STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

TENNESSEE BOARD OF REGENTS
TENNESSEE STATE UNIVERSITY

Financial and Compliance Audit Report

For the Year Ended June 30, 2015

Justin P. Wilson, Comptroller

Division of State Audit
Financial and Compliance Section

Deborah V. Loveless, CPA, CGFM, CGMA
Director

***F**INANCIAL AND **C**OMPLIANCE*

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Audit Manager

Susan M. Slaton
In-Charge Auditor

Gerry Boaz, CPA, CGFM, CGMA
Technical Manager

Amy Brack
Editor

Amanda Adams
Assistant Editor

Comptroller of the Treasury, Division of State Audit
Suite 1500, James K. Polk State Office Building
505 Deaderick Street
Nashville, TN 37243-1402
(615) 401-7897

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

August 18, 2016

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable David Gregory, Acting Chancellor
Dr. Glenda Baskin Glover, President

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Tennessee State University, for the year ended June 30, 2015. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

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Audit Report
Tennessee Board of Regents
Tennessee State University
For the Year Ended June 30, 2015

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Tennessee State University

For the Year Ended June 30, 2015

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

Management needs to improve procedures for preparing and reviewing financial statements to prevent errors
Tennessee State University's procedures for preparing its financial statements are not adequate to ensure the accuracy and proper classification of information (page 55).

The university did not properly account for a capital asset donated to the Tennessee State University Foundation
Tennessee State University personnel did not obtain an assessment of fair value before acquiring a capital asset donated by the Trenton Special School District in Gibson County to the Tennessee State University Foundation (page 57).

The university did not provide adequate internal controls in one specific area*
As noted in the prior audit, Tennessee State University did not design and monitor proper internal controls. We observed a condition in violation of university policies and/or industry-accepted best practices (page 58).

The university did not properly report enrollment data
In fall 2014, Tennessee State University did not notify the National Student Clearinghouse of students' enrollment status changes by the required deadline (page 59).

* This finding is repeated from prior audits.

STATE OF TENNESSEE
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DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable David Gregory, Acting Chancellor
Dr. Glenda Baskin Glover, President

Report on the Financial Statements

We have audited the accompanying financial statements of Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the university's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Tennessee State University and its discretely presented component unit as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of Tennessee State University, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only Tennessee State University. They do not purport to, and do not, present fairly the financial position of the Tennessee Board of Regents, as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 17, the university implemented Governmental Accounting Standards Board Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, during the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

As discussed in Note 19, the financial statements of Tennessee State University Foundation, a discretely presented component unit of Tennessee State University, include investments valued at $2,482,987.28 (3.8% of net position of the foundation), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14; the schedule of funding progress on page 47; the schedule of Tennessee State University's proportionate share of the net pension liability for the Closed State and Higher Education Employee Pension Plan within TCRS on page 48; the schedule of Tennessee State University's contributions for the Closed State and Higher Education Employee Pension Plan within TCRS on page 49; and the schedule of Tennessee State University's contributions for the State and Higher Education Employee Retirement Plan within TCRS on page 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the university's basic financial statements. The supplementary schedule of cash flows – component unit on page 51 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2016, on our consideration of the university's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the university's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
May 20, 2016

Tennessee Board of Regents
TENNESSEE STATE UNIVERSITY
Management's Discussion and Analysis

Introduction

This section of Tennessee State University's annual financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2015, with comparative information presented for the fiscal year ended June 30, 2014. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

The university has one discretely presented component unit, the Tennessee State University Foundation. More detailed information about the foundation is presented in Note 19 to the financial statements. This discussion and analysis focuses on the university and does not include the foundation.

Overview of the Financial Statements

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

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

The Statement of Net Position

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

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

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

The following table summarizes the university's assets; liabilities; deferred outflows and inflows of resources; and net position at June 30, 2015, and June 30, 2014.

Summary of Net Position
(in thousands of dollars)

	2015	2014
Assets:		
Current assets	$ 40,597	$ 36,210
Capital assets, net	163,719	164,247
Other assets	65,819	63,659
Total Assets	270,135	264,116
Deferred Outflows of Resources:		
Deferred loss on debt refunding	1,190	86
Deferred outflows of resources related to pensions	4,738	-
Total Deferred Outflows	5,928	86

Liabilities:		
Current liabilities	23,612	22,200
Noncurrent liabilities	52,466	45,356
Total Liabilities	76,078	67,556
Deferred Inflows of Resources:		
Deferred inflows of resources related to pensions	12,093	-
Total Deferred Inflows	12,093	-
Net Position:		
Net investment in capital assets	133,801	131,681
Restricted – nonexpendable	336	334
Restricted – expendable	5,070	5,720
Unrestricted	48,685	58,911
Total Net Position	$187,892	$196,646

Comparison of FY 2015 to FY 2014

- The increase in current assets is due to an increase in cash caused by greater tuition and fees in fiscal year 2015.
- Deferred loss on debt refunding increased due to refinancing 12 bonds.
- The application of GASB Statement 68 created a net pension liability of $8.4 million, deferred outflows of resources of $4.7 million, and deferred inflows of resources of $12.1 million. These changes created a decrease in unrestricted net position of $15.8 million.
- Restricted expendable net position decreased due to additional spending from the Academic Higher Achiever fund for scholarships.

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

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

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

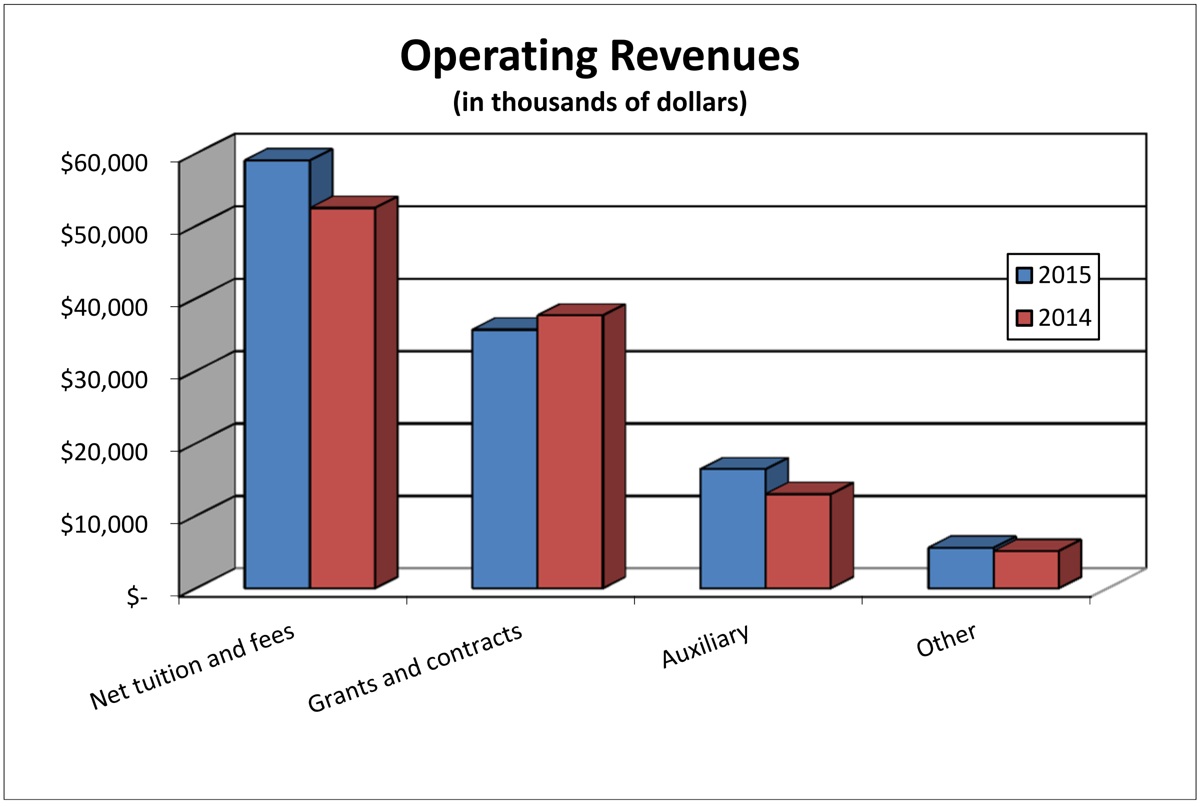
A summary of the university's revenues, expenses, and changes in net position for the years ended June 30, 2015, and June 30, 2014, follows.

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

	2015	2014
Operating revenues	$116,399	$108,263
Operating expenses	177,903	182,930
Operating loss	(61,504)	(74,667)
Nonoperating revenues and expenses	67,790	67,747
Income (loss) before other revenues, expenses, gains, or losses	6,286	(6,920)
Other revenues, expenses, gains, or losses	4,962	6,109
Increase (decrease) in net position	11,248	(811)
Net position at beginning of year	196,646	196,504
Cumulative effect of change in accounting principle	(19,235)	-
Prior period adjustment	(767)	953
Net position at beginning of year (restated)	176,644	197,457
Net position at end of year	$187,892	$196,646

Operating Revenues

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

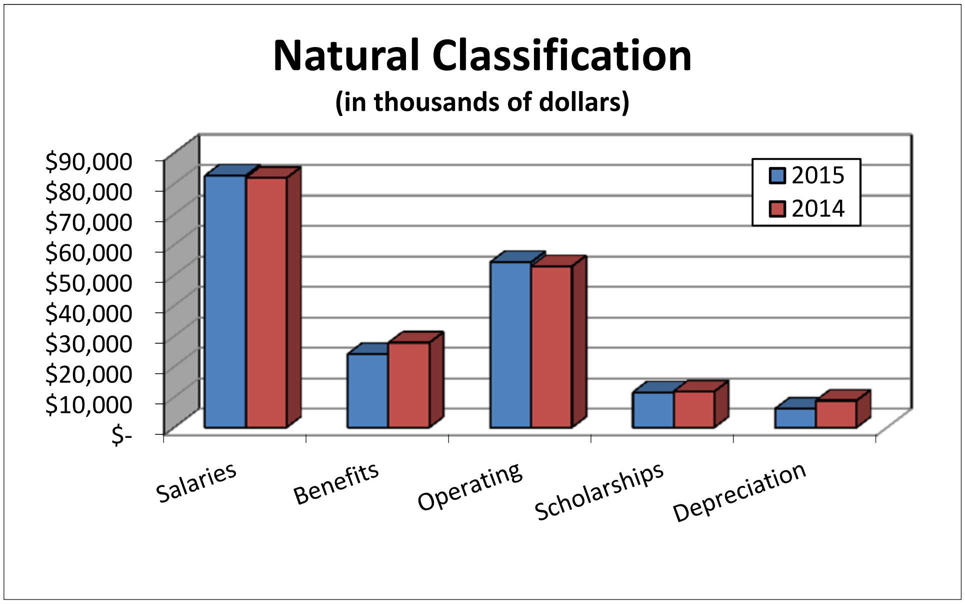


Comparison of FY 2015 to FY 2014

- The increase in net tuition and fees was from an additional $4 million in in-state tuition and fees, as well as $5 million in out-of-state tuition and fees due to increased enrollment.
- The auxiliary revenues were increased due to a $1.6 million revenue for the book bundle fee, which was new to fiscal year 2015; $1 million from food services (due to increased headcount and increased price per meal); an additional $1.5 million from housing (due to increased headcount); and about $0.26 million due to increased parking fines.

Operating Expenses

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

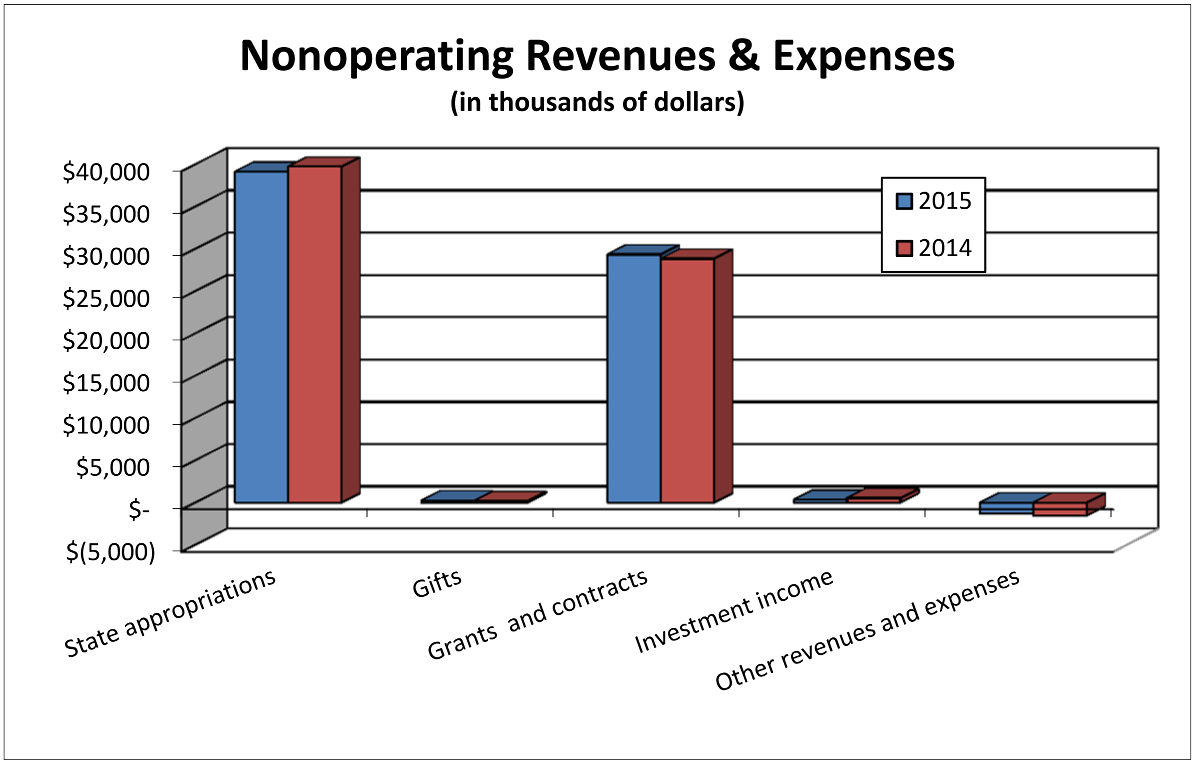


Comparison of FY 2015 to FY 2014

- Benefits expenses were reduced due to the new GASB Statement 68, which displays contributions made during the current fiscal year as a deferred outflow of resources related to pensions.
- Depreciation expenses were reduced due to the change in building depreciable life from 40 years to 60 years.

Nonoperating Revenues and Expenses

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

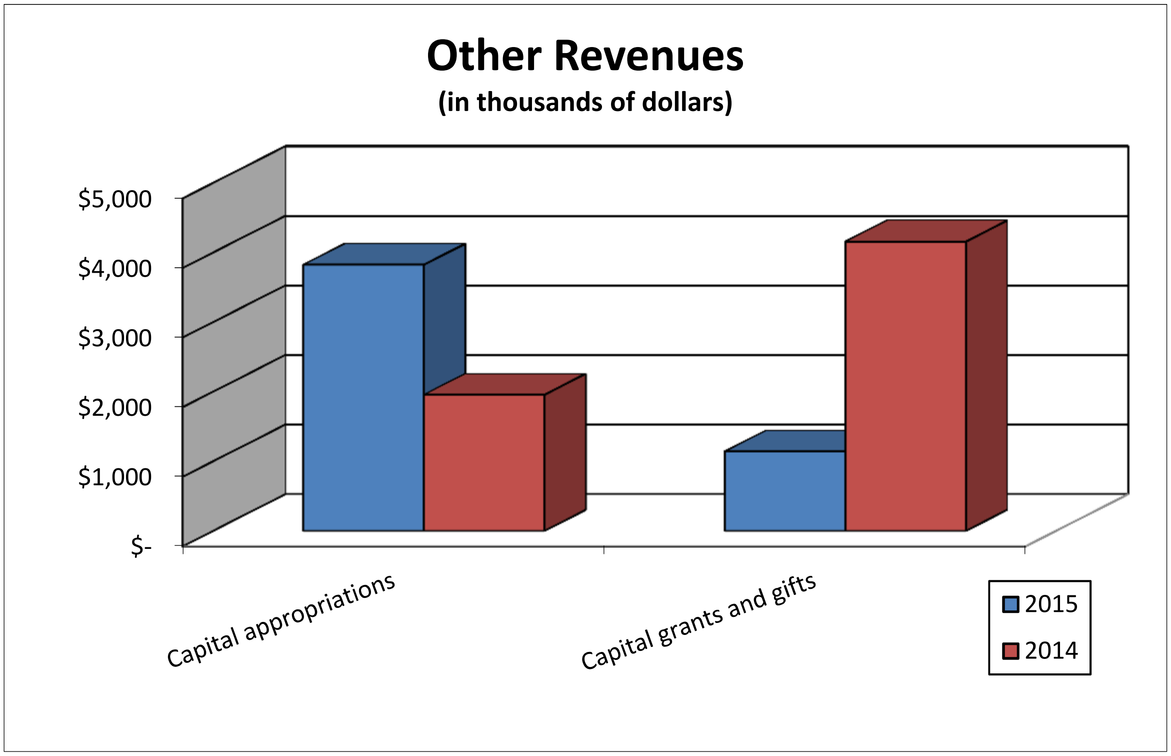


Comparison of FY 2015 to FY 2014

- No material variances were noted when comparing fiscal year 2015 to fiscal year 2014.

Other Revenues

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



Comparison of FY 2015 to FY 2014

- The increase in capital appropriations was due to $1.7 million in increased appropriations for the Hankal Hall Renovations in fiscal year 2015 as compared to fiscal year 2014.
- The decrease in capital grants and gifts was due to the completion of the Biotech building. The majority of capital grants and gifts for the Biotech building were received in fiscal year 2014.

Capital Assets and Debt Administration

Capital Assets

Tennessee State University had $163,719,236.88 invested in capital assets, net of accumulated depreciation of $173,207,345.50 at June 30, 2015; and $164,246,554.21 invested in capital assets, net of accumulated depreciation of $172,397,679.30 at June 30, 2014. Depreciation charges totaled $6,121,376.21 and $8,783,486.34 for the years ended June 30, 2015, and June 30, 2014, respectively.

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

	2015	2014
Land	$ 9,600	$ 9,600
Land improvements & infrastructure	12,418	11,553
Buildings	129,948	121,427
Equipment	7,918	7,490
Library holdings	1,349	1,450
Intangible assets	477	715
Projects in progress	2,009	12,012
Total	$163,719	$164,247

Significant additions to capital assets occurred in fiscal year 2015. These additions were from the construction of the Biotech building and the upgrade the of the electrical distribution system.

At June 30, 2015, outstanding commitments under construction contracts totaled $2,984,030.28 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $1,994,725.00 of these costs.

More detailed information about the university's capital assets is presented in Note 5 to the financial statements.

Debt

The university had $31,107,887.40 and $32,651,450.40 in debt outstanding at June 30, 2015, and June 30, 2014, respectively. The table below summarizes these amounts by type of debt instrument.

Outstanding Debt
(in thousands of dollars)

	2015	2014
TSSBA bonds payable	$29,766	$31,167
Unamortized bond premium/discount	1,342	1,485
Total	$31,108	$32,652

The Tennessee State School Bond Authority (TSSBA) issued bonds with interest rates ranging from 0.35% to 5.243% due May 2032 on behalf of Tennessee State University. The university is responsible for the debt service of these bonds. The current portion of the $29,765,853.44 outstanding at June 30, 2015, is $2,583,558.69.

The ratings on debt issued by the TSSBA at June 30, 2015, were as follows:

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

More information about the university's long-term liabilities is presented in Note 7 to the financial statements.

Economic Factors That Will Affect the Future

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

Tennessee Board of Regents
TENNESSEE STATE UNIVERSITY
Statement of Net Position
June 30, 2015

	University	Component Unit
Assets		
Current assets:		
Cash and cash equivalents (Notes 2 and 19)	$ 24,468,058.48	$ 4,857,797.38
Short-term investments (Notes 3 and 19)	1,214,959.64	2,972,258.14
Accounts, notes, and grants receivable (net) (Note 4)	12,452,056.79	7,291.90
Due from primary government	355,787.24	-
Due from component unit	237,029.12	-
Inventories (at lower of cost or market)	36,909.95	-
Prepaid expenses	16,676.62	-
Accrued interest receivable	1,815,245.18	-
Total current assets	40,596,723.02	7,837,347.42
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 19)	51,225,875.60	2,208,082.96
Investments (Notes 3 and 19)	12,886,495.10	49,674,557.38
Accounts, notes, and grants receivable (net) (Note 4)	1,706,213.39	-
Capital assets (net) (Notes 5 and 19)	163,719,236.88	6,314,211.30
Total noncurrent assets	229,537,820.97	58,196,851.64
Total assets	270,134,543.99	66,034,199.06
Deferred outflows of resources		
Deferred amount on debt refunding (Note 7)	1,189,903.66	-
Deferred outflows related to pensions (Note 9)	4,738,242.89	-
Total deferred outflows of resources	5,928,146.55	-
Liabilities		
Current liabilities:		
Accounts payable (Note 6)	5,335,534.74	39,861.23
Accrued liabilities	8,528,926.91	-
Due to grantors (Note 7)	103,866.73	-
Due to primary government	-	237,029.12
Unearned revenue	5,287,856.16	-
Compensated absences (Note 7)	1,131,629.00	-
Accrued interest payable	167,579.56	-
Long-term liabilities, current portion (Note 7)	2,583,558.69	-
Deposits held in custody for others	473,676.85	-
Total current liabilities	23,612,628.64	276,890.35
Noncurrent liabilities:		
Net OPEB obligation (Note 10)	7,338,544.50	-
Net pension liability (Note 9)	8,392,903.00	-
Compensated absences (Note 7)	5,062,772.34	-
Long-term liabilities (Note 7)	28,524,328.71	-
Due to grantors (Note 7)	3,147,055.66	-
Total noncurrent liabilities	52,465,604.21	-
Total liabilities	76,078,232.85	276,890.35
Deferred inflows of resources		
Deferred inflows related to pensions (Note 9)	12,092,872.00	-
Total deferred inflows of resources	12,092,872.00	-
Net position		
Net investment in capital assets	133,801,253.14	6,314,211.30
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	335,713.08	6,008,826.63
Research	-	694,833.25
Instructional department uses	-	862,331.77
Endowment for Educational Excellence	-	43,243,761.01
Other	-	417,216.81
Expendable:		
Scholarships and fellowships	216,852.21	3,058,057.81
Research	461,983.00	277,707.99
Instructional department uses	1,574,254.49	431,577.34
Loans	820,647.98	-
Endowment for Educational Excellence	-	1,748,356.27
Other	1,996,171.77	2,150,967.03
Unrestricted	48,684,710.02	549,461.50
Total net position	$ 187,891,585.69	$ 65,757,308.71

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

Tennessee Board of Regents
TENNESSEE STATE UNIVERSITY
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2015

	University	Component Unit
Revenues		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $27,978,278.95)	$ 59,061,893.23	$ -
Gifts and contributions	-	2,384,846.12
Governmental grants and contracts	34,051,366.33	-
Non-governmental grants and contracts	1,269,818.86	-
Sales and services of educational activities	198,231.91	-
Sales and services of other activities	5,292,972.67	299,034.41
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $5,582,830.46; all residential life revenues are used as security for revenue bonds, see Note 8)	6,324,024.12	-
Bookstore	1,849,437.21	-
Food service	7,059,677.16	-
Other auxiliaries	1,193,046.96	-
Interest earned on loans to students	95,809.53	-
Other operating revenues	2,432.60	-
Total operating revenues	116,398,710.58	2,683,880.53
Expenses		
Operating expenses (Note 14)		
Salaries and wages	82,572,787.17	-
Benefits	24,666,806.03	-
Utilities, supplies, and other services	53,622,731.64	976,614.71
Scholarships and fellowships	10,919,271.78	1,882,701.72
Depreciation expense	6,121,376.21	1,662.05
Payments to or on behalf of TSU (Note 19)	-	210,910.73
Total operating expenses	177,902,972.83	3,071,889.21
Operating loss	(61,504,262.25)	(388,008.68)
Nonoperating revenues (expenses)		
State appropriations	39,211,000.00	-
Gifts, including $210,910.73 from component unit to institution	235,910.73	-
Grants and contracts	29,345,478.40	1,118,094.00
Investment income (net of investment expense of $123,447.32 for the institution and $181,159.46 for the component unit)	339,152.03	892,072.60
Interest on capital asset-related debt	(1,112,730.46)	-
Bond issuance costs	(42,922.87)	-
Other nonoperating revenues (expenses)	(185,703.35)	-
Net nonoperating revenues (expenses)	67,790,184.48	2,010,166.60
Income before other revenues, expenses, gains, or losses	6,285,922.23	1,622,157.92
Capital appropriations	3,823,301.40	-
Capital grants and gifts	1,139,018.84	315,873.35
Additions to permanent endowments	-	468,752.37
Total other revenues	4,962,320.24	784,625.72
Increase in net position	11,248,242.47	2,406,783.64
Net position - beginning of year, as originally reported	196,645,940.54	63,350,525.07
Cummulative effect of change in accounting principle (Note 17)	(19,235,340.00)	-
Prior period adjustment (Note 15)	(767,257.32)	-
Net position - beginning of year, restated	176,643,343.22	63,350,525.07
Net position - end of year	$ 187,891,585.69	$ 65,757,308.71

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

Tennessee Board of Regents
TENNESSEE STATE UNIVERSITY
Statement of Cash Flows
For the Year Ended June 30, 2015

Cash flows from operating activities	
Tuition and fees	$ 57,044,715.73
Grants and contracts	36,225,897.55
Sales and services of educational activities	198,231.91
Sales and services of other activities	5,500,988.03
Payments to suppliers and vendors	(54,163,717.69)
Payments to employees	(81,707,595.64)
Payments for benefits	(28,014,150.74)
Payments for scholarships and fellowships	(10,919,271.78)
Loans issued to students	(805,347.36)
Collection of loans from students	1,130,393.38
Interest earned on loans to students	78,999.94
Auxiliary enterprise charges:	
Residence halls	6,322,553.48
Bookstore	1,870,228.04
Food services	7,056,579.39
Other auxiliaries	961,152.07
Other receipts (payments)	(122,142.08)
Net cash used by operating activities	(59,342,485.77)
Cash flows from noncapital financing activities	
State appropriations	39,267,600.00
Gifts and grants received for other than capital or endowment purposes, including $210,910.73 from the TSU Foundation to the institution	29,395,628.07
Federal/state student loan receipts	62,322,780.00
Federal/state student loan disbursements	(62,322,780.00)
Changes in deposits held for others	90,354.26
Principal paid on noncapital debt	(357,842.64)
Interest paid on noncapital debt	(170,146.44)
Net cash provided by noncapital financing activities	68,225,593.25
Cash flows from capital and related financing activities	
Capital appropriations	2,317,806.85
Capital grants and gifts received	1,599,711.90
Purchases of capital assets and construction	(2,410,903.67)
Principal paid on capital debt	(2,312,571.96)
Interest paid on capital debt	(2,158,852.37)
Net cash used by capital and related financing activities	(2,964,809.25)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	7,497,233.52
Income on investments	520,099.50
Purchase of investments	(6,187,686.50)
Net cash provided by investing activities	1,829,646.52
Net decrease in cash and cash equivalents	7,747,944.75
Cash and cash equivalents - beginning of year	67,945,989.33
Cash and cash equivalents - end of year	$ 75,693,934.08

Tennessee Board of Regents
TENNESSEE STATE UNIVERSITY
Statement of Cash Flows (continued)
For the Year Ended June 30, 2015

Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	$ (61,504,262.25)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	6,121,376.21
Pension expense	1,250,435.00
Other adjustments (Note 16)	80,900.00
Change in assets and liabilities and deferrals:	
Receivables, net	(1,667,491.81)
Inventories	52,641.45
Prepaid items	(16,676.62)
Other assets	(91,776.30)
Deferred outflows of resources	(4,738,242.89)
Accounts payable	(362,388.03)
Accrued liabilities	714,915.57
Unearned revenues	546,869.52
Compensated absences	206,584.61
Due to grantors	(210,191.14)
Loans to students	307,619.29
Other	(32,798.38)
Net cash used by operating activities	$ (59,342,485.77)

Noncash investing, capital, or financing transactions		
Proceeds from capital debt issued by Tennessee State School Bond Authority	$	1,863,364.01
Capital - state appropriation received through Tennessee Board of Regents	$	1,505,494.55
Purchase of capital assets and construction paid through Tennessee Board of Regents	$	(3,368,858.56)
Unrealized losses on investments	$	(75,039.16)
Loss on disposal of capital assets	$	(185,703.35)

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

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

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

The Tennessee State University Foundation is considered a component unit of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by its donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements. See Note 19 for more detailed information about the component unit.

Basis of Presentation

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

Basis of Accounting

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

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

Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other activities that are defined as nonoperating by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement 34, such as state appropriations and investment income.

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

Cash Equivalents

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

Inventories

Inventories are valued at the lower of cost or market. Textbooks included in the inventory are recorded on a first-in, first-out basis. All other items are maintained on an average cost or first-in, first-out basis.

Compensated Absences

The university's employees accrue annual and sick leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time.

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

Capital Assets

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

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

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

Pensions

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

Net Position

The university's net position is classified as follows:

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

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

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

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

Scholarship Discounts and Allowances

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

Note 2. Cash and Cash Equivalents

In addition to demand deposits and petty cash on hand, this classification includes instruments that are readily convertible to known amounts of cash and that have original maturities of three months or less. At June 30, 2015, cash and cash equivalents consisted of $7,288,916.34 in bank accounts, $3,800.00 of petty cash on hand, $2,927,495.26 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, $49,659.00 in LGIP deposits for capital projects, and $65,424,063.48 in money market accounts.

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

LGIP deposits for capital projects – Payments related to the university's capital projects are made by the State of Tennessee's Department of Finance and Administration. The university's estimated local share of the cost of each project is held in a separate LGIP account. As expenses are incurred, the Tennessee Board of Regents withdraws funds from the LGIP account and transfers them to the Department of Finance and Administration. The funds in the account are not available to the university for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

Note 3. Investments

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

Interest Rate Risk

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

At June 30, 2015, the university had the following investments and maturities:

		Investment Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10	No Maturity Date
U.S. Treasury	$ 1,225,076.36	$ 609,858.90	$ 615,217.46	$ -	$ -	$ -
U.S. agencies	8,026,370.32	500,955.00	5,084,557.94	1,898,062.27	528,115.00	14,680.11
Government mortgage-backed securities	4,850,008.06	104,145.74	758,501.13	1,847,584.24	2,139,776.95	-
Total investments	$14,101,454.74	$1,214,959.64	$6,458,276.53	$3,745,646.51	$2,667,891.95	$14,680.11

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. Securities are rated by Standard and Poor's, Moody's Investors Service, and/or Fitch Ratings and are presented below using the Standard and Poor's rating scale.

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

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

At June 30, 2015, the university's investments were rated as follows:

Investment Type	Balance	AAA	AA	Unrated
LGIP (amortized cost)	$ 2,977,154.26	$ -	$ -	$2,977,154.26
U.S. agencies	6,782,650.00	-	6,782,650.00	-
Government mortgage-backed securities	4,850,008.06	104,145.74	4,745,862.32	-
Total	$14,609,812.32	$104,145.74	$11,528,512.32	$2,977,154.26

Concentration of Credit Risk

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

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

Issuer	Percentage of Total Investments June 30, 2015
Federal National Mortgage Association	46.28%
Federal Home Loan Bank	14.89%
Federal Farm Credit Banks	10.67%
Federal Home Loan Mortgage Corporations	10.65%

Note 4. Receivables

Receivables at June 30, 2015, included the following:

Student accounts receivable	$ 9,351,646.44
Grants receivable	5,040,463.26
Notes receivable	12,707.95
Other receivables	674,414.60
Subtotal	15,079,232.25
Less allowance for doubtful accounts	(2,616,802.19)
Total receivables	$12,462,430.06

Federal Perkins Loan Program funds at June 30, 2015, included the following:

Perkins loans receivable	$5,598,846.47
Less allowance for doubtful accounts	(3,903,006.35)
Total	$1,695,840.12

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 9,599,509.24	$ -	$ -	$ -	$ 9,599,509.24
Land improvements and infrastructure	49,134,362.13	-	2,173,460.41	-	51,307,822.54
Buildings	228,586,043.26	-	11,394,181.23	-	239,980,224.49
Equipment	30,833,782.87	1,964,769.71	-	4,963,527.84	27,835,024.74
Library holdings	3,798,911.61	250,773.82	-	533,885.52	3,515,799.91
Intangible assets	2,679,599.36	-	-	-	2,679,599.36
Projects in progress	12,012,025.04	3,564,218.70	(13,567,641.64)	-	2,008,602.10
Total	336,644,233.51	5,779,762.23	-	5,497,413.36	336,926,582.38

Less accumulated depreciation/amortization:					
Land improvements and infrastructure	37,581,600.08	1,307,581.19	-	-	38,889,181.27
Buildings	107,158,842.87	2,873,652.63	-	-	110,032,495.50
Equipment	23,344,134.84	1,350,171.06	-	4,777,824.49	19,916,481.41
Library holdings	2,348,676.16	351,580.00	-	533,885.52	2,166,370.64
Intangible assets	1,964,425.35	238,391.33	-	-	2,202,816.68
Total	172,397,679.30	6,121,376.21	-	5,311,710.01	173,207,345.50
Capital assets, net	$164,246,554.21	$ (341,613.98)	$ -	$ 185,703.35	$163,719,236.88

The decrease in building depreciation expense for the current period is due to a change in accounting estimate. During fiscal year 2015, it was determined that buildings were more appropriately depreciated over a period of 60 years, instead of the 40 years previously used. This change resulted in a reduction in depreciation expense of $2,801,123.87.

Note 6. Accounts Payable

Accounts payable at June 30, 2015, included the following:

Vendors payable	$4,444,305.80
Other payables	891,228.94
Total accounts payable	$5,335,534.74

Note 7. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$31,166,733.92	$18,482,610.45	$19,883,490.93	$29,765,853.44	$2,583,558.69
Unamortized bond premium/discount	1,484,716.48	636,752.76	779,435.28	1,342,033.96	-
Subtotal	32,651,450.40	19,119,363.21	20,662,926.21	31,107,887.40	2,583,558.69
Other liabilities:					
Compensated absences	5,987,816.73	2,926,662.98	2,720,078.37	6,194,401.34	1,131,629.00

Due to grantors	3,389,491.38	175,488.88	314,057.87	3,250,922.39	103,866.73
Subtotal	9,377,308.11	3,102,151.86	3,034,136.24	9,445,323.73	1,235,495.73
Total long-term liabilities	$42,028,758.51	$22,221,515.07	$23,697,062.45	$40,553,211.13	$3,819,054.42

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 0.35% to 5.243%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to May 1, 2032, and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations; see Note 8 for further details. The bonded indebtedness with the TSSBA included in long-term liabilities on the statement of net position is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was $401,868.80 at June 30, 2015.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2015, are as follows:

Year Ending June 30	Principal	Interest	Total
2016	$ 2,583,558.69	$1,016,067.60	$ 3,599,626.29
2017	2,853,926.60	938,749.31	3,792,675.91
2018	2,187,284.23	853,920.19	3,041,204.42
2019	2,644,901.24	749,774.07	3,394,675.31
2020	2,737,864.58	678,234.56	3,416,099.14
2021 – 2025	10,336,891.45	2,330,496.86	12,667,388.31
2026 – 2030	5,455,838.95	804,537.24	6,260,376.19
2031 – 2032	965,587.70	73,030.70	1,038,618.40
Total	$29,765,853.44	$7,444,810.53	$37,210,663.97

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

Refunding of Debt

On August 27, 2014, the state issued $11,936,818.26 in revenue bonds with interest rates ranging from 3% to 5% to advance refund $10,743,308.03 of outstanding 2007A, 2008A, and 2008B Series bonds with interest rates ranging from 4% to 5%. The net proceeds of $12,037,190.09 (after payment of $28,345.87 in underwriter's fees and issuance costs) were deposited with an escrow agent to provide for all future debt service payments on the bonds. As a result, the 2007A, 2008A, and 2008B Series bonds are considered to be defeased, and the liability for those bonds has been removed from the university's long-term liabilities.

Although the advance refunding resulted in the recognition of a deferred loss of $1,079,255.87 to be amortized over the next 14 years, the university in effect reduced its aggregate debt service payments by $1,063,706.46 over the next 14 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $716,473.32.

On May 7, 2015, the state issued $7,053,940.19 in revenue bonds with interest rates ranging from 0.67% to 2.623% to advance refund $6,469,768.30 of outstanding 2007C Series bonds with interest rates ranging from 4% to 5%. The net proceeds of $7,039,251.59 (after payment of $14,688.60 in underwriter's fees and issuance costs) were deposited with an escrow agent to provide for all future debt service payments on the bonds. As a result, the 2007C Series bonds are considered to be defeased, and the liability for those bonds has been removed from the university's long-term liabilities.

Although the advance refunding resulted in the recognition of a deferred loss of $150,466.50 to be amortized over the next 10 years, the university in effect reduced its aggregate debt service payments by $715,352.71 over the next 10 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $547,358.62.

Note 8. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $29,765,853.44 in revenue bonds issued from December 1989 to April 2015 (see Note 7 for further detail). Proceeds from the bonds provided financing for Avon Williams Campus improvements; chiller replacement; dormitory renovations; energy savings and performance contracts; student housing/apartments; research and sponsored programs; and student housing fire suppression. The bonds are payable through 2032. Annual principal and interest payments on the bonds are expected to require 2.52% of available revenues. The total principal and interest remaining to be paid on the bonds is $37,210,663.97. Principal and interest paid for the current year and total available revenues were $3,896,930.40 and $154,878,992.88, respectively. The amount of principal and interest paid for the current year does not include debt of $17,213,076.33 defeased through bond refundings in the current year.

Note 9. Pension Plans

Defined Benefit Plans

Closed State and Higher Education Employee Pension Plan

General Information About the Pension Plan

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

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

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

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

Plus:

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

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

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The university's employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by the university for the year ended June 30, 2015, to the Closed State and Higher Education Employee Pension Plan were $4,673,853.88, which is 15.03% of covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension liability – At June 30, 2015, the university reported a liability of $8,392,903.00 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The university's proportion of the net pension liability was based on a projection of the university's contributions during the year ended June 30, 2014, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2014, measurement date, the university's proportion was 1.216453%, representing the first-time presentation of this proportion.

Pension expense – For the year ended June 30, 2015, the university recognized a pension expense of $1,250,435.00.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2015, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 1,810,582.00
Net difference between projected and actual earnings on pension plan investments	-	10,282,290.00
Tennessee State University's contributions subsequent to the measurement date of June 30, 2014	4,673,853.88	-
Total	$4,673,853.88	$12,092,872.00

Deferred outflows of resources, resulting from the university's employer contributions of $4,673,853.88 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2016	$ (3,023,218)
2017	(3,023,218)
2018	(3,023,218)
2019	(3,023,218)
Thereafter	-

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

Actuarial assumptions – The total pension liability as of June 30, 2014, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2014, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012; (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation; and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% based on a blending of the three factors described above.

Discount rate – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability *(asset)* to changes in the discount rate – The following presents the university's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the university's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
University's net pension liability	$28,786,690	$8,392,903	$(8,773,344)

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

Payable to the Pension Plan

At June 30, 2015, the university reported a payable of $377,400.95 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2015.

State and Higher Education Employee Retirement Plan

General Information About the Pension Plan

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

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated,* establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90, in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLA, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of their salary. The higher education institutions make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4% for all aggregate employee groups, except in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the university for the year ended June 30, 2015, to the State and Higher Education Employee Retirement Plan were $64,389.01, which is 3.87% of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension liabilities – Since the measurement date is June 30, 2014, which is prior to the July 1, 2014, inception of the State and Higher Education Employee Retirement Plan, there is not a net pension liability to report at June 30, 2015.

Pension expense – Since the measurement date is June 30, 2014, the university did not recognize a pension expense at June 30, 2015.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2015, the university reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Tennessee State University's contributions subsequent to the measurement date of June 30, 2014	$64,389.01	$ -

The university's employer contributions of $64,389.01 reported as pension-related deferred outflows of resources, subsequent to the measurement date, will be recognized as a reduction in net pension liability in the year ending June 30, 2016.

Payable to the Pension Plan

At June 30, 2015, the university reported a payable of $9,187.43 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2015.

Federal Retirement Program

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

The CSRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Office of Personnel Management, Retirement Information Office, P.O. Box 45, Boyers, Pennsylvania 16017-0045, or by calling (202) 606-0500.

Funding policy – Participating employees and the university are required to contribute to the CSRS plan. Contribution requirements are established and may be amended by federal statutes. The university was required to contribute 7% of covered payroll to the CSRS plan, and employees were required to contribute 7% of covered payroll. Contributions to CSRS for the year ended June 30, 2015, were $41,112.74, which consisted of $20,556.37 from the university and $20,556.37 from the employees. Contributions for the year ended June 30, 2014, were $38,813.54, which consisted of $19,406.77 from the university and $19,406.77 from the employees. Contributions for the year ended June 30, 2013, were $38,792.20, which consisted of $19,396.10 from the university and $19,396.10 from the employees. Contributions met the requirements for each year.

Defined Contribution Plans

Optional Retirement Plans

Plan description – The university contributes to the Optional Retirement Plan (ORP). The ORP, administered by the Tennessee Treasury Department, is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. This statute also sets out the plan provisions. The plan provisions are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

Funding policy – For employees employed prior to July 1, 2014, plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. For employees hired after June 30, 2014, plan members will contribute 5% to the ORP and the university will contribute 9% of the employee's base salary. The required contributions made to the ORP were $3,883,751.34 for the year ended June 30, 2015, and $3,817,223.06 for the year ended June 30, 2014. Contributions met the requirements for each year.

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

Deferred Compensation Plans

Employees are offered three deferred compensation plans. The university, through the State of Tennessee, provides two plans, one established pursuant to the Internal Revenue Code (IRC), Section 457, and the other pursuant to IRC, Section 401(k). The third plan is administered by the university and was established in accordance with IRC, Section 403(b). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k), Section 403(b), and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. Sections 401(k), 403(b), and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 403(b) and the 457 plans are voluntary for employees. The university provides up to a $50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 the of Public Acts of 2013, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary, with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

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

During the year ended June 30, 2015, contributions totaling $1,287,402.67 were made by employees participating in the plan, and the university recognized pension expense of $372,176.90 for employer contributions. During the year ended June 30, 2014, contributions totaling $1,132,832.28 were made by employees participating in the plan, with contributions of $347,408.00 made by the university.

Note 10. Other Postemployment Benefits

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that provides postemployment health insurance benefits to eligible university retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-201, *Tennessee Code Annotated*, for the State Employee Group Plan and Section 8-27-701, *Tennessee Code Annotated*, for the Medicare Supplement Plan. Prior to reaching age 65, all members have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare Supplement Plan for the university's eligible retirees; see Note 16. The plans are reported in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Special Funding Situation

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

Funding Policy

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

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

Annual required contribution (ARC)	$1,403,000.00
Interest on the net OPEB obligation	295,434.72

Adjustment to the ARC	(287,824.64)
Annual OPEB cost	1,410,610.08
Amount of contribution	(1,457,933.70)
Decrease in net OPEB obligation	(47,323.62)
Net OPEB obligation – beginning of year	7,385,868.12
Net OPEB obligation – end of year	$7,338,544.50

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2015	State Employee Group Plan	$1,410,610.08	103.4%	$7,338,544.50
June 30, 2014	State Employee Group Plan	$1,361,563.77	96.7%	$7,385,868.12
June 30, 2013	State Employee Group Plan	$1,712,035.05	74.2%	$7,340,925.11

Funded Status and Funding Progress

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

State Employee Group Plan

Actuarial valuation date	July 1, 2013
Actuarial accrued liability (AAL)	$10,054,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$10,054,000.00
Actuarial value of assets as a percentage of the AAL	0.0%
Covered payroll (active plan members)	$79,201,391.28
UAAL as percentage of covered payroll	12.7%

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

Actuarial Methods and Assumptions

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

In the July 1, 2013, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.5% initially. The rate decreased to 7.0% in fiscal year 2015 and then reduces by decrements to an ultimate rate of 4.19% in fiscal year 2044. All rates include a 2.5% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3.0%.

Note 11. Insurance-related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The state purchases commercial insurance for real property, builder's risk (for construction projects starting prior to July 1, 2012), and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012; thus, builder's risk is no longer covered by the RMF. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The RMF is responsible for property losses for the annual aggregate deductible of $10 million for perils other than earthquake and flood. Purchased insurance coverage is responsible for losses exceeding the $10 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The university participates in the RMF. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2015, is presented in the *Tennessee*

Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the university participates in the RMF, it is subject to the liability limitations established by statute. The maximum liability for general liability, automobile liability, and medical malpractice liability is $300,000 per person and $1,000,000 per occurrence. Claims are paid through the state's RMF. At June 30, 2015, the RMF held $127.9 million in cash designated for payment of claims.

At June 30, 2015, the scheduled coverage for the university was $573,380,800 for buildings and $87,469,100 for contents.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state, with the risk retained by the state. The university participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on estimates of the ultimate cost of claims, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

Note 12. Commitments and Contingencies

Sick Leave

The university records the cost of sick leave when paid. The dollar amount of unused sick leave was $31,295,551.83 at June 30, 2015.

Operating Leases

The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were $195,508.92, and expenses for personal property were $288,361.92 for the year ended June 30, 2015. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2015, outstanding commitments under construction contracts totaled $2,984,030.28 for Gentry drainage, roof repairs, elevator replacement, Hankal Hall upgrades, utility tunnel, new farm buildings, mechanical upgrades, ADA, and Master Plan, of which $1,994,725.00 will be funded by future state capital outlay appropriations.

Litigation

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

Note 13. Chairs of Excellence

The university had $5,704,681.20 on deposit at June 30, 2015, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

Note 14. Natural Classification With Functional Classifications

The university's operating expenses for the year ended June 30, 2015, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$38,140,613.49	$11,205,210.55	$10,531,393.78	$ 2,936,420.65	$ -	$ 62,813,638.47
Research	9,361,083.41	2,381,705.63	4,189,904.60	919,343.43	-	16,852,037.07
Public service	7,020,821.61	2,931,580.16	2,374,632.31	264,102.00	-	12,591,136.08
Academic support	5,287,429.85	1,571,097.09	2,880,893.85	29,678.04	-	9,769,098.83
Student services	7,826,700.05	2,270,095.05	5,371,805.44	3,279,463.13	-	18,748,063.67
Institutional support	8,851,545.08	2,548,424.99	5,466,632.27	30,420.00	-	16,897,022.34
Maintenance & operation	3,246,387.02	1,130,433.56	10,883,081.22	1,861.00	-	15,261,762.80
Scholarships & fellowships	-	-	81,453.96	3,124,880.53	-	3,206,334.49
Auxiliary	2,838,206.66	628,259.00	11,842,934.21	333,103.00	-	15,642,502.87
Depreciation	-	-	-	-	6,121,376.21	6,121,376.21
Total	$82,572,787.17	$24,666,806.03	$53,622,731.64	$10,919,271.78	$6,121,376.21	$177,902,972.83

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services, and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling $421,432.48 were reallocated from academic support to the other functional areas.

Note 15. Prior-year Adjustment

During fiscal year 2014, the total amount expended for the Biotech building exceeded the amount allotted by the USDA. Therefore, the university transferred the additional expenditures to the match account, and the receivable and revenue of $767,257.32 were removed as a prior period adjustment in fiscal year 2015.

Note 16. On-behalf Payments

During the year ended June 30, 2015, the State of Tennessee made payments of $80,900.00 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Note 17. Cumulative Effect of a Change in Accounting Principle

During fiscal year 2015, the university implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements establish standards for the measurement, recognition, and display of the net pension liability and related expenses, deferred outflows of resources, deferred inflows of resources, note disclosures, and required supplementary information. The implementation of these statements resulted in a cumulative adjustment to beginning net position of $(19,235,340). This cumulative adjustment does not include related deferred outflows and deferred inflows of resources.

Note 18. Subsequent Events

On January 26, 2016, the Tennessee State University (TSU) Research, Economic and Community Development Foundation was incorporated as a public benefit corporation. Per the articles of incorporation, the corporation is organized to operate for the benefit of the university and upon dissolution of the corporation, all of the remaining assets and property of the corporation shall, after the payment of the debts of the corporation and the necessary expenses incident to such dissolution, be distributed to the university. It is the intention of the TSU Foundation to transfer property in Trenton, Tennessee, to the TSU Research, Economic and Community Development Foundation.

Note 19. Component Unit

The Tennessee State University Foundation is a legally separate, tax-exempt organization supporting Tennessee State University. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the university in support of its programs. The 22-member board of the foundation is self-perpetuating and consists of graduates and friends of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements.

During the year ended June 30, 2015, the foundation made distributions of $210,910.73 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Ms. Betsy Jackson, Executive Director, 3500 John A. Merritt Boulevard, Nashville, TN 37209.

Cash and Cash Equivalents

In addition to demand deposits, this classification includes instruments that are readily convertible to known amounts of cash and that have original maturities of three months or less. At June 30, 2015, cash and cash equivalents consisted of $5,352,562.93 in bank accounts and $1,713,317.41 in money market accounts.

Deposits

At June 30, 2015, $4,994,111.99 of the foundation's bank balance of $7,000,521.67 was uninsured and uncollateralized.

Investments

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

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

At June 30, 2015, the foundation had the following investments and maturities:

		Investment Maturities (in Years)
Investment Type	Fair Value	No Maturity Date
Mutual bond funds	$18,686,528.99	$18,686,528.99
Total debt securities	18,686,528.99	$18,686,528.99
Non-Fixed Income Securities		
Corporate stocks	9,583,780.47	
Mutual equity funds	13,048,751.26	
Balanced funds	2,067,369.41	
Foreign stock	2,927,301.58	

Foreign mutual funds	3,850,096.53
Real estate investment trusts	2,482,987.28
Money market accounts	1,713,317.41
Savings accounts	31,478.39
Less cash and cash equivalents	(1,744,795.80)
Total investments	$52,646,815.52

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The foundation has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations. Securities are rated using Standard and Poor's, Moody's Investors Service, and/or Fitch Ratings and are presented below using the Standard and Poor's rating scale.

At June 30, 2015, the foundation's investments were rated as follows:

		Credit Quality Rating
Investment Type	Fair Value	Unrated
Mutual bond funds	$18,686,528.99	$18,686,528.99

Alternative investments – The foundation had investments in real estate investment trusts (REITs). The estimated fair value of these assets was $2,482,987.28 at June 30, 2015. The largest funds are InvenTrust Properties; Tier REIT, Inc.; and Xenia Hotels and Resorts, Inc. The estimated fair value of these assets was $2,268,701.80, which represents 91.4% of total REITs.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2015. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques.

The value of the shares for InvenTrust Properties is estimated to be $4.00 per share (ignoring purchase price discounts for certain categories of purchasers). The estimated value may not reflect the actual market value for these shares on any given date.

The value of the shares for Tier REIT, Inc. is estimated to be $26.88 per share (ignoring purchase price discounts for certain categories of purchasers). The estimated value may not reflect the actual market value for these shares on any given date.

The value of the shares held for Xenia Hotels and Resorts, Inc. (Ticker XHR) is $21.74 per share as sold on the New York Stock Exchange as of June 30, 2015.

Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ -	$ 30,000.00	$ -	$ -	$ 30,000.00
Buildings	-	285,873.35	-	-	285,873.35
Art and historical treasures	6,000,000.00	-	-	-	6,000,000.00
Total	6,000,000.00	315,873.35	-	-	6,315,873.35
Less accumulated depreciation:					
Buildings	-	1,662.05	-	-	1,662.05
Total	-	1,662.05	-	-	1,662.05
Capital assets, net	$6,000,000.00	$314,211.30	$ -	$ -	$6,314,211.30

Endowments

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

General endowment – The foundation chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, 3.8% of the fair value's three-year rolling average has been authorized for expenditure. The remaining amount, if any, is reinvested into the endowment. At June 30, 2015, net appreciation of $997,786.67 is available to be spent, of which $925,501.72 is included in restricted net position expendable for scholarships and fellowships; $19,929.45 is included in restricted net position expendable for instructional departmental uses; and $52,355.50 is included in restricted net position expendable for other.

Consent decree endowment – According to the established agreement within the Consent Decree, the budget committee may appropriate for distribution each year from Consent Decree Endowment Funds, an amount up to 75% of the interest and dividend income. The remainder is to be reinvested in the corpus of the fund. At June 30, 2015, net appreciation of $644,134.82 is available to be spent, all of which is included in restricted net position expendable for other.

Title III endowment – According to the established agreement between the foundation and the Tennessee State University Title III Program, an amount up to 50% of the interest and dividend income may be allocated for distribution annually. The remainder is to be reinvested in the corpus of the fund. At June 30, 2015, net appreciation of $500,375.23 is available to be spent, all of which is included in restricted net position expendable for other.

Tennessee Board of Regents
TENNESSEE STATE UNIVERSITY
Required Supplementary Information
OPEB Schedule of Funding Progress

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
July 1, 2013	State Employee Group Plan	$ -	$10,054,000	$10,054,000	0%	$79,201,391	12.69%
July 1, 2011	State Employee Group Plan	$ -	$13,336,000	$13,336,000	0%	$71,294,388	18.71%
July 1, 2010	State Employee Group Plan	$ -	$20,747,000	$20,747,000	0%	$71,599,111	28.98%

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

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

	2014
University's proportion of the net pension liability	1.216453%
University's proportionate share of the net pension liability	$8,392,903
University's covered payroll	$33,236,633
University's proportionate share of the net pension liability as a percentage of its covered payroll	25.25%
Plan fiduciary net position as a percentage of the total pension liability	95.11%

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

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

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

	2015	2014
Contractually determined contribution	$ 4,673,853.88	$ 4,994,849.00
Contributions in relation to the contractually determined contribution	4,673,853.88	4,994,849.00
Contribution deficiency (excess)	$ -	$ -
Covered payroll	$31,096,832.00	$33,236,633.00
Contributions as a percentage of covered payroll	15.03%	15.03%

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

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

	2015
Contractually determined contribution	$ 64,389.01
Contributions in relation to the contractually determined contribution	64,389.01
Contribution deficiency (excess)	$ -
Covered payroll	$1,663,791.37
Contributions as a percentage of covered payroll	3.87%

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

Tennessee Board of Regents
TENNESSEE STATE UNIVERSITY
Supplementary Schedule of Cash Flows - Component Unit
For the Year Ended June 30, 2015

Cash flows from operating activities	
Gifts and contributions	$ 2,384,846.12
Sales and services of other activities	299,034.41
Payments to suppliers and vendors	(991,749.46)
Payments for scholarships and fellowships	(1,882,701.72)
Payments to Tennessee State University	(210,910.73)
Other receipts (payments)	91,776.30
Net cash used by operating activities	(309,705.08)
Cash flows from noncapital financing activities	
Gifts and grants received for other than capital or endowment purposes	1,118,094.00
Private gifts for endowment purposes	468,752.37
Net cash provided by noncapital financing activities	1,586,846.37
Cash flows from investing activities	
Proceeds from sales and maturities of investments	47,141,606.41
Income on investments	1,385,865.53
Purchases of investments	(49,147,651.94)
Net cash used by investing activities	(620,180.00)
Net increase in cash and cash equivalents	656,961.29
Cash and cash equivalents - beginning of year	6,408,919.05
Cash and cash equivalents - end of year (Note 19)	$ 7,065,880.34

Reconciliation of operating loss to net cash used by operating activities:	
Operating income	$ (388,008.68)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	1,662.05
Changes in assets and liabilities:	
Receivables, net	(6,791.90)
Accounts payable	(8,342.85)
Other assets	91,776.30
Net cash provided by operating activities	$ (309,705.08)
Noncash investing, capital, or financing transactions	
Capital grants and gifts	$ 315,873.35
Unrealized losses on investments	$ (186,850.85)

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

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

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable David Gregory, Acting Chancellor
Dr. Glenda Baskin Glover, President

We have audited the financial statements of Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated May 20, 2016. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

- Management needs to improve procedures for preparing and reviewing financial statements to prevent errors.
- The university did not properly account for a capital asset donated to the Tennessee State University Foundation.

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

- The university did not provide adequate internal controls in one specific area.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the university's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Tennessee State University's Responses to Findings

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

Purpose of This Report

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

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
May 20, 2016

Findings and Recommendations

1. <u>Management needs to improve procedures for preparing and reviewing financial statements to prevent errors</u>

<u>Condition</u>

Tennessee State University's procedures for preparing its financial statements are not adequate to ensure the accuracy and proper classification of information.

<u>Cause</u>

The university's financial statements were prepared by the Director of General Accounting and Financial Reporting and the Associate Vice President for Accounting and Payroll and were the ultimate responsibility of the Vice President of Business and Finance. Certain information included for the Tennessee State University Foundation was provided by the Assistant Director of Fiscal Affairs for Institutional Advancement. Adequate communication between all parties did not occur.

Furthermore, it appears that the drive to meet financial reporting deadlines resulted in a lack of attention necessary to ensure compliance with accounting principles.

<u>Criteria</u>

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

<u>Effect</u>

This weakness resulted in the following significant reporting errors:

- The allocation of current and noncurrent cash on the statement of net position was incorrect for both the university and the foundation. For the university, current cash was overstated, and noncurrent cash was understated, by $3,884,675 due to adjustments being posted after the allocation had been calculated. For the foundation, current cash was overstated, and noncurrent cash was understated, by $466,437 due to nonexpendable endowment cash not being reported as noncurrent.
- Expendable net position of the foundation was overstated, and nonexpendable net position was understated, by $6,835,047. This error occurred because prior-year unrealized gains were included in the off-book entry instead of current-year amounts.
- Both accounts payable and expenses were overstated by $570,904 because a computer purchase was recorded in the wrong year.

- Payments to graduate students of $564,900 were reported as scholarships and fellowships expense rather than as benefits expense.
- A portion of the university's bank deposits were disclosed in the notes to the financial statements as exposed to custodial credit risk. These deposits were collateralized and were not exposed to custodial credit risk.
- The foundation's bank deposits of $4,994,112 were exposed to custodial credit risk but were not reported as such in the notes to the financial statements. Because the deposits of the foundation are not public funds, they cannot be covered by the same collateral that protects the university's deposits.
- The notes to the financial statements did not include the required disclosures for other postemployment benefits (OPEB). The annual OPEB costs, the percentage of these costs contributed, and the net OPEB obligation for each of the last three years are required.
- Property donated to the foundation with a fair value of $315,873 was reported in the financial statements at $5 million, an overstatement of $4,684,127. (See finding 2 for more details.)

The audited financial statements were corrected for the errors noted above.

Recommendation

The Vice President of Business and Finance and the Vice President for Institutional Advancement should ensure that communication and cooperation between all staff with accounting responsibilities improves and that information necessary for the compilation of the financial statements and notes is completed timely to facilitate a proper review.

The Vice President of Business and Finance should institute procedures that ensure the accuracy and proper classification of information presented in the financial statements. The procedures should address the preparation of the financial statements and notes and the subsequent review process.

The Vice President of Business and Finance should also ensure that current staff members who prepare daily accounting transactions and those preparing and/or reviewing the financial statements have adequate knowledge of governmental accounting and reporting requirements to properly perform their responsibilities.

Management's Comment

We concur. The Vice President for Business and Finance and the Associate Vice President for Institutional Advancement will clearly define the accounting duties and responsibilities assigned to personnel in their units, establish timeframes for the preparation and review of financial data, and implement monitoring procedures to ensure the accurate and timely completion of the financial statements and notes. The Vice President for Business and Finance will develop a comprehensive financial statement preparation checklist and create ad-hoc reports to assist in the detection of errors and misclassifications. The Vice President for Business and Finance will also ensure staff members are adequately trained in governmental accounting and reporting requirements. All corrective actions will be completed by August 31, 2016.

2. The university did not properly account for a capital asset donated to the Tennessee State University Foundation

Condition

Tennessee State University personnel did not obtain an assessment of fair value when acquiring a capital asset donated by the Trenton Special School District in Gibson County to the Tennessee State University Foundation. Personnel also did not exercise the due diligence necessary for proper financial reporting.

The Trenton Special School District signed a quitclaim deed on April 10, 2015, to donate an old school facility, described as a preschool/community resource center, to the Tennessee State University Foundation. The facility consists of four separate buildings, minor land improvements, and land.

The Vice President of Business and Finance did not ensure that the donated property (land and buildings) was recorded at fair value in the financial statements, as required by generally accepted accounting principles. The accounting records reported the buildings at $5 million with zero value for land, and with an estimated useful life for all of the buildings of 60 years. The assigned value was not supported by an appropriate assessment of fair value at the time of acquisition in April 2015. On April 5, 2016, university personnel had an appraisal performed of the property.

Errors also occurred in recording depreciation for the property. An entire year of depreciation was recorded for the building even though it was acquired in April 2015, three months before the end of the fiscal year. Also, it was determined that management should have used 43 years as the estimated useful life of the buildings instead of the normal 60 years due to the age of the property. The 43 years of useful life was determined using a weighted average method based on the various costs and construction dates of the buildings.

Criteria

According to Government Accounting Standards Board (GASB) Codification 1400.102:

> Donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges, if any. [GASBS 34, ¶18; GASBS 37, ¶6]

The foundation has no written policies governing depreciation, but the university's depreciation policy requires assets to be depreciated as of the first day of the month acquired. Therefore, the first year's depreciation on the depreciable assets acquired in April 2015 should have been for 3 of 12 months (April through June).

Cause

Tennessee State University personnel involved in the transaction did not realize the need to obtain an assessment of fair value and did not obtain an appraisal or perform some other type of assessment necessary for proper financial reporting. We believe this is due in part to lack of communication between university personnel in the departments of Institutional Advancement and Accounting.

Effect

Financial statements were misstated as of and for the year ended June 30, 2015, because of improperly recording the donated buildings at $5 million and recording a full year of depreciation for the buildings. Based on the appraisal of the property, the buildings are valued at $285,873 and the land associated, at $30,000. Capital grants and gifts revenues were overstated by $4,684,127, buildings were overstated by $4,714,127, and land was understated by $30,000. The building error and the improper depreciation treatment caused depreciation expense to be overstated by $81,671. As a result of these errors, net position was overstated by $4,602,455. These errors were corrected in the audited financial statements included in this audit report.

Recommendation

The Vice President of Business and Finance should ensure that all donated property receives an assessment of fair value at the time of acquisition and should establish clearer lines of communication between the foundation and university accounting personnel.

Management's Comment

We concur. The Vice President for Business and Finance will ensure that accounting personnel exercise greater care in determining the proper treatment for new or unusual transactions, such as donated property, and the Associate Vice President for Institutional Advancement will ensure that accurate and timely information is disseminated to the university on behalf of the foundation.

3. The university did not provide adequate internal controls in one specific area

Finding

As noted in the prior audit, the university did not design and monitor proper internal controls. We observed one condition in violation of university policies and/or industry-accepted best practices. Inconsistent implementation of internal controls increases the risk of fraud or error.

The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated.* We provided the university with detailed information regarding the specific condition we identified, as well as our recommendations for improvement.

Recommendation

Management should ensure that this condition is remedied by the prompt development and consistent implementation of internal controls. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur. Management took action to correct this internal control issue in July 2015, to prevent recurrence on the next audit that is scheduled for the 2015-2016 fiscal year. A documented risk assessment will be completed by December 15, 2016, to ensure this risk is adequately addressed and monitored.

4. The university did not properly report enrollment data

Condition

The Records Office at Tennessee State University did not properly report enrollment data for the Direct Loan borrowers who either graduated or did not return to the university during the subsequent semester. We tested a sample of 30 students whose status changed in some way (e.g., a reduction or increase in attendance levels, graduation, official withdrawal, unofficial withdrawal, or enrolled but never attended) to determine whether the university reported the change in status to the National Student Clearinghouse properly and timely. Of those 30 students tested, the status changes for eight students (26.7%) were not reported until 69 or 70 days after the change occurred. Six of the eight students graduated on December 13, 2014; however, the Clearinghouse did not receive the graduation file until February 20, 2015 (69 days later). The other two students withdrew after completing the fall semester, which ended on December 4, 2014; however, the Clearinghouse was not notified of their withdrawal status until February 12, 2015 (70 days later).

Criteria

According to the *Office of Management and Budget Circular A-133 Compliance Supplement*, Part 5, Enrollment Reporting in a timely and accurate manner is critical for effective management of the programs. Enrollment information must be reported within 30 days whenever attendance changes for students, unless a roster will be submitted within 60 days. These changes include reductions or increases in attendance levels, withdrawals, graduations, or approved leaves-of-absence.

Cause

The Registrar stated that degrees are not posted for December graduates until after employees have returned from the holiday break. In addition, winter weather caused the university to be completely closed for a number of days in both January and February.

Effect

Not accurately reporting enrollment status changes could result in the inappropriate granting of an in-school deferment or the failure to properly initiate the loan repayment process.

Recommendation

The Registrar should ensure that all enrollment status changes for Direct Loan borrowers are reported timely in compliance with federal regulations. She should develop a process to perform ongoing reviews and implement written procedures to ensure proper reporting.

Management's Comment

We concur. Effective immediately, the process for transmitting information to the National Student Clearinghouse will include the following:

- Graduation clearances will occur within 30 days following the end of each term.
- Students will be required to refile for graduation if retroactive adjustments are made that make them eligible to graduate.
- Change in Status reports will be transmitted every 30 days and intermittently as needed.
- Multiple requests will be forwarded to faculty to record attendance in the Banner system.