AUDIT REPORT

Tennessee Board of Regents
Tennessee State University

For the Year Ended
June 30, 2012

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

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June 13, 2013

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. Glenda Baskin Glover, President
Tennessee State University
3500 John 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, 2012. 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 findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

DVL/mk
12/082

State of Tennessee

A u d i t   H i g h l i g h t s

Comptroller of the Treasury   Division of State Audit

Financial and Compliance Audit
Tennessee State University
For the Year Ended June 30, 2012

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.

INTERNAL CONTROL FINDINGS

Tennessee State University management failed to provide adequate program change management over the Banner computer system, which increased the risk of fraud or error
Management of the university's Communications and Information Technology group has not established and implemented effective policies and procedures over program changes to the Banner system (page 9).

The university failed to provide adequate access controls over the Banner computer system, which increased the risk of fraud or error
Management of the university's Communications and Information Technology group did not provide for adequate internal controls over access to its Banner computer system (page 11).

The university did not assess and mitigate the risks associated with inappropriate user access to information systems, increasing the risk of fraudulent activity
The Communications and Information Technology group at Tennessee State University did not always take proper steps to ensure user access to information systems was appropriate, resulting in an increased risk of fraudulent activity (page 12).

Tennessee State University management has not assessed and mitigated the risks associated with its failure to develop written policies and procedures over information systems
Tennessee State University has not established information systems policies and procedures to direct its operations (page 13).

Both the employee and employer portions of insurance premiums charged in the payroll system have conflicted with actual remittances to the state's Division of Benefits Administration
Our comparison of insurance premiums in the university's payroll records and insurance premiums remitted to the State of Tennessee found significant differences (page 14).

Two of the deficiencies described above were considered material weaknesses:

- Tennessee State University management failed to provide adequate program change management over the Banner computer system, which increased the risk of fraud or error
- The university failed to provide adequate access controls over the Banner computer system, which increased the risk of fraud or error

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 university's financial statements will not be prevented, or detected and corrected on a timely basis.

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, 2012

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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, 2011, through June 30, 2012, 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, 2012. 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 August 30, 2012. A follow-up of the prior audit findings was conducted as part of the current audit. The current audit disclosed that the university has corrected the previous audit finding concerning compliance with federal guidelines regarding reconciliations related to the Direct Loan Servicing System.

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 controls 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, 2012, 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. Significant deficiencies and material weaknesses, along with recommendations and management's responses, are detailed in the Findings and Recommendations section.

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.

Fairness of Financial Statement Presentation

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

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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*

November 21, 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 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, 2012, and have issued our report thereon dated November 21, 2012. 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.

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

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

- Tennessee State University management failed to provide adequate program change management over the Banner computer system, which increased the risk of fraud or error
- The university failed to provide adequate access controls over the Banner computer system, which increased the risk of fraud or error

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

- The university did not assess and mitigate the risks associated with inappropriate user access to information systems, increasing the risk of fraudulent activity
- Tennessee State University management has not assessed and mitigated the risks associated with its failure to develop written policies and procedures over information systems

- Both the employee and employer portions of insurance premiums charged in the payroll system have conflicted with actual remittances to the state's Division of Benefits Administration

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the university's financial statements are free 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 noted certain matters that we reported to the management of Tennessee State University in a separate letter.

Tennessee State University's responses to the findings identified in our audit are included in the Findings and Recommendations section of this report. We did not audit the university's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the 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/mk

FINDINGS AND RECOMMENDATIONS

1. Tennessee State University management failed to provide adequate program change management over the Banner computer system, which increased the risk of fraud or error

Finding

Management of the university's Communications and Information Technology (CIT) group has not established and implemented effective policies and procedures over program changes to the Banner system. We observed significant conditions that were in violation of industry-accepted best practices, including insufficient program change documentation and a lack of separation of duties. Failure to consistently apply proper change management controls across the university's computing environment increases the risk of fraud and error.

Program changes to the Banner system at TSU consist of updates received by the Tennessee Board of Regents (TBR) and university-specific changes. The updates received by TBR include both vendor patches and modifications created by TBR. University-specific changes are those that address specific needs unique to the university. According to management, no university-specific changes were made to Banner during the audit period.

We reviewed supporting documentation for eight TBR-provided program changes made during the audit period. Because there are only limited procedures relating to program changes, CIT personnel were unable to provide adequate documentation for these changes. For example, management could not provide evidence that these changes had been tested by either the CIT department or the functional users. Additionally, management's final approval to make these changes was not documented.

Good program change controls require that all changes be made first in a test environment, and that the changes be made to the production environment by someone other than the one who made the change in the test environment. Management of the CIT group told us, however, that there are no controls in place to segregate these duties. We found that those authorized to make changes, including changes from TBR, have access to both the test and production environments, and that it is management's practice for the same person to make both changes. Furthermore, CIT management reported to us that the Banner system does not have the technical capability to require that changes be made with unique user accounts. Instead, system accounts are used to make changes, and these accounts are shared by multiple programmers. As a result, changes cannot be traced back to one person. CIT management has not implemented mitigating controls to reduce the risks of this apparent limitation inherent in the Banner system.

Without adequate program change controls in place, there is a high risk that unauthorized or untested changes could occur without detection, potentially resulting in either fraud or error. In addition, the conditions noted in this finding create the possibility that multiple programmers could simultaneously change the same source code. It appears that CIT management was aware of these inadequate controls and has been relying on the trustworthiness of its staff instead of implementing industry-accepted program change controls.

We also reviewed management's risk assessment and found that management has not appropriately identified and mitigated risks of failure to properly document and control Banner program changes.

Recommendation

The Vice President for Administration should immediately direct senior management over the Communications and Information Technology group to establish and implement effective program change policies and procedures. When developing these policies and procedures, management should consider the documentation required for all program changes. At a minimum, the documentation should include the requesting user's identification, the date the change was requested, a description of the requested change, management's approval, the programmer's identification, the testing performed and results, the date completed, the user's acceptance of the completed change, and when and by whom the change was made in production.

Also, management over the CIT group should review controls over the program change process. As part of this review, management should consider a library control solution that will provide better access and version control. Ideally, programmer duties should be separated in that the same person should not be authorized to make a change in both the test and production environments. In addition, management should implement controls to mitigate the risks associated with the use of shared accounts to make program changes.

The Vice President for Administration must require that risks associated with this finding are adequately identified and assessed in the university's documented risk assessment and must also implement effective controls to ensure compliance with applicable requirements, assign staff to be responsible for ongoing monitoring of the risks and mitigating controls, and take action if deficiencies occur. The Vice President for Administration should also take all other steps available to establish or improve any compensating controls until these conditions are remedied.

Management's Comment

We concur. Procedures were in place to provide adequate program change management, but the procedures lacked sufficient documentation. The Vice President for Administration will ensure that the Management Information Systems (MIS) group in Communications and Information Technology (CIT) and Banner functional security officers document procedures adequately for requesting and approving changes to the Banner System. The procedures will include the steps to process updates for the Tennessee Board of Regents.

Procedures will also be documented on processing university-specific changes and these procedures will be promulgated to the Vice President for Administration, the MIS group, and Banner functional security officers. They will also be posted on the MIS website.

The Vice President for Administration will ensure that the MIS group implements mitigating controls to reduce the risks associated with an inherent limitation in the Banner System, which requires updates to the database and programming changes be made using a specified system account. Each staff member will be required to use his/her unique account to log into the system and use the *switch users* command to access the appropriate Banner system account. This procedure will allow session activity on the system to be stored in a log file for each user. In addition, the Vice President for Administration will ensure that information security risks related to this finding are addressed in the university's risk assessment.

The procedures for program change controls have already been implemented. The documented versions of the procedures will be completed by March 1, 2013.

2. <u>The university failed to provide adequate access controls over the Banner computer system, which increased the risk of fraud or error</u>

Finding

Management of the university's Communications and Information Technology (CIT) group did not provide for adequate internal controls over access to its Banner computer system. We observed conditions that were in violation of university policy and industry-accepted best practices. Failure to consistently apply proper access controls across the university's computing environment increases the risk of fraud, error, and inappropriate access to sensitive data and equipment.

The wording of this finding does not identify specific vulnerabilities that could allow someone to exploit the university's systems. Disclosing those vulnerabilities could present a potential security risk by providing readers with information that might be confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the university with detailed information regarding the specific vulnerabilities we identified as well as our recommendations for improvement.

Recommendation

The Vice President for Administration should ensure that these conditions are remedied by the prompt development and implementation of effective access controls. In addition, the Vice President for Administration should ensure that risks associated with this finding are adequately identified and assessed in the university's documented risk assessment. The Vice President for Administration should implement effective controls to ensure compliance with applicable requirements, assign staff to be responsible for ongoing monitoring of the risks and mitigating controls, and take action if deficiencies occur.

Management's Comment

We concur. The Vice President for Administration will ensure that CIT management and the CIT Systems Support group refine the university's access control policy to follow industry-accepted best practices. The access control policy will apply to all systems in the computing environment. The access control policy will be documented and promulgated to the Vice President for Administration, the CIT Department, and an electronic version will be included on the CIT website. The university access control policy will be completed and promulgated to the university by March 1, 2013.

The Vice President for Administration will ensure that information security risks related to this finding are identified and addressed in the university's risk assessment.

3. The university did not assess and mitigate the risks associated with inappropriate user access to information systems, increasing the risk of fraudulent activity

Finding

The Communications and Information Technology (CIT) group at Tennessee State University did not always take proper steps to ensure user access to information systems was appropriate, resulting in an increased risk of fraudulent activity. The wording of this finding does not identify specific vulnerabilities that could allow someone to exploit the university's systems. Disclosing those vulnerabilities could present a potential security risk by providing readers with information that might be confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided university management with detailed information regarding the specific vulnerabilities we identified as well as our recommendations for improvement.

Recommendation

The Vice President for Administration should ensure that these conditions are remedied through procedures that encompass all aspects of effective access controls. In addition, the Vice President for Administration should ensure that risks associated with this finding are adequately identified and assessed in the university's documented risk assessment. The Vice President for Administration should implement effective controls to ensure compliance with applicable requirements, assign staff to be responsible for ongoing monitoring of the risks and mitigating controls, and take action if deficiencies occur.

Management's Comment

We concur. Procedures were in place to ensure appropriate access to information systems at the university, but the procedures lacked sufficient documentation. The Vice President for Administration will ensure that the CIT MIS group and the CIT Systems Support group document procedures adequately for managing access to the Banner system. These procedures will be implemented immediately. The documented versions of the procedures will be completed by March 1, 2013.

The university will continue to review current policies to ensure that the relevant risks are adequately addressed. In addition, the Vice President for Administration will ensure that these risks are addressed in the university's risk assessment.

4. Tennessee State University management has not assessed and mitigated the risks associated with its failure to develop written policies and procedures over information systems

Finding

Tennessee State University has not established information systems policies and procedures to direct its operations. Documented information systems policies and procedures are necessary to ensure that functions are accomplished consistently and that change to programs and databases, physical and logical security, backup and recovery, review and supervision of staff, and other information systems related activities are in accordance with management's intentions.

Without these policies and procedures, the university does not have sufficient guidance to effectively direct, control, operate, and maintain any of its systems. In addition, the absence of policies and procedures influences many aspects of information systems operations, including issues identified in this report such as the lack of controls over Banner program changes and Banner system access.

We also reviewed management's risk assessment and found that management had not appropriately identified or mitigated the risks related to not having information systems policies and procedures.

Recommendation

The Vice President for Administration should ensure that these conditions are remedied by the prompt development and implementation of effective policies and procedures over its information systems operations. These policies and procedures should be designed to provide guidance for the execution of effective daily operations.

In addition, the Vice President for Administration must require that risks associated with this finding are adequately identified and assessed in the university's documented risk assessment and must also implement effective controls to ensure compliance with applicable requirements, assign staff to be responsible for ongoing monitoring of the risks and mitigating controls, and take action if deficiencies occur. The Vice President for Administration should also take all other steps available to establish or improve any compensating controls until these conditions are remedied.

Management's Comment

We concur. The Vice President for Administration will ensure that CIT management documents and promulgates policies and procedures for key areas of CIT's information systems operations, including physical and environmental security, backup and recovery for systems supporting the Banner application, and information security. The policies and procedures for program changes, access controls, and Banner user authorization will be completed by March 1, 2013. All other policies and procedures will be reviewed and updated by April 30, 2013.

The Vice President for Administration will ensure that information security risks related to this finding are identified and addressed in the university's risk assessment.

5. Both the employee and employer portions of insurance premiums charged in the payroll system have conflicted with actual remittances to the state's Division of Benefits Administration

Finding

As part of our audit, we asked business office staff if they were aware of any problems that might have a significant impact on financial reporting. Staff informed us of continuing differences between insurance premiums per the payroll records and insurance premiums remitted to the State of Tennessee, Department of Finance and Administration, Division of Benefits Administration. Our review of the records confirmed that significant problems existed. These erroneous insurance premiums occurred and went uncorrected because a proper reconciliation between information in the university's information system (Banner) and information in the state's information system (Edison) was not being performed.

Staff from the Department of Finance and Accounting had been attempting to reconcile the deduction premiums charged in the TSU payroll register with the benefits premiums paid to the State of Tennessee. The individual who performed this reconciliation would not have access to the Human Resources benefit files and was not able to substantiate reasons for any differences noted. In July of 2012, the former Associate Director in Human Resources reconciled the total deduction premiums charged in the TSU payroll register in May 2012 with the benefit premiums paid during May 2012. Based on our review of the reconciliation performed, several individuals were identified with insurance premium differences. Several individuals' benefit premiums were corrected; however, we examined June data and determined that many of the individual problems with premiums still existed. Human Resources completed the reconciliation for June 2012 at some point in August 2012; however, it was not provided to us until late October 2012.

For the year ended June 30, 2012, there were 587 individuals with differences greater than $1. Fifty-four of these 587 individuals had differences of more than $1,000. We reviewed the records of all of these 54 individuals as well as the 39 other individuals who appeared in one system but not the other. Our results were as follows:

- Differences greater than $1,000 – (1) the university erroneously paid $85,359.93 for terminated employees, employees on FMLA leave or leave without pay, or other discrepancies and (2) employees were overcharged $7,734.80 for insurance.

- Differences for other individuals in one system but not the other – (1) the university erroneously paid $2,903.98 for terminated employees, employees on FMLA leave or leave without pay, or other discrepancies and (2) employees were overcharged $685.13 for insurance.

- Total incorrect payments for the individuals examined – (1) the university erroneously paid $88,263.91 for terminated employees, employees on FMLA leave or leave without pay, or other discrepancies and (2) employees were overcharged $8,419.93 for insurance. These totals do not include amounts for employees appearing in both systems with differences below $1,000.

When we discussed these issues with the Associate Vice President of Human Resources, she stated that she was not aware of the extent of the problem until recently. Within the current system, TSU must use two information systems for processing its benefits for employees. The nature of this system lends itself to discrepancies, although the Associate Vice President stated that every attempt is made to minimize the errors. According to the Associate Vice President, some form of reconciliation had been done, but not to the extent of reconciling each employee by name and benefits for each billing cycle. As a result, the different deadline dates within the two systems would create variances. The Associate Vice President gave additional reasons for the errors as follows: TSU must collect premiums a month in advance regardless of the date on which the employee starts, employees may not submit required forms timely, changes may not be made by Benefits Administration timely, notification of changes in insurance premium rates may be late, and salary updates within the Edison information system are infrequent.

Although some of these issues may be because of untimely changes at Benefits Administration with the state or untimely receipt of changes from employees, it is the responsibility of TSU's Human Resources to ensure that changes are made. Also, because Benefits Administration with the state does not have any access to TSU records, any errors made by Benefits Administration must still be followed up on by university staff regardless of the origination of the error.

Errors involving employee benefits are detrimental to the university. If the university is paying for insurance premiums for terminated employees or other ineligible persons, these payments constitute waste and should be remedied immediately. If the university is withholding insurance premiums from current employees' payroll checks, but not remitting those funds with any applicable employer portion of the premiums through the proper channels at Benefits Administration, employees who seek medical or dental care may have difficulty providing proof of insurance to service providers.

Recommendation

The Vice President of Business and Finance should ensure that a monthly reconciliation of benefit premium charges in Banner is reconciled timely to benefit premiums remitted to Benefits Administration. Although the Benefits Specialist may prepare this reconciliation, someone other than the Benefits Specialist needs to review to ensure that it is adequate. Without a monthly reconciliation, discrepancies with premiums paid through the state cannot be discovered in a timely manner. The Vice President of Business and Finance should also ensure that differences with the monthly reconciliation are followed up and corrected in a timely manner.

The Vice President of Business and Finance should ensure that prior differences are thoroughly researched to determine if TSU owes employees refunds for premiums deducted from employees' paychecks when no coverage existed or if TSU should collect funds from employees.

Management's Comment

We concur. Prior to the audit by the State of Tennessee, the university identified during one of its routine systems reviews that there were discrepancies between insurance premiums collected from employees and amounts remitted to the State of Tennessee. The university brought this to the auditors' attention as an area of current focus. Discrepancies occur for various reasons, including those listed in the finding.

The university has implemented several changes to the new-hire process to ensure that new hires enroll in benefits in a timely manner. Employees are encouraged to periodically review their benefits information in Edison.

The university has implemented changes to the benefits reconciliation process to ensure that discrepancies are identified and corrected in a more timely manner, and to ensure that corrective measures taken are adequately documented.

In addition, the following changes will be instituted to ensure future discrepancies are identified in a timely manner:

- The Director or Associate Director of Human Resources will review the Edison report and approve the monthly reconciliations no later than three days after the billing is received. The Vice President for Business and Finance will also review and approve the reconciliations for a minimum period of six months, beginning March 2013.
- Life insurance remittances will be adjusted no later than March 31, 2013, to base premiums on the state's static salary file for that calendar year.
- Additional staff in Human Resources, Finance and Accounting, and/or other units will be identified and utilized in the reconciliation process no later than February 28, 2013.

- Prior differences will be thoroughly researched and refunds due to either the university or employees will be completed by April 30, 2013.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

November 21, 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 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, 2012, 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, 2012, 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 units as of June 30, 2012, 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 20, the financial statements of Tennessee State University Foundation, a discretely presented component unit of Tennessee State University, include investments valued at $2,169,063.77 (4.35 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 21 through 33 and the schedule of funding progress on page 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of

America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The accompanying financial information on page 65 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of the university's management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the 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 November 21, 2012, 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/mk

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, 2012, with comparative information presented for the fiscal year ended June 30, 2011. 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.

	University		Component Unit	
	2012	**2011**	**2012**	**2011**
Assets:				
Current assets	$ 40,012	$ 37,402	$ 7,148	$ 4,882
Capital assets, net	163,119	167,424	6,000	6,000
Other assets	62,677	62,295	37,897	37,249
Total Assets	**265,808**	**267,121**	**51,045**	**48,131**
Liabilities:				
Current liabilities	22,584	22,312	1,131	8
Noncurrent liabilities	50,588	51,092	-	-
Total Liabilities	**73,172**	**73,404**	**1,131**	**8**
Net Assets:				
Invested in capital assets, net of related debt	125,143	132,645	6,000	6,000
Restricted - nonexpendable	74	74	36,617	34,195
Restricted - expendable	6,145	6,339	7,125	7,748
Unrestricted	61,274	54,659	172	180
Total Net Assets	**$ 192,636**	**$ 193,717**	**$ 49,914**	**$ 48,123**

Comparison of FY 2012 to FY 2011 – Institution

- Current assets increased due to an increase in accounts, notes, and grants receivable due to an increase in student fees, and an increase in funds held in current investments due to lower interest rates.

- Invested in capital assets, net of related debt and capital assets, net decreased due to a change in account estimate related to the value of library holdings.

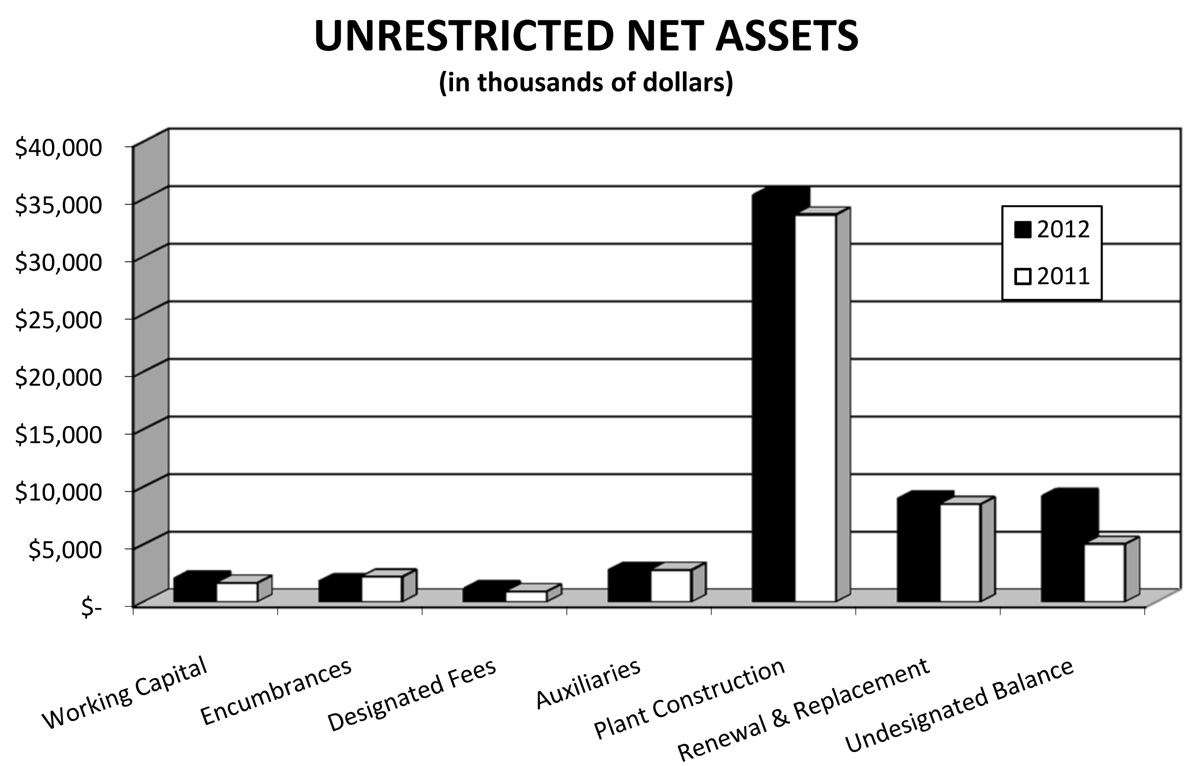
- Unrestricted net assets increased due to the increase of $2.5 million in net assets held for the Nursery Crop Research Station, TSU Cooperative Extension, and TSU Agricultural Research and the increase in revenues due to an increase in tuition and fees.

Comparison of FY 2012 to FY 2011 - Component Unit

- Current assets increased due to internal charges made by the foundation for the university for scholarships and other expenditures in which the transfer of cash was not made until after the end of the fiscal year.

- Restricted nonexpendable net assets increased in fiscal year 2012 due to the increased investment income from 2011 being allocated for reinvestment into the endowment.

Many of the university's unrestricted net assets have been designated for specific purposes such as repairs and replacement of equipment, future debt service, quasi-endowments, capital projects, and student loans. The following graph shows the allocations:



Comparison of FY 2012 to FY 2011

- The increase in unreserved/undesignated net assets is due primarily to an increase in Net Assets for the Nursery Crop Research Station, TSU Cooperative Extension, and TSU Agricultural Research due to federal and other grant revenues being awarded and therefore these grant funds being expended first. Expenditures were also limited due to positions not being filled during the current fiscal year.

- The increase in Plant Construction is due to transfers from Auxiliary and Unrestricted Funding of $3.2 million for future university funded capital or capital maintenance projects.

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

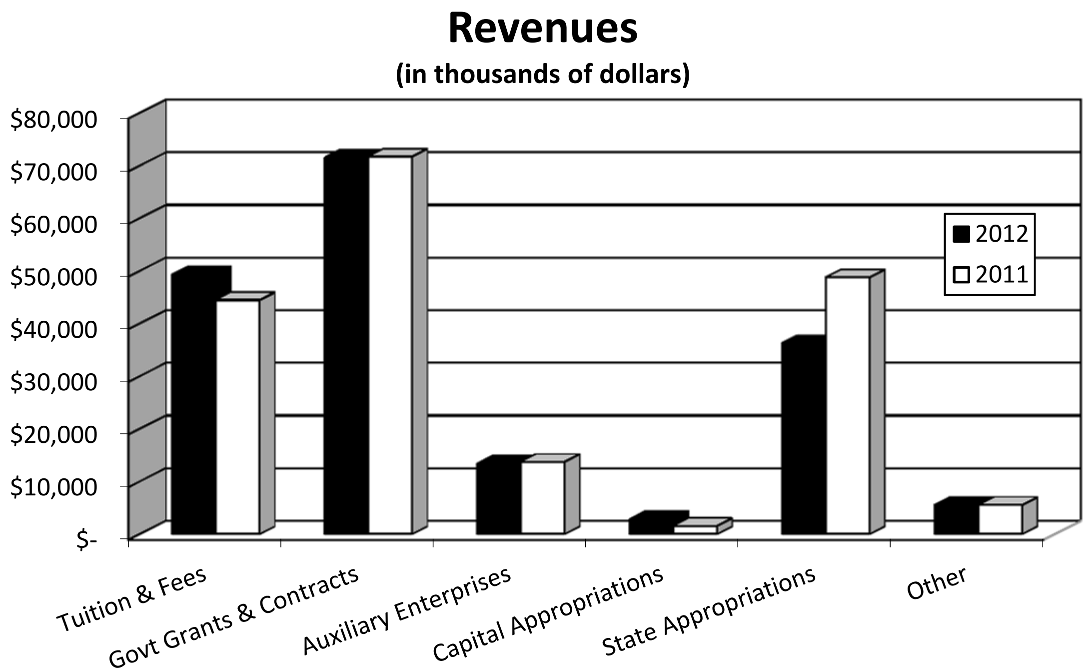
The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the university, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered non-operating revenues according to accounting principles generally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

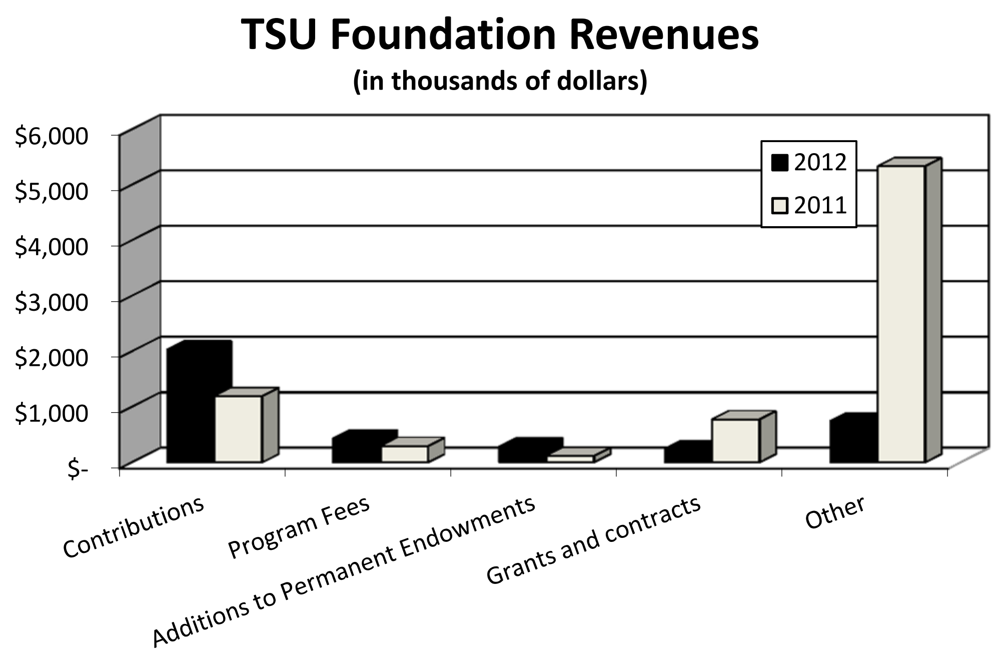
Tennessee State University
Changes in Net Assets
(in thousands of dollars)

	University 2012	University 2011	Component Unit 2012	Component Unit 2011
Operating revenues:				
Net tuition and fees	$ 49,297	$ 44,446	$ -	$ -
Grants and contracts	36,145	40,915	-	-
Auxiliary	13,387	13,700	-	-
Other	4,897	5,098	2,458	1,480
Total operating revenues	**103,726**	**104,159**	**2,458**	**1,480**
Operating expenses	177,107	171,084	1,930	1,529
Operating income (loss)	**(73,381)**	**(66,925)**	**528**	**(49)**
Nonoperating revenues and expenses:				
State appropriations	36,276	48,745	-	-
Gifts	213	75	-	-
Grants and contracts	31,272	29,574	239	773
Investment income	429	342	741	5,333
Other revenues and expenses	(1,696)	(1,880)	-	-
Total nonoperating revenues and expenses	**66,494**	**76,856**	**980**	**6,106**
Income (loss) before other revenues expenses, gain, or losses	**(6,887)**	**9,931**	**1,508**	**6,057**
Other revenues, expenses, gains, or losses:				
Capital appropriations	2,867	1,560	-	-
Capital grants and gifts	4,095	1,199	-	-
Additions to permanent endowments	-	-	283	115
Total other revenues, expenses, gains, or losses:	**6,962**	**2,759**	**283**	**115**
Increase in net assets	**75**	**12,690**	**1,791**	**6,172**
Net assets at beginning of year	193,717	181,027	48,123	41,951
Prior Period Adjustment	(1,156)	-	-	-
Net assets at end of year	**$ 192,636**	**$ 193,717**	**$ 49,914**	**$ 48,123**

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the university's operating activities for the years ended June 30, 2012, and June 30, 2011.


Revenues
(in thousands of dollars)
$80,000
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$-
2012
2011
Tuition & Fees
Govt Grants & Contracts
Auxiliary Enterprises
Capital Appropriations
State Appropriations
Other


TSU Foundation Revenues
(in thousands of dollars)
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$-
2012
2011
Contributions
Program Fees
Additions to Permanent Endowments
Grants and contracts
Other

Comparison of FY 2012 to FY 2011 - Institution

- Tuition and fees increased due to an increase approved by the Tennessee Board of Regents.

- State appropriations decreased due to a one-time additional state appropriation received in fiscal year 2011 due to the reduction of ARRA funds received in fiscal year 2010.

- Government grants and contracts decreased due to a decrease in grant awards including Tennessee Early Childhood Training Alliance (TECTA), which decreased over $2.5 million.

- Capital appropriations and capital gifts and grants increased due to construction-related expenditures and revenues for several projects including the Research Building, Boswell Fume Hoods, the Agriculture Greenhouse, and the Radio Station.

- Other revenues decreased due to the decrease in athletic game guarantees received.

Comparison of FY 2012 to FY 2011 - Component Unit

- In fiscal year 2011, investment income increased by $5 million due to market changes, but less than $1 million was received in investment income for fiscal year 2012.

- Contributions increased in fiscal year 2012 due to increased giving for the centennial anniversary.

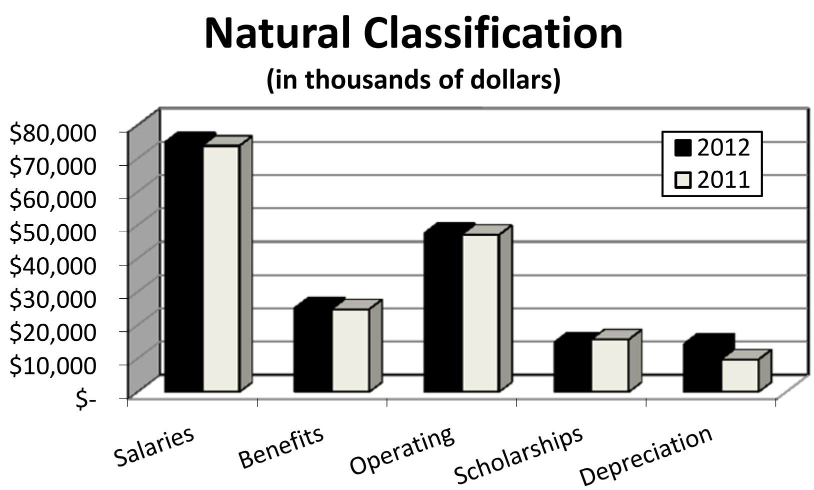
- Grants and contracts decreased due to state funding received in 2011 for the Consent Decree settlement.

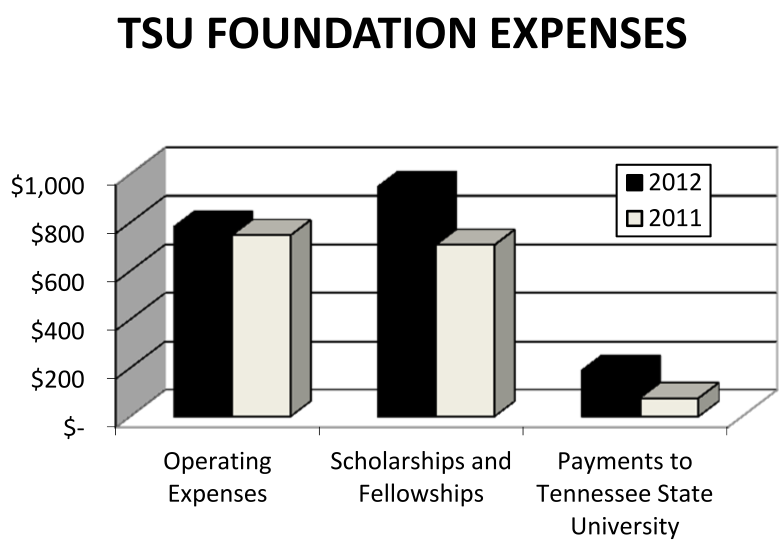
Expenses

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	
	2012	**2011**	**2012**	**2011**
Salaries	$ 74,941	$ 73,824	$ -	$ -
Benefits	25,205	24,789	-	-
Operating	47,676	47,075	794	747
Scholarships	14,869	15,704	947	707
Payments to TSU	-	-	189	75
Depreciation	14,416	9,692	-	-
TOTAL	**$177,107**	**$ 171,084**	**$ 1,930**	**$ 1,529**





Comparison of FY 2012 to FY 2011 - Institution

- Depreciation expenses increased due to a change in accounting estimate regarding the useful life of periodicals, causing $5.6 million of previously undepreciated library holdings to be expensed.

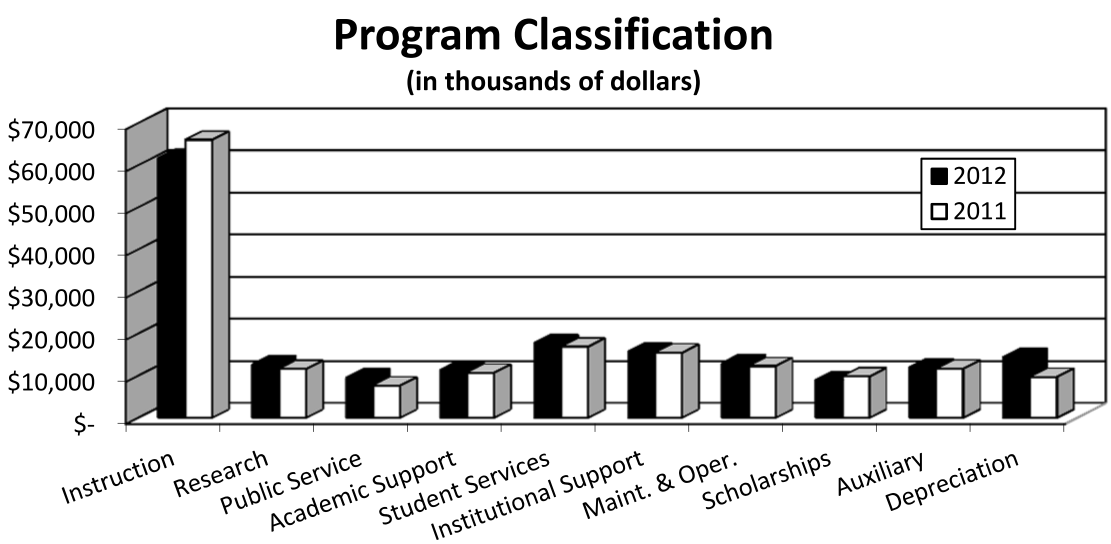
Comparison of FY 2012 to FY 2011 - Component Unit

- Scholarship expenses increased in fiscal year 2012 due to increased market returns received in fiscal year 2011.

- The increase in payments made to TSU is the result of a transfer of $135,803.42 from Title III Endowment interest to the university for centennial-related expenditures.

PROGRAM CLASSIFICATION
(in thousands of dollars)

	2012	2011
INSTRUCTION	$ 61,701	$ 65,760
RESEARCH	12,692	11,565
PUBLIC SERVICE	9,514	7,658
ACADEMIC SUPPORT	11,343	10,706
STUDENT SERVICES	17,759	16,859
INSTITUTIONAL SUPPORT	15,728	15,433
MAINTENANCE AND OPERATION	13,020	11,985
SCHOLARSHIPS	8,962	9,807
AUXILIARY	11,972	11,619
DEPRECIATION	14,416	9,692
TOTAL	**$ 177,107**	**$ 171,084**



<u>Comparison of FY 2012 to FY 2011 - Institution</u>

- Instruction decreased due to $6 million in fewer grant expenditures, including TECTA and SITES-M projects.

- Public Service increased due to an increase in the grant award for the Tennessee CAREs Early Head Start, and increase in funding for the Center for Learning Sciences to renovate classrooms, playgrounds, etc., in Trenton and Paris, Tennessee.

- Research increased due to increased expenditures for the Agricultural Environment Program.

- Depreciation expenses increased due to a change in accounting estimate regarding the useful life of periodicals, causing $5.6 million of previously undepreciated library holdings to be expensed.

Capital Assets and Debt Administration

Capital Assets

The university had $163,118,486.79 invested in capital assets, net of accumulated depreciation of $156,340,183.40 at June 30, 2012; and $167,515,944.90 invested in capital assets, net of accumulated depreciation of $156,565,297.98 at June 30, 2011. Depreciation charges totaled $14,416,005.96 and $9,691,524.89 for the years ended June 30, 2012, and June 30, 2011, respectively. Details of these assets are shown below.

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

	2012	2011
Land	$ 9,525	$ 9,525
Land Improvements & Infrastructure	14,293	16,007
Buildings	121,354	117,878
Equipment	6,813	6,030
Library Holdings	1,706	7,445
Intangible Assets	1,192	1,430
Projects in Progress	8,236	9,109
Total	**$ 163,119**	**$ 167,424**

Comparison of FY 2012 to FY 2011 - Institution

- Library holdings decreased due to a change in accounting estimate regarding the useful life of periodicals. The change removed approximately $11 million of periodicals.

- The increase in buildings is due to many projects in progress being completed during fiscal year 2012.

- Improvements & infrastructure and intangible assets decreased due to depreciation for the year.

- Equipment increased due to the addition of over $2.1 million in equipment offset by $1.3 million in depreciation.

Construction will continue in FY13 on the Boswell Fume Hoods and the Gentry storm drainage projects from state funding. Federally funded projects included the AG Biotech Building and research buildout. University-funded projects will include the completion of Hale Stadium renovations. More detailed information about the university's capital assets is presented in Note 6 to the financial statements.

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

	2012	2011
Dr. Bobby Jones Television Show audio and video collection	$6,000	$6,000

Debt

The university had $37,975,708.76 and $40,390,731.36 in debt outstanding at June 30, 2012, and June 30, 2011, respectively. The table below summarizes these amounts by type of debt instrument.

Oustanding Debt
(in thousands of dollars)

	2012	2011
Bonds	$ 33,645	$ 35,942
Unamortized Bond Premium/Discount	1,130	1,249
Commercial paper	3,200	3,200
Total	$ 37,975	$ 40,391

During the fiscal year 2012, a prior-period adjustment of $1,139,854.38 was created to display all unamortized bond premiums and discounts to be amortized over the life of the bonds. Of that, $106,131.52 was amortized to reduce interest payments on the bonds. Payment of $2,378,345.14 of bonds was made to the principal.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2012, were as follows:

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

More information about the university's long-term liabilities is presented in Note 8 to the financial statements.

Economic Factors That Will Affect the Future

The fiscal year 2013 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, 2012

	Tennessee State University	Component Unit Tennessee State University Foundation
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2, 3, and 20)	$ 23,732,951.83	$ 7,147,904.04
Short-term investments (Note 4)	951,210.43	-
Accounts, notes, and grants receivable (net) (Note 5)	12,067,720.57	656.80
Due from primary government	156,100.00	-
Inventories	25,018.00	-
Prepaid expenses and deferred charges	39,198.21	-
Accrued interest receivable	1,955,455.08	-
Due from component unit	1,084,785.27	-
Total current assets	40,012,439.39	7,148,560.84
Noncurrent assets:		
Cash and cash equivalents (Notes 2, 3, and 20)	45,377,426.69	1,363,441.79
Investments (Notes 4 and 20)	15,023,028.42	36,533,262.78
Accounts, notes, and grants receivable (net) (Note 5)	2,276,850.13	-
Capital assets (net) (Notes 6 and 20)	163,118,486.79	6,000,000.00
Total noncurrent assets	225,795,792.03	43,896,704.57
Total assets	265,808,231.42	51,045,265.41
LIABILITIES		
Current liabilities:		
Accounts payable (Note 7)	5,013,760.67	46,594.72
Accrued liabilities	7,728,961.06	-
Deferred revenue	5,827,832.43	-
Compensated absences (Note 8)	993,097.54	-
Accrued interest payable	284,222.94	-
Long-term liabilities, current portion (Note 8)	2,378,345.14	-
Deposits held in custody for others	320,651.05	-
Due to university	-	1,084,785.27
Other liabilities	37,200.00	-
Total current liabilities	22,584,070.83	1,131,379.99
Noncurrent liabilities:		
Net OPEB obligation (Note 13)	6,898,453.54	-
Compensated absences (Note 8)	4,190,038.46	-
Long-term liabilities (Note 8)	35,597,363.62	-
Due to grantors (Note 8)	3,902,237.17	-
Total noncurrent liabilities	50,588,092.79	-
Total liabilities	73,172,163.62	1,131,379.99
NET ASSETS		
Invested in capital assets, net of related debt	125,142,778.03	6,000,000.00
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	24,384.64	3,867,594.87
Research	-	503,712.88
Instructional department uses	50,000.00	77,076.94
Other	-	32,168,920.63
Expendable:		
Scholarships and fellowships (Notes 9 and 20)	1,319,438.40	1,881,285.69
Research	456,755.48	37,983.92
Instructional department uses (Notes 9 and 20)	2,179,754.27	414,177.45
Loans	849,637.75	-
Debt service	14,272.00	-
Other (Note 20)	1,325,009.41	4,791,349.97
Unrestricted (Note 10)	61,274,037.82	171,783.07
Total net assets	$ 192,636,067.80	$ 49,913,885.42

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, 2012

	Tennessee State University	Component Unit Tennessee State University Foundation
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $23,705,740.90)	$ 49,297,430.57	$ -
Gifts and contributions	-	2,031,042.70
Governmental grants and contracts	34,991,522.91	-
Nongovernmental grants and contracts	1,154,073.51	-
Sales and services of educational activities	139,072.61	-
Sales and services of other activities	4,585,189.29	-
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $3,087,797.70; all residential life revenues are used as security for revenue bonds; see Note 8)	6,664,517.54	-
Bookstore	308,929.47	-
Food service	5,524,654.81	-
Other auxiliaries	888,734.44	-
Interest earned on loans to students	160,005.95	-
Other operating revenues	13,131.25	427,283.25
Total operating revenues	103,727,262.35	2,458,325.95
EXPENSES		
Operating expenses (Note 17):		
Salaries and wages	74,940,859.92	-
Benefits	25,205,017.17	-
Utilities, supplies, and other services	47,675,637.56	794,662.84
Scholarships and fellowships	14,869,522.78	947,028.43
Depreciation expense	14,416,005.96	-
Payments to or on behalf of Tennessee State University (Note 20)	-	188,523.42
Total operating expenses	177,107,043.39	1,930,214.69
Operating income (loss)	(73,379,781.04)	528,111.26
NONOPERATING REVENUES (EXPENSES)		
State appropriations	36,275,644.34	-
Gifts, including $188,523.42 from component unit	212,973.42	-
Grants and contracts	31,271,933.21	239,056.22
Investment income (net of investment expense for the component unit of $185,675.92)	429,053.42	740,897.03
Interest on capital asset-related debt	(1,643,670.46)	-
Other nonoperating revenues (expenses)	(52,715.39)	-
Net nonoperating revenues (expenses)	66,493,218.54	979,953.25
Income (loss) before other revenues, expenses, gains, or losses	(6,886,562.50)	1,508,064.51
Capital appropriations	2,866,888.79	-
Capital grants and gifts	4,095,053.26	-
Additions to permanent endowments	-	282,482.58
Total other revenues	6,961,942.05	282,482.58
Increase in net assets	75,379.55	1,790,547.09
NET ASSETS		
Net assets - beginning of year	193,716,627.91	48,123,338.33
Prior period adjustment (Note 18)	(1,155,939.66)	-
Net assets - end of year	$ 192,636,067.80	$ 49,913,885.42

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

TENNESSEE BOARD OF REGENTS
TENNESSEE STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$	47,634,077.13
Grants and contracts		37,159,705.94
Sales and services of educational activities		139,072.61
Sales and services of other activities		4,734,868.44
Payments to suppliers and vendors		(48,108,744.18)
Payments to employees		(74,727,132.73)
Payments for benefits		(24,665,316.06)
Payments for scholarships and fellowships		(14,869,522.78)
Loans issued to students		(629,410.31)
Collection of loans from students		659,532.21
Interest earned on loans to students		9,521.36
Auxiliary enterprise charges:		
Residence halls		6,664,517.54
Bookstore		269,285.68
Food services		5,540,853.95
Other auxiliaries		890,439.74
Other receipts (payments)		(1,034,454.02)
Net cash used by operating activities		(60,332,705.48)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations		36,189,985.15
Gifts and grants received for other than capital or endowment purposes, including $188,523.42 from Tennessee State University Foundation		31,502,765.23
Federal student loan receipts		76,331,045.00
Federal student loan disbursements		(76,331,045.00)
Changes in deposits held for others		(185,260.98)
Net cash provided by noncapital financing activities		67,507,489.40
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations		2,866,888.79
Capital grants and gifts received		3,243,523.36
Purchase of capital assets and construction		(10,068,003.13)
Principal paid on capital debt		(2,296,833.44)
Interest paid on capital debt		(536,363.20)
Net cash used by capital and related financing activities		(6,790,787.62)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		14,298,270.20
Income on investments		727,860.34
Purchase of investments		(12,821,782.12)
Net cash provided by investing activities		2,204,348.42
Net increase in cash and cash equivalents		2,588,344.72
Cash and cash equivalents - beginning of year		66,522,033.80
Cash and cash equivalents - end of year	$	69,110,378.52

TENNESSEE BOARD OF REGENTS
TENNESSEE STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(73,379,781.04)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense		14,416,005.96
Other adjustments (Note 19)		67,159.19
Change in assets and liabilities:		
Receivables, net		(845,579.73)
Inventories		(3,022.66)
Other assets		(1,084,785.27)
Accounts payable		510,075.59
Accrued liabilities		516,313.95
Deferred revenues		308,292.67
Deposits		(1,198,930.21)
Compensated absences		242,484.57
Due to grantors		106,159.62
Loans to students		(24,298.12)
Other		37,200.00
Net cash used by operating activities	$	(60,332,705.48)
Noncash investing, capital, or financing transactions		
Unrealized gains on investments	$	632,861.33
Loss on disposal of capital assets	$	(49,455.28)

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 20 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 and sick leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of the liabilities for annual leave and compensatory time and their related benefits are reported in the statement of net assets. There is no liability for unpaid accumulated sick leave since the university's policy is to pay this only if the employee dies or is absent because of illness, injury, or related family death.

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, 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/amortization. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

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

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:

Invested in capital assets, net of related debt - 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.

Nonexpendable restricted net assets - 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, 2012, cash consisted of $14,400,754.01 in bank accounts, $3,750.00 of petty cash on hand, $27,354,200.55 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, $2,238,335.21 in LGIP deposits for capital projects, and $25,113,338.75 in a money market account.

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. DEPOSITS

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

At June 30, 2012, $107,940.53 of the university's bank balance of $69,110,378.52 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$107,940.53
Total	$107,940.53

The university also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the State Pooled Investment Fund. The fund's required risks disclosures are presented in the *State of Tennessee's Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

NOTE 4. INVESTMENTS

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

At June 30, 2012, 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	$ 15,570,659.56	$ 621,448.55	$ 5,672,076.42	$ 7,184,730.93	$ 2,092,403.66
Certificates of deposit	403,579.29	393,579.29	10,000.00	-	-
Total	$ 15,974,238.85	$ 1,015,027.84	$ 5,682,076.42	$7,184,730.93	$ 2,092,403.66

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. 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 of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

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

At June 30, 2012, the university's investments were rated as follows:

		Credit Quality Rating		
Investment Type	Fair Value	AAA	AA	Unrated
LGIP	$ 29,592,535.76	$ -	$ -	$ 29,592,535.76
U.S. agencies	13,339,545.55	591,782.08	12,747,763.47	-
Total	$ 42,932,081.31	$ 591,782.08	$ 12,747,763.47	$ 29,592,535.76

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the university's investment in a single issuer. Tennessee Board of Regents policy restricts investments in 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, 2012
Federal National Mortgage Association	29%
Federal Home Loan Bank	29%
Federal Home Loan Mortgage Corporation	25%

NOTE 5. RECEIVABLES

Receivables included the following:

	June 30, 2012
Student accounts receivable	$ 5,369,254.77
Grants receivable	8,853,942.78
Notes receivable	16,908.90
Other receivables	514,210.25
Subtotal	14,754,316.70
Less allowance for doubtful accounts	(2,672,466.75)
Total receivables	$12,081,849.95

Federal Perkins Loan Program funds included the following:

	June 30, 2012
Perkins loans receivable	$ 2,328,570.53
Less allowance for doubtful accounts	(65,849.78)
Total	$ 2,262,720.75

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	Restated Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 9,525,009.24	$ -	$ -	$ -	$ 9,525,009.24
Land improvements and infrastructure	48,900,213.88	85,788.25	-	-	48,986,002.13
Buildings	209,616,191.98	51,260.00	8,428,998.26	-	218,096,450.24
Equipment	27,369,678.44	2,154,119.49	-	1,899,838.09	27,623,959.84
Library holdings	16,789,657.29	313,040.00	-	12,790,737.73	4,311,959.56
Intangible assets	2,679,599.36	-	-	-	2,679,599.36
Projects in progress	9,200,892.69	7,463,795.39	(8,428,998.26)	-	8,235,689.82
Total	324,081,242.88	10,068,003.13	-	14,690,575.82	319,458,670.19
Less accumulated depreciation/ amortization:					
Land improvements and infrastructure	32,892,885.70	1,800,366.71	-	-	34,693,252.41
Buildings	91,737,881.78	5,004,624.97	-	-	96,742,506.75
Equipment	21,340,001.04	1,321,768.76	-	1,850,382.81	20,811,386.99
Library holdings	9,345,278.11	6,050,854.18	-	12,790,737.73	2,605,394.56
Intangible assets	1,249,251.35	238,391.34	-	-	1,487,642.69
Total	156,565,297.98	14,416,005.96	-	14,641,120.54	156,340,183.40
Capital assets, net	$167,515,944.90	$(4,348,002.83)	$ -	$ 49,455.28	$163,118,486.79

The decrease in library holdings is due to a change in accounting estimate. During fiscal year 2012, it was determined that periodicals are more appropriately expensed. The estimated useful life of periodicals was decreased from 10 years to 0 years, resulting in a current-year adjustment of $11,512,603.24 from library holdings and $5,892,945.00 in accumulated depreciation on library holdings.

NOTE 7. ACCOUNTS PAYABLE

Accounts payable included the following:

	June 30, 2012
Vendors payable	$ 4,307,297.36
Other payables	706,463.31
Total accounts payable	$ 5,013,760.67

NOTE 8. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2012, was as follows:

	Restated Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$ 35,942,358.22	$ -	$2,296,833.44	$ 33,645,524.78	$ 2,378,345.14
Unamortized bond premium/discount	1,248,373.14	-	118,189.16	1,130,183.98	-
Commercial paper	3,200,000.00	-	-	3,200,000.00	-
Subtotal	40,390,731.36	-	2,415,022.60	37,975,708.76	2,378,345.14
Other liabilities:					
Compensated absences	4,940,651.43	3,360,435.43	3,117,950.86	5,183,136.00	993,097.54
Due to grantors	3,768,394.69	159,585.24	25,742.76	3,902,237.17	-
Subtotal	8,709,046.12	3,520,020.67	3,143,693.62	9,085,373.17	993,097.54
Total long-term liabilities	$49,099,777.48	$ 3,520,020.67	$5,558,716.22	$47,061,081.93	$ 3,371,442.68

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 3.5% to 5%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to May 1, 2032, and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations; see Note 11 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, 2012.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2012, are as follows:

Year Ending June 30	Principal	Interest	Total
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	2,485,257.06	1,227,518.82	3,712,775.88
2018 – 2022	10,880,081.37	4,432,996.87	15,313,078.24
2023 – 2027	7,591,122.15	1,906,672.96	9,497,795.11
2028 – 2032	2,906,430.69	383,868.64	3,290,299.33
Total	$ 33,645,524.78	$ 13,988,864.43	$ 47,634,389.21

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 at June 30, 2012.

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.comptroller.tn.gov/tssba/cafr.asp.

NOTE 9. 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, 2012, net appreciation of $43,906.54 is available to be spent, of which $2,349.88 is included in restricted net assets expendable for scholarships and fellowships, and $41,556.66 is included in restricted net assets expendable for instructional departmental uses.

NOTE 10. 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, 2012
Working capital	$ 2,054,386.13
Encumbrances	1,783,582.49
Designated fees	1,173,603.90
Auxiliaries	2,772,956.73
Plant construction	35,343,638.81
Renewal and replacement of equipment	8,948,562.91

Undesignated	9,197,306.85
Total	$61,274,037.82

NOTE 11. PLEDGED REVENUES

The university has pledged certain revenues and fees, including state appropriations, to repay $33,645,524.78 in revenue bonds issued from December 1989 to November 2008. Proceeds from the bonds provided financing for Avon Williams Campus Improvements, Chiller Replacement, Dormitory Renovations, Energy Savings and Performance Contracts, Student Housing/Apartments, Research and Sponsored Programs, and Student Housing Fire Suppression. The bonds are payable through 2032. Annual principal and interest payments on the bonds are expected to require 3% of available revenues. The total principal and interest remaining to be paid on the bonds is $47,634,389.21. Principal and interest paid for the current year and total available revenues were $4,070,853.21 and $132,044,854.06, respectively.

NOTE 12. 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 www.treasury.tn.gov/tcrs.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 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, 2012, 2011, and 2010 were $4,191,277.07, $4,078,956.87, and $3,621,292.79. 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, 2012, were $45,370.20, which consisted of $22,685.10 from the university and $22,685.10 from the employees. Contributions 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 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 $3,544,088.19 for the year ended June 30, 2012, and $3,668,221.04 for the year ended June 30, 2011. Contributions met the requirements for each year.

NOTE 13. 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, all members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the university's eligible retirees; see Note 19. 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 www.tn.gov/finance/act/cafr.shtml.

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%; retirees with 20 years of service but less than 30 years of service, 70%; and retirees with less than 20 years of service, 60%. Retirees in the Medicare Supplement Plan have flat-rate premium subsidies based on years of service. Retirees 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; retirees with 20 years of service but less than 30 years of service, $37.50; and retirees with 15 years of service but less than 20 years of service, $25.

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

Annual required contribution (ARC)	$ 1,713,000.00
Interest on the net OPEB obligation	261,803.81
Adjustment to the ARC	(277,899.77)

Annual OPEB cost	1,696,904.04
Amount of contribution	(1,343,545.78)
Increase in net OPEB obligation	353,358.26
Net OPEB obligation – beginning of year	6,545,095.28
Net OPEB obligation – end of year	$ 6,898,453.54

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2012	State Employee Group Plan	$1,696,904.04	79.2%	$6,898,453.54
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

Funded Status and Funding Progress

The funded status of the university's portion of the State Employee Group Plan as of July 1, 2011, was as follows:

State Employee Group Plan

Actuarial valuation date	July 1, 2011
Actuarial accrued liability (AAL)	$13,366,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$13,336,000.00
Actuarial value of assets as a percentage of the AAL	0.00%
Covered payroll (active plan members)	$71,294,387.91
UAAL as percentage of covered payroll	18.7%

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

Actuarial Methods and Assumptions

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

In the July 1, 2011, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.25 percent in fiscal year 2012. The rate decreases to 8.75 percent in fiscal year 2013, and then reduces by decrements to an ultimate rate of 5 percent in fiscal year 2021. All rates include a 2.5 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 14. INSURANCE-RELATED ACTIVITIES

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

The university participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2012, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the university participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *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, 2012, the Risk Management Fund held $97.2 million in cash and cash equivalents designated for payment of claims.

At June 30, 2012, the scheduled coverage for the university was $541,237,700.00 for buildings and $103,977,200.00 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 15. COMMITMENTS AND CONTINGENCIES

Sick Leave

The university records the cost of sick leave when paid. The dollar amount of unused sick leave was $30,642,027.28 at June 30, 2012.

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 $515,813.39 and for personal property were $210,671.24 for the year ended June 30, 2012. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2012, outstanding commitments under construction contracts totaled $1,680,974.58 for Hale Stadium, AG Biotech Building, Boswell Fume Hoods, Avon Williams, Gentry Storm Drainage, LRC Building, and Research Build-out, of which $1,416,062.14 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 16. CHAIRS OF EXCELLENCE

The university had $4,958,160.98 on deposit at June 30, 2012, 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 17. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses for the year ended June 30, 2012, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 37,111,832.73	$ 11,859,248.43	$ 10,894,461.35	$ 1,835,485.08	$ -	$ 61,701,027.59
Research	6,467,640.16	1,760,689.91	3,301,613.27	1,162,009.25	-	12,691,952.59
Public service	5,060,645.41	1,946,343.26	2,497,779.83	9,103.00	-	9,513,871.50
Academic support	5,931,001.37	2,039,558.50	3,254,957.71	117,828.87	-	11,343,346.45
Student services	7,555,785.31	2,576,600.37	4,664,041.08	2,962,862.63	-	17,759,289.39
Institutional support	7,735,224.86	2,957,390.18	5,023,246.62	11,790.95	-	15,727,652.61
Maintenance & operation	2,918,995.47	1,400,304.40	8,699,047.61	1,215.00	-	13,019,562.48
Scholarships & fellowships	-	-	211,634.74	8,750,178.50	-	8,961,813.24
Auxiliary	2,159,734.61	664,882.12	9,128,855.35	19,049.50	-	11,972,521.58
Depreciation	-	-	-	-	14,416,005.96	14,416,005.96
Total	$74,940,859.92	$25,205,017.17	$47,675,637.56	$14,869,522.78	$14,416,005.96	$177,107,043.39

NOTE 18. PRIOR-YEAR ADJUSTMENT

In the year ended June 30, 2012, the university began amortizing TSSBA bond premiums and discounts over the life of the bonds. Prior issuances were reviewed. The university identified 11 projects with a bond premium and 1 project with a bond discount. Unamortized premiums and discounts of $1,248,373.14 at June 30, 2011, were recorded. As a result, invested in capital assets, net of related debt, was reduced by $1,248,373.14 at June 30, 2011.

In addition, capitalized Projects in Progress were understated by $92,433.48 in the prior year.

NOTE 19. ON-BEHALF PAYMENTS

During the year ended June 30, 2012, the State of Tennessee made payments of $67,159.19 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 13. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

NOTE 20. 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, and 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, 2012, the foundation made distributions of $188,523.42 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, 2012, cash and cash equivalents consisted of $7,303,901.28 in bank accounts, and $1,207,444.55 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, 2012, 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	$ 2,449,213.17	$ -	$ 76,259.92	$ 2,372,953.25	$ -	$ -
U.S. agencies	912,985.76	-	912,985.76	-	-	-
Corporate stocks	14,400,728.36	-	-	-	-	14,400,728.36
Corporate bonds	7,186,832.70	354,960.92	3,908,039.37	2,923,832.41	-	-
Mutual bond funds	250,996.19	-	-	-	-	250,996.19
Mutual equity funds	2,243,693.67	-	-	-	-	2,243,693.67
Foreign stock	2,034,146.42	-	-	-	-	2,034,146.42
Foreign bonds	49,329.28	-	49,329.28	-	-	-
Foreign mutual funds	2,724,533.48	-	-	-	-	2,724,533.48
Mortgage backed securities	1,124,335.58	-	-	80,045.96	1,044,289.62	-
Collateralized mortgage obligation	987,404.40	-	613,347.27	29,410.48	344,646.65	-
Real estate investments trusts	2,169,063.77	-	-	-	-	2,169,063.77
Money market funds	1,207,444.55	-	-	-	-	1,207,444.55
Savings accounts	159,127.78	-	-	-	-	159,127.78
Less cash and cash equivalents:						
Money markets funds	(1,207,444.55)	-	-	-	-	(1,207,444.55)
Savings Accounts	(159,127.78)	-	-	-	-	(159,127.78)
Total	$36,533,262.78	$354,960.92	$5,559,961.60	$5,406,242.10	$1,388,936.27	$ 23,823,161.89

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, 2012, the foundation's investments were rated as follows:

		Credit Quality Rating				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
U.S. agencies	$ 912,985.76	$ -	$ 912,985.76	$ -	$ -	$ -
Corporate bonds	7,186,832.70	260,268.34	743,727.75	5,256,379.24	926,457.37	-
Mutual bond funds	250,996.19	-	-	-	-	250,996.19
Foreign bonds	49,329.28	-	-	49,329.28	-	-
Mortgage backed securities	1,124,335.58	-	1,124,335.58	-	-	-
Collateralized mortgage obligations	987,404.40	642,757.75	344,646.65	-	-	-
Total	$ 10,511,883.91	$ 903,026.09	$ 3,125,695.74	$ 5,305,708.52	$ 926,457.37	$ 250,996.19

Alternative Investments

The foundation has investments in Real Estate Investment Trusts. The estimated fair value of these assets is $2,169,063.77 at June 30, 2012.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2012. 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 America is estimated to be the offering of $7.22 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 $4.64 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, 2012, 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, net	$ 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 three-year rolling average of net earnings has been authorized for expenditure. The remaining amount is reinvested in the endowment. At June 30, 2012, net appreciation of $ 423,219.41 is available to be spent, of which $351,637.29 is included in restricted net assets expendable for scholarships and fellowships; $13,258.23 is included in restricted net assets expendable for instructional departmental uses; and $58,323.89 is included in restricted net assets expendable for other.

Consent Decree Endowment - According to the established agreement within the Consent Decree, the budget committee may appropriate for distribution each year from Consent Decree Endowment Funds, an amount up to 75% of the interest and dividend income. The remainder is to be reinvested in the corpus of the fund. At June 30, 2012, net appreciation of $1,616,940.31 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 may be allocated for distribution annually. The remainder is to be reinvested in the corpus of the fund. At June 30, 2012, net appreciation of $1,420,338.16 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, 2011	State Employee Group Plan	$ -	$13,336,000	$13,336,000	0%	$71,294,388	18.7%
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%

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, 2012

CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$	2,031,042.70
Grants and contracts		34,693.79
Sales and services of other activities		761.60
Payments to suppliers and vendors		(791,311.09)
Payments for scholarships and fellowships		(947,028.43)
Payments to Tennessee State University		(188,523.42)
Other receipts		1,512,068.52
Net cash provided by operating activities		1,651,703.67
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gifts and grants received for other than capital or endowment purposes		239,056.22
Private gifts for endowment purposes		282,482.58
Net cash provided by noncapital financing activities		521,538.80
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		8,817,815.83
Income on investments		955,632.22
Purchases of investments		(10,374,074.49)
Other investing receipts		1,741.93
Net cash used by investing activities		(598,884.51)
Net increase in cash and cash equivalents		1,574,357.96
Cash and cash equivalents - beginning of year		6,936,987.87
Cash and cash equivalents - end of year	$	8,511,345.83
Reconciliation of operating loss to net cash used by operating activities:		
Operating income	$	528,111.26
Adjustments to reconcile operating loss to net cash used by operating activities:		
Changes in assets and liabilities:		
Receivables, net		168.80
Accounts payable		38,638.34
Other		1,084,785.27
Net cash provided by operating activities	$	1,651,703.67
Noncash investing, capital, or financing transactions		
Unrealized gains on investments	$	477,345.41