Attachment K

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, 2008, with comparative information presented for the fiscal year ended June 30, 2007. 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.

The university implemented the Governmental Accounting Standards Board's Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, during the fiscal year ended June 30, 2008. This statement establishes standards for the measurement, recognition, and display of other postemployment benefit (OPEB) expense and related liabilities, note disclosures, and required supplementary information. The statement was implemented prospectively with a zero net OPEB obligation at transition.

Using This Annual Report

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

The Statement of Net Assets

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

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the university's equity in property, plant, and equipment owned by the university. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the university but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

Statement of Net Assets (in thousands of dollars)

	INSTITUTION		COMPONENT UNIT	
	2008	2007	2008	2007
Assets:				
Current assets	$ 24,792	$ 23,905	$ 3,072	$ 3,477
Capital assets, net	176,900	177,050		
Other assets	42,779	36,498	31,275	30,305
TOTAL ASSETS	244,471	237,453	34,347	33,782
Liabilities				
Current liabilities	17,256	17,342	20	14
Noncurrent liabilities	48,900	44,349		
TOTAL LIABILITIES	66,156	61,691	20	14
Net Assets:				
Invested in capital assets, net of related debt	136,142	138,658		
Restricted - Nonexpendable	74	73	31,254	30,305
Restricted - Expendable	7,351	7,772	2,928	3,351
Unrestricted	34,748	29,259	145	112
Total Net Assets	$ 178,315	$ 175,762	$ 34,327	$ 33,768

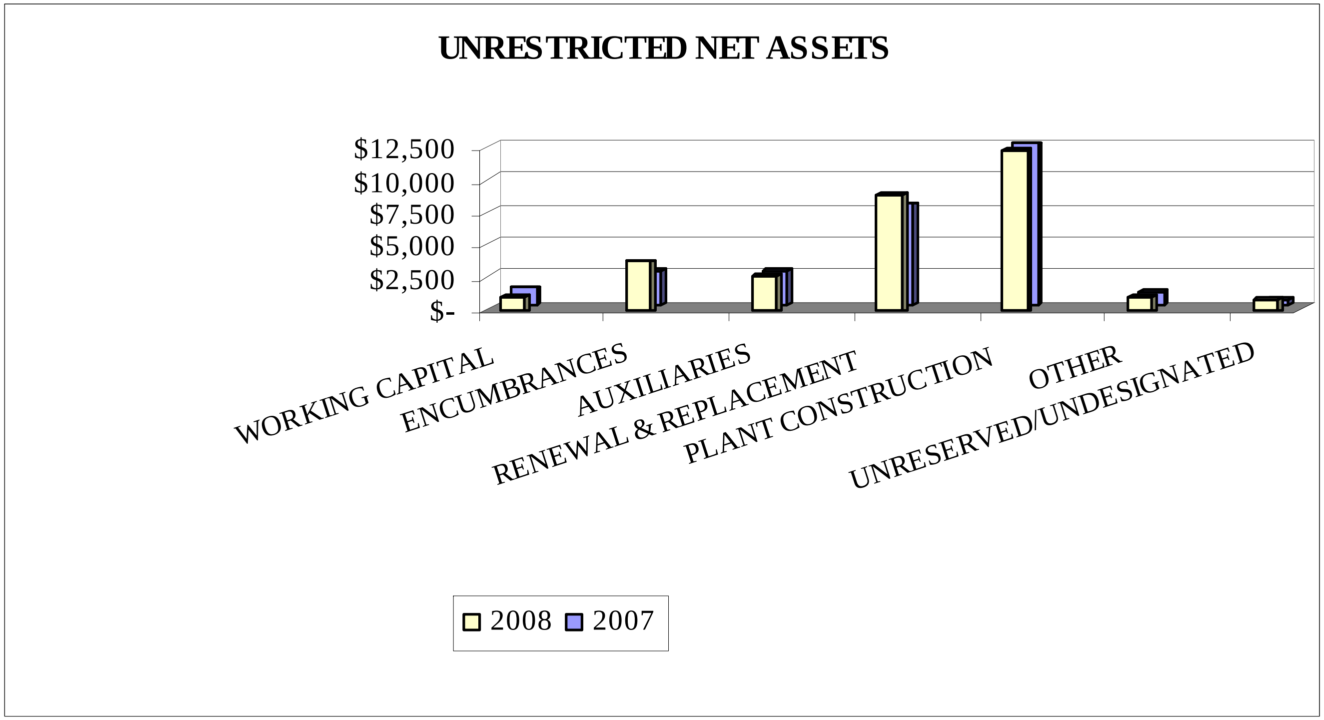
Comparison of FY 2008 to FY 2007 - University

- Other Assets increased with the allocation of Cash and Cash Equivalents for future plant construction and renovation projects.
- Noncurrent Liabilities increased over $2.5 million due to a change in accounting for the recording of a accrued liability for Postemployment health care ($2.1 million) and the increase in long term debt related to capital assets (see Note 6).
- Invested in capital assets, net of related debt decreased with the increase in long term debt related to capital assets (see Note 6).
- Unrestricted Net Assets increased due to an additional $2 million allocated for a potential decline in enrollment and an additional $3 million for capital-related projects.

Comparison of FY 2008 to FY 2007 – TSU Foundation

- Current Assets decreased due to a decrease in expendable restricted funds available.
- Unrestricted Net Assets increased as unrestricted revenues exceeded unrestricted expenditures by $33 thousand.

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 2008 to FY 2007 - University

- Unrestricted Assets for Renewal and Replacement and Plant Construction increased over $4.0 million for current projects including the Hankel Renovation, and future capital projects and renovations.

- The Allocation for Working Capital decreased 20% as the result of a decrease in students Accounts Receivable due to accounts determined to be uncollectible.

- The Allocation for Encumbrances increased 45% as a result of delays in processing of purchase requests due to the implementation of a new financial system and a new purchasing system.

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

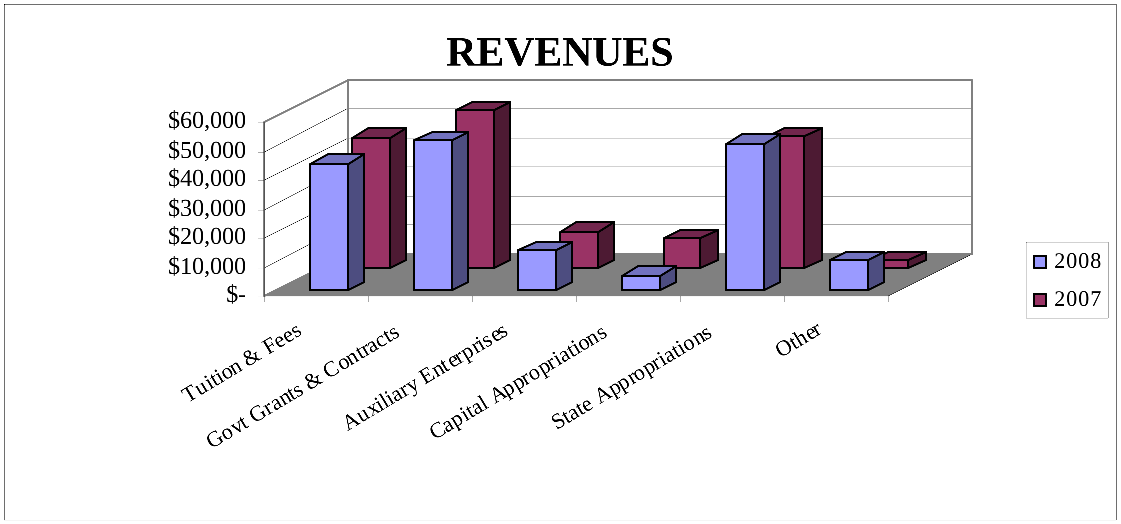
The Statement of Revenues, Expenses, and Changes in Net Assets present the operating results of the university, as well as the non-operating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered non-operating revenues according to accounting principles generally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

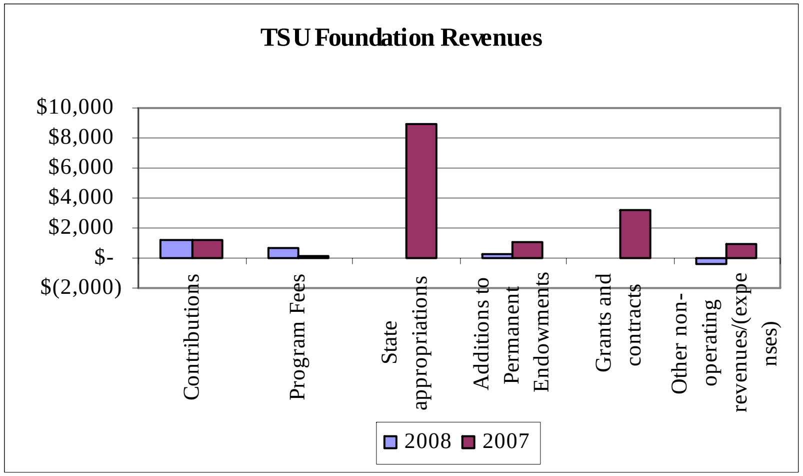
Statement of Revenues, Expenses, and Changes in Net Assets (in thousands of dollars)

	INSTITUTION		COMPONENT UNIT	
	2008	2007	2008	2007
Operating Revenues:				
Net tuition and fees	$ 43,596	$ 45,241		
Grants and contracts	31,713	35,794		
Auxiliary	13,808	12,864		
Other	4,397	2,736	1,797	1,364
Total Operating Revenue	**93,514**	**96,635**	**1,797**	**1,364**
Operating expenses	167,979	161,526	1,146	930
Operating loss	**(74,465)**	**(64,891)**	**651**	**434**
Nonoperating revenues and expenses:				
State appropriations	50,552	45,387	-	9,000
Gifts	85	835	-	288
Grants and Contracts	19,341	16,252	-	3,260
Investment income	2,642	2,945	(357)	397
Other revenues and expenses	(2,001)	(1,668)		
Total nonoperating revenues and expenses revenues and expenses	**70,619**	**63,751**	**(357)**	**12,945**
Income (loss) before other revenues expenses, gains, or losses	**(3,846)**	**(1,140)**	**294**	**13,379**
Other revenues, expenses, gains, or losses				
Capital appropriations	5,225	10,332		
Capital grants and gifts	1,216	2,546		
Additions to permanent endowments	-	-	264	1,013
Other	(42)	(90)		
Total other revenues, expenses, gains, or losses	**6,399**	**12,788**	**264**	**1,013**
Increase (decrease) in net assets	**2,553**	**11,648**	**558**	**14,392**
Net assets at beginning of period	**175,762**	**164,114**	**33,769**	**19,377**
Net assets at end of year	**$ 178,315**	**$ 175,762**	**$ 34,327**	**$ 33,769**

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, 2008, and June 30, 2007 (amounts are presented in thousands of dollars).





Comparison of FY 2008 to FY 2007 - TSU

- Net tuition and fees and operating expenses decreased due to a correction in the allocation of the Scholarship Allowance due to an error in the prior year.

- Grants and Contracts for the University decreased due to over $3.2 million in Title III funds for the match of the funds related to the Consent Decree settlement received in 2007.

- 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 2008 to FY 2007 – TSU Foundation

- State Appropriations for the Foundation decreased $8.0 and Grants and Contracts decreased over $3.2 million due to one-time funds received from the Consent Decree settlement in 2007.

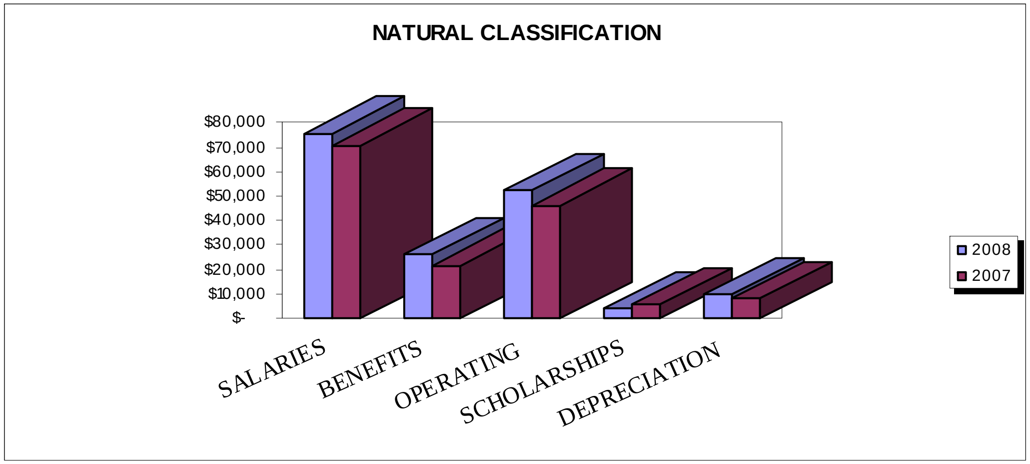
- Additions to Permanent Endowments for FY07 erroronisly included Investment Income distributions. Additions/gifts to the Permanent Endowment for FY08 and FY07 were each over $264 thousand.

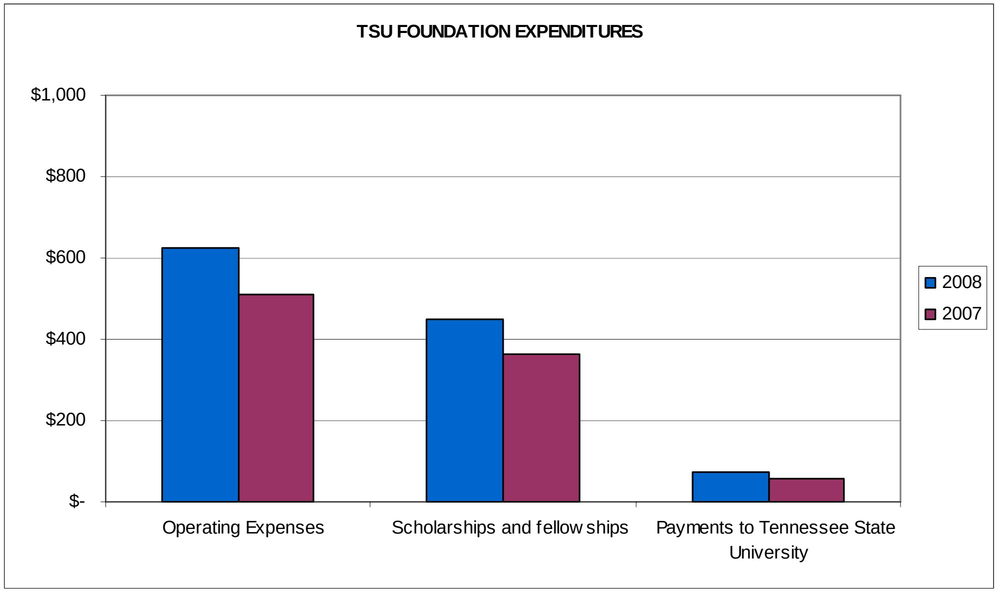
Expenses

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

Natural Classification

NATURAL CLASSIFICATION (in thousands of dollars)	UNIVERSITY 2008	UNIVERSITY 2007	COMPONENT UNITS 2008	COMPONENT UNITS 2007
SALARIES	$ 75,773	$ 72,162		
BENEFITS	26,215	22,366		
OPERATING	52,340	53,378	625	510
SCHOLARSHIPS	4,066	5,364	448	363
PAYMENTS TO TSU	-	-	73	57
DEPRECIATION	9,585	8,256	-	-
TOTAL	$ 167,979	$ 161,526	$ 1,146	$ 930


NATURAL CLASSIFICATION
$80,000
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$-
SALARIES
BENEFITS
OPERATING
SCHOLARSHIPS
DEPRECIATION
2008
2007


TSU FOUNDATION EXPENDITURES
$1,000
$800
$600
$400
$200
$-
Operating Expenses
Scholarships and fellow ships
Payments to Tennessee State University
2008
2007

Comparison of FY 2008 to FY 2007 - TSU

- Salaries increased with the university's salary plan being in place for the full fiscal year.

- Benefits increased with the change in accounting principle related to Postemployment Benefits (See Note 10).

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

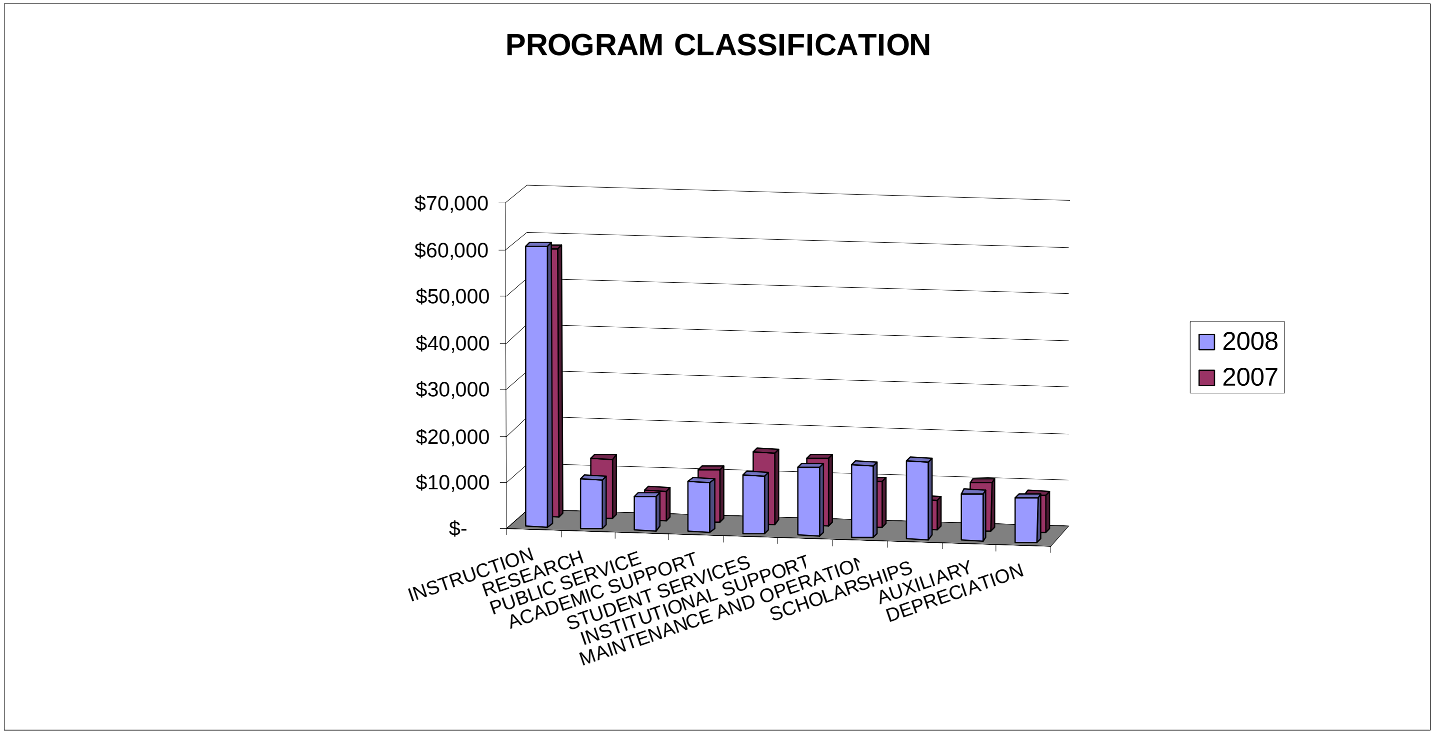
- Depreciation expenses increased with the initial depreciation expense for $48 million in projects moved from Projects in Progress to Buildings (completed projects).

Comparison of FY 2008 to FY 2007 – TSU Foundation

- Operating Expenses increased and payments to TSU increased as additional funds were made available for use to support the university.

- Scholarship expenditures increased due to the hold on the awarding of new scholarships being released by the Foundation Board membership.

PROGRAM CLASSIFICATION (in thousands of dollars)	UNIVERSITY 2008	UNIVERSITY 2007
INSTRUCTION	$ 60,284	$ 59,327
RESEARCH	10,600	10,615
PUBLIC SERVICE	7,236	6,873
ACADEMIC SUPPORT	10,799	10,803
STUDENT SERVICES	12,522	14,871
INSTITUTIONAL SUPPORT	14,711	16,386
MAINTENANCE AND OPERATION	15,429	14,391
SCHOLARSHIPS	16,706	9,459
AUXILIARY	10,107	10,545
DEPRECIATION	9,585	8,256
TOTAL	$ 167,979	$ 161,526



Comparison of FY 2008 to FY 2007

- Public Service increased with an additional state appropriation designated for the Cooperative Extension Program.
- Research decreased as a result of the reduction in funding from NASA and NSF.
- Institutional Support decreased with the one-time Title III expenditures noted above in FY07.
- Scholarships increased and Student Services decreased due to the change in the allocation of Scholarship Allowance. In FY07 the allowance was allocated to the Scholarship function. For FY08 the allowance was allocated to the individual functions.

- Depreciation expenses increased with the initial depreciation expense for $48 million in projects moved from Projects in Progress to Buildings (completed projects).

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

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	
	2008	2007
Cash provided (used) by:		
Operating activities	$ (62,146)	$ (55,755)
Noncapital financing activities	69,964	62,472
Capital and related financing activities	(3,041)	(3,108)
Investing activities	2,710	3,144
Net increase (decrease) in cash	7,487	6,753
Cash, beginning of year	34,359	27,606
Cash, end of year	$ 41,846	$ 34,359

Comparison of FY 2008 to FY 2007

- Cash provided by operating activities decreased as a result of increase use of cash for payments to employees and payments of benefits.

- Cash provided by investing activities decreased as a result of lower investment rates available.

- Cash provided from Non-capital financing activities increased with the additional receipt of Grants and Contracts for student aid and additional state appropriations.

- The university's liquidity improved during the year.

Capital Assets and Debt Administration

Capital Assets

The university had $176,900,454.78 invested in capital assets, net of accumulated depreciation of $132,275,353.17 at June 30, 2008; and $177,049,621.73 invested in capital assets, net of accumulated depreciation of $123,522,576.24 at June 30, 2007. Depreciation charges totaled $9,585,634.75 and $8,256,437.97 for the years ended June 30, 2008, and June 30, 2007, respectively. Details of these assets are shown below.

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

	2008	2007
Land	$ 9,525	$ 9,525
Land Improvements	10,731	11,147
Buildings	132,333	88,372
Equipment	5,343	6,037
Library Holdings	7,809	7,121
Software	2,179	2,048
Projects In Progress	8,980	52,800
Net Capital Assets	$ 176,900	$ 177,050

Projects in progress during the fiscal year 2008 included the renovation of the Avon Williams campus, installation of fire sprinkler systems in student housing, energy savings and performance contracting, and window replacements. The Avon Williams renovation, Research and Sponsored Programs building, and the final phase of the North Campus Project were completed during FY08. Work will continue on the fire sprinkler systems and energy savings and performance contracting during FY09. These projects are funded by TSSBA. More detailed information about the university's capital assets is presented in Note 5 to the financial statements.

Debt

The university had $40,758,052.65 and $38,392,019.02 in debt outstanding at June 30, 2008, and June 30, 2007, respectively. The table below summarizes these amounts by type of debt instrument.

Schedule of Debt (in thousands of dollars)

	2008	2007
Bonds	$ 36,661	$ 37,467
Commerical Paper	4,097	925
Total	$ 40,758	$ 38,392

The university converted $775 thousand in Commercial Paper to Bonds during FY08 for the Avon Williams project. An additional amount of over $3.94 million was issued in Commercial Paper for the Research and Sponsored Projects building, the Student Housing

Fire Safety upgrade, and the Energy Savings Performance Contract. 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.

Economic Factors That Will Affect the Future

The Tennessee Board of Regents approved a 6.0% increase in maintenance and tuition fees for the 2008-09 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 enrollment for the Fall 2008 semester is expected to decline, however, the exact impact 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:

Ms. 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, 2008

	Institution	Component Unit
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 17)	$ 13,403,408.16	$ 3,072,030.56
Short-term investments (Notes 3)	1,077,440.58	
Accounts, notes, and grants receivable (net) (Note 4)	8,742,411.73	
Inventories (at lower of cost or market)	36,011.67	
Prepaid expenses and deferred charges	150.00	
Accrued interest receivable	1,532,356.28	
Total current assets	24,791,778.42	3,072,030.56
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 17)	28,443,585.72	1,945,041.77
Investments (Notes 3 and 17)	11,606,789.01	29,329,825.57
Accounts, notes, and grants receivable (net) (Note 4)	2,728,176.58	
Capital assets (net) (Note 5)	176,900,454.78	
Total noncurrent assets	219,679,006.09	31,274,867.34
Total assets	$ 244,470,784.51	$ 34,346,897.90
LIABILITIES		
Current liabilities:		
Accounts payable	2,107,378.94	20,111.53
Accrued liabilities	6,488,461.05	
Student deposits	1,238,994.41	
Deferred revenue	4,434,333.18	
Compensated absences (Note 6)	741,816.77	
Accrued interest payable	308,172.12	
Long-term liabilities, current portion (Note 6)	1,733,401.94	
Deposits held in custody for others	147,573.45	
Other liabilities	55,809.00	
Total current liabilities	17,255,940.86	20,111.53

Tennessee State University
Unaudited Statement of Net Assets
June 30, 2008

	Institution	Component Unit
Noncurrent liabilities:		
Accrued liabilities	2,001,090.08	
Compensated absences (Note 6)	4,453,880.41	
Long-term liabilities (Note 6)	39,024,650.71	
Due to grantors (Note 6)	3,420,051.52	
Total noncurrent liabilities	48,899,672.72	-
Total liabilities	$ 66,155,613.58	$ 20,111.53
NET ASSETS		
Invested in capital assets, net of related debt	136,142,402.13	
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	73,620.52	31,253,941.22
Expendable:		
Scholarships and fellowships	1,257,669.73	1,954,316.39
Research	1,153,739.86	14,055.72
Instructional department uses	2,493,576.95	170,498.36
Loans	845,859.52	
Other	1,600,711.48	788,547.77
Unrestricted (Note 8)	34,747,590.74	145,426.91
Total net assets	$ 178,315,170.93	$ 34,326,786.37

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, 2008

			Institution		Component Unit
REVENUES					
Operating revenues:					
Student tuition and fees (net of scholarship					
allowances of	$ 17,461,603.30	$	43,596,097.23	$	-
Gifts and contributions			-		1,169,606.01
Governmental grants and contracts			31,062,169.03		
Non-governmental grants and contracts			651,188.87		
Sales and services of educational departments			4,037,104.48		
Residential life (net of scholarship					
allowances of	$ 818,969.67				
all residential life revenues are used as					
security for revenue bonds, see Note 6)			7,976,532.91		
Bookstore			526,118.82		
Food service			4,512,959.11		
Other auxiliaries			792,545.93		
Other operating revenues			359,583.34		627,358.32
Total operating revenues		$	93,514,299.72	$	1,796,964.33
EXPENSES					
Operating Expenses					
Salaries and wages		$	75,773,075.97	$	-
Benefits			26,214,512.53		
Utilities, supplies, and other services			52,340,013.31		625,076.00
Scholarships and fellowships			4,066,140.87		448,514.69
Depreciation expense			9,585,634.75		
Payments to or on behalf of TSU					72,642.06
Total operating expenses			167,979,377.43		1,146,232.75
Operating income (loss)		$	(74,465,077.71)	$	650,731.58

TENNESSEE STATE UNIVERSITY
Unaudited Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2008

		Institution	Component Unit
State appropriations		50,551,800.00	
Gifts, including	$ 72,642.06		
from component unit(s) to institution		84,953.50	
Grants and contracts		19,341,108.02	
Investment income		2,642,040.60	(356,980.98)
Interest on capital asset-related debt		(1,917,223.61)	
Bond issuance costs		(65,882.58)	
Other non-operating revenues/(expenses)		(17,448.06)	
Net nonoperating revenues		70,619,347.87	(356,980.98)
Income before other revenues, expenses gains, or losses		(3,845,729.84)	293,750.60
Capital appropriations		5,225,096.10	
Capital grants and gifts		1,215,976.82	
Additions to permanent endowments			264,255.00
Other capital		(42,336.72)	
Total other revenues		6,398,736.20	264,255.00
Increase (decrease) in net assets		$ 2,553,006.36	$ 558,005.60
NET ASSETS			
Net Assets -beginning of year		$ 175,762,164.57	$ 33,768,780.77
Net Assets - end of year		$ 178,315,170.93	$ 34,326,786.37

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, 2008

			Institution
CASH FLOWS FROM OPERATING ACTIVITIES			
Tuition and fees		$	43,402,936.23
Grants and contracts			34,771,222.42
Sales and services of educational activities			4,348,939.12
Payments to suppliers and vendors			(52,886,486.07)
Payments to employees			(77,233,711.40)
Payments for benefits			(24,419,781.45)
Payments for scholarships and fellowships			(4,066,140.87)
Loans issued to students and employees			(632,439.91)
Collection of loans from students and employees			531,887.71
Interest earned on loans to students			68,328.79
Auxiliary enterprise charges:			
Residence halls			7,844,424.91
Bookstore			526,118.82
Food services			4,512,959.11
Other auxiliaries			782,722.11
Other receipts (payments)			303,027.96
Net cash provided (used) by operating activities		$	(62,145,992.52)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
State appropriations		$	50,509,600.00
Gifts and grants received for other than capital			
or endowment purposes, including	$ 72,642.06		
from (component unit) to the institution			19,426,061.52
Changes in deposits held for others			25,848.49
Other non-capital financing receipts (payments)			2,256.54
Net cash provided (used) by non-capital financing activities		$	69,963,766.55

Tennessee State University
Unaudited Statement of Cash Flows
for the Year Ended June 30, 2008

		Institution
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	$	4,164,362.41
Capital - state appropriation		5,146,397.97
Capital grants and gifts received		1,555,831.03
Purchase of capital assets and construction		(9,478,804.52)
Principal paid on capital debt and lease		(2,417,289.52)
Interest paid on capital debt and lease		(1,925,678.84)
Bond issue costs paid on new debt issue		(85,587.18)
Net cash provided (used) by capital and related financing activities	$	(3,040,768.65)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	$	12,768,234.35
Income on investments		2,841,328.01
Purchase of investments		(12,899,126.65)
Net cash provided (used) by investing activities	$	2,710,435.71
Net increase (decrease) in cash and cash equivalents		7,487,441.09
Cash and cash equivalents - beginning of year		34,359,552.79
Cash and cash equivalents - end of year (Note 2)	$	41,846,993.88

Tennessee State University
Unaudited Statement of Cash Flows
for the Year Ended June 30, 2008

		Institution
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income/(loss)	$	(74,465,077.71)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense		9,585,634.75
Change in assets and liabilities:		
Receivables, net		652,066.27
Inventories		2,804.60
Prepaid/deferred items		(150.00)
Accounts payable		(560,625.27)
Accrued liabilities		720,408.57
Deferred revenues		1,619,411.10
Deposits		(14,850.00)
Compensated absences		130,904.20
Due to grantors		183,480.97
Net cash provided (used) by operating activities	$	(62,145,992.52)
Non-cash transactions		
Unrealized gains/(losses) on investments		95,938.94

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

TENNESSEE BOARD OF REGENTS

Standard Notes to the Financial Statements
June 30, 2008

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 17 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 the restricted resources first.

CASH EQUIVALENTS

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

INVENTORIES

Inventories are valued at the lower of cost or market. 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 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, 2008, cash consists of $4,639,580.51 in bank accounts, $5,050.00 of petty cash on hand, $36,456,411.25 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $745,952.12 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, 2008, 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
US Agencies	$ 12,302,782.51	$ 768,929.70	$ 9,127,185.54	$ 1,248,005.31	$ 1,158,661.96
Certificates of Deposit	$ 381,447.08	$ 381,447.08			
Total	$ 12,684,229.59	$ 1,150,376.78	$ 9,127,185.54	$ 1,248,005.31	$ 1,158,661.96

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 an 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, 2008, the university’s investments were rated as follows:

		Credit Quality Rating	
Investment Type	Fair Value	AAA	Unrated
Local Government Investment Pool (LGIP)	$ 37,202,363.37		$ 37,202,363.37
US Agencies	$ 12,302,782.51	$ 12,302,782.51	
Total	$ 49,505,145.88	$ 12,302,782.51	$ 37,202,363.37

4. Accounts, Notes, and Grants Receivable

Accounts receivable included the following:

	June 30, 2008
Student accounts receivable	$ 3,028,229.77
Grants receivable	$ 6,811,282.95
Notes receivables	$ 58,955.37
Appropriation receivables	$ 282,598.13
Other receivables	$ 449,717.75
Subtotal	$ 10,630,783.97
Less allowance for doubtful accounts	(1,603,779.92)
Total	$ 9,027,004.05

Federal Perkins Loan Program funds include the following:

	June 30, 2008
Perkins loans receivable	$ 18,256,745.03
Less allowance for doubtful accounts	(15,813,160.77)
Total	$ 2,443,584.26

5. Capital Assets

Capital asset activity for the year ended June 30, 2008, was as follows:

	Beg. Balance	Additions	Transfers	Reductions	End Balance
Land	$ 9,525,009.24				$ 9,525,009.24
Land Improvement & Infrastructure	38,237,355.27		806,453.99		$ 39,043,809.26
Buildings	160,472,924.64		48,943,271.22		$ 209,416,195.86
Equipment	24,862,126.62	1,002,687.91		(458,777.51)	$ 25,406,037.02
Library Holdings	12,399,278.38	2,142,044.96		(416,417.03)	$ 14,124,906.31
Software	2,275,741.87	403,857.49			$ 2,679,599.36
Projects in progress	52,799,761.95	5,930,214.16	(49,749,725.21)		$ 8,980,250.90
Total	$ 300,572,197.97	$ 9,478,804.52	$ -	$ (875,194.54)	$ 309,175,807.95
Less Accumulated Depreciation:					
Land improvement & infrastructure	27,090,951.64	1,221,758.24			$ 28,312,709.88
Buildings	72,100,793.79	4,982,762.88			$ 77,083,556.67
Equipment	18,824,905.33	1,654,534.04		(416,440.79)	$ 20,062,998.58
Software	227,574.19	272,447.24		-	$ 500,021.43
Library Holdings	5,278,351.29	1,454,132.35		(416,417.03)	$ 6,316,066.61
Total Accum. Depreciation	123,522,576.24	9,585,634.75	-	(832,857.82)	132,275,353.17
Capital assets, net	$ 177,049,621.73	$ (106,830.23)	$ -	$ (42,336.72)	$ 176,900,454.78

6. Long-term Liabilities

Long term liability activity for the year ended June 30, 2008, was as follows:

	Beg. Balance	Additions	Reduction	End Balance	Curr. Portion
Payables:					
TSSBA debt:					
Bonds	$ 37,467,304.31	$ 835,835.17	$ (1,642,289.52)	$ 36,660,849.96	$ 1,733,401.94
Commercial Paper	924,714.71	$ 3,947,487.98	$ (775,000.00)	$ 4,097,202.69	
Subtotal	$ 38,392,019.02	$ 4,783,323.15	$ (2,417,289.52)	$ 40,758,052.65	$ 1,733,401.94
Other Liabilities					
Compensated Absences	5,064,792.98	2,599,403.81	(2,468,499.61)	$ 5,195,697.18	741,816.77
Due to Grantor	3,236,570.55	198,592.96	(15,111.99)	$ 3,420,051.52	
Subtotal	$ 8,301,363.53	$ 2,797,996.77	$ (2,483,611.60)	$ 8,615,748.70	$ 741,816.77
Total Long-Term Liabilities	$ 46,693,382.55	$ 7,581,319.92	$ (4,900,901.12)	$ 49,373,801.35	$ 2,475,218.71

TSSBA Debt - Bonds Payable

Bonds, with interest rates ranging from 3.60% 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, 2008. Unexpended debt proceeds were $ 0.00 at June 30, 2008.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2008, are as follows:

For the Year(s) Ending June 30	Principal	Interest	Total
2009	$ 1,733,401.94	$ 1,772,414.19	$ 3,505,816.13
2010	1,509,038.11	1,724,444.40	3,233,482.51
2011	1,904,809.94	1,622,478.02	3,527,287.96
2012	1,995,671.60	1,541,363.77	3,537,035.37
2013	2,066,004.39	1,455,933.32	3,521,937.71
2014-2018	10,287,695.48	5,812,142.11	16,099,837.59
2019-2023	8,364,525.30	3,471,635.84	11,836,161.14
2024-2028	6,961,602.40	1,449,525.14	8,411,127.54
2029-2033	1,838,100.80	235,580.51	2,073,681.31
Total	$ 36,660,849.96	$ 19,085,517.30	$ 55,746,367.26

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 $4,097,202.69 at June 30, 2008.

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 the 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, 2008, net appreciation of $ 41,144.65 is available to be spent, of which $41,144.65 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:

		FY 2008
Working Capital	$	1,117,640.51
Encumbrances		3,821,101.13
Designated Fees		1,100,170.37
Auxiliaries		2,766,203.68
Plant construction		16,049,247.51
Renewal and replacement of equipment		9,014,934.49
Unreserved/undesignated balance		878,293.05
Total	$	34,747,590.74

9. Pension Plans

Defined Benefit Plan

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th 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 13.62**%** of annual covered payroll. The contribution requirements of the university are established and may be amended by the TCRS Board of Trustees. The university's contributions to TCRS for the years ending June 30, 2008, 2007, and 2006 were $4,089,428.71, $ 3,928,524.36, and $ 2,676,782.60, respectively, equal to the required contributions for each year.

Federal Retirement Program

Plan Description – The University contributes to the Federal Retirement Program, a cost-sharing multiple-employer defined benefit pension plan administered by the Civil Service Retirement System (CSRS) for participants employed prior to January 1, 1984, and the Federal Employees Retirement System (FERS) for participants employed after December 31, 1983. Both systems provide retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and 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, 2008, were $57,048.80, which consisted of $28,524.40 from the university and $ 28,524.40 from the employees; contributions 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 met the requirements for each year.

Defined Contribution Plans

Plan Description – The university 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 to the plans for the year ended June 30, 2008, was $ 4,777,916.81 and for the year ended June 30, 2007, was $3,777,032.64. Contributions met the requirements for each year.

10. Other Postemployment Benefits

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that provides postemployment health insurance benefits to eligible university retirees. This program includes two plans available to higher education employees – the State Plan and the Medicare Supplement Plan. Both plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Tennessee Code Annotated (TCA) 8-27-201. Prior to reaching age 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered medicare supplement that does not include pharmacy. The state makes on-behalf payments to the medicare supplement plan for the university's eligible retirees, see Note16. The plans are reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

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. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The employers in each plan develop their own contribution policy in terms of subsidizing active employees or retired employees' premiums since the committee is not prescriptive on that issue. Contributions for the state plan for the year ended June 30, 2008, were $19,771,904.86, which consisted of $10,054,945.64 from the university and $9,716,959.22 from the employees.

Annual OPEB Cost and Net OPEB Obligation

	State Plan
Annual Required Contribution (ARC)	$ 3,094,000.00
Interest on the Net Postemployment Obligation (NPO)	0
Adjustment to the ARC	0
Annual OPEB cost	3,094,000.00
Amount of contribution	(1,092,909.92)
Increase/decrease in NPO	2,001,090.08
Net OPEB Obligation – beginning of year	0
Net OPEB Obligation – end of year	2,001,090.08

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
6/30/2008	State Plan	$3,094,000.00	35.3%	$2,001.090.08

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2008, was as follows:

	State Plan
Actuarial valuation date	July 1, 2007
Actuarial accrued liability (AAL)	$26,258,000.00
Actuarial value of plan assets	0
Unfunded actuarial accrued liability (UAAL)	$26,258,000.00
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	$92,730,202.17
UAAL as percentage of covered payroll	28.3%

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 RSI 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, 2007, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 11 percent initially, reduced by decrements to an ultimate rate of 6 percent after ten years. Both rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007.

11. Chairs of Excellence

The university had $4,285,551.82 on deposit at June 30, 2008, 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, 2008, and June 30, 2007, 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 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, 2008, was not available. At June 30, 2007, the Risk Management Fund held $116.7 million in cash and cash equivalents designated for payment of claims.

At June 30, 2008, the scheduled coverage for the university was $422,335,276.00 for buildings and $84,474,843.00for 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 $31,732,150.96 at June 30, 2008.

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 $87,758.77 and $21,628.83, respectively for the year ended June 30, 2008. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2008, outstanding commitments under construction contracts totaled $1,553,955.68 for ADA Improvements, Agriculture I.T., Avon Williams Campus Improvements, Power Plant Mechanical Upgrade, Agricultural Extension Center, Research and Sponsored Programs Building, Clement Hall/ Allied Health Upgrade, Elliott Hall Exhibition, Student Housing Fire Suppression, and Several Building Improvements of which $906,395.91 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.

14. Natural Classifications with Functional Classifications

The university's operating expenses by functional classification for the year ended June 30, 2008, are as follows:

Functional	Natural Classification					
Classification	Salaries	Benefits	Operating	Scholarship	Depreciation	Total
Instruction	$ 37,414,958.55	$ 11,914,648.92	$ 10,171,465.64	$ 782,768.01		$ 60,283,841.12
Research	5,792,727.54	1,779,661.46	2,942,385.31	85,204.24		$ 10,599,978.55
Public Service	3,991,186.04	1,721,105.49	1,506,743.27	16,516.98		$ 7,235,551.78
Academic Support	5,955,042.60	2,120,031.62	2,681,699.90	42,064.74		$ 10,798,838.86
Student Services	7,642,137.70	2,661,846.11	1,119,352.34	1,098,904.73		$ 12,522,240.88
Institutional Support	9,734,828.55	3,838,785.51	1,130,481.41	6,918.68		$ 14,711,014.15
M & O	3,362,473.22	1,563,897.65	10,502,460.22			$ 15,428,831.09
Scholarship & Fellowships	7,954.64	3,223.97	14,835,418.02	1,859,689.49		$ 16,706,286.12
Auxiliary	1,871,767.13	611,311.80	7,450,007.20	174,074.00		$ 10,107,160.13
Depreciation					9,585,634.75	$ 9,585,634.75
Total	$ 75,773,075.97	$ 26,214,512.53	$ 52,340,013.31	$ 4,066,140.87	$ 9,585,634.75	$ 167,979,377.43

15. Change in Accounting Principle

The university has implemented the Governmental Accounting Standards Board's Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.* This statement establishes standards for the measurement, recognition, and display of OPEB expense and related liabilities, note disclosures, and required supplementary information. The statement was implemented prospectively with a zero net OPEB obligation at transition.

16. On-Behalf Payments

During the year ended June 30, 2008, the State of Tennessee made payments of $56,555.38 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. The plan is reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

17. Component Unit(s)

Tennessee State University 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 15-member board of the Foundation is self-perpetuating and consists of graduates and friends of the University. The size of the board shall be determined by the majority votes of its members, and any vacancy in its membership shall be filled in the same way. The entire membership of the Board of Trustees shall not exceed (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, 2008, the Foundation made distributions of $72,642.06 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, 2008, cash and cash equivalents consists of $1,929,520.72 in bank accounts and $3,087,551.61 in money market accounts.

Investments – The Foundation is authorized to invest funds in accordance with its board of directors' policies. All investments permitted to be reported at fair value under GASB Statement 31 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, 2008, 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
US Treasury	$ 549,645.37	$ 234,560.33	$ 157,616.40	$ 157,468.64		
US Agencies	$ 272,176.71		$ 272,176.71			
Corporate Stocks	$ 1,367,570.36					$ 1,367,570.36
Corporate Bonds	$ 1,237,126.24	$ 773,588.06	$ 345,731.96		$ 117,806.22	
Mutual Bond Funds	$ 1,233,686.30					$ 1,233,686.30
Mutual Equity Funds	$ 676,957.20					$ 676,957.20
Other:						
Mortgage Backed Securities	$ 1,538,677.56			$ 92,591.35	$ 1,446,086.21	
REITs	$ 2,915,040.76					$ 2,915,040.76
Alternative REITs	$ 19,538,945.07					$ 19,538,945.07
Money Market Accounts	$ 3,087,551.61					$ 3,087,551.61
Savings Accounts	$ 3,081.75					$ 3,081.75
Less Amounts Reported as Cash and Cash Equivalents:						
Regions Morgan Keegan Money Mkt	$ (514,276.71)					$ (514,276.71)
Charles Schwab Money Market	$ (1,231,240.11)					$ (1,231,240.11)
Citizens Bank Savings	$ (3,081.75)					$ (3,081.75)
Goldman Sach Money Market	$ (1,342,034.79)					$ (1,342,034.79)
Total	$ 29,329,825.57	$ 1,008,148.39	$ 775,525.07	$ 250,059.99	$ 1,563,892.43	$ 25,732,199.69

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, 2008, the Foundation's investments were rated as follows:

		Credit Quality Rating				
Investment Type	Fair Value	AAA	AA	A	B	Unrated
US Agencies	$ 272,176.71	$ 272,176.71				
Corporate Bonds	$ 1,237,126.24	$ 76,547.20	$ 422,251.43	$ 544,070.68	$ 194,256.93	
Mutual Bond Funds	$ 1,233,686.30					$ 1,233,686.30
Collateralized mortgage obligation	$ 1,538,677.56					$ 1,538,677.56
Other:						
REITs	$ 2,915,040.76					$ 2,915,040.76
Alternative REITs	$ 19,538,945.07					$ 19,538,945.07
Total	$ 26,735,652.64	$ 348,723.91	$ 422,251.43	$ 544,070.68	$ 194,256.93	$ 25,226,349.69

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, 2008.

Issuer	Percentage of Total Investments
Charles Schwab	64%
Regions Morgan Keegan	25%
Inland American	5%
Behringer	4%

Endowments - If a donor has not provided specific instructions to Tennessee State University, 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 costs 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, 2008, net appreciation of $ 31,253,941.22 is available to be spent, of which $31,253,941.22 is included in restricted net assets expendable for scholarships and fellowships.

Tennessee State University Foundation
Supplementary Information
Unaudited Statement of Cash Flows - Component Unit
for the Year Ended June 30, 2008

		Component Unit
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$	1,169,606.01
Payments to suppliers and vendors		(618,800.24)
Payments for scholarships and fellowships		(448,514.69)
Payments to Tennessee State University		(72,642.06)
Other receipts (payments)		627,358.32
Net cash provided (used) by operating activities	$	657,007.34
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	$	264,255.00
Net cash provided (used) by non-capital financing activities	$	264,255.00
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	$	40,302,334.92
Income on investments		(105,881.76)
Purchase of investments		(41,995,714.56)
Net cash provided (used) by investing activities	$	(1,799,261.40)
Net increase (decrease) in cash and cash equivalents		(877,999.06)
Cash and cash equivalents - beginning of year		5,895,071.39

Tennessee State University Foundation
Supplementary Information
Unaudited Statement of Cash Flows - Component Unit
for the Year Ended June 30, 2008

		Component Unit
Cash and cash equivalents - end of year (Note 17)	$	5,017,072.33

RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating income/(loss)	$	650,731.58
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Accounts payable		6,275.76
Net cash provided (used) by operating activities	$	657,007.34

Non-cash transactions

Unrealized gains/(losses) on investments		(251,272.93)

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

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress for Tennessee State University

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)
7/1/2007	State Plan	$ -	$ 26,258,000.00	$ 26,258,000.00	0%	$ 92,730,202.17	28.3%