4.25% to an average of 4%; and modified mortality assumptions to reflect current experience and anticipated mortality improvements.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability to changes in the discount rate – The following presents the university's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the university's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
University's proportionate share of the net pension liability	$44,388,002	$21,545,247	$2,339,935

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov.

Payable to the Pension Plan

At June 30, 2018, the university reported a payable of $411,514.15 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2018.

State and Higher Education Employee Retirement Plan

General Information About the Pension Plan

Plan description – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Pension Plan was closed effective June 30, 2014, and covers employees hired before July 1, 2014. Employees hired after June 30, 2014, are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*.

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated,* establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and years of service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula multiplying the member's highest 5 consecutive years' average compensation by 1% multiplied by the member's years of service credit. A reduced early retirement is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which a member's age and years of service credit total 80. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. University employees contribute 5% of their salary to the State and Higher Education Employee Retirement Plan. The higher education institutions make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4% in aggregate for all employee groups, except in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the university for the year ended June 30, 2018, to the State and Higher Education Employee Retirement Plan were $440,493.41, which is 3.84% of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset – At June 30, 2018, the university reported an asset of $249,842 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2017, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The university's proportion of the net pension asset was based on a projection of the university's contributions during the year ended June 30, 2017, to the pension plan relative to the contributions of all participating state and higher education agencies. At the

June 30, 2017, measurement date, the university's proportion was 1.204732%. At the June 30, 2016, measurement date, the university's proportion was 1.441635%.

Pension expense – For the year ended June 30, 2018, the university recognized a pension expense of $103,732.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2018, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 9,415.00	$ 9,349.00
Net difference between projected and actual earnings on pension plan investments	-	12,900.00
Changes in assumptions	17,759.00	-
Changes in proportion of net pension asset	20,713.00	-
University's contributions subsequent to the measurement date of June 30, 2017	440,493.41	-
Total	$488,380.41	$22,249.00

Deferred outflows of resources, resulting from the university's employer contributions of $440,493.41 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2019	$ 1,675
2020	$ 1,675
2021	$ 1,189
2022	$(1,405)
2023	$ 4,008
Thereafter	$18,496

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension liability as of the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.46% based on age, including inflation, averaging 4%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with generational mortality improvement.

The actuarial assumptions used in the June 30, 2017, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Changes in assumptions – In 2017, the following assumptions were changed: decreased the inflation rate from 3% to 2.5%; decreased the investment rate of return from 7.5% to 7.25%; decreased the cost-of-living adjustment from 2.5% to 2.25%; decreased salary growth graded ranges from an average of 4.25% to an average of 4%; and modified mortality assumptions to reflect current experience and anticipated mortality improvements.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best estimate of expected real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%

Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension asset to changes in the discount rate – The following presents the university's proportionate share of the net pension asset calculated using the discount rate of 7.25%, as well as what the university's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
University's proportionate share of the net pension asset	$31,246	$249,842	$412,884

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov.

Payable to the Pension Plan

At June 30, 2018, the university reported a payable of $37,912.60 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2018.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2018, for all state government defined benefit pension plans was $4,540,772.

Federal Retirement Program

The university contributes to the Federal Retirement Program, a cost-sharing, multiple-employer, defined benefit pension plan administered by the Civil Service Retirement System (CSRS) for participants employed prior to January 1, 1987, and the Federal Employees Retirement System (FERS) for participants employed after December 31, 1986. Both CSRS and FERS provide retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and beneficiaries. All regular full-time employees of the Tennessee State University Agricultural Extension Service who hold federal appointments for 51% or more of their time are required to participate in either one of the two Federal Retirement Programs. For both systems, benefit provisions are established by federal statutes. Federal statutes are amended by the U.S. Congress. Two of the university's extension employees currently participate in CSRS.

The CSRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Office of Personnel Management, Retirement Information Office, P.O. Box 45, Boyers, Pennsylvania, 16017-0045, or by calling (202) 606-0500. Additionally, the financial statements can be found at https://www.opm.gov/news/reports-publications/publications-database/publication-listings.

Funding Policy – Participating employees and the university are required to contribute to the CSRS plan. Contribution requirements are established and may be amended by federal statutes. The university was required to contribute 7% of covered payroll to the CSRS plan, and employees were required to contribute 7% of covered payroll. Contributions for the year ended June 30, 2018, were $24,870.24, which consisted of $12,435.12 from the university and $12,435.12 from the employees. Contributions for the year ended June 30, 2017, were $29,416.24, which consisted of $14,708.12 from the university and $14,708.12 from the employees. Contributions met the requirements for each year. No payables were outstanding at year end, as all contributions were paid within the fiscal year.

Defined Contribution Plans

Optional Retirement Plans

Plan description – The university contributes to the Optional Retirement Plan (ORP). The ORP, administered by the Tennessee Treasury Department, is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 25, Part 2, *Tennessee Code Annotated*. This statute also sets out the plan provisions. The plan provisions are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

Funding policy – For employees employed prior to July 1, 2014, 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. For employees hired after June 30, 2014, plan members will contribute 5% to the ORP and the university will contribute 9% of the employee's base salary. Pension expense equaled the required contributions made to the ORP and was $4,017,533.13 for the year ended June 30, 2018, and $3,977,986.28 for the year ended June 30, 2017. Contributions met the requirements for each year.

Members are immediately 100% vested in the employer contributions made pursuant to the ORP. The Treasury Department has selected three investment vendors who offer a variety of investment products in which members are responsible for selecting how the contributions are invested. Each member makes the decision when to reallocate future contributions or when to transfer funds from one investment product to another. Funds are held by the investment vendor in the name of the member, not in the name of the State of Tennessee. The State of Tennessee has no discretion over these funds other than to make the initial contributions. Accordingly, the State of Tennessee is not acting in a trustee capacity, nor does it have a fiduciary responsibility for the funds held by the investment vendors.

Payable to the plan – At June 30, 2018, the university reported a payable of $121,759.37 for the outstanding amount of legally required contributions to the plan required for the year ended June 30, 2018.

Deferred Compensation Plans

Employees are offered three deferred compensation plans. The university, through the State of Tennessee, provides two plans, one established pursuant to the *Internal Revenue Code* (IRC), Section 457, and the other pursuant to IRC, Section 401(k). The third plan is administered by the university and was established in accordance with IRC, Section 403(b). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k), Section 403(b), and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. Sections 401(k), 403(b), and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 403(b) and the 457 plans is voluntary for employees. The university provides up to a $50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Chapter 259 of the Public Acts of 2013, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan if they elect to be in the TCRS pension plan and contribute 2% of their salary, with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Employees are immediately vested in both the employee and employer contributions in all plans. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for all three plans.

During the year ended June 30, 2018, contributions totaling $1,601,186.25 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $1,027,797.49 for employer contributions. During the year ended June 30, 2017, contributions totaling $1,490,659.06 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $754,945.45 for employer contributions.

At June 30, 2018, the university reported a payable of $233,428.56 for the outstanding amount of legally required contributions to the plan required for the year ended June 30, 2018.

Note 11. Other Postemployment Benefits

Closed State Employee Group OPEB Plan

General Information About the OPEB Plan

Plan description – Employees of the university who were hired prior to July 1, 2015, and choose coverage, are provided with pre-65 retiree health insurance benefits through the Closed State Employee Group OPEB Plan (EGOP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The employers participating in this plan include the State of Tennessee (primary government), the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee, and the institutions that make up the State University and Community College System.

Benefits provided – The EGOP is offered to provide health insurance coverage to eligible retired and disabled participants and is the only postemployment benefit provided to eligible pre-65 participants. Benefits are established and amended by an insurance committee created by Title 8, Chapter 27, Section 201, *Tennessee Code Annotated*. All retirees and disabled employees of the primary government and certain component units, who are eligible and choose coverage, and who have not yet reached the age of 65, are enrolled in this plan. All members have the option of choosing between the partnership promise, no partnership promise, the standard preferred provider organization (PPO) plan, or the wellness health savings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members receive the same plan benefits as active employees, at a blended premium rate that considers the cost of active employees. This creates an implicit subsidy for the retirees. The retirees' cost is then directly subsidized, by the employers, based on years of service. Therefore, retirees with 30 years of service are subsidized 80%; 20 but less than 30 years, 70%; and less than 20 years, 60%. No subsidy is provided to retirees in the health savings CDHP plan. This plan is funded on a pay-as-you-go basis, and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement 75.

Annually, an insurance committee, created in accordance with Title 8, Chapter 27, Section 201, *Tennessee Code Annotated*, establishes the required payments to the plan by member employers and employees. Active members of the Employee Group Insurance Plan and pre-age 65 retired members of the EGOP pay the same rate. Claims liabilities of the plans are periodically computed using actuarial and statistical techniques to establish premium rates.

Total OPEB Liability

Proportionate share – The university's proportionate share of the collective total OPEB liability related to the EGOP was $12,624,884. At the June 30, 2017, measurement date, the university's proportion of the collective total OPEB liability was 0.94%, representing the first-time presentation of the proportion. The university's proportion of the collective total OPEB liability was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2017, and a measurement date of June 30, 2017.

Actuarial assumptions – The collective total OPEB liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 3.44% to 8.72% based on age, including inflation, averaging 4%
Healthcare cost trend rates	7.5% for 2018, decreasing annually to an ultimate rate of 3.83% for 2050 and later years
Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation, a weighted average has been used with weights derived from the current distribution of members among plans offered.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2017, valuations were the same as those employed in the July 1, 2017, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender-distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate – The discount rate used to measure the total OPEB liability was 3.56%. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Fidelity 20-Year Municipal GO AA index.

Changes in assumptions – The discount rate was changed from 2.92% as of the beginning of the measurement period to 3.56% as of June 30, 2017. This change in assumption decreased the total OPEB liability.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate – The following presents the university's proportionate share of the collective total OPEB liability of the EGOP, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.56%) or 1 percentage point higher (4.56%) than the current rate (expressed in thousands):

	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
University's proportionate share of the collective total OPEB liability	$13,500,994	$12,624,884	$11,803,764

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the healthcare cost trend rate – The following presents the university's proportionate share of the collective total OPEB liability of the EGOP, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (6.5% decreasing to 2.83%) or 1 percentage point higher (8.5% decreasing to 4.83%) than the current rate (expressed in thousands):

	1% Decrease (6.5% decreasing to 2.83%)	Healthcare Cost Trend Rates (7.5% decreasing to 3.83%)	1% Increase (8.5% decreasing to 4.83%)
University's proportionate share of the collective total OPEB liability	$11,365,308	$12,624,884	$14,102,056

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

OPEB expense – For the year ended June 30, 2018, the university recognized OPEB expense of $967,489.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2018, the university reported deferred outflows of resources and deferred inflows of resources related to OPEB paid by the EGOP from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Changes in assumptions	-	485,129
Changes in proportion and differences between benefits paid and proportionate share of benefits paid	-	-
Payments subsequent to the measurement date	836,578	-
Total	$836,578	$485,129

Deferred outflows of resources, resulting from the university's employer payments of $836,578 subsequent to the measurement date, will be recognized as a decrease in total OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30	
2019	$ (69,304)
2020	$ (69,304)
2021	$ (69,304)
2022	$ (69,304)
2023	$ (69,304)
Thereafter	$(138,609)

In the table above, positive amounts will increase OPEB expense, while negative amounts will decrease OPEB expense.

Closed Tennessee OPEB Plan

General Information About the OPEB Plan

Plan description – Employees of the university who were hired prior to July 1, 2015, and choose coverage, are provided with post-65 retiree health insurance benefits through the Closed Tennessee OPEB Plan (TNP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be a multiple-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). However, for accounting purposes, this plan will be treated as a single-employer plan. This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The State of Tennessee (primary government), as well as the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee, and the other institutions that make up the State University and Community College System, also participate in this plan. This plan also serves eligible post-65 retirees of employers who participate in the state-administered Teacher Group Insurance and Local Government Insurance Plans.

Benefits provided – The TNP is offered to help fill most of the coverage gaps created by Medicare and is the only postemployment benefit provided to eligible post-65 retired and disabled employees of participating employers. This plan does not include pharmacy. In accordance with Title 8, Chapter 27, Section 209, *Tennessee Code Annotated*, benefits are established and amended by cooperation of insurance committees created by Sections 8-27-201, 301, and 701, *Tennessee Code Annotated*. Retirees and disabled employees of the state, component units, local education agencies, and certain local governments, who have reached the age of 65, are Medicare-eligible, and also receive a benefit from the Tennessee Consolidated Retirement System may participate in this plan. All plan members receive the same plan benefits at the same premium rates. Many retirees receive direct subsidies toward their premium cost; however, participating employers determine their own policy in this regard. The primary government contributes to the premiums of component unit retirees based on years of service. Therefore, retirees with 30 years of service receive $50 per month; 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25. The university does not provide any subsidies for retirees in the TNP. The primary government paid $85,233.00 for OPEB as the benefits came due during the reporting period. This plan is funded on a pay-as-you-go basis, and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement 75.

In accordance with Title 8, Chapter 27, Part 209, *Tennessee Code Annotated*, the state insurance committees established by Sections 8-27-201, 301, and 701, *Tennessee Code Annotated,* determine the required payments to the plan by member employers and employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs are allocated to plan participants.

Total OPEB Liability and OPEB Expense

Proportionate share – The primary government is entirely responsible for the TNP OPEB liability associated with the university's employees. The primary government's proportionate share of the total OPEB liability associated with the university was $2,239,715. At the June 30, 2017, measurement date, the proportion of the collective total OPEB liability associated with the university was 1.26%, representing the first-time presentation of this proportion. The proportion of the collective total OPEB liability associated with the university was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2017, and a measurement date of June 30, 2017.

Actuarial assumptions – The total OPEB liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 3.44% to 8.72% based on age, including inflation, averaging 4%
Healthcare cost trend rates	The premium subsidies provided to retirees in the Tennessee Plan are assumed to remain unchanged for the entire projection; therefore, trend rates are not applicable.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2017, valuations were the same as those employed in the July 1, 2017, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender-distinct table published in IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate – The discount rate used to measure the total OPEB liability was 3.56%. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Fidelity 20-Year Municipal GO AA index.

Changes in assumptions – The discount rate was changed from 2.92% as of the beginning of the measurement period to 3.56% as of June 30, 2017. This change in assumption decreased the total OPEB liability.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate – The following presents the primary government's proportionate share of the university's related collective total OPEB liability, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.56%) or 1 percentage point higher (4.56%) than the current rate. The university does not report a proportionate share of the OPEB liability for employees in the TNP.

	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
Primary government's proportionate share of the collective total OPEB liability	$2,535,791	$2,239,715	$1,988,081

OPEB expense – For the year ended June 30, 2018, the primary government recognized OPEB expense of $96,060 for employees of the university participating in the TNP.

Total OPEB Expense

The total OPEB expense for the year ended June 30, 2018, was $1,063,549, which consisted of OPEB expense of $967,489 for the EGOP and $96,060 paid by the primary government for the TNP.

Note 12. Revenues

A summary of adjustments and allowances by revenue classification is presented as follows:

Revenue Source	Gross Revenue	Less Scholarship Allowances	Less Uncollectible Debts	Net Revenue
Operating revenues:				
Tuition and fees	$81,189,109.87	$27,010,253.31	$1,914,788.47	$52,264,068.09
Residential life	12,813,082.72	7,611,805.94	-	5,201,276.78
Total	$94,002,192.59	$34,622,059.25	$1,914,788.47	$57,465,344.87

Note 13. Insurance-related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, medical malpractice liability, and workers' compensation. By statute, the maximum liability for general liability, automobile liability, and medical malpractice liability is $300,000 per person and $1,000,000 per occurrence. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The state purchases commercial insurance for real property, crime and fidelity coverage on the state's officials and employees, and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The RMF is responsible for property losses for the annual aggregate deductible of $7.5 million for perils other than earthquake and flood. Purchased insurance coverage is responsible for losses exceeding the $7.5 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years

The university participates in the RMF. 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. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2018, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at https://www.tn.gov/finance/rd-doa/fa-accfin-cafr.html. At June 30, 2018, the RMF held $186 million in cash designated for payment of claims.

At June 30, 2018, the scheduled coverage for the university was $675,590,145 for buildings and $125,528,200 for contents.

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, including the 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 14. Commitments and Contingencies

Sick Leave

The university records the cost of sick leave when paid. The dollar amount of unused sick leave was $33,045,759.50 at June 30, 2018.

Operating Leases

The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were $843,990.61 and expenses for personal property were $300,881.50 for the year ended June 30, 2018. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2018, outstanding commitments under construction contracts totaled $75,483,926.87 for Gentry drainage, Boswell fume hoods, ADA adaptions, roof replacements, utility tunnel stabilization, campus elevator replacements, Health Sciences Facility, migration implementation, residence hall balcony repairs, gateway entrance, Rudolph roof ventilation and fire alarms, Agriculture Facilities Walking Horse Barn, and residence hall elevator and mechanical system upgrade, of which $38,098,564.40 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.

Note 15. Chairs of Excellence

The university had $6,717,465.90 on deposit at June 30, 2018, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

Note 16. Natural Classification With Functional Classifications

The university's operating expenses for the year ended June 30, 2018, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$40,798,024.94	$13,784,753.76	$10,109,748.44	$2,500,957.70	$ -	$ 67,193,484.84
Research	9,398,893.87	2,428,415.79	3,445,006.06	444,771.95	-	15,717,087.67
Public service	8,607,173.12	3,262,571.22	3,282,783.51	10,804.00	-	15,163,331.85
Academic support	5,374,649.56	1,969,316.91	3,479,195.42	3,500.00	-	10,826,661.89
Student services	8,617,109.94	2,901,572.82	5,682,881.92	209,707.97	-	17,411,272.65
Institutional support	7,932,197.78	2,907,378.42	6,172,556.30	21,660.00	-	17,033,792.50
Maintenance and operation	6,244,077.76	2,319,671.16	12,074,047.69	-	-	20,637,796.61
Scholarships and fellowships	-	-	47,173.92	4,319,457.80	-	4,366,631.72
Auxiliary	3,347,267.13	1,085,908.10	18,147,953.77	155,686.76	-	22,736,815.76
Depreciation	-	-	-	-	6,418,733.84	6,418,733.84
Total	$90,319,394.10	$30,659,588.18	$62,441,347.03	$7,666,546.18	$6,418,733.84	$197,505,609.33

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services, and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling $515,779.02 were reallocated from academic support to the other functional areas.

Note 17. On-behalf Payments

During the year ended June 30, 2018, the State of Tennessee made payments of $85,233 on behalf of the university for retirees participating in the Closed Tennessee OPEB Plan. The Tennessee Plan is a postemployment benefit healthcare plan and is discussed further in Note 11.

Note 18. Cumulative Effect of a Change in Accounting Principle

During fiscal year 2018, the university implemented GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This statement establishes standards for the measurement, recognition, and display of the OPEB liability and related expenses, deferred inflows of resources, deferred outflows of resources, note disclosures, and required supplementary information. The implementation of GASB Statement 75 resulted in a cumulative adjustment to beginning net position of $(4,901,566.58).

Note 19. Subsequent Events

Tornado

On March 3, 2020, the Tennessee State University campus sustained significant damage from a tornado. The storm severely damaged several structures on TSU's agricultural farm. Other parts of the campus received damage to signs and building rooftops, downed power lines, uprooted trees, and other debris. As of July 9, 2020, university management is working with the Tennessee Department of Treasury, Claims and Risk Management, to assess the damage and establish the value of all lost assets (structures, building contents, lost research, etc.).

Novel Coronavirus

Subsequent to year-end, a global outbreak of a novel coronavirus (COVID-19) disrupted business activity in the U.S. as people, businesses, and governments reacted to deal with the health issues posed by the virus. COVID-19 was declared a global pandemic by the World Health Organization in March 2020.

Because of COVID-19, all students moved to online classes on March 16, 2020, and the university closed residence halls on March 21, 2020. The university refunded the students for their unused housing and meal plans for the rest of that semester. Most employees began working remotely on March 23, 2020.

As of July 9, 2020, the outbreak is ongoing, and it is not possible to estimate the ultimate outcome of COVID-19 on the business of the university. The university has received federal assistance through the Higher Education Emergency Relief Fund (HEERF) totaling $23,451,094; however, these funds are not expected to offset all costs associated with COVID-19. The university's financial statements could potentially be affected by

- reduced tuition and fees revenue due to lower student enrollment;
- reduced athletics revenues due to reductions in National Collegiate Athletic Association and Ohio Valley Conference distributions, football guarantees, game attendance, parking revenue, and concessions revenue;
- increased costs for information technology devices for students and faculty;
- increased costs for social distancing for frontline workers (plexiglass shields, gloves, facemasks, etc.);
- increased instructor costs of on-campus and online course delivery due to social distancing;
- increased costs associated with enhanced and more frequent janitorial services; and
- additional costs required for rooms reserved for quarantined students.

Note 20. Component Unit

The Tennessee State University Foundation is a legally separate, tax-exempt organization supporting Tennessee State University. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the university in support of its programs. The 16-member board of the foundation is self-perpetuating and consists of graduates and friends of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements.

During the year ended June 30, 2018, the foundation made distributions of $186,704.70 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Ms. Betsy Jackson Mosley, Executive Director, 3500 John A. Merritt Boulevard, Nashville, TN 37209.

Cash and Cash Equivalents

In addition to demand deposits and petty cash on hand, this classification includes instruments that are readily convertible to known amounts of cash and that have original maturities of three months or less. At June 30, 2018, cash and cash equivalents consisted of $4,175,902.72 in bank accounts, and $326,935.50 in money market accounts.

Deposits

At June 30, 2018, the foundation's bank balance was $6,493,150.04. Of that amount, $5,928,605.97 was uninsured and uncollateralized.

Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended, and GASB Statement 72, *Fair Value Measurement and Application,* as amended, investments are reported at fair value, including those with a maturity date of one year or less at the time of purchase, unless otherwise noted. The foundation is authorized to invest funds in accordance with its board of directors' policies.

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. The foundation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

At June 30, 2018, the foundation had the following debt investments and maturities:

		Investment Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10	No Maturity Date
U.S. Treasury	$ 3,664,860.95	$ 528,196.60	$2,482,352.40	$ 654,311.95	$ -	$ -
U.S. agencies	1,087,311.24	223,529.00	714,823.51	148,958.73	-	-
Corporate bonds	4,167,833.92	198,904.86	2,827,697.82	1,141,231.24	-	-
Foreign bonds	1,210,727.71	275,892.53	321,417.77	613,417.41	-	-
Mutual bond funds	11,382,295.41	-	-	-	-	11,382,295.41
Total debt investments	$21,513,029.23	$1,226,522.99	$6,346,291.50	$2,557,919.33	$ -	$11,382,295.41

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The foundation has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations.

At June 30, 2018, the foundation's investments were rated as follows:

		Credit Quality Rating				
Investment Type	Balance	AAA	AA	A	BBB	Unrated
U.S. agencies	$ 1,087,311.24	$ -	$1,087,311.24	$ -	$ -	$ -
Corporate bonds	4,167,833.92	96,509.59	346,333.26	2,297,920.02	1,427,071.05	-
Foreign bonds	1,210,727.71	707,848.04	100,832.08	250,361.83	151,685.76	-
Mutual bond funds	11,382,295.41	-	-	-	-	11,382,295.41
Total	$17,848,168.28	$804,357.63	$1,534,476.58	$2,548,281.85	$1,578,756.81	$11,382,295.41

Alternative investments – The foundation had investments in hedge funds and real estate investment trusts. The estimated fair value of these assets was $10,073,242.27 at June 30, 2018.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2018. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques.

The following hedge funds were purchased for the purpose of diversifying the investment portfolio against volatility in the market. The fund values are as of June 30, 2018.

Hedge Fund Managers (Strategic) Ltd.	$2,881,770.98
Radcliffe International Ultra Short Duration Select Fund	597,606.25
Cartesian RE Offshore Fund	403,197.01
Taconic Offshore	634,729.00
Varadero International, LTD	637,785.00
Total	$5,155,088.24

TIER REIT, Inc.

The value of shares for TIER REIT Inc. is estimated to be $23.78 per share (ignoring purchase price discounts for categories of purchasers). The estimated value may not reflect the actual market value for these shares on any given date. The fund was valued at $603,107.56, as of June 30, 2018.

InvenTrust Properties

The value of shares for the InvenTrust Properties is estimated to be $3.14 per share (ignoring purchase price discounts for categories of purchasers). The estimated value may not reflect the actual market value for these shares on any given date. The fund was valued at $741,816.39, as of June 30, 2018.

Xenia Hotels & Resorts, Inc.

The value of shares held for Xenia Hotels and Resorts, Inc. is $24.36 per share. The estimated value may not reflect the actual market value for these shares on any given date. The fund was valued at $719,350.80, as of June 30, 2018.

Highlands REIT, Inc.

The value of shares for Highland REIT Inc. is estimated to be $0.33 per share (ignoring purchase price discounts for categories of purchasers). The estimated value may not reflect the actual market value for these shares on any given date. The fund was valued at $77,961.60, as of June 30, 2018.

James Alpha Global Real Estate Investments

The value of shares for James Alpha Global Real Estate Investments is estimated to be $18.97 per share (ignoring purchase price discounts for categories of purchasers). The estimated value may not reflect the actual market value for these shares on any given date. The fund was valued at $375,788.02, as of June 30, 2018.

DFA Real Estate Securities Portfolio Institutional

The value of shares for DFA Real Estate Securities Portfolio Institutional is estimated to be $35.10 per share (ignoring purchase price discounts for categories of purchasers). The estimated value may not reflect the actual market value for these shares on any given date. The fund was valued at $1,053,984.28, as of June 30, 2018.

DFA International Real Estate Securities Portfolio Institutional

The value of shares for DFA International Real Estate Securities Portfolio Institutional is estimated to be $5.14 per share (ignoring purchase price discounts for categories of purchasers). The estimated value may not reflect the actual market value for these shares on any given date. The fund was valued at $960,479.63, as of June 30, 2018.

Vanguard Real Estate ETF

The value of shares for Vanguard Real Estate is estimated to be $81.45 per share (ignoring purchase price discounts for categories of purchasers). The estimated value may not reflect the actual market value for these shares on any given date. The fund was valued at $385,665.75, as of June 30, 2018.

Fair Value Measurement

The foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The university has the following recurring fair value measurements as of June 30, 2018:

	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at the Net Asset Value (NAV)
Assets by Fair Value Level					
Debt securities					
U.S. Treasuries	$ 3,664,860.95	$ 3,664,860.95	$ -	$ -	$ -
U.S. agencies	1,087,311.24	-	1,087,311.24	-	-

Corporate bonds	4,167,833.92	-	4,167,833.92	-	-
Foreign bonds	1,210,727.71	1,210,727.71	-	-	-
Mutual bond funds	11,382,295.41	11,382,295.41	-	-	-
Total debt securities	21,513,029.23	16,257,884.07	5,255,145.16	-	-
Equity securities					
Corporate stock	40,857.51	40,857.51	-	-	-
Mutual equity funds	25,525,124.83	25,525,124.83	-	-	-
ETFs	4,285,968.18	4,285,968.18	-	-	-
Equity REITs	4,918,154.03	-	4,918,154.03	-	-
Hedge funds	5,155,088.24	-	-	-	5,155,088.24
Total equity securities	39,925,192.79	29,851,950.52	4,918,154.03	-	5,155,088.24
Total assets at fair value	**$61,438,222.02**	**$46,109,834.59**	**$10,173,299.19**	**$ -**	**$5,155,088.24**

The table above includes all investments for the foundation with the exception of the cash surrender value of life insurance of $46,353.64, which is not measured at fair value.

Assets and liabilities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Assets and liabilities classified in Level 2 of the fair value hierarchy are valued using various benchmarks, including the S&P 500 TR Index and Barclays Capital US Aggregate TR Index.

The valuation method for assets and liabilities measured at the net asset value per share (or its equivalent) is presented on the following table.

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Assets and Liabilities Measured at the NAV				
Hedge Fund Managers (Strategic), Ltd.	$2,881,770.98	N/A	Quarterly (on redemption dates– January 1, April 1, July 1, and October 1– which begin on or after the first anniversary of the purchase of shares being redeemed).	At least 91 days prior to the applicable valuation date (the day immediately preceding the applicable redemption date).
Radcliffe International Ultra Short Duration Select Fund	$ 597,606.25	N/A	Daily.	At least 40 days prior to the applicable valuation date (the day immediately

				preceding the applicable redemption date).
Cartesian RE Offshore Fund	$ 403,197.01	N/A	Quarterly withdraws up to 25% of the balance as of the end of any calendar quarter of any year.	At least 1 day prior to the applicable valuation date (the day immediately preceding the applicable redemption date).
Taconic Offshore	$ 634,729.00	N/A	Quarterly withdraws up to 25% of the balance as of the end of any calendar quarter of any year.	60 days prior written notice, and full withdrawal with 60 days written notice as of the close of business on the business day immediately preceding each successive one-year anniversary. Investment anniversary is November 1, 2017.
Varadero International Ltd.	$ 637,785.00	N/A	Quarterly	May redeem all or a portion of shares as of the last calendar day of each calendar quarter upon receipt of at least 90 calendar days prior written notice.

Capital Assets

Capital asset activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 120,967.55	$ -	$ -	$90,967.55	$ 30,000.00
Buildings	285,873.35	-	-	-	285,873.35
Equipment	62,608.09	-	-	-	62,608.09
Art and historical treasures	6,000,000.00	-	-	-	6,000,000.00
Total	6,469,448.99	-	-	90,967.55	6,378,481.44
Less accumulated depreciation:					
Buildings	14,958.49	6,648.22	-	-	21,606.71
Equipment	3,320.48	3,782.36	-	-	7,102.84
Total	18,278.97	10,430.58	-	-	28,709.55
Capital assets, net	$6,451,170.02	$(10,430.58)	$ -	$90,967.55	$6,349,771.89

The foundation has elected not to capitalize the Bobby Jones Gospel Television Show Collection consisting mainly of videotapes, trophies, plaques, documents, and photos. This collection is held in TSU Library Collections. This election not to capitalize is based on the collections being held for public exhibition, education, and research in furtherance of public service rather than financial gain. The collections are protected, cared for, and preserved by custodians in the TSU Library.

Endowments

If a donor has not provided specific instructions to the foundation, the foundation's policies and procedures permit the foundation to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the foundation is required to consider its long-term and short-term needs; present and anticipated financial requirements; expected total return on its investments; price-level trends; and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

General endowment – The foundation chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, 3.8% of the fair values three-year rolling average has been authorized for expenditure. The remaining amount, if any, is reinvested into the endowment. At June 30, 2018, net appreciation of $733,369.66 is available to be spent, of which $699,277.81 is included in restricted net position expendable for scholarships and fellowships, $14,560.42 is included in restricted net position expendable for instructional departmental uses, $19,531.43 is included in restricted net position expendable for other.

Consent Decree endowment – According to the established agreement within the Consent Decree, the budget committee may appropriate for distribution each year from Consent Decree Endowment Funds, an amount up to 75% of the interest and dividend income. The remainder is to be reinvested in the corpus of the fund. At June 30, 2018, net appreciation of $198,557.25 is available to be spent, all of which is included in restricted net position expendable for scholarships and fellowships.

Title III endowment – According to the established agreement between the foundation and the Tennessee State University Title III Program, an amount up to 50% of the interest and dividend income may be allocated for distribution, annually. The remainder is to be reinvested in the corpus of the fund. At June 30, 2018, net appreciation of $371,132.10 is available to be spent, all of which is included in restricted net position expendable for other.

TENNESSEE STATE UNIVERSITY
Required Supplementary Information
Schedule of Tennessee State University's Proportionate Share of the Net Pension Liability
Closed State and Higher Education Employee Pension Plan Within TCRS

	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	1.203914%	$21,545,247	$28,892,907	74.57%	88.88%
2017	1.252600%	22,854,483	30,596,327	74.70%	87.96%
2016	1.191040%	15,355,873	31,096,832	49.38%	91.26%
2015	1.216453%	8,392,903	33,236,633	25.25%	95.11%

1) To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information is available.

TENNESSEE STATE UNIVERSITY
Required Supplementary Information
Schedule of Tennessee State University's Proportionate Share of the Net Pension Asset
State and Higher Education Employee Retirement Plan Within TCRS

	Proportion of the Net Pension Asset	Proportionate Share of the Net Pension Asset	Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	1.204732%	$249,842	$6,688,201	3.74%	131.51%
2017	1.441635%	121,450	4,472,678	2.72%	130.56%
2016	1.527868%	42,489	1,663,791	2.55%	142.55%

1) To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information is available.

TENNESSEE STATE UNIVERSITY

Required Supplementary Information

Schedule of Tennessee State University's Contributions

Closed State and Higher Education Employee Pension Plan Within TCRS

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2018	$5,115,288.51	$5,115,288.51	$ -	$27,122,827.74	18.87%
2017	4,339,728.92	4,339,728.92	-	28,892,906.95	15.02%
2016	4,596,551.64	4,596,551.64	-	30,579,269.14	15.03%
2015	4,673,853.88	4,673,853.88	-	31,096,832.00	15.03%
2014	4,994,849.00	4,994,849.00	-	33,236,633.00	15.03%
2013	4,284,542.47	4,284,542.47	-	28,506,603.26	15.03%
2012	4,191,277.07	4,191,277.07	-	28,110,510.19	14.91%
2011	4,078,956.87	4,078,956.87	-	27,357,188.93	14.91%
2010	3,621,292.79	3,621,292.79	-	27,813,308.68	13.02%
2009	3,926,390.23	3,926,390.23	-	30,156,606.99	13.02%

To correspond with the reporting date, the amounts presented were determined as of June 30 of the stated fiscal year.

TENNESSEE STATE UNIVERSITY

Required Supplementary Information

Schedule of Tennessee State University's Contributions

State and Higher Education Employee Retirement Plan Within TCRS

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2018	$440,493.41	$440,493.41	$ -	$11,466,707.85	3.84%
2017	246,338.00	246,338.00	-	6,688,201.10	3.68%
2016	156,295.91	156,295.91	-	4,472,677.89	3.49%
2015	64,389.00	64,389.00	-	1,663,791.37	3.87%

1) This is a 10-year schedule; however, contributions to this plan began in 2015. Years will be added to this schedule in future years until 10 years of information is available.

2) To correspond with the reporting date, the amounts presented were determined as of June 30 of the stated fiscal year.

TENNESSEE STATE UNIVERSITY
Required Supplementary Information
Schedule of Tennessee State University's Contributions
Civil Service Retirement System

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll	Number of Covered Employees
2018	$9,860.72	$12,435.12	$(2,574.40)	$140,867.48	8.83%	2
2017	10,669.96	14,708.12	(4,038.16)	152,428.02	9.65%	3
2016	11,272.79	15,588.84	(4,316.05)	161,039.91	9.68%	3
2015	17,024.05	20,556.37	(3,532.32)	243,200.73	8.45%	4
2014	15,244.44	19,406.77	(4,162.33)	217,777.68	8.91%	4
2013	15,233.67	19,396.10	(4,162.43)	217,623.92	8.91%	5
2012	18,658.84	22,685.10	(4,026.26)	266,554.92	8.51%	5
2011	19,891.24	21,355.78	(1,464.54)	284,160.59	7.52%	5
2010	22,934.14	22,889.06	45.08	327,630.54	6.99%	6
2009	26,290.89	26,290.90	(0.01)	375,584.21	7.00%	6

1) This is a 10-year schedule.

2) The population of covered employees during the fiscal year is also listed to display trends.

3) The percentage of covered-employee payroll does not match the 7% required contribution due to cost-sharing agreements with Davidson County. A portion of the covered-employees payroll is paid through other entities, but the full Civil Service Retirement System (CSRS) payment is made by Tennessee State University. Davidson County is billed quarterly to reimburse the university for a portion of the CSRS plan amounts.

TENNESSEE STATE UNIVERSITY
Required Supplementary Information
Schedule of Tennessee State University's Proportionate Share of the Collective Total OPEB Liability
Closed State Employee Group OPEB Plan

	2018
University's proportion of the collective total OPEB liability	0.94%
University's proportionate share of the collective total OPEB liability	$12,624,884.00
University's covered-employee payroll	$47,231,140.21
University's proportionate share of the collective total OPEB liability as a percentage of its covered-employee payroll	26.73%

1) There are no assets accumulating in a trust that meets the criteria in paragraph 4 of GASB Statement 75 related to this OPEB plan.

2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

3) The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

TENNESSEE STATE UNIVERSITY
Required Supplementary Information
Schedule of Tennessee State University's Proportionate Share of the Collective Total OPEB Liability
Closed Tennessee OPEB Plan

	2018
University's proportion of the collective total OPEB liability	0.0%
University's proportionate share of the collective total OPEB liability	$ -
Primary government's proportionate share of the collective total OPEB liability	2,239,715.00
Total OPEB liability associated with the university	$ 2,239,715.00
University's covered-employee payroll	$59,593,143.55
University's proportionate share of the collective total OPEB liability as a percentage of its covered-employee payroll	0.0%

1) There are no assets accumulating in a trust that meets the criteria in paragraph 4 of GASB Statement 75 related to this OPEB plan.

2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

3) The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

TENNESSEE STATE UNIVERSITY
Supplementary Schedule of Cash Flows - Component Unit
For the Year Ended June 30, 2018

Cash flows from operating activities	
Gifts and contributions	$ 2,053,271.68
Grants and contracts	64,000.00
Sales and services of other activities	413,867.72
Payments to suppliers and vendors	(2,703,428.24)
Payments for scholarships and fellowships	(1,932,358.82)
Payments to Tennessee State University	(186,704.70)
Net cash used for operating activities	(2,291,352.36)
Cash flows from noncapital financing activities	
Private gifts for endowment purposes	552,406.74
Net cash provided by noncapital financing activities	552,406.74
Cash flows from capital and related financing activities	
Proceeds from sale of capital assets	89,572.24
Net cash provided by capital and related financing activities	89,572.24
Cash flows from investing activities	
Proceeds from sales and maturities of investments	10,789,972.66
Income on investments	1,329,558.87
Purchases of investments	(12,964,208.03)
Net cash used for investing activities	(844,676.50)
Net decrease in cash and cash equivalents	(2,494,049.88)
Cash and cash equivalents - beginning of year	6,996,888.10
Cash and cash equivalents - end of year	$ 4,502,838.22
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (829,074.05)
Adjustments to reconcile operating gain (loss) to net cash provided (used) for operating activities:	
Noncash operating expenses	10,430.58
Receivables	30,678.57
Accounts payable	(474.08)
Due from university	(1,502,913.38)
Net cash used for operating activities	$ (2,291,352.36)
Noncash investing, capital, or financing transactions	
Unrealized gains on investments	$ 1,763,259.42
Loss on disposal of capital assets	$ (1,395.31)

Justin P. Wilson
Comptroller

Jason E. Mumpower
Deputy Comptroller

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable Bill Lee, Governor
Members of the General Assembly
Dr. Glenda Baskin Glover, President

We have audited the financial statements of Tennessee State University, an institution of the State University and Community College System of Tennessee, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated July 24, 2020. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the university's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the university's internal control. Accordingly, we do not express an opinion on the effectiveness of the university's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies to be material weaknesses:

- As noted in the prior three audits, management needs to improve procedures for preparing and reviewing financial statements.
- As noted in the prior audit, the university and the university foundation's accounting records show more cash on hand than the bank statements show; this variance is again unexplained.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies to be significant deficiencies:

- As noted in the prior audit, the university did not have adequate policies and procedures for the collection of accounts receivable.
- As noted in the prior four audits, Tennessee State University did not provide adequate internal controls in one area.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the university's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

Tennessee State University's Responses to Findings

The university's responses to the findings identified in our audit are included in the Findings and Recommendations section of this report. The university's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deborah V. Loveless

Deborah V. Loveless, CPA, Director
Division of State Audit
July 24, 2020

Findings and Recommendations

1. As noted in the prior three audits, management needs to improve procedures for preparing and reviewing financial statements

Condition

As noted in the prior three audits, Tennessee State University's procedures for preparing its financial statements and the accompanying notes to the financial statements are not adequate to ensure the accuracy, proper classification, and disclosure of information. Management responded to the three prior audit findings by creating and updating financial statement preparation checklists to better define duties and responsibilities and to establish timeframes for the preparation and review of financial data. Management also developed ad-hoc reports to assist in the detection of errors and misclassifications. In addition, for the foundation, management has also defined the accounting duties and responsibilities assigned to foundation personnel; established timeframes for the preparation and review of financial data; and developed procedures to ensure the accurate and timely completion of the foundation's statements and notes. However, reporting errors have continued.

Cause

The university's financial statements were prepared by the Associate Vice President for Accounting and Payroll. The Director of Fiscal Affairs for Institutional Advancement provided information included for the Tennessee State University Foundation. The financial statements for both the university and the foundation were the ultimate responsibility of the Vice President of Business and Finance.

As noted in the prior three audits, it appears that rushing to meet financial reporting deadlines resulted in a lack of attention necessary to ensure compliance with accounting principles. Also, the former Director of General Accounting and Financial Reporting resigned during the financial statement preparation process, and he was not replaced immediately.

Criteria

Management is responsible for the preparation and fair presentation of the university's financial statements and the accompanying notes in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement.

Effect

Based on our review of the university's and foundation's financial statements, we noted that management made errors when preparing both sets of financial statements for the fiscal year under audit.

University Financial Statements and Notes

The university's financial statements understated accrued liabilities and benefits expense by $1,012,042.81. During fiscal year 2018, Tennessee Consolidated Retirement System (TCRS) employer contributions increased from 15.02% to 18.87%. This was not updated in the Banner system, and these contribution increases were not considered when the payroll department calculated the TCRS employer contributions liability in Banner, understating the TCRS employer contributions liability as well as benefits expense. However, because the university used TCRS to calculate the amount due to TCRS, the amount paid to TCRS during the year was correct. The financial statements and notes were corrected for the audit report.

In the university's cash flow statement, proceeds from capital debt issued by Tennessee State School Bond Authority (TSSBA) were overstated by $574,731.02 because the Associate Vice President of Accounting and Payroll incorrectly calculated amounts related to the TSSBA bond refunding. The financial statements were corrected for the audit report.

In the pension plans note, the Associate Vice President of Accounting and Payroll did not include the amount payable to the Optional Retirement Plan of $121,759.37 or the Deferred Compensation Plan of $233,428.56. While no correction was necessary for the statement of net position, the note was corrected for the audit report.

Foundation Financial Statements and Notes

The foundation's financial statements and notes understated investments and investment income by a net amount of $52,602.82 because the Director of Fiscal Affairs

- did not include accrued income for U.S. Treasuries, U.S. agencies, corporate bonds, and foreign bonds totaling $47,363.60 when calculating investments and investment income;
- included $66,722.63 in investments and investment income that could not be supported by investments statements or the general ledger;
- did not include a cash surrender of life insurance of $46,353.64 in investments or investment income; and
- understated real estate investment trusts by $25,608.21 when calculating investments and investment income.

The financial statements and notes were corrected for the audit report.

In addition to the above errors with investment income, the Director of Fiscal Affairs also overstated investment income by $93,373.00 and understated other nonoperating revenue by $182,954.24. Foundation staff recorded, but did not include in the financial statements, other nonoperating revenue of $182,954.24 during the fiscal year. While they did misclassify $93,373.00 of that amount as investment income, the remaining $89,572.24 was not included anywhere in the financial statements.

On the statement of net position, the Director of Fiscal Affairs overstated cash and cash equivalents by a net amount of $1,002,757.68, which included the $89,572.24 understatement noted above and an overstatement of $1,092,329.92 related to errors made in the bank reconciliations (see finding 2).

On the foundation's statement of net position, the Director of Fiscal Affairs overstated nonexpendable net position, restricted for other purposes, by $36,317.93, and understated the expendable net position, restricted for other purposes, by a similar amount. A quasi-endowment was erroneously classified as nonexpendable net position, restricted for other purposes, instead of expendable net position, restricted for other purposes. This error had been made and reported in the prior two audit reports as well. The financial statements were corrected for the audit report.

On the foundation's schedule of cash flows, in the cash flows from investing activities, the Director of Fiscal Affairs understated proceeds from the sales and maturities of investments by $564,738.83, overstated income on investments by $1,282,504.60, and understated purchases of investments by $1,187,716.98. Supporting documentation provided by management showed that calculations did not include all amounts for interest, dividends, fees, purchases, sales, withdrawals, deposits, and miscellaneous income. In addition, the issues reported in the bank reconciliation finding (see finding 2) also caused an overstatement of $1,502,913.38. Other, smaller adjustments were also required. The schedule of cash flows was corrected for the audit report.

In the cash and cash equivalents note, the Director of Fiscal Affairs overstated cash by $1,120,822.44 and overstated the money market account by $6,101.67 while understating the foundation's bank balance and amount exposed to custodial credit risk by $863,387.71 and $869,360.54, respectively. The note was corrected for the audit report.

In the investments note, the Director of Fiscal Affairs made the following errors:

- In the investment maturities portion of the note, $979,295.94 of investments were misclassified. Corporate bonds totaling $606,808.21 and U.S. agencies totaling $148,958.73 were categorized as 1 to 5 years but should have been categorized with 6-to-10-years maturities. Corporate bonds totaling $223,529.00 were categorized as 1 to 5 years but should have been categorized as less than 1-year maturity.
- The credit quality rating disclosure for investments was incorrect. Corporate bonds with an AA rating totaling $99,286.78 were reported as a BBB rating. Foreign bonds with an A rating totaling $150,178.75 were reported as an AA rating. Foreign bonds with a BBB rating totaling $151,685.76 were reported with an A rating. These errors caused a net overstatement of an AA rating and an A rating of $50,891.94 and $1,507.04, respectively, and a net understatement of a BBB rating of $52,398.98.
- Foreign bonds in the amount of $1,210,727.71 were erroneously categorized as foreign stocks in the investment maturities (in years) table, and these foreign bonds were not included on the investment credit quality ratings table.

In the fair value measurement note, the Director of Fiscal Affairs misclassified several investments. An exchange traded fund in the amount of $9,766.08 was reported as corporate stock. An equity fund in the amount of $4,145,161.80 was reported as an exchange traded fund. An equity fund in the amount of $1,831,089.77 was reported as a hedge fund. Foreign bonds totaling $1,210,727.71 were reported as foreign stock. As a result of these errors, corporate stock was overstated by $9,766.08; exchange traded funds were overstated by $4,135,395.72; equity funds were understated by $5,976,251.57; and hedge funds were overstated by $1,831,089.77. In addition, foreign stock was overstated $1,204,955.50, and foreign bonds were understated $1,210,727.71.

Recommendation

As noted in the prior three audits, the Vice President of Business and Finance should ensure improved communication and cooperation between all staff with accounting responsibilities and should ensure timely completion of information necessary to compile and review the financial statements and notes. The Vice President of Business and Finance should institute procedures that ensure the accuracy, proper classification, and disclosure of information presented in the financial statements and the accompanying notes. The procedures should address the preparation of the financial statements and the notes, as well as the subsequent review process. Management should perform adequate reviews on the statements and the notes to mitigate the risk of errors.

Management's Comment

We concur. To ensure the accuracy, proper classification, and disclosure of information presented in the university's financial statements and accompanying notes, the Associate Vice President for Accounting and Payroll will ensure year-end checklists are updated to reflect all required entries noted in TBR's annual Financial Reporting Update. In addition, the Vice President for Business and Finance will review the checklist and the final year-end financial statements and notes of the university and foundation to ensure completion and accuracy.

The Vice President for Business and Finance will secure relevant financial recording and reporting training for all university and foundation staff members with accounting responsibilities. Best practices will be implemented by consulting with and adopting practices that are currently being used by peer universities that are working with the same accounting systems. Management will review the organizational structure of the accounting office and make necessary changes for improvement. Consideration of accounting services from a reputable CPA firm will be given if deemed necessary. If determined to be necessary, the accounting services will be used where appropriate to assist with implementing processes and/or training of accounting staff. To ensure the specific errors documented in the audit finding do not reoccur, we will implement necessary changes in processes and internal controls.

2. As noted in the prior audit, the university and the university foundation's accounting records show more cash on hand than the bank statements show; this variance is again unexplained

Background

Although Tennessee State University (the university) and its foundation are two legally separate entities with separate bank accounts, certain funds are combined within the university's operating account.

Condition

As noted in the prior audit, business office personnel did not prepare and review bank reconciliations completely or timely. In fiscal year 2018, instead of preparing a separate bank reconciliation for each bank account, the Financial Analyst 3 prepared one monthly bank reconciliation that combined the information for the university's operating account, the university's payroll account, and the foundation's operating account. We reviewed all 12 combined bank reconciliations, none of which were prepared and approved within 30 calendar days, as best practices recommend. During that time, it took staff between 116 and 435 days to complete these reconciliations. On average, staff completed the reconciliations 271 calendar days after the end of the month. In addition, the preparer or approver did not sign the reconciliations for July 2017 through May 2018. For the June 2018 reconciliation, the preparer signed it on November 16, 2018, and the approver signed it on November 26, 2018.

Although the Financial Analyst 3 performed bank reconciliations, beginning with the prior audit month ended November 30, 2016, the reconciliations were deficient. Starting with that reconciliation, university personnel began adding unidentifiable items, titled "research variances," to the reconciliations. These variances were both negative and positive and ranged from ($121,157.02) to $122,898.53. The June 30, 2018, reconciliation included 20 research variances (one for each month of November 2016 through June 2018) totaling ($78,831.13).

Some of the foundation's cash transactions were processed through the university's operating account, which created a payable/receivable amount between the two entities. Because each bank account was not reconciled individually, cash amounts for the university and the foundation were misstated by $1,092,329.92, and payable/receivable amounts were misstated by a net of $1,086,925.90.

Although the fiscal year under audit ended June 30, 2018, as of June 26, 2019, university personnel could not provide evidence of any completed bank reconciliations for the months after December 2018.

Cause

Although the university has written policies and procedures for preparing and reviewing bank reconciliations, staff did not follow those policies and procedures. In addition, the university has experienced higher employee turnover. According to the Financial Analyst 3, he was given additional responsibilities as a result of employee turnover. This left him less time to properly complete reconciliations.

Criteria

Complete and timely reconciliation of bank account balances is an essential control to identify and correct errors and to ensure proper accounting for cash. Best business practices recommend that bank reconciliations be completed within 30 calendar days after the end of the month.

Effect

The June 30, 2018, bank reconciliation indicates that the cash reported in the financial statements is approximately $78,800 more than the cash in the bank accounts. This discrepancy could be due to recording errors or cash misappropriations. Not performing complete and timely bank reconciliations allows reporting errors in the financial statements to go uncorrected or possible misappropriations of cash to go undetected. Untimely reconciliations could also hinder the recovery of potential bank errors. As research variances and other amounts increase from month to month, the chances of identifying and correcting errors decrease.

The lack of separate bank reconciliations for all bank accounts also leads to questionable interfund balances between the university and the foundation. During our review of the June 30, 2018, combined reconciliation, we noted that the university's adjusted bank balance was $1,092,329.92 more than the adjusted book balance. The foundation's adjusted bank balance was $1,092,329.92 less than the adjusted book balance, indicating a payable to the foundation and a receivable from the university of $1,092,329.92. The statements of net position for the university and foundation will be corrected.

Recommendation

Each month, business office personnel should prepare and review separate bank account reconciliations for each bank statement, soon after receiving the bank statements but no later than 30 days after the end of the month. Bank reconciliation policies should be readily available to business office staff and should require reconciliations to be performed within 30 days. Management should develop written procedures that require staff to prepare individual reconciliations for each bank account and to promptly resolve reconciling items for both the university and foundation. Management should investigate the unresolved differences between cash per the bank and cash per the accounting records and determine whether fraud or error caused the differences. Necessary adjustments to the accounting records should then be made. Upon completion, management should forward the results of this investigation to the Comptroller of the Treasury.

Management's Comment

We concur. Beginning September 1, 2020, bank reconciliations will be performed monthly and completed within 30 days. New staff members will be trained on how to properly and timely perform bank reconciliations. Staff from other areas of the university and/or temporary external personnel will be secured to assist with bringing the university's bank reconciliations to current and complete status. We will examine the completed reconciliations once they are performed to determine the cause of the variance that existed at fiscal year-end. A report of our findings will be forwarded to the Comptroller of the Treasury upon completion.

3. As noted in the prior audit, the university did not have adequate policies and procedures for the collection of accounts receivable

Condition

Our review of the university's accounts receivable collection procedures revealed two areas of concern:

- the university was not consistently performing timely collection procedures, such as collection agency assignments, and
- the university did not have a written accounts receivable collection policy that it followed.

Management responded to the prior audit finding by updating the written accounts receivable collection policy. The policy included the timing of collection letters, when an account should be considered in default, and a statement concerning when staff should send the account to a collections agency. The policy did not, however, contain a schedule defining delinquent periods. Although management was able to provide a schedule defining the delinquent periods, it should include the schedule in the policy. Management submitted this new policy to the Board of Trustees on June 13, 2019, and the board approved it, but since the policy was effective on July 1, 2019, we did not apply it to accounts tested for the audit period.

The University Was Not Consistently Performing Timely Collection Procedures and Collection Agency Assignments

At June 30, 2018, the university had 8,230 separate accounts receivable totaling $20,700,061. From that group, we selected the 2 largest receivables, representing $6.5 million, and 26 random accounts, representing $38,395, subject to collection procedures. We did not note any problems with the 2 largest receivable accounts; however, for 16 of the 26 random student accounts (61%), there was no evidence of collection efforts, timely collection attempts, and/or timely collection agency assignments applied based on the university's procedures during the period under audit. The following table shows the status of the 16 accounts.

Account	Amount	Last Date Attended	1st Documented Collection Attempt	Months Until Collection Attempt from Last Day Attended	Date to Collection Agency[1]	Months After Collection Attempt to Collection Agency
1	$10	December 2010	No Record[4]	No Record[4]	Not Applicable	Not Applicable
2	$25	December 2011	No Record[4]	No Record[4]	Not Applicable	Not Applicable
3	$27	May 2009	No Record[4]	No Record[4]	Not Applicable	Not Applicable
4	$40	December 2012	No Record[4]	No Record[4]	Not Applicable	Not Applicable
5	$50	December 2012	No Record[4]	No Record[4]	Not Applicable	Not Applicable
6	$192	May 2016	January 23, 2017	10	October 15, 2018	22
7[5]	$350	May 2014	No Attempt	No Attempt	No Assignment	No Assignment
8	$440	May 2016	November 22, 2016	8	June 29, 2017	6
9	$584	May 2014	February 20, 2014	No Problem Noted	June 29, 2017	30
10	$1,284	December 2012	August 16, 2012[3]	1	November 25, 2014	18
11	$1,742	May 2012	March 31, 2017[2]	60	June 22, 2017	53
12	$1,887	December 2012	No Record[4]	No Record[4]	October 18, 2018	63
13	$1,897	December 2015	March 29, 2016	6	September 19, 2016	4
14	$2,361	May 2016	March 31, 2017	13	June 29, 2017	6
15	$2,491	December 2015	August 27, 2015	No Problem Noted	September 19, 2016	4
16	$4,276	May 2011	March 1, 2012[2]	12	May 29, 2012	5

[1] TBR Guideline B-010, section II, part D.3, states that accounts under $100 are not required to be referred to a collection agency.

[2] There was no evidence that initial collection efforts were performed; final collection letter utilized.

[3] An electronic collection record was issued August 16, 2012, and a paper collection record issued September 24, 2013. There was no evidence that other collection efforts were performed.

[4] There was no evidence that collection efforts were performed.

[5] This account was an employee receivable for tuition and fees; the balance has been outstanding since January 15, 2014. Although this employee terminated employment on September 30, 2014, no collection efforts were attempted.

In addition, we tested a sample of 40 items, representing $191,413, from the $1,015,124 fiscal year 2018 write-off request that the President submitted for approval to the Department of Finance and Administration and the Comptroller of the Treasury. Receivables should be submitted to a minimum of 2 collection agencies prior to a write-off request. For 7 of the 40 items tested (17.5%), or $32,293, we did not observe due diligence to complete collection procedures per institutional policies and procedures. Of the seven accounts, staff submitted two to only one collection agency, did not submit two to any collection agency, submitted two to a collection agency for less than eight days, and incorrectly sent one to a collection agency before internal collection procedures were complete.

The University Did Not Have a Written Accounts Receivable Collection Policy That It Followed

The university had an accounts receivable collection policy dated November 1990. However, the university's current procedures did not agree with the requirements of the policy. These collection policies and procedures differed as to when an account would be determined to be delinquent, when collection letters would be sent, and when accounts would be sent to collection agencies.

In addition, we noted that the Bursar's Office did not have a tracking system for collection letters, and did not always keep copies of collection letters on file. When sending a collection letter, staff would record the date of the letter in the Banner information system; however, staff sending another letter would overwrite that date.

Criteria

As the university has decided to follow the Tennessee Board of Regents' (TBR) policies until TSU's Board of Trustees revises or rescinds the policies, we looked to those policies for our criteria. TBR Guideline B-010, "Collection of Accounts Receivable," provides guidance in section II, General Collection Procedures, and requires that the institution "establish a written systematic process and procedure for collecting receivables from all persons including students and employees. The provisions included in this guideline may be modified by an institution based on sound and responsible management practices. Any modifications should result in more cost-effective procedures or provide better or more convenient service to debtors of the institution without compromise to collection." This guideline also requires the university to determine important definitions, such as when an account becomes delinquent, and a schedule for timeframes for collection efforts.

Because the university did not have current written collections policies, we based the timeliness of collection efforts on the university's procedures during the period under audit. According to these procedures, a student's accounts receivable becomes delinquent at 14 days into the semester if the student has not made a satisfactory payment arrangement. The Assistant Bursar sends the student, at a minimum, 3 electronic billings during the semester. Approximately 30 days into each semester after registration has closed, the Assistant Bursar evaluates accounts. If a student who had an outstanding receivable balance in the prior semester is not currently registered, staff mail the student a collection letter. This action is recorded in Banner. Staff mail a second letter in approximately 30 days if the student did not arrange a satisfactory payment plan.

As Bursar's Office staff generate and mail second letters, they prepare and send the account to a first collection agency. If the collection agency has no activity on the account in 9 to 12 months, depending on the collection agency used, staff send the account to a second collection agency. If the second collection agency does not have any activity on the account after 9 to 12 months, staff submit the account for write-off.

Tennessee Board of Regents Guideline B-010, "Collection of Accounts Receivables," Section III, Employee Receivables, states that a "notice of intent to withhold [the amount owed from the employee's paycheck] must be sent to the employee . . . If the employee refuses to pay, authorize deduction, or specify or waive a hearing process, a UAPA [Uniform Procedures Administration Act] hearing must be initiated."

Cause

Management allowed changes to collection procedures to occur over time without corresponding changes to written policies. Although the university did have unwritten procedures, staff did not always adhere to those procedures. The university's Assistant Bursar stated the university approaches employee collections with "caution"; as a "courtesy," the university does not pursue reimbursement if the employee does not settle an outstanding balance. In the instance noted above, the receivable was not collected at the time of termination because the Assistant Bursar did not know that the employee terminated her employment with the university.

Effect

The absence of written policies could allow current practice to evolve into procedures that are not efficient or effective. This could especially be true in the event of employee turnover. The lack of adherence to appropriate collection efforts could result in the university being unable to collect funds it is owed in a timely manner or at all. As time passes, the likelihood of collecting past-due accounts decreases.

Recommendation

Management should develop an up-to-date written collection policy. The institutional policy should include, but not be limited to

- a schedule defining delinquent periods;
- the timing of collection letters;
- when an account should be considered in default;
- a statement concerning when the account should be sent to the collections agency after the final collection letter is sent and the debtor has not responded; and
- a statement regarding the retention of collection records.

Management should ensure that staff perform collection efforts timely and that the tracking system maintains documentation of when collection letters are mailed.

Management's Comment

We concur. The Associate Vice President for Financial Services, in conjunction with the Bursar's Office, developed up-to-date policies and procedures for the collection of accounts receivable. This updated policy was submitted and approved by the Tennessee State University Board of Trustees during its June 13, 2019 Board Meeting. The updated policy includes 1) a schedule defining delinquent periods; 2) the timing of collection letters; 3) when an account should be considered in default; 4) a statement concerning when the account should be sent to a collections agency after the final collection letter is sent and the debtor has not responded; and 5) a statement regarding the retention of collection records.

The Associate Vice President for Financial Services will work with Bursar's Office Staff to ensure that collection efforts are timely and to develop an efficient tracking system that maintains documentation of when collection letters are mailed.

4. As noted in the prior four audits, Tennessee State University did not provide adequate internal controls in one area

Tennessee State University did not design and monitor effective internal controls in one area. For this area, we found internal control deficiencies related to one of the university's systems. Although management has taken steps to correct these conditions, we are reporting internal control deficiencies for the fifth consecutive year because the corrective action was not sufficient.

Ineffective implementation of internal controls increases the risk of fraud, errors, and data loss. Pursuant to Standard 4.40 of the U.S. Government Accountability Office's *Government Auditing Standards*, we omitted details from this finding because they are confidential under the provisions of Section 10-7-504(i), *Tennessee Code Annotated*. We provided the university with detailed information regarding the specific condition we identified, as well as the related criteria, causes, and our specific recommendations for improvement.

Recommendation

Management should ensure that this condition is remedied by promptly developing and consistently implementing internal controls in this area. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur. The Vice President for Business and Finance will ensure internal controls are continuously improved and implemented to prevent recurrence.