

## **Management's Discussion and Analysis**

This section of Tennessee State University's annual financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2007, with comparative information presented for the fiscal years ended June 30, 2006 and June 30, 2005. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

### **Using This Annual Report**

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

### **The Statement of Net Assets**

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

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

determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution

Statement of Net Assets (in thousands of dollars)

	INSTITUTION			COMPONENT UNIT		
	2007	2006	2005	2007	2006	2005
<b>Assets:</b>						
Current assets	\$ 23,905	\$ 20,408	\$ 26,354	\$ 3,477	\$ 2,519	\$ 2,344
Capital assets, net	177,050	167,428	156,267			
Other assets	36,498	31,324	27,085	30,305	16,864	13,666
<b>TOTAL ASSETS</b>	<b>237,453</b>	<b>219,160</b>	<b>209,706</b>	<b>33,782</b>	<b>19,383</b>	<b>16,010</b>
<b>Liabilities</b>						
Current liabilities	17,342	15,741	17,269	14	6	1
Noncurrent liabilities	44,349	39,305	35,854			
<b>TOTAL LIABILITIES</b>	<b>61,691</b>	<b>55,046</b>	<b>53,123</b>	<b>14</b>	<b>6</b>	<b>1</b>
<b>Net Assets:</b>						
Invested in capital assets, net of related debt	138,658	133,962	125,457			
Restricted - Nonexpendable	73	72	72	30,305	16,864	13,658
Restricted - Expendable	7,772	6,701	7,826	3,351	2,483	2,308
Unrestricted	29,259	23,379	23,228	112	30	43
<b>Total Net Assets</b>	<b>\$ 175,762</b>	<b>\$ 164,114</b>	<b>\$ 156,583</b>	<b>\$ 33,768</b>	<b>\$ 19,377</b>	<b>\$ 16,009</b>

Comparison of FY 2007 to FY 2006 - TSU

- Current Assets increased with the increase in Accounts and Grants Receivable of over \$650,000 and an increase in Cash and Cash Equivalents required to pay current obligations.
- Capital Assets increased as the result of the purchase/construction of capital assets. See Note 5 on Capital Assets.
- Other Assets increased with the allocation of an additional \$3.5 million Cash and Cash Equivalents for future plant construction, and an increase of over \$1.3 million in Grants Receivables related to construction projects.

- Current Liabilities increased with the increase in the Bonds and Notes Payable currently due and an increase in Deferred Revenue related to student fees related to future terms. See Note 6 for additional information on Long-Term Liabilities.
- Long Term Liabilities increased as a result of additional funding obtained for capital assets. See Note 6 for additional information on Long-Term Liabilities.
- Restricted-Expendable Net Assets for FY07 increased with the funding received for Consent Decree programs (\$711,000) and Biotech Labs (\$749,000).
- Unrestricted Net Assets for plant construction increased with the allocation of an additional \$3.5 million for future plant construction, and an increase of over \$1.3 million in Grants Receivables related to construction projects.

#### Comparison of FY 2007 to FY 2006 – TSU Foundation

- The TSU Foundation's Current Assets, Restricted, Expendable Net Assets, and Unrestricted Net Assets increased with the receipt of over \$1.1 million in Gifts and Contributions and over \$390,000 in investment income.
- Other Assets and Restricted, Non Expendable Net Assets for the current fiscal year increased over as a result of \$9 million in state funds and over \$3.3 million in Title III funding received for the Endowment for Educational Excellence, and over \$1.0 million in investment gains and income.

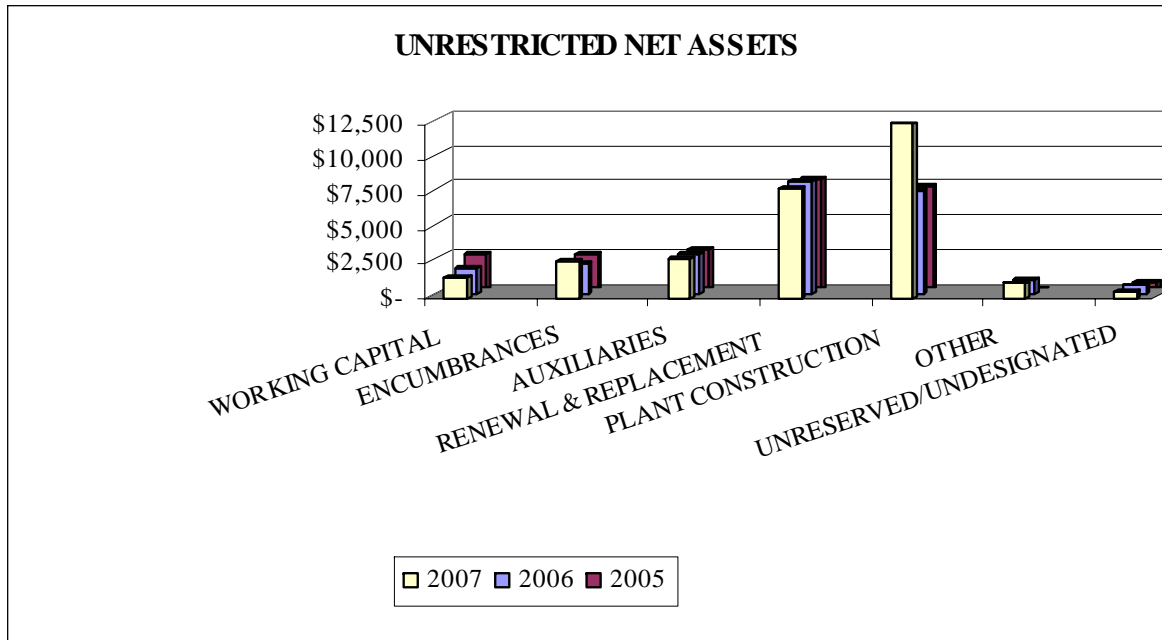
#### Comparison of FY 2006 to FY 2005 - TSU

- Current Assets decreased while Other Assets increased as the result of additional investments of the University and the purchase/construction of capital assets. See Note 3 of the attached financial statements for additional information on Investments and Note 5 on Capital Assets.
- Current Liabilities decreased for current fiscal year as result of a decrease in the current portion due of Long Term Liabilities. See Note 6 for additional information on Long-Term Liabilities.
- Restricted-Expendable Net Assets for FY06 decreased 14% due to a \$2.87 million refund of remaining funds following the discontinuation of the Basic Skills - Science Materials Program.
- Restricted-Non Expendable Net Assets for FY06 increased as a result of an endowed gift of \$10,000.

#### Comparison of FY 2006 to FY 2005 – TSU Foundation

- Net Assets for the TSU Foundation for the current fiscal year increased over \$3.0 million as a result of \$1 million in state funds, over \$1.1 million in gifts, and a more aggressive investment program that resulted in over \$500 thousand in investment income.

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



Comparison of FY 2007 to FY 2006

- The Allocation for Plant Construction increased as a result of construction ongoing on the Avon Williams campus and the Clement Hall renovation.

Comparison of FY 2006 to FY 2005

- The Allocation for Working Capital decreased 28% as the result of a decrease in students Accounts Receivable due to accounts determined to be uncollectible.

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

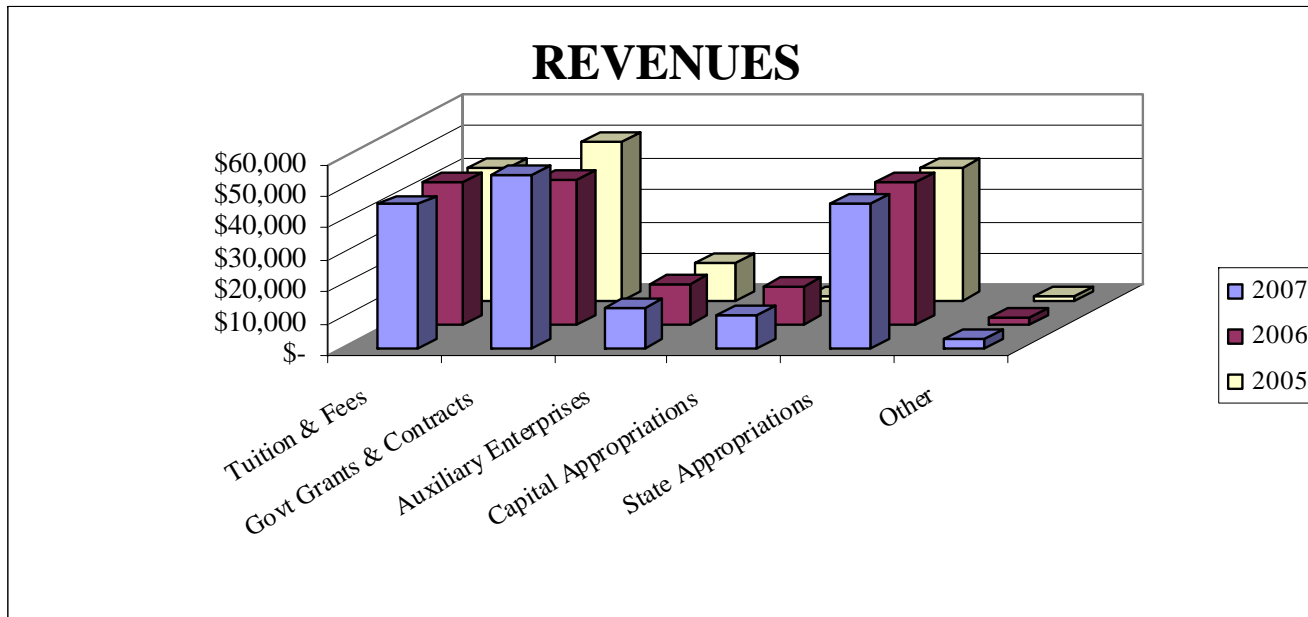
The Statement of Revenues, Expenses, and Changes in Net Assets present the operating results of the university, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered non-operating revenues according to accounting principles generally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

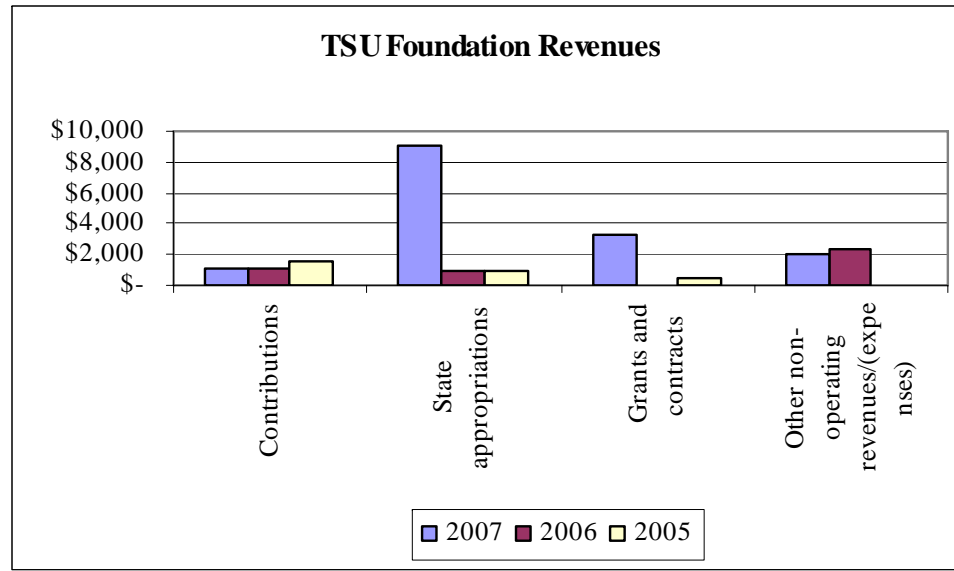
Statement of Revenues, Expenses, and Changes in Net Assets (in thousands of dollars)

	INSTITUTION			COMPONENT UNIT		
	2007	2006	2005	2007	2006	2005
<b>Operating Revenues:</b>						
Net tuition and fees	\$ 45,241	\$ 45,187	\$ 42,272		\$ -	\$ -
Grants and contracts	35,794	30,149	29,361		-	-
Auxiliary	12,864	12,527	12,410		-	-
Other	2,736	2,563	2,429	1,364	1,097	1,140
<b>Total Operating Revenue</b>	<b>96,635</b>	<b>90,426</b>	<b>86,472</b>	<b>1,364</b>	<b>1,097</b>	<b>1,140</b>
Operating expenses	161,526	152,883	151,795	930	1,150	1,140
<b>Operating loss</b>	<b>(64,891)</b>	<b>(62,457)</b>	<b>(65,323)</b>	<b>434</b>	<b>(53)</b>	<b>-</b>
<b>Nonoperating revenues and expenses:</b>						
State appropriations	45,387	44,939	42,305	9,000	1,000	1,000
Gifts	835	732	1,121	288	215	574
Grants and Contracts	16,252	14,941	16,922	3,260	-	488
Investment income	2,945	1,859	898	397	594	(5)
Other revenues and expenses	(1,668)	(4,594)	(1,619)		-	13
<b>Total nonoperating revenues and expenses revenues and expenses</b>	<b>63,751</b>	<b>57,877</b>	<b>59,627</b>	<b>12,945</b>	<b>1,809</b>	<b>2,070</b>
<b>Income (loss) before other revenues expenses, gains, or losses</b>	<b>(1,140)</b>	<b>(4,580)</b>	<b>(5,696)</b>	<b>13,379</b>	<b>1,756</b>	<b>2,070</b>
<b>Other revenues, expenses, gains, or losses</b>						
Capital appropriations	10,332	11,745	1,863		-	-
Capital grants and gifts	2,546	393	3,972		-	-
Additions to permanent endowments	-	-	-	1,013	1,612	462
Other	(90)	(27)	247			
<b>Total other revenues, expenses, gains, or losses</b>	<b>12,788</b>	<b>12,111</b>	<b>6,082</b>	<b>1,013</b>	<b>1,612</b>	<b>462</b>
<b>Increase (decrease) in net assets</b>	<b>11,648</b>	<b>7,531</b>	<b>386</b>	<b>14,392</b>	<b>3,368</b>	<b>2,532</b>
<b>Net assets at beginning of period</b>	<b>164,114</b>	<b>156,583</b>	<b>155,342</b>	<b>19,377</b>	<b>16,009</b>	<b>13,477</b>
<b>Prior Period Adjustment</b>	<b>-</b>	<b>-</b>	<b>855</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net assets at end of year</b>	<b>\$ 175,762</b>	<b>\$ 164,114</b>	<b>\$ 156,583</b>	<b>\$ 33,769</b>	<b>\$ 19,377</b>	<b>\$ 16,009</b>

## Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the university's operating activities for the years ended June 30, 2007, June 30, 2006, and June 30, 2005 (amounts are presented in thousands of dollars).





Comparison of FY 2007 to FY 2006 - TSU

- Grants and Contracts for the University increased due to an additional \$2.0 million for construction related programs, \$1.3 million for Pell, SEOG, Hope, and TSAC grants, and over \$3.2 million in Title III funds for the match of the funds related to the Consent Decree settlement.
- Capital Appropriations decreased 49% with a \$5.5 decline in expenses in FY08 for the Avon Williams Campus renovation as the project neared completion.

Comparison of FY 2007 to FY 2006 – TSU Foundation

- State Appropriations for the Foundation increased \$8.0 and Grants and Contracts increased over \$3.2 million due to funds received from the Consent Decree settlement.



### Comparison of FY 2006 to FY 2005

- Net Tuition and Fees increased \$2.9 million as the result of an increase in the cost of attendance.
- Gifts for the University decreased 35% due to a decrease in funds received from non-governmental organizations.
- Investment income increased as a result of more funds invested for the entire fiscal year and a more aggressive investment strategy employed by the university.
- Other non-operating revenues/expenses decreased due to the discontinuation of the Science Materials Program in Basic Skills and the allocation of the remaining funds to the participating counties.

### Comparison of FY 2006 to FY 2005 – TSU Foundation

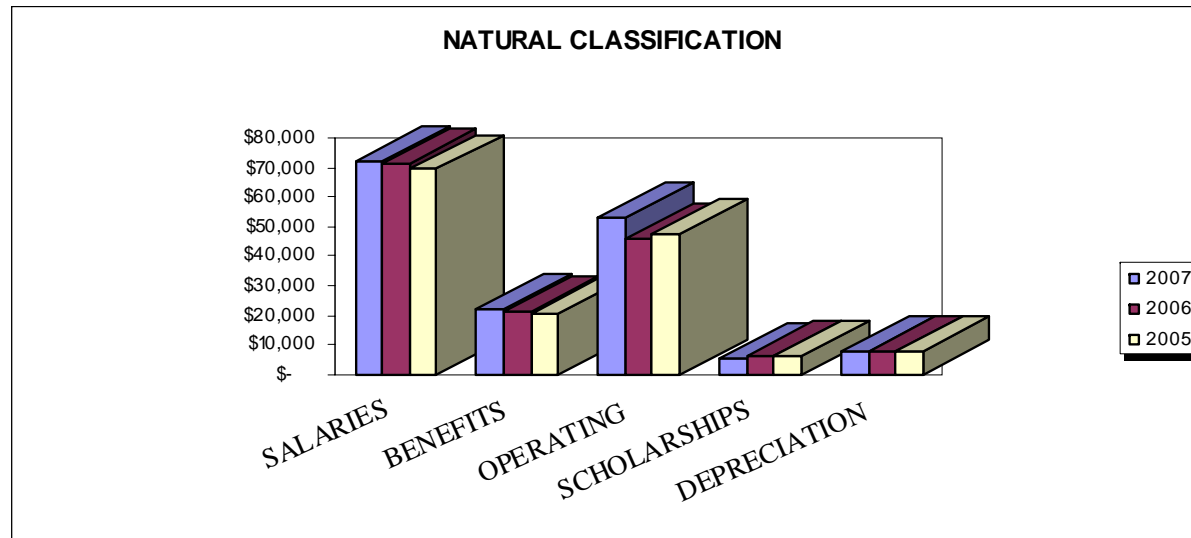
- Additions to the Permanent fund increased in 2006 for the TSU Foundation as a result of a more aggressive investment strategy employed by the by the foundation.

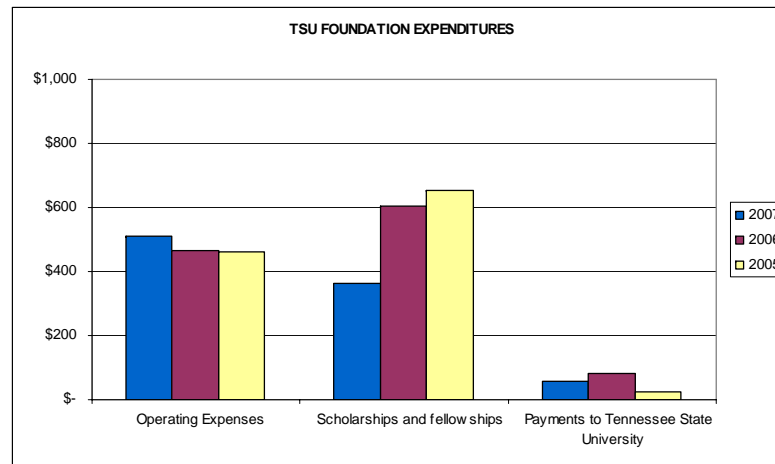
### Expenses

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

NATURAL CLASSIFICATION  
(in thousands of dollars)

	UNIVERSITY			COMPONENT UNITS		
	2007	2006	2005	2007	2006	2005
SALARIES	\$ 72,162	\$ 70,950	\$ 69,316		\$ -	\$ -
BENEFITS	22,366	21,342	20,458		-	-
OPERATING	53,378	46,131	47,785	510	464	463
SCHOLARSHIPS	5,364	6,422	6,554	363	606	652
PAYMENTS TO TSU	-	-	-	57	80	25
DEPRECIATION	8,256	8,038	7,682	-	-	-
<b>TOTAL</b>	<b>\$ 161,526</b>	<b>\$ 152,883</b>	<b>\$ 151,795</b>	<b>\$ 930</b>	<b>\$ 1,150</b>	<b>\$ 1,140</b>





#### Comparison of FY 2007 to FY 2006 - TSU

- Salaries increased with the implementation of the university salary plan.
- Operating expenditures increased as noted above with the increase in Grant and Contract expenditures including Title III funding, and Pell, SEOG, Hope, and TSAC grants.

#### Comparison of FY 2007 to FY 2006 – TSU Foundation

- Operating Expenses increased and payments to TSU decreased due to payments on behalf of the University were made through the Foundation rather than transferring the funding to the University.
- Scholarship expenditures decreased due to a hold being placed on the awarding of new scholarships as a result of several changes in the Foundation Board membership.

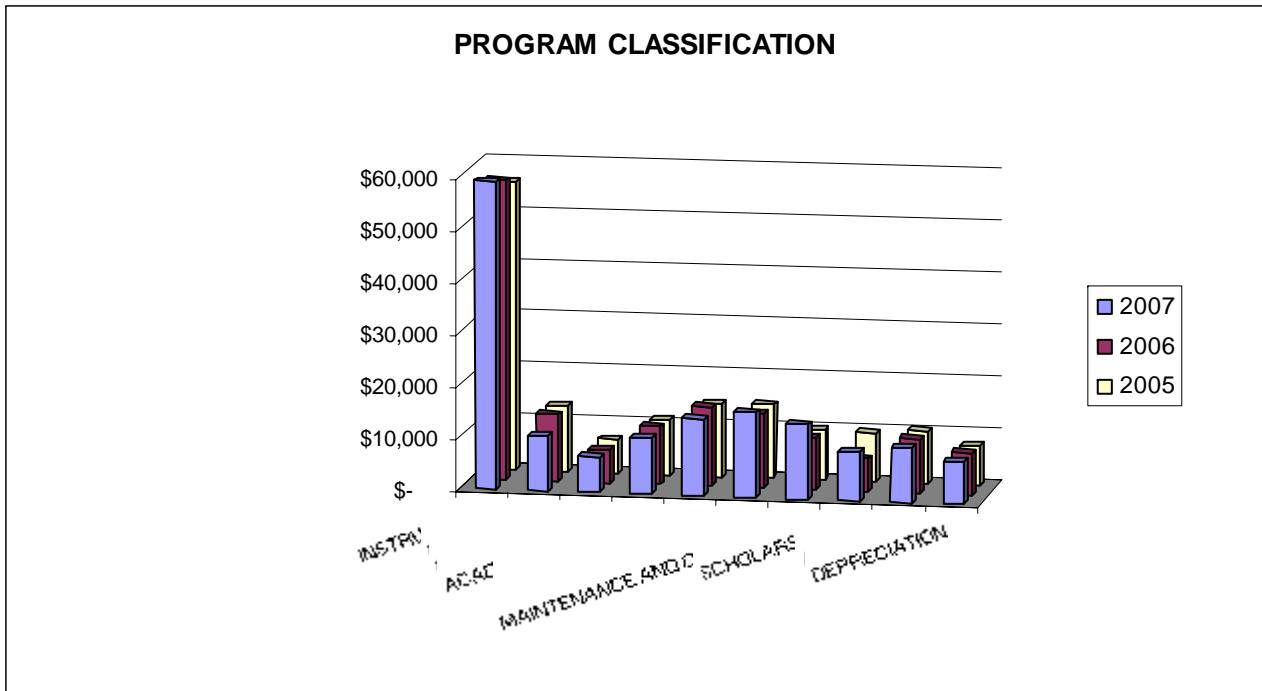
Comparison of FY 2006 to FY 2005 - TSU

- Scholarships decreased due to the number of students receiving Pell, Hope, and TSAC awards.

Comparison of FY 2006 to FY 2005 - TSU Foundation

- Payments to TSU increased to support from for one-time expenses related to the installation of a new president for the University.

PROGRAM CLASSIFICATION (in thousands of dollars)	UNIVERSITY		
	2007	2006	2005
INSTRUCTION	\$ 59,327	\$ 57,827	\$ 56,008
RESEARCH	10,615	12,934	12,778
PUBLIC SERVICE	6,873	6,378	6,659
ACADEMIC SUPPORT	10,803	11,237	10,740
STUDENT SERVICES	14,871	15,369	14,206
INSTITUTIONAL SUPPORT	16,386	14,445	14,334
MAINTENANCE AND OPERATION	14,391	9,873	9,747
SCHOLARSHIPS	9,459	6,350	9,475
AUXILIARY	10,545	10,432	10,166
DEPRECIATION	8,256	8,038	7,682
TOTAL	<u>\$ 161,526</u>	<u>\$ 152,883</u>	<u>\$ 151,795</u>



Comparison of FY 2007 to FY 2006

- Research decreased as a result of the reduction in funding from NASA and NSF.
- Institutional Support increased with the Title III expenditures noted above.
- Scholarships increased due to the number of students receiving Pell, SEOG, Hope, and TSAC awards.

- Maintenance and Operations increased due to an increase utilities and an increase in non-capital expenditures for maintenance and repairs of University property.

Comparison of FY 2006 to FY 2005

- Scholarships decreased due to the number of students receiving Pell, Hope, and TSAC awards.

**The Statement of Cash Flows**

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the university’s ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

Statement of Cash Flows (in thousands of dollars)

	UNIVERSITY		
	2007	2006	2005
Cash provided (used) by:			
Operating activities	\$ (55,755)	\$ (53,044)	\$ (56,789)
Noncapital financing activities	62,472	57,639	60,916
Capital and related financing activities	(3,108)	(4,167)	(7,702)
Investing activities	3,144	(690)	(9,198)
Net increase (decrease) in cash	6,753	(262)	(12,773)
Cash, beginning of year	27,606	27,868	40,641
Cash, end of year	<u>\$ 34,359</u>	<u>\$ 27,606</u>	<u>\$ 27,868</u>

### Comparison of FY 2007 to FY 2006

- Cash provided by investing activities increased as a result of more funds invested for the entire fiscal year.
- Cash provided from Non-capital financing activities increased with the additional receipt of Grants and Contracts as noted above.
- Cash provided by Capital and related financing activities for the University increased for FY07 due to an increase in the proceeds from capital debt.
- The university's liquidity improved during the year.

### Comparison of FY 2006 to FY 2005

- Cash provided by investing activities increased as a result of more funds invested for the entire fiscal year, rather than the purchase of investments during the year, at higher rates and a more aggressive investment strategy employed by the university.
- Cash provided by Capital and related financing activities for the University decreased for FY06 due to a \$3.2 million purchase of capital assets and construction costs for FY05 not required during FY06.

## **Capital Assets and Debt Administration**

### Capital Assets

The university had \$177,049,621.73 invested in capital assets, net of accumulated depreciation of \$123,522,576.24 at June 30, 2007; \$167,428,129.41 invested in capital assets, net of accumulated depreciation of \$116,307,677.28 at June 30, 2006; and \$156,267,304.33 invested in capital assets, net of accumulated depreciation of \$109,470,607.53 at June 30, 2005. Depreciation charges totaled \$8,256,427.97, \$8,037,721.55, and \$7,681,782.97 for the years ended June 30, 2007, June 30, 2006, and June 30, 2005, respectively. Details of these assets are shown below.

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Land	\$ 9,525	\$ 9,525	\$ 9,525
Land Improvements	11,147	11,543	22,420
Buildings	88,372	91,498	85,218
Equipment	6,037	6,351	6,356
Library Holdings	7,121	7,285	6,567
Software	2,048	-	-
Projects In Progress	52,800	41,226	26,181
Net Capital Assets	<u>\$ 177,050</u>	<u>\$ 167,428</u>	<u>\$ 156,267</u>

Projects in progress during the fiscal year 2007 included the Research and Sponsored Programs building, the renovation of the Avon Williams campus, installation of fire sprinkler systems in student housing, and continued work on the final phase of the North Campus project. More detailed information about the university's capital assets is presented in Note 5 to the financial statements.

Debt

The university had \$38,392,019.02, \$33,465,760.10, and \$30,180,464.64 in debt outstanding at June 30, 2007, June 30, 2006, and June 30, 2005, respectively. The table below summarizes these amounts by type of debt instrument.



Schedule of Debt (in thousands of dollars)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Bonds	\$ 37,467	\$ 29,419	\$ 28,269
Commerical Paper	925	4,047	2,542
Total	<u>\$ 38,392</u>	<u>\$ 33,466</u>	<u>\$ 30,811</u>

The university converted over \$4.0 million in Commercial Paper to Bonds during FY07 for the Research and Sponsored Programs building, and the Student Housing Fire Suppression retrofit project. An additional amount of over \$924 thousand was issued in Commercial Paper for these two projects and the Avon Williams Campus renovation. Over \$8 million in Bonds were issued during the current fiscal year. Additional information about the university's long-term liabilities is presented in Note 6 to the financial statements. The Standard & Poor's rating for TSSBA AA- with a stable outlook. More detailed information about the university's long-term liabilities is presented in Note 6 to the financial statements.

**Economic Factors That Will Affect the Future**

The Tennessee Board of Regents approved a 6.0% increase in maintenance and tuition fees for the 2007-08 academic year. The cost for students to attend the university exceeds the amount of financial aid available per student. This requires students to resort to alternative means of financing the cost of attending the university. The impact that will have on enrollment is unknown. The university is not aware of any other factors that will have a significant affect on the financial position or results of operations.

## **Requests for Information**

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

Mrs. Cynthia B. Brooks  
Vice President for Business and Finance  
3500 John A. Merritt Boulevard  
Nashville, TN 37209

**Tennessee State University**  
**Unaudited Statement of Net Assets**  
**June 30, 2007, with comparative figures at June 30, 2006**

	<u>Institution</u>		<u>Component Unit</u>	
	<u>FY 2007</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2006</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents (Note 2 and 15)	\$ 14,036,969.71	\$ 11,264,067.79	\$ 3,477,411.44	\$ 2,518,261.65
Short-term investments (Note 3)	300,806.56	285,697.70	-	-
Accounts, notes, and grants receivable (net) (Note 4)	7,928,930.13	7,277,958.06	-	-
Inventories (at lower of cost or market)	38,816.27	38,816.27	-	-
Accrued interest receivable	1,599,059.94	1,542,094.12	-	-
Total current assets	<u>23,904,582.61</u>	<u>20,408,633.94</u>	<u>3,477,411.44</u>	<u>2,518,261.65</u>
Noncurrent assets:				
Cash and cash equivalents (Note 2 and 15)	20,322,583.08	16,342,093.10	2,417,659.95	5,678,425.86
Investments (Note 3 and 15)	12,148,236.94	12,419,992.60	27,887,545.15	11,185,974.75
Accounts, notes, and grants receivable (net) (Note 4)	4,028,515.74	2,561,185.79	-	-
Capital assets (net) (Note 5 )	177,049,621.73	167,428,129.41	-	-
Total noncurrent assets	<u>213,548,957.49</u>	<u>198,751,400.90</u>	<u>30,305,205.10</u>	<u>16,864,400.61</u>
Total assets	<u>\$ 237,453,540.10</u>	<u>\$ 219,160,034.84</u>	<u>\$ 33,782,616.54</u>	<u>\$ 19,382,662.26</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	2,094,231.71	1,664,317.05	13,835.77	5,655.05
Accrued liabilities	7,775,578.01	7,265,186.76	-	-
Student deposits	1,253,844.41	1,164,654.91	-	-
Deferred revenue	2,814,922.08	2,505,815.36	-	-
Compensated absences (Note 6 )	759,669.43	1,260,185.75	-	-
Accrued interest payable	308,110.31	266,438.69	-	-
Long-term liabilities, current portion (Note 6 )	1,584,504.95	1,044,550.13	-	-
Deposits held in custody for others	121,724.96	114,731.40	-	-
Other liabilities	629,581.50	455,440.36	-	-
Total current liabilities	<u>17,342,167.36</u>	<u>15,741,320.41</u>	<u>13,835.77</u>	<u>5,655.05</u>
Noncurrent liabilities:				
Compensated absences (Note 6 )	4,305,123.55	3,586,088.73	-	-
Long-term liabilities (Note 6 )	36,807,514.07	32,421,209.97	-	-
Due to grantors (Note 6 )	3,236,570.55	3,297,205.01	-	-
Total noncurrent liabilities	<u>44,349,208.17</u>	<u>39,304,503.71</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>\$ 61,691,375.53</u>	<u>\$ 55,045,824.12</u>	<u>\$ 13,835.77</u>	<u>\$ 5,655.05</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	138,657,602.71	133,962,369.31	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	73,306.98	72,592.10	30,305,205.10	16,864,211.13

**Tennessee State University**  
**Unaudited Statement of Net Assets**  
**June 30, 2007, with comparative figures at June 30, 2006**

	<u>Institution</u>		<u>Component Unit</u>	
	<u>FY 2007</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2006</u>
Expendable:				
Scholarships and fellowships	483,509.10	374,746.07	2,328,068.76	1,820,549.78
Research	1,988,247.65	899,429.29	13,955.72	15,804.41
Instructional department uses	2,529,622.21	2,034,511.94	126,403.43	83,372.33
Loans	854,346.59	866,070.58		-
Other	1,916,756.49	2,525,237.15	882,263.62	563,312.74
Unrestricted (Note 8 )	<u>29,258,772.84</u>	<u>23,379,254.28</u>	<u>112,884.14</u>	<u>29,756.82</u>
Total net assets	<u>\$ 175,762,164.57</u>	<u>\$ 164,114,210.72</u>	<u>\$ 33,768,780.77</u>	<u>\$ 19,377,007.21</u>

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

**Tennessee State University**  
**Unaudited Statement of Revenues, Expenses, and Changes in Net Assets**  
**For the Year Ended June 30, 2007, with comparative figures for the year ended June 30, 2006**

	<u>Institution</u>		<u>Component Unit</u>	
	<u>FY 2007</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2006</u>
<b>REVENUES</b>				
Operating revenues:				
Student tuition and fees ( net of scholarship allowances of	\$ 15,295,706.40			
for the year ended June 30, 2007, and	<u>\$ 14,660,467.90</u>			
for the year ended June 30, 2006.)	\$ 45,241,297.78	\$ 45,186,600.61	-	-
Gifts and contributions	-	-	1,171,729.51	918,706.15
Governmental grants and contracts	35,793,622.54	30,149,197.69	-	-
Sales and services of educational departments	2,412,523.66	2,309,304.96	-	-
Auxiliary enterprises:				
Residential life ( net of scholarship allowances of	\$ 1,070,809.63			
for the year ended June 30, 2007, and	<u>\$ 1,007,641.08</u>			
for the year ended June 30, 2006: all residential life revenues are used as security for revenue bonds, see Note __ )	7,310,730.94	7,080,737.00	-	-
Bookstore	253,153.05	121,209.88	-	-
Food service	4,359,190.13	4,396,311.33	-	-
Other auxiliaries	940,604.44	928,306.27	-	-
Other operating revenues	323,557.68	254,367.01	191,920.79	178,318.08
Total operating revenues	<u>\$ 96,634,680.22</u>	<u>\$ 90,426,034.75</u>	<u>\$ 1,363,650.30</u>	<u>\$ 1,097,024.23</u>
<b>EXPENSES</b>				
Operating Expenses				
Salaries and wages	\$ 72,161,355.65	\$ 70,949,834.64	\$ -	\$ -
Benefits	22,366,172.57	21,342,128.61	-	-
Utilities, supplies, and other services	53,378,073.75	46,131,518.71	509,701.09	464,165.10
Scholarships and fellowships	5,364,261.32	6,421,738.06	362,724.30	605,975.24
Depreciation expense	8,256,427.97	8,037,721.55	-	-
Payments to or on behalf of TSU	-	-	57,185.42	80,102.97
Total operating expenses	<u>161,526,291.26</u>	<u>152,882,941.57</u>	<u>929,610.81</u>	<u>1,150,243.31</u>
Operating income (loss)	<u>\$ (64,891,611.04)</u>	<u>\$ (62,456,906.82)</u>	<u>\$ 434,039.49</u>	<u>\$ (53,219.08)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	45,386,666.74	44,938,933.87	9,000,000.00	1,000,000.00
Gifts, including	\$ 57,185.42			
from component unit(s) to institution in FY 2007 and	<u>\$ 80,102.97</u>			
in FY 2006	835,127.83	732,285.22	288,401.94	214,669.78
Grants and contracts	16,252,413.70	14,941,384.15	3,259,354.58	-
Investment income	2,944,671.35	1,859,101.23	397,328.41	593,564.34
Interest on capital asset-related debt	(1,667,656.91)	(1,547,735.93)	-	-
Bond issuance costs	-	(76,628.77)	-	-
Other non-operating revenues/(expenses)	-	(2,970,425.50)	-	-
Net nonoperating revenues	<u>63,751,222.71</u>	<u>57,876,914.27</u>	<u>12,945,084.93</u>	<u>1,808,234.12</u>
Income before other revenues, expenses gains, or losses	<u>(1,140,388.33)</u>	<u>(4,579,992.55)</u>	<u>13,379,124.42</u>	<u>1,755,015.04</u>
Capital appropriations	10,332,279.54	11,745,123.83	-	-
Capital grants and gifts	2,545,930.86	393,237.83	-	-
Additions to permanent endowments	-	-	1,012,649.14	1,612,268.77
Other capital	(89,868.22)	(27,504.64)	-	-
Total other revenues	<u>12,788,342.18</u>	<u>12,110,857.02</u>	<u>1,012,649.14</u>	<u>1,612,268.77</u>

Tennessee State University  
**Unaudited Statement of Revenues, Expenses, and Changes in Net Assets**  
**For the Year Ended June 30, 2007, with comparative figures for the year ended June 30, 2006**

	<u>Institution</u>		<u>Component Unit</u>	
	<u>FY 2007</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2006</u>
Increase (decrease) in net assets	\$ 11,647,953.85	\$ 7,530,864.47	\$ 14,391,773.56	\$ 3,367,283.81
<b>NET ASSETS</b>				
Net Assets -beginning of year	\$ 164,114,210.72	\$ 156,583,346.25	\$ 19,377,007.21	\$ 16,009,723.40
Prior period adjustment (Note ____)	-	-	-	-
Net Assets - end of year	<u>\$ 175,762,164.57</u>	<u>\$ 164,114,210.72</u>	<u>\$ 33,768,780.77</u>	<u>\$ 19,377,007.21</u>

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

**Tennessee State University**  
**Unaudited Statement of Cash Flows**  
**for the Year Ended June 30, 2007, with comparative figures for the year ended June 30, 2006**

	<b>Institution</b>	
	<b><u>FY 2007</u></b>	<b><u>FY 2006</u></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 45,946,335.16	\$ 45,891,904.66
Grants and contracts	34,356,923.18	31,948,236.79
Sales and services of educational activities	2,443,062.29	2,239,333.69
Collection from patient charges	-	-
Payments to suppliers and vendors	(52,926,858.72)	(48,039,830.10)
Payments to employees	(71,274,587.45)	(70,399,090.36)
Payments for benefits	(22,346,141.09)	(21,322,097.13)
Payments for scholarships and fellowships	(5,364,261.32)	(6,421,738.06)
Loans issued to students and employees	(772,968.46)	(693,851.68)
Collection of loans from students and employees	748,827.89	762,524.01
Interest earned on loans to students	64,201.30	74,918.30
Auxiliary enterprise charges:		
Residence halls	7,508,126.27	7,259,465.24
Bookstore	253,153.05	121,209.88
Food services	4,359,190.13	4,396,311.33
Other auxiliaries	926,460.94	884,012.20
Other receipts (payments)	323,557.68	254,367.01
Net cash provided (used) by operating activities	<u>\$ (55,754,979.15)</u>	<u>\$ (53,044,324.22)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
State appropriations	\$ 45,377,366.74	\$ 44,934,133.87
Gifts and grants received for other than capital or endowment purposes, including	\$ 57,185.42	
from component unit to the institution for FY 2007 and	<u>\$ 80,102.97</u>	
from component unit to the institution for FY 2006	17,087,541.53	15,644,567.37
Federal student loan receipts	26,261.00	1,577,025.81
Federal student loan disbursements	(26,261.00)	(1,547,923.81)
Changes in deposits held for others	6,993.56	1,997.45
Other non-capital financing receipts (payments)	-	(2,970,425.50)
Net cash provided (used) by non-capital financing activities	<u>\$ 62,471,901.83</u>	<u>\$ 57,639,375.19</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from capital debt	\$ 10,466,607.66	\$ 6,236,150.86
Capital - state appropriation	10,332,279.54	11,745,123.83
Capital grants and gifts received, including	\$ -	
from (component unit) for FY 2007 and	<u>\$ -</u>	
for FY 2006	1,231,101.02	1,348,957.37
Proceeds from sale of capital assets	-	-
Purchase of capital assets and construction	(17,978,252.44)	(18,241,365.10)
Principal paid on capital debt and lease	(5,529,884.81)	(3,657,484.17)

**Tennessee State University**  
**Unaudited Statement of Cash Flows**  
**for the Year Ended June 30, 2007, with comparative figures for the year ended June 30, 2006**

	<b>Institution</b>	
	<b><u>FY 2007</u></b>	<b><u>FY 2006</u></b>
Interest paid on capital debt and lease	(1,629,734.08)	(1,517,946.64)
Bond issue costs paid on new debt issue	-	(86,809.47)
Other capital and related financing receipts (payments)	-	6,201.24
Net cash provided (used) by capital and related financing activities	<u>\$ (3,107,883.11)</u>	<u>\$ (4,167,172.08)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	\$ 5,514,394.32	\$ 5,038,994.62
Income on investments	2,887,705.53	1,201,640.96
Purchase of investments	(5,257,747.52)	(6,930,949.99)
Net cash provided (used) by investing activities	<u>\$ 3,144,352.33</u>	<u>\$ (690,314.41)</u>
Net increase (decrease) in cash and cash equivalents	6,753,391.90	(262,435.52)
Cash and cash equivalents - beginning of year	27,606,160.89	27,868,596.41
Cash and cash equivalents - end of year (Note 2)	<u>\$ 34,359,552.79</u>	<u>\$ 27,606,160.89</u>
<b>RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income/(loss)	\$ (64,891,611.04)	\$ (62,456,906.82)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation expense	8,256,427.97	8,037,721.55
Change in assets and liabilities:		
Receivables, net	(652,067.65)	2,507,340.63
Inventories	-	76.06
Accounts payable	429,914.66	(1,626,276.51)
Accrued liabilities	627,646.72	334,305.34
Deferred revenues	309,106.72	(129,551.31)
Deposits	89,189.50	87,445.00
Compensated absences	218,518.50	248,065.61
Loans to students and employees	(142,104.53)	(46,543.77)
Net cash provided (used) by operating activities	<u>\$ (55,754,979.15)</u>	<u>\$ (53,044,324.22)</u>
<b>Non-cash transactions</b>		
Gifts in-kind	-	4,559.66
Unrealized gains/losses on investments	36,948.26	(582,376.62)
Loss on disposal of capital assets	-	(35,296.44)
Trade-in allowance	-	10,550.00
	-	-



## TENNESSEE STATE UNIVERSITY

Notes to the Financial Statements  
June 30, 2007

### 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 financial support; the system is discretely presented in the Tennessee Comprehensive Annual Financial Report.

The Tennessee State University Foundation is considered a component unit of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements. See Note 15 for more detailed information about the component unit and how to obtain the report.

#### BASIS OF PRESENTATION

The financial statements have been prepared in conformity 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 eligibility requirements imposed by the provider have been met. All significant inter-fund transactions have been eliminated.

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

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

All other activity is nonoperating in nature. This activity includes: 1) state appropriations for operations, 2) investment income, 3) bond issuance costs, 4) interest on capital asset-related debt, and 5) gifts and non-exchange transactions.

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

#### CASH EQUIVALENTS

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

#### INVENTORIES

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

#### COMPENSATED ABSENCES

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

#### CAPITAL ASSETS

Capital assets, which include property, plant, equipment, library holdings, and software, are reported in the Statement of Net Assets at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' useful lives 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 software is set at \$100,000.

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

#### NET ASSETS

The university's net assets are classified as follows:

**INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT:** This represents the university's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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

RESTRICTED NET ASSETS – EXPENDABLE: Restricted expendable net assets include resources in which the university is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

UNRESTRICTED NET ASSETS: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the university, and may be used at the discretion of the university to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

#### SCHOLARSHIP DISCOUNTS AND ALLOWANCES

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discount and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the university, and the amount that is paid by the student and/or third parties making payments on the students' 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.

#### 2. Cash

This classification includes demand deposits and petty cash on hand. At June 30, 2007, cash consists of \$24,572,309.59 in bank accounts, \$5,550.00 of petty cash on hand, \$9,448,865.07 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, \$332,828.13 in the LGIP Deposits – Capital Projects account. At June 30, 2006, cash consists of \$16,172,091.52 in bank accounts, \$4,550.00 of petty cash on hand, \$10,942,639.01 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, \$486,880.36 in the LGIP Deposits – Capital Projects account.

LGIP Deposits – 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 Local Government Investment Pool (LGIP) account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the university for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

3. Investments

All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

As of June 30, 2007, the university had the following investments and maturities.

Investment Type	Fair Value	Investment Maturities (In Years)				No Maturity Date
		Less than 1	1 to 5	6 to 10	More than 10	
US Agencies Certificates of Deposit	\$ 12,075,951.27 373,092.23	373,092.23	\$ 11,589,300.22		\$ 486,651.05	
Total	\$ 12,449,043.50	\$ 373,092.23	\$ 11,589,300.22	\$ -	\$ 486,651.05	\$ -

As of June 30, 2006, the university had the following investments and maturities.

Investment Type	Fair Value	Investment Maturities (In Years)				No Maturity Date
		Less than 1	1 to 5	6 to 10	More than 10	
US Agencies Certificates of Deposit	\$ 12,348,569.00 357,121.30		\$ 12,233,742.00 357,121.30	\$ 114,827.00		
Total	\$ 12,705,690.30	\$ -	\$ 12,590,863.30	\$ 114,827.00	\$ -	\$ -

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

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies which are backed by the full faith and credit of the United States, repurchase agreements for United States securities, certificates of deposit in banks and savings and loan associations, banker's acceptances, commercial paper, money market mutual funds and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the

university and that endowment investments be prudently diversified. Securities are rated using Standard and Poor's, Moody's, and/or Fitch's and are presented below using the Standard and Poor's rating scale. TBR policy restricts investments in banker's acceptances and commercial paper. The policy requires that prime banker's acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term debt rating by a majority of the rating services that have rated the issuer. The policy further requires that commercial paper must be issued by corporations with 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 must be rated A1 by all rating services (minimum of two). Commercial paper of a banking institution must not be purchased.

As of June 30, 2007, the university's investments were rated as follows:

Credit Quality Rating

Investment Type	Fair Value	AAA	Unrated
Local Government Investment Pool (LGIP)	\$ 9,781,693.20		\$ 9,781,693.20
US Agencies	12,075,951.27	12,075,951.27	
Total	\$ 21,857,644.47	\$ 12,075,951.27	\$ 9,781,693.20

As of June 30, 2006, the university's investments were rated as follows:

Credit Quality Rating

Investment Type	Fair Value	AAA	Unrated
Local Government Investment Pool (LGIP)	\$ 11,429,519.37		\$ 11,429,519.37
US Agencies	12,348,569.00	12,348,569.00	
Total	\$ 23,778,088.37	\$ 12,348,569.00	\$ 11,429,519.37

4. Accounts, Notes, and Grants Receivable

Accounts receivable included the following:

	June 30, 2007	June 30, 2006
Student accounts receivable	\$ 3,259,714.81	\$ 3,690,275.10
Grants receivable	5,708,777.86	4,536,178.59
Notes receivable	455,531.10	453,223.89
State appropriation receivable	161,700.00	152,400.00
Other receivables	2,548,657.92	1,447,618.54
Subtotal	12,134,381.69	10,279,696.12
Less allowance for doubtful accounts	(2,262,265.32)	(2,373,100.86)
Total	\$ 9,872,116.37	\$ 7,906,595.26

Federal Perkins Loan Program funds include the following:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Perkins Loans receivable	\$ 17,621,887.84	\$ 16,764,606.84
Less allowance for doubtful accounts	(15,536,558.34)	(14,832,058.25)
Total	<u>\$ 2,085,329.50</u>	<u>\$ 1,932,548.59</u>

5. Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

	<u>Beg. Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>End Balance</u>
Land	\$ 9,525,009.24				\$ 9,525,009.24
Land Improvement & Infrastructure	38,237,355.27				38,237,355.27
Buildings	158,983,760.45		1,489,164.19		160,472,924.64
Equipment	23,974,140.82	1,081,194.03	430,400.00	(623,608.23)	24,862,126.62
Library Holdings	11,789,910.08	1,127,621.23		(518,252.93)	12,399,278.38
Software	-		2,275,741.87		2,275,741.87
Projects in progress	41,225,630.83	15,769,437.18	(4,195,306.06)		52,799,761.95
Total	<u>283,735,806.69</u>	<u>17,978,252.44</u>	<u>-</u>	<u>(1,141,861.16)</u>	<u>300,572,197.97</u>
Less Accumulative Depreciation:					
Land improvement & infrastructure	26,694,738.18	396,213.46			27,090,951.64
Buildings	67,485,145.61	4,615,648.18			72,100,793.79
Equipment	17,622,942.41	1,765,841.97		(563,879.05)	18,824,905.33
Software	-	227,574.19			227,574.19
Library Holdings	4,504,851.08	1,291,753.14		(518,252.93)	5,278,351.29
Total Accum. Depreciation	<u>116,307,677.28</u>	<u>8,297,030.94</u>	<u>-</u>	<u>(1,082,131.98)</u>	<u>123,522,576.24</u>
Capital assets, net	<u>\$ 167,428,129.41</u>	<u>\$ 9,681,221.50</u>	<u>\$ -</u>	<u>\$ (59,729.18)</u>	<u>\$ 177,049,621.73</u>

Capital asset activity for the year ended June 30, 2006, was as follows:

	<u>Beg. Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>End Balance</u>
Land	\$ 9,525,009.24	\$ -	\$ -	\$ -	\$ 9,525,009.24
Land Improvement & Infrastructure	47,947,089.44	(10,184,734.17)	475,000.00		38,237,355.27
Buildings	148,799,026.27	10,184,734.18			158,983,760.45
Equipment	23,013,775.35	1,785,707.58		(825,342.11)	23,974,140.82
Library Holdings	10,271,891.61	1,939,174.60		(421,156.13)	11,789,910.08
Projects in progress	26,181,119.95	15,519,510.88	(475,000.00)		41,225,630.83
Total	<u>265,737,911.86</u>	<u>19,244,393.07</u>	<u>-</u>	<u>(1,246,498.24)</u>	<u>283,735,806.69</u>
Less Accumulative Depreciation:					
Land improvement & infrastructure	25,527,169.73	1,167,568.45			26,694,738.18
Buildings	63,580,937.98	3,904,207.63			67,485,145.61
Equipment	16,657,599.24	1,744,838.84		(779,495.67)	17,622,942.41
Library Holdings	3,704,900.58	1,221,106.63		(421,156.13)	4,504,851.08
Total Accum. Depreciation	<u>109,470,607.53</u>	<u>8,037,721.55</u>	<u>-</u>	<u>(1,200,651.80)</u>	<u>116,307,677.28</u>
Capital assets, net	<u>\$ 156,267,304.33</u>	<u>\$ 11,206,671.52</u>	<u>\$ -</u>	<u>\$ (45,846.44)</u>	<u>\$ 167,428,129.41</u>



6. Long-term Liabilities

Long term liability activity for the year ended June 30, 2007, was as follows:

	<u>Beg. Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>End Balance</u>	<u>Curr. Portion</u>
Payables:					
TSSBA debt:					
Bonds	\$ 29,418,510.79	\$ 9,531,429.02	\$ (1,482,635.50)	\$ 37,467,304.31	\$ 1,584,504.95
Commercial Paper	4,047,249.31	924,714.71	(4,047,249.31)	924,714.71	
Subtotal	<u>33,465,760.10</u>	<u>10,456,143.73</u>	<u>(5,529,884.81)</u>	<u>38,392,019.02</u>	<u>1,584,504.95</u>
Other Liabilities					
Compensated Absences	4,846,274.48	2,898,211.61	(2,679,693.11)	5,064,792.98	759,669.43
Due to Grantor	3,297,205.01	166,401.26	(227,035.72)	3,236,570.55	
Subtotal	<u>8,143,479.49</u>	<u>3,064,612.87</u>	<u>(2,906,728.83)</u>	<u>8,301,363.53</u>	<u>759,669.43</u>
Total Long-term Liabilities	<u>\$ 41,609,239.59</u>	<u>\$ 13,520,756.60</u>	<u>\$ (8,436,613.64)</u>	<u>\$ 46,693,382.55</u>	<u>\$ 2,344,174.38</u>

Long term liability activity for the year ended June 30, 2006, was as follows:

	<u>Beg. Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>End Balance</u>	<u>Curr. Portion</u>
Payables:					
TSSBA debt:					
Bonds	\$ 28,268,727.57	\$ 2,676,142.83	\$ (1,526,359.61)	\$ 29,418,510.79	\$ 1,044,550.13
Commercial Paper	2,541,737.07	3,636,636.80	(2,131,124.56)	4,047,249.31	
Subtotal	<u>30,810,464.64</u>	<u>6,312,779.63</u>	<u>(3,657,484.17)</u>	<u>33,465,760.10</u>	<u>1,044,550.13</u>
Other Liabilities					
Compensated Absences	4,598,208.87	1,916,862.61	(1,668,797.00)	4,846,274.48	1,260,185.75
Due to Grantor	2,962,319.94	355,920.49	(21,035.42)	3,297,205.01	
Subtotal	<u>7,560,528.81</u>	<u>2,272,783.10</u>	<u>(1,689,832.42)</u>	<u>8,143,479.49</u>	<u>1,260,185.75</u>
Total Long-term Liabilities	<u>\$ 38,370,993.45</u>	<u>\$ 8,585,562.73</u>	<u>\$ (5,347,316.59)</u>	<u>\$ 41,609,239.59</u>	<u>\$ 2,304,735.88</u>

#### TSSBA Debt - Bonds Payable

Bond, with interest rates ranging from 4.00% to 6.90%, were issued by the Tennessee State School Bond Authority. The bonds are due serially until 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. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the Statement of Net Assets is shown net of assets held by the authority in the debt service reserve and net of unexpended debt proceeds. The reserve amount was \$275,000.00 at June 30, 2007, and \$547,480.00 at June 30, 2006. Unexpended debt proceeds were \$ 32,484.44 at June 30, 2007 and \$218,875.44 at June 30, 2006.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2007, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,584,504.95	\$ 1,805,190.42	\$ 3,389,695.37
2009	1,675,815.87	1,759,556.84	3,435,372.71
2010	1,450,867.78	1,712,090.23	3,162,958.01
2011	1,860,795.34	1,595,883.64	3,456,678.98
2012	1,949,808.30	1,516,529.97	3,466,338.27
2013 - 2017	10,295,433.97	6,203,947.56	16,499,381.53
2018 - 2022	8,389,466.10	3,867,852.37	12,257,318.47
2023 - 2027	7,352,734.20	1,831,804.68	9,184,538.88
2028 -2032	2,907,877.80	380,974.41	3,288,852.21
Total	<u>\$ 37,467,304.31</u>	<u>20,673,830.12</u>	<u>\$ 58,141,134.43</u>

#### TSSBA Debt - Commercial Paper

The Tennessee State School Bond Authority issues commercial paper to finance costs of various capital projects during the construction phase. When projects are placed in service, long-term, fixed-rate debt is issued by TSSBA to finance the project over its useful payback period and the commercial paper is redeemed. The amount outstanding for projects at the university was \$924,714.71 at June 30, 2007, and \$4,047,249.31 at June 30, 2006.

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

More detailed information regarding the bonds and commercial paper can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report may be obtained by writing to the Director of Bond Finance, Suite 1600, James K. Polk Building, Nashville, Tennessee 37243-0273, or by calling (615) 401-7872.

#### 7. Endowments

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

The university chooses to spend only a portion of the investment income each year. Under the spending plan established by the university, a scholarship is awarded to a student whose residence is in the county specified by the donor has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2007, net appreciation of \$ 38,601.56 is

available to be spent, of which \$38,601.56 is included in restricted net assets expendable for scholarships and fellowships. At June 30, 2006, net appreciation of \$ 34,380.51 is available to be spent, of which \$34,380.51 is included in restricted net assets expendable for scholarships and fellowships.

8. Unrestricted Net Assets

Unrestricted net assets include funds that have been designated or reserved for specific purposes. These purposes include the following:

	<u>FY 2007</u>	<u>FY 2006</u>
Working Capital	\$ 1,405,459.74	\$ 1,758,810.71
Encumbrances	2,642,040.89	2,145,551.86
Designated Fees	1,034,293.74	921,699.19
Auxiliaries	2,766,203.68	2,766,203.68
Plant construction	13,119,214.85	7,291,573.23
Renewal and replacement of equipment	7,869,539.93	7,973,257.30
Unreserved/undesignated balance	422,020.01	522,158.31
Total	<u>\$ 29,258,772.84</u>	<u>\$ 23,379,254.28</u>

9. Pension Plans

Defined Benefit Plan

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243-0230 or by calling (615) 741-8202, extension 139.

Funding Policy – Plan members are noncontributory. The university is required to contribute at an actuarially determined rate. The current rate is 13.66% of annual covered payroll. The contribution requirements of the university are established and may be amended by the TCRS Board of Trustees. The university contributes to TCRS for the year ending June 30, 2007, and 2006, and 2005 were \$3,928,524.36, \$2,676,782.60, and \$2,918,090.21, respectively, equal to the required contributions for each year.

### Defined Benefit Plan

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

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

Funding Policy – Participating employees and the university are required to contribute to the CSRS plan. Contribution requirements are established and may be amended by federal statutes. The university was required to contribute 7% of covered payroll to the CSRS plan. Employees were required to contribute 7% of the covered payroll. Contributions to CSRS for the year ended June 30, 2007, were \$ 55,393.80, which consisted of \$27,996.90 from the university and \$ 27,396.90 from the employees; contributions for the year ended June 30, 2006, were \$ 73,637.13, which consisted of \$36,818.56 from the university and \$ 36,818.57 from the employees; contributions for the year ended June 30, 2005, were \$ 73,788.36, which consisted of \$38,321.09 from the university and \$35,467.27 from the employees. Contributions met the requirements for each year.

### Defined Contribution Plans

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

Funding Policy – Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university/college/technology center to the plans for the year ended June 30, 2007, was \$ 3,777,032.64 and for the year ended June 30, 2006, was \$ 3,481,321.09. Contributions met the requirements for each year.

#### 10. Other Post-Employment Benefits

The State of Tennessee administers a group health insurance program that provides post-employment health insurance benefits to eligible university retirees. This benefit is provided by and administered by the State of Tennessee. The university center assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the Tennessee Comprehensive Annual Financial Report. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14<sup>th</sup> Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

11. Chairs of Excellence

The university had \$ 4,464,260.35 on deposit at June 30, 2007, and \$3,970,325.09 at June 30, 2006, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in these financial statements.

12. Insurance-Related Activities

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

The university participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2007, and June 30, 2006, are presented in the Tennessee Comprehensive Annual Financial Report. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140. Since the university participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, Tennessee Code Annotated, Section 9-8-101 et seq. Liability for negligence of the university/college/technology center for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in Tennessee Code Annotated, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. The amount of cash and cash equivalents designated for payment of claims held by the Risk Management Fund at June 30, 2007, was not available. At June 30, 2006, the Risk Management Fund held \$133.2 million in cash and cash equivalents designated for payment of claims.

At June 30, 2007, the scheduled coverage for the university was \$289,328,000 for buildings and \$64,969,100 for contents. At June 30, 2006, the scheduled coverage for the university was \$289,942,800 for buildings and \$62,342,700 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 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.

13. Commitments and Contingencies

Sick Leave - The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$31,174,320.88 at June 30, 2007, and \$31,260,034.92 at June 30, 2006.

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 and personal property were \$207,731.68, and \$81,279.34 respectively for the year ended June 30, 2007. Comparative amounts for the year ended June 30, 2006, were \$236,656.87 and \$306,091.61, respectively. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2007, outstanding commitments under construction contracts totaled \$3,141,754.88 for ADA Improvements, Agriculture Extension I.T., Avon Williams Campus Improvements, Power Plant Mechanical Upgrade, Agriculture Extension Center, Research and Sponsored Programs Building, McCord and Harned Halls Upgrade, Electrical Distribution System, Clement Hall/Allied Health Upgrade, Elliott Hall Exhibition, Student Housing Fire Suppression, and Several Buildings Improvements of which \$1,468,116.52 will be funded by future state capital outlay appropriations.

Contracts - In December 2004, the Tennessee Board of Regents system entered into a contract with Sundgard SCT for the purchase of a comprehensive enterprise resource planning system. The contract includes a multi-year phase-in of administrative software for financial, human resource, and student systems. The university's outstanding liability for this contract is estimated as \$1,716,427.00 at June 30, 2007.

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

14. Natural Classifications with Functional Classifications

The university's operating expenses by functional classification for the year ended June 30, 2007, are as follows:

Functional Classification	Salaries	Benefits	Operating	Scholarship	Depreciation	Total
Instruction	\$ 35,496,819.63	\$ 9,868,520.66	\$ 12,796,962.66	\$1,164,524.21	\$ -	\$ 59,326,827.16
Research	5,885,392.14	1,704,959.40	2,910,188.28	114,121.91	-	10,614,661.73
Public Service	3,745,059.15	1,447,927.50	1,653,621.35	26,891.91	-	6,873,499.91
Academic Support	5,697,983.06	1,781,330.45	3,270,173.10	53,838.33	-	10,803,324.94
Student Services	6,930,897.68	2,258,106.40	4,612,918.26	1,069,496.27	-	14,871,418.61
Institutional Support	9,277,973.36	3,289,476.45	3,808,918.12	9,331.87	-	16,385,699.80
M & O	3,173,251.52	1,403,838.76	9,813,970.14	-	-	14,391,060.42
Scholarships & Fellowships	5,211.00	398.63	6,588,784.20	2,864,445.90	-	9,458,839.73
Auxiliary	1,948,768.11	611,614.32	7,922,537.64	61,610.92	-	10,544,530.99
Depreciation	-	-	-	-	8,256,427.97	8,256,427.97
<b>Total</b>	<b>\$ 72,161,355.65</b>	<b>\$ 22,366,172.57</b>	<b>\$ 53,378,073.75</b>	<b>\$5,364,261.32</b>	<b>\$8,256,427.97</b>	<b>\$ 161,526,291.26</b>

The university's operating expenses by functional classification for the year ended June 30, 2006, are as follows:

Classification	Salaries	Benefits	Operating	Scholarship	Depreciation	Total
Instruction	\$ 34,882,934.34	\$ 9,647,076.79	\$ 11,085,519.13	\$ 2,211,797.86	\$ -	\$ 57,827,328.12
Research	5,730,464.12	1,678,070.61	5,245,364.39	280,107.87	-	12,934,006.99
Public Service	3,753,208.60	1,300,289.92	1,240,223.71	84,360.25	-	6,378,082.48
Academic Support	5,669,220.42	1,780,074.12	3,679,305.82	109,000.82	-	11,237,601.18
Student Services	6,700,774.01	1,968,810.55	4,484,221.62	2,215,132.90	-	15,368,939.08
Institutional Support	9,247,266.72	3,097,985.54	2,089,038.24	10,853.00	-	14,445,143.50
M & O	3,052,793.06	1,272,949.51	5,547,200.59	-	-	9,872,943.16
Scholarships & Fellowships	4,346.80	901.67	5,009,018.88	1,335,283.36	-	6,349,550.71
Auxiliary	1,908,826.57	595,969.90	7,751,626.33	175,202.00	-	10,431,624.80
Depreciation	-	-	-	-	8,037,721.55	8,037,721.55
<b>Total</b>	<b>\$ 70,949,834.64</b>	<b>\$ 21,342,128.61</b>	<b>\$ 46,131,518.71</b>	<b>\$ 6,421,738.06</b>	<b>\$ 8,037,721.55</b>	<b>\$ 152,882,941.57</b>



15. Component Unit(s)

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 16-member board of the Foundation is self-perpetuating and consists of graduates and friends of the University. The size of the board shall be determined by the majority vote of its members, and any vacancy in its membership shall be filled in the same way. The entire membership of the Board of Trustees shall not exceed (25) in number and a minimum of eight (8). All trustees shall serve until the expiration of their respective terms and until their respective successors are selected and qualified. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

During the year ended June 30, 2007, the Foundation made distributions of \$57,185.42 to or on behalf of the university for both restricted and unrestricted purposes. During the year ended June 30, 2006, the Foundation made distributions of \$80,102.97 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Mr. Shereitte Stokes, Vice-President for University Relations and Development, 3500 John A. Merritt Boulevard, Nashville, TN 37209.

Cash and Cash Equivalents – In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2007, cash and cash equivalents consists of \$1,411,430.61 in bank accounts, \$0.00 of petty cash on hand, \$0.00 of certificates of deposit, \$.00 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$4,483,640.78 in money funds and short term investments. At June 30, 2006, cash and cash equivalents consists of \$969,376.50 in bank accounts, \$0.00 of petty cash on hand, \$0.00 of certificates of deposit, \$189.48 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$7,227,121.53 in money funds and short term investments.

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

As of June 30, 2007, the Foundation had the following investments and maturities.

Investment Maturities (In years)

	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>	<u>No maturity date</u>
US Treasury	\$ 2,124,240.72	\$ 49,648.45	\$ 1,773,503.43	\$228,764.82	\$ 72,324.02	
US Agencies	1,014,405.65	49,628.70	267,100.13	-	697,676.82	
Corporate stock	2,901,962.16					2,901,962.16
Corporate bonds	853,228.79	69,861.96	659,815.23	106,154.96	17,396.64	
Mutual bond funds	6,983,840.28					6,983,840.28
Mutual equity funds	2,710,528.08					2,710,528.08
Real Estate Investments	2,729,192.00					2,729,192.00
Mutual funds	8,570,147.47					8,570,147.47
Other:						
Money fund and short term investments	4,483,640.78					4,483,640.78
Less amount reported as cash and cash equivalents:						
Money fund and short term investments	(4,483,640.78)					(4,483,640.78)
Total	\$ 27,887,545.15	\$ 169,139.11	\$ 2,700,418.79	\$ 334,919.78	\$ 787,397.48	\$ 23,895,669.99

As of June 30, 2006, the Foundation had the following investments and maturities.

Investment Maturities (In years)

	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>	<u>No maturity date</u>
US Treasury	\$ 318,739.30		\$ 48,531.25		\$ 270,208.05	
US Agencies	603,649.79		553,516.69	50,133.10		
Certificates of deposit	111,162.16	37,487.76	73,674.40			
Corporate stock	705,019.81				-	705,019.81
Corporate bonds	3,208,371.04	323,287.61	2,478,990.60	406,092.83		
Mutual bond funds	2,462,110.31				-	2,462,110.31
Mortgage Backed Securities	198,073.26				198,073.26	
Equity Stock	7,411.53					7,411.53
Real Estate Shares	1,900,991.30					1,900,991.30
Real Estate Holdings	1,670,446.25					1,670,446.25
Other:						
Money fund and short term investments	7,227,121.53					7,227,121.53
Less amount reported as cash and cash equivalents:						
Money fund and short term investments	(7,227,121.53)					(7,227,121.53)
Total	\$ 11,185,974.75	\$ 360,775.37	\$ 3,154,712.94	\$ 456,225.93	\$ 468,281.31	\$ 6,745,979.20

Interest Rate Risk. The Foundation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value arising from increasing interest rates.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Securities are rated using Standard and Poor's, Moody's, and/or Fitch's and are presented below using the Standard and Poor's rating scale. The Foundation has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations. As of June 30, 2007, the Foundation's investments were rated as follows:

Credit Quality Rating

Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
US Agencies	1,014,405.65	97,397.95				917,007.70
Corporate Bonds	853,228.79	85,960.74	123,160.41	342,561.90	35,105.51	266,440.23
Mutual Bond Funds	6,983,840.28					6,983,840.28
Mutual Funds	8,570,147.47					8,570,147.47
Total	\$ 17,421,622.19	\$ 183,358.69	\$ 123,160.41	\$ 342,561.90	\$ 35,105.51	\$ 16,737,435.68

As of June 30, 2006, the Foundation's investments were rated as follows:

Credit Quality Rating

Investment Type	Fair Value	AAA	AA	A	BBB	BB	Unrated
Local Government Investment Pool (LGIP)	\$ 189.48						\$ 189.48
US Agencies	603,649.79	553,516.69	50,133.10				
Corporate Bonds	3,208,371.04	91,511.99	328,807.12	2,623,809.57	164,242.36		
Mutual Bond Funds	2,462,110.31						2,462,110.31
Collateralized mortgage obligation	198,073.26						198,073.26
Total	\$ 6,472,393.88	\$ 645,028.68	\$ 378,940.22	\$ 2,623,809.57	\$ 164,242.36	\$ -	\$ 2,660,373.05

Concentration of Credit Risk. The Foundation places no limit on the amount it may invest in any one issuer. More than 5 percent of the Foundation's investments are invested in the following single issuers at June 30, 2007:

Issuer	Percentage of Total Investments
Amsouth Bank	23%
Charles Schwab International	61%
Diversified Trends	6%

More than 5 percent of the Foundation's investments are invested in the following single issuers at June 30, 2006:

Issuer	Percentage of Total Investments
AmSouth Bank	19%
Charles Schwab International	59%
Diversified Trends	7%
Inland American	6%

Endowments - If a donor has not provided specific instructions to Tennessee State University Foundation, the foundation's policies and procedures permits it 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 the foundation's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

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, cost of operating Tennessee State University including general operating cost and maintenance costs, and cost for administrating and managing the endowment fund has been authorized for expenditure. For Title III funds, the TSU Foundation must reinvest a minimum of 50% of the annual income generated by the fund. For the Consent Decree Fund, the TSU Foundation must reinvest a minimum of 25% of the annual income and may spend up to 75% of the annual income generated by the fund with all disbursement decisions made by the sole discretion of the Budget Committee established by the Trust Agreement. At June 30, 2007, net appreciation of \$687,930.12 is available to be spent, of which \$687,930.12 is included in restricted net assets expendable for scholarships and fellowships. At June 30, 2006, net appreciation of \$ 309,929.91 is available to be spent, of which \$309,929.91 is included in restricted net assets expendable for scholarships and fellowships.

**TSU Foundation**  
**Supplementary Information**  
**Unaudited Statement of Cash Flows - Component Unit**  
**for the Year Ended June 30, 2007, with comparative figures for the year ended June 30, 2006**

	<b>Component Unit</b>	
	<b>FY 2007</b>	<b>FY 2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Gifts and contributions	\$ 1,171,729.51	\$ 887,706.15
Payments to suppliers and vendors	(501,520.37)	(459,267.94)
Payments for scholarships and fellowships	(362,724.30)	(605,975.24)
Payments to (institution name)	(57,185.42)	(80,102.97)
Other receipts (payments)	191,920.79	178,318.08
Net cash provided (used) by operating activities	\$ 442,220.21	\$ (79,321.92)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
State appropriations	\$ 9,000,000.00	\$ 1,000,000.00
Gifts and grants received for other than capital or endowment purposes	3,259,354.58	-
Private gifts for endowment purposes	288,401.94	214,669.78
Other non-capital financing receipts (payments)	1,960,699.30	-
Net cash provided (used) by non-capital financing activities	\$ 14,508,455.82	\$ 1,214,669.78
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	\$ 7,347,497.90	\$ 4,883,872.80
Income on investments	1,409,977.55	593,564.34
Purchase of investments	(26,009,767.60)	(4,382,649.57)
Other investing receipts (payments)	-	(127,764.49)
Net cash provided (used) by investing activities	\$ (17,252,292.15)	\$ 967,023.08
Net increase (decrease) in cash and cash equivalents	(2,301,616.12)	2,102,370.94
Cash and cash equivalents - beginning of year	8,196,687.51	6,094,316.57
Cash and cash equivalents - end of year (Note 15 )	\$ 5,895,071.39	\$ 8,196,687.51

**TSU Foundation**  
**Supplementary Information**  
**Unaudited Statement of Cash Flows - Component Unit**  
**for the Year Ended June 30, 2007, with comparative figures for the year ended June 30, 2006**

	<b>Component Unit</b>	
	<b><u>FY 2007</u></b>	<b><u>FY 2006</u></b>
<b>RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income/(loss)	\$ 434,039.49	\$ (53,219.08)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Change in assets and liabilities:		
Receivables, net	-	(31,000.00)
Accounts payable	8,180.72	4,897.16
Net cash provided (used) by operating activities	<u>\$ 442,220.21</u>	<u>\$ (79,321.92)</u>

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