STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

TENNESSEE STATE UNIVERSITY

Financial and Compliance Audit Report

For the Year Ended June 30, 2017

Justin P. Wilson, Comptroller

Division of State Audit

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Mission Statement
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Tennessee Comptroller of the Treasury

Justin P. Wilson
Comptroller

Jason E. Mumpower
Deputy Comptroller

January 30, 2019

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 the State University and Community College System of Tennessee, Tennessee State University, for the year ended June 30, 2017. 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

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Audit Report

Tennessee State University

For the Year Ended June 30, 2017

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Tennessee State University

For the Year Ended June 30, 2017

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

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

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 61).

TSU and TSU Foundation's accounting records show $246,000 more cash on hand than shown on the bank statements; this variance is unexplained

University business office personnel did not prepare and review bank reconciliations completely or timely. As a result, the accounting records showed more cash on hand than the bank statements showed (page 64).

The university did not have adequate policies and procedures for the collection of accounts receivable

The university did not consistently perform timely collection procedures and did not have a written accounts receivable policy that it followed (page 67).

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

As noted in the prior three 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 69).

Return of Title IV funds were not in compliance with federal regulations
The university did not perform its return of Title IV funds calculations in compliance with federal regulations or return Title IV funds to the Department of Education timely (page 70).

* This finding is repeated from the prior audits.

TENNESSEE COMPTROLLER OF THE TREASURY

JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

Independent Auditor's Report

The Honorable Bill Haslam, 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, 2017, 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 of 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 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

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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, 2017, 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, 2017, 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 financial statements of Tennessee State University Foundation, a discretely presented component unit of Tennessee State University, include investments valued at $7,290,445.37 (10.4% 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 51; 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 52; the schedule of Tennessee State University's contributions – Closed State and Higher Education Employee Pension Plan within TCRS on page 53; the schedule of Tennessee State University's contributions – State and Higher Education Employee Retirement Plan within TCRS on page 54; the schedule of Tennessee State University's contributions – Civil Service Retirement System on page 55; and the other postemployment benefits schedule of funding progress on page 56 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 57 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 November 5, 2018, 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
November 5, 2018

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, 2017, with comparative information presented for the fiscal year ended June 30, 2016. 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 18 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, 2017, and June 30, 2016.

Summary of Net Position
(in thousands of dollars)

	2017	2016
Assets:		
Current assets	$ 35,441	$ 46,774
Capital assets, net	162,149	164,313
Other assets	71,442	65,294
Total Assets	269,032	276,381
Deferred Outflows of Resources:		
Deferred amount on debt refunding	937	1,064
Deferred outflows of resources related to pensions	12,080	6,380
Total Deferred Outflows of Resources	13,017	7,444
Liabilities:		
Current liabilities	23,710	23,801

Noncurrent liabilities	61,756	56,764
Total Liabilities	85,466	80,565
Deferred Inflows of Resources:		
Deferred inflows of resources related to pensions	1,484	3,662
Total Deferred Inflows of Resources	1,484	3,662
Net Position:		
Net investment in capital assets	137,712	136,935
Restricted – nonexpendable	341	338
Restricted – expendable	4,181	4,159
Unrestricted	52,865	58,166
Total Net Position	$195,099	$199,958

Comparison of Fiscal Year 2017 to Fiscal Year 2016

- Current assets decreased due to more cash being invested in long-term investments.
- Deferred loss on debt refunding decreased due to one year of amortization of the prior balance.
- Deferred outflows of resources related to pensions increased $5.7 million. The overall net increase was largely the result of the pension plan investment earnings being lower than projected.
- Noncurrent liabilities increased due to a large increase in the net pension liability. This was caused by the investment earnings being lower than assumed.
- Deferred inflows of resources decreased due to calculations of the net differences between projected and actual earnings on plan investments related to TCRS pensions for fiscal year 2016.
- Unrestricted net position decreased due to the increase in net pension liability, which is based on actuarial calculations.

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; 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.

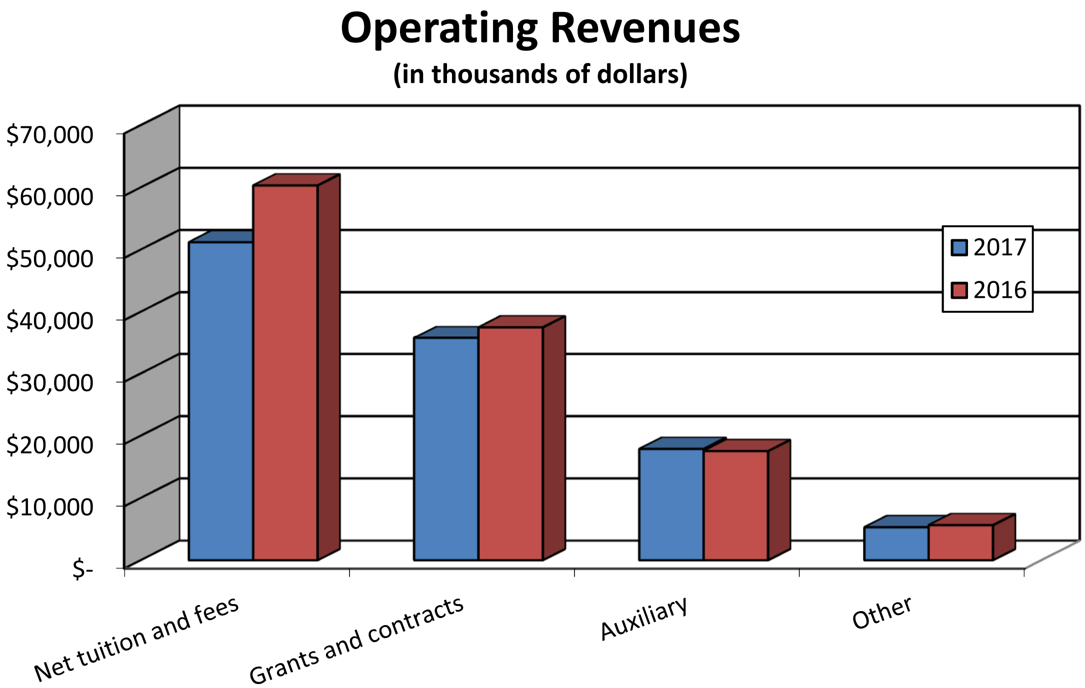
A summary of the university's revenues, expenses, and changes in net position for the years ended June 30, 2017, and June 30, 2016, follows.

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

	2017	2016
Operating revenues	$110,094	$120,951
Operating expenses	185,966	180,660
Operating loss	(75,872)	(59,709)
Nonoperating revenues and expenses	67,653	67,584
Income (loss) before other revenues, expenses, gains, or losses	(8,219)	7,875
Other revenues, expenses, gains, or losses	3,720	3,831
Increase (decrease) in net position	(4,499)	11,706
Net position at beginning of the year	199,598	187,892
Net position at end of year	$195,099	$199,598

Operating Revenues

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

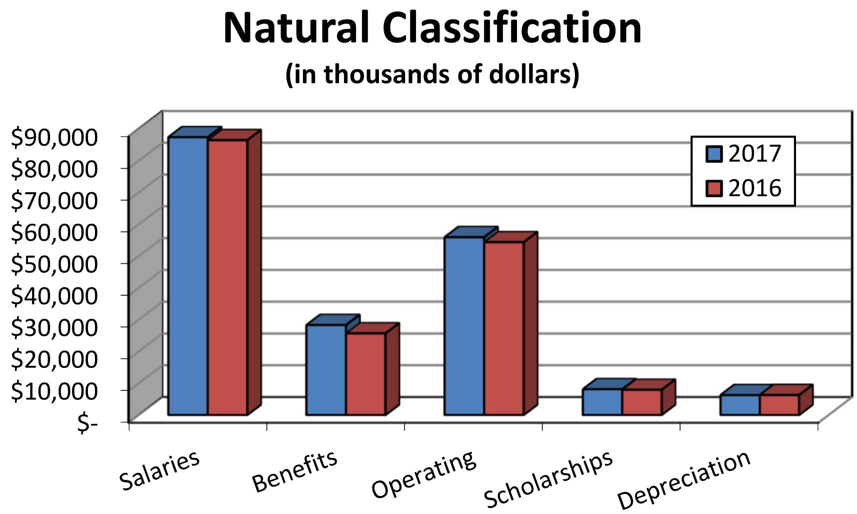


Comparison of Fiscal Year 2017 to Fiscal Year 2016

- Net tuition and fees decreased due to a significant increase in the student accounts receivable allowance for doubtful accounts.

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:

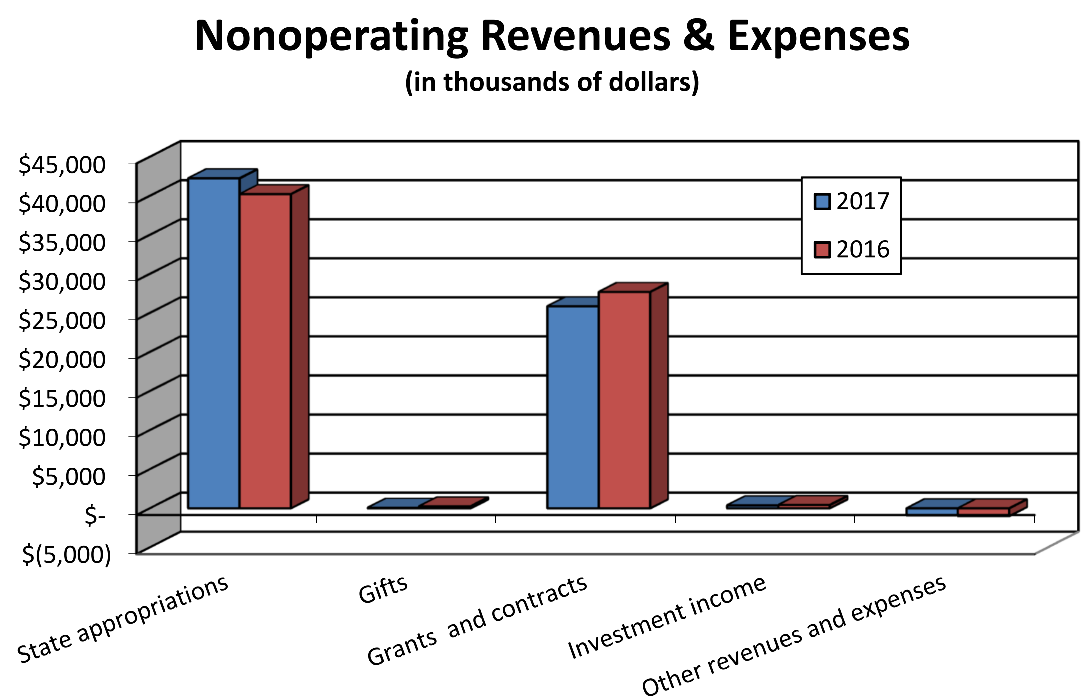


Comparison of Fiscal Year 2017 to Fiscal Year 2016

- No material variances were noted between fiscal years 2017 and 2016.

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:

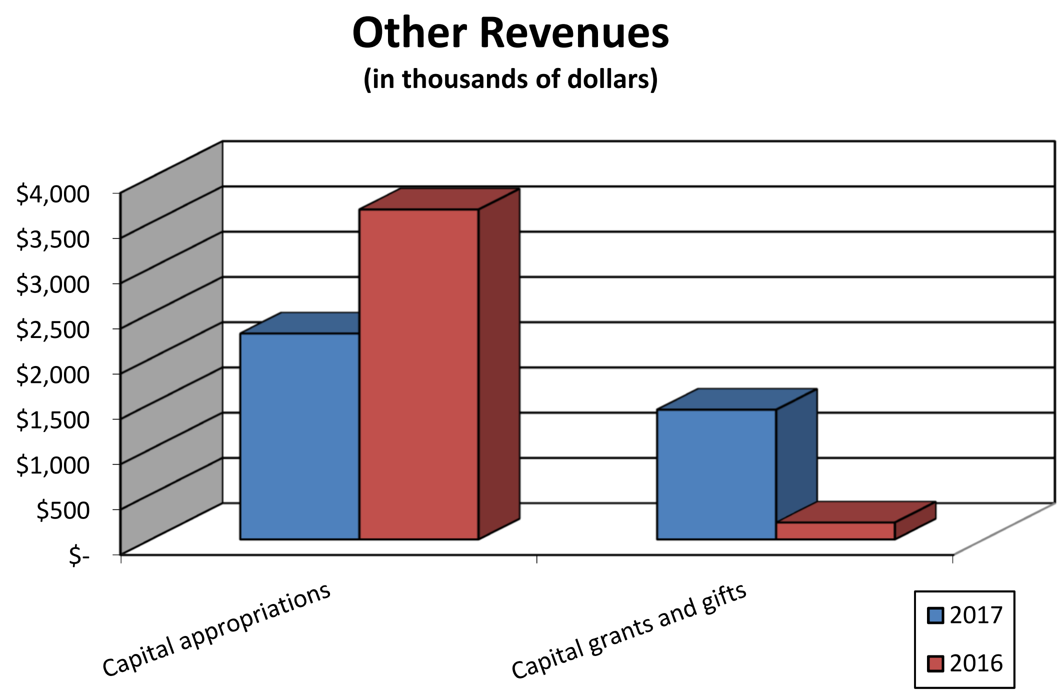


Comparison of Fiscal Year 2017 to Fiscal Year 2016

- No material variances were noted between fiscal years 2017 and 2016.

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 2017 to Fiscal Year 2016

- Capital appropriations and capital grants and gifts decreased and increased (respectively) due to a post-approval from USDA to cover previous capital appropriations.

Capital Assets and Debt Administration

Capital Assets

Tennessee State University had $162,149,383.07 invested in capital assets, net of accumulated depreciation of $183,569,530.74 at June 30, 2017; and $164,312,707.12 invested in capital assets, net of accumulated depreciation of $178,765,577.66 at June 30, 2016. Depreciation charges totaled $6,250,952.78 and $6,269,318.36 for the years ended June 30, 2017, and June 30, 2016, respectively.

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

	2017	2016
Land	$ 9,700	$ 9,686
Land improvements and infrastructure	10,378	11,590

Buildings	126,678	129,400
Equipment	7,968	7,771
Library holdings	1,212	1,270
Intangible assets	-	238
Projects in progress	6,213	4,358
Total	$162,149	$164,313

Significant additions to capital assets occurred in fiscal year 2017. These additions were from campus elevator renovations.

At June 30, 2017, outstanding commitments under construction contracts totaled $44,093,980.12 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $33,516,415.12 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 $25,374,460.61 and $28,375,428.67 in debt outstanding at June 30, 2017, and June 30, 2016, respectively. The table below summarizes these amounts by type of debt instrument.

Outstanding Debt
(in thousands of dollars)

	2017	2016
TSSBA bonds payable	$24,328	$27,182
Unamortized bond premium/discount	1,046	1,193
Total	$25,374	$28,375

The TSSBA issued bonds with interest rates ranging from 0.65% to 5.24% due serially until May 1, 2032, on behalf of Tennessee State University. The university is responsible for the debt service of these bonds. The current portion of the $24,328,368.15 outstanding at June 30, 2017, is $2,187,284.23.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2017, 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, 2017

	University	Component Unit
Assets		
Current assets:		
Cash and cash equivalents (Notes 2 and 18)	$ 11,601,351.56	$ 4,798,554.50
Investments (Notes 3, 4, and 18)	500,085.00	2,216,890.50
Accounts, notes, and grants receivable (net) (Note 5)	20,032,038.16	34,200.00
Due from State of Tennessee	935,137.65	-
Due from TSU Foundation	415,987.48	-
Inventories	55,275.59	-
Accrued interest	1,901,189.45	24.30
Total current assets	35,441,064.89	7,049,669.30
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 18)	53,375,018.59	2,198,333.60
Investments (Notes 3, 4, and 18)	16,428,884.89	54,569,551.69
Accounts, notes, and grants receivable (net) (Note 5)	1,516,104.28	-
Capital assets (net) (Notes 6 and 18)	162,149,383.07	6,451,170.02
Net pension asset (Note 10)	121,450.00	-
Total noncurrent assets	233,590,840.83	63,219,055.31
Total assets	269,031,905.72	70,268,724.61
Deferred outflows of resources		
Deferred amount on debt refunding	937,472.54	-
Deferred outflows related to pensions (Note 10)	12,079,809.92	-
Total deferred outflows of resources	13,017,282.46	-
Liabilities		
Current liabilities:		
Accounts payable (Note 7)	5,782,823.97	39,798.26
Accrued liabilities	6,689,096.49	-
Due to State of Tennessee	1,633,985.03	-
Due to TSU	-	415,987.48
Unearned revenue	5,336,488.35	-
Compensated absences (Note 8)	1,373,707.04	-
Accrued interest payable	143,134.20	-
Long-term liabilities, current portion (Note 8)	2,187,284.23	-
Deposits held in custody for others	563,750.48	-
Total current liabilities	23,710,269.79	455,785.74
Noncurrent liabilities:		
Net OPEB obligation (Note 11)	7,240,957.42	-
Net pension liability (Note 10)	22,854,483.00	-
Compensated absences (Note 8)	5,171,412.48	-
Long-term liabilities (Note 8)	23,187,176.38	-
Due to grantors (Note 8)	3,301,629.21	-
Total noncurrent liabilities	61,755,658.49	-
Total liabilities	85,465,928.28	455,785.74
Deferred inflows of resources		
Deferred inflows related to pensions (Note 10)	1,484,229.00	-
Total deferred inflows of resources	1,484,229.00	-
Net position		
Net investment in capital assets	137,712,395.00	6,451,170.02
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	340,614.76	8,419,118.11
Research	-	802,014.52
Instructional department uses	-	915,395.23
Endowment for Educational Excellence	-	45,825,964.60
Other	-	361,339.01
Expendable:		
Scholarships and fellowships	224,951.81	2,504,370.77
Research	646,351.21	228,975.58
Instructional department uses	1,346,125.58	642,010.08
Loans	820,647.98	-
Pension	121,450.00	-
Endowment for Educational Excellence	-	932,090.33
Other	1,021,480.00	2,235,710.70
Unrestricted	52,865,014.56	494,779.92
Total net position	$ 195,099,030.90	$ 69,812,938.87

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, 2017

	University	Component Unit
Revenues		
Operating revenues:		
Student tuition and fees (Note 12)	$ 51,182,863.84	$ -
Gifts and contributions	-	2,720,061.67
Governmental grants and contracts	34,371,454.75	-
Nongovernmental grants and contracts (including $84,514.96 from the component unit)	1,368,080.70	-
Sales and services of educational activities	133,789.89	-
Sales and services of other activities	5,080,546.57	493,298.32
Auxiliary enterprises:		
Residential life (Note 12)	5,869,558.15	-
Bookstore	1,770,981.26	-
Food service	9,166,186.33	-
Other auxiliaries	1,068,934.06	-
Interest earned on loans to students	81,081.75	-
Total operating revenues	110,093,477.30	3,213,359.99
Expenses		
Operating expenses (Note 16):		
Salaries and wages	87,376,584.95	-
Benefits	28,298,725.28	-
Utilities, supplies, and other services	55,935,546.12	1,086,354.21
Scholarships and fellowships	8,104,391.99	2,067,054.55
Depreciation expense	6,250,952.78	9,266.59
Payments to or on behalf of Tennessee State University (Note 18)	-	196,576.96
Total operating expenses	185,966,201.12	3,359,252.31
Operating loss	(75,872,723.82)	(145,892.32)
Nonoperating revenues (expenses)		
State appropriations	42,245,400.00	-
Gifts, including $112,062 from component unit	143,224.30	-
Grants and contracts	25,858,546.08	760,983.56
Investment income (expense) (net of investment expense for the institution of $120,796.99 and $22,4353.26 for the component unit)	372,401.49	5,305,876.41
Interest on capital asset-related debt	(904,653.64)	-
Other nonoperating revenues (expenses)	(61,757.02)	-
Total nonoperating revenues (expenses)	67,653,161.21	6,066,859.97
Income (loss) before other revenues, expenses, gains, or losses	(8,219,562.61)	5,920,967.65
Capital appropriations	2,287,471.93	-
Capital grants and gifts	1,432,887.21	-
Additions to permanent endowments	-	870,742.82
Total other revenues	3,720,359.14	870,742.82
Increase (decrease) in net position	(4,499,203.47)	6,791,710.47
Net position - beginning of year	199,598,234.37	63,021,228.40
Net position - end of year	$ 195,099,030.90	$ 69,812,938.87

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, 2017

Cash flows from operating activities	
Tuition and fees	$ 51,809,344.30
Grants and contracts	31,766,515.30
Sales and services of educational activities	133,789.89
Sales and services of other activities	6,028,687.68
Payments to suppliers and vendors	(53,682,812.27)
Payments to employees	(88,666,614.74)
Payments for benefits	(29,175,092.43)
Payments for scholarships and fellowships	(8,104,391.99)
Loans issued to students	(734,473.43)
Collection of loans from students	910,519.30
Interest earned on loans to students	249,292.52
Auxiliary enterprise charges:	
Residence halls	5,869,558.15
Bookstore	1,643,338.26
Food services	9,162,835.41
Other auxiliaries	1,151,077.93
Net cash used for operating activities	(71,638,426.12)
Cash flows from noncapital financing activities	
State appropriations	41,986,600.00
Gifts and grants received for other than capital or endowment purposes, including $196,576.96 from Tennessee State University Foundation	26,177,441.94
Private gifts for endowment purposes	
Federal student loan receipts	54,087,077.00
Federal student loan disbursements	(54,087,077.00)
Changes in deposits held for others	65,614.53
Principal paid on noncapital debt	(393,987.77)
Interest paid on noncapital debt	(130,989.53)
Net cash provided by noncapital financing activities	67,704,679.17
Cash flows from capital and related financing activities	
Capital grants and gifts received	1,172,920.54
Purchases of capital assets and construction	(1,880,462.18)
Principal paid on capital debt	(2,459,938.83)
Interest paid on capital debt	(1,080,279.14)
Net cash used for capital and related financing activities	(4,247,759.61)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	4,545,342.94
Income on investments	617,949.05
Purchase of investments	(10,645,027.02)
Net cash used for investing activities	(5,481,735.03)
Net decrease in cash and cash equivalents	(13,663,241.59)
Cash and cash equivalents - beginning of year	78,639,611.74
Cash and cash equivalents - end of year	$ 64,976,370.15

TENNESSEE STATE UNIVERSITY
Statement of Cash Flows (continued)
For the Year Ended June 30, 2017

Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	$ (75,872,723.82)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Noncash operating expenses	6,360,810.74
Change in assets, liabilities, and deferrals:	
Receivables, net	(1,525,957.32)
Due from component unit/primary government	(337,570.87)
Inventories	(19,771.48)
Prepaid items	161,789.39
Net pension asset	(78,961.00)
Deferred outflows of resources - pensions	(123,024.12)
Net pension liability	7,498,610.00
Deferred inflows of resources - pensions	(8,211,642.93)
Accounts payable	800,372.75
Accrued liabilities	(1,568,489.56)
Due to component unit/primary government	1,254,387.57
Unearned revenues	(159,858.54)
Compensated absences	189,296.23
Due to grantors	(173,903.93)
Loans to students	168,210.77
Net cash used for operating activities	$ (71,638,426.12)

Noncash investing, capital, or financing transactions	
Unrealized gains (losses) on investments	$ 104,440.31
Gain (loss) on disposal of capital assets	$ (61,757.02)
Capital appropriations	$ 2,114,228.44
Purchase of capital assets and construction	$ (2,114,228.44)

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 18 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, 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 dies or is absent because of illness, injury, or related family 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, 2017, cash and cash equivalents consisted of $12,873,914.01 in bank accounts, $3,800.00 of petty cash on hand, $8,133,695.45 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, $147,338.28 in LGIP deposits for capital projects, and $43,817,622.41 in money market accounts.

The LGIP is administered by the State Treasurer and is measured at amortized cost. The LGIP is part of the State Pooled Investment Fund. There are no minimum or maximum limitations on withdrawals with the exception of a 24-hour notification period for withdrawals of $5 million or more. 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, 2017, 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	No Maturity Date
U.S. Treasury	$ 1,667,666.67	$ -	$ 1,667,666.67	$ -	$ -	$ -
U.S. agencies	15,261,303.22	500,085.00	9,575,993.50	4,113,247.84	1,071,976.88	-
Total debt investments	$16,928,969.89	$500,085.00	$11,243,660.17	$4,113,247.84	$1,071,976.88	$ -

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 policy of its governing board. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. 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, 2017, the university's investments were rated as follows:

		Credit Quality Rating	
Investment Type	Balance	AA	Unrated
LGIP (amortized cost)	$ 8,281,033.73	$ -	$8,281,033.73
U.S. agencies	14,602,880.28	14,602,880.28	-
Total	$22,883,914.01	$14,602,880.28	$8,281,033.73

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, 2017
Federal National Mortgage Association (FNMA)	24.35%
Federal Home Loan Bank (FHLB)	25.00%
Federal Home Loan Mortgage Corporations (FHLMC)	32.52%

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, 2017:

	June 30, 2017	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	$ 1,667,666.67	$1,667,666.67	$ -	$ -	$ -
U.S. agencies	15,261,303.22	-	15,261,303.22	-	-
Total assets at fair value	$16,928,969.89	$1,667,666.67	$15,261,303.22	$ -	$ -

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

Note 5. Receivables

Receivables at June 30, 2017, included the following:

Student accounts receivable	$17,022,692.09
Grants receivable	10,225,192.30
Notes receivable	50,679.78
Other receivables	606,204.64
Subtotal	27,904,768.81
Less allowance for doubtful accounts	(7,901,929.10)
Total receivables	$20,002,839.71

Federal Perkins Loan Program funds at June 30, 2017, included the following:

Perkins loans receivable	$5,521,214.77
Less allowance for doubtful accounts	(3,975,912.04)
Total	$1,545,302.73

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 9,685,648.24	$ 14,760.56	$ -	$ -	$ 9,700,408.80
Land improvements and infrastructure	51,692,898.02	-	-	-	51,692,898.02
Buildings	242,347,879.93	179,344.64	14,714.58	-	242,541,939.15
Equipment	29,016,186.23	1,838,415.49	-	998,008.49	29,856,593.23
Library holdings	3,297,686.58	245,200.00	-	508,638.64	3,034,247.94
Intangible assets	2,679,599.36	-	-	-	2,679,599.36
Projects in progress	4,358,386.42	1,869,555.47	(14,714.58)	-	6,213,227.31
Total	343,078,284.78	4,147,276.16	-	1,506,647.13	345,718,913.81
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	40,102,668.56	1,211,999.65	-	-	41,314,668.21
Buildings	112,948,263.36	2,915,767.86	-	-	115,864,031.22
Equipment	21,245,390.44	1,581,369.14	-	938,361.06	21,888,398.52
Library holdings	2,028,047.28	303,424.80	-	508,638.64	1,822,833.44
Intangible assets	2,441,208.02	238,391.33	-	-	2,679,599.35
Total	178,765,577.66	6,250,952.78	-	1,446,999.70	183,569,530.74
Capital assets, net	$164,312,707.12	($2,103,676.62)	$ -	$ 59,647.43	$162,149,383.07

Note 7. Accounts Payable

Accounts payable at June 30, 2017, included the following:

Vendors payable	$4,817,515.02
Other payables	965,308.95
Total accounts payable	$5,782,823.97

Note 8. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$27,182,294.75	$ -	$2,853,926.60	$24,328,368.15	$2,187,284.23
Unamortized bond premium/discount	1,193,133.92	-	147,041.46	1,046,092.46	-
Subtotal	28,375,428.67	-	3,000,968.06	25,374,460.61	2,187,284.23
Other liabilities:					
Compensated absences	6,355,823.29	1,408,735.92	1,219,439.69	6,545,119.52	1,373,707.04
Due to grantor	3,475,533.14	84,031.15	257,935.08	3,301,629.21	-
Subtotal	9,831,356.43	1,492,767.07	1,477,374.77	9,846,748.73	1,373,707.04
Total long-term liabilities	$38,206,785.10	$1,492,767.07	$4,478,342.83	$35,221,209.34	$3,560,991.27

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 0.65% to 5.24%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2032 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. The bonded indebtedness with the (TSSBA) included in long-term liabilities on the statement of net position is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was $401,868.80 at June 30, 2017.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2017, are as follows:

Year Ending June 30	Principal	Interest	Total
2018	$ 2,187,284.23	$ 853,920.19	$ 3,041,204.42
2019	2,644,901.24	749,774.07	3,394,675.31
2020	2,737,864.58	678,234.56	3,416,099.14
2021	2,207,684.04	605,698.72	2,813,382.76
2022	2,263,020.63	534,075.78	2,797,096.41
2023 – 2027	9,326,467.05	1,685,984.19	11,012,451.24
2028 – 2032	2,961,146.38	382,306.11	3,343,452.49
Total	$24,328,368.15	$5,489,993.62	$29,818,361.77

Note 9. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $24,328,368.15 in revenue bonds issued from May 2007 to April 2015 (see Note 8 for further detail). Proceeds from the bonds provided financing for housing and dormitory renovations, Avon Williams Campus improvements, Research and Sponsored Programs Building, housing fire and safety upgrade, energy savings performance contract, Hale Stadium improvements, and North Campus improvements. The bonds are payable through 2032. Annual principal and interest payments on the bonds are expected to require 2.43% of available revenues. The total principal and interest remaining to be paid on the bonds is $29,818,361.77. Principal and interest paid for the current year and total available revenues were $3,792,675.94 and $155,847,642.03, respectively.

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/tcrs.

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 five 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, 2017, to the Closed State and Higher Education Employee Pension Plan were $4,339,728.92, which is 15.02% 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, 2017, the university reported a liability of $22,854,483 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2016, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2016, measurement date, the university's proportion was 1.25260%. The proportion measured as of June 30, 2015, was 1.19104%.

Pension expense – For the year ended June 30, 2017, the university recognized a pension expense of $4,075,975.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2017, 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	$ 1,281,665.00	$1,214,394.00
Net difference between projected and actual earnings on pension plan investments	5,527,305.00	-
Changes in proportion of net pension liability	660,312.00	256,783.00
University's contributions subsequent to the measurement date of June 30, 2016	4,339,728.92	-
Total	$11,809,010.92	$1,471,177.00

Deferred outflows of resources, resulting from the university's employer contributions of $4,339,728.92 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2018. 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	
2018	$ 426,465
2019	$ 426,465
2020	$3,539,517
2021	$1,605,658
2022	$ -
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, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.5%

Mortality rates were based on actual experience from the June 30, 2012, actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2016, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012; (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation; and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3%. The target allocation and best estimates of arithmetic real rates of return 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	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
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 7.5% based on a blending of the three factors described above.

Discount rate – The discount rate used to measure the total pension liability was 7.5%. 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 7.5%, 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 (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
University's proportionate share of the net pension liability	$44,913,712	$22,854,483	$4,253,24

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/tcrs.

Payable to the Pension Plan

At June 30, 2017, the university reported a payable of $350,367.78 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2017.

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*.

<u>Benefits provided</u> – 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 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 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.

<u>Contributions</u> – 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 Employment Employee Retirement Plan. 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, 2017, to the State and Higher Education Employee Retirement Plan were $246,338, which is 3.68% 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

<u>Pension asset</u> – At June 30, 2017, the university reported an asset of $121,450 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total pension asset 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, 2016, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2016, measurement date, the university's proportion was 1.441635%. At the June 30, 2015, measurement date, the university's proportion was 1.527868%.

Pension expense – For the year ended June 30, 2017, the university recognized a pension expense of $68,178.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2017, 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	$ 8,836	$13,052
Net difference between projected and actual earnings on pension plan investments	14,163	-
Changes in proportion of net pension asset	1,462	-
University's contributions subsequent to the measurement date of June 30, 2016	246,338	-
Total	$270,799	$13,052

Deferred outflows of resources, resulting from the university's employer contributions of $246,338 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2018. 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	
2018	$3,109
2019	$3,109
2020	$3,109
2021	$2,528
2022	$ (577)
Thereafter	$ 131

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

Actuarial assumptions – The total pension asset as of the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%

Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.5%

Mortality rates were based on actual experience from the June 30, 2012, actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2016, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012; (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation; and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3%. The target allocation and best estimates of arithmetic real rates of return 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	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
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 7.5% based on a blending of the three factors described above.

Discount rate – The discount rate used to measure the total pension liability (asset) was 7.5%. 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 asset.

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 7.5%, 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 (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
University's proportionate share of the net pension asset	$14,524	$121,450	$201,555

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/tcrs.

Payable to the Pension Plan

At June 30, 2017, the university reported a payable of $24,222.68 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2017.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2017, for all state and local government defined benefit pension plans was $4,144,153.

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. All three 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, 2017, were $29,416.24, which consisted of $14,708.12 from the university and $14,708.12 from the employees. Contributions for the year ended June 30, 2016, were $31,177.68, which consisted of $15,588.84 from the university and $15,588.84 from the employees. Contributions for the year ended June 30, 2015, were $41,112.74, which consisted of $20,556.37 from the university and $20,556.37 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 35, Part 4, *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 were $3,977,986.28 for the year ended June 30, 2017, and $3,921,973.26 for the year ended June 30, 2016. 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, 2017, the university reported a payable of $101,034.50 for the outstanding amount of legally required contributions to the plan required for the year ended June 30, 2017.

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 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, 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. During the year ended June 30, 2016, contributions totaling $1,405,753.80 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $627,137.39 for employer contributions.

Note 11. Other Postemployment Benefits

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that provides postemployment health insurance benefits to eligible university retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-201, *Tennessee Code Annotated,* for the State Employee Group Plan and for the Medicare Supplement

Plan. The State Employee Group Plan covers retirees until they reach the age of 65. Members have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. Employees hired on or after July 1, 2015, are not eligible to continue insurance coverage at retirement in either the Employee Group Plan or the Medicare Supplement Plan. The state makes on-behalf payments to the Medicare Supplement Plan for the university's eligible retirees; see Note 17. The plans are reported in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/fa/fa-accounting-financial/fa-accfin-cafr.html.

Special Funding Situation

The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan, which covers the retirees of other governmental entities, including the university. The state is the sole contributor for the university retirees who participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. The plan's claims liabilities are periodically computed using actuarial and statistical techniques to establish premium rates. The plan's administrative costs are allocated to plan participants. Retired members pay the same base premium, adjusted for years of service, as active employees. Retirees with 30 years of service are subsidized 80%; retirees with 20 years of service but less than 30 years of service, 70%; and retirees with less than 20 years of service, 60%. Retirees in the Medicare Supplement Plan have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; retirees with 20 years of service but less than 30 years of service, $37.50; and retirees with 15 years of service but less than 20 years of service, $25.

University's Annual OPEB Cost and Net OPEB Obligation
State Employee Group Plan

Annual required contribution (ARC)	$1,480,000.00
Interest on the net OPEB obligation	275,153.39
Adjustment to the ARC	(276,258.42)
Annual OPEB cost	1,478,894.97
Amount of contribution	(1,575,361.26)
Decrease in net OPEB obligation	(96,466.29)
Net OPEB obligation – beginning of year	7,337,423.71
Net OPEB obligation – end of year	$7,240,957.42

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2017	State Employee Group Plan	$1,478,894.97	106.5%	$7,240,957.42
June 30, 2016	State Employee Group Plan	$1,429,894.80	100.1%	$7,337,423.71
June 30, 2015	State Employee Group Plan	$1,410,610.08	103.4%	$7,338,544.50

Funded Status and Funding Progress

The funded status of the university's portion of the State Employee Group Plan was as follows:

State Employee Group Plan

Actuarial valuation date	July 1, 2015
Actuarial accrued liability (AAL)	$10,020,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$10,020,000.00
Actuarial value of assets as a percentage of the AAL	0.0%
Covered payroll (active plan members)	$80,342,492.34
UAAL as percentage of covered payroll	12.5%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2015, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 3.75% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5% initially. The rate decreased to 6.0% in fiscal year 2016 and then reduces by decrements to an ultimate rate of 4.7% in fiscal year 2050. All rates include a 2.5% inflation assumption. Premium subsidies in the Medicare Supplement Plan are projected to remain unchanged, and, consequently, trend rates are not applicable. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3.0%.

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	$82,560,027.18	$(25,387,990.53)	$(5,989,172.81)	$51,182,863.84
Residential life	12,369,575.96	(6,500,017.81)	-	5,869,558.15
Total	$94,929,603.14	$(31,888,008.34)	$(5,989,172.81)	$57,052,421.99

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, professional medical malpractice liability, and workers' compensation. By statute, the maximum liability for general liability, automobile liability, and professional 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, 2017, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/fa/fa-accounting-financial/fa-accfin-cafr.html. At June 30, 2017, the RMF held $167 million in cash designated for payment of claims.

At June 30, 2017, the scheduled coverage for the university was $584,972,530 for buildings and $91,633,200 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 $33,852,666.86 at June 30, 2017.

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 $317,030.40 and expenses for personal property were $276,901.96 for the year ended June 30, 2017. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2017, outstanding commitments under construction contracts totaled $44,093,980.12 for the Agricultural Extension Center, Gentry drainage, Boswell fume hoods, ADA adaptations, residence hall roof replacements, utility tunnel stabilization, campus elevator replacements, new farm buildings, the health sciences facility, and migration implementation, of which $33,516,415.12 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 $6,418,009.71 on deposit at June 30, 2017, 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, 2017, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$39,783,527.10	$12,779,682.92	$ 9,885,782.16	$2,341,200.48	$ -	$ 64,790,192.66
Research	9,459,920.62	2,442,430.12	3,305,523.89	475,578.73	-	15,683,453.36
Public service	8,605,919.18	2,951,539.10	3,281,454.49	25,920.00	-	14,864,832.77
Academic support	5,530,842.34	1,946,876.20	3,550,158.34	8,000.00	-	11,035,876.88
Student services	8,482,277.70	2,757,604.75	5,430,940.20	3,364,540.64	-	20,035,363.29
Institutional support	7,233,239.46	2,406,452.97	5,988,473.43	18,120.00	-	15,646,285.86
Maintenance and operation	5,581,314.70	2,120,621.43	10,395,197.15	-	-	18,097,133.28
Scholarships and fellowships	-	-	103,345.40	1,539,788.00	-	1,643,133.40
Auxiliary	2,699,543.85	893,517.79	13,994,671.06	331,244.14	-	17,918,976.84
Depreciation	-	-	-	-	6,250,952.78	6,250,952.78
Total	$87,376,584.95	$28,298,725.28	$55,935,546.12	$8,104,391.99	$6,250,952.78	$185,966,201.12

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 $378,920.67 were reallocated from academic support to the other functional areas.

Note 17. On-behalf Payments

During the year ended June 30, 2017, the State of Tennessee made payments of $89,200 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 11. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/fa/fa-accounting-financial/fa-accfin-cafr.html.

Note 18. 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 19-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, 2017, the foundation made distributions of $196,576.96 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, 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, 2017, cash and cash equivalents consisted of $4,851,213.90 in bank accounts and $2,145,674.20 in money market accounts.

Deposits

At June 30, 2017, $6,007,425.87 of the foundation's bank balance of $6,781,584.01 was uninsured and uncollateralized.

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. 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, 2017, 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	$ 3,181,711.41	$ 941,339.58	$1,808,918.69	$ 431,453.14	$ -	$ -
Corporate bonds	3,262,374.30	638,199.39	1,600,064.61	1,024,110.30	-	-
Mutual bond funds	7,482,691.53	-	-	-	-	7,482,691.53
Collateralized mortgage obligations (CMO)	479,254.01	-	479,254.01	-	-	-
Foreign bond funds	350,095.50	-	301,307.93	48,787.57	-	-
Total debt investments	$14,756,126.75	$1,579,538.97	$4,189,545.24	$1,504,351.01	$ -	$7,482,691.53

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. Securities are rated using Standard and Poor's, Moody's Investors Service, and/or Fitch Ratings and are presented below using the Standard and Poor's rating scale.

At June 30, 2017, the foundation's investments were rated as follows:

			Credit Quality Rating			
Investment Type	Balance	AAA	AA	A	BBB	Unrated
Corporate bonds	$ 3,262,374.30	$100,272.34	$330,227.13	$1,483,271.28	$1,348,603.55	$ -
Mutual bond funds	7,482,691.53	-	-	-	-	7,482,691.53
CMO	479,254.01	-	479,254.01	-	-	-
Foreign bonds	350,095.50	350,095.50	-	-	-	-
Total	$11,574,415.34	$450,367.84	$809,481.14	$1,483,271.28	$1,348,603.55	$7,482,691.53

Alternative investments – The foundation had investments in hedge funds and real estate investment trusts. The estimated fair value of these assets was $7,290,445.37 at June 30, 2017.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2017. 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.

Hedge Fund Managers (Strategic) Ltd.

The fund was purchased for the purpose of diversifying the investment portfolio against volitility in the market. The fund was valued at $5,445,813.88 as of June 30, 2017. The estimated value may not reflect the actual market value for these shares on any given date.

TIER REIT, Inc.

The value of the shares for TIER REIT, Inc. is estimated to be $18.48 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 $441,045.18 as of June 30, 2017.

InvenTrust Properties

The value of the shares for InvenTrust Properties is estimated to be $3.29 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, 2017.

Xenia Hotels and Resorts, Inc.

The value of the shares for Xenia Hotels and Resorts, Inc. is estimated to be $19.37 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 $576,720.90 as of June 30, 2017.

Highlands REIT, Inc.

The value of the shares for Highlands REIT, Inc. is estimated to be $0.35 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 $85,049.02 as of June 30, 2017.

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, 2017:

	June 30, 2017	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	$ 3,181,711.41	$ 3,181,711.41	$ -	$ -	$ -
Corporate bonds	3,262,374.30	-	3,262,374.30	-	-
Mutual bond funds	7,482,691.53	7,482,691.53	-	-	-
CMO	479,254.01	-	479,254.01	-	-
Other	350,095.50	350,095.50	-	-	-
Total debt securities	14,756,126.75	11,014,498.44	3,741,628.31	-	-
Equity securities					
Corporate stock	41,710.26	41,710.26	-	-	-
Mutual equity funds	27,645,729.83	27,645,729.83	-	-	-
ETFs	7,052,429.98	7,052,429.98	-	-	-
Equity REITs	1,844,631.49	-	1,844,631.49	-	-
Hedge funds	5,445,813.88	-	-	-	5,445,813.88
Total equity securities	42,030,315.44	34,739,870.07	1,844,631.49	-	5,445,813.88
Total assets at fair value	**$56,786,442.19**	**$45,754,368.51**	**$5,586,259.80**	**$ -**	**$5,445,813.88**

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 in consultation with the fund manager.

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.	$5,445,813.88	N/A	Quarterly (on redemption dates – January 1, April 1, July 1, October 1 – which begin on or after the first anniversary of the purchase of the shares being redeemed)	At least 91 days prior to the applicable valuation date (the day immediately preceding the applicable redemption date)

Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 30,000.00	$ 90,967.55	$ -	$ -	$ 120,967.55
Buildings	285,873.35	-	-	-	285,873.35
Equipment	6,018.09	56,590.00	-	-	62,608.09
Art and historical treasures	6,000,000.00	-	-	-	6,000,000.00
Total	6,321,891.44	147,557.55	-	-	6,469,448.99
Less accumulated depreciation:					
Buildings	8,310.27	6,648.22	-	-	14,958.49
Equipment	702.11	2,618.37	-	-	3,320.48
Total	9,012.38	9,266.59	-	-	18,278.97
Capital assets, net	$6,312,879.06	$138,290.96	$ -	$ -	$6,451,170.02

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

Endowments

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, 2017, net appreciation of $861,177.84 is available to be spent, of which $815,529.08 is included in restricted net position expendable for scholarships and fellowships, $27,880.41 is included in restricted net position expendable for instructional departmental uses, and $17,768.35 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, 2017, net appreciation of $240,596.00 is available to be spent, all of which is included in restricted net position expendable for the Endowment for Educational Excellence.

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, 2017, net appreciation of $542,712.62 is available to be spent, all of which is included in restricted net position expendable for the Endowment for Educational Excellence.

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
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 are 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

	2017	2016
University's proportion of the net pension asset	1.441635%	1.527868%
University's proportionate share of the net pension asset	$ 121,450.00	$ 42,489.00
University's covered payroll	$4,472,677.89	$1,663,791.00
University's proportionate share of the net pension asset as a percentage of its covered payroll	2.72%	2.55%
Plan fiduciary net position as a percentage of the total pension liability	130.56%	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 are 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 Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
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%
2008	4,089,428.71	4,089,428.71	-	30,025,174.08	13.62%

TENNESSEE STATE UNIVERSITY
Required Supplementary Information
Schedule of Tennessee State University's Contributions
State and Higher Education Employee Retirement Plan Within TCRS

	2017	2016	2015
Contractually determined contribution	$ 246,338.00	$ 156,295.91	$ 64,389.00
Contributions in relation to the contractually determined contribution	246,338.00	156,295.91	64,389.00
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$6,688,201.10	$4,472,677.89	$1,663,791.00
Contributions as a percentage of covered payroll	3.68%	3.49%	3.87%

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 are available.

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
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
2008	27,923.78	28,230.84	(307.06)	398,911.20	7.08%	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
Other Postemployment Benefits Schedule of Funding Progress

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
July 1, 2015	State Employee Group Plan	$ -	$10,020,000	$10,020,000	0%	$80,342,492.34	12.47%
July 1, 2013	State Employee Group Plan	$ -	$10,054,000	$10,054,000	0%	$79,201,391.28	12.69%
July 1, 2011	State Employee Group Plan	$ -	$13,336,000	$13,336,000	0%	$71,294,388.00	18.71%

The amount reported here for covered payroll relates to the fiscal year in which the valuations were performed.

TENNESSEE STATE UNIVERSITY
Supplementary Schedule of Cash Flows - Component Unit
For the Year Ended June 30, 2017

Cash flows from operating activities	
Gifts and contributions	$ 2,720,061.67
Sales and services of other activities	424,342.09
Payments to suppliers and vendors	(882,523.51)
Payments for scholarships and fellowships	(2,067,054.55)
Payments to Tennessee State University	(196,576.96)
Net cash used for operating activities	(1,751.26)
Cash flows from noncapital financing activities	
Gifts and grants received for other than capital or endowment purposes	704,393.56
Private gifts for endowment purposes	870,742.82
Net cash provided by noncapital financing activities	1,575,136.38
Cash flows from capital and related financing activities	
Purchases of capital assets and construction	(90,967.55)
Net cash used for capital and related financing activities	(90,967.55)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	7,815,751.17
Income on investments	746,366.40
Purchases of investments	(10,952,092.27)
Net cash used for investing activities	(2,389,974.70)
Net decrease in cash and cash equivalents	(907,557.13)
Cash and cash equivalents - beginning of year	7,904,445.23
Cash and cash equivalents - end of year	$ 6,996,888.10
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (145,892.32)
Noncash operating expenses	9,266.59
Adjustments to reconcile operating loss to net cash used by operating activities:	
Changes in assets and liabilities:	
Receivables	(66,906.25)
Prepaid items	(2,049.98)
Accounts payable	(58,740.17)
Due to component unit/primary government	262,570.87
Net cash used for operating activities	$ (1,751.26)
Noncash investing, capital, or financing transactions	
Gifts in-kind - capital	$ 56,590.00
Unrealized gains on investments	$ 4,268,537.56

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 Haslam, 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, 2017, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated November 5, 2018. 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 deficiency to be a material weakness:

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

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:

- TSU and the TSU Foundation's accounting records show $246,000 more cash on hand than shown on the bank statements; this variance is unexplained.
- The university did not have adequate policies and procedures for the collection of accounts receivable.
- As noted in the prior three 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*.

We did, however, note certain immaterial instances of noncompliance that we have included in the Findings and Recommendations section of this report.

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
November 5, 2018

Findings and Recommendations

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

Condition

As noted in the prior two 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 two 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. However, reporting errors continued.

Cause

The university's financial statements were prepared by the former Director of General Accounting and Financial Reporting and 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 two 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 university had significant employee turnover during the fiscal year. As employees left, important procedures needed to complete financial statements were not reassigned. For example, the Financial Analyst 3 assisted with reconciling the inventory schedule and the equipment depreciation schedule. After he left, no one completed this reconciliation.

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 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 overstated accrued interest receivable; interest earned on loans to students; due to grantors; and utilities, supplies, and other services by $2,217,625.82. Business office staff did not properly reverse certain journal entries related to the Federal Perkins Loan Program from the prior year. The financial statements and notes were corrected for the audit report.

In the university's statement of net position, accrued liabilities was overstated and due to primary government was understated by $1,045,313.41. Management recorded insurance-related payables to Tennessee's Department of Finance and Administration as accrued liabilities. The *Codification of Governmental Accounting and Financial Reporting Standards*, Section 2600, "Reporting Entity and Component Unit Presentation and Disclosure," paragraph .117 states, "amounts payable and receivable between the primary government and its discretely presented component units or between those components should be reported on a separate line." Because the university is a discretely presented component unit of the State of Tennessee, these payables should have been included in due to primary government. The financial statements were corrected for the audit report.

In the university's cash flow statement, capital state appropriations of $2,287,471.93 and the related expenses were included in the cash flows from capital and related financing activities and the cash flows from operating activities. As the university does not receive the actual cash, but does receive the benefits for this activity, the university should not have reported a cash inflow or outflow. Instead, this activity should have been included in the noncash section. The financial statements were corrected for the audit report.

In the capital assets note, subtotals for both the capital assets and accumulated depreciation were not correct. The subtotal for capital assets was understated by $390,542.27, while the subtotal for accumulated depreciation total was overstated by $22,435.44. While no correction was necessary for the statement of net position, the note was corrected for the audit report.

The expenses note was not updated to reflect several adjustments that the former Director of General Accounting and Financial Reporting made, including adjustments to salaries and benefits for instruction, research, public service, student services, and institutional support classifications. The financial statements were revised to reflect these changes, but the notes were not updated. While no correction was necessary for the statement of revenues, expenses, and changes in net position, the note was corrected for the audit report.

In addition, we also noted minor typographical and calculation errors in the note disclosures for accounts payable (see Note 7).

Foundation Financial Statements and Notes

On the foundation's statement of net position, nonexpendable net position, restricted for the Endowment for Educational Excellence, was overstated, and expendable net position, restricted for the Endowment for Educational Excellence, was understated by $407,760.19. When the foundation's budget committee allocated expendable income funds to be used according to the terms of the trust agreement for the Endowment for Educational Excellence, those funds should be reclassified as expendable restricted net position. However, this reclassification was not prepared at June 30, 2017. The financial statements were corrected for the audit report.

On the foundation's statement of net position, nonexpendable net position, restricted for other purposes, was overstated by $36,317.93, and the expendable net position, restricted for other purposes, was understated 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. The financial statements were corrected for the audit report.

On the foundation's schedule of cash flows, in the cash flows from investing activities, proceeds from the sales and maturities of investments was understated by ($6,236,584.68) and income on investments was overstated by $5,520,212.74. The majority of these variances occurred because the Director of Fiscal Affairs erroneously recorded the transfer of approximately $5 million in general endowment funds from the one investment company to another in income on investments instead of proceeds from the sales and maturities of investments. As the investments at the first investment company were liquidated and the proceeds transferred to the new investment company to purchase new investments, these transactions should have been reported at the gross amounts. The schedule of cash flows was corrected for the audit report.

Additionally, on the foundation's schedule of cash flows, the Director of Fiscal Affairs included an unrealized loss of ($960,727.03) in non-cash investing, capital, and financing transactions section. Based on review of the general ledger, this amount should be an unrealized gain of $4,268,537.56, an understatement of $5,229,264.59. The schedule of cash flows was corrected for the audit report.

In the capital assets note, the subtotal for capital assets was not correct and was understated by $147,557.55. The beginning balance and ending balance were the same amount, even though the foundation had added $147,557.55 in capital assets during the fiscal year.

In the endowments note, restricted net position for other purposes in the general endowment was overstated by $460,861.75, and net appreciation was understated by a similar amount. The Director of Fiscal Affairs for Institutional Advancement stated that this error occurred because he used a Banner query that included all endowments instead of only general endowments. While no correction was necessary for the statement of net position, the note was corrected for the audit report.

Recommendation

As noted in the prior two 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 [Tennessee Board of Regents] annual Financial Reporting Update. In addition, the Vice President for Business and Finance will review the checklist and the final statements and notes to ensure completion and accuracy.

For the foundation statements and notes referenced, the Vice President for Research and Institutional Advancement and the Vice President for Business and Finance will meet by January 31, 2019, to clearly define the accounting duties and responsibilities assigned to foundation personnel; establish timeframes for the preparation and review of financial data; and develop procedures to ensure the accurate and timely completion of the foundation's statements and notes. The Vice President for Research and Institutional Advancement will ensure that accurate and timely financial statement information is disseminated to the university as outlined in the foundation's accounting duties and responsibilities document drafted in the prior year. The Vice President for Business and Finance and the Vice President for Research and Institutional Advancement will meet with university and foundation staff quarterly to discuss progress and to ensure all targeted deadlines are being met. The Vice President for Business and Finance will provide a final review of the university and foundation's financial statements and notes at year-end. In addition, the Vice President for Business and Finance will search for relevant financial recording and reporting training to be provided for university and foundation accounting staff who are involved in financial statement preparation.

2. TSU and the TSU Foundation's accounting records show $246,000 more cash on hand than shown on the bank statements; this variance is unexplained

Background

Although Tennessee State University (TSU) and the TSU Foundation are two legally separate entities with separate bank accounts, certain funds are comingled within the TSU Operating Bank Account (operating account). For example, deductions withheld from employees' pay for donations to the foundation are held in the operating account until they are transferred into the foundation's account. Likewise, online donations made via credit cards and automated clearing house payments may be made into the operating account and then transferred into the foundation's account.

Condition

TSU business office personnel did not prepare and review bank reconciliations completely or timely. In fiscal year 2017, instead of preparing a separate bank reconciliation for each bank account, the Financial Analyst 3 prepared one bank reconciliation each month that combined the information for the university's operating account, the university's payroll account, and 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. The number of days for these reconciliations to be completed for these months ranged from 48 to 57 days. On average, the reconciliations were completed 53 calendar days after month's end.

For the period July 1 through October 31, 2016, the former Assistant Director of General Accounting was preparing another reconciliation for the foundation's account. However, after her retirement, this separate reconciliation was no longer prepared.

Although the Financial Analyst 3 performed bank reconciliations, beginning with the month ended November 30, 2016, the reconciliations were deficient. Starting with that reconciliation, TSU personnel began adding unidentifiable items as "research variances" to the reconciliations. These variances could either be negative or positive and ranged from ($153,087.58) to $69,092.65. On the June 30, 2017, reconciliation, eight research variances still existed (one for each month November through June) totaling ($148,430.58).

Some foundation cash transactions were processed through the university's operating account, thus creating a payable/receivable amount between the two entities. Because each bank account was not reconciled individually, cash and the payable/receivable amounts could be misstated. For instance, donations made to the foundation via credit card were processed in the foundation office and recorded as deposits in the Banner information system. However, no one in either the foundation accounting office or the university's business office compared the deposits recorded in Banner to the amounts that were deposited into the foundation's bank account. Since no one was comparing entries into Banner to the bank records and entering correcting entries, these transactions, if they did not match, were added to the bank reconciliation as reconciling items. The June 30, 2017, reconciliation included 242 reconciling items (with dates from July 1, 2016, through June 30, 2017) totaling $239,568.96 under the heading "Foundation Deposits/Disbursements not recorded" and 108 reconciling items (also covering the entire fiscal year) totaling ($337,565.49) under the heading "Outstanding Foundation Batches."

As previously stated, when employees choose to donate a portion of their salaries directly to the foundation, those funds are held in the university's operating account until transferred to the foundation's account. Prior to November 2016, these funds were transferred regularly to the foundation's account, and the foundation would record increases to cash and gift revenue, while the university would increase its amount payable to the foundation until the funds were transferred. After November 2016, no transfers were made for the rest of the fiscal year, but the foundation continued to record revenue and cash for the amounts it was expecting to receive. As a result, the foundation had recorded an extra $40,365.70 in cash that it did not actually have in its accounts, thus duplicating the $40,365.70 that was appropriately included in the university's cash.

While the fiscal year under audit ended June 30, 2017, as of May 2, 2018, TSU could not provide evidence of any completed bank reconciliations for the 2018 fiscal year.

Cause

Although the university has written policies and procedures for preparing and reviewing bank reconciliations, the former Director of General Accounting and Financial Reporting and the Financial Analyst 3 did not know they existed. We were able to obtain the policies and procedures from the Associate Vice President of Accounting and Payroll. In addition, the university has experienced higher employee turnover as business office staff retired. The policies and procedures were not updated to address these key employees leaving. Without adequate written policies and procedures, the retiring staff may not have been able to communicate all of the staff's responsibilities to employees in training. According to the Financial Analyst 3, as a result of employee turnover, he was given additional responsibilities, which left less time to properly complete reconciliations. Also, he indicated that he was unable to obtain information from foundation personnel to identify differences between the deposits per Banner and the actual deposit in the foundation's account.

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 month's end.

Effect

The June 30, 2017, bank reconciliation indicates that cash as reported in the financial statements is approximately $246,000 greater than cash in the bank accounts due to errors in recording transactions or due to misappropriation of cash. 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 on all bank accounts also leads to questionable interfund balances between the university and the foundation. While we believe the due to/from the foundation balance is materially correct, there could be differences that require correction.

Recommendation

Business office personnel should prepare and review separate bank account reconciliations for each bank statement monthly, soon after the receipt of the monthly bank statements, but no later than 30 days after month-end. 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 to require individual reconciliations to be prepared for each bank account and the prompt resolution of 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 they were caused by fraud or by error.

Necessary adjustments to the accounting records should then be made. Management should forward the results of this investigation to the Comptroller of the Treasury upon completion.

Management's Comment

We concur. Management will revise the current policies and procedures to require separate bank account reconciliations for each bank account monthly, but no later than 30 days after month-end. The Vice President for Business and Finance and the Vice President for Research and Institutional Advancement will meet by January 31, 2019, to clearly define the responsibilities for each reconciliation and timeframe for resolution of reconciling items for both the university and foundation. The unresolved differences will be researched and the necessary adjustments will be made to the accounting records by March 31, 2019. A report of our findings will be forwarded to the Comptroller of the Treasury upon completion.

3. 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, and
- the university did not have a written accounts receivable collection policy that it followed.

The University Was Not Consistently Performing Timely Collection Procedures

At June 30, 2017, the university had 7,372 separate accounts receivable totaling $17,675,000. From that group, we selected a total of 38 accounts, subject to collection procedures, representing $234,845. Of those 38 accounts, 5 (13%) did not have timely collection attempts applied based on the university's current procedures. The following table shows the status of the 5 accounts.

Student	Amount	Last Attended	1st Documented Collection Attempt	To Collection Agency	Starting Collections
1	$1,388	August 2013	March 21, 2017	June 21, 2017	41
2	$7,647	August 2015	March 31, 2017	June 29, 2017	17
3	$10,586	May 2016	March 8, 2017	May 17, 2017	5
4	$12,002	May 2016	April 28, 2018	Not sent	19
5	$15,895	December 2015	March 29, 2016	September 28, 2017	1

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 copies of collection letters were not always kept on file. When a collection letter was sent, staff would record the date of the letter in the Banner information system; however, that date would be overwritten when another letter was sent.

Criteria

As the university has decided to follow the Tennessee Board of Regents' (TBR) policies until such time as 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 collections efforts.

Because the university did not have current written collections policies, we based the timeliness of collection efforts on the university's current procedures. According to these procedures, a student's accounts receivable becomes delinquent at 14 days into the semester if no satisfactory payment arrangement has been made. The student is sent, 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, the student is sent a collection letter through the mail. This action is recorded in Banner. A second letter is mailed in approximately 30 days if the student did not arrange a satisfactory payment plan.

As second letters are generated and mailed, the account is prepared and sent 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, the account is sent to a second collection agency. If the second collection agency did not have any activity on the account after 9 to 12 months, the account is submitted for write-off.

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.

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; and
- 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.

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 will work with the Bursar's Office to write up-to-date policies and procedures for the collection of accounts receivable. This written policy will include at a minimum 1) a schedule defining delinquent periods; 2) the timing of collection letters; 3) when an account should be considered in default; and 4) a statement concerning when the account should be sent to a collections agency. This updated policy will be submitted for approval by the Board of Trustees at its February board meeting. Additionally, the Associate Vice President for Financial Services will ensure that Bursar's Office staff perform collection efforts in accordance with approved policies and procedures.

4. As noted in the prior three 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 fourth consecutive year because corrective action was not sufficient.

Ineffective implementation of internal controls increases the likelihood of errors, data loss, and unauthorized access to university information. The details of this finding are confidential pursuant to 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 Chief of Staff and the Vice President for Business and Finance will ensure internal controls are developed and implemented to prevent recurrence.

5. Return of Title IV funds were not in compliance with federal regulations

Condition

We selected a sample of 39 students from a population of 120 Title IV aid recipients at Tennessee State University who officially or unofficially withdrew from classes during the 2016-2017 award year. When we reperformed return of Title IV funds calculations, we found that the university did not perform its return of Title IV funds calculations in compliance with federal regulations for 20 of the 39 Title IV aid recipients tested (51%). For the fall semester 2016, the university did not exclude fall break week from the total number of calendar days in the period of enrollment and the number of calendar days completed, resulting in an additional 6 class days in the calculation. For the spring semester 2017, the university recorded 7 days for spring break instead of 6 and included an extra day in the semester. Because the days in the semester were incorrectly calculated, the date on which the student had earned his or her financial aid (and, therefore, the date past which no return of funds calculation would be necessary) was incorrect for the return of funds calculation. These errors resulted in the university returning more aid than required.

In addition, for 13 of 39 students tested (33%), financial aid personnel did not return Title IV funds to the Department of Education (ED) in a timely manner. The number of days that these funds were returned to ED ranged from 2 days late to 67 days late.

Criteria

Title 34, *Code of Federal Regulations* (CFR), Part 668, Section 22(f)(2)(i), states that "scheduled breaks of at least five consecutive days are excluded from the total number of calendar days in a payment period or period of enrollment and the number of calendar days completed in the period."

The *2016-2017 Federal Student Aid Handbook*, Volume 5, page 5-74, states, "[d]etermine the last day that class is held before a scheduled break—the next day is the first day of the scheduled break. The last day of the scheduled break is the day before the next class is held."

According to the *2016-2017 Federal Student Aid Handbook*, Volume 3, page 3-4, "The number of weeks of instructional time is based on the period that begins on the first day of classes in the academic year and ends on the last day of classes or examinations."

According to the *2016-2017 Federal Student Aid Handbook*, Volume 5, page 5-98, "[a] school must return unearned funds for which it is responsible as soon as possible but no later than 45 days from the determination of a student's withdrawal" (emphasis in original).

Cause

The university did not have adequate procedures in place to ensure the Student Financial Aid Office properly calculated return of Title IV funds in compliance with federal regulations and did so timely. For the fall 2016 semester, the Registrar's Office did not exclude fall break dates from the "Days in Period" amounts in Banner, the student information system. For the spring 2017 semester, the Registrar's Office recorded "Enrollment Break Days" as seven days instead of six days and recorded the "Enrollment End Date" as May 6, 2017, instead of May 5, 2017 (the last day of examinations) in Banner. The Registrar stated that these errors were due to oversight. The Student Financial Aid Office used these incorrect amounts for the return of Title IV funds calculations.

The Student Financial Aid Office could not explain why returns of Title IV funds were not processed timely.

Effect

The total return of Title IV funds calculated by the university was $230,465. The total return of Title IV funds calculated by the university for the sample of 39 students was $92,251. The corrected total to be returned by the university for the 39 students was $91,199, which is $1,052 less than was returned to the U.S. Department of Education. Returning Title IV funds to ED untimely could result in adverse actions against the university.

Recommendation

The Registrar's Office and the Student Financial Aid Office should ensure federal regulations are followed. While the Registrar's Office is responsible for entering the number of days in the period of enrollment, including breaks, into the Banner information system, the Student Financial Aid

Office should verify that the Registrar's Office entered the information correctly. Management should ensure that the Student Financial Aid Office reperforms all return of Title IV funds calculations and makes necessary corrections to student and federal fund accounts. Management should ensure that the Registrar's Office to communicate any status change to the Financial Aid Office.

Management's Comment

We concur. Daily reports are currently provided to the university's Records Office and the Financial Aid Office of students who are no longer attending due to official withdrawal or due to reporting of nonattendance by faculty. The Financial Aid Office reviews these reports, calculates the amount of aid that needs to be returned, adjusts students' accounts, and notified students of all adjustments made.

To ensure compliance with federal regulations, the following corrective actions will be taken:

- Within two weeks of the first day of class, the Assistant Vice President for Financial Aid and Scholarships will verify that the publish academic calendar aligns with the information in the Banner system. This verification will be performed to ensure the number of break days includes all applicable weekend days and the start and end dates of the semesters are accurate. The Assistant Vice President for Financial Aid and Scholarships will document this review in an email to the Registrar and the Vice President for Enrollment Management and Student Success.
- The Assistant Vice President for Financial Aid and Scholarships will review the parameters of the current daily report with the Office of Technology Services by March 31, 2018, to ensure all students are being captured so that the return of funds is accurate and timely. The results of the review will be reported to the Vice President for Enrollment Management and Student Success by April 30, 2018.
- The Registrar will ensure all status changes are communicated via email to the Assistant Vice President for Financial Aid and Scholarships at the time of determination.
- The Assistant Vice President for Financial Aid and Scholarships will recalculate all returns of Title IV funds and make necessary corrections to student and federal fund accounts by April 30, 2018. The Vice President for Enrollment Management and Student Success will document his review of the recalculations.