STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

TENNESSEE BOARD OF REGENTS
TENNESSEE STATE UNIVERSITY

Financial and Compliance Audit Report

For the Year Ended June 30, 2016

Justin P. Wilson, Comptroller

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September 14, 2017

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable Flora W. Tydings, Chancellor
Dr. Glenda Baskin Glover, President

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Tennessee State University, for the year ended June 30, 2016. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

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Audit Report
Tennessee Board of Regents
Tennessee State University
For the Year Ended June 30, 2016

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State of Tennessee

Audit Highlights

Comptroller of the Treasury Division of State Audit

Financial and Compliance Audit

Tennessee Board of Regents

Tennessee State University

For the Year Ended June 30, 2016

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

As noted in the prior audit, management needs to improve procedures for preparing and reviewing financial statements to prevent errors*
Tennessee State University's procedures for preparing its financial statements are not adequate to ensure the accuracy and proper classification of information (page 61).

As noted in the two prior audits, Tennessee State University did not provide adequate internal controls in one specific area**
As noted in the prior audits, Tennessee State University did not design and monitor proper internal controls. We observed a condition in violation of university policies and/or industry-accepted best practices (page 64).

* This finding is repeated from the prior audit.
** This finding is repeated from prior audits.

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Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable Flora W. Tydings, Chancellor
Dr. Glenda Baskin Glover, President

Report on the Financial Statements

We have audited the accompanying financial statements of Tennessee State University, an institution of the State University and Community College System of Tennessee, 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, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Tennessee State University and its discretely presented component unit as of June 30, 2016; the respective changes in financial position; and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of Tennessee State University, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only Tennessee State University. They do not purport to, and do not, present fairly the financial position of the Tennessee Board of Regents, as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 18, the financial statements of Tennessee State University Foundation, a discretely presented component unit of Tennessee State University, include investments valued at $6,863,492.98 (10.9% of net position of the foundation), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14; the schedule of Tennessee State University's proportionate share of the net pension liability for the Closed State and Higher Education Employee Pension Plan within TCRS on page 51; the schedule of Tennessee State University's proportionate share of the net pension asset for the State and Higher Education Employee Retirement Plan within TCRS on page 52; the schedule of Tennessee State University's contributions for the Closed State and Higher Education Employee Pension Plan within TCRS on page 53; the schedule of Tennessee State University's contributions for the State and Higher Education Employee Retirement Plan within TCRS on page 54; the schedule of Tennessee State University's contributions for the Civil Service Retirement System on page 55; and the other postemployment benefits schedule of funding progress on page 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the university's basic financial statements. The supplementary schedule of cash flows – component unit on page 57 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2017, on our consideration of the university's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the university's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
July 28, 2017

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

Introduction

This section of Tennessee State University's annual financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2016, with comparative information presented for the fiscal year ended June 30, 2015. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

The university has one discretely presented component unit, the Tennessee State University Foundation. More detailed information about the foundation is presented in Note 18 to the financial statements. This discussion and analysis focuses on the university and does not include the foundation.

Overview of the Financial Statements

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

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

The Statement of Net Position

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

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

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

The following table summarizes the university's assets, liabilities, deferred outflows/inflows of resources, and net position at June 30, 2016, and June 30, 2015.

Summary of Net Position
(in thousands of dollars)

	2016	2015
Assets:		
Current assets	$ 46,774	$ 40,597
Capital assets, net	164,313	163,719
Other assets	65,294	65,819
Total Assets	276,381	270,135
Deferred Outflows of Resources		
Deferred loss on debt refunding	1,064	1,190
Deferred outflows of resources related to pensions	6,380	4,738
Total Deferred Outflows	7,444	5,928
Liabilities:		
Current liabilities	23,801	23,612
Noncurrent liabilities	56,764	52,466
Total Liabilities	80,565	76,078
Deferred Inflows of Resources		
Deferred inflows of resources related to pensions	3,662	12,093
Total Deferred Inflows	3,662	12,093
Net Position:		
Net investment in capital assets	136,935	133,801
Restricted – nonexpendable	338	336
Restricted – expendable	4,159	5,070
Unrestricted	58,166	48,685
Total Net Position	$199,598	$187,892

Comparison of Fiscal Year 2016 to Fiscal Year 2015

- Current assets increased due to a large amount of unpaid student receivables at year-end.
- Deferred inflows of resources related to pensions decreased due to pension investment earnings being lower than originally assumed by the actuary.
- Deferred outflows of resources related to pensions increased due to differences between expected and actual experience.
- Restricted expendable net position decreased due to spending for additional scholarships from Building Bridges in fiscal year 2016 over the revenues received.
- Unrestricted net position increased due to the changes referred to in the deferred inflows and deferred outflows related to pensions mentioned above, and the transfer of approximately $4.5 million from auxiliaries to plant funds.

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

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

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

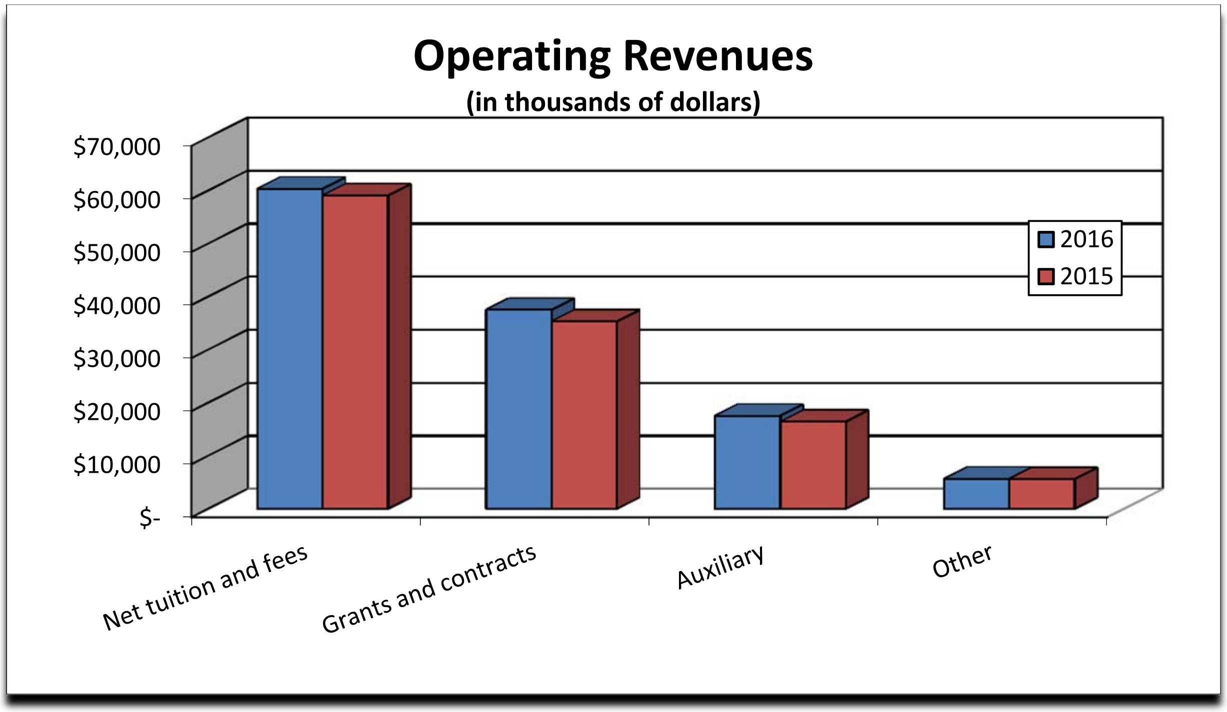
A summary of the university's revenues, expenses, and changes in net position for the year ended June 30, 2016, and June 30, 2015, follows.

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

	2016	2015
Operating revenues	$120,951	$116,399
Operating expenses	180,660	177,903
Operating loss	(59,709)	(61,504)
Nonoperating revenues and expenses	67,584	67,790
Income before other revenues, expenses, gains, or losses	7,875	6,286
Other revenues, expenses, gains, or losses	3,831	4,962
Increase in net position	11,706	11,248
Net position at beginning of the year	187,892	196,646
Prior period adjustment	-	(767)
Cumulative effect of change in accounting principle	-	(19,235)
Net position at end of year	$199,598	$187,892

Operating Revenues

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

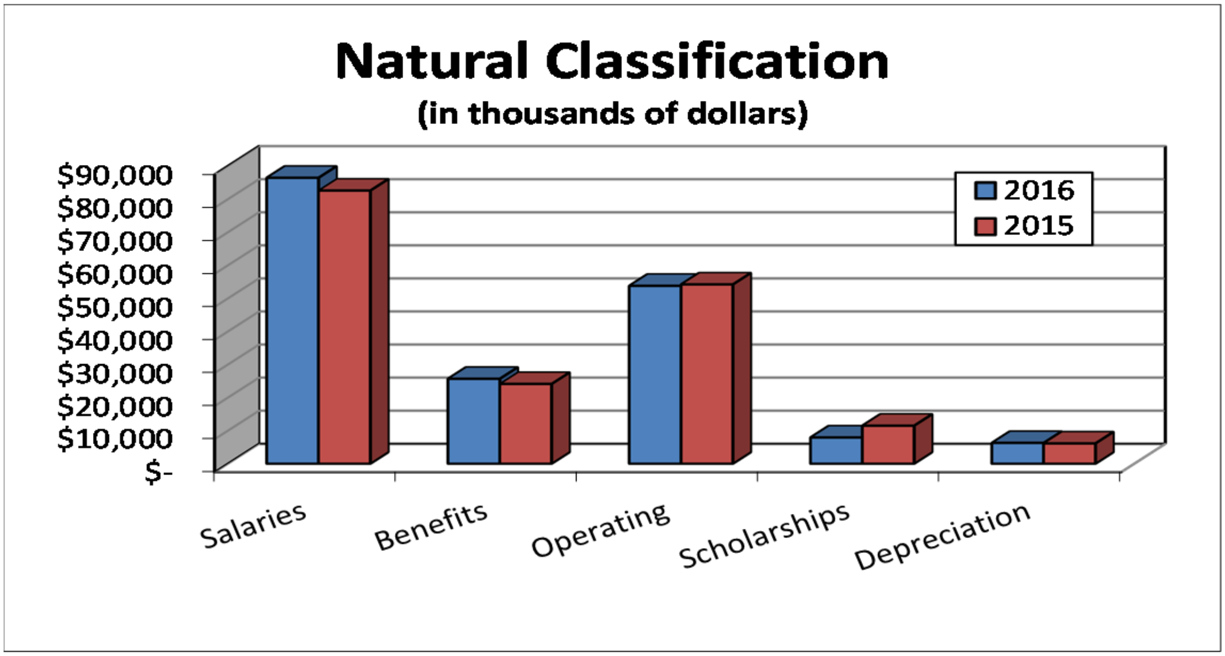


Comparison of Fiscal Year 2016 to Fiscal Year 2015

- No material variances were noted when comparing fiscal year 2016 to fiscal year 2015.

Operating Expenses

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

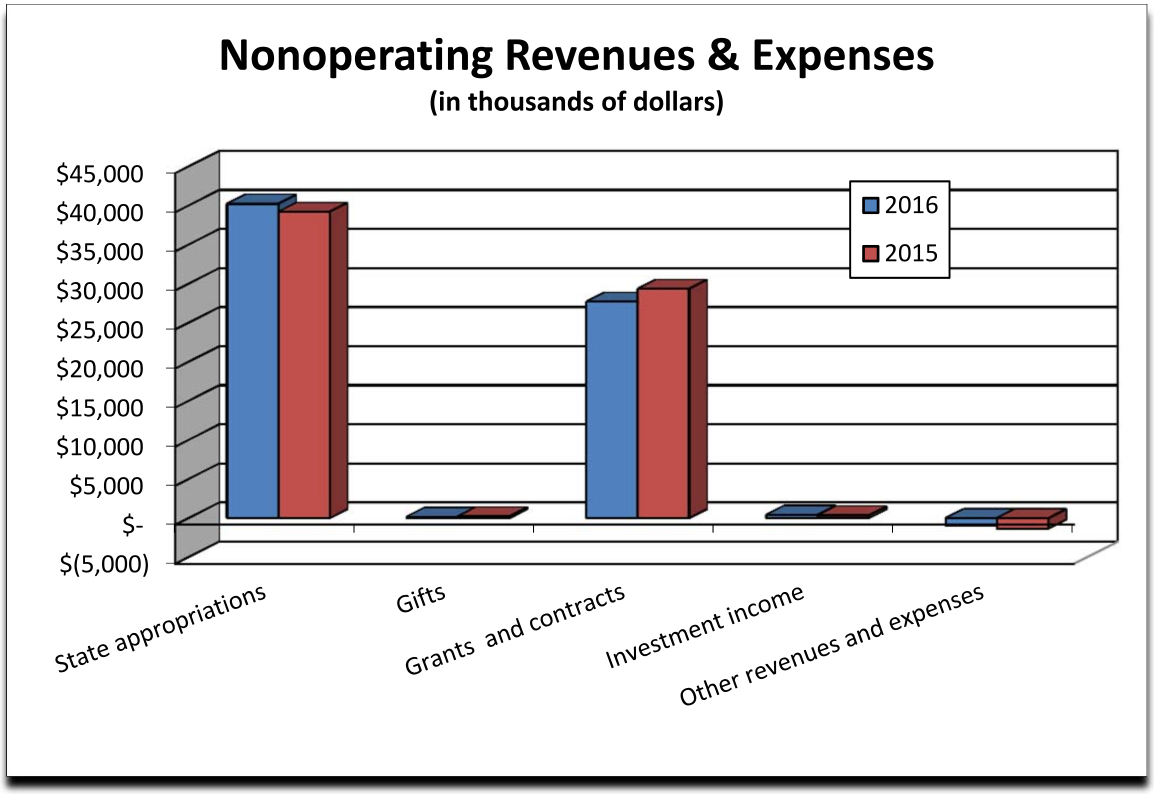


Comparison of Fiscal Year 2016 to Fiscal Year 2015

- Salaries increased due to paying additional graduate assistants for the Cooperative Extension Program, as well as a 2% across-the-board increase for employees.
- Scholarships decreased due to a lower number of enrolled students in fiscal year 2016 than in fiscal year 2015. With fewer eligible recipients enrolled, there was a decrease in Pell grants by almost $1.8 million and a reduction in unrestricted scholarships by approximately $2.2 million.

Nonoperating Revenues and Expenses

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

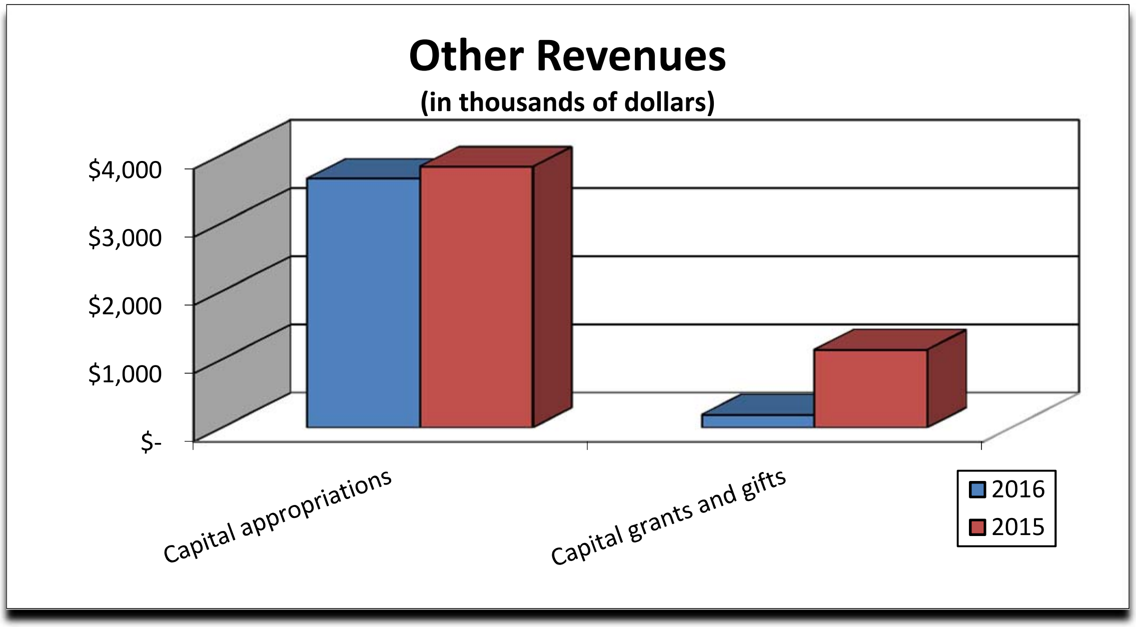


Comparison of Fiscal Year 2016 to Fiscal Year 2015

- Grants and contracts decreased due to fewer Pell grants being awarded in fiscal year 2016 than in 2015.

Other Revenues

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



Comparison of Fiscal Year 2016 to Fiscal Year 2015

- Capital grants and gifts decreased due to the completion of various building projects in fiscal year 2015; therefore, no revenue was received in fiscal year 2016 for those building projects.

Capital Assets and Debt Administration

Capital Assets

Tennessee State University had $164,312,707.12 invested in capital assets, net of accumulated depreciation of $178,765,577.66 at June 30, 2016; and $163,719,236.88 invested in capital assets, net of accumulated depreciation of $173,207,345.50 at June 30, 2015. Depreciation charges totaled $6,269,318.36 and $6,121,376.21 for the years ended June 30, 2016, and June 30, 2015, respectively.

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

	2016	2015
Land	$ 9,686	$ 9,600
Land improvements & infrastructure	11,590	12,418
Buildings	129,400	129,948
Equipment	7,771	7,918
Library holdings	1,270	1,349
Intangible assets	238	477

Projects in progress	4,358	2,009
Total	$164,313	$163,719

Significant additions to capital assets occurred in fiscal year 2016. These additions were from farm buildings and campus elevators.

At June 30, 2016, outstanding commitments under construction contracts totaled $2,241,753.82 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $2,159,929.36 of these costs.

More detailed information about the university's capital assets is presented in Note 6 to the financial statements.

Debt

The university had $28,375,428.67 and $31,107,887.40 in debt outstanding at June 30, 2016, and June 30, 2015, respectively. The table below summarizes these amounts by type of debt instrument.

Outstanding Debt
(in thousands of dollars)

	2016	2015
TSSBA bonds payable	$27,182	$29,766
Unamortized bond premium/discount	1,193	1,342
Total	$28,375	$31,108

The Tennessee State School Bond Authority (TSSBA) issued bonds with interest rates ranging from 0.65% to 5.243% due May 2032 on behalf of Tennessee State University. The university is responsible for the debt service of these bonds. The current portion of the $27,182,294.75 outstanding at June 30, 2016, is $2,853,926.60.

The ratings on debt issued by the TSSBA at June 30, 2016, 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 Focus on College and University Success (FOCUS) Act became effective July 1, 2016. This Act removed the six universities from the governance of the Tennessee Board of Regents. The universities remain part of the State University and Community College System of Tennessee, but each now has its own local board that will provide governance, approve policies, set tuition and fee rates, and hire presidents. The Act also enhanced the role of the Tennessee Higher Education Commission (THEC) by requiring THEC to provide greater coordination across the state, including capital project management, institutional mission approval, and higher education finance. During the period of transition (July 1, 2016, until the local board was convened), the six universities continued under the governance of the Tennessee Board of Regents. The university's Board of Trustees held its first meeting on April 13, 2017. Each university submitted proposals to the Southern Association of Colleges and Schools Council on Colleges (SACSCOC) for substantive change of governance during fall 2016. The SACSCOC met during December 2016 to consider those proposals. The economic impact of this change is uncertain.

Tennessee Board of Regents
TENNESSEE STATE UNIVERSITY
Statement of Net Position
June 30, 2016

	University	Component Unit
Assets		
Current assets:		
Cash and cash equivalents (Notes 2 and 18)	$ 25,531,532.83	$ 3,760,428.53
Investments (Notes 3 and 18)	616,890.80	2,988,699.80
Accounts, notes, and grants receivable (net) (Note 5)	16,928,490.95	-
Due from primary government	1,323,445.24	-
Due from component unit	153,416.61	-
Inventories (at lower of cost or market)	35,504.11	-
Prepaid expenses	153,499.80	-
Accrued interest receivable	2,031,022.67	-
Total current assets	46,773,803.01	6,749,128.33
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 18)	53,108,078.91	4,144,016.70
Investments (Notes 3 and 18)	10,457,942.57	46,101,915.58
Accounts, notes, and grants receivable (net) (Note 5)	1,686,212.11	-
Net pension asset (Note 10)	42,489.00	-
Capital assets (net) (Notes 6 and 18)	164,312,707.12	6,312,879.06
Total noncurrent assets	229,607,429.71	56,558,811.34
Total assets	276,381,232.72	63,307,939.67
Deferred outflows of resources		
Deferred amount on debt refunding	1,063,688.10	-
Deferred outflows related to pensions (Note 10)	6,380,215.55	-
Total deferred outflows of resources	7,443,903.65	-
Liabilities		
Current liabilities:		
Accounts payable (Note 7)	4,977,482.63	133,294.66
Accrued liabilities	7,168,276.85	-
Due to primary government	1,369,119.37	153,416.61
Unearned revenue	5,496,346.89	-
Compensated absences (Note 8)	1,282,110.88	-
Accrued interest payable	155,665.50	-
Long-term liabilities, current portion (Notes 8)	2,853,926.60	-
Deposits held in custody for others	498,135.95	-
Total current liabilities	23,801,064.67	286,711.27
Noncurrent liabilities:		
Net OPEB obligation (Note 11)	7,337,423.71	-
Net pension liability (Note 10)	15,355,873.00	-
Compensated absences (Note 8)	5,073,712.41	-
Long-term liabilities (Note 8)	25,521,502.07	-
Due to grantors (Note 8)	3,475,533.14	-
Total noncurrent liabilities	56,764,044.33	-
Total liabilities	80,565,109.00	286,711.27
Deferred inflows of resources		
Deferred inflows related to pensions (Note 10)	3,661,793.00	-
Total deferred inflows of resources	3,661,793.00	-
Net position		
Net investment in capital assets	136,935,347.94	6,311,378.02
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	337,732.91	6,485,160.67
Research	-	722,463.45
Instructional department uses	-	818,620.24
Endowment for Educational Excellence	-	40,464,323.02
Other	-	321,467.67
Expendable:		
Scholarships and fellowships	385,850.29	2,504,048.55
Research	518,659.44	162,485.82
Instructional department uses	1,379,375.70	531,649.50
Endowment for Educational Excellence	-	1,862,250.46
Loans	820,647.98	-
Pensions	42,489.00	-
Other	1,011,636.07	2,367,889.96
Unrestricted	58,166,495.04	469,491.04
Total net position	$ 199,598,234.37	$ 63,021,228.40

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

Tennessee Board of Regents
TENNESSEE STATE UNIVERSITY
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2016

	University	Component Unit
Revenues		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $28,198,906.42)	$ 60,304,467.73	$ -
Gifts and contributions	-	2,089,088.47
Governmental grants and contracts	36,037,148.76	-
Nongovernmental grants and contracts, including $133,100 from the component unit	1,454,779.17	-
Sales and services of educational activities	157,527.60	-
Sales and services of other activities	5,156,126.32	293,292.85
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $5,921,927.75)	6,106,504.59	-
Bookstore	2,205,079.15	-
Food service	8,302,070.64	-
Other auxiliaries	915,737.46	-
Interest earned on loans to students	311,526.41	-
Total operating revenues	120,950,967.83	2,382,381.32
Expenses		
Operating expenses (Note 15):		
Salaries and wages	86,450,131.55	-
Benefits	25,668,100.52	-
Utilities, supplies, and other services	54,350,802.71	1,072,867.22
Scholarships and fellowships	7,921,494.85	2,199,437.91
Depreciation expense	6,269,318.36	7,350.33
Payments to or on behalf of Tennessee State University (Note 18)	-	389,691.04
Total operating expenses	180,659,847.99	3,669,346.50
Operating loss	(59,708,880.16)	(1,286,965.18)
Nonoperating revenues (expenses)		
State appropriations	40,222,037.50	-
Gifts, including $226,591.04 from component unit	245,150.39	-
Grants and contracts	27,692,122.44	-
Investment income (net of investment expense of $128,365.60 for the institution and $162,052.34 for the component unit)	416,694.63	(2,145,713.69)
Interest on capital asset-related debt	(981,223.55)	-
Bond issuance costs	(10,470.02)	-
Total nonoperating revenues (expenses)	67,584,311.39	(2,145,713.69)
Income (loss) before other revenues, expenses, gains, or losses	7,875,431.23	(3,432,678.87)
Capital appropriations	3,645,668.51	-
Capital grants and gifts, including $30,000 from the component unit	185,548.94	-
Additions to permanent endowments	-	696,598.56
Total other revenues	3,831,217.45	696,598.56
Increase (decrease) in net position	11,706,648.68	(2,736,080.31)
Net position - beginning of year	187,891,585.69	65,757,308.71
Net position - end of year	$ 199,598,234.37	$ 63,021,228.40

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, 2016

Cash flows from operating activities	
Tuition and fees	$ 57,082,305.31
Grants and contracts	35,603,704.84
Sales and services of educational activities	157,527.60
Sales and services of other activities	4,399,568.89
Payments to suppliers and vendors	(54,701,598.54)
Payments to employees	(86,152,418.95)
Payments for benefits	(28,189,662.02)
Payments for scholarships and fellowships	(7,921,494.85)
Loans issued to students	(698,051.41)
Collection of loans from students	827,377.33
Interest earned on loans to students	312,348.33
Auxiliary enterprise charges:	
Residence halls	6,106,504.59
Bookstore	2,094,133.64
Food services	8,309,301.49
Other auxiliaries	1,030,567.04
Net cash used by operating activities	(61,739,886.71)
Cash flows from noncapital financing activities	
State appropriations	40,134,300.00
Gifts and grants received for other than capital or endowment purposes, including $443,303.55 from Tennessee State University Foundation	27,947,362.33
Federal student loan receipts	57,776,600.00
Federal student loan disbursements	(57,776,600.00)
Changes in deposits held for others	24,459.10
Principal paid on noncapital debt	(374,392.39)
Interest paid on noncapital debt	(149,807.62)
Net cash provided by noncapital financing activities	67,581,921.42
Cash flows from capital and related financing activities	
Capital grants and gifts received, including $30,000 from Tennessee State University Foundation	508,297.09
Purchases of capital assets and construction	(3,497,673.77)
Principal paid on capital debt	(2,209,166.30)
Interest paid on capital debt	(1,141,130.07)
Net cash used by capital and related financing activities	(6,339,673.05)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	8,064,049.46
Income on investments	539,858.62
Purchase of investments	(5,160,592.08)
Net cash provided by investing activities	3,443,316.00
Net increase in cash and cash equivalents	2,945,677.66
Cash and cash equivalents - beginning of year	75,693,934.08
Cash and cash equivalents - end of year	$ 78,639,611.74

Tennessee Board of Regents
TENNESSEE STATE UNIVERSITY
Statement of Cash Flows (continued)
For the Year Ended June 30, 2016

Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	$ (59,708,880.16)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Noncash operating expenses	7,319,518.94
Change in assets, liabilities, and deferrals:	
Receivables, net	(5,456,471.29)
Inventories	1,405.84
Prepaid items	(136,823.18)
Other assets	158,612.51
Net pension asset	(42,489.00)
Deferred outflows of resources - pensions	(1,641,972.66)
Net pension liability	6,962,970.00
Accounts payable	(1,175,225.84)
Deferred inflows of resources - pensions	(8,431,079.00)
Accrued liabilities	5,662.52
Unearned revenues	208,490.73
Compensated absences	161,421.95
Due to grantors	(103,866.73)
Loans to students and employees	138,838.66
Net cash used by operating activities	$ (61,739,886.71)

Noncash investing, capital, or financing transactions	
Unrealized gains on investments	$ 35,546.77
Loss on disposal of capital assets	$ (10,470.02)
Capital - state appropriation received through Tennessee Board of Regents	$ 3,645,668.51
Purchases of capital assets and construction paid through Tennessee Board of Regents	$ (3,645,668.51)

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

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

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

The Tennessee State University Foundation is considered a component unit of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by its donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements. See Note 18 for more detailed information about the component unit.

Basis of Presentation

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

Basis of Accounting

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

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

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

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

Cash Equivalents

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

Inventories

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

Compensated Absences

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

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

Capital Assets

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

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

The capitalization threshold for intangible assets is set at $100,000. The capitalization threshold for art, historical treasures/collections, and similar assets is set at $5,000.

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

Pensions

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

Net Position

The university's net position is classified as follows:

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

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

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

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

Scholarship Discounts and Allowances

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

Early Implementation of Accounting Pronouncement

In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing, multiple-employer defined benefit pension plan that 1) is not a state or local pension plan; 2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers; and 3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This statement establishes requirements for recognition and measurement of pension plan expense and liabilities, note disclosures, and required supplementary information for pensions that have the characteristics described above. The university's federal retirement program is described in Note 10. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2015. However, the university has elected to early implement the provisions of this statement for fiscal year 2016.

Note 2. Cash and Cash Equivalents

In addition to demand deposits and petty cash on hand, this classification includes instruments that are readily convertible to known amounts of cash and that have original maturities of three months or less. At June 30, 2016, cash and cash equivalents consisted of $18,362,812.52 in bank accounts, $3,800.00 of petty cash on hand, $9,745,922.25 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, $49,659 in LGIP deposits for capital projects, and $50,477,417.97 in money market accounts.

The LGIP is part of the State Pooled Investment Fund. There are no minimum or maximum limitations on withdrawals with the exception of a 24-hour notification period for withdrawals of $5 million or more. The fund's required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

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

Note 3. Investments

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

Interest Rate Risk

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

At June 30, 2016, the university had the following investments and maturities:

		Investment Maturities (in Years)				
Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	More than 10	No Maturity Date
U.S. Treasury	$ 1,441,940.97	$604,146.10	$ -	$ 837,794.87	$ -	$ -
U.S. agencies	9,632,892.40	12,744.70	5,432,454.49	3,043,820.15	1,128,230.55	15,642.51
Total investments	$11,074,833.37	$616,890.80	$5,432,454.49	$3,881,615.02	$1,128,230.55	$15,642.51

Credit Risk

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

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

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

At June 30, 2016, the university's investments were rated as follows:

		Credit Quality Rating	
Investment Type	Balance	AA	Unrated
LGIP (amortized cost)	$ 9,795,581.25	$ -	$9,795,581.25
U.S. agencies	8,685,897.13	8,685,897.13	-
Total	$18,481,478.38	$8,685,897.13	$9,795,581.25

Concentration of Credit Risk

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

Regents policy limits investments in money market mutual funds to not exceed 10% of total investments on the date of acquisition.

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

Issuer	Percentage of Total Investments June 30, 2016
Federal National Mortgage Association	40.69%
Federal Home Loan Bank	15.97%
Federal Farm Credit Banks	6.78%
Federal Home Loan Mortgage Corporations	14.99%

Note 4. Fair Value Measurement

The university categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The university has the following recurring fair value measurements as of June 30, 2016:

	June 30, 2016	Significant Other Observable Inputs (Level 2)
Assets by Fair Value Level		
Debt securities		
U.S. Treasury	$ 1,441,940.97	$ 1,441,940.97
U.S. agencies	9,632,892.40	9,632,892.40
Total assets at fair value	$11,074,833.37	$11,074,833.37

Assets classified in Level 2 of the fair value hierarchy are valued using a third-party investment manager.

Note 5. Receivables

Receivables at June 30, 2016, included the following:

Student accounts receivable	$12,700,716.54
Grants receivable	5,532,897.69
Notes receivable	129,891.62

Other receivables	1,260,808.17
Subtotal	19,624,314.02
Less allowance for doubtful accounts	(2,723,827.35)
Total receivables	$16,900,486.67

Federal Perkins Loan Program funds at June 30, 2016, included the following:

Perkins loans receivable	$5,333,410.87
Less allowance for doubtful accounts	(3,619,194.48)
Total	$1,714,216.39

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 9,599,509.24	$ 86,139.00	$ -	$ -	$ 9,685,648.24
Land improvements and infrastructure	51,307,822.54	-	385,075.48	-	51,692,898.02
Buildings	239,980,224.49	65,618.61	2,302,036.83	-	242,347,879.93
Equipment	27,835,024.74	1,434,625.68	-	253,464.19	29,016,186.23
Library holdings	3,515,799.91	249,978.70	-	468,092.03	3,297,686.58
Intangible assets	2,679,599.36	-	-	-	2,679,599.36
Projects in progress	2,008,602.10	5,036,896.63	(2,687,112.31)	-	4,358,386.42
Total	336,926,582.38	6,873,258.62	-	721,556.22	343,078,284.78
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	38,889,181.27	1,213,487.29	-	-	40,102,668.56
Buildings	110,032,495.50	2,915,767.86	-	-	112,948,263.36
Equipment	19,916,481.41	1,571,903.20	-	242,994.17	21,245,390.44
Library holdings	enough to me	329,768.67	-	468,092.03	2,028,047.28
Intangible assets	2,202,816.68	238,391.34	-	-	2,441,208.02
Total	173,207,345.50	6,269,318.36	-	711,086.20	178,765,577.66
Capital assets, net	$163,719,236.88	$ 603,940.26	$ -	$ 10,470.02	$164,312,707.12

Note 7. Accounts Payable

Accounts payable at June 30, 2016, included the following:

Vendors payable	$3,927,683.32
Other payables	1,049,799.31
Total accounts payable	$4,977,482.63

Note 8. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$29,765,853.44	$ -	$2,583,558.69	$27,182,294.75	$2,853,926.60
Unamortized bond premium/discount	1,342,033.96	-	148,900.04	1,193,133.92	-
Subtotal	31,107,887.40	-	2,732,458.73	28,375,428.67	2,853,926.60
Other liabilities:					
Compensated absences	6,194,401.34	1,599,501.61	1,438,079.66	6,355,823.29	1,282,110.88
Due to grantors	3,250,922.39	328,477.48	103,866.73	3,475,533.14	-
Subtotal	9,445,323.73	1,927,979.09	1,541,946.39	9,831,356.43	1,282,110.88
Total long-term liabilities	$40,553,211.13	$1,927,979.09	$4,274,405.12	$38,206,785.10	$4,136,037.48

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 0.65% to 5.243%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to May 1, 2032, and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations; see Note 9 for further details. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the statement of net position is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was $401,868.80 at June 30, 2016.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2016, are as follows:

Year Ending June 30	Principal	Interest	Total
2017	$ 2,853,926.60	$ 938,749.31	$ 3,792,675.91
2018	2,187,284.23	853,920.19	3,041,204.42
2019	2,644,901.24	749,774.07	3,394,675.31
2020	2,737,864.58	678,234.56	3,416,099.14
2021	2,207,684.04	605,698.72	2,813,382.76
2022 – 2026	10,274,471.70	2,010,619.78	12,285,091.48
2027 – 2031	3,781,136.16	566,995.01	4,348,131.17
2032	495,026.20	24,751.31	519,777.51
Total	$27,182,294.75	$6,428,742.95	$33,611,037.70

Note 9. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $27,182,294.75 in revenue bonds issued from December 1989 to April 2015 (see Note 8 for further detail). Proceeds from the bonds provided financing for Avon Williams Campus improvements; chiller replacement; dormitory renovations; energy savings and performance contracts; student housing/apartments; research and sponsored programs; and student housing fire suppression. The bonds are payable through 2032. Annual principal and interest payments on the bonds are expected to require 2.26% of available revenues. The total principal and interest remaining to be paid on the bonds is $33,611,037.70. Principal and interest paid for the current year and total available revenues were $3,599,626.28 and $158,930,676.22, respectively.

Note 10. Pension Plans

Defined Benefit Plans

Closed State and Higher Education Employee Pension Plan

General Information About the Pension Plan

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

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

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

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

Plus:

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

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

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The university's employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by the university for the year ended June 30, 2016, to the Closed State and Higher Education Employee Pension Plan were $4,596,551.64, which is 15.03% of covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension liability – At June 30, 2016, the university reported a liability of $15,355,873 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The university's proportion of the net pension liability was based on a projection of the university's contributions during the year ended June 30, 2015, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2015, measurement date, the university's proportion was 1.191040%. The proportion measured as of June 30, 2014, was 1.216453%.

Pension expense – For the year ended June 30, 2016, the university recognized a pension expense of $1,565,617.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2016, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$1,624,903.00	$1,329,567.00
Net difference between projected and actual earnings on pension plan investments	-	1,974,040.00
Changes in proportion of net pension liability	-	342,378.00
Tennessee State University's contributions subsequent to the measurement date of June 30, 2015	4,596,551.64	N/A
Total	$6,221,454.64	$3,645,985.00

Deferred outflows of resources, resulting from the university's employer contributions of $4,596,551.64 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2017	$(1,245,286.00)
2018	$(1,245,286.00)
2019	$(1,245,286.00)
2020	$ 1,714,774.00
Thereafter	$ -

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

Actuarial assumptions – The total pension liability as of the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2015, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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

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

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

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

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
University's net pension liability	$35,981,150.00	$15,355,873.00	$(2,027,266.00)

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

Payable to the Pension Plan

At June 30, 2016, the university reported a payable of $359,497.27 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2016.

State and Higher Education Employee Retirement Plan

General Information About the Pension Plan

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

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated,* establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula multiplying the member's highest five consecutive years' average compensation by 1% multiplied by the member's years of service credit. A reduced early retirement is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which a member's age and service credit total 80. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLA, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. University employees contribute 5% of their salary to the State and Higher Education Employment Retirement Plan. The higher education institutions make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4% for all aggregate employee groups, except in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the university for the year ended June 30, 2016, to the State and Higher Education Employee Retirement Plan were $156,295.91, which is 3.49% of covered payroll. The employer rate is 3.87% of covered payroll except for any salaries derived from federal funds where the employer rate is 2%. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension asset – At June 30, 2016, the university reported an asset of $42,489 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. The university's proportion of the net pension asset was based on a projection of the university's contributions during the year ended June 30, 2015, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2015, measurement date, the university's proportion was 1.527868%, representing the first-time presentation of this proportion.

Pension expense – For the year ended June 30, 2016, the university recognized a pension expense of $35,243.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2016, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$15,808.00
Net difference between projected and actual earnings on pension plan investments	2,465.00	-
Tennessee State University's contributions subsequent to the measurement date of June 30, 2015	156,295.91	N/A
Total	$158,760.91	$15,808.00

Deferred outflows of resources, resulting from the university's employer contributions of $156,295.91 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2017	$(1,360.00)
2018	$(1,360.00)
2019	$(1,360.00)
2020	$(1,360.00)
2021	$(1,976.00)
Thereafter	$(5,928.00)

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

Actuarial assumptions – The total pension liability (asset) as of the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2015, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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

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

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

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

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
University's net pension (asset)	$(16,693.00)	$(42,489.00)	$(61,795.00)

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

Payable to the Pension Plan

At June 30, 2016, the university reported a payable of $9,290.97 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2016

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2016, for all defined benefit pension plans administered by TCRS was $1,600,860.

Federal Retirement Program

The university contributes to the Federal Retirement Program, a cost-sharing, multiple-employer, defined benefit pension plan administered by the Civil Service Retirement System (CSRS) for participants employed prior to January 1, 1987, and the Federal Employees Retirement System (FERS) for participants employed after December 31, 1986. Both CSRS and FERS provide retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and beneficiaries. All regular full-time employees of the Tennessee State University Agricultural Extension Service who hold federal appointments for 51% or more of their time are required to participate in either one of the two Federal Retirement Programs. For both systems, benefit provisions are established by federal statutes. Federal statutes are amended by the U.S. Congress. Benefits are based on high three-year average salary and years of service. All three of the university's extension employees currently participate in CSRS. Key elements of the pension formula and significant assumptions and other inputs used to measure the total pension liability can be viewed in the financial report issued by the CSRS accessed at the address below.

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. Additionally the financial statements can be found at https://www.opm.gov/news/reports-publications/publications-database/publication-listings.

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 for the year ended June 30, 2016, were $31,177.68, which consisted of $15,588.84 from the university and $15,588.84 from the employees. Contributions for the year ended June 30, 2015, were $41,112.74, which consisted of $20,556.37 from the university and $20,556.37 from the employees. Contributions for the year ended June 30, 2014, were $38,813.54, which consisted of $19,406.77 from the university and $19,406.77 from the employees. Contributions met the requirements for each year. No payables were outstanding at year end, as all contributions were paid within the fiscal year.

Defined Contribution Plans

Optional Retirement Plans

Plan description – The university contributes to the Optional Retirement Plan (ORP). The ORP, administered by the Tennessee Treasury Department, is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 25, Part 2, *Tennessee Code Annotated*. This statute also sets out the plan provisions. The plan provisions are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

Funding policy – For employees employed prior to July 1, 2014, plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. For employees hired after June 30, 2014, plan members will contribute 5% to the ORP and the university will contribute 9% of the employee's base salary. The required contributions made to the ORP were $3,921,973.26 for the year ended June 30, 2016, and $3,883,751.34 for the year ended June 30, 2015. Contributions met the requirements for each year.

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

Deferred Compensation Plans

Employees are offered three deferred compensation plans. The university, through the State of Tennessee, provides two plans, one established pursuant to the *Internal Revenue Code* (IRC), Section 457, and the other pursuant to IRC, Section 401(k). The third plan is administered by the university and was established in accordance with IRC, Section 403(b). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k), Section 403(b), and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. Sections 401(k), 403(b), and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 403(b) and the 457 plans are voluntary for employees. The university provides up to a $50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Chapter 259 of the Public Acts of 2013, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary, with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

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

During the year ended June 30, 2016, contributions totaling $1,405,753.80 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $627,137.39 for employer contributions. During the year ended June 30, 2015, contributions totaling $1,287,402.67 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $459,471.14 for employer contributions.

Note 11. Other Postemployment Benefits

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that provides postemployment health insurance benefits to eligible university retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-201, *Tennessee Code Annotated*, for the State Employee Group Plan and for the Medicare Supplement Plan. The State Employee Group Plan covers retirees until they reach the age of 65. Members have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. Employees hired on or after July 1, 2015, are not eligible to continue insurance coverage at retirement in either the Employee Group Plan or the Medicare Supplement Plan. The state makes on-behalf payments to the Medicare Supplement Plan for the university's eligible retirees; see Note 16. The plans are reported in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/article/fa-accfin-cafr.

Special Funding Situation

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

Funding Policy

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

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

Annual required contribution (ARC)	$1,431,000.00
Interest on the net OPEB obligation	275,195.42
Adjustment to the ARC	(276,300.62)
Annual OPEB cost	1,429,894.80
Amount of contribution	(1,431,015.59)
Decrease in net OPEB obligation	(1,120.79)
Net OPEB obligation – beginning of year	7,338,544.50
Net OPEB obligation – end of year	$7,337,423.71

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2016	State Employee Group Plan	$1,429,894.80	100.1%	$7,337,423.71
June 30, 2015	State Employee Group Plan	$1,410,610.08	103.4%	$7,338,544.50
June 30, 2014	State Employee Group Plan	$1,361,563.77	96.7%	$7,385,868.12

Funded Status and Funding Progress

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

State Employee Group Plan

Actuarial valuation date	July 1, 2015
Actuarial accrued liability (AAL)	$10,020,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$10,020,000.00
Actuarial value of assets as a percentage of the AAL	0.0%
Covered payroll (active plan members)	$80,342,492.34
UAAL as percentage of covered payroll	12.5%

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, 2015, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 3.75% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5% initially. The rate decreased to 6.0% in fiscal year 2016 and then reduces by decrements to an ultimate rate of 4.7% in fiscal year 2050. All rates include a 2.5% inflation assumption. Premium subsidies in the Medicare Supplement Plan are projected to remain unchanged, and, consequently, trend rates are not applicable. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3.0%.

Note 12. Insurance-related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The state purchases commercial insurance for real property; crime and fidelity coverage on the state's officials and employees; and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The RMF is responsible for property losses for the annual aggregate deductible of $7.5 million for perils other than earthquake and flood. Purchased insurance coverage is responsible for losses exceeding the $7.5 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The university participates in the RMF. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2016, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/article/fa-accfin-cafr. Since the university participates in the RMF, it is subject to the liability limitations established by statute. The maximum liability for general liability, automobile liability, and medical malpractice liability is $300,000 per person and $1,000,000 per occurrence. Claims are paid through the state's RMF. At June 30, 2016, the RMF held $142.9 million in cash designated for payment of claims.

At June 30, 2016, the scheduled coverage for the university was $573,190,700 for buildings and $87,014,100 for contents.

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

Note 13. Commitments and Contingencies

Sick Leave

The university records the cost of sick leave when paid. The dollar amount of unused sick leave was $33,278,065.21 at June 30, 2016.

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 $273,947.53 and expenses for personal property were $397,203.01 for the year ended June 30, 2016. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2016, outstanding commitments under construction contracts totaled $2,241,753.82 for Gentry drainage; Hankal Hall upgrades; utility tunnel; new farm buildings; mechanical updates; roof repairs; and elevator replacement, of which $2,159,929.36 will be funded by future state capital outlay appropriations.

Litigation

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

Note 14. Chairs of Excellence

The university had $5,997,334.62 on deposit at June 30, 2016, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

Note 15. Natural Classification With Functional Classifications

The university's operating expenses for the year ended June 30, 2016, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$39,088,590.74	$11,687,624.60	$11,038,219.18	$1,956,111.33	$ -	$ 63,770,545.85
Research	8,874,571.41	2,517,042.45	4,008,734.87	779,604.38	-	16,179,953.11
Public service	9,926,787.84	2,944,657.29	2,881,868.80	15,476.00	-	15,768,789.93
Academic support	5,378,220.76	1,620,817.59	2,786,398.29	21,250.00	-	9,806,686.64
Student services	7,846,580.19	2,304,172.38	5,462,863.60	3,445,047.12	-	19,058,663.29
Institutional support	7,417,513.27	2,155,099.69	5,877,473.89	16,650.00	-	15,466,736.85
Maintenance and operation	5,193,464.93	1,814,369.69	9,938,747.64	-	-	16,946,582.26
Scholarships and fellowships	-	-	40,710.09	1,384,972.30	-	1,425,682.39

Auxiliary	2,724,402.41	624,316.83	12,315,786.35	302,383.72	-	15,966,889.31
Depreciation	-	-	-	-	6,269,318.36	6,269,318.36
Total	$86,450,131.55	$25,668,100.52	$54,350,802.71	$7,921,494.85	$6,269,318.36	$180,659,847.99

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services, and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling $333,618.62 were reallocated from academic support to the other functional areas.

Note 16. On-behalf Payments

During the year ended June 30, 2016, the State of Tennessee made payments of $87,737.50 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 11. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/article/fa-accfin-cafr.

Note 17. Subsequent Events

The Focus on College and University Success (FOCUS) Act (the Act) became effective July 1, 2016. This Act removes the six universities from the governance of the Tennessee Board of Regents. The universities will remain part of the State University and Community College System of Tennessee, but each will have its own local board that will provide governance, approve policies, set tuition and fee rates, and hire presidents. The Act also enhances the role of the Tennessee Higher Education Commission (THEC) by requiring THEC to provide greater coordination across the state, including capital project management, institutional mission approval, and higher education finance. During the period of transition (July 1, 2016, until the local board is convened), the six universities will continue under the governance of the Tennessee Board of Regents. Each university will submit proposals to the Southern Association of Colleges and Schools Council On Colleges (SACSOC) for substantive change of governance during fall 2016. The SACSOC will meet during December 2016 to consider those proposals.

Note 18. Component Unit

The Tennessee State University Foundation is a legally separate, tax-exempt organization supporting Tennessee State University. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the university in support of its programs. The 19-member board of the foundation is self-perpetuating and consists of graduates and friends of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements.

During the year ended June 30, 2016, the foundation made distributions of $389,691.04 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Eloise Alexis, Associate Vice President of Institutional Advancement, 3500 John A. Merritt Blvd., Nashville, TN 37209.

Cash and Cash Equivalents

In addition to demand deposits, this classification includes instruments that are readily convertible to known amounts of cash and that have original maturities of three months or less. At June 30, 2016, cash and cash equivalents consisted of $6,891,853.17 in bank accounts, and $1,012,592.06 in money market accounts.

Deposits

At June 30, 2016, $7,306,363.26 of the foundation's bank balance of $7,829,451.57 was uninsured and uncollateralized.

Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, as amended, investments are reported at fair value, including those with a maturity date of one year or less at the time of purchase, unless otherwise noted. The foundation is authorized to invest funds in accordance with its board of directors' policies.

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

At June 30, 2016, 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	$ 2,468,967.80	$344,521.86	$1,872,424.02	$ 252,021.92	$ -	$ -
U.S. agencies	35,067.80	-	-	-	-	35,067.80
Corporate bonds	3,402,977.98	201,690.56	1,963,362.61	1,130,641.39	-	107,283.42
Mutual bond funds	7,945,081.71	-	-	-	-	7,945,081.71

Collateralized mortgage obligations	717,358.51	226,011.00	491,347.51	-	-	-
Total debt investments	14,569,453.80	$772,223.42	$4,327,134.14	$1,382,663.31	$ -	$8,087,432.93
Non-Fixed Income Investments						
Corporate stocks	37,607.34					
Mutual equity funds	23,391,499.59					
Mutual equity funds (ETF)	4,214,138.06					
Hedge funds	5,152,314.71					
Foreign stock	14,423.61					
Real Estate Investment Trusts (REITs)	1,711,178.27					
Total investments	$49,090,615.38					

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

At June 30, 2016, the foundation's investments were rated as follows:

		Credit Quality Rating				
Investment Type	Balance	AAA	AA	A	BBB	Unrated
U.S. agencies	$ 35,067.80	$ -	$ -	$ -	$ -	$ 35,067.80
Corporate bonds	3,402,977.98	282,760.29	337,597.15	1,411,554.29	1,263,782.83	107,283.42
Mutual bond funds	7,945,081.71	-	-	-	-	7,945,081.71
Collateralized mortgage obligations	717,358.51	-	717,358.51	-	-	-
Total	$12,100,486.00	$282,760.29	$1,054,955.66	$1,411,554.29	$1,263,782.83	$8,087,432.93

Alternative investments – The foundation had investments in hedge funds and real estate investment trusts. The estimated fair value of these assets was $6,863,492.98 at June 30, 2016.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2016. 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.

Hedge Fund Managers (Strategic) Ltd.
The value of the shares for Hedge Fund Managers (Strategic) Ltd. is estimated to be $95.97 per share (ignoring purchase price discounts for categories of purchasers). The estimated value may not reflect the actual market value for these shares on any given date.

TIER REIT Inc.
The value of shares for TIER REIT Inc. is estimated to be $15.33 per share (ignoring purchase price discounts for categories of purchasers). The estimated value may not reflect the actual market value for these shares on any given date

InvenTrust Properties
The value of shares for the InvenTrust Properties is estimated to be $3.14 per share (ignoring purchase price discounts for categories of purchasers). The estimated value may not reflect the actual market value for these shares on any given date.

Xenia Hotels & Resorts Inc.
The value of shares held for Xenia Hotels and Resorts Inc. (Ticker XHR) is $16.78 per share as sold on the New York Stock Exchange as of June 30, 2016.

Highlands REIT Inc.
The value of shares for Highland REIT Inc. is estimated to be $0.36 per share (ignoring purchase price discounts for categories of purchasers. The estimated value may not reflect the actual market value for these shares on any given date.

Fair Value Measurement

The foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The university has the following recurring fair value measurements as of June 30, 2016:

	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs Level 3	Investments Measured at the Net Asset Value (NAV)
Assets by Fair Value Level					
Debt securities					
U.S. Treasuries	$ 2,468,967.80	$ -	$2,468,967.80	$ -	$ -
U.S. agencies	35,067.80	-	35,067.80	-	-
Corporate bonds	3,402,977.98	-	3,402,977.98	-	-
Mutual bond funds	7,945,081.71	4,971,370.35	-	-	2,973,711.36
Collateralized mortgage obligations	717,358.51	-	717,358.51	-	-
Total debt securities	14,569,453.80	4,971,370.35	6,624,372.09	-	2,973,711.36

Equity securities					
Corporate stock	37,607.34	37,607.34	-	-	-
Mutual equity funds	27,605,637.65	27,605,637.65	-	-	-
REITs	1,711,178.27	-	1,711,178.27	-	-
Hedge funds	5,152,314.71	-	-	-	5,152,314.71
Foreign stocks	14,423.61	14,423.61	-	-	-
Total equity securities	34,521,161.58	27,657,668.60	1,711,178.27	-	5,152,314.71
Total assets at fair value	$49,090,615.38	$32,629,038.95	$8,335,550.36	$ -	$8,126,026.07

Assets and liabilities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Assets classified in Level 2 of the fair value hierarchy are valued using a third-party investment manager.

The valuation method for assets measured at the net asset value per share (or its equivalent) is presented in the following table.

Assets and Liabilities Measured at the NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
CommonFund- Intermediate Term Fund	$2,973,711.36	N/A	Monthly	At least five business days advance notice
Hedge Fund Managers (Strategic) Ltd	$5,152,314.71	N/A	Quarterly (on redemption dates – January 1, April 1, July 1, and October 1 - which begin on or after the first anniversary of the purchase of shares being redeemed)	At least 91 days prior to the applicable valuation date (the day preceding the applicable redemption date)

Objectives of Investments

CommonFund - Intermediate Term Fund – The fund’s investment objective is to produce a total return in excess of its benchmark, the Merrill Lynch 1-3 Year Treasury Index and to generate a higher current yield than short-term money market investments in a manner that mitigates the chances of a negative total return over any 12-month period. In an effort to maximize unrestricted income, this investment provides a low-risk, high liquidity opportunity for income versus a low-yielding operating bank account.

Hedge Fund Managers (Strategic) Ltd. – The fund’s investment objective is to target attractive long-term, risk-adjusted absolute returns with lower volatility than the broad equity markets. To achieve its objective, the fund will (directly or indirectly) allocate its assets to, or will invest in entities managed by, a relatively concentrated portfolio of investment managers that may employ a broad range of alternative investment strategies, including, without limitation, strategies within one or more of the following four hedge fund sectors: the equity long/short sector, the relative value sector, the event driven sector and the tactical trading sector. In addition, the fund may allocate assets to advisors that use investment strategies not within one of the hedge fund sectors referenced above.

Capital Assets

Capital asset activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Ending Balance
Land	$ 30,000.00	$ -	$ 30,000.00
Buildings	285,873.35	-	285,873.35
Equipment	-	6,018.09	6,018.09
Art and historical treasures	6,000,000.00	-	6,000,000.00
Total	6,315,873.35	6,018.09	6,321,891.44
Less accumulated depreciation:			
Buildings	1,662.05	6,648.22	8,310.27
Equipment	-	702.11	702.11
Total	1,662.05	7,350.33	9,012.38
Capital assets, net	$6,314,211.30	$(1,332.24)	$6,312,879.06

Endowments

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

General endowment - The foundation chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, 3.8% of the fair value's three-year rolling average has been authorized for expenditure. The remaining amount, if any, is reinvested into the endowment. At June 30, 2016, net appreciation of $1,210,624.77 is available to be spent, of which $1,128,658.08 is included in restricted net position expendable for scholarships and fellowships; $27,880.41 is included in restricted net position expendable for instructional departmental uses; and $54,086.28 is included in restricted net position expendable for other.

Consent decree endowment - According to the established agreement within the Consent Decree, the budget committee may appropriate for distribution each year, from Consent Decree Endowment Funds, an amount up to 75% of the investment earnings. The remainder is to be reinvested in the corpus of the fund. At June 30, 2016, net appreciation of $541,220.97 is available to be spent, of which $4,832.32 is included in restricted net position expendable for scholarships and fellowships, and $536,388.65 is included in restricted net position expendable for the Endowment for Educational Excellence.

Title III endowment - According to the established agreement between the foundation and the Tennessee State University Title III Program, an amount up to 50% of the investment earnings may be allocated for distribution annually. The remainder is to be reinvested in the corpus of the fund. At June 30, 2016, net appreciation of $552,151.29 is available to be spent, all of which is included in restricted net position expendable for the Endowment for Educational Excellence.

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

	2016	2015
University's proportion of the net pension liability	1.191040%	1.216453%
University's proportionate share of the net pension liability	$15,355,873.00	$ 8,392,903.00
University's covered payroll	$31,096,832.00	$33,236,633.00
University's proportionate share of the net pension liability as a percentage of its covered payroll	49.38%	25.25%
Plan fiduciary net position as a percentage of the total pension liability	91.26%	95.11%

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

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

Tennessee Board of Regents

TENNESSEE STATE UNIVERSITY

Required Supplementary Information

Schedule of Tennessee State University's Proportionate Share of the Net Pension Asset

State and Higher Education Employee Retirement Plan Within TCRS

	2016
University's proportion of the net pension asset	1.527868%
University's proportionate share of the net pension asset	$ 42,489.00
University's covered payroll	$1,663,791.00
University's proportionate share of the net pension asset as a percentage of its covered payroll	2.55%
Plan fiduciary net position as a percentage of the total pension asset	142.55%

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

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

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2016	$4,596,551.64	$4,596,551.64	$ -	$30,579,269.14	15.03%
2015	4,673,853.88	4,673,853.88	-	31,096,832.00	15.03%
2014	4,994,849.00	4,994,849.00	-	33,236,633.00	15.03%
2013	4,284,542.47	4,284,542.47	-	28,506,603.26	15.03%
2012	4,191,277.07	4,191,277.07	-	28,110,510.19	14.91%
2011	4,078,956.87	4,078,956.87	-	27,357,188.93	14.91%
2010	3,621,292.79	3,621,292.79	-	27,813,308.68	13.02%
2009	3,926,390.23	3,926,390.23	-	30,156,606.99	13.02%
2008	4,089,428.71	4,089,428.71	-	30,025,174.08	13.62%
2007	3,928,524.36	3,928,524.36	-	28,759,329.14	13.66%

Tennessee Board of Regents

TENNESSEE STATE UNIVERSITY

Required Supplementary Information

Schedule of Tennessee State University's Contributions

State and Higher Education Employee Retirement Plan Within TCRS

	2016	2015
Contractually determined contribution	$ 156,295.91	$ 64,389.00
Contributions in relation to the contractually determined contribution	156,295.91	64,389.00
Contribution deficiency (excess)	$ -	$ -
Covered payroll	$4,472,677.89	$1,663,791.37
Contributions as a percentage of covered payroll	3.49%	3.87%

This is a ten-year schedule; however, contributions to this plan began in 2015. Years will be added to this schedule in future years until ten years of information are available.

Tennessee Board of Regents
TENNESSEE STATE UNIVERSITY
Required Supplementary Information
Schedule of Tennessee State University's Contributions
Civil Service Retirement System

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll	Number of Covered Employees
2016	$11,272.79	$15,588.84	$(4,316.05)	$161,039.91	9.68%	3
2015	17,024.05	20,556.37	(3,532.32)	243,200.73	8.45%	4
2014	15,244.44	19,406.77	(4,162.33)	217,777.68	8.91%	4
2013	15,233.67	19,396.10	(4,162.43)	217,623.92	8.91%	5
2012	18,658.84	22,685.10	(4,026.26)	266,554.92	8.51%	5
2011	19,891.24	21,355.78	(1,464.54)	284,160.59	7.52%	5
2010	22,934.14	22,889.06	45.08	327,630.54	6.99%	6
2009	26,290.89	26,290.90	(0.01)	375,584.21	7.00%	6
2008	27,923.78	28,230.84	(307.06)	398,911.20	7.08%	6
2007	27,996.90	27,996.90	-	399,955.71	7.00%	6

1) This is a ten-year schedule.

2) Population of covered employees during the fiscal year are also listed to display trends.

3) The percentage of covered-employee payroll does not match the 7% required contribution due to cost-sharing agreements with Davidson County. A portion of the covered-employees payroll is paid through other entities, but the full Civil Service Retirement System (CSRS) payment is made by Tennessee State University. Davidson County is billed quarterly to reimburse TSU for a portion of the CSRS plan amounts.

Tennessee Board of Regents
TENNESSEE STATE UNIVERSITY
Required Supplementary Information
Other Postemployment Benefits Schedule of Funding Progress

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
July 1, 2015	State Employee Group Plan	$ -	$10,020,000	$10,020,000	0%	$80,342,492	12.47%
July 1, 2013	State Employee Group Plan	$ -	$10,054,000	$10,054,000	0%	$79,201,391	12.69%
July 1, 2011	State Employee Group Plan	$ -	$13,336,000	$13,336,000	0%	$71,294,388	18.71%

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

Tennessee Board of Regents
TENNESSEE STATE UNIVERSITY
Supplementary Schedule of Cash Flows - Component Unit
For the Year Ended June 30, 2016

Cash flows from operating activities	
Gifts and contributions	$ 2,089,088.47
Sales and services of educational activities	295,342.83
Payments to suppliers and vendors	(974,191.87)
Payments for scholarships and fellowships	(2,199,437.91)
Payments to Tennessee State University	(473,303.55)
Net cash used for operating activities	(1,262,502.03)
Cash flows from noncapital financing activities	
Private gifts for endowment purposes	696,598.56
Net cash provided by noncapital financing activities	696,598.56
Cash flows from capital and related financing activities	
Purchases of capital assets and construction	(6,018.09)
Net cash used for capital and related financing activities	(6,018.09)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	45,770,482.03
Income on investments	1,084,106.73
Purchases of investments	(45,444,102.31)
Net cash provided by investing activities	1,410,486.45
Net increase in cash and cash equivalents	838,564.89
Cash and cash equivalents - beginning of year	7,065,880.34
Cash and cash equivalents - end of year	$ 7,904,445.23
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	$ (1,286,965.18)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	7,350.33
Changes in assets and liabilities:	
Receivables, net	7,291.90
Accounts payable	9,820.92
Net cash used by operating activities	$ (1,262,502.03)
Noncash investing, capital, or financing transactions	
Unrealized losses on investments	$ (4,969,328.47)

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable Flora W. Tydings, Chancellor
Dr. Glenda Baskin Glover, President

We have audited the financial statements of Tennessee State University, an institution of the State University and Community College System of Tennessee, 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, 2016, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated July 28, 2017. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

- As noted in the prior audit, management needs to improve procedures for preparing and reviewing financial statements to prevent errors.

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

- As noted in the two prior audits, Tennessee State University did not provide adequate internal controls in one specific area.

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

Compliance and Other Matters

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

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

Tennessee State University's Responses to Findings

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

Purpose of This Report

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

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
July 28, 2017

Findings and Recommendations

1. As noted in the prior audit, management needs to improve procedures for preparing and reviewing financial statements to prevent errors

<u>Condition</u>

As noted in the prior audit, Tennessee State University's procedures for preparing its financial statements and the accompanying notes to the financial statements are not adequate to ensure the accuracy, proper classification, and disclosure of information.

<u>Cause</u>

The university's financial statements were prepared by the Director of General Accounting and Financial Reporting and the Associate Vice President for Accounting and Payroll. Information included for the Tennessee State University Foundation was provided by the Director of Fiscal Affairs for Institutional Advancement. The financial statements for both the university and the foundation were the ultimate responsibility of the Vice President of Business and Finance.

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

<u>Criteria</u>

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

<u>Effect</u>

Based on our review of the university and foundation's financial statements, we noted that management made errors when preparing both sets of financial statements for the fiscal year under audit.

University Financial Statements and Notes

In the university's financial statements, the current compensated absences liability was understated by $195,576.22, the noncurrent compensated absences liability was understated by $773,956.12, and benefits expenses were understated by $969,532.34. According to the Codification of Governmental Accounting and Financial Reporting Standards, Section C60.107-108, the compensated absences liability should be calculated based on the pay or salary rates in effect at the balance sheet date. However, the liability should also include salary-related payments, such as the employer's share of social security and Medicare taxes and the employer's contributions to pension plans. Although the university was in the practice of estimating these salary-related payments at 18% of the liability related to salary or pay rate requirements, this additional calculation was not performed for the year under audit. Both the statement of net position and the related non-current liabilities note were corrected for this error.

Foundation Statements

In the foundation's statement of net position, neither the Director of General Accounting Financial Reporting nor the Director of Fiscal Affairs for Institutional Advancement could provide support for the amounts classified as nonexpendable net position restricted for other purposes and expendable net position restricted for other purposes. Based on our testwork in the general ledger, nonexpendable net position - restricted for other line was overstated by $508,050.40, and the expendable net position - restricted for other line was understated by a like amount. Management could not explain the cause of this error.

Foundation Notes

We also noted errors within the foundation's notes to the financial statements.

The foundation's fair value measurement disclosure incorrectly disclosed $2,973,711.36 in mutual bond funds with Common Fund as classified as Level 1, and $5,152,314.71 invested in hedge funds with Goldman Sachs, classified as Level 2, within the fair value hierarchy established by generally accepted accounting principles. These investments should have been classified as investments measured at Net Asset Value (NAV). Additional disclosures related to investments measured at NAV were also omitted. These disclosures were provided to the auditors by the Director of Fiscal Affairs for Institutional Advancement after the omission was brought to his attention.

In the foundation's investments note, these additional errors were noted:

- In the interest rate risk section of the note, the maturity date for one of the corporate bonds was disclosed incorrectly. As a result, corporate bonds maturing in less than one year was overstated by $180,488.95 and corporate bonds maturing in one to five years was understated by the same amount.
- In the interest rate risk section of the note, U.S. Treasury investments totaling $1,537,771.45 were incorrectly disclosed as being U.S. agency investments. Due to this error, these U.S. Treasury investments were also erroneously disclosed in the foundation's credit quality rating disclosure as being U.S. agency investments and rated AAA. As U.S. Treasury investments are backed by the full faith and credit of the United States, no ratings disclosure is required.
- The foundation separately disclosed mutual equity funds and mutual equity funds-exchange traded funds (ETF) in the interest rate risk section of the note. However, one investment valued at $487,207 was classified as a mutual equity fund when it should have been classified as an ETF.
- In the credit quality rating portion of the disclosure, several corporate bonds were not shown at the lowest bond rating. As a result, the corporate bonds' AA ratings were

overstated by $243,316.07, A ratings were understated by $133,795.71, and BBB ratings were understated by $109,520.36.

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

Recommendation

As noted in the prior audit, the Vice President of Business and Finance should ensure that communication and cooperation between all staff with accounting responsibilities improves and that information necessary for the compilation of the financial statements and notes is completed timely to facilitate a proper review. The Vice President of Business and Finance should institute procedures that ensure the accuracy, proper classification, and disclosure of information presented in the financial statements and accompanying notes. The procedures should address the preparation of the financial statements and notes and the subsequent review process. Adequate reviews should be performed on the statements and the notes by management to mitigate the risk of errors.

In its response to the prior audit finding, management indicated that a comprehensive financial statement preparation checklist would be developed and used to define accounting duties and responsibilities assigned to personnel in their respective units. The checklist would also establish time frames for the preparation and review of financial data. We were able to confirm that the comprehensive checklist was developed and used by university personnel during the preparation of financial statements during the audit period. In addition, management indicated ad-hoc reports would be created to assist in the detection of errors and misclassifications. We were able to view error reports used by accounting and budget personnel at fiscal year-end. These corrective actions were in place by the time frame indicated by management in its prior-year response. However, these implemented year-end procedures did not prevent material misstatements in the financial statements and notes. The majority of the errors were due to the Director of Fiscal Affairs for Institutional Advancement not providing information timely to university management preparing the financial statements and notes. As a result, university management was unable to perform a thorough review of component unit information prior to submission to the governing board.

Management's Comment

We concur. For the university financial statement note referenced, the Associate Vice President for Accounting and Payroll will ensure year-end checklists are updated to reflect all needed entries by August 31, 2017, and the Vice President for Business and Finance will review the checklist and the final note to ensure completion and accuracy. For the foundation notes referenced, the Vice President for Research and Institutional Advancement and the Vice President for Business and Finance will meet by October 31, 2017, to clearly define the accounting duties and responsibilities assigned to foundation personnel; establish timeframes for the preparation and review of financial data; and review procedures to ensure the accurate and timely completion of the foundation's notes. The Vice President for Research and Institutional Advancement will ensure that accurate and timely financial statement information is disseminated to the university monthly (for monthly investment statements) and a minimum of quarterly (for quarterly investment statements). The Vice President for Business and Finance will provide a final review of the foundation financial statement notes at year-end.

2. As noted in the two prior audits, Tennessee State University did not provide adequate internal controls in one specific area

Tennessee State University did not design and monitor effective internal controls in one area. For this area, we found internal control deficiencies related to one of the university's systems. Although management has taken steps to correct these conditions, we are reporting internal control deficiencies for the third consecutive year because corrective action was not sufficient. According to management, the university implemented updated controls in July 2015 and is continuing to improve these controls as of March 2017.

Ineffective implementation of internal controls increases the likelihood of errors, data loss, and unauthorized access to university information. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated.* We provided the university with detailed information regarding the specific condition we identified, as well as the related criteria, causes, and our specific recommendations for improvement.

Recommendation

Management should ensure that this condition is remedied by promptly developing and consistently implementing internal controls in this area. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur. The Vice President for Administration and the Vice President for Business and Finance will ensure internal controls are developed and implemented to prevent recurrence.