AUDIT REPORT

Tennessee Board of Regents
Tennessee State University

For the Year Ended
June 30, 2011

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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March 8, 2012

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217
and
Dr. Portia Holmes Shields, President
Tennessee State University
3500 John A. Merritt Boulevard
Nashville, Tennessee 37209

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, 2011. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/jgl
11/065

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit
Tennessee State University
For the Year Ended June 30, 2011

AUDIT OBJECTIVES

The objectives of the audit were to consider the university's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

COMPLIANCE FINDING

The Financial Aid Office Did Not Comply With Federal Guidelines to Perform Required Reconciliations and Notify the Direct Loan Servicing System of Loan Disbursements Within 30 Days of the Disbursement
The Financial Aid Office is not in compliance with Title 34 of the *Code of Federal Regulations*, part 685, which requires the institution to report all loan disbursements and to submit required records to the Direct Loan Servicing System (DLSS) via the Common Origination and Disbursement system within 30 days of the disbursement. The institution is also required to reconcile the School Account Statement data file to the institution's records. Our audit noted instances in which loan disbursements were not reported to the DLSS within the required 30 days. In addition, not all reconciliations were prepared as required (page 9).

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Tennessee State University
For the Year Ended June 30, 2011

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Tennessee Board of Regents
Tennessee State University
For the Year Ended June 30, 2011

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Tennessee State University. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

Tennessee State University was first established as the Agricultural and Industrial State Normal School on June 19, 1912, through an act of the Tennessee General Assembly. In 1922, the institution was raised to the status of a four-year teachers' college and was empowered to grant the bachelor's degree. In August 1951, the State Board of Education granted the institution university status. The university was elevated to a land-grant university program by the State Board of Education in August 1958. The land-grant university program established a School of Agriculture and Home Economics, School of Engineering, School of Arts and Sciences, School of Education, Graduate School, Division of Business, Division of Extension and Continuing Education, and Department of Aerospace Studies. The university is supported by state and federal funds, the latter in accordance with the Morrill Act and other federal acts that provide for land-grant institutions.

ORGANIZATION

The governance of Tennessee State University is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Executive Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the university is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 2010, through June 30, 2011, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 2011. Tennessee State University is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the university's internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing opinions on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.

PRIOR AUDIT FINDING

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The university filed its report with the Department of Audit on September 30, 2011. A follow-up of the prior audit finding was conducted as part of the current audit. The current audit disclosed that the university has corrected the previous audit finding concerning improper reporting of the financial statements and the accompanying notes to the financial statements.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the institution. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the institution is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the institution.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the institution. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic.

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, promulgated by the American Institute of Certified Public Accountants, requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 2011, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing opinions on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance and Other Matters

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under generally accepted government auditing standards. Immaterial instances of noncompliance, along with recommendations and management's response, are included in the Finding and Recommendation section.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered unqualified opinions on the university's financial statements.

STATE OF TENNESSEE
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DEPARTMENT OF AUDIT
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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*

December 5, 2011

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217
and
Dr. Portia Holmes Shields, President
Tennessee State University
3500 John A. Merritt Boulevard
Nashville, Tennessee 37209

Ladies and Gentlemen:

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, 2011, and have issued our report thereon dated December 5, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards.

Internal Control Over Financial Reporting

Management of the university is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the university's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the university's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the university's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

We noted certain matters that we reported to the management of Tennessee State University in a separate letter.

December 5, 2011
Page Three

The Tennessee State University's response to the finding identified in our audit is included in the Finding and Recommendation section of this report. We did not audit the university's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the Tennessee Board of Regents, and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/jgl

Finding and Recommendation

<u>The Financial Aid Office did not comply with federal guidelines to perform required reconciliations and notify the Direct Loan Servicing System of loan disbursements within 30 days of the disbursement</u>

Finding

The Financial Aid Office is not in compliance with Title 34 of the *Code of Federal Regulations*, part 685, which requires the institution to report all loan disbursements and to submit required records to the Direct Loan Servicing System (DLSS) via the Common Origination and Disbursement (COD) system within 30 days of the disbursement. The institution is also required to reconcile the School Account Statement (SAS) data file to the institution's records. The Department of Education's *Direct Loan School Guide,* Chapter 6, states, "A school that participates in the DL [Direct Loan] Program is required to reconcile the funds that it has received (from the G5 System) to pay its students with the actual disbursement records that it has forwarded to the Common Origination and Disbursement (COD) system. Reconciliation takes place on a monthly basis, with a final reconciliation that is conducted after the award year ends on June 30."

To ensure compliance with these requirements, the Loan Manager runs a process within the Banner information system that exports Direct Loan disbursements and sends a notification of the disbursement to the COD. Each month, the COD provides the institution with an SAS data file consisting of a Cash Summary, Cash Detail, and (if requested) Loan Detail records. The school is required to reconcile these files to its financial records. Based on interviews with the Loan Manager early in the audit process, she stated that she had only completed reconciliations for the period July through December 2010, and not the entire fiscal year as required. On August 2, 2011, we asked TSU staff to provide us with a copy of all the reconciliations completed in fiscal year 2011. On September 18, 2011, we received six reconciliations covering the months of September 2010 through February 2011. These reconciliations were not signed or dated by the Loan Manager or the Director. Therefore, we could not determine when the reconciliations were prepared.

In addition to, and possibly as a result of, not performing the required reconciliations, the Financial Aid Office also did not adequately submit loan disbursement information to the COD within the 30-day required time frame. We reviewed direct loan disbursements for 25 students as part of our audit. For 14 of the 25 students tested (56%), the time from disbursement of the loan to COD submission ranged from 31 days to 180 days. Our tests consisted of reviewing 81 individual direct loan disbursements to these 25 students. Of those 81 disbursements, 24 disbursements (30%), totaling $71,401.00, were not accepted by the COD within 30 days of the disbursement. Based on a review of the *Direct Loan School Guide*, loan data may be rejected due to incomplete information (missing name, invalid school code, etc.) or inconsistencies in the anticipated disbursement. For 21 of the 81 individual disbursements (26%), the disbursements were ultimately accepted by the COD 31 or 32 days after the disbursement. Both the Director and Associate Director of Financial Aid stated that they believe these disbursements were late due to a computer glitch with the Banner system or the COD system that eventually fixed itself. This assumption was based on reviewing the process to perform daily COD notifications within Banner and noting that, on these particular days, the file sizes were considerably larger and the files were not sent on the same day on which the process ran inside of Banner. However, this reason could not be used for the remaining three disbursements, which had submission days ranging from 67 to 180 days (one submission was 67 days after disbursement; another, 85 days; another, 180 days). For these items, Financial Aid staff stated that either the notifications were rejected because the school's accounting system showed that the particular student was overawarded based on his or her classification or because the staff did not know the proper procedures for students who qualify for additional unsubsidized loan funds. Each of these discrepancies could have been identified and properly addressed within the required time frame if required reconciliations had been performed.

The Director of Financial Aid did not ensure that the Loan Manager was performing required monthly reconciliations, which show the difference between the SAS and the institution's records. Since the Loan Manager was not completing monthly reconciliations, the department was not able to determine if there were any differences to investigate. As a result, the institution did not always adequately submit loan disbursement information to the COD within 30 days of the disbursement. Inadequate submission to the COD and the lack of the required reconciliations could result in the loss of Direct Loan funds to the school because of errors recorded in the school's or the DLSS records. Performing monthly reconciliations and retaining all supporting documentation allow Financial Aid staff to ensure that all Direct Loan funds are received and disbursements to students are made timely and for the correct amounts.

Recommendation

The Director of Financial Aid should ensure that the Financial Aid staff are familiar with the federal regulations and that the Loan Manager reconciles the School Account Statement with the institution's records regularly as outlined in the *Direct Loan School Guide,* Chapter 6. If any items do not agree, Financial Aid staff should then investigate the differences. The Loan Manager should ensure that loan disbursement information is adequately submitted to the COD within 30 days of the disbursement. Ongoing monitoring should be implemented to ensure that the Financial Aid Office is in compliance with all requirements and that action is taken promptly should exceptions occur.

Management's Comment

We concur with the finding and recommendation. A computer program had been developed to submit student loan disbursements via COD within 30 days of the disbursements; however, an incorrect parameter in the program was not discovered and corrected until after several disbursements were out of compliance with the 30-day requirement. Twenty-one of the 24 disbursements were 1 to 2 days late, and 3 of 24 disbursements were 37 to 150 days late. All batches submitted subsequent to this program correction have been in compliance with OMB regulations. The Director of Financial Aid will ensure the program parameters remain correct and for a period of no less than one calendar year will submit to the Vice President for Business and Finance a monthly confirmation that all disbursements have been submitted to COD in a timely manner.

Monthly reconciliations of the Direct Loan Program had not been prepared at the time of the 2010-2011 audit for the months of March, April, and May. The year-to-date reconciliation was completed as a part of the year-end closing process. The Director of Financial Aid will now be required to document her review and approval of the monthly reconciliations prepared by the Loan Manager. In addition, the Vice President for Business and Finance will monitor the date the Director of Financial Aid approves the reconciliations for a period of no less than one calendar year, to ensure timely preparation and approval.

STATE OF TENNESSEE
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Independent Auditor's Report

December 5, 2011

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217
and
Dr. Portia Holmes Shields, President
Tennessee State University
3500 John A. Merritt Boulevard
Nashville, Tennessee 37209

Ladies and Gentlemen:

We have audited the accompanying basic 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, 2011, as listed in the table of contents. These financial statements are the responsibility of the university's management. 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 generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, 2011, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2011, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 18, the financial statements of Tennessee State University Foundation, a discretely presented component unit of Tennessee State University, include investments valued at $2,201,941.86 (4.58 percent of net assets 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.

The management’s discussion and analysis on pages 15 through 30 and the schedule of funding progress on page 60 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 61 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated December 5, 2011, on our consideration of the university's internal control over financial reporting and 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 generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/jgl

Tennessee Board of Regents
Tennessee State University
Management's Discussion and Analysis

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, 2011, with comparative information presented for the fiscal year ended June 30, 2010. 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 basic financial statements, and the accompanying notes. The basic financial statements, notes, and this discussion are the responsibility of management.

Using This Annual Report

This report consists of three basic financial statements. The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows provide information on Tennessee State University as a whole and present a long-term view of the university's finances.

The Statement of Net Assets

The Statement of Net Assets presents the financial position of the university at the end of the fiscal year and includes all assets and liabilities of the university. The difference between total assets and total liabilities—net assets—is an indicator of the current financial condition of the university. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the university's equity in property, plant, and equipment owned by the university. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are 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 assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

Tennessee State University
Net Assets
(in thousands of dollars)

	2011	2010
Assets:		
Current assets	$ 37,402	$ 22,840
Capital assets, net	167,424	169,098
Other assets	62,295	58,369
Total assets	**267,121**	**250,307**
Liabilities:		
Current liabilities	22,312	19,896
Noncurrent liabilities	51,092	49,384
Total liabilities	**73,404**	**69,280**
Net assets:		
Invested in capital assets, net of related debt	132,645	130,672
Restricted - nonexpendable	74	74
Restricted - expendable	6,339	7,253
Unrestricted	54,659	43,028
Total net assets	**$193,717**	**$181,027**

Comparison of FY 2011 to FY 2010

- Current assets and other assets increased due to increased holdings in the Local Government Investment Pool received from increased student fees. Also, in fiscal year 2010, the university transferred $15 million to unexpended plant funds, which reclassified it as noncurrent cash.

- Current liabilities increased due to more deferred revenue being obtained from unspent grant proceeds.

- Noncurrent liabilities increased primarily from new commercial paper being issued for the Indoor Practice Facility.

- The decrease in restricted - expendable net assets is due to more expenses than revenues related to restricted grants.

- The increase in unrestricted net assets is due primarily to an increase in state appropriations to alleviate financial strains in anticipation of reduced American Recovery and Reinvestment Act of 2009 (ARRA) funding in future years.

TSU Foundation
Net Assets
(in thousands of dollars)

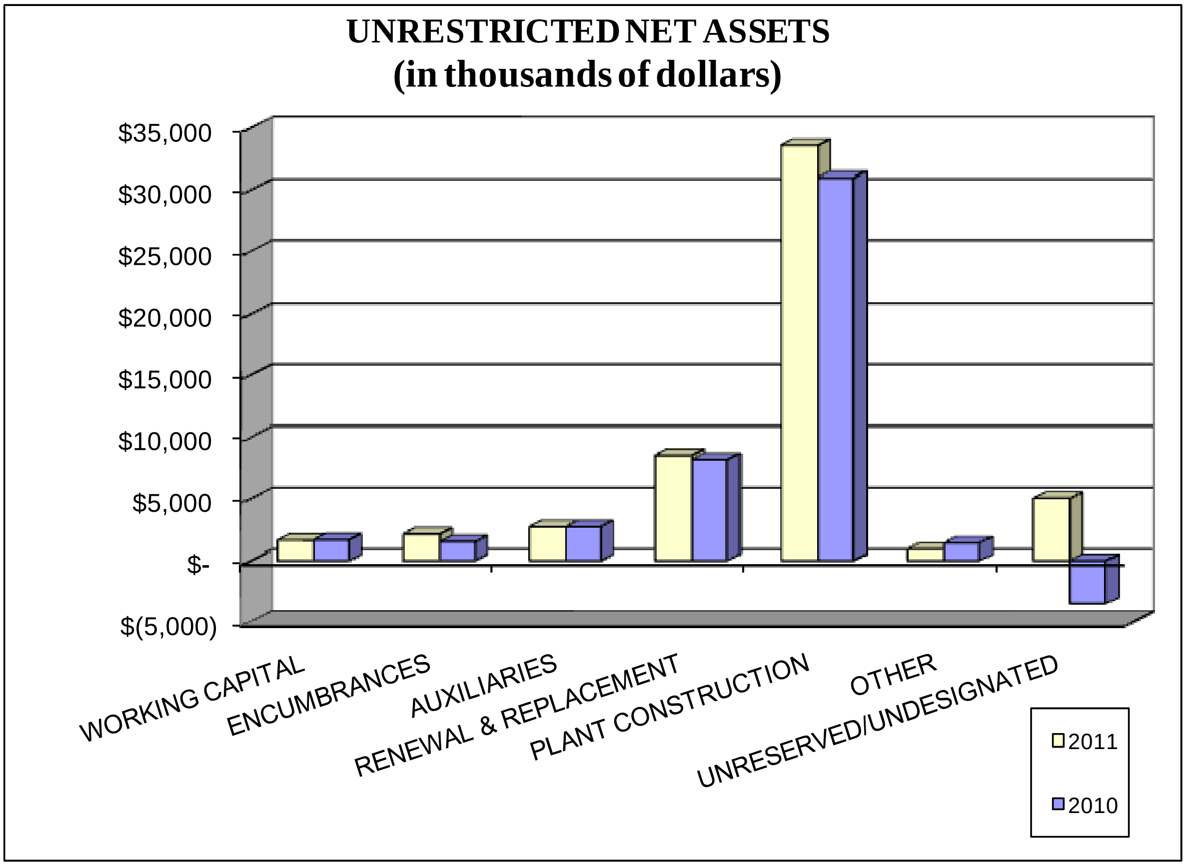
	2011	2010
Assets:		
Current assets	$ 4,882	$ 4,948
Capital assets	6,000	6,000
Other assets	37,249	31,029
Total assets	**48,131**	**41,977**
Liabilities:		
Current liabilities	8	26
Total liabilities	**8**	**26**
Net assets:		
Invested in capital assets	6,000	6,000
Restricted - nonexpendable	34,195	31,211
Restricted - expendable	7,748	4,556
Unrestricted	180	184
Total net assets	**$48,123**	**$41,951**

Comparison of FY 2011 to FY 2010 - Component Unit

- The increase in other assets is due primarily to investment income of over $5 million and Title III grant funds of $772,780 received during the fiscal year.

- The increase in restricted - expendable and nonexpendable net assets is due to investment income increases. The expendable portion is primarily unrealized gains that have not been allocated for expenditure or reinvestment. The nonexpendable portion is the interest and dividends allocated to be reinvested as part of the corpus of the endowments.

Many of the university's unrestricted net assets have been designated for specific purposes such as renewal and replacement of equipment, plant construction, and auxiliaries. The following graph shows the allocations:



<u>Comparison of FY 2011 to FY 2010</u>

- The increase in unreserved/undesignated net assets is due primarily to an increase in state appropriations to alleviate strains caused by the removal of ARRA funds received in prior years.

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

The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the university, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to accounting principles generally accepted in the United States of America.

Tennessee State University
Changes in Net Assets
(in thousands of dollars)

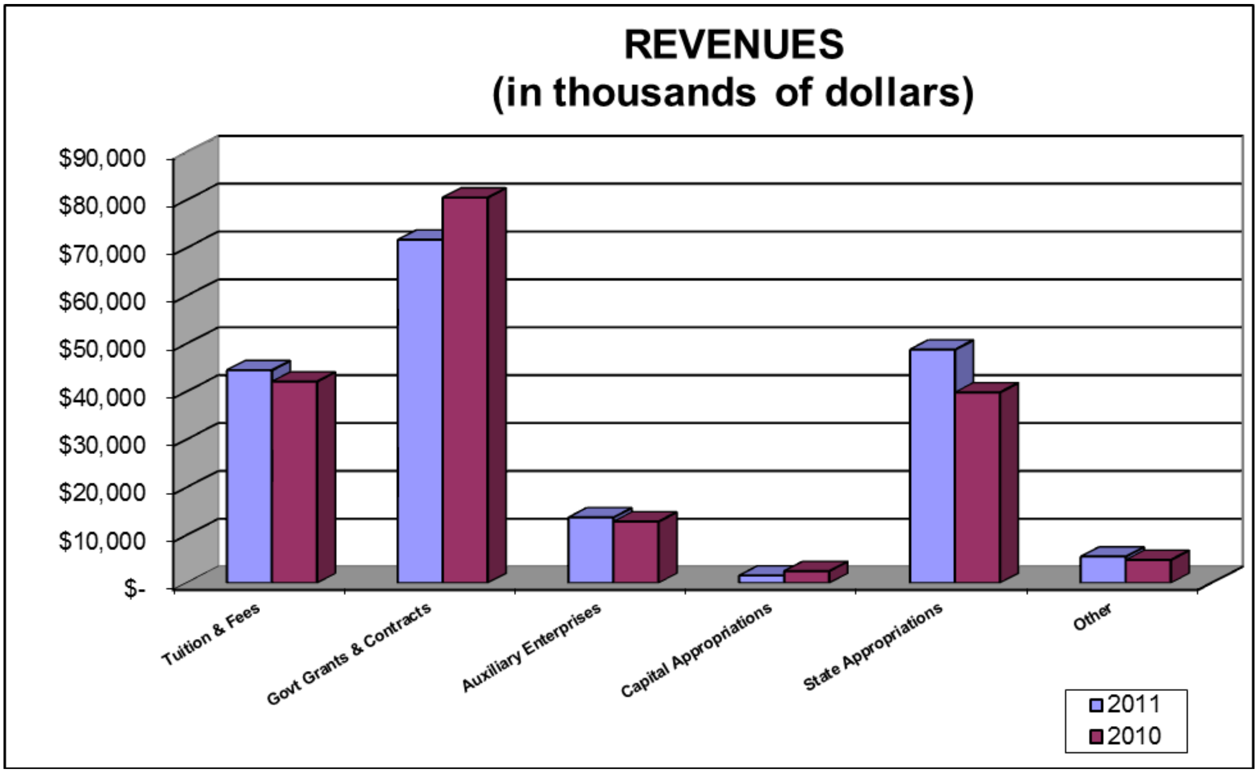
	2011	2010
Operating revenues:		
Net tuition and fees	$ 44,446	$ 42,058
Grants and contracts	40,915	38,952
Auxiliary	13,700	12,813
Other	5,098	4,220
Total operating revenues	**104,159**	**98,043**
Operating expenses	171,084	169,029
Operating loss	**(66,925)**	**(70,986)**
Nonoperating revenues and expenses:		
State appropriations	48,745	39,810
Gifts	75	17
Grants and contracts	29,574	37,893
Investment income	342	548
Other nonoperating revenues and expenses	(1,880)	(1,916)
Total nonoperating revenues and expenses	**76,856**	**76,352**
Income before other revenues, expenses, gains, or losses	**9,931**	**5,366**
Other revenues, expenses, gains, or losses:		
Capital appropriations	1,560	2,484
Capital grants and gifts	1,199	3,655
Total other revenues, expenses, gains, or losses	**2,759**	**6,139**
Increase in net assets	**12,690**	**11,505**
Net assets at beginning of year	181,027	171,291
Prior period adjustment	-	(1,769)
Net assets at end of year	**$193,717**	**$181,027**

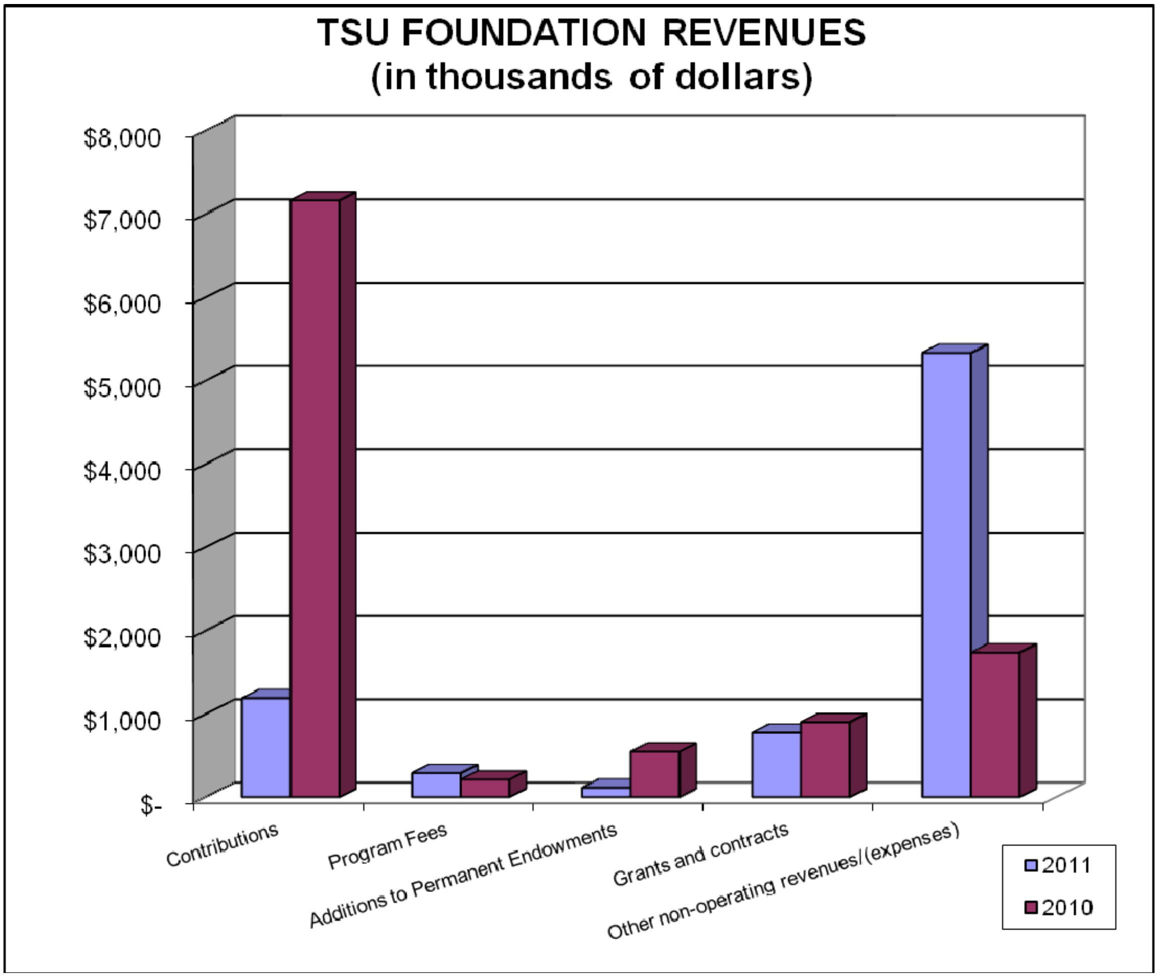
TSU Foundation
Changes in Net Assets
(in thousands of dollars)

	2011	2010
Operating revenues:		
Other revenue	$ 1,480	$ 1,376
Total operating revenues	**1,480**	**1,376**
Operating expenses	1,529	1,696
Operating loss	**(49)**	**(320)**
Nonoperating revenues:		
Grants and contracts	773	900
Investment income	5,333	1,737
Total nonoperating revenues	**6,106**	**2,637**
Income before other revenues, expenses, gains, or losses	**6,057**	**2,317**
Other revenues, expenses, gains, or losses:		
Capital grants and gifts	-	6,000
Additions to permanent endowments	115	547
Total other revenues, expenses, gains, or losses	**115**	**6,547**
Increase in net assets	**6,172**	**8,864**
Net assets at beginning of year	41,951	33,087
Net assets at end of year	**$48,123**	**$41,951**

Revenues

The following are graphic illustrations of revenues by source (both operating and nonoperating), which were used to fund the university's and its component unit's operating activities for the years ended June 30, 2011, and June 30, 2010 (amounts are presented in thousands of dollars).


REVENUES
(in thousands of dollars)
$90,000
$80,000
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$-
Tuition & Fees
Govt Grants & Contracts
Auxiliary Enterprises
Capital Appropriations
State Appropriations
Other
2011
2010



<u>Comparison of FY 2011 to FY 2010 - University</u>

- Tuition and fees increased due to an increase approved by the Tennessee Board of Regents.
- State appropriations increased due to a one-time additional state appropriation due to the reduction of ARRA funds received in fiscal year 2010.
- Grants and contracts increased due to more funding for the Cooperative Extension grant, the Institute of Agriculture and Environmental Research grant, and the Sites-M grant.

- Nonoperating grants and contracts decreased due to the removal of ARRA funding of about $8 million.

- Capital grants and gifts decreased due to the change of the Clement Hall Renovation from phase II to the completion phase.

Comparison of FY 2011 to FY 2010 - Component Unit

- In fiscal year 2010, the TSU Foundation received a one-time capital gift of video tapes of TV programs and other media with an appraised value of $6 million.

- Investment income increased as a result of additional funding available for investing and an unrealized gain of over $3 million.

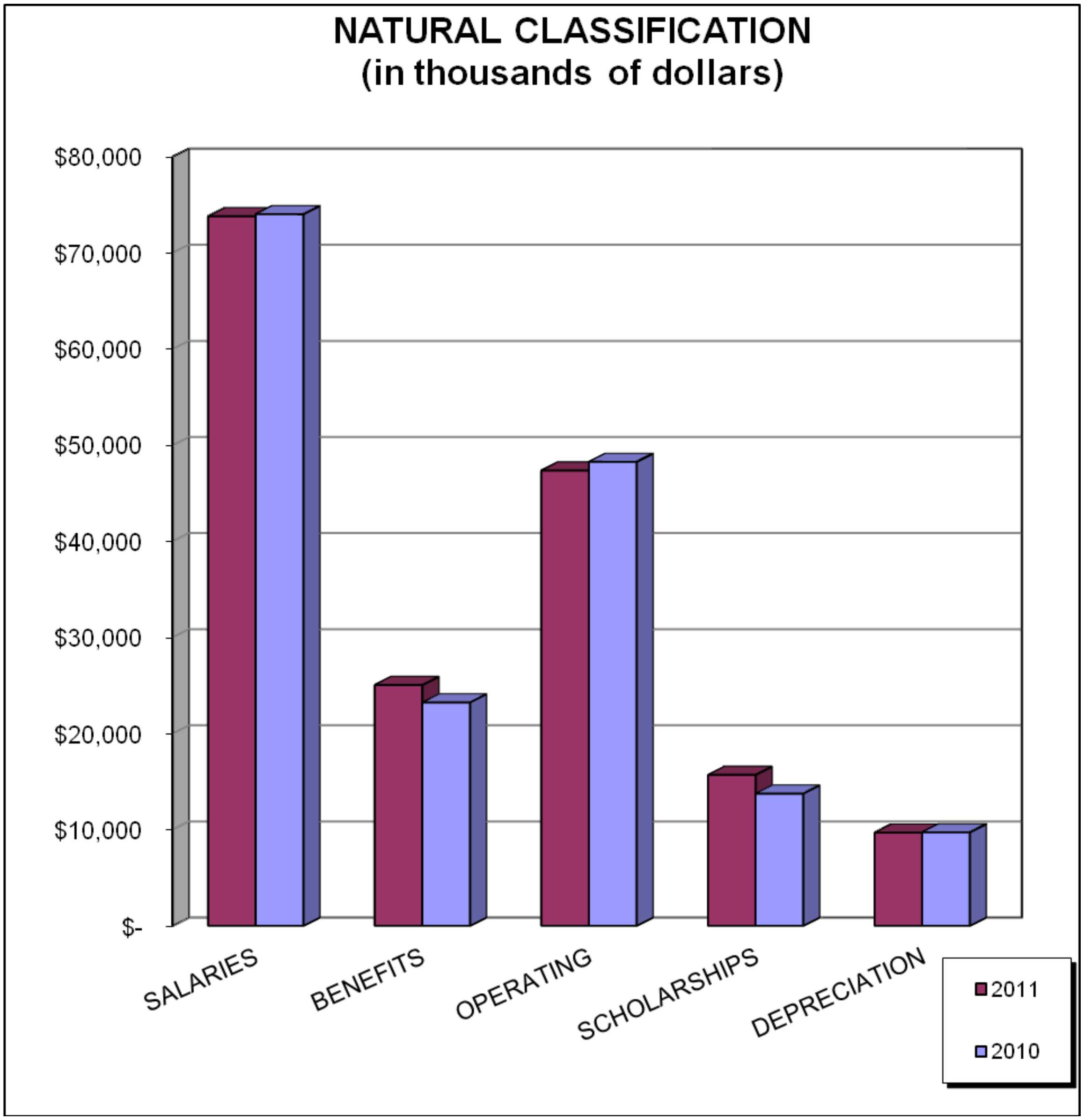
- Additions to permanent endowments decreased due to additional contributions in the prior fiscal year including a new endowment for the May Chair of Sustainable Agriculture of over $400 thousand.

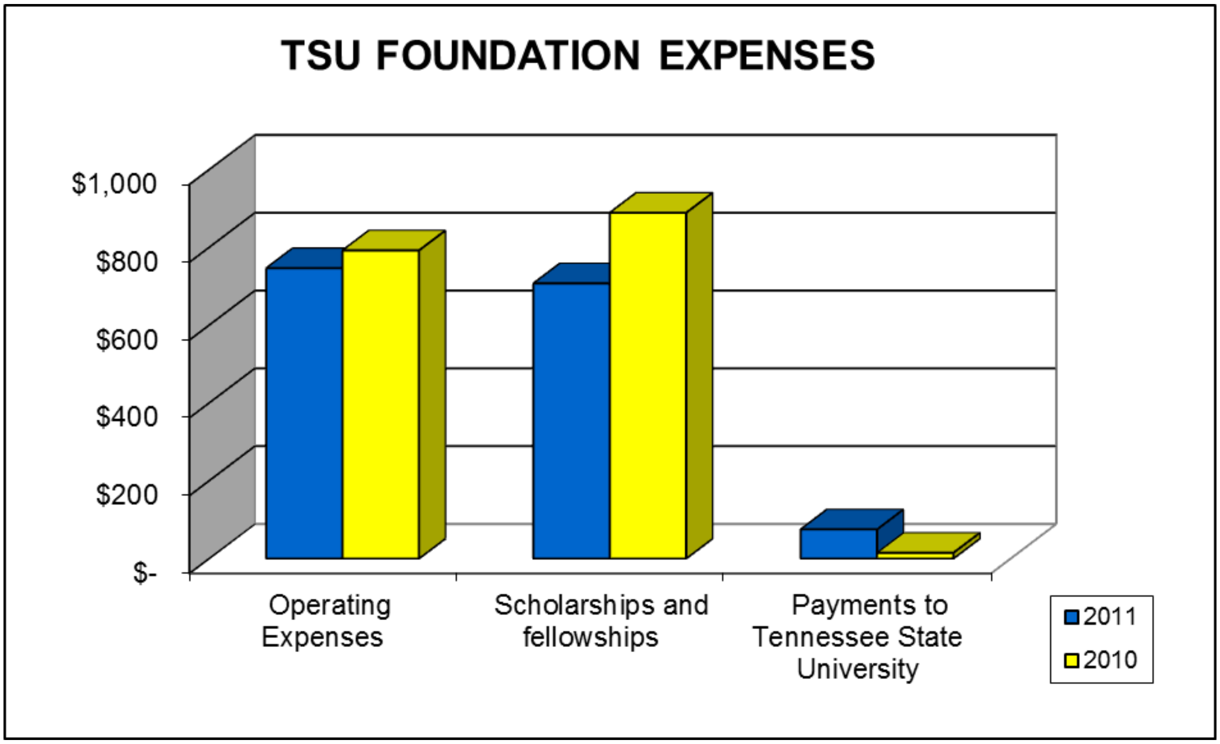
Expenses

Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below.

NATURAL CLASSIFICATION
(in thousands of dollars)

	UNIVERSITY		COMPONENT UNIT	
	2011	**2010**	**2011**	**2010**
Salaries	$ 73,824	$ 74,038	$ -	$ -
Benefits	24,789	23,238	-	-
Operating	47,075	48,272	747	792
Scholarship	15,704	13,756	707	889
Payments to TSU	-	-	75	15
Depreciation	9,692	9,725	-	-
Total	**$ 171,084**	**$ 169,029**	**$ 1,529**	**$ 1,696**


NATURAL CLASSIFICATION
(in thousands of dollars)
$80,000
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$-
SALARIES
BENEFITS
OPERATING
SCHOLARSHIPS
DEPRECIATION
2011
2010



Comparison of FY 2011 to FY 2010 - University

- Benefit expenditures increased due to the state not requiring the payment of group insurance for two months during FY 2010. Group insurance, as a result, increased by about $2 million.

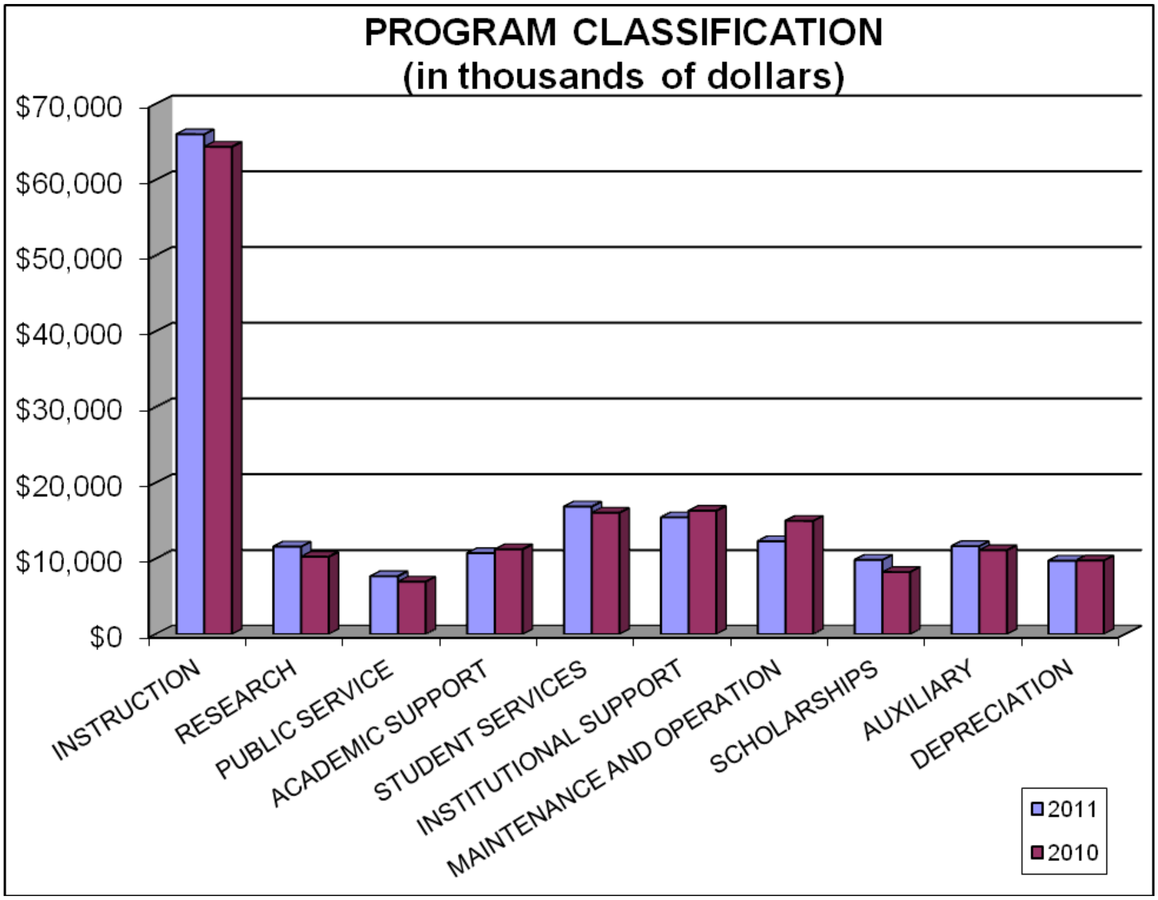
- Scholarships increased to compensate for the increases in tuition and fees, housing, and food services.

Comparison of FY 2011 to FY 2010 - Component Unit

- Scholarships decreased due to market losses in prior periods affecting the amount available for allocation to scholarships.

PROGRAM CLASSIFICATION - UNIVERSITY
(in thousands of dollars)

	2011	2010
Instruction	$ 65,760	$ 64,344
Research	11,565	10,228
Public service	7,658	6,940
Academic support	10,706	11,211
Student services	16,859	16,035
Institutional support	15,433	16,296
Maintenance and operation	11,985	14,957
Scholarships	9,807	8,204
Auxiliary	11,619	11,089
Depreciation	9,692	9,725
Total	**$ 171,084**	**$ 169,029**



<u>Comparison of FY 2011 to FY 2010</u>

- Research increased due to the salaries and benefits of employees working on new grants associated with research.

- Public service increased due to grant increases, allowing higher salaries and benefits of employees.

- Maintenance and operation expenses decreased due a reduction of noncapital related maintenance repairs.

- Scholarships increased to compensate for the increases in tuition and fees, housing, and food services.

Capital Assets and Debt Administration

Capital Assets

The university had $167,423,511.42 invested in capital assets, net of accumulated depreciation of $156,565,297.98 at June 30, 2011; and $169,097,936.01 invested in capital assets, net of accumulated depreciation of $148,580,902.06 at June 30, 2010. Depreciation charges totaled $9,691,524.89 and $9,724,861.23 for the years ended June 30, 2011, and June 30, 2010, respectively. Details of these assets are shown below.

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

	2011	2010
Land	$ 9,525	$ 9,525
Land improvements & infrastructure	16,007	16,307
Buildings	117,878	122,727
Equipment	6,030	5,538
Library holdings	7,445	7,657
Intangible assets	1,430	1,669
Projects in progress	9,109	5,675
Total	**$167,424**	**$ 169,098**

Comparison of FY 2011 to FY 2010

- The decrease of almost $5 million in buildings is due to depreciation.
- The decrease in intangible assets is due to depreciation for the year.
- The increase in projects in progress is due to almost $3 million in additions to the Hale Stadium Improvements that are still ongoing.

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

TSU Foundation
Schedule of Capital Assets
(in thousands of dollars)

	2011	2010
Dr. Bobby Jones Television Show audio and video collection	$6,000	$6,000

Comparison of FY 2011 to FY 2010

During fiscal year 2010, the TSU Foundation received a one-time gift of video tapes of TV programs and other media with an appraised value of $6 million. More detailed information about the foundation's capital assets is presented in Note 18 to the financial statements.

Debt

The university had $39,142,358.22 and $38,425,618.47 in Tennessee State School Bond Authority (TSSBA) debt outstanding at June 30, 2011, and June 30, 2010, respectively. The table below summarizes these amounts by type of debt instrument.

Outstanding Debt
(in thousands of dollars)

	2011	2010
TSSBA bonds	$35,942	$38,133
TSSBA commercial paper	3,200	292
Total	$39,142	$38,425

During the fiscal year 2011, an additional amount of over $2.9 million was issued in commercial paper for the Indoor Practice Facility, while payments of more than $2 million were made to the principal debt on the bonds.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2011, were as follows:

Fitch	AA
Moody's Investors Service	Aa2
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 fiscal year 2012 budget will include an increase in tuition and fees. The impact of the fee increase on enrollment is not known. The university is not aware of any other factors that will have a significant effect on the financial position or results of operations.

Requests for Information

This financial report is designed to provide a general overview of the institution's finances for all those with an interest in the university's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to

Ms. Cynthia B. Brooks
Vice President for Business and Finance
Tennessee State University
3500 John Merritt Boulevard
Nashville, TN 37209

TENNESSEE BOARD OF REGENTS
TENNESSEE STATE UNIVERSITY
STATEMENTS OF NET ASSETS
JUNE 30, 2011

	Tennessee State University	Component Unit Tennessee State University Foundation
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 18)	$ 23,802,442.37	$ 4,742,596.62
Short-term investments (Notes 3 and 18)	404,249.96	139,011.35
Accounts, notes, and grants receivable (net) (Note 4)	11,232,396.39	825.60
Due from primary government	17,858.60	-
Inventories	21,995.34	-
Prepaid expenses and deferred charges	39,198.21	-
Accrued interest receivable	1,884,028.63	-
Total current assets	37,402,169.50	4,882,433.57
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 18)	42,719,591.43	2,194,391.25
Investments (Notes 3 and 18)	17,343,502.83	35,054,469.89
Accounts, notes, and grants receivable (net) (Note 4)	2,231,670.49	-
Capital assets (net) (Notes 5 and 18)	167,423,511.42	6,000,000.00
Total noncurrent assets	229,718,276.17	43,248,861.14
Total assets	267,120,445.67	48,131,294.71
LIABILITIES		
Current liabilities:		
Accounts payable (Note 6)	3,809,250.38	7,956.38
Accrued liabilities	7,619,092.10	-
Student deposits	1,198,930.21	-
Deferred revenue	5,519,539.76	-
Compensated absences (Note 7)	1,007,663.77	-
Accrued interest payable	304,712.42	-
Long-term liabilities, current portion (Note 7)	2,296,833.44	-
Deposits held in custody for others	505,912.03	-
Other liabilities	49,881.24	-
Total current liabilities	22,311,815.35	7,956.38
Noncurrent liabilities:		
Net OPEB obligation (Notes 7 and 12)	6,545,095.28	-
Compensated absences (Note 7)	3,932,987.66	-
Long-term liabilities	36,845,524.78	-
Due to grantors (Note 7)	3,768,394.69	-
Total noncurrent liabilities	51,092,002.41	-
Total liabilities	73,403,817.76	7,956.38
NET ASSETS		
Invested in capital assets, net of related debt	132,644,587.79	6,000,000.00
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	24,466.48	3,552,921.98
Research	-	489,792.51
Instructional department uses	50,000.00	76,406.66
Other	-	30,075,588.43
Expendable:		
Scholarships and fellowships (Notes 8 and 18)	1,100,658.20	1,311,500.15
Research	675,798.96	14,530.80
Instructional department uses (Notes 8 and 18)	2,415,679.82	299,497.10
Loans	823,056.42	-
Other (Note 18)	1,323,412.65	6,122,265.01
Unrestricted (Note 9)	54,658,967.59	180,835.69
Total net assets	$ 193,716,627.91	$ 48,123,338.33

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

TENNESSEE BOARD OF REGENTS
TENNESSEE STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

	Tennessee State University	Component Unit Tennessee State University Foundation
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $22,971,445.40)	$ 44,445,870.93	$ -
Gifts and contributions	-	1,189,709.55
Governmental grants and contracts	39,993,827.55	-
Nongovernmental grants and contracts	921,487.84	-
Sales and services of educational departments	4,740,800.16	-
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $3,307,037.27; all residential life revenues are used as security for revenue bonds; see Note 7)	6,435,470.32	-
Bookstore	342,544.57	-
Food service	6,059,932.20	-
Other auxiliaries	861,617.04	-
Interest earned on loans to students	124,377.51	-
Other operating revenues	232,567.52	290,246.72
Total operating revenues	104,158,495.64	1,479,956.27
EXPENSES		
Operating expenses (Note 16):		
Salaries and wages	73,824,392.19	-
Benefits	24,788,990.00	-
Utilities, supplies, and other services	47,074,616.43	746,442.63
Scholarships and fellowships	15,704,293.95	707,323.50
Depreciation expense	9,691,524.89	-
Payments to or on behalf of Tennessee State University (Note 18)	-	74,782.65
Total operating expenses	171,083,817.46	1,528,548.78
Operating loss	(66,925,321.82)	(48,592.51)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	48,744,577.00	-
Gifts, including $74,782.65 from component unit	74,782.65	-
Grants and contracts	29,574,014.74	772,780.00
Investment income (net of investment expense for the component unit of $175,067.06)	342,304.02	5,333,396.04
Interest on capital asset-related debt	(1,859,594.54)	-
Other nonoperating revenues (expenses)	(20,533.28)	-
Net nonoperating revenues (expenses)	76,855,550.59	6,106,176.04
Income before other revenues, expenses, gains, or losses	9,930,228.77	6,057,583.53
Capital appropriations	1,559,740.62	-
Capital grants and gifts	1,199,543.62	-
Additions to permanent endowments	-	114,482.34
Total other revenues	2,759,284.24	114,482.34
Increase in net assets	12,689,513.01	6,172,065.87
NET ASSETS		
Net assets - beginning of year	181,027,114.90	41,951,272.46
Net assets - end of year	$ 193,716,627.91	$ 48,123,338.33

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

Exhibit C

TENNESSEE BOARD OF REGENTS
TENNESSEE STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 44,682,673.71
Grants and contracts	41,125,493.45
Sales and services of educational activities	4,424,415.08
Payments to suppliers and vendors	(46,034,521.36)
Payments to employees	(73,989,736.61)
Payments for benefits	(23,672,099.65)
Payments for scholarships and fellowships	(15,704,293.95)
Loans issued to students	(456,202.73)
Collection of loans from students	581,186.34
Interest earned on loans to students	102,187.70
Auxiliary enterprise charges:	
Residence halls	6,435,470.32
Bookstore	320,397.29
Food services	6,030,203.01
Other auxiliaries	863,291.04
Other receipts (payments)	232,567.52
Net cash used by operating activities	(55,058,968.84)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	48,695,300.00
Gifts and grants received for other than capital or endowment purposes, including $74,782.65 from Tennessee State University Foundation	37,564,208.16
Federal student loan receipts	71,432,738.41
Federal student loan disbursements	(71,432,738.41)
Changes in deposits held for others	283,038.98
Net cash provided by noncapital financing activities	86,542,547.14
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	2,907,843.84
Capital appropriations	1,559,740.62
Capital grants and gifts received	1,646,970.02
Purchases of capital assets and construction	(7,861,868.41)
Principal paid on capital debt	(2,191,104.09)
Interest paid on capital debt	(1,894,382.46)
Net cash used by capital and related financing activities	(5,832,800.48)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	13,118,694.73
Income on investments	579,157.59
Purchase of investments	(13,506,473.66)
Net cash provided by investing activities	191,378.66
Net increase in cash and cash equivalents	25,842,156.48
Cash and cash equivalents - beginning of year	40,679,877.32
Cash and cash equivalents - end of year	$ 66,522,033.80

TENNESSEE BOARD OF REGENTS
TENNESSEE STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(66,925,321.82)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense		9,691,524.89
Other adjustments (Note 17)		64,477.00
Change in assets and liabilities:		
Receivables, net		(1,020,785.51)
Inventories		189.94
Prepaid/deferred items		(22,842.41)
Accounts payable		865,965.83
Accrued liabilities		984,108.87
Deferred revenues		1,125,121.26
Deposits		(18,400.00)
Compensated absences		(97,039.94)
Due to grantors		112,097.25
Loans to students		181,935.80
Net cash used by operating activities	$	(55,058,968.84)
Noncash investing, capital, or financing transactions		
Unrealized gains/(losses) on investments	$	(229,707.05)
Loss on disposal of capital assets		(14,348.79)

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 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. See Note 18 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

The university and foundation's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 eligibility requirements imposed by the provider have been met. All significant interfund transactions have been eliminated.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The university has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The university has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

Amounts reported as operating revenues include (1) tuition and fees, net of waivers and discounts; (2) certain federal, state, local, and private grants and contracts; (3) sales and services of auxiliary enterprises; and (4) other sources of revenue. Operating expenses for the university include (1) salaries and wages; (2) employee benefits; (3) utilities, supplies, and other services; (4) scholarships and fellowships; and (5) depreciation.

All other activity is nonoperating in nature and includes (1) state appropriations for operations; (2) investment income; (3) bond issuance costs; (4) interest on capital asset-related debt; (5) certain grants and contracts; and (6) gifts and nonexchange transactions.

When both restricted and unrestricted resources are available for use, generally it is the university's policy to use the restricted resources first.

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 an average cost or first-in, first-out basis.

Compensated Absences

The university's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are reported in the statement of net assets.

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, and intangible assets, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation. 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.

These assets, with the exception of land, are depreciated/amortized using the straight-line method over the estimated useful lives, which range from 5 to 40 years.

Net Assets

The university's net assets are classified as follows:

<u>Invested in capital assets, net of related debt</u> - This represents the university's total investment in capital assets, net of outstanding debt obligations 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 invested in capital assets, net of related debt.

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

Expendable restricted net assets - Expendable restricted net assets include resources which the university is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

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

NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2011, cash consisted of $11,151,622.55 in bank accounts, $3,750.00 of petty cash on hand, $52,546,562.15 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $2,820,099.10 in LGIP deposits for capital projects.

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

NOTE 3. INVESTMENTS

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

At June 30, 2011, 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
U.S. agencies	$17,344,064.15	$ 561.32	$11,130,843.10	$6,137,472.90	$75,186.83
Certificates of deposit	403,688.64	403,688.64	-	-	-
Total	$17,747,752.79	$404,249.96	$11,130,943.10	$6,137,472.90	$75,186.83

Interest Rate Risk

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; banker’s acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool (LGIP). 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 using Standard and Poor's, Moody's, and/or Fitch and are presented below using the Standard and Poor's rating scale.

Tennessee Board of Regents policy restricts investments in banker's acceptances and commercial paper. The policy requires that prime banker's 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 banker's 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 under contract of sale or expected to move into the channel or trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

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

At June 30, 2011, the university's investments were rated as follows:

		Credit Quality Rating	
Investment Type	Fair Value	AAA	Unrated
LGIP	$55,366,661.25	$ -	$55,366,661.25
U.S.agencies	15,117,559.62	15,117,559.62	-
Total	$70,484,220.87	$15,117,559.62	$55,366,661.25

Concentration of Credit Risk

A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event the issuer fails on its obligations. Tennessee Board of Regents policy restricts investments in banker's acceptances, commercial paper, and money market mutual funds. The policy limits banker's acceptances to not exceed 20% of the total investments on the date of acquisition and limits the combined amount of banker's 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, 2011
Federal National Mortgage Association	29%
Federal Home Loan Mortgage Corporation	16%
Federal Home Loan Bank	39%

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2011
Student accounts receivable	$ 5,246,789.90
Grants receivable	8,285,642.43
Notes receivable	25,576.90
State appropriation receivable	137,600.00
Other receivables	569,639.01

Subtotal	14,265,248.24
Less allowance for doubtful accounts	(3,018,635.31)
Total receivables	$11,246,612.93

Federal Perkins Loan Program funds included the following:

	June 30, 2011
Perkins loans receivable	$2,975,184.33
Less allowance for doubtful accounts	(757,730.38)
Total	$2,217,453.95

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 9,525,009.24	$ -	$ -	$ -	$ 9,525,009.24
Land improvements and infrastructure	47,485,427.37	-	1,414,786.51	-	48,900,213.88
Buildings	209,616,191.98	-	-	-	209,616,191.98
Equipment	26,111,716.21	1,717,092.55	-	459,130.32	27,369,678.44
Library holdings	16,585,561.70	1,466,443.03	-	1,262,347.44	16,789,657.29
Intangible assets	2,679,599.36	-	-	-	2,679,599.36
Projects in progress	5,675,332.21	4,847,913.51	(1,414,786.51)	-	9,108,459.21
Total	317,678,838.07	8,031,449.09	-	1,721,477.76	3,988,809.40
Less accumulated depreciation/ amortization:					
Land improvements and infrastructure	31,178,307.24	1,714,578.46	-	-	32,892,885.70
Buildings	86,889,039.82	4,848,841.96	-	-	91,737,881.78
Equipment	20,574,035.17	1,210,747.40	-	444,781.53	21,340,001.04
Library holdings	8,928,659.82	1,678,965.73	-	1,262,347.44	9,345,278.11

Intangible assets	1,010,860.01	238,391.34	-	-	1,249,251.35
Total	148,580,902.06	9,691,524.89	-	1,707,128.97	156,565,297.98
Capital assets, net	$169,097,936.01	$ (1,660,075.80)	$ -	$ 14,348.79	$167,423,511.42

NOTE 6. ACCOUNTS PAYABLE

Accounts payable included the following:

	June 30, 2011
Vendors payable	$2,615,321.33
Sales tax payable	5.74
Unclaimed checks payable	61,053.22
Student refunds payable	956,709.74
Other payable	176,160.35
Total accounts payable	$3,809,250.38

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 38,133,462.31	$ -	$2,191,104.09	$35,942,358.22	$ 2,296,833.44
Commercial paper	292,156.16	2,907,843.84	-	3,200,000.00	-
Subtotal	38,425,618.47	2,907,843.84	2,19 1,104.09	39,142,358.22	2,296,833.44
Other liabilities:					
Compensated absences	5,037,691.37	2,392,034.23	2,489,074.17	4,940,651.43	1,007,663.77
Due to grantors	3,708,971.25	92,238.07	32,814.63	3,768,394.69	-
Net OPEB obligation	5,456,386.81	1,088,708.47	-	6,545,095.28	-
Subtotal	14,203,049.43	3,572,980.77	2,521,888.80	15,254,141.40	1,007,663.77
Total long-term liabilities	$ 52,628,667.90	$ 6,480,824.61	$ 4,712,992.89	$ 54,396,499.62	$ 3,304,497.21

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 3.25% to 5.00%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2032 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations; see Note 10 for further details. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the statement of net assets is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was $530,473.56 at June 30, 2011.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2011, are as follows:

Year Ending June 30	Principal	Interest	Total
2012	$ 2,296,833.44	$ 1,774,019.77	$ 4,070,853.21
2013	2,378,345.14	1,678,048.66	4,056,393.80
2014	2,484,823.22	1,565,070.01	4,049,893.23
2015	2,545,961.60	1,454,319.91	4,000,281.51
2016	2,373,503.55	1,340,368.56	3,713,872.11
2017 – 2021	11,431,413.00	4,996,572.30	16,427,985.30
2022 – 2026	8,453,879.76	2,368,769.82	10,822,649.58
2027 – 2031	3,482,572.31	560,963.84	4,043,536.15
2032	495,026.20	24,751.32	519,777.52
Total	$ 35,942,358.22	$ 15,762,884.19	$ 51,705,242.41

TSSBA Debt - Commercial Paper

The Tennessee State School Bond Authority issues commercial paper to finance the costs of various capital projects during their construction phase. When projects are placed in service, long-term, fixed-rate debt is issued by TSSBA to finance the project over its useful payback period and the commercial paper is redeemed. The amount issued for projects at the university was $3,200,000.00 at June 30, 2011.

For the commercial paper program, the Tennessee State School Bond Authority maintains an interest rate reserve fund. The university contributes amounts to the reserve fund based on the amounts drawn. The principal of the reserve will be contributed to pay off notes or credited back to the university when the notes are converted to bonds. The interest earned on the reserve is used to pay interest due during the month.

More detailed information regarding the bonds and commercial paper can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report is available on the state's website at www.comptroller1.state.tn.us/tssba/cafr.asp.

NOTE 8. ENDOWMENTS

If a donor has not provided specific instructions to the university, state law permits the university 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 university is required to consider the university's 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 spent is required to be spent for the purposes for which the endowment was established.

The university chooses to spend only a portion of the investment income each year. At June 30, 2011, net appreciation of $43,567.04 is available to be spent, of which $2,109.91 is included in restricted net assets expendable for scholarships and fellowships, and $41,457.13 is included in restricted net assets expendable for instructional departmental uses.

NOTE 9. UNRESTRICTED NET ASSETS

Unrestricted net assets include funds that have been designated for specific purposes. The unrestricted net assets are composed of the following:

	June 30, 2011
Working capital	$ 1,655,284.21
Encumbrances	2,165,311.81
Designated fees	903,086.09

Auxiliaries	2,772,956.73
Plant construction	33,647,679.59
Renewal and replacement of equipment	8,489,340.43
Undesignated	5,025,308.73
Total	$54,658,967.59

NOTE 10. PLEDGED REVENUES

The university has pledged certain revenues and fees, including state appropriations, to repay $35,942,358.22 in revenue bonds (see Note 7 for additional details) issued from May 1990 to November 2008. Proceeds from the bonds provided financing for Dormitory Renovations, Student Housing/Apartments, North Campus Improvements, Chiller Replacement, Research and Sponsored Programs Building, Student Housing Fire Suppression, Energy Savings Performance Contracting, and Avon Williams Campus. The bonds are payable through 2032. Annual principal and interest payments on the bonds are expected to require 3% of available revenues. The total principal and interest remaining to be paid on the bonds is $51,705,242.41. Principal and interest paid for the current year and total available revenues were $4,080,602.53 and $138,885,307.85, respectively.

NOTE 11. PENSION PLANS

A. Defined Benefit Plans

1. Tennessee Consolidated Retirement System

Plan Description - The university contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated,* establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report is available on the state's website at http://www.state.tn.us/treasury/tcrs/index.html.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 14.91% of annual covered payroll. Contribution requirements for the university are established and may be amended by the TCRS' Board of Trustees. The university's contributions to TCRS for the years ended June 30, 2011, 2010, and 2009 were $4,078,956.87, $3,621,292.79, and $3,926,390.23. Contributions met the requirements for each year.

2. Federal Retirement Program

Plan Description - The university contributes to the Federal Retirement Program, a cost-sharing, multiple-employer, defined benefit pension plan administered by the Civil Service Retirement System (CSRS) for participants employed prior to January 1, 1984, and the Federal Employees Retirement System (FERS) for participants employed after December 31, 1983. Both systems provide retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. All regular full-time employees of the Tennessee State University Agricultural Extension Service who hold federal appointments for 51% or more of their time are required to participate in either one of the two Federal Retirement Programs. For both systems, benefit provisions are established in 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, 2011, were $42,711.56, which consisted of $21,355.78

from the university and $21,355.78 from the employees. Contributions for the year ended June 30, 2010, were $45,778.12, which consisted of $22,889.06 from the university and $22,889.06 from the employees. Contributions for the year ended June 30, 2009, were $52,581.80, which consisted of $26,290.90 from the university and $26,290.90 from the employees. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans

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

Funding Policy - Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contributions made by the university to the plans were $3,668,221.04 for the year ended June 30, 2011, and $3,756,432.87 for the year ended June 30, 2010. Contributions met the requirements for each year.

NOTE 12. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible university retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-101, *Tennessee Code Annotated*. Prior to reaching age 65, retirees may participate in the State Employee Group Plan. In previous fiscal years, prior to reaching the age of 65, all members had the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. However, as of January 1, 2011, the insurance plan structure was changed and as a result, all members now have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits. Subsequent to age 65, retirees who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the university's eligible retirees; see Note 17. The plans are reported in the State of Tennessee's *Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

Special Funding Situation

The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including Tennessee State University. The state is the sole contributor for the university retirees that 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. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated,* retirees in the State Employee Group Plan pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service are subsidized 80%; 25 years, 70%; and 20 years, 60%. Retirees who are 65 years of age or older have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; 25 years, $37.50; and 20 years, $25.

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

Annual required contribution (ARC)	$ 2,275,000.00
Interest on the net OPEB obligation	245,537.41
Adjustment to the ARC	(232,572.64)
Annual OPEB cost	2,287,964.77
Amount of contribution	(1,199,256.30)
Increase in net OPEB obligation	1,088,708.47
Net OPEB obligation – beginning of year	5,456,386.81
Net OPEB obligation – end of year	$ 6,545,095.28

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2011	State Employee Group Plan	$ 2,287,964.77	52.4%	$ 6,545,095.28
June 30, 2010	State Employee Group Plan	$ 2,516,339.06	39.4%	$ 5,456,386.81
June 30, 2009	State Employee Group Plan	$ 3,130,404.95	38.4%	$ 3,930,462.13

Funded Status and Funding Progress

The funded status of the university's portion of the State Employee Group Plan as of July 1, 2010, was as follows:

State Employee Group Plan

Actuarial valuation date	July 1, 2010
Actuarial accrued liability (AAL)	$ 20,747,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$20,747,000.00
Actuarial value of assets as a percentage of the AAL	0%
Covered payroll (active plan members)	$ 71,599,111.07
UAAL as percentage of covered payroll	29.0%

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, 2010, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10 percent in fiscal year 2011. The rate decreased to 9.5 percent in fiscal year 2012, and then reduced by decrements of 0.5 percent per year to an ultimate rate of 5 percent in fiscal year 2021. All rates include a 3 percent 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.

NOTE 13. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years. The Risk Management Fund is also responsible for claims for damages to state-owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from $25,000 per occurrence, depending on the type of coverage, to an aggregate of $5 million.

The university participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2011, and June 30, 2010, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html. Since the university participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2011, the Risk Management Fund held $107.6 million in cash and cash equivalents designated for payment of claims.

At June 30, 2011, the scheduled coverage for the university was $587,223,500.00 for buildings and $87,980,200.00 for contents.

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

NOTE 14. COMMITMENTS AND CONTINGENCIES

Sick Leave

The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $31,538,612.38 at June 30, 2011.

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 $237,637.28 and for personal property were $152,893.90 for the year ended June 30, 2011. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2011, outstanding commitments under construction contracts totaled $4,576,689.68 for ADA Improvements, Avon Williams Campus Improvements, Biotech Security Center, Performing Arts/Radio Station, Football Practice Facility, Power Plant Mechanical Upgrades, Housing Upgrades/Improvements, and Roof Repair/Replacements, of which $1,749,875.76 will be funded by future state capital outlay appropriations.

Litigation

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

NOTE 15. CHAIRS OF EXCELLENCE

The university had $4,749,453.56 on deposit at June 30, 2011, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

NOTE 16. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses for the year ended June 30, 2011, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$35,932,655.22	$10,954,690.96	$16,578,136.08	$ 2,294,584.81	$ -	$ 65,760,067.07
Research	6,181,176.94	1,677,663.60	2,897,676.37	808,080.21	-	11,564,597.12
Public service	4,574,542.65	1,883,239.28	1,193,424.70	7,146.00	-	7,658,352.63
Academic support	5,979,175.77	2,173,727.31	2,479,367.07	73,996.75	-	10,706,266.90
Student services	7,070,411.12	2,403,170.22	4,625,038.16	2,760,285.72	-	16,858,905.22
Institutional support	9,267,525.65	3,578,560.27	2,579,918.78	7,161.00	-	15,433,165.70
Maintenance & operation	2,903,488.54	1,496,816.61	7,565,040.13	19,431.00	-	11,984,776.28
Scholarships & fellowships	-	-	129,925.00	9,677,321.96	-	9,807,246.96
Auxiliary	1,915,416.30	621,121.75	9,026,090.14	56,286.50	-	11,618,914.69
Depreciation	-	-	-	-	9,691,524.89	9,691,524.89
Total	$73,824,392.19	$24,788,990.00	$47,074,616.43	$15,704,293.95	$9,691,524.89	$171,083,817.46

NOTE 17. ON-BEHALF PAYMENTS

During the year ended June 30, 2011, the State of Tennessee made payments of $64,477.00 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 12. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

NOTE 18. COMPONENT UNIT

The Tennessee State University Foundation is a legally separate, tax-exempt organization supporting Tennessee State University. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the university in support of its programs. The 20-member board of the foundation is self-perpetuating and consists of graduates and friends of the university. The size of the board shall be determined by the majority votes of its members, any vacancy in its membership shall be filled in the same way. The entire membership of the Board of Trustees shall not exceed twenty-five (25) in number and a minimum of eight (8). All trustees shall serve until the expiration of their respective terms and until their respective successors are selected and qualified. 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, 2011, the foundation made distributions of $74,782.65 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Betsy Jackson, Executive Director, 3500 John A. Merritt Boulevard, Nashville, TN 37209.

Cash and Cash Equivalents

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2011, cash and cash equivalents consisted of $4,306,921.34 in bank accounts and $2,630,066.53 in money market accounts.

Investments

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

At June 30, 2011, the foundation had the following investments and maturities:

		Investment Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10	No Maturity Date
U.S. Treasury	$ 2,663,734.80	$ -	$ 761,845.45	$1,901,889.35	$ -	$ -
U.S. agencies	937,673.69	84,084.44	853,589.25	-	-	-
Corporate stocks	15,345,231.48	-	-	-	-	15,345,231.48
Corporate bonds	6,096,240.66	54,926.91	3,753,933.36	2,287,380.39	-	-
Mutual bond funds	235,465.63	-	-	-	-	235,465.63
Mutual equity funds	491,786.94	-	-	-	-	491,786.94
Foreign stocks	2,173,624.82	-	-	-	-	2,173,624.82
International mutual funds	2,911,066.76	-	-	-	-	2,911,066.76
Mortgage backed securities	1,038,300.62	-	-	77,167.74	961,132.88	-
Collateralized mortgage obligations	1,088,867.97	-	711,525.94	28,397.91	348,944.12	-
Rights and warrants	9,546.01	-	-	9,546.01	-	-
Real estate investment trusts	2,201,941.86	-	-	-	-	2,201,941.86
Money market accounts	1,339,486.63	-	-	-	-	1,339,486.63
Money market funds	1,290,579.90	-	-	-	-	1,290,579.90
Savings accounts	306,553.15	-	-	-	-	306,553.15
Less cash and cash equivalents:						
Money market accounts/funds	(2,630,066.53)	-	-	-	-	(2,630,066.53)
Savings accounts	(306,553.15)	-	-	-	-	(306,553.15)
Total	$35,193,481.24	$139,011.35	$6,080,894.00	$4,304,381.40	$1,310,077.00	$23,359,117.49

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

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

At June 30, 2011, the foundation's investments were rated as follows:

		Credit Quality Rating				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
U.S. agencies	$ 937,673.69	$ 937,673.69	$ -	$ -	$ -	$ -
Corporate bonds	6,096,240.66	192,327.80	588,432.16	4,570,792.99	744,687.71	-
Mutual bond funds	235,465.63	-	-	-	-	235,465.63
Collateralized mortgage obligations	1,088,867.97	1,088,867.97	-	-	-	-
Money market funds	1,290,579.90	-	-	-	-	1,290,579.90
Total	$ 9,648,827.85	$ 2,218,869.46	$ 588,432.16	$ 4,570,792.99	$ 744,687.71	$ 1,526,045.53

Alternative Investments

The foundation has investments in Real Estate Investment Trusts. The estimated fair value of these assets is $2,201,941.86 at June 30, 2011.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2011. 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 shares for Inland American is estimated to be the offering of $8.03 per share (ignoring purchase price discounts for certain categories of purchasers). This estimated value may not reflect the actual market value of these shares on any given date.

The value of shares for Behringer Harvard is estimated to be the offering of $4.55 per share (ignoring purchase price discounts for certain categories of purchasers). This estimated value may not reflect the actual market value of these shares on any given date.

Capital Assets

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Dr. Bobby Jones Television Show audio and video collection	$ 6,000,000.00	$ -	$ -	$ -	$ 6,000,000.00
Capital assets	$ 6,000,000.00	$ -	$ -	$ -	$ 6,000,000.00

Endowments

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

General Endowment – The foundation chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, 70% of the 3-year rolling average of net earnings has been authorized for expenditure. The remaining amount is reinvested in the endowment. At June 30, 2011, net appreciation of $366,536.09 is available to be spent, of which $335,730.63 is included in restricted net assets expendable for scholarships and fellowships, $11,694.24 is included in restricted net assets expendable for instructional departmental uses, and $19,111.22 is included in restricted net assets expendable for other.

Consent Decree Endowment – According to the established agreement within the Consent Decree, the budget committee shall appropriate for distribution each year from Consent Decree Endowment Funds an amount equal to 75% of the interest and dividend income. The remaining 25% is to be reinvested in the corpus of the fund. At June 30, 2011, net appreciation of $171,390.04 is available to be spent, all of which is included in restricted net assets expendable for other.

Title III Endowment – According to the established agreement between the Foundation and the Tennessee State University Title III Program, an amount equal to 50% of the interest and dividend income should be allocated for distribution annually. The remaining 50% is to be reinvested in the corpus of the fund. At June 30, 2011, net appreciation of $499,168.73 is available to be spent, all of which is included in restricted net assets expendable for other.

Tennessee Board of Regents
Tennessee State University
Required Supplementary Information
OPEB Schedule of Funding Progress
Unaudited

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, 2010	State Employee Group Plan	$ -	$20,747,000	$20,747,000	0%	$71,599,111	29.0%
July 1, 2009	State Employee Group Plan	$ -	$22,568,000	$22,568,000	0%	$72,648,998	31.1%
July 1, 2007	State Employee Group Plan	$ -	$26,258,000	$26,258,000	0%	$92,730.202	28.3%

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

TENNESSEE BOARD OF REGENTS
TENNESSEE STATE UNIVERSITY
SUPPLEMENTARY INFORMATION
SCHEDULE OF CASH FLOWS - COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$	1,189,709.55
Payments to suppliers and vendors		(762,735.15)
Payments for scholarships and fellowships		(707,323.50)
Payments to Tennessee State University		(74,782.65)
Other receipts (payments)		290,246.72
Net cash used by operating activities		(64,885.03)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gifts and grants received for other than capital or endowment purposes		772,780.00
Private gifts for endowment purposes		114,482.34
Net cash provided by noncapital financing activities		887,262.34
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		6,562,576.34
Income on investments		876,709.64
Purchases of investments		(8,421,752.14)
Net cash used by investing activities		(982,466.16)
Net decrease in cash and cash equivalents		(160,088.85)
Cash and cash equivalents - beginning of year		7,097,076.72
Cash and cash equivalents - end of year	$	6,936,987.87

Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(48,592.51)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Changes in assets and liabilities:		
Receivables, net		1,721.59
Accounts payable		(18,014.11)
Net cash used by operating activities	$	(64,885.03)
Noncash investing, capital, or financing transactions		
Unrealized gains on investments	$	3,818,994.03