FISK UNIVERSITY

FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

JUNE 30, 2011

FISK UNIVERSITY

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CROSSLIN &ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Members of the Audit Committee
Board of Trustees
Fisk University
Nashville, Tennessee

We have audited the accompanying balance sheet of Fisk University (the "University") as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's fiscal 2010 financial statements and, in our report dated April 14, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fisk University as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note J to the financial statements, the University sought a declaratory ruling that it has the legal authority to sell certain art of significant value. The art is included in investments in art collections in the financial statements. The ruling was initially delayed by the now unsuccessful attempt to block a sale of the artwork by the Georgia O'Keeffe Museum. The University is party to an agreement which effectuates a sharing arrangement whereby the University would sell a 50% undivided interest in certain art which includes the art for which the ruling was sought. On November 3, 2010, the Davidson County Chancery Court (the "Chancery Court") approved the sharing arrangement, however the ruling provides for certain limitations on the use of the proceeds. On December 1, 2010, the University filed a Notice of Appeal with the Tennessee Court of Appeals regarding this ruling. The University is of the opinion that it has the legal authority to sell the art without the approval of any person or entity, with the use of the proceeds unrestricted. Since the ultimate outcome of this litigation cannot presently be determined, no adjustments, if any, that may result from the resolution of this matter have been made in the financial statements.

Members of the Audit Committee
Board of Trustees
Fisk University

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2011, 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. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Fisk University taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Crosslin & Associates, P.C.

November 7, 2011
Nashville, Tennessee

FISK UNIVERSITY
BALANCE SHEET
JUNE 30, 2011
(with comparative totals for 2010)

ASSETS

	2011	2010
Cash and cash equivalents	$ 958,523	$ 879,032
Restricted cash	1,251,495	1,305,223
Accounts, grants and contributions receivable, less allowance for doubtful accounts and discount	4,178,944	5,812,321
Notes receivable, less allowance for doubtful accounts	346,123	355,507
Prepaid expenses and other assets	717,156	707,077
Investments in marketable securities	5,689,328	4,937,225
Investments in art collections	67,901,495	68,201,495
Real estate held for investment	123,350	123,350
Property and equipment, at cost, net of accumulated depreciation	24,676,800	25,218,320
Total assets	$105,843,214	$107,539,550

LIABILITIES

	2011	2010
Accounts payable and accrued expenses	$ 5,381,063	$ 4,058,688
Deposits	47,375	49,000
Deferred revenue	1,888,809	1,519,348
Capital lease obligations	82,800	144,031
Bank lines-of-credit and note payable	4,279,212	4,394,688
Bonds payable	8,070,000	8,464,519
Advances from Federal government for Perkins loan programs	419,595	394,866
Total liabilities	20,168,854	19,025,140

NET ASSETS

	2011	2010
Unrestricted	68,447,606	71,792,164
Temporarily restricted	4,701,420	4,530,623
Permanently restricted	12,525,334	12,191,623
Total net assets	85,674,360	88,514,410
	$105,843,214	$107,539,550

See accompanying notes to financial statements.

FISK UNIVERSITY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011
(with comparative totals for 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted
Operating activities:			
Revenue and other support:			
Tuition and fees	$ 10,592,138	$ -	$ -
Less scholarships and fellowships	(4,594,818)	-	-
Net tuition and fees	5,997,320	-	-
Governmental grants and contracts	8,124,801	-	-
Private gifts and grants	1,855,266	1,504,319	-
Endowment spending payout	96,279	-	-
Sales and services of auxiliary enterprises	2,821,199	-	-
Other sources	1,038,008	-	-
Net assets released from restrictions	1,827,481	(1,827,481)	-
Total revenue and other support	21,760,354	(323,162)	-
Expenses:			
Instruction	5,658,927	-	-
Research	4,530,090	-	-
Academic support	2,783,792	-	-
Student services	2,601,324	-	-
Institutional support	5,462,960	-	-
Auxiliary enterprises	4,273,221	-	-
Total expenses	25,310,314	-	-
Net decrease in net assets from operating activities	(3,549,960)	(323,162)	-
Non-operating activities:			
Private gifts and grants	-	-	333,771
Net gain on endowment and other investments, net of amount appropriated for endowment spending payout	205,402	493,959	-
Gain on involuntary conversion	-	-	-
Net increase in net assets from non-operating activities	205,402	493,959	333,711
Net (decrease) increase in net assets	(3,344,558)	170,797	333,711
Net assets at beginning of year	71,792,164	4,530,623	12,191,623
Net assets at end of year	$ 68,447,606	$ 4,701,420	$12,525,334

Total	
2011	2010
$ 10,592,138	$ 10,412,034
(4,594,818)	(3,889,647)
5,997,320	6,552,387
8,124,801	7,835,223
3,359,585	2,536,814
96,279	137,200
2,821,199	2,934,271
1,038,008	586,186
-	-
21,437,192	20,552,081
5,658,927	5,664,987
4,530,090	3,853,962
2,783,792	2,822,062
2,601,324	2,319,115
5,462,960	5,709,880
4,273,221	3,970,130
25,310,314	24,340,136
(3,873,122)	(3,788,055)
333,711	266,121
699,361	334,268
-	646,527
1,033,072	1,246,916
(2,840,050)	(2,541,139)
88,514,410	91,055,549
$ 85,674,360	$ 88,514,410

See accompanying notes to financial statements.

FISK UNIVERSITY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011
(with comparative totals for 2010)

	2011	2010
Cash flows from operating activities:		
Change in net assets	$(2,840,050)	$(2,541,139)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	2,683,831	3,074,455
Amortization expense	18,692	18,691
Gain on investments	(717,843)	(365,503)
Gain on sale of art	(604,002)	-
Bad debt expense	484,901	574,060
Endowed gifts reclassified to financing activities	(333,711)	(266,121)
Decrease(increase) in accounts, grants and contributions receivable	1,148,476	(154,593)
Decrease in notes receivable	9,384	38,344
Increase in prepaid expenses and other assets	(28,771)	(30,606)
Increase in accounts payable, accrued expenses and deferred revenue	1,691,836	609,777
Decrease increase in deposits	(1,625)	(17,265)
Net cash provided by operating activities	1,511,118	940,100
Cash flows from investing activities:		
Decrease (increase) in restricted cash	53,728	(10,481)
Net (increase) decrease in investments	(34,260)	231,101
Purchase of property and equipment	(2,142,311)	(1,522,229)
Proceeds from sale of art	904,002	-
Increase in advances from Federal government	24,729	71,145
Net cash used in investing activities	(1,194,112)	(1,230,464)
Cash flows from financing activities:		
Endowed gifts reclassified from operating activities	333,711	266,121
Proceeds from lines-of-credit	-	77,064
Principal repayment of capital lease obligations	(61,231)	(68,278)
Principal repayment of bonds and notes payable	(509,995)	(436,155)
Net cash used in financing activities	(237,515)	(161,248)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	79,491	(451,612)
CASH AND CASH EQUIVALENTS beginning of year	879,032	1,330,644
CASH AND CASH EQUIVALENTS end of year	$ 958,523	$ 879,032
Supplemental disclosure and non-cash investing and financing activities:		
Cash paid for interest	$ 556,547	$ 612,566

See accompanying notes to financial statements.

A. DESCRIPTION OF THE ORGANIZATION

Fisk University (the "University") is a private, not-for-profit, liberal arts institution of higher education affiliated with the United Church of Christ through the American Missionary Association. Founded in 1866, the University offers undergraduate and graduate degrees.

The University is accredited by the Southern Association of Colleges and Schools and is a member of the United Negro College Fund.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements is as follows:

Basis of Accounting

The financial statements of the University have been prepared using the accrual basis of accounting.

Basis of Presentation

The University classifies its revenues, expenses, gains, and losses into three classes of net assets based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the University and changes therein are classified and reported as follows:

> Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.
>
> Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the University and/or the passage of time.
>
> Permanently restricted net assets - Net assets subject to donor-imposed stipulations that the University maintain them permanently. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

The amount for each of these classes of net assets is presented in the balance sheet and the amount of change in each class of net assets is displayed in the statement of activities.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS - Continued

Contributions

The University reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The University reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations regarding how long the long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

In the event a donor makes changes to the nature of a restricted gift, which affects its classification among the net asset categories, such amounts are reflected as reclassifications in the statement of activities.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management’s judgment including such factors as prior collection history, type of contribution and nature of fundraising activity.

Comparative Financial Statements

The summarized financial information shown for fiscal 2010 in the accompanying balance sheet and statement of activities and cash flows is included to provide a basis for comparison with fiscal year 2011. Certain reclassifications have been made to fiscal 2010 amounts to conform to the fiscal 2011 presentation.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS - Continued

Use of Estimates in the Preparation of Financial Statements

Judgment and estimation is exercised by management in certain areas of the preparation of financial statements. The more significant areas include the recovery period for buildings and equipment, the allocation of certain operating and maintenance expenses to functional categories, the collection of contributions receivable, and the allowance for doubtful receivables. Management believes that such estimates have been based on reasonable assumptions and that such estimates are adequate. Actual results could differ from those estimates.

Cash, Cash Equivalents and Restricted Cash

For purposes of the statement of cash flows, the University's cash and cash equivalents include interest-bearing money market accounts and all highly liquid debt instruments with a maturity of less than three months at the date of purchase. Restricted cash balances at June 30, 2011 and 2010, are as follows:

	2011	2010
Bond reserves held by trustee - restricted cash	$1,000,552	$1,106,896
Cash from Federal Perkins loan program	142,076	56,736
Other restricted cash	108,867	141,591
Total restricted cash	$1,251,495	$1,305,223

The University maintains cash balances in financial institutions that it considers to be high quality financial institutions.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value. Investments in art are stated at the most recently available independently appraised values and fair values based upon an agreement to sell certain art (Notes D and J). All gains and losses arising from the sale, collection or other disposition of investments and ordinary income derived from investments are accounted for in the net assets group owning such assets, except for income derived from investments of permanently restricted endowment and similar funds which is accounted for as discussed in Note O.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS - Continued

Property, Buildings and Equipment

Property, buildings and equipment are stated at cost in the accompanying balance sheet or if contributed, at estimated fair value at the time of contribution. It is the University's policy to capitalize expenditures for these items in excess of $5,000. Library holdings have been recorded at actual cost by the University.

Depreciable assets are being depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	40 years
Improvements	15-25 years
Library holdings	10 years
Equipment	3-10 years

Allowance for Doubtful Accounts

Accounts, contributions, and notes receivable are reported net of allowances for doubtful accounts and include receivables from students for tuition and fees and loans extended under the Federal Perkins Loan Program. Perkins funds are disbursed based upon the demonstration of financial need presented by the student. Upon graduation, the students have a nine month grace period on the Perkins loan, at which time the loan will also begin accruing interest. Perkins loan amounts are then repaid through a third party billing service. Student loans are considered past due when payment has not been received in over 30 days. The determination of the allowances for doubtful accounts is based upon an analysis of the receivables and reflects amounts, which in management's judgment, are adequate to provide for potential uncollectible accounts or losses after giving consideration to the growth and composition of the receivable balances, past collection and loss experience and current economic conditions which could influence the ability of loan recipients to repay the amounts per the loan terms. The following allowances are recorded in the accompanying balance sheets:

	2011	2010
Student accounts and grant receivables	$2,902,560	$2,423,780
Federal Perkins and institutional notes receivable	$1,363,680	$1,363,680

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS - Continued

Bond Issuance Costs

The University amortizes deferred bond issuance costs of $376,371 over the twenty-year life of the related bonds using the interest method. The unamortized balances were $153,191 and $171,883 at June 30, 2011 and 2010, respectively, which are included in prepaid expenses and other assets. The total amortization expense was $18,692 for each of the years ended June 30, 2011 and 2010.

Deferred Revenue

Deferred revenue consists of cash receipts collected or billed prior to year-end, for services rendered after year-end. These receipts primarily pertain to upcoming semester fees and unearned grant revenue.

Income Taxes

The University is exempt from Federal and State income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for income taxes has been made in the accompanying financial statements. The University is not classified as a private foundation.

The University accounts for the effect of any uncertain tax positions based on a *more likely than not* threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a *cumulative probability assessment* that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for the University include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax; however, the University has determined that such tax positions do not result in an uncertainty requiring recognition.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS - Continued

Fair Value Measurements

Assets and liabilities recorded at fair value in the balance sheets are categorized based on the level of judgment associated with the inputs used to measure their fair value (Note P). Level inputs, as defined by Financial Accounting Standards Board Accounting Standards Codification (ASC) 820 *Fair Value Measurements and Disclosures*, are as follows:

Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the University's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

C. CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2011 and 2010, (included in accounts and contributions receivable) consisted of the following:

	2011	2010
Unconditional promises expected to be collected in:		
Less than one year	$ 538,378	$ 490,595
One year to five years	842,690	1,131,639
More than five years	1,205,723	1,062,582
	2,586,791	2,684,816
Less allowance for uncollectible pledges and unamortized discount	(490,496)	(531,680)
	$ 2,096,295	$ 2,153,136

D. INVESTMENTS

At June 30, 2011 and 2010, investments, stated at market value, are comprised of the following significant classifications:

	2011	2010
Certificates of deposit and money market funds	$1,258,025	$1,187,593
Corporate stocks	866,224	762,846
Mutual bond and stock funds	3,565,079	2,986,786
	$5,689,328	$4,937,225

At June 30, 2011 and 2010, the University had funds held in trust amounting to $1,268,658 and $1,238,360, respectively. These funds are held by a financial institution for the benefit of the University and have been included in investments.

The return (investment income, gains and losses) on investments in marketable securities was 14.9% and 9.7% based on the average market value of such investments for fiscal years 2011 and 2010, respectively.

The University's collections of art held for investment are stated at the most recently available independently appraised values and the fair values based upon an agreement to sell certain art, executed on September 24, 2007 and remains in effect as of June 30, 2011. Investments in art collections totaled $67,901,495 and $68,201,495 at June 30, 2011 and 2010, respectively (See Note J). The market for art is volatile and it is possible that appraised values could change materially. The collection consists of paintings, photographs, sculptures and various other pieces.

E. PROPERTY, BUILDINGS AND EQUIPMENT

A summary of property and equipment at June 30, 2011 and 2010 are as follows:

	2011	2010
Land and improvements	$ 1,084,190	$ 1,084,190
Buildings	50,146,829	48,777,443
Equipment and furniture	24,071,073	23,655,839
Library books	1,947,126	1,887,029
Construction in progress	984,929	687,335
	78,234,147	76,091,836
Less: Accumulated depreciation	(53,557,347)	(50,873,516)
Property and equipment, net	$ 24,676,800	$ 25,218,320

E. PROPERTY, BUILDINGS AND EQUIPMENT - Continued

Depreciation expense totaled $2,683,831 and $3,074,455 for the years ended June 30, 2011 and 2010, respectively.

In May 2010, the Middle Tennessee area experienced heavy rainfall and flooding which resulted in damage to certain University property. The insurance proceeds received for the replacement and repair of the University's facilities as a result of the flood exceed the impairment of the assets damaged by $646,527, and this gain has been recognized in the financial statements for the year ended June 30, 2010.

The estimated cost to complete construction in progress at June 30, 2011 was approximately $100,000 which relates primarily to the renovation of various campus buildings.

F. BANK LINES-OF-CREDIT AND NOTES PAYABLE

The University has a $1,550,000 line-of-credit with a commercial bank, collateralized by real estate and equipment, bearing interest at the prime rate (3.25% at June 30, 2011) payable monthly and maturing December 15, 2012. The outstanding balance was $1,550,000 at June 30, 2011 and 2010.

The University has a $300,000 line-of-credit with a commercial bank, collateralized by investments, bearing interest at the prime rate, not to be less than 5.5% (5.5% at June 30, 2011), payable monthly. The line-of-credit matures June 20, 2012. The outstanding balance was $299,840 at June 30, 2011 and 2010.

At June 30, 2011 and 2010, the University had a note payable to an investment manager with an outstanding balance of $291,112 and $270,853 respectively, collateralized by certain investments. The note payable bears interest at .75% over the prime rate (4.0% at June 30, 2011) accruing monthly.

At June 30, 2010, the University had a note payable to a financial institution with an outstanding balance of $6,620 collateralized by a vehicle. The note was repaid during fiscal 2011.

The University also has a note payable with a financial institution due in monthly payments of principal and interest of $25,168 through August 2021. The note payable bears interest at 7.47% and is collateralized by real estate. The outstanding balance was $2,138,260 and $2,267,375 at June 30, 2011 and 2010.

F. BANK LINES-OF-CREDIT AND NOTES PAYABLE - Continued

The maturities of bank lines-of-credit and notes payable are as follows:

Year Ending June 30	Amount
2012	$ 447,548
2013	1,709,080
2014	171,379
2015	184,628
2016	198,902
Thereafter	1,567,675
	$4,279,212

G. BONDS PAYABLE

Bonds payable at June 30, 2011 and 2010 consisted of the following:

	2011	2010
Revenue bonds, Series 1998, bearing interest at a rate of 5.99%, paying interest semi-annually and maturing in varying annual principal installments through 2018.	$3,135,000	$3,435,000
Revenue bonds, Series 2000, bearing a variable interest rate, initially at 6% and currently at 3.25% and paying interest semi-annually and maturing in varying annual principal installments through 2020.	4,935,000	5,029,519
	$8,070,000	$8,464,519

The maturities of bonds payable are as follows:

Year Ending, June 30	
2012	$ 315,000
2013	335,000
2014	355,000
2015	380,000
2016	400,000
Thereafter	6,285,000
	$8,070,000

G. BONDS PAYABLE - Continued

1998 Bond Issue

The Series 1998 Revenue bonds were issued by the Health and Educational Facilities Board of the Metropolitan Government of Nashville and Davidson County, Tennessee. The proceeds were loaned to the University and used for construction and renovation of certain buildings of the University. Certain revenues, equipment, land, buildings and improvements of the University collateralize the 1998 bonds. The University is required to make monthly principal and interest payments to the trustee equal to one-sixth of the next semi-annual principal and interest payment. At June 30, 2011 and 2010, $915,367 and $929,970, respectively, were held by the bond trustee for the aforementioned payment, and were classified as cash and cash equivalents in the accompanying balance sheet. The loan agreement contains various covenants. The University was not in compliance with certain covenants and has obtained appropriate waiver related to the 1998 bond issue.

2000 Bond Issue

The Series 2000 Revenue bonds were issued by the Health and Educational Facilities Board of the Metropolitan Government of Nashville and Davidson County, Tennessee. The proceeds were loaned to the University and used for construction and renovation of certain buildings of the University. The 2000 bonds are collateralized by a pledge of the University's revenues and certain land, buildings and improvements of the University. Monthly principal and interest payments are to be made to the bond trustee. At June 30, 2011 and 2010, the trustee held $85,185 and $176,926, respectively, as repayment for the bond obligations. The above funds are classified as cash and cash equivalents in the accompanying balance sheet. The loan agreement contains various covenants. The University was not in compliance with certain covenants and has obtained appropriate waiver related to the 2000 bond issue.

H. CAPITAL LEASE OBLIGATIONS

At June 30, 2011 and 2010, the University had capital lease obligations as follows:

	2011	2010
15.01% capital lease obligation for 2 way radio and repeater system, principal and interest due in monthly installments of $535 through April 25, 2012	$ 4,996	$ 10,219
9.22% capital lease obligation for telephone equipment, principal and interest due in monthly installments of $5,501 through August 19, 2012	77,804	133,812
	$82,800	$144,031

Minimum lease payments on capital lease obligations at June 30, 2011, are as follows:

Year Ending June 30,	
2012	$ 71,357
2013	16,625
	87,982
Amount representing interest	(5,182)
	$ 82,800

I. RETIREMENT PLAN

The University sponsors a defined contribution retirement plan covering employees who meet certain eligibility requirements. The University's contributions to the plan are discretionary. The University contributed $76,961 to the plan for the year ended June 30, 2010. The University made no contribution to the plan during the year ended June 30, 2011.

J. COMMITMENTS AND CONTINGENCIES

In 2004, the University began to explore the sale of two 20^{th} century paintings in its possession believed to be subject to various conditions. Because of these presumed conditions and in order to maximize the value of the paintings, the University sought a ruling from the Chancery Court of Davidson County, Tennessee (the "Chancery Court"), stating that the University has an unfettered right to sell the paintings notwithstanding the requests and various conditions imposed on the art by the donors. This ruling was initially delayed by the now unsuccessful attempt to block the sale by the Georgia O'Keeffe Museum.

Presently, the University is party to an agreement which effectuates a sharing arrangement whereby the University would sell a 50% undivided interest in certain art, including the paintings discussed above, for $30 million to the Crystal Bridges Museum of American Art ("Crystal Bridges") located in Arkansas (the "Sharing Arrangement"). The Sharing Arrangement sets forth the terms and conditions of the parties' mutual ownership and the care and display of the art. Pursuant to a provision of Tennessee law, the Attorney General of the State of Tennessee has objected to this sale.

On November 3, 2010, the Chancery Court approved the University's Sharing Arrangement with Crystal Bridges. The Court's ruling holds that: (i) Fisk may only have the discretionary use of $10 million of the $30 million to be paid by Crystal Bridges to Fisk for the art, and (ii) the remainder of the funds must be placed in an endowment fund with the interest to be used solely for the costs of displaying, maintaining and study of the art.

On December 1, 2010, the University filed a Notice of Appeal with the Tennessee Court of Appeals (the "Court of Appeals") on the basis that the separate endowment to be created under the November 3, 2010 Memorandum and Order was grossly excessive, unnecessary and an abuse of discretion. On December 2, 2010, the Attorney General also filed a Notice of Appeal with the Tennessee Court of Appeals arguing that the Chancery Court's ruling to permit the sharing arrangement between Crystal Bridges and Fisk was legally incorrect and an abuse of discretion. The Tennessee Court of Appeals heard oral arguments from the parties on June 28, 2011. At this time, is impossible to predict when the Tennessee Court of Appeals will issue its decision. Following the issuance of that decision, either party will have the right to appeal to the Tennessee Supreme Court.

The ultimate outcome of this litigation cannot be determined at present. Accordingly, adjustments, if any, which might result from the resolution of this matter have not been reflected in the financial statements.

J. COMMITMENTS AND CONTINGENCIES - Continued

The University is also subject to various other claims and legal actions, which arise, in the ordinary course of business. In the opinion of management, the ultimate resolution of such matters will not have a material adverse effect on the University's financial position or results of operations.

Federal and State Funds

All Federal and State funds received by the University are subject to audit by the applicable governmental agencies and they can assess liabilities against the University, limit, suspend or terminate the University's participation in the various programs. Audits of certain major Federal programs have indicated that the University may not have fully complied with certain regulations governing the administration of certain programs. The ultimate outcome of these matters is not known at this time. However, the University is in the process of responding to the Federal government and believes that the resultant liability or loss of funding, if any, would not be material to its ongoing operations.

Federal Perkins Loan Program

Funds provided by the United States government under the Federal Perkins loan program are loaned to qualified students based on financial need and may be re-loaned after collection. If the program had been liquidated, the potential liability under this program to the Federal government would be $419,595 and $394,866 as of June 30, 2011 and 2010, respectively.

Collective Bargaining Agreement

The University has a collective bargaining agreement covering certain of its full-time, regular clerical and technical employees.

K. NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTIONS

Temporarily restricted net assets of $4,701,420 and $4,530,623 at June 30, 2011 and 2010, respectively, were available for instruction, research, institutional support and scholarships. Permanently restricted net assets of $12,525,334 and $12,191,623 at June 30, 2011 and 2010, respectively, consist of endowment funds whose income is to be used to fund scholarships and general educational support.

During the years ended June 30, 2011 and 2010, net assets of $1,827,481 and $944,939, respectively were released from donor restrictions by incurring costs and expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Substantially all temporarily restricted net assets released from restrictions in 2011 and 2010 were for operations, scholarships and grant activities.

L. FUNCTIONAL ALLOCATION OF EXPENSES

During the years ended June 30, 2011 and 2010, the University allocated the cost of certain professional fees and the operation and maintenance of physical plant, including depreciation expense of $2,683,831 and $3,074,455, respectively, over the cost of providing instruction, research, academic support, institutional support and auxiliary enterprises as follows:

	2011	2010
Instruction	$1,299,003	$1,097,319
Research	843,509	705,419
Academic support	1,206,218	1,018,939
Student services	868,814	741,046
Institutional support	1,180,912	997,563
Auxiliary enterprises	3,036,631	2,565,161
Total operation and maintenance of physical plant	$8,435,087	$7,125,447

Interest expense totaling $547,562 and $604,180 for fiscal 2011 and 2010, respectively, has been included and allocated in the above amounts.

M. FUNDRAISING AND ADVERTISING EXPENSES

During the years ended June 30, 2011 and 2010, the University incurred fundraising expenses by its development and alumni offices, of $684,109 and $632,373, respectively.

The University also incurred advertising cost in the amounts of $9,956 and $7,610 for the years ended June 30, 2011 and 2010, respectively.

N. LEASES

The University leases certain equipment under non-cancelable operating leases which expire at various dates through November 2014. Rent expense under these lease arrangements amounted to $27,843 and $25,111 for the years ended June 30, 2011 and 2010, respectively.

Future minimum rental payments required under operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2011, are as follows:

Year Ending June 30,	Amount
2012	$27,843
2013	27,843
2014	16,766
2015	4,852
	$77,304

O. ENDOWMENT

The University's endowment consists of individual donor-restricted funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the University has interpreted the applicable state laws as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classified as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard

O. ENDOWMENT - Continued

of prudence prescribed by applicable state laws. In accordance with applicable state laws, the University, considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the University and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the University
- The investment policies of the University

Changes in Endowment Net Assets

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2009	$ 216,239	$ 11,925,502	$ 12,141,741
Investment return:			
Investment income	76,541	-	76,541
Net appreciation (realized and unrealized)	264,017	-	264,017
Total investment return	340,558	-	340,558
Contributions	-	266,121	266,121
Appropriation of endowment assets for expenditure (scholarships and fellowships)	(137,200)	-	(137,200)
Endowment net assets, June 30, 2010	419,597	12,191,623	12,611,220
Investment return:			
Investment income	57,713	-	57,713
Net appreciation (realized and unrealized)	532,526	-	532,526
Total investment return	590,239	-	590,239
Contributions	-	333,711	333,711
Appropriation of endowment assets for expenditure (scholarships and fellowships)	(96,279)	-	(96,279)
Endowment net assets, June 30, 2011	$ 913,557	$ 12,525,334	$ 13,438,891

O. ENDOWMENT - Continued

Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested with the objective of outperforming the S&P 500 by 50 basis points per annum, net of fees, with comparable or lower risks. The University expects its endowment funds, over time, to provide an average rate of return of at least 4% above inflation. Actual returns in any given year may vary from this amount. At June 30, 2011 and 2010, endowment assets consist of investments in marketable securities and certain investments in art collections.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The University's current policy of appropriating for distribution annually from its endowment funds is at the discretion of the Board of Trustees, based on each years' institutional objectives, not to exceed 6% of the previous 12-calendar quarter's average market values. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average rate of 1% to 3% annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

P. FAIR VALUE OF FINANCIAL INSTRUMENTS

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on the University's assessment of available market information and appropriate valuation methodologies. The following table summarizes required fair value disclosures and measurements at June 30, 2011 and 2010:

				Fair Value Measurements at Reporting Date Using		
	Carrying Amount	Estimated Fair Value	Measured at Fair Value	(Level 1)	(Level 2)	(Level 3)
2011:						
Assets:						
Investments in marketable securities:						
Certificates of deposit and money market funds	$1,258,025	$1,258,025	$1,258,025	$1,258,025	$ -	$ -
Corporate stocks	866,224	866,224	866,224	866,224	-	-
Mutual bond and stock funds	3,565,079	3,565,079	3,565,079	3,565,079	-	-
	5,689,328	5,689,328	5,689,328	5,689,328	-	-
Investments in art collections	67,901,495	67,901,495	67,901,495	-	-	67,901,495
Real estate held for investment	123,350	123,350	123,350	-	-	123,350
Liabilities:						
Bank lines-of-credit and note payable	4,279,212	4,746,928	-	-	-	-
Bonds payable	8,070,000	8,535,140	-	-	-	-

P. FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

	Carrying Amount	Estimated Fair Value	Measured at Fair Value	Fair Value Measurements at Reporting Date Using (Level 1)	(Level 2)	(Level 3)
2010:						
Assets:						
Investments in marketable securities:						
Certificates of deposit and money market funds	$1,187,593	$1,187,593	$1,187,593	$1,187,593	$ -	$ -
Corporate stocks	762,846	762,846	762,846	762,846	-	-
Mutual bond and stock funds	2,986,786	2,986,786	2,986,786	2,986,786	-	-
	4,937,225	4,937,225	4,937,225	4,937,225	-	-
Investments in art collections	68,201,495	68,201,495	68,201,495	-	-	68,201,495
Real estate held for investment	123,350	123,350	123,350	-	-	123,350
Liabilities:						
Bank lines-of-credit and note payable	4,394,688	4,927,818	-	-	-	-
Bonds payable	8,464,519	8,914,631	-	-	-	-

Changes in Level 3 assets for the year ended June 30, 2011 are as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Investments in Art Collection
Balance as of June 30, 2010	$ 68,201,495
Sales	(300,000)
Balance as of June 30, 2011	$ 67,901,495

There were no changes in Level 3 assets for the year ended June 30, 2010.

P. FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash, cash equivalents and restricted cash, receivables, accounts payable and accrued expenses, deferred revenue and advances from the Federal government

The carrying values of these items approximate their fair values due to the short maturities of these instruments.

Investments in marketable securities, art collections and real estate

Fair values are based on quoted market prices, where available, and on Level 3 inputs. The carrying amounts and the fair values of the University's investments are presented in Note D.

Bank lines-of-credit, note payable and bonds payable

For debt instruments with variable interest rates, the fair value approximates the carrying value. For fixed rate debt, fair value was estimated using discounted cash flow analyses based on the University's current incremental borrowing rates for similar types of borrowing arrangements.

Q. CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the University to concentrations of credit risk consist principally of cash and investments held by the University. Cash at June 30, 2011, includes demand deposits at high quality financial institutions. The deposits possess credit risk to the extent they exceed federally insured limits; however, the University does not anticipate nonperformance by the various financial institutions and investees. The exposure to concentrations of credit risk relative to securities is dependent on the University's investment objectives and policies. An accounting risk also extends to receivables, net of allowances, which are uncollateralized.

R. LIQUIDITY

As reflected in the financial statements for the years ended June 30, 2011 and 2010, the University experienced cash flow challenges and decreases in net assets of $2,840,050 and $2,541,139, respectively. The University has implemented several strategic initiatives to increase cash flow and net assets including various development and fund-raising programs, marketing and recruitment plans to increase enrollment, extension of the lines-of-credit and the sale of certain tracts of land owned by the University which was approved by the Board of Trustees in fiscal 2006.

S. SUBSEQUENT EVENTS

The University has evaluated subsequent events through November 7, 2011, the issuance date of the University's financial statements, and have determined there are no subsequent events that require disclosure.

SUPPLEMENTAL INFORMATION

FISK UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Grantor/Pass-Through Grantor/Program Title	CFDA Number	Expenditures
***Research and Development Cluster**		
National Oceanic and Atmospheric Administration (NOAA)		
Educational Partnership Program (NC A&T)	11.481	$ 63,631
Total National Oceanic and Atmospheric Administration		63,631
U.S. Department of Defense		
Meharry subcontract in prostate cancer military research	12.420	2,914
U.S. Army-Novel Catalyst Developments	12.431	182,950
U.S. Army Development of Infrastructure	12.431	421,846
U.S. Army	12.431	900
		605,696
Total U.S. Department of Defense		608,610
National Aeronautics and Space Administration		
AFOSR - Making Zero - Energy Logic	43.001	53,265
AirForce Clarkson - Sensors research	43.001	20,761
Vanderbilt subcontract in space grant college and fellowship	43.001	33,321
Clarkson Aerospace Corp	43.001	6,556
Total National Aeronautics and Space Administration		113,903

* - denotes major program

The accompanying notes are an integral part of this schedule.

FISK UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued
YEAR ENDED JUNE 30, 2011

Grantor/Pass-Through Grantor/Program Title	CFDA Number	Expenditures
National Science Foundation		
I^3	47.041	$ 64,856
ARI - MA	47.041	179,082
U.C. Davis	47.041	47,550
Spectralsight	47.041	54,414
		345,902
Case Western University	47.049	219,359
NSF Computational Study of Reaction Mech.	47.049	34,768
GO-FARR	47.049	377,939
IRES	47.049	52,901
		684,967
CREST - Crystal Growth Energy	47.076	1,077,172
HBCU Target Infusion	47.076	2,390
Career Grant ARRA (American Recovery and Reinvestment Act)	47.076	39,573
		1,119,135
Total National Science Foundation		2,150,004
U.S. Department of Energy		
NREL subcontract - development of Quantum Dept - sensitized ZNO and ti02 nanorod array solar cells	81.087	3,516
BWXT - Y-12 - Cryogenic Neutron	81.113	70,406
Livermore New Materials	81.113	25,883
IIT - Purification and Growth of Heavy Metal	81.113	47,460
UTK - Nuclear Science and Security Consortium	81.113	26,207
Washington Savannah River Co	81.113	18,741
NNSA - Investigation of Purity Crystalline Perfect and Growth Yield of Strontium Iodine Crystals	81.113	123,836
		312,533
Massie - Chair of Excellence Professorship	81.123	219,928
Total U.S. Department of Energy		535,977
U.S. Department of Health and Human Services		
UT/PBT Chemicals Community Awareness	93.114	22,183
Laboratory Reviewing Research and Training	93.859	21,974
Total U.S. Department of Health and Human Services		44,157

The accompanying notes are an integral part of this schedule.

FISK UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued
YEAR ENDED JUNE 30, 2011

Grantor/Pass-Through Grantor/Program Title	CFDA Number	Expenditures
U.S. Department of Homeland Security		
System Approach to Cd ZnTe Material and Detector Development	97.077	$ 311,095
WUSTL Subcontract	97.077	69,980
Total U.S. Department of Homeland Security		381,075
Total Research and Development Cluster		3,897,357
***Student Financial Aid Cluster**		
U.S. Department of Education		
Federal Supplemental Education Opportunity Grants	84.007	247,355
Direct Loans	84.268	5,765,039
Federal Perkins Loans	84.038	1,709,801
Federal Work Study	84.033	314,868
Federal Pell Grants	84.063	1,528,224
ACG Grants	84.375	9,538
SMART Grants	84.376	8,000
Total U.S. Department of Education		9,582,825
Total Student Financial Aid Cluster		9,582,825
Other Federal Programs		
U.S. Department of the Interior		
***HBCU Historic Preservation Grant - ARRA**	15.932	942,647
***HBCU Historic Preservation Grant**	15.932	98,125
Total U.S. Department of the Interior		1,040,772

* - denotes major program

The accompanying notes are an integral part of this schedule.

Grantor/Pass-Through Grantor/Program Title	CFDA Number	Expenditures
Development of Justice		
University of Massachusetts Subcontract	16.582	$ 3,359
Total Department of Justice		3,359
U.S. Department of Education		
Special Education	84.027A	213,697
***Title III Strengthening Historically Black Colleges and Universities Program (HBCU)**	84.031	1,409,154
Student Support Services	84.042	184,016
Biotechnology Teaching Laboratory	84.120A	11,338
***HBCU Graduate**	84.382G	334,896
***TSU Sites - M-ARRA**	84.395A	334,862
Total U.S. Department of Education		2,487,963
Department of Health and Human Services		
Morehouse subcontract in substance abuse and mental health services	93.243	4,563
Total Department of Health and Human Services		4,563
Total Expenditures of Federal Awards		$17,016,839

* - denotes major program

The accompanying notes are an integral part of this schedule.

A. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non*-Profit *Organizations*, on the accrual basis of accounting.

B. PERKINS LOANS (CFDA NO. 84.038)

The University administers the Perkins loan program. This loan program is part of the student financial aid program cluster for reporting purposes and related loan balances are reported in notes receivable, net, in the financial statements. The outstanding balance of Perkins loans at June 30, 2011, was:

	CFDA Number	Outstanding Balance
Federal Perkins Loans	84.038	$1,709,801

C. FEDERAL DIRECT LOANS (CFDA NO. 84.268)

During the fiscal year ending June 30, 2011, the University processed the following amount of new loans under the Federal Direct Loans program (which includes subsidized and unsubsidized Stafford Loans, and Parents' Loans for Undergraduate Students):

	CFDA Number	Disbursements
Federal Family Education Loans	84.268	$5,765,039

D. ADMINISTRATIVE COSTS AND MATCHING

The University has received a waiver from the U.S. Department of Education and is not required to provide an institutional matching for certain Title IV programs.

The University is allowed to take up to 5% of campus-based programs as an administrative allowance.

CROSSLIN
&ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' 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*

Members of the Audit Committee
Board of Trustees
Fisk University
Nashville, Tennessee

We have audited the financial statements of Fisk University, (the "University"), as of and for the year ended June 30, 2011, and have issued our report thereon dated November 7, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in Section II of the accompanying schedule of findings and questioned costs (Items IC-11-1 through IC-11-5) to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Section II of the accompanying schedule of findings and questioned costs as item IC-11-2.

We noted certain matters that we reported to management of the University in a separate letter dated November 7, 2011.

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the University's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, management, Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Crosslin & Associates, P.C.

November 7, 2011
Nashville, Tennessee

CROSSLIN & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Members of the Audit Committee
Board of Trustees
Fisk University
Nashville, Tennessee

Compliance

We have audited Fisk University's (the "University") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2011. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

As described in items CF-11-1 and CF-11-2 in Section III of the accompanying schedule of findings and questioned costs, the University did not comply with certain requirements regarding return of funds and requests for reimbursement applicable to the Federal Student Financial Aid (SFA) cluster. Compliance with such requirements is necessary, in our opinion, for the University to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The results of our audit procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items CF-11-3 and CF-11-4.

Internal Control Over Compliance

The management of Fisk University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items IC-11-2 and CF-11-1 and CF-11-2 to be material weaknesses.

Members of the Audit Committee
Board of Trustees
Fisk University

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the University's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, management, Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than theses specified parties.

Crosslin + Associates, P.C.

November 7, 2011
Nashville, Tennessee

I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _X_ Yes ___ No
- Significant deficiency(ies) identified? ___ Yes _X_ None Reported

Noncompliance material to financial statements noted? _X_ Yes ___ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _X_ Yes ___ No
- Significant deficiency(ies) identified? ___ Yes _X_ None Reported

Type of auditors' report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _X_ Yes ___ No

Major Programs

CFDA Number	Grantor	Name of Federal Program	Amount Expended
Various	Various	Research and Development Cluster	$3,897,357
Various	Department of Education	Student Financial Aid Cluster	9,582,825
84.031	Department of Education	Title III - Strengthening HBCU Program	1,409,154
84.382G	Department of Education	HBCU Graduate	334,896
84.395A	Department of Education	TSU Sites - M-ARRA	334,862
15.932	Department of the Interior	HBCU Historic Preservation Grant - ARRA	942,647
15.932	Department of the Interior	HBCU Historic Preservation Grant	98,125

Dollar threshold used to distinguish between type A and type B program $300,000

Auditee qualified as low-risk auditee ___ Yes _X_ No

II. FINANCIAL STATEMENT FINDINGS

ITEM #IC 11-1

ACCOUNTING SYSTEM, FISCAL MANAGEMENT AND ACCOUNTING DISCIPLINE

<u>Criteria, Condition, Context, Cause and Effect</u>

In general, an accounting and information system should provide management with accurate and timely financial information to enable well-informed business decisions to be made. The University's system did not function properly during fiscal 2011 and therefore, did not meet these expectations. This was due to various reasons including the departure of the University's chief financial officer during the year. Certain accounting functions, such as proper maintenance and review of the general ledger and reconciliations of various major asset and liability accounts, were not consistently performed during the year weakening internal controls and making interim financial information unavailable or possibly inaccurate. Problems in receiving timely and accurate financial information can significantly impact management's ability to effectively guide an organization. Critical areas such as financial analysis, budgetary control, and cash flow can all be impacted. Government funding, the obtaining of grants, contributions and banking relationships can also be jeopardized by the lack of timely and accurate financial information and the lack of communication. There was a lack of consistent review and reconciliation in many areas of the accounting and finance functions. We noted instances where accounting tasks such as monthly reconciliations of accounts and subsidiary ledgers to the general ledger, preparation of supporting schedules and journal entries, period end closings, cross checks, and reviews which play a key role in proving the accuracy of accounting data and financial information that comprise interim and year-end financial statements were not performed, performed incorrectly or were not performed in a timely manner. We encountered various instances where audit schedules and support provided by accounting staff did not reconcile with what was recorded in the general ledger. A lack of understanding of certain processes and the functionality of the University's accounting software (Banner) has contributed to these deficiencies. These instances affected many major asset, liability and net asset accounts such as:

- Cash
- Receivables (government receivables, student accounts and pledges)
- Property and equipment
- Payables and accrued expenses
- Deferred revenue
- Proper recognition of tuition, auxiliary revenue and grant revenue
- Recording of various revenues and expenses to their proper accounts

II. FINANCIAL STATEMENT FINDINGS - Continued

ITEM #IC 11-1 - Continued

We understand that certain personnel changes and additions have been made by the University near the end of fiscal 2011 and subsequent to year-end. These personnel are in the process of implementing changes to the system and assure existing processes are operating as designed by the University. We have not yet been able to test and evaluate the effectiveness of these accounting changes and procedures.

Recommendation and Benefit

We recommend that the University monitor and improve the accounting and information systems, implement proper accounting procedures and assure personnel are in place that will facilitate the production of accurate financial information, and provide for accountability of assets and the maintenance of an accurate historical record of operations. Accounting and financial information is the language of business and must be properly assessed and comprehended in a timely manner in order to allow management to guide and direct the University into the future. The following are recommendations, which if implemented, can help move the University toward these goals:

- Continuing training of accounting staff in the use of the various accounting software functions (Banner).
- Development of a well-structured accounting policies and procedures manual that defines proper procedures and documentation for the various accounting processes, reconciliations and review.
- Properly trained and supervised accounting staff and a fiscal management team with the authority to assure that the proper procedures and internal controls are in place and are consistently followed.
- Continue to improve communication and exchange of financial and student information between departments in a timely manner.
- Assess staffing levels to ensure that they are at an appropriate level to perform critical accounting procedures in a timely manner.

Management's Response

Management agrees with the above recommendations. However, we note that in the scant two and a half months since the auditor's last finding, we have implemented the following corrective actions through the end of FY 2011:

(1) Migrated to the latest version of the Banner Management System, five days ahead of schedule, and under budget, on August 8, 2011. In the following months, with support from outside consultants, Fisk successfully migrated the FY 2010 financial data into the new version of the management system.

II. FINANCIAL STATEMENT FINDINGS - Continued

ITEM #IC 11-1 - Continued

Management's Response - Continued

(2) Hired an experienced former CFO with CPA credentials to serve as Bursar/Budget Director. However, before the final week of closing the audit, our Comptroller resigned without notice. This unplanned for event increased the pressure on the staff to maintain the quality of the oversight of finance and accounting information.

More training of front end staff is required for optimal quality and integrity of financial information. However, we have hired two new professionals, the Registrar and the Dean of Student Engagement, both of whom have proven Banner expertise. During FY 2012, training will go beyond introductory Banner sessions convened in August and have been scheduled for accounting and finance staff, payroll, human resources, and grant and sponsored research administrators. They will receive hands-on training. The sponsored research team completed a Banner workshop in October and training sessions will continue through December of 2011.

Formal coordination sessions conducted among management staff working in the Offices of Business and Finance, Registrar, Financial Aid, Student Engagement, and Information Technology, will be overseen by the President's Leadership Team to ensure that unresolved issues of coordination and decision making, which shapes policy and decision making, will be made in a timely fashion. Finally, the daily exchanges among departments to solve problems, report information of critical misconnects to all offices, and identify compliance issues and solve student complaints will continue.

II. FINANCIAL STATEMENT FINDINGS - Continued

ITEM #IC 11-2

GRANT AND CONTRACT ACCOUNTING

Criteria, Condition, Context, Cause and Effect

Although ultimately resolved and corrected by the University, we encountered substantial errors in the University's schedule of expenditures of Federal awards and related internal grant rollforward schedule. The primary reason for these errors appears to be a lack of understanding of how the University's software system (Banner) generates certain grant data and the operation of the grant module as is integrates with the general ledger to produce certain reports. Also, there was not consistent reconciliation and review of grant data input into Banner with the information produced by the system.

Recommendation and Benefit

We recommend that the University evaluate the accounting processes for reconciliation and review of grant activity and assure personnel have adequate training on Banner to ensure grant activity is accurately recorded and reported.

Management's Response

Management agrees with the finding and will continue using a comprehensive federal grant and award schedule. This schedule was uploaded into Banner 8 on September 7, 2011 and has been fully implemented. We will continue to provide Banner training for the grants management staff and will evaluate training outcomes. Where warranted, we will reassign personnel as training evaluation is collected and reviewed.

II. FINANCIAL STATEMENT FINDINGS - Continued

ITEM #IC 11-3

CASH RECONCILIATIONS

Criteria, Condition, Context, Cause and Effect

During the audit, we noted that bank statements for certain accounts of the University were reconciled, however the general ledger was not properly adjusted for these accounts on a timely basis. Bank reconciliations are an effective measure of internal control over cash. The risk of not identifying cash errors and possible misappropriation related to cash is greatly increased when cash accounts are not reconciled timely.

Recommendation

We recommend that all bank accounts be reconciled monthly by the University and that all unusual reconciling items be promptly investigated, adjusted and documented with adequate explanations. This will help reduce the likelihood of cash errors and misappropriation, and provide for more timely and accurate financial information, as well as assist in the effective management of cash flow.

Management's Response

Management agrees with this finding and recommendation and will adhere to the procedure, which sets a five day timeline for obtaining documentation and supervisory approval to make adjustments to the general ledger. We will hold supervisors and staff accountable for meeting the timeline and supplying adequate documentation as outlined in the procedure. The CFO or his designee will conduct a monthly performance review of each member of the staff to ensure compliance.

II. FINANCIAL STATEMENT FINDINGS - Continued

ITEM #IC 11-4

REVIEW OF GENERAL LEDGER

Criteria, Condition, Context, Cause and Effect

During our audit, it was noted that while there was documentation of management's review and approval of journal entries prior to their posting to the general ledger, many entries were ultimately improperly posted, or posted to incorrect accounts in the general ledger, demonstrating a lack of monthly general ledger review. This could lead to misclassification of financial statement amounts, as well as allow possible errors or misappropriation to exist.

Recommendation and Benefits

We recommend that management review the general ledger monthly, to identity unusual balances and mispostings of entries that could have a material impact on financial reporting.

Management's Response

Management agrees with the finding and will continue to train the grants coordinator, payroll coordinator, senior accountant and the comptroller on the procedure for collecting and preparing accurate and timely information for journal entry. The comptroller will review all documentation prior to posting to the general ledger. The CFO or his designee will perform a monthly review of all posted journal entries to ensure GL accounts are reconciled accurately and timely. Each of these individuals will be required to enhance their training on the Banner Finance Module through formal professional development sessions. At a recent Banner workshop conducted by Fisk's Banner System Manager, she observed that in some instances not all steps necessary to execute financial processes properly were being utilized. These professional development sessions will address these deficiencies.

II. FINANCIAL STATEMENT FINDINGS - Continued

ITEM #IC 11-5

PROPERTY AND EQUIPMENT

Criteria, Condition, Context, Cause and Effect

We noted the University expensed certain fixed assets purchased during the year and made adjustments during the audit process to capitalize these fixed assets. Failure to capitalize fixed asset additions as they are acquired understates assets and depreciation expense, and distorts interim financial statements and information made available to management throughout the year. It also provides for the possibility that all capital assets will not be properly identified and capitalized at year-end.

Recommendation

We recommend that the University properly evaluate and capitalized all fixed assets as they are acquired throughout the year and calculate depreciation accordingly.

Management's Response

Management agrees with the finding. Moreover, on September 7, 2011, management uploaded the schedule into the Fixed Assets portion of Banner. Staff in the Office of Accounting and Finance will be trained to properly execute all processes associated with fixed assets, including capitalizing fixed assets during this fiscal year and going forward. The University will properly capitalize, maintain and reconcile its fixed assets on a timely basis.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS - Continued

ITEM # CF 11-1

Federal Student Financial Aid Cluster
CFDA No. 84.007, 84.033, 84.038, 84.063, 84.268, 84.375, 84.376
U.S. Department of Education

Criteria

Upon a student's withdrawal from the University, the University must determine whether return of Title IV funds to the program or lender is required, and if so, make the appropriate refunds within the required timeframe (45 days) established by the U.S. Department of Education (DOE).

Condition and Context

Although calculated and returned by the University, the return of Title IV funds for four of thirteen students tested who officially withdrew, were not made within the require time frame (45 days). In addition, there was one student who withdrew for which there was no refund calculation performed by the University.

Questioned Cost

Known questioned costs totaled $1,499.

Cause

The University was not consistently following its policy of calculating and returning Title IV funds to the appropriate program or lenders within the timeframes established by the DOE.

Effect

The University was not in compliance with the requirements to timely return Title IV funds to the program or lender.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS - Continued

ITEM # CF 11-1 - Continued

Federal Student Financial Aid Cluster
CFDA No. 84.007, 84.032, 84.033, 84.038, 84.063, 84.375, 84.376
U.S. Department of Education

Recommendation

The University should consistently follow its policies and procedures relating to the timely return of Title IV funds for students who officially and unofficially withdraw from the University, to assure that Title IV refunds are calculated and returned to the appropriate programs and/or lenders within the required time period after each student's withdrawal.

Management's Response

Management agrees that of the thirteen students officially withdrawn who were tested for Title IV refunds, the funds of four students were not returned timely.

A second finding in Condition and Context reports that for one student who withdrew, no refund calculation was performed by the University. We agree that the University failed to perform the timely refund calculation and payment for this student. The University returned the $1,499 to the U.S. Department of Education as soon as the auditor identified the lapse to a member of the Financial Aid staff, as the COD report substantiates.

We have hired a new director of financial aid who has oversight for the Title IV program in fiscal year 2011-2012. The new director is an experienced financial aid director with over 23 years of significant management and Banner experience.

In order to manage the Title IV Program fund for fiscal year 2011-2012, the University has developed a student withdrawal monitoring process using Banner web, which timely notifies the Registrar, Dean of Students, all Financial Aid staff, and the Office of Student Accounts by weekly flagging all potential Title IV returns. The report will include a summary of all students who dropped all courses, were withdrawn for judicial sanction, and whether the student has officially withdrawn and the record is reflected in Banner. This report contains student name, withdrawal date, and calls out all Title IV funds drawn down as an additional control and accountability measure. Additionally, monthly reconciliations of withdrawn students will occur between the Office of Financial Aid, the Office of the Dean of Students and the Office of the Registrar.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS - Continued

ITEM # CF 11-2

Federal Student Financial Aid Cluster
CFDA No. 84.033
U.S. Department of Education

Criteria

The University submits payroll data for reimbursement under the Federal Work Study program.

Condition and Context

It was determined that the University inadvertently submitted a request for drawdown of Federal Work Study funds twice for October 2010 payroll.

Questioned Cost

None.

Cause

Through administrative oversight, the University did not properly monitor and submit requests for drawdown of Federal Work Study funds.

Effect

The University erroneously requested and received reimbursement for a duplicate payroll.

Recommendation

We recommend that the University consistently adhere to the requirements for reimbursement under the program and assure management adequately reviews all requests for reimbursement and drawdown of funds.

Management's Response

Management agrees with the finding and will implement the recommendation with the following corrective actions: (1) ensure that future drawdowns are performed by one individual and reviewed by another with the authority to review, the training to identify and correct errors, and be held accountable for failure to comply and (2) ensure that subsequent drawdowns match expenses.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS - Continued

ITEM # CF 11-3

HBCU Historic Preservation Grant (ARRA)
CFDA No. 15.932
U.S. Department of the Interior

Criteria

Under the terms of the grant agreement, the University is require to assure and document that materials and manufactured goods used in the project are produced in the United States.

Condition and Context

The University was unable to provide us with documentation obtained from the subcontractor that materials and manufactured goods used in the project were produced in the United States.

Questioned costs

None.

Cause

The above finding resulted from the University not being aware of this provision within the grant agreement.

Effect

The University was not in compliance with the provisions of the program regarding the requirement to document that materials and manufactured goods used in the project were produced in the United States.

Recommendation

We recommend that the University establish policies and procedures to ensure all compliance requirements per the grant agreements are adhered to by the University.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS - Continued

ITEM # CF 11-3

Management's Response

Management agrees with this finding and agrees partially with this recommendation. The University bears responsibility for the selection of appropriate contractors for all of its projects and for knowledge of all regulations, requirements and/or stipulations accompanying any sponsored contract. The general contractor, however, is also responsible. We maintain that it was the responsibility of the general contractor to ensure that products made in the U.S.A. were used "whenever practicable"[1] and that said understanding was acknowledged when the University contract, Davis-Bacon agreement and other related instruments were signed by the contractor to commence work on the project. Subsequent to the auditors' meeting with the director of facilities, the contractor provided the University with a letter certifying that products used in the restoration of the John Wesley Work Home were made in the United States. Fisk University will, however, ensure that all principal investigators who are involved in construction, restoration or related projects, as well as, contractors and sub-contractors are informed of all regulations and requirements governing such projects.

[1] Davis-Bacon Agreement regulations and contract requirements

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS - Continued

ITEM #CF 11-4

HBCU Graduate
CFDA No. 84.382G
U.S. Department of Education

Criteria

Program disbursements for payroll/stipends should be made in accordance with amounts established under the program. Payroll/stipends under the program are documented in personnel action forms (PAF) and submitted to the University's human resources department along with the stipend distribution list for the program to indicate the amount of the payment each participating student is to receive under the program.

Condition and Context

For two of forty program expenditures selected for testing the participating student was not paid the amount that was indicated in the personnel action forms and stipend distribution listing as submitted to the human resources department for the program.

Questioned Costs

None

Cause

The participating students were paid the appropriate amounts, however, through administrative oversight, the PAF's and stipend distribution listing originally submitted to human resources, were not properly amended to reflect changes in the stipend amounts.

Effect

The stipends paid to these participating students were not properly documented in the information maintained in the human resources department.

Recommendations

We recommend that the University establish procedures to assure that accurate documentation for stipends is maintained.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS - Continued

ITEM #CF 11-4

Management's Response

Management agrees with the finding that monthly Personnel Action Forms for two HBCU Grant graduate students were not properly amended in August 2010.

On November 1, 2010, management revised the existing procedure to ensure accurate documentation of stipends. A Monthly Stipend Disbursement List was developed and communicated to Payroll to improve the existing semester Personnel Action Form. In discussions with the auditors, we have learned that Human Resources should receive a copy as well, as a further control, to ensure accurate stipend information for graduate students.

In the eight months since the implementation of this enhancement of documentation, no concerns regarding graduate student stipends have been identified. We have distributed a memo to Human Resources earlier this month and will continue this practice.

PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

ITEM #IC 10-1

ACCOUNTING SYSTEM, FISCAL MANAGEMENT AND ACCOUNTING DISCIPLINE

Criteria, Condition, Context, Cause and Effect

In general, an accounting and information system should provide management with accurate and timely financial information to enable well-informed business decisions to be made. The University's system did not function properly during a portion of fiscal 2010 and therefore, did not meet these expectations. This was due to various reasons including the departure of the University's comptroller during the year and the inability of the University to fill this position for several months. Certain accounting functions, such as proper maintenance of the general ledger and reconciliations of various major asset and liability accounts, were not performed during this period weakening internal controls and making interim financial information unavailable or possibly inaccurate. Problems in receiving timely and accurate financial information can significantly impact management's ability to effectively guide an organization. Critical areas such as financial analysis, budgetary control, and cash flow can all be impacted. Government funding, the obtaining of grants, contributions and banking relationships can also be jeopardized by the lack of timely and accurate financial information and the lack of communication. There was a lack of review and reconciliation in many areas of the accounting and finance functions. We noted instances where accounting tasks such as monthly reconciliations of accounts and subsidiary ledgers to the general ledger, preparation of supporting schedules and journal entries, period end closings, cross checks, and reviews which play a key role in proving the accuracy of accounting data and financial information that comprise interim and year-end financial statements were not performed, performed incorrectly or were not performed in a timely manner. We encountered various instances where audit schedules and support provided by accounting staff did not reconcile with what was recorded in the general ledger. A lack of understanding of certain processes and the functionality of the University's accounting software (Banner) has contributed to these deficiencies. These instances affected many major asset, liability and net asset accounts such as:

- Cash
- Receivables (Perkins loans, government receivables, student accounts and pledges)
- Property and equipment and related depreciation
- Payables and accrued expenses
- Net asset categories for unrestricted, temporarily restricted and permanently restricted net assets
- Proper recognition of tuition and grant revenue
- Recording of various revenues and expenses to their proper accounts

PRIOR AUDIT FINDINGS AND QUESTIONED COSTS - Continued

ITEM #IC 10-1 - Continued

We understand that certain personnel additions, as well as, the implementation of accounting procedures near the end of fiscal 2010 and subsequent to year-end should significantly improve the system and assure existing processes are operating as designed by the University. We have not yet been able to test and evaluate the effectiveness of these accounting procedures.

Recommendation and Benefit

We recommend that the University monitor and improve the accounting and information systems, implement proper accounting procedures and assure personnel are in place that will facilitate the production of accurate financial information, and provide for accountability of assets and the maintenance of an accurate historical record of operations. Accounting and financial information is the language of business and must be properly assessed and comprehended in a timely manner in order to allow management to guide and direct the University into the future. The following are recommendations, which if implemented, can help move the University toward these goals:

- Continuing training of accounting staff in the use of the various accounting software functions (Banner).
- Development of a well-structured accounting policies and procedures manual that defines proper procedures and documentation for the various accounting processes, reconciliations and review.
- Properly trained and supervised accounting staff and a fiscal management team with the authority to assure that the proper procedures and internal controls are in place and are consistently followed.
- Continue to improve communication and exchange of financial and student information between departments in a timely manner.
- Assess staffing levels to ensure that they are at an appropriate level to perform critical accounting procedures in a timely manner.

Status

The internal control findings described above were not resolved during fiscal 2011. See current year (fiscal 2011) finding Item #IC 11-1.

PRIOR AUDIT FINDINGS AND QUESTIONED COSTS - Continued

ITEM #IC 10-2

GRANT AND CONTRACT ACCOUNTING

Criteria, Condition, Context, Cause and Effect

Although ultimately resolved and corrected by the University, we encountered substantial errors in the University's schedule of expenditures of Federal awards and related internal grant rollforward schedule. The primary reason for these errors appears to be a lack of understanding of how the University's software system (Banner) generates certain grant data and the operation of the grant module as is integrates with the general ledger to produce certain reports. Also, for several months there was no reconciliation and review of grant data input into Banner with the information produced by the system.

Recommendation and Benefit

We recommend that the University evaluate the accounting processes for reconciliation and review of grant activity and assure personnel have adequate training on Banner to ensure grant activity is accurately recorded and reported.

Status

The internal control findings described above were not resolved during fiscal 2011. See current year (fiscal 2011) finding Item #IC 11-2.

PRIOR AUDIT FINDINGS AND QUESTIONED COSTS - Continued

ITEM #IC 10-3

CASH RECONCILIATIONS

Criteria, Condition, Context, Cause and Effect

During the audit, we noted that bank statements for certain accounts of the University were not reconciled to the general ledger on a timely basis. We noted the bank reconciliation process was behind several months for most of the year due to various reasons, including turnover of certain accounting personnel. Bank reconciliations are an effective measure of internal control over cash. The risk of not identifying cash errors and possible misappropriation related to cash is greatly increased when cash accounts are not reconciled timely.

Recommendation

We recommend that all bank accounts be reconciled monthly by the University and that all unusual reconciling items be promptly investigated, adjusted and documented with adequate explanations. This will help reduce the likelihood of cash errors and misappropriation, and provide for more timely and accurate financial information, as well as assist in the effective management of cash flow.

Status

The internal control findings described above were not fully resolved during fiscal 2011. See current year (fiscal 2011) finding Item #IC 11-3.

PRIOR AUDIT FINDINGS AND QUESTIONED COSTS - Continued

ITEM #IC 10-4

REVIEW OF JOURNAL ENTRIES

Criteria, Condition, Context, Cause and Effect

During our audit, it was noted that there was no documentation evident of management's review and approval of many journal entries prior to their posting to the general ledger. Although financial statements and data are reviewed monthly by management, the lack of review of journal entries could lead to misclassification of financial statement amounts, as well as allow possible errors or misappropriation to exist.

Recommendation and Benefits

We recommend that management categorize journal entries into recurring journal entries and nonrecurring journal entries. Management should review and authorize recurring journal entries at least annually (beginning of each year) and when situations change that would affect these entries. Nonrecurring journal entries should require documented authorization by management prior to posing to the general ledger.

Status

The University has implemented certain changes to document management's review and approval of journal entries as described above, however mispostings of journal entries were noted during the audit. See current year (fiscal 2011) finding Item #IC 11-4.

PRIOR AUDIT FINDINGS AND QUESTIONED COSTS - Continued

ITEM #IC 10-5

ACCOUNTING AND ADMINISTRATION OF TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Criteria, Condition, Context, Cause and Effect

The University did not maintain during the year a detailed rollforward listing of restricted funds that comprise temporarily and permanently restricted net assets. This information was prepared by the University subsequent to year-end during the course of the audit.

Recommendation and Benefit

The University should maintain and monitor an accurate listing and rollforward of those funds and accounts that comprise temporarily and permanently restricted net assets. In addition, policies and procedures should be in place to assure these contributed funds are properly tracked, monitored with their budgets, accounted for and maintained, and that the funds are utilized only for the purpose intended by the donors.

Status

The University has implemented changes in response to the recommendations. This is not a finding for the year ended June 30, 2011.

PRIOR AUDIT FINDINGS AND QUESTIONED COSTS - Continued

ITEM #IC 10-6

PROPERTY AND EQUIPMENT

Criteria, Condition, Context, Cause and Effect

We noted the University expensed certain fixed assets purchased during the year and made adjustments during the audit process to capitalize these fixed assets. The University currently utilizes a fixed asset system that is not integrated and is separate from its primary accounting system and general ledger (Banner). Fixed asset information was not entered into this separate system until year-end. Failure to capitalize fixed asset additions as they are acquired understates assets and depreciation expense, and distorts interim financial statements and information made available to management throughout the year. It also provides for the possibility that all capital assets will not be properly identified and capitalized at year-end.

Recommendation

We recommend that the University properly capitalized all fixed assets as they are acquired throughout the year and calculate depreciation accordingly. The University should implement and fully utilize the fixed asset module of the Banner system. This integrated system would facilitate the specific identification and the creation of more detailed records of capital assets that would provide for more accurate depreciation calculations and accounting for property disposals. The system could also assist in the identification and inventory of assets purchased with various grant funds, which has been a recurring compliance issue for the University. The use of an integrated system would provide for better internal controls, more accurate interim reporting and is also likely to enhance the budgeting process.

Status

The internal control findings described above were not resolved during fiscal 2011. See current year (fiscal year) finding Item #IC 11-5.

PRIOR AUDIT FINDINGS AND QUESTIONED COSTS - Continued

Item # CF 10-1

Federal Student Financial Aid Cluster
CFDA No. 84.007, 84.032, 84.033, 84.038, 84.063, 84.375, 84.376
U.S. Department of Education

Criteria

The University is required to properly complete and submit on a timely basis, the Fiscal Operations Report and Application to Participants (FISAP) which provides the U.S. Department of Education (DOE) with certain information regarding Title IV program funds.

Condition and Context

The University incorrectly reported certain information relating to program expenditures in the fiscal 2010 FISAP.

Questioned Cost

None.

Cause

The above finding resulted from the University not properly understanding, compiling and reporting certain requested information in the FISAP.

Effect

The University incorrectly reported certain information and expenditures in the fiscal 2010 FISAP.

PRIOR AUDIT FINDINGS AND QUESTIONED COSTS - Continued

Item # CF 10-1 - Continued

Federal Student Financial Aid Cluster
CFDA No. 84.007, 84.032, 84.033, 84.038, 84.063, 84.375, 84.376
U.S. Department of Education

Recommendation

We recommend the University implement policies and procedures related to the proper completion, review, approval, and submission of the FISAP in order to assure proper information is reported to the DOE.

Status

This was resolved and is no longer a finding.

PRIOR AUDIT FINDINGS AND QUESTIONED COSTS - Continued

ITEM # CF 10-2

Federal Student Financial Aid Cluster
CFDA No. 84.007, 84.032, 84.033, 84.038, 84.063, 84.375, 84.376
U.S. Department of Education

Criteria

Upon a student's withdrawal from the University, the University must determine whether return of Title IV funds to the program or lender is required, and if so, make the appropriate refunds within the required timeframe (45 days) established by the U.S. Department of Education (DOE).

Condition and Context

Although correctly calculated and returned by the University, the return of Title IV funds for one of five student tested who officially withdrew, were not made within the require time frame (45 days).

Questioned Cost

None.

Cause

The University was not consistently following its policy of calculating and returning Title IV funds to the appropriate program or lenders within the timeframes established by the DOE.

Effect

The University was not in compliance with the requirements to timely return Title IV funds to the program or lender.

PRIOR AUDIT FINDINGS AND QUESTIONED COSTS - Continued

ITEM # CF 10-2 - Continued

Federal Student Financial Aid Cluster
CFDA No. 84.007, 84.032, 84.033, 84.038, 84.063, 84.375, 84.376
U.S. Department of Education

Recommendation

The University should consistently follow its policies and procedures relating to the timely return of Title IV funds for students who officially and unofficially withdraw from the University, to assure that Title IV refunds are returned to the appropriate programs and/or lenders within the required time period after each student's withdrawal.

Status

In the testing of the SFA cluster for fiscal 2011, this type of violation has recurred and a similar finding has been reported. See Item #CF 11-1.

PRIOR AUDIT FINDINGS AND QUESTIONED COSTS - Continued

ITEM # CF 10-3

Research and Development Cluster
Graduate Opportunities at Fisk in Astronomy and Astrophysics Research (GO-FARR)
National Science Foundation
CFDA No. 47.049
U.S. Department of Energy

Criteria

Under the terms of the grant agreement, the University is allowed to charge for fringe benefits related to associate salaries incurred in performance of grant objectives.

Condition and Context

During expenditure testing of the Research and Development Cluster it was noted that fringe benefit expenses for one associate were charged to the program although the University did not incur any actual fringe benefit expenses for that associate. This is due to the associate being an employee of another University that incurred the employee's actual fringe benefit expenses. The grant is on a reimbursement basis and the charge back for fringe benefits can be considered allowable costs only if the University actually incurs these costs.

Questioned Cost

Known questioned costs totaled $2,042.

Cause

The University personnel monitoring this grant was not aware the University was not incurring actual fringe benefit expenses for this employee and inadvertently charged, and the University received, reimbursements for fringe benefits based on the percentage allowed for by the grant agreement.

Effect

The University received reimbursement for fringe benefits not actually incurred.

PRIOR AUDIT FINDINGS AND QUESTIONED COSTS - Continued

ITEM # CF 10-3 - Continued

Research and Development Cluster
Graduate Opportunities at Fisk in Astronomy and Astrophysics Research (GO-FARR)
National Science Foundation
CFDA No. 47.049
U.S. Department of Energy

Recommendation

We recommend that the University ensure appropriate personnel become familiar with and consistently monitor and adhere to all applicable requirements and provisions of this grant contract.

Status

This was resolved and is no longer a finding.