STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

TENNESSEE BOARD OF REGENTS

TENNESSEE STATE UNIVERSITY

Financial and Compliance Audit Report

For the Year Ended June 30, 2014

Justin P. Wilson, Comptroller

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STATE OF TENNESSEE
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August 17, 2015

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Dr. Glenda Baskin Glover, President

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Tennessee State University, for the year ended June 30, 2014. 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

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Audit Report
Tennessee Board of Regents
Tennessee State University
For the Year Ended June 30, 2014

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For the Year Ended June 30, 2014

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

Tennessee State University did not provide adequate internal controls in three specific areas **

As noted in prior audits, the university did not design and monitor proper internal controls. We observed three conditions in violation of university policies and/or industry-accepted best practices (page 43).

The university's financial aid office did not take the necessary action to report Pell Payment Data to the Department of Education within the required time frame during the spring semester

Tennessee State University did not notify the U.S. Department of Education of Pell disbursements made during the spring 2014 semester by the required deadline (page 43).

** This finding is repeated from prior audits.

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Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
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 Tennessee Board of Regents, 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, 2014, 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 entity'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 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, 2014, 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 Tennessee Board of Regents, 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 Tennessee Board of Regents, as of June 30, 2014, 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 $2,268,916.87 (3.6% 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 5 through 14 and the schedule of funding progress on page 39 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 schedule of cash flows – component unit on page 40 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The 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 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 May 26, 2015, 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
May 26, 2015

Tennessee Board of Regents
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, 2014, with comparative information presented for the fiscal year ended June 30, 2013. 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 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; 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 sub-divided 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, 2014, and June 30, 2013.

Summary of Net Position
(in thousands of dollars)

	2014	2013
Assets:		
Current assets	$ 36,210	$ 41,699
Capital assets, net	164,247	164,281
Other assets	63,659	61,023
Total Assets	264,116	267,003
Deferred Outflows of Resources		
Deferred loss on debt refunding	86	97
Total Deferred Outflows of Resources	86	97
Liabilities:		
Current liabilities	22,200	21,878
Noncurrent liabilities	45,356	48,718
Total Liabilities	67,556	70,596
Net Position:		
Net investment in capital assets	131,681	128,935
Restricted – nonexpendable	334	74
Restricted – expendable	5,720	5,891
Unrestricted	58,911	61,604
Total Net Position	$ 196,646	$ 196,504

Comparison of FY 2014 to FY 2013

- Current assets were reduced due to current cash paying off over $3 million in liabilities and through investments maturing and being reinvested into longer-term investments.

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 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 or decrease in net position is more indicative of overall financial results for the year.

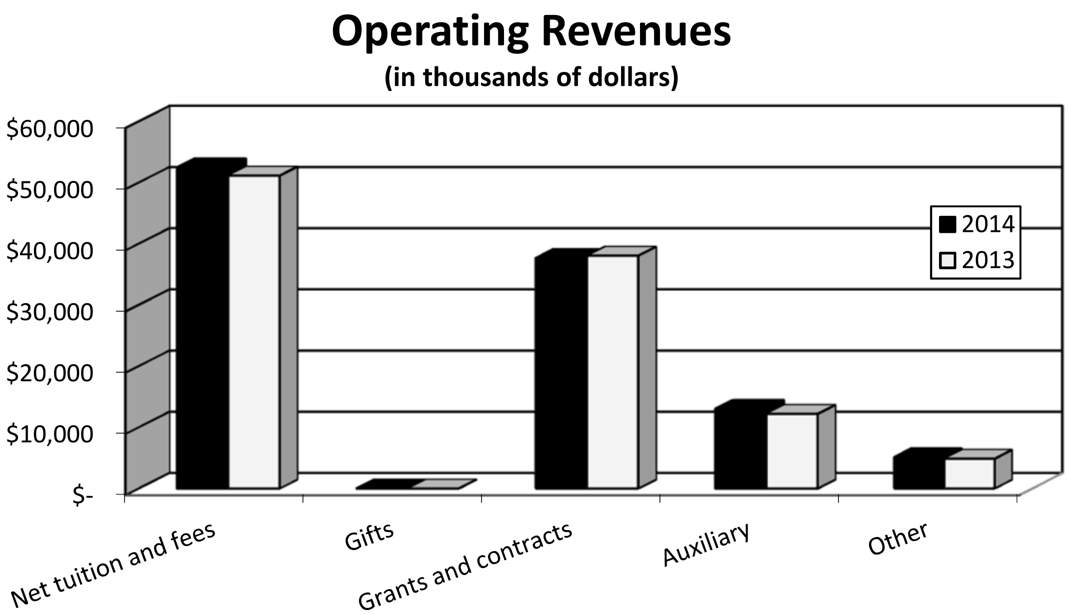
A summary of the university's revenues, expenses, and changes in net position for the year ended June 30, 2014, and June 30, 2013, follows.

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

	2014	2013
Operating revenues	$108,263	$106,215
Operating expenses	182,930	176,626
Operating loss	(74,667)	(70,411)
Nonoperating revenues and expenses	67,747	65,044
Loss before other revenues, expenses, gains, or losses	(6,920)	(5,367)
Other revenues, expenses, gains, or losses	6,109	9,235
Increase (decrease) in net position	(811)	3,868
Net position at beginning of year	196,504	192,636
Prior period adjustment (See note 16)	953	-
Net position at end of year	$196,646	$196,504

Operating Revenues

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

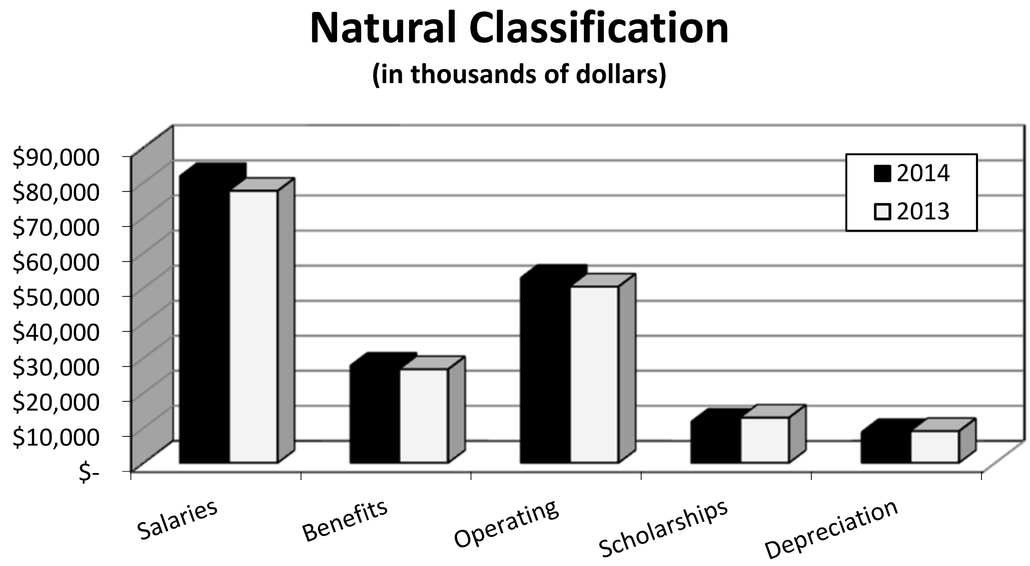


Comparison of FY 2014 to FY 2013

- No significant variances were noted when comparing FY 2014 to FY 2013.

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 classification for the last two fiscal years:

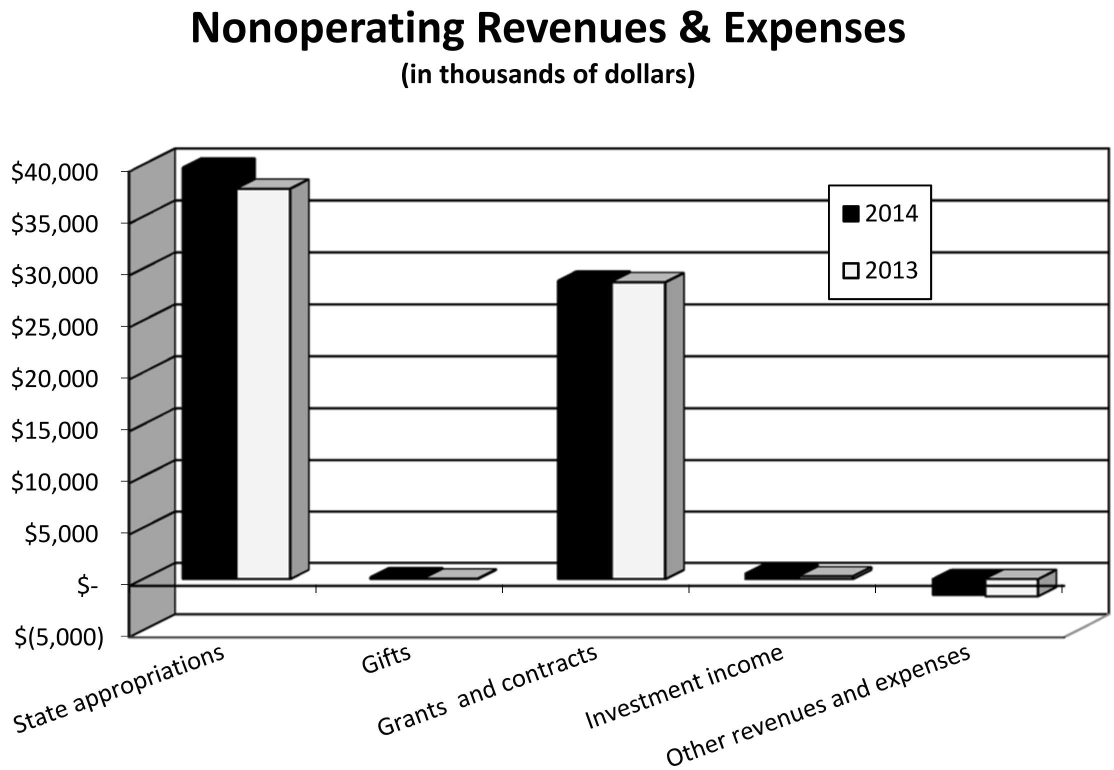


Comparison of FY 2014 to FY 2013

- No significant variances were noted when comparing FY 2014 to FY 2013.

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:

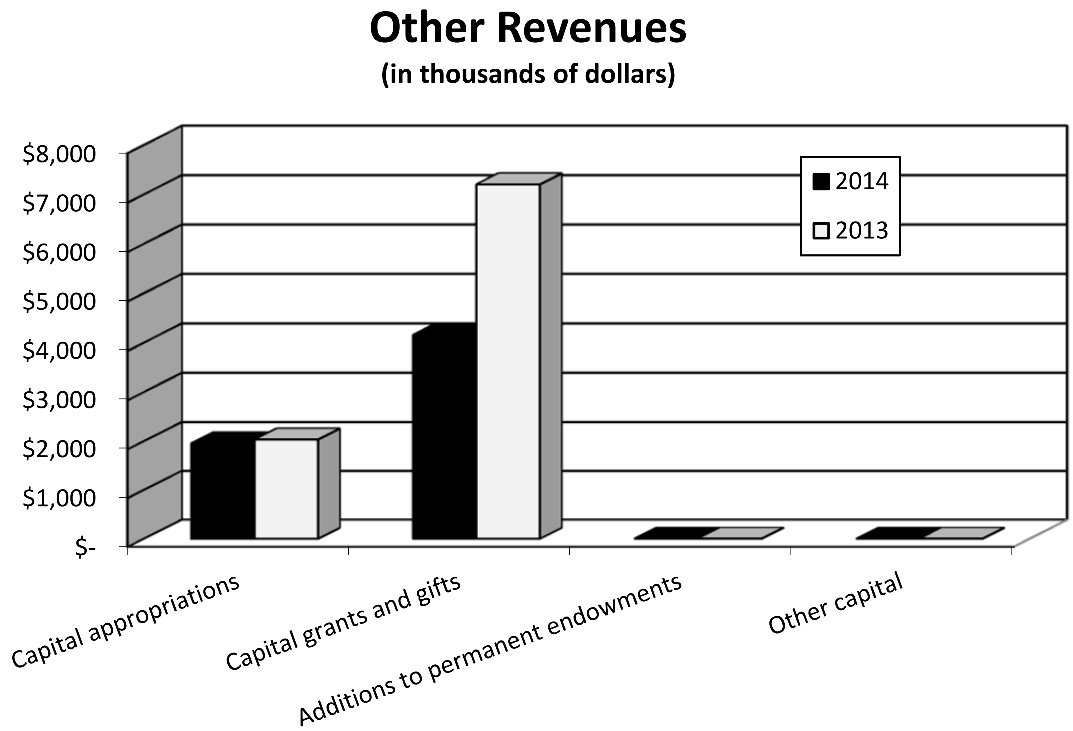


Comparison of FY 2014 to FY 2013

- No significant variances were noted when comparing FY 2014 to FY 2013.

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 FY 2014 to FY 2013

- Capital grants and gifts decreased with the decreased expenditures and revenues related to the Agriculture Biotech Building ($5.3 million in FY 2013 and $2.3 million in FY 2014).

Capital Assets and Debt Administration

Capital Assets

Tennessee State University had $164,246,554.21 invested in capital assets, net of accumulated depreciation of $172,397,679.30, at June 30, 2014; and $164,281,519.11 invested in capital assets, net of accumulated depreciation of $164,345,736.39, at June 30, 2013. Depreciation charges totaled $8,783,486.34 and $9,036,687.53 for the years ended June 30, 2014, and June 30, 2013, respectively.

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

	2014	2013
Land	$ 9,600	$ 9,525
Land improvements & infrastructure	11,553	12,605
Buildings	121,427	123,699
Equipment	7,490	6,624
Library holdings	1,450	1,573
Intangible assets	715	953
Projects in progress	12,012	9,302
Total	$164,247	$164,281

Significant additions to capital assets occurred in fiscal year 2014. At year end, the Agriculture Biotech Building construction was still in progress with additional expenditures for FY 2014 of over $2.3 million and the upgrade of the Electrical Distribution system of $1.0 million.

At June 30, 2014, outstanding commitments under construction contracts totaled $3,263,483.82 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $3,093,505.79 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 $32,651,450.40 and $35,444,280.36 in debt outstanding at June 30, 2014, and June 30, 2013, respectively. The table below summarizes these amounts by type of debt instrument.

Outstanding Debt
(in thousands of dollars)

	2014	2013
TSSBA bonds payable	$31,167	$33,793
Unamortized bond premium	1,485	1,651
Total	$32,652	$35,444

The TSSBA issued bonds with interest rates ranging from 2.5% to 5.67% due 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 $31,166,733.92 outstanding at June 30, 2014, is $2,670,414.60.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2014, 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 Board of Regents
TENNESSEE STATE UNIVERSITY
Statement of Net Position
June 30, 2014

	University	Component Unit
Assets		
Current assets:		
Cash and cash equivalents (Notes 2, 3 and 18)	$ 21,507,567.90	$ 4,066,394.16
Short-term investments (Notes 4 and 18)	240,521.75	2,985,288.51
Accounts, notes, and grants receivable (net) (Note 5)	12,292,241.34	500.00
Due from primary government	137,500.00	-
Due from component unit	145,252.82	-
Inventories (at lower of cost or market)	89,551.40	-
Accrued interest receivable	1,797,272.06	-
Total current assets	36,209,907.27	7,052,182.67
Noncurrent assets:		
Cash and cash equivalents (Notes 2, 3 and 18)	46,438,421.43	2,342,524.89
Investments (Notes 4 and 18)	15,351,427.48	48,149,274.41
Accounts, notes, and grants receivable (net) (Note 5)	1,869,021.48	-
Capital assets (net) (Notes 6 and 18)	164,246,554.21	6,000,000.00
Total noncurrent assets	227,905,424.60	56,491,799.30
Total assets	264,115,331.87	63,543,981.97
Deferred outflows of resources		
Deferred amount on debt refunding	86,173.65	-
Total deferred outflows of resources	86,173.65	-
Liabilities		
Current liabilities:		
Accounts payable (Note 7)	4,524,600.06	48,204.08
Accrued liabilities	8,153,387.80	-
Due to grantors (Note 8)	314,057.87	-
Due to primary government	-	145,252.82
Unearned revenue	4,740,986.64	-
Compensated absences (Note 8)	1,074,424.18	-
Accrued interest payable	262,962.79	-
Long-term liabilities, current portion (Note 8)	2,670,414.60	-
Deposits held in custody for others	383,322.59	-
Other liabilities	75,678.47	-
Total current liabilities	22,199,835.00	193,456.90
Noncurrent liabilities:		
Net OPEB obligation (Note 11)	7,385,868.12	-
Compensated absences (Note 8)	4,913,392.55	-
Long-term liabilities (Note 8)	29,981,035.80	-
Due to grantors (Note 8)	3,075,433.51	-
Total noncurrent liabilities	45,355,729.98	-
Total liabilities	67,555,564.98	193,456.90
Net position		
Net investment in capital assets	131,681,277.46	6,000,000.00
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	334,206.04	5,656,699.87
Research	-	668,265.85
Instructional department uses	-	780,742.24
Other	-	35,661,299.20
Expendable:		
Scholarships and fellowships (Note 18)	872,843.10	2,929,695.60
Research	452,187.30	54,867.93
Instructional department uses (Note 18)	1,856,832.08	379,640.96
Loans	820,647.98	-
Other (Note 18)	1,717,365.33	11,060,867.38
Unrestricted	58,910,581.25	158,446.04
Total net position	$ 196,645,940.54	$ 63,350,525.07

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

Tennessee Board of Regents
TENNESSEE STATE UNIVERSITY
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2014

	University	Component Unit
Revenues		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $24,840,139.81)	$ 52,489,250.65	$ -
Gifts and contributions	-	2,648,713.70
Governmental grants and contracts	36,609,302.79	-
Non-governmental grants and contracts	1,038,558.12	-
Sales and services of educational activities	191,774.59	-
Sales and services of other activities	4,752,882.09	386,120.80
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $4,564,353.27 all residential life revenues are used for revenue bonds, see Note 9)	5,887,886.87	-
Bookstore	214,440.62	-
Food service	6,063,380.96	-
Other auxiliaries	833,516.40	-
Interest earned on loans to students	165,177.92	-
Other operating revenues	16,756.74	-
Total operating revenues	108,262,927.75	3,034,834.50
Expenses		
Operating expenses (Note 15)		
Salaries and wages	81,796,341.96	-
Benefits	27,753,873.33	-
Utilities, supplies, and other services	52,854,689.09	732,652.02
Scholarships and fellowships	11,741,541.98	1,694,495.07
Depreciation expense	8,783,486.34	-
Payments to or on behalf of TSU (Note 18)	-	151,400.99
Total operating expenses	182,929,932.70	2,578,548.08
Operating income (loss)	(74,667,004.95)	456,286.42
Nonoperating revenues (expenses)		
State appropriations	39,729,883.50	-
Gifts, including $151,400.99 from component unit to institution	185,115.19	-
Grants and contracts	28,836,135.69	43,674.27
Investment income (net of investment expense of $102,166.88 for the institution and $233,943.70 for the component unit)	538,123.33	6,251,848.79
Interest on capital asset-related debt	(1,507,935.15)	-
Other nonoperating revenues (expenses)	(34,352.44)	-
Net nonoperating revenues (expenses)	67,746,970.12	6,295,523.06
Income before other revenues, expenses, gains, or losses	(6,920,034.83)	6,751,809.48
Capital appropriations	1,953,631.28	-
Capital grants and gifts	4,155,150.66	-
Additions to permanent endowments	-	594,843.40
Total other revenues	6,108,781.94	594,843.40
Increase (decrease) in net position	(811,252.89)	7,346,652.88
Net position - beginning of year, as originally reported	196,504,247.96	56,003,872.19
Prior period adjustment (Note 16)	952,945.47	-
Net position - end of year	$196,645,940.54	$63,350,252.07

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

Tennessee Board of Regents
TENNESSEE STATE UNIVERSITY
Statement of Cash Flows
For the Year Ended June 30, 2014

Cash flows from operating activities	
Tuition and fees	$ 51,186,667.87
Grants and contracts	39,762,556.93
Sales and services of educational activities	191,774.59
Sales and services of other activities	4,431,331.32
Payments to suppliers and vendors	(53,162,397.54)
Payments to employees	(81,222,582.85)
Payments for benefits	(27,520,691.51)
Payments for scholarships and fellowships	(11,741,541.98)
Loans issued to students	(603,905.57)
Collection of loans from students	619,898.23
Interest earned on loans to students	11,933.00
Auxiliary enterprise charges:	
Residence halls	5,888,982.22
Bookstore	203,769.08
Food services	6,073,307.15
Other auxiliaries	829,348.86
Other receipts (payments)	(71,965.49)
Net cash used by operating activities	(65,123,515.69)
Cash flows from noncapital financing activities	
State appropriations	39,521,300.00
Gifts and grants received for other than capital or endowment purposes, including $151,400.99 from the TSU Foundation to the institution	29,021,250.88
Federal/state student loan receipts	69,073,361.25
Federal/state student loan disbursements	(69,073,361.25)
Changes in deposits held for others	35,237.82
Net cash provided by noncapital financing activities	68,577,788.70
Cash flows from capital and related financing activities	
Capital appropriations	1,953,631.28
Capital grants and gifts received	4,805,209.26
Purchases of capital assets and construction	(8,063,463.95)
Principal paid on capital debt	(2,626,415.54)
Interest paid on capital debt	(1,683,861.24)
Net cash used by capital and related financing activities	(5,614,900.19)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	6,305,439.17
Income on investments	620,208.58
Purchase of investments	(6,452,623.18)
Net cash provided by investing activities	473,024.57
Net decrease in cash and cash equivalents	(1,687,602.61)
Cash and cash equivalents - beginning of year	69,633,591.94
Cash and cash equivalents - end of year	$ 67,945,989.33

Tennessee Board of Regents
TENNESSEE STATE UNIVERSITY
Statement of Cash Flows (continued)
For the Year Ended June 30, 2014

Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	($74,667,004.95)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	8,783,486.34
Other adjustments (Note 17)	71,083.50
Change in assets and liabilities and deferrals:	
Receivables, net	1,041,334.06
Inventories	(67,845.02)
Other assets	(145,252.82)
Accounts payable	(1,119,260.07)
Accrued liabilities	421,890.73
Unearned revenues	54,196.26
Compensated absences	285,487.59
Due to grantors	241,585.19
Loans to students and employees	(79,747.09)
Other	56,530.59
Net cash used by operating activities	($65,123,515.69)

Noncash investing, capital, or financing transactions		
Unrealized gains on investments	$	127,873.13
Loss on disposal of capital assets	$	(34,352.44)

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 (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides significant financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

The financial statements present only that portion of the Tennessee Board of Regents' 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 and how to obtain the report.

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 interfund transactions have 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; 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 whether to use restricted or unrestricted resources 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 fair 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 40 years.

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 and 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

This classification includes demand deposits and petty cash on hand. At June 30, 2014, cash consisted of $15,527,333.72 in bank accounts, $3,700.00 of petty cash on hand, $10,767,980.98 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, $1,068,171.32 in LGIP deposits for capital projects, and $40,578,803.31 in money market accounts.

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

LGIP deposits for capital projects – Payments related to the university's capital projects are made by the State of Tennessee's Department of Finance and Administration. The university's estimated local share of the cost of each project is held in a separate LGIP account. As expenses are incurred, the Tennessee Board of Regents withdraws funds from the LGIP account and transfers them 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 Tennessee Board of Regents releases any remaining funds.

Note 3. Deposits

In accordance with the laws of the State of Tennessee, financial institutions have pledged securities as collateral for university funds on deposit. Financial institutions may participate in the bank collateral pool administered by the State Treasurer. For those financial institutions participating in the bank collateral pool, the required collateral accepted as security for deposits shall be collateral whose fair value is equal to 115% or 100% of the uninsured deposits. The pledge level is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lower pledge level. For all other financial institutions, the required collateral accepted as security for deposits shall be collateral whose fair value is equal to 105% of the uninsured deposits.

At June 30, 2014, $500,993.18 of the university's bank balance of $17,065,989.49 was uninsured and uncollateralized.

Note 4. Investments

All investments permitted to be reported at fair value under GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, as amended, are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

At June 30, 2014, the university had the following 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 notes	$ 1,275,819.03	$ -	$1,275,819.03	$ -	$ -	$ -
U.S. agencies	8,212,698.35	-	5,724,800.42	2,449,039.09	-	38,858.84
Government mortgage-backed securities	6,103,431.85	240,521.75	1,218,888.04	2,174,173.39	2,469,848.67	-
Total	$15,591,949.23	$240,521.75	$8,219,507.49	$4,623,212.48	$2,469,848.67	$38,858.84

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.

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

Tennessee Board of Regents 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 shall 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, 2014, the university's investments were rated as follows:

		Credit Quality Rating		
Investment Type	Fair Value	AAA	AA	Unrated
LGIP	$11,836,152.30	$ -	$ -	$11,836,152.30
U.S. agencies	6,474,700.00	-	6,474,700.00	-
Government mortgage-backed securities	6,103,431.85	138,194.79	5,965,237.06	-
Total	$24,414,284.15	$138,194.79	$12,439,937.06	$11,836,152.30

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. Tennessee Board of Regents 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. Tennessee Board of Regents 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, 2014
Federal National Mortgage Association	36.79%
Federal Home Loan Bank	18.20%
Federal Home Loan Mortgage Corporations	25.68%

Note 5. Receivables

Receivables at June 30, 2014, included the following:

Student accounts receivable	$ 7,950,594.60
Grants receivable	7,447,512.42
Notes receivable	13,207.21
Other receivables	642,127.48
Subtotal	16,053,441.71
Less allowance for doubtful accounts	(3,750,970.16)
Total receivables	$12,302,471.55

Federal Perkins Loan Program funds at June 30, 2014, included the following:

Perkins loans receivable	$5,710,180.91
Less allowance for doubtful accounts	(3,851,389.64)
Total	$1,858,791.27

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 9,525,009.24	$ 74,500.00	$ -	$ -	$ 9,599,509.24
Land improvements and infrastructure	48,986,002.13	-	148,360.00	-	49,134,362.13
Buildings	225,516,531.61	-	3,069,511.65	-	228,586,043.26
Equipment	28,579,704.55	2,474,130.66	-	220,052.34	30,833,782.87
Library holdings	4,087,643.97	257,111.17	-	545,843.53	3,798,911.61
Intangible assets	2,679,599.36	-	-	-	2,679,599.36

Projects in progress	9,972,174.57	5,257,722.12	(3,217,871.65)	-	12,012,025.04
Total	329,346,665.43	8,063,463.95	-	765,895.87	336,644,233.51
Land improvements and infrastructure	36,380,532.89	1,201,067.19	-	-	37,581,600.08
Buildings	101,768,931.87	5,389,911.00	-	-	107,158,842.87
Equipment	21,955,609.10	1,574,225.64	-	185,699.90	23,344,134.84
Library holdings	2,514,628.51	379,891.18	-	545,843.53	2,348,676.16
Intangible assets	1,726,034.02	238,391.33	-	-	1,964,425.35
Total	164,345,736.39	8,783,486.34	-	731,543.43	172,397,679.30
Capital assets, net	$165,000,929.04	$ (720,022.39)	$ -	$ 34,352.44	$164,246,554.21

Note 7. Accounts Payable

Accounts payable at June 30, 2014, included the following:

Vendors payable	$3,625,007.31
Other payables	899,592.75
Total accounts payable	$4,524,600.06

Note 8. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$33,793,149.46	$ -	$2,626,415.54	$31,166,733.92	$2,670,414.60
Unamortized bond premium/discount	1,651,130.90	-	166,414.42	1,484,716.48	-
Subtotal	35,444,280.36	-	2,792,829.96	32,651,450.40	2,670,414.60
Other liabilities:					
Compensated absences	5,702,329.14	3,147,461.63	2,861,974.04	5,987,816.73	1,074,424.18

Due to grantors	3,974,709.85	541,117.64	1,126,336.11	3,389,491.38	314,057.87
Subtotal	9,677,038.99	3,688,579.27	3,988,310.15	9,377,308.11	1,388,482.05
Total long-term liabilities	$45,121,319.35	$3,688,579.27	$6,781,140.11	$42,028,758.51	$4,058,896.65

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 2.5% to 5.666%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to May 1, 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 Tennessee State School Bond Authority 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 $530,473.56 at June 30, 2014.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2014, are as follows:

Year Ending June 30	Principal	Interest	Total
2015	$ 2,670,414.60	$ 1,570,551.64	$ 4,240,966.24
2016	2,505,948.05	1,448,583.92	3,954,531.97
2017	2,626,169.06	1,327,241.18	3,953,410.24
2018	2,343,214.94	1,202,789.56	3,546,004.50
2019	2,452,217.89	1,084,193.62	3,536,411.51
2020 – 2024	10,438,863.88	3,637,612.92	14,076,476.80
2025 – 2029	6,717,010.00	1,176,665.67	7,893,675.67
2030 – 2034	1,412,895.50	143,675.47	1,556,570.97
Total	$31,166,733.92	$11,591,313.98	$42,758,047.90

More detailed information regarding the bonds can be found in the notes to the financial statements in the financial report for the TSSBA. That report is available on the state's website at www.comptroller.tn.gov/tssba/cafr.asp.

Note 9. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $31,166,733.92 in revenue bonds issued from December 1989 to August 2012 (see Note 8 for further detail). Proceeds from the bonds provided financing for Avon Williams Campus improvements; chiller replacement; dormitory renovations; energy savings and performance contracts; student housing/apartments; research and sponsored programs; and student housing fire suppression. The bonds are payable through 2032. Annual principal and interest payments on the bonds are expected to require 3.06% of available revenues. The total principal and interest remaining to be paid on the bonds is $42,758,047.90. Principal and interest paid for the current year and total available revenues were $4,309,362.40 and $140,750,061.93, respectively.

Note 10. Pension Plans

Defined Benefit Plans

Tennessee Consolidated Retirement System

Plan description – The State of Tennessee provides a pension plan that covers state and higher education employees. That plan is part of the Public Employee Retirement Plan, an agent multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits, as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employee Retirement Plan. That report is available on the state's website at www.treasury.tn.gov/tcrs.

Funding policy – Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 15.03% of annual covered payroll. Contribution requirements for the university are established and may be amended by TCRS' Board of Trustees.

Annual pension cost – For the year ended June 30, 2014, the university's contributions equaled the annual pension cost of $4,757,263.98.

Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2014	$4,757,263.98	100%	$0
June 30, 2013	$4,284,542.47	100%	$0
June 30, 2012	$4,191,277.07	100%	$0

Additional information – Information about the funded status of the plan as of the most recent valuation date, information about the actuarial methods and assumptions used in the valuations, and required supplementary information are available in the *Tennessee Comprehensive Annual Financial Report*. A copy of that report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Federal Retirement Program

Plan description – The university contributes to the Federal Retirement Program, a cost-sharing, multiple-employer, defined benefit pension plan administered by the Civil Service Retirement System (CSRS) for participants employed prior to January 1, 1984, and by the Federal Employees Retirement System for participants employed after December 31, 1983. Both systems provide retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. All regular full-time employees of the Tennessee State University Agricultural Extension Service who hold federal appointments for 51% or more of their time are required to participate in either one of the two federal retirement programs. For both systems, benefit provisions are established by federal statutes. Federal statutes are amended by the U.S. Congress. All 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.

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 to CSRS for the year ended June 30, 2014, were $38,813.54, which consisted of $19,406.77 from the university and $19,406.77 from the employees. Contributions for the year ended June 30, 2013, were $38,792.20, which consisted of $19,396.10 from the university and $19,396.10 from the employees. Contributions for the year ended June 30, 2012, were $45,370.20, which consisted of $22,685.10 from the university and $22,685.10 from the employees. Contributions met the requirements for each year.

Defined Contribution Plans

Optional Retirement Plans

Plan description – The university contributes to three defined contribution plans: Teachers Insurance and Annuity Association–College Retirement Equities Fund, ING Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company. These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding policy – Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contributions made by the university to the plans were $3,817,223.06 for the year ended June 30, 2014, and $3,561,753.59 for the year ended June 30, 2013. Contributions met the requirements for each year.

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 8-27-101, *Tennessee Code Annotated*, for the State Employee Group Plan and Section 8-27-701, *Tennessee Code Annotated*, for the Medicare Supplement Plan. Prior to reaching age 65, all 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. 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/act/cafr.shtml.

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 Tennessee State 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 members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is 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. Retirees in the State Employee Group Plan 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)	$1,354,000.00
Interest on the net OPEB obligation	293,637.00
Adjustment to the ARC	(286,073.23)
Annual OPEB cost	1,361,563.77
Amount of contribution	(1,316,620.76)
Increase in net OPEB obligation	44,943.01
Net OPEB obligation – beginning of year	7,340,925.11
Net OPEB obligation – end of year	$7,385,868.12

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2014	State Employee Group Plan	$1,361,563.77	96.7%	$7,385,868.12
June 30, 2013	State Employee Group Plan	$1,712,035.05	74.2%	$7,340,925.11
June 30, 2012	State Employee Group Plan	$1,696,904.04	79.2%	$6,898,453.54

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, 2013
Actuarial accrued liability (AAL)	$10,054,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$10,054,000.00
Actuarial value of assets as a percentage of the AAL	0.0%
Covered payroll (active plan members)	$79,201,391.28
UAAL as percentage of covered payroll	12.7%

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, 2013, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.5% initially. The rate decreased to 7.0% in fiscal year 2015 and then reduces by decrements to an ultimate rate of 4.19% in fiscal year 2044. All rates include a 2.5% inflation assumption. 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. 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, and workers' compensation. 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. The state purchases commercial insurance for real property, builder's risk (for construction projects starting prior to July 1, 2012), and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012; thus, builder's risk is no longer covered by the Risk Management Fund. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of $10 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the $10 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 Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2014, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the university participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, Section 9-8-101 et seq., *Tennessee Code Annotated*. Liability for negligence of the university for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in Section 50-6-101 et seq., *Tennessee Code Annotated*. Claims are paid through the state's Risk Management Fund. At June 30, 2014, the Risk Management Fund held $116.3 million in cash designated for payment of claims.

At June 30, 2014, the scheduled coverage for the university was $572,429,400.00 for buildings and $86,619,100.00 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 13. Commitments and Contingencies

Sick Leave

The university records the cost of sick leave when paid. The dollar amount of unused sick leave was $30,535,306.33 at June 30, 2014.

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 $226,078.30 and expenses for personal property were $317,156.86 for the year ended June 30, 2014. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2014, outstanding commitments under construction contracts totaled $3,263,483.82 for Hankle Hall Upgrades, Gentry Drainage Corrections, ADA, Master Plan, and Utility Tunnel Stabilization, of which $3,093,505.79 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 14. Chairs of Excellence

The university had $5,805,850.69 on deposit at June 30, 2014, 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 15. Natural Classification With Functional Classifications

The university's operating expenses for the year ended June 30, 2014, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$38,416,535.20	$12,506,434.25	$12,434,081.39	$ 1,605,393.70	$ -	$ 64,962,444.54
Research	8,524,514.20	2,590,137.30	4,760,183.18	531,286.00	-	16,406,120.68
Public service	6,286,549.67	2,607,873.84	2,105,353.83	3,840.00	-	11,003,617.34
Academic support	5,644,353.48	1,952,270.43	3,218,743.70	100,572.00	-	10,915,939.61
Student services	8,097,583.87	2,716,218.31	4,998,030.24	3,094,426.25	-	18,906,258.67
Institutional support	9,020,139.55	3,164,153.42	4,539,179.99	28,005.00	-	16,751,477.96
Maintenance & operation	3,329,781.74	1,431,433.97	11,521,741.14	-	-	16,282,956.85
Scholarships & fellowships	5,635.33	1,767.03	28,441.06	6,119,100.57	-	6,154,943.99
Auxiliary	2,471,248.92	783,584.78	9,248,934.56	258,918.46	-	12,762,686.72
Depreciation	-	-	-	-	8,783,486.34	8,783,486.34
Total	$81,796,341.96	$27,753,873.33	$52,854,689.09	$11,741,541.98	$8,783,486.34	$182,929,932.70

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 $531,473.89 were reallocated from academic support to the other functional areas

Note 16. Prior-year Adjustment

A prior-period adjustment of $719,409.93 was made due to capital asset accruals in fiscal year ended June 30, 2013. As of the fiscal year ended June 30, 2013, work had been performed, but no liability or related revenue had been created. The capital assets associated with this prior-period adjustment were the Boswell Fume Hoods, Gentry Center Storm Drainage, and the Biotech Building. An additional adjustment of ($428,451.44) to correct for overstated receivables and revenues related to Title III plant funds. An additional prior-period adjustment of $661,986.98 was made in regard to Perkins loans. Liabilities were overstated in prior years, causing cancellation accounts to be understated by this amount.

Note 17. On-behalf Payments

During the year ended June 30, 2014, the State of Tennessee made payments of $71,083.50 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/act/cafr.shtml.

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 22-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, 2014, the foundation made distributions of $151,400.99 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Betsy Jackson, Executive Director, 3500 John A. Merritt Boulevard, Nashville, TN 37209.

Cash and Cash Equivalents

In addition to demand deposits and petty cash on hand, this classification includes instruments that are readily convertible to known amounts of cash and that have original maturities of three months or less. At June 30, 2014, cash and cash equivalents consisted of $4,215,422.17 in bank accounts, and $2,193,496.88 in money market accounts.

Investments

The foundation is authorized to invest funds in accordance with its board of directors' policies. All investments permitted to be reported at fair value under GASB Statement 31, as amended, are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

At June 30, 2014, the foundation had the following 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	$ 3,232,060.29	$ 50,707.16	$ 77,284.76	$3,104,068.37	$ -	$ -
U.S. agencies	1,037,611.11	74,023.68	963,587.43	-	-	-
Corporate stocks	20,741,739.84	-	-	-	-	20,741,739.84
Corporate bonds	7,302,790.21	1,320,928.41	5,058,375.29	923,486.51	-	-
Mutual bond funds	3,440,683.62	-	-	-	-	3,440,683.62
Mutual equity funds	3,857,782.50	-	-	-	-	3,857,782.50
Foreign stock	2,875,543.62	-	-	-	-	2,875,543.62
Foreign mutual funds	4,179,367.33	-	-	-	-	4,179,367.33
Government mortgage–backed securities	1,047,939.78	-	14,495.50	42,772.76	990,671.52	-
Collateralized mortgage obligations	1,150,127.75	-	71,634.81	1,040,747.73	37,745.21	-
Real estate investment trusts	2,268,916.87	-	-	-	-	2,268,916.87
Money market accounts	2,193,496.88	-	-	-	-	2,193,496.88
Savings accounts	152,171.10	-	-	-	-	152,171.10
Less amounts reported as cash and cash equivalents:						
Money market account	(2,193,496.88)	-	-	-	-	(2,193,496.88)
Savings accounts	(152,171.10)	-	-	-	-	(152,171.10)
Total investments	$51,134,562.92	$1,445,659.25	$6,185,377.79	$5,111,075.37	$1,028,416.73	$37,364,033.78

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.

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, 2014, the foundation's investments were rated as follows:

		Credit Quality Rating				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
U.S. agencies	$ 1,037,611.11	$ -	$1,037,611.11	$ -	$ -	$ -
Corporate bonds	7,302,790.21	269,068.46	764,754.41	4,976,268.36	1,292,698.98	-
Mutual bond funds	3,440.683.62	-	-	-	-	3,440,683.62
Mortgage-backed securities	1,047,939.78	-	1,047,939.78	-	-	-
Collateralized mortgage obligation	1,150,127.75	698,380.91	414,001.63	37,745.21	-	-
Total	$13,979,152.47	$967,449.37	$3,264,306.93	$5,014,013.57	$1,292,698.98	$3,440,683.62

Alternative investments

The foundation had investments in real estate investment trusts. The estimated fair value of these assets was $2,268,916.87 at June 30, 2014.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2014. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques.

The value of the shares for Inland America is estimated to be the offering of $6.94 per share (ignoring purchase price discounts for certain categories of purchasers). This estimated value may not reflect the actual market value for these shares on any given date.

The value of the shares for Behringer Harvard is estimated to be the offering of $4.20 per share (ignoring purchase price discounts for certain categories of purchasers). This estimated value may not reflect the actual market value for these shares on any given date.

Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Art & historical collections	$6,000,000.00	$ -	$ -	$ -	6,000,000.00

Endowments

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

General Endowment – The foundation chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, 3.8% of the fair market value's three-year rolling average has been authorized for expenditure. The remaining amount, if any, is reinvested into the endowment. At June 30, 2014, net appreciation of $998,395.47 is available to be spent, of which $964,192.35 is included in restricted net position expendable for scholarships and fellowships; $14,331.10 is included in restricted net position expendable for instructional departmental uses; and $19,872.02 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, 2014, net appreciation of $415,547.75 is available to be spent, all of which is included in restricted net position expendable for other.

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, 2014, net appreciation of $692,367.87 is available to be spent, all of which is included in restricted net position expendable for other.

Tennessee Board of Regents
Tennessee State University
Required Supplementary Information
OPEB 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, 2013	State Employee Group Plan	$ -	$10,054,000	$10,054,000	0%	$79,201,391	12.69%
July 1, 2011	State Employee Group Plan	$ -	$13,336,000	$13,336,000	0%	$71,294,388	18.71%
July 1, 2010	State Employee Group Plan	$ -	$20,747,000	$20,747,000	0%	$71,599,111	28.98%

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

Tennessee Board of Regents
TENNESSEE STATE UNIVERSITY
Supplementary Schedule of Cash Flows - Component Unit
For the Year Ended June 30, 2014

Cash flows from operating activities	
Gifts and contributions	$ 2,648,713.70
Sales and services of other activities	386,120.80
Payments to suppliers and vendors	(717,475.52)
Payments for scholarships and fellowships	(1,694,495.07)
Payments to Tennessee State University	(151,400.99)
Other receipts (payments)	164,400.70
Net cash provided by operating activities	635,863.62
Cash flows from noncapital financing activities	
Gifts and grants received for other than capital or endowment purposes	43,674.27
Private gifts for endowment purposes	594,843.40
Net cash provided by noncapital financing activities	638,517.67
Cash flows from investing activities	
Proceeds from sales and maturities of investments	8,356,525.74
Income on investments	1,208,171.48
Purchases of investments	(10,714,013.78)
Other investing receipts (payments)	434.17
Net cash used by investing activities	(1,148,882.39)
Net increase in cash and cash equivalents	125,498.90
Cash and cash equivalents - beginning of year	6,283,420.15
Cash and cash equivalents - end of year (Note 18)	$ 6,408,919.05

Reconciliation of operating gain to net cash provided by operating activities:	
Operating income	$ 456,286.42
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Changes in assets and liabilities:	
Receivables, net	1,214.37
Other assets	19,147.88
Accounts payable	13,962.13
Other assets	145,252.82
Net cash provided by operating activities	$ 635,863.62
Noncash investing, capital, or financing transactions	
Unrealized gains on investments	$ 4,575,269.15

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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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
The Honorable John G. Morgan, Chancellor
Dr. Glenda Baskin Glover, President

We have audited the financial statements of Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated May 26, 2015. 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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies that we consider to be material weaknesses. We did identify a deficiency in internal control, as described below, that we consider to be a significant deficiency.

- Tennessee State University did not provide adequate controls in three specific areas

This deficiency is 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
May 26, 2015

Findings and Recommendations

1. Tennessee State University did not provide adequate internal controls in three specific areas

Finding

As noted in prior audits, the university did not design and monitor proper internal controls. We observed three conditions in violation of university policies and/or industry-accepted best practices. One condition is repeated from the prior two audits; another condition is repeated from the prior audit. Inconsistent implementation of internal controls increases the risk of fraud or error.

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 conditions we identified, as well as our recommendations for improvement.

Recommendation

Management should ensure that these conditions are remedied by the prompt development and consistent implementation of internal controls. 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 university is implementing additional internal controls over the specific areas noted during the audit. Three projects are being undertaken with completion dates of December 2015, January 2016, and June 2016.

2. The university's financial aid office did not take the necessary action to report Pell Payment Data to the Department of Education within the required time frame during the spring semester

Condition

Tennessee State University did not notify the U.S. Department of Education (ED) of Pell disbursements made during the spring 2014 semester by the required deadline.

We reviewed the accounts of 31 students who received Pell Grant funds during the year. For 2 of the 31 student disbursements tested (6%), notification of the disbursement was not made to ED during the required 15-day time frame. Both Pell disbursements were made during the spring 2014 semester.

In response to the results of our test of 31 student records, we performed additional testwork on Pell recipients who attended the university beginning in the spring semester. While the university awarded Pell funds to a total of approximately 4,830 recipients for the audit period, 360 Pell recipients only attended in the spring semester. We reviewed a sample of 25 of those students. Our testwork revealed notifications for 23 of the 25 Pell disbursements tested (92%) were not made timely to ED. The days late ranged from 2 days to 107 days. The average number of days late was 31.

Criteria

According to the 2013-2014 *Federal Student Aid Handbook*, Volume 4, Page 28, a school must submit Federal Pell Grant disbursement records "no later than 15 days after making a disbursement or becoming aware of the need to adjust a student's disbursement."

Cause

Our discussions with the current Associate Director of Financial Aid revealed that the two disbursement notifications were not made timely due to a vacancy in her department at a critical time in the academic year, which resulted in the delayed update of certain parameters in Banner, the student information system.

The former Associate Director of Financial Aid, who is currently employed by the contractor for the university's accounting and student information system, stated that each year around mid-August, a Banner process is written to automatically notify ED daily of registered students who are Pell-eligible (origination phase). This Banner process is also written to automatically notify ED daily after a disbursement of Pell Grants occurs (disbursement phase). However, according to Financial Aid personnel, if the origination phase has not been run on a particular student, the disbursement phase will not occur for that student, and ED will not be notified.

For Pell-eligible students who are enrolled in the fall, the origination data is sent in the middle of August including the Pell award for the entire academic year. However, if a student does not enroll until the spring semester, he or she would not have automatically been included in the origination phase of the Banner process that notifies ED about Pell-eligible students. As a result, according to the Director of Financial Aid, the Banner process must be updated in January of each year to include the spring term code in order to include origination data for any Pell-eligible students who enroll only in the spring semester. However, with the vacancy in the position of Associate Director of Financial Aid from December 2013 through March 2014, the process was not updated until March 2014.

The current Associate Director of Financial Aid stated that around the beginning of March 2014, while completing the reconciliation for February Pell disbursements, she and the former Associate Director of Financial Aid found that ED was not being notified about spring-only Pell recipients. According to the former Associate Director of Financial Aid, when the problem was found, the Banner process was immediately updated to extract Pell students who were only enrolled in the spring semester.

Of the 23 late disbursement notifications found during our testing, 22 were reported on March 7, 2014. The former Associate Director of Financial Aid further stated he has now modified the process in Banner for the upcoming fiscal year so that updating the process for each semester will not be necessary.

Effect

Although TSU staff did correct this problem when found, untimely reporting could result in adverse actions against the university by the U.S. Department of Education.

Recommendation

The Director and Associate Director of Financial Aid should ensure that the indicated changes to the information system result in the timely reporting of Pell disbursements to the U.S. Department of Education. They should also ensure that federal compliance requirements continue to be met when positions are vacated.

Management's Comment

We concur. The Office of Financial Aid identified this issue in early spring, 2014, during the reconciliation process for Pell. We determined that the parameters set for the extract process only pulled students with both fall and spring enrollment, causing spring-only students to be omitted. The parameter inserted in this process was eliminated so that all records would be extracted. This correction has been in place since March of 2014. We are confident that the corrective action we have implemented will ensure all future Pell disbursements are reported in a timely manner to the Department of Education and that federal compliance requirements will continue to be met when positions are vacated.