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, 2010, with comparative information presented for the fiscal years ended June 30, 2009. 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 purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

Tennessee State University

Statement of Net Assets (in thousands of dollars)

	2010	2009
Assets		
Current assets	$ 22,840	$ 27,623
Capital assets, net	169,098	172,466
Other assets	58,369	43,136
Total Assets	**250,307**	**243,225**
Liabilities		
Current liabilities	19,896	21,804
Noncurrent liabilities	49,384	50,979
Total Liabilities	**69,280**	**72,783**
Net Assets		
Invested in capital assets, net of related debt	130,672	132,527
Restricted - nonexpendable	74	74
Restricted - expendable	7,253	7,514
Unrestricted	43,028	30,327
Total Net Assets	**$ 181,027**	**$ 170,442**

Component Unit
Statements of Net Assets (in thousands of dollars)

Assets	**2010**	**2009**
Current assets	$ 5,019	$ 5,307
Capital assets, net	6,000	
Other assets	31,029	28,724
Total Assets	**42,048**	**34,031**
Liabilities		
Current liabilities	26	16
Total Liabilities	**26**	**16**
Net Assets		
Invested in capital assets, net of related debt	6,000	-
Restricted - nonexpendable	31,212	28,926
Restricted - expendable	4,556	4,914
Unrestricted	254	175
Total Net Assets	**$ 42,022**	**$ 34,015**

Comparison of FY 2010 to FY 2009 – University

- Current assets decreased with approximately $15 million transfer to Unexpended Plant, but is offset in a reduction of expenditures due to budget restrictions and increase in revenue due to an increase in tuition and fees.

- Noncurrent assets increased with the approximately $15 million transfer to Unexpended Plant.

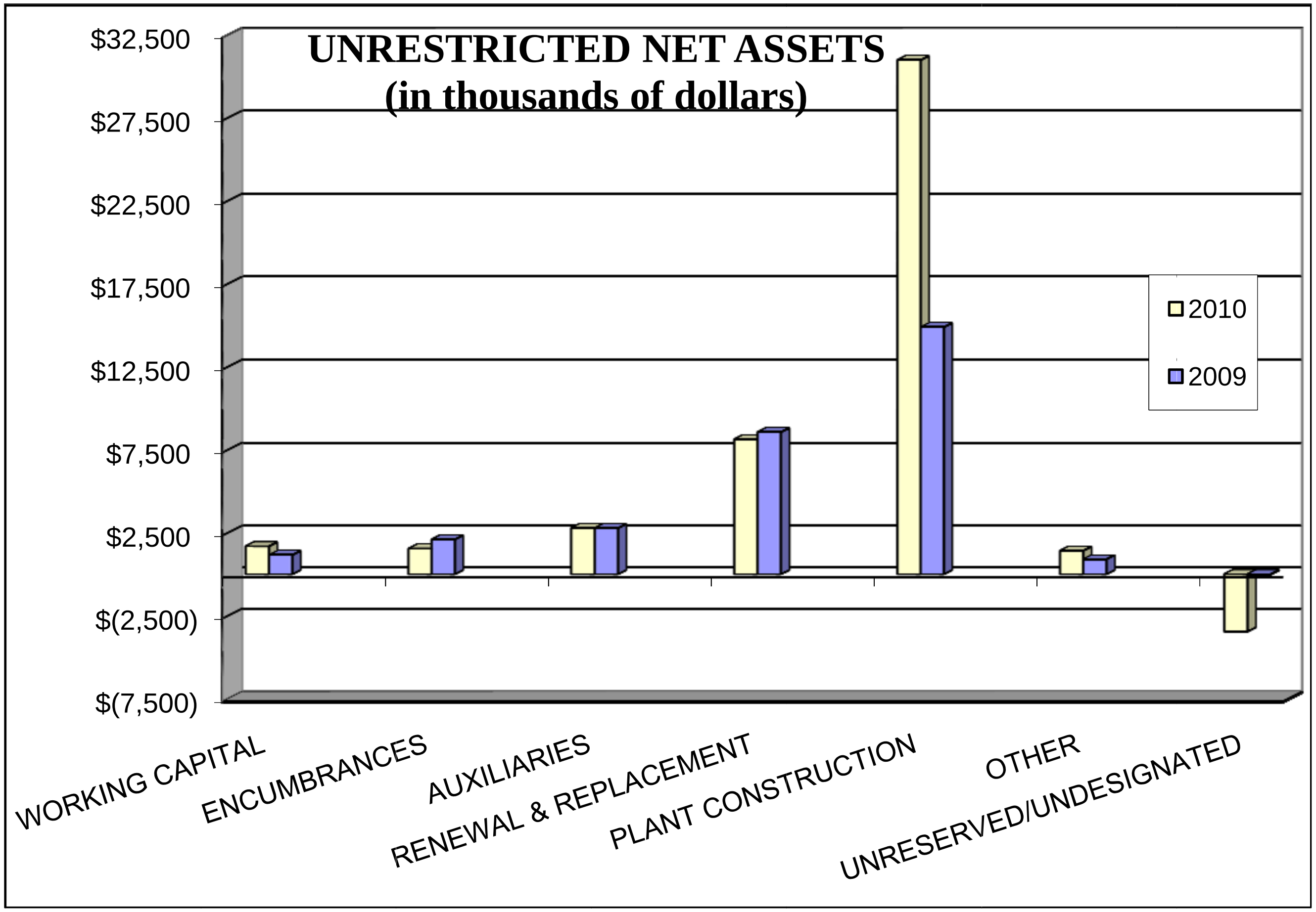
- Unrestricted Net Assets increased due to a reduction of expenditures due to budget restrictions and operations funded with one-time federal funding and an increase in revenue due to an increase in tuition and fees.

Comparison of FY 2010 to FY 2009 – Component Unit

- Capital Assets and Invested in Capital Assets increased due to a one-time non-cash gift of videotapes of TV programs and other media with an appraised value of $6 million.

- Noncurrent assets increased as a result of additional funding available for investing and a unrealized gain of over $1million and a new endowment for the May Chair for Sustainable Agriculture of over $400 thousand.

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



Comparison of FY 2010 to FY 2009

- The allocation for Plant Construction increased with an approximately $15 million transfer from unrestricted net assets and an approximately $1.9 million transfer from auxiliary net assets.

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

The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the university, as well as the 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.

Institution

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

	2010	2009
Operating Revenues		
Net tuition and fees	$ 42,058	$ 41,875
Gifts		
Grants and contracts	38,952	39,062
Auxiliary	12,813	13,115
Other	4,220	3,959
Total Operating Revenues	98,043	98,011
Operating expenses	169,029	169,701
Operating loss	**(70,986)**	**(71,690)**
Nonoperating revenues and expenses:		
State appropriations	39,811	44,259
Gifts	17	32
Grants and contracts	37,893	18,735
Investment income	548	1,419
Other revenues and expenses	(1,917)	(2,522)
Total nonoperating revenues expenses	**76,352**	**61,923**
Income (loss) before other revenues expenses, gains, or losses	**5,366**	**(9,767)**
Other revenues, expenses, gains, or losses:		
Capital appropriations	2,484	1,692
Capital grants and gifts	3,655	665
Total other revenues, expenses, gains, or los	6,139	
Increase (decrease) in nets assets	**11,505**	**(7,410)**
Net asssets at beginning of period	**170,442**	**178,315**
Prior Period Adjustment	**(920)**	**(463)**
Net assets at end of year	**$ 181,027**	**$ 170,442**

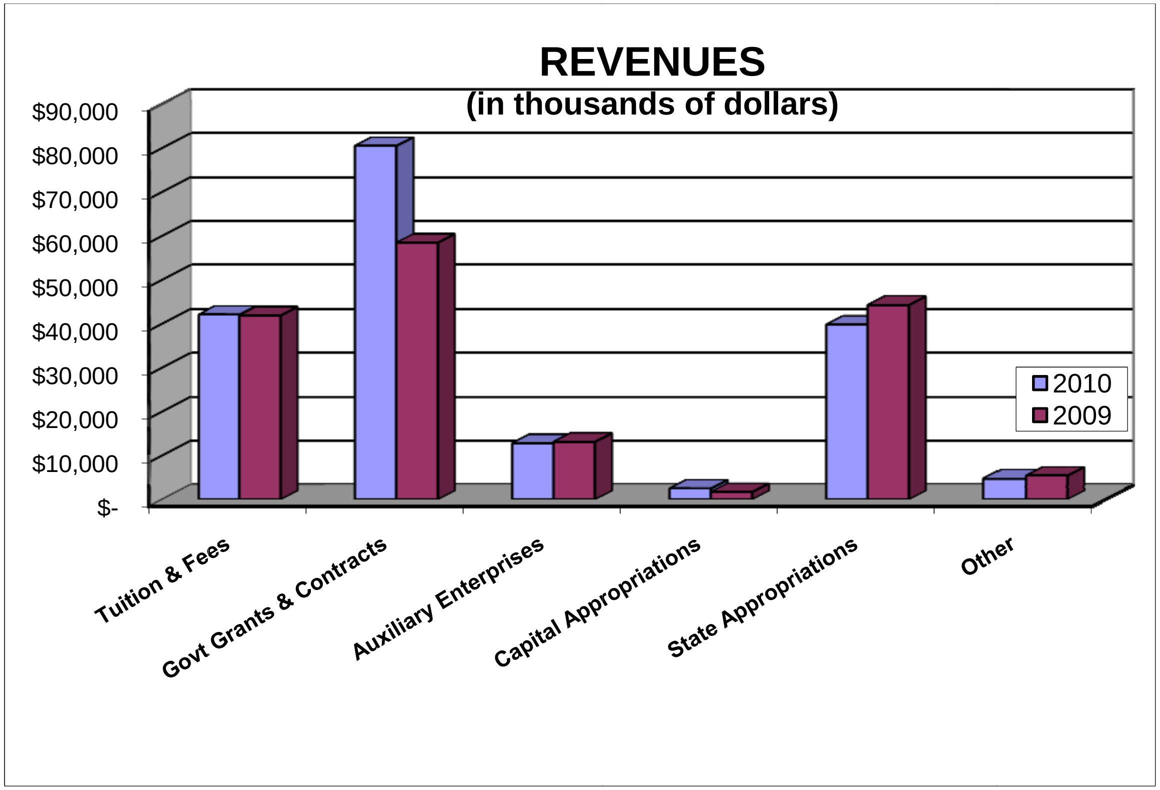
Component Unit

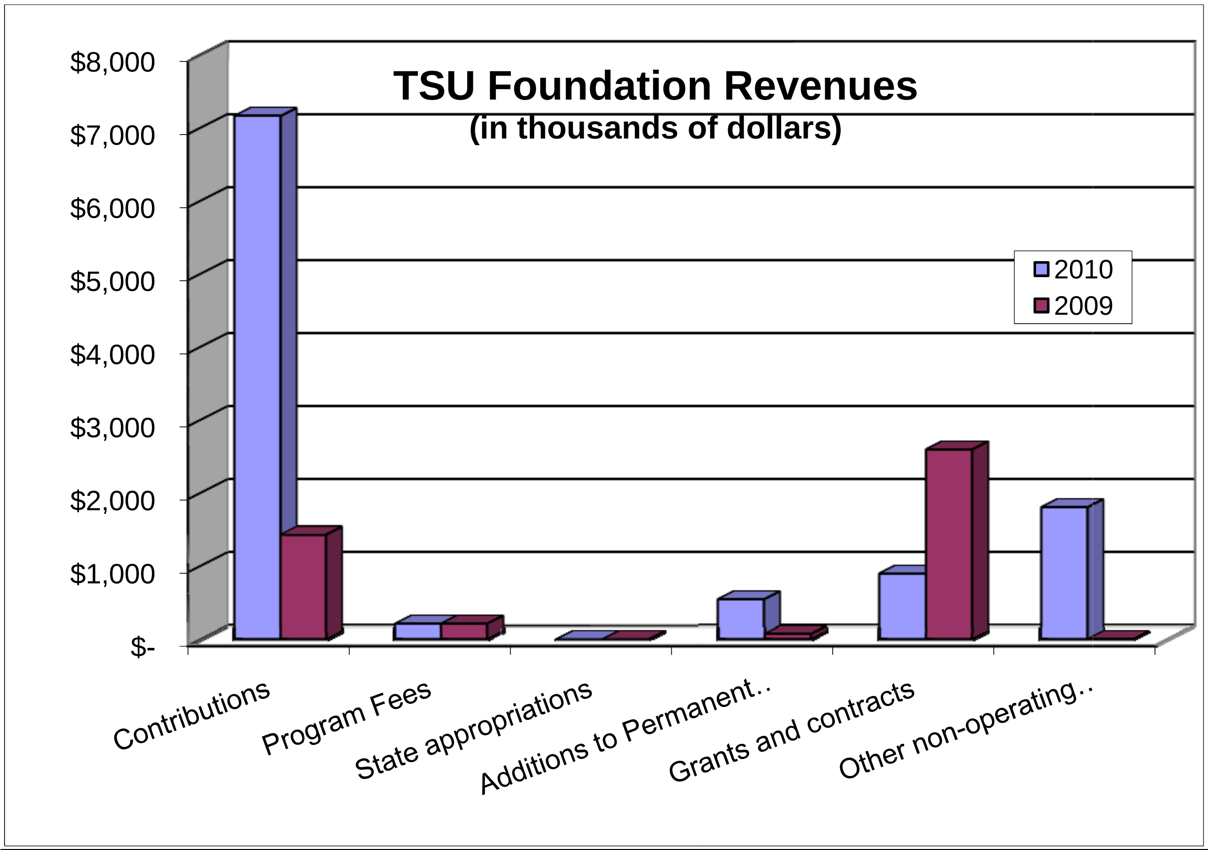
Statement of Revenues, Expenses, and Changes in Net Assets (in thousands of dollars)

	2010	2009
Operating Revenues:		
Gifts	$ 1,165	$ -
Other	211	1,645
Total Operating Revenues	1,376	1,645
Operating expenses	1,696	1,409
Operating loss	(320)	236
Nonoperating Revenues and Expenses:		
Gifts	-	76
Grants and contracts	900	2,026
Investment income	1,808	(1,966)
Total nonoperating revenues and expenses	2,708	136
Income (loss) before other revenues, expenses gains,or losses	2,388	372
Other revenues, expenses, gains, or losses:		
Capital grants and gifts	6,000	-
Additions to permanent endowments	547	-
Total Other Revenues	6,547	-
Increase (decrease) in net assets	8,935	372
Net assets at beginning of period	34,015	34,327
Prior Period Adjustment	(928)	(684)
Net assets at end of year	$ 42,022	$ 34,015

<u>Revenues</u>

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, 2010, and June 30, 2009 (amounts are presented in thousands of dollars).





<u>Comparison of FY 2010 to FY 2009 - University</u>

- State Appropriations decreased due to the decline in the revenue collections for the State.

- Grants and Contracts increased with over $11.5 million in ARRA funding received, and an increase in Pell funding of approximately $7 million.

- Capital Appropriations increased with over $600 thousand for the Electrical Distribution System.

- Capital Grants and Gifts increased approximately $3 million as a result of funding received for the CIT Infrastructure project, Clement Hall Renovation, and Elliott Hall Museum.

Comparison of FY 2010 to FY 2009 – Component Unit

- The TSU Foundation received a one-time capital gift of videotapes of TV programs and other media with an appraised value of $6 million.

- Grants and Contracts for the Foundation decreased due to a $1 million decline in Title III funds related to the Consent Decree settlement.

- Investment income increased as a result of additional funding available for investing and a unrealized gain of over $1million.

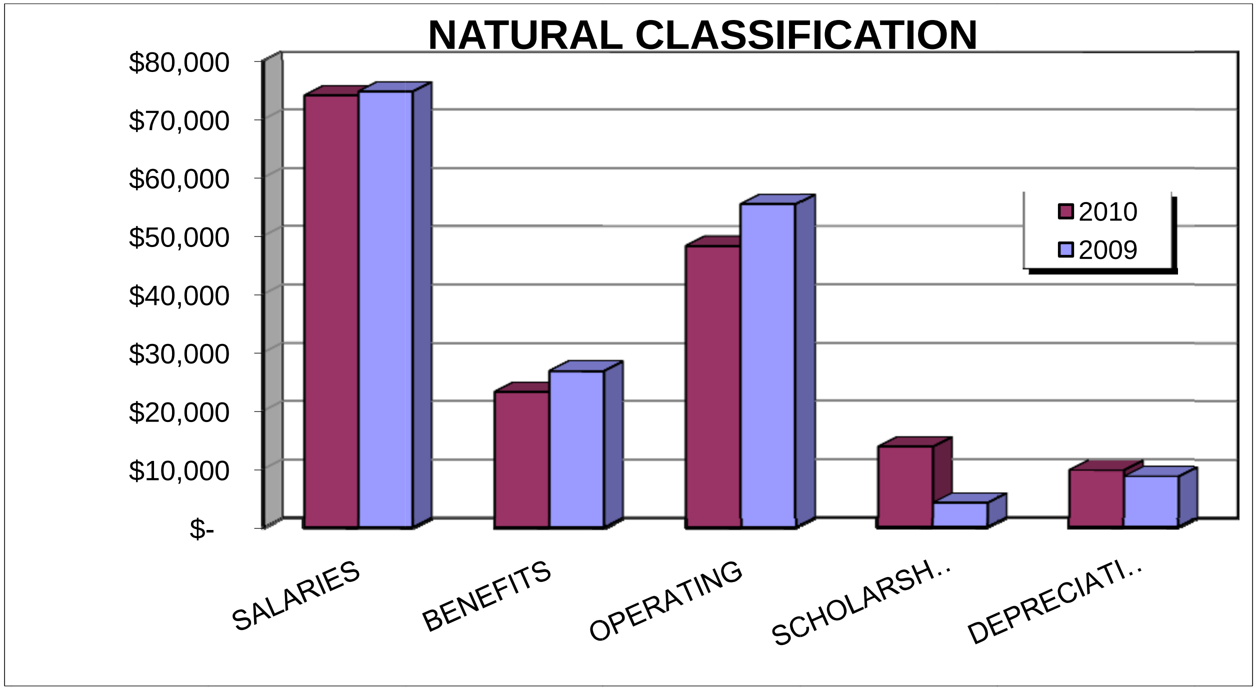
- Additions to Permanent Endowment increased with additional contributions, including a new endowment for the May Chair for Sustainable Agriculture of over $400 thousand.

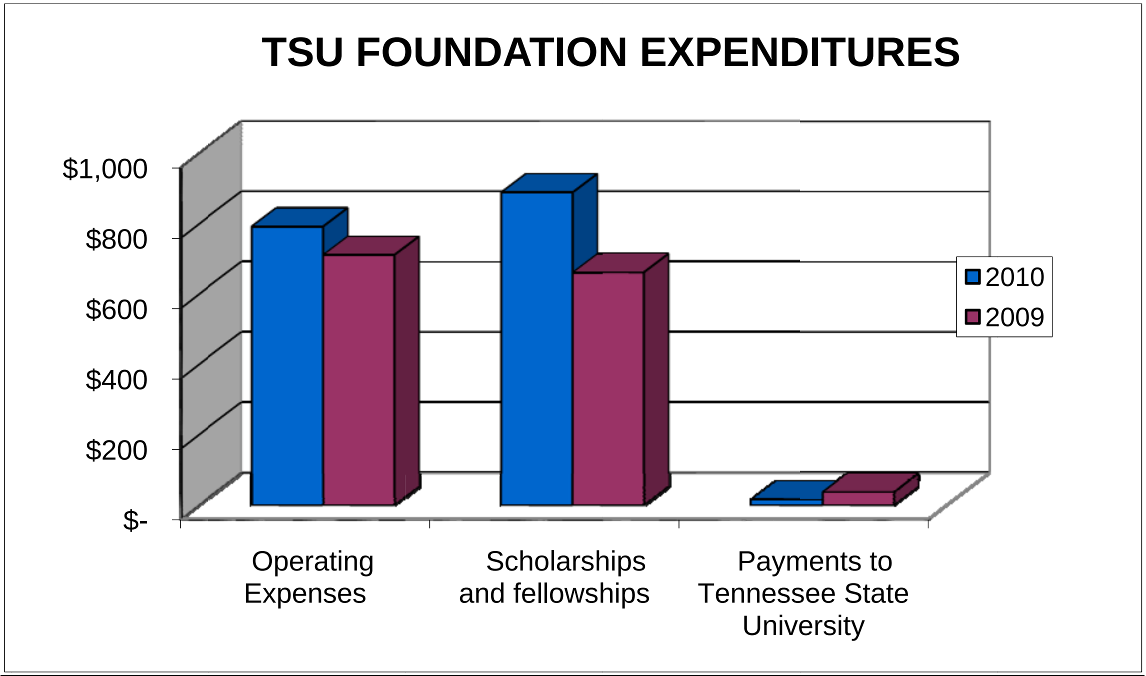
Expenses

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

Natural Classification

NATURAL CLASSIFICATION (in thousands of dollars)	UNIVERSITY 2010	UNIVERSITY 2009	COMPONENT UNIT 2010	COMPONENT UNIT 2009
SALARIES	$ 74,038	$ 74,731		$ -
BENEFITS	23,238	26,813		-
OPERATING	48,272	55,403	792	716
SCHOLARSHIPS	13,756	4,120	889	661
PAYMENTS TO TSU		-	15	32
DEPRECIATION	9,725	8,634	-	-
TOTAL	$ 169,029	$ 169,701	$ 1,696	$ 1,409





Comparison of FY 2010 to FY 2009 - University

- Benefit expenditures decreased due to the state not requiring the payment of Group Insurance for two months during FY10. Group insurance decreased as a result by over $2.0 million.

- Depreciation expenditures increased with the completion of several assets during FY10 subject to depreciation. Please see Note 5 for additional information.

- Operating expenditures decreased and Scholarship expenditures increased as a result of a recommendation by State Audit to present Pell Grant expenditures as Scholarships rather than as grants, as presented prior to fiscal year 2010.

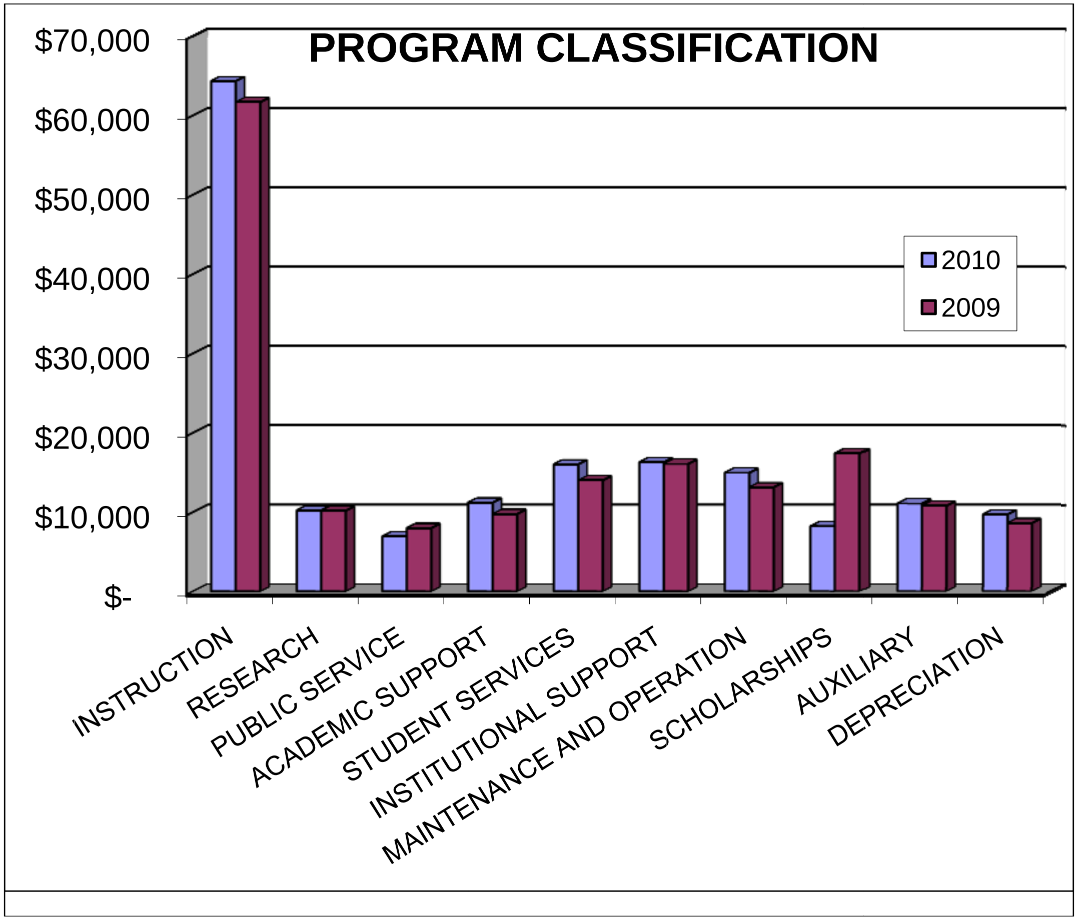
Comparison of FY 2010 to FY 2009 – Component Unit

- Operating expenditures increased due to budget restrictions within the university that resulted in expenditures being made through the Foundation.

- Scholarship expenditures increased with the continued funding of scholarships following the removal of the hold of issuing new scholarships by the Foundation Board membership and the additional award of new scholarships.

Program Classification

PROGRAM CLASSIFICATION (in thousands of dollars)	2010	2009
INSTRUCTION	$ 64,344	$ 61,682
RESEARCH	10,229	10,179
PUBLIC SERVICE	6,940	8,000
ACADEMIC SUPPORT	11,210	9,771
STUDENT SERVICES	16,035	14,007
INSTITUTIONAL SUPPORT	16,296	16,080
MAINTENANCE AND OPERATION	14,957	13,142
SCHOLARSHIPS	8,204	17,403
AUXILIARY	11,089	10,803
DEPRECIATION	9,725	8,634
TOTAL	$ 169,029	$ 169,701



<u>Comparison of FY 2010 to FY 2009</u>

- Scholarships decreased while Student Services, Academic Support, and Instruction increased due to a change in the scholarship allowance allocation recommended by State Audit for fiscal year 2010.

- Public Service decreased as a result of a decrease in the cost of benefits as noted above and a reduction in expenses for Cooperative Extension and Child Development Associate training.

- Maintenance and Operations increased due to a $900,000 increase in the cost of utilities and an increase in maintenance and repair expenses.

- Depreciation expenditures increased with the completion of several assets during FY10 subject to depreciation. Please see Note 5 for additional information.

Capital Assets and Debt Administration

<u>Capital Assets</u>

The University had $169,097,936.01 invested in capital assets, net of accumulated depreciation of $148,580,902.06, at June 30, 2010; and $172,466,111.56 invested in capital assets, net of accumulated depreciation of $140,136,941.18, at June 30, 2009. Depreciation charges totaled $9,724,861.23 and $8,633,862.43 for the years ended June 30, 2010, and June 30, 2009, respectively. Details of these assets are shown below.

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

	2010	2009
Land	$ 9,525	$ 9,525
Land Improvements & Infrastructure	16,307	9,509
Buildings	122,727	127,398
Equipment	5,538	4,947
Library Holdings	7,657	7,897
Intangible Assets	1,669	1,907
Projects in Progress	5,675	11,283
Total	$ 169,098	$ 172,466

Comparison of FY 2010 to FY 2009

- Equipment increased due to the value of equipment purchased exceeding the value of equipment disposal and a prior year deduction in the accumulated depreciation for equipment.

- Intangible Assets decreased as a result of the annual depreciation expense and no capital expenses made for FY10.

Land Improvements & Infrastructure increased while Projects in Progress decreased due to the completion of various projects including the Student Housing Fire Suppression Retrofit and the Energy Savings project. More detailed information about the university's long-term liabilities is presented in Note 5 to the financial statements.

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

	2010	**2009**
Library holdings	$ 6,000,000	$ -
Total	$ 6,000,000	$ -

The TSU Foundation received a one-time non-cash gift of videotapes of TV programs and other media with an appraised value of $6 million. More detailed information about the capital assets is presented in Note 20 to the financial statements.

Debt

The university had $38,425,618.47 and $39,939,353.56 in debt outstanding at June 30, 2010, and June 30, 2009, respectively. The table below summarizes these amounts by type of debt instrument.

	2010	2009
Bonds	$ 38,133	$ 39,890
Commercial Paper	292	49
Total	$ 38,425	$ 39,939

During fiscal year 2010, an additional amount of over $243 thousand was issued in commercial paper for the Indoor Practice Facility.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2010, were as follows:

Fitch	AA
Moody's Investor Service	Aa2
Standard & Poor's	AA

More detailed information about the university’s long-term liabilities is presented in Note 7 to the financial statements.

Economic Factors That Will Affect the Future

The Tennessee Board of Regents approved an increase in maintenance and tuition fees of over 5% for the 2010-11 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 2010 semester is expected to be stable; however, the exact impact is unknown. The university is budgeted to receive over $8 million in one-time funding from the state. These funds will replace the non-recurring funds received from the federal government for fiscal year 2010. However, these funds are not expected to be received from the state or federal government for the 2012 fiscal year. The fiscal year 2012 budget will therefore have to adjust by increased tuition and fees and/or a decrease in budgeted expenses. The university is not aware of any other factors that will have a significant effect on the financial position or results of operations.

Requests for Information

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

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

Tennessee State University
Unaudited Statement of Net Assets
June 30, 2010

	Institution	Component Unit
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 20)	$ 471,343.83	$ 4,833,409.55
Short-term investments (Notes 3 and 20)	1,899,956.76	182,422.44
Accounts, notes, and grants receivable (net) (Note 4)	10,679,169.10	2,547.19
Due from primary government	7,933,269.37	-
Inventories (at lower of cost or market)	22,185.28	-
Prepaid expenses and deferred charges	2,773.49	-
Accrued interest receivable	1,830,849.74	-
Total current assets	22,839,547.57	5,018,379.18
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 20)	40,208,533.49	2,334,074.32
Investments (Notes 3 and 20)	15,832,586.59	28,695,196.61
Accounts, notes, and grants receivable (net) (Note 4)	2,327,923.75	-
Capital assets (net) (Note 5 and Note 20)	169,097,936.01	6,000,000.00
Total noncurrent assets	227,466,979.84	37,029,270.93
Total assets	250,306,527.41	42,047,650.11
LIABILITIES		
Current liabilities:		
Accounts payable (Note 6)	2,773,703.87	25,970.50
Accrued liabilities	7,717,507.21	-
Due to grantors (Note 7)	32,814.63	-
Student deposits	1,217,330.21	-
Deferred revenue	4,394,418.50	-
Compensated absences (Note 7)	1,020,852.03	-
Accrued interest payable	324,911.77	-
Long-term liabilities, current portion (Note 7)	2,191,104.09	-
Deposits held in custody for others	222,873.05	-
Total current liabilities	19,895,515.36	25,970.50
Noncurrent liabilities:		
Net OPEB obligation (Note 7 and 12)	5,456,386.81	-
Compensated absences (Note 7)	4,016,839.34	-
Long-term liabilities (Note 7)	36,234,514.38	-
Due to grantors (Note 7)	3,676,156.62	-
Total noncurrent liabilities	49,383,897.15	-
Total liabilities	69,279,412.51	25,970.50

Tennessee State University
Unaudited Statement of Net Assets
June 30, 2010

	Institution		Component Unit	
NET ASSETS				
Invested in capital assets, net of related debt	$	130,672,317.54	$	6,000,000.00
Restricted for:				
Nonexpendable:				
Scholarships and fellowships		24,361.83		2,343,407.75
Research		-		394,980.06
Instructional department uses		50,000.00		23,473.64
Other		-		28,449,831.92
Expendable:				
Scholarships and fellowships		1,317,368.42		1,822,084.33
Research		978,167.76		14,530.80
Instructional department uses		2,911,287.76		331,413.36
Loans		969,975.40		
Other		1,074,788.01		2,387,809.86
Unrestricted (Note 9)		43,028,848.18		254,147.89
Total net assets	$	181,027,114.90	$	42,021,679.61

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, 2010

		Institution	Component Unit
REVENUES			
Operating revenues:			
Student tuition and fees (net of scholarship			
allowances of	$ 21,028,222.36	$ 42,057,873.36	$ -
Gifts and contributions		-	1,164,607.43
Governmental grants and contracts		37,420,638.85	-
Non-governmental grants and contracts		1,531,432.54	-
Sales and services of educational departments		3,884,725.78	-
Auxiliary enterprises:			
Residential life (net of scholarship			
allowances of	$ 3,061,881.08		
all residential life revenues are			
used as security for revenue bonds, see Note 10)		6,330,214.42	-
Bookstore			
all bookstore revenues are used as			
security for revenue bonds, see Note 10)		341,191.24	-
Food service			
all food service revenues are used as			
security for revenue bonds, see Note 10)		5,321,685.39	-
Other auxiliaries		820,055.22	-
Interest earned on loans to students		821.32	-
Other operating revenues		334,476.96	211,312.31
Total operating revenues		98,043,115.08	1,375,919.74
EXPENSES			
Operating Expenses			
Salaries and wages		74,038,587.88	-
Benefits		23,237,642.86	-
Utilities, supplies, and other services		48,272,308.15	792,072.73
Scholarships and fellowships		13,755,805.39	888,910.06
Depreciation expense		9,724,861.23	-
Payments to or on behalf of TSU		-	14,571.45
Total operating expenses		169,029,205.51	1,695,554.24
Operating income (loss)		(70,986,090.43)	(319,634.50)

Tennessee State University
Unaudited Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2010

		Institution	Component Unit
NONOPERATING REVENUES (EXPENSES)			
State appropriations		$ 39,810,535.00	$ -
Gifts, including	$ 14,571.45		
from component unit		17,150.00	-
Grants and contracts		37,892,620.68	900,157.00
Investment income		548,259.28	1,807,439.19
Interest on capital asset-related debt		(1,935,154.37)	-
Bond issuance costs		(241.32)	-
Other non-operating revenues/(expenses)		19,104.24	-
Net nonoperating revenues		76,352,273.51	2,707,596.19
Income before other revenues, expenses gains, or losses		5,366,183.08	2,387,961.69
Capital appropriations		2,484,078.65	-
Capital grants and gifts		3,654,542.63	6,000,000.00
Additions to permanent endowments		-	547,167.22
Total other revenues		6,138,621.28	6,547,167.22
Increase (decrease) in net assets		11,504,804.36	8,935,128.91
NET ASSETS			
Net Assets -beginning of year		170,442,198.30	34,014,763.26
Prior period adjustment (Note 17 and Note 20)		(919,887.76)	(928,212.56)
Net Assets - end of year		$ 181,027,114.90	$ 42,021,679.61

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, 2010

CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees		$ 42,017,564.10
Grants and contracts		31,672,813.91
Sales and services of educational activities		3,934,870.19
Payments to suppliers and vendors		(48,069,437.78)
Payments to employees		(72,768,613.13)
Payments for benefits		(23,348,931.72)
Payments for scholarships and fellowships		(13,755,805.39)
Loans issued to students		(499,170.69)
Collection of loans from students		499,384.37
Interest earned on loans to students		73,785.88
Auxiliary enterprise charges:		
Residence halls		6,315,600.06
Bookstore		341,191.24
Food services		5,321,685.39
Other auxiliaries		882,796.22
Other receipts (payments)		334,476.96
Net cash provided (used) by operating activities		(67,047,790.39)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations		39,779,300.00
Gifts and grants received for other than capital or endowment purposes, including	$ 14,571.45	
from (component unit) to the institution		29,976,501.31
Changes in deposits held for others		67,482.31
Net cash provided (used) by non-capital financing activities		69,823,283.62
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt		242,831.16
Capital - state appropriation		2,528,933.23
Capital grants and gifts received		3,321,894.13
Purchase of capital assets and construction		(6,175,112.13)
Principal paid on capital debt and lease		(1,771,651.29)
Interest paid on capital debt and lease		(1,958,549.94)
Bond issue costs paid on new debt issue		(5,334.26)
Net cash provided (used) by capital and related financing activities		(3,816,989.10)

Tennessee State University
Unaudited Statement of Cash Flows
for the Year Ended June 30, 2010

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments		10,968,142.01
Income on investments		(381,554.13)
Purchase of investments		(13,217,990.07)
Net cash provided (used) by investing activities		(2,631,402.19)
Net increase (decrease) in cash and cash equivalents		(3,672,898.06)
Cash and cash equivalents - beginning of year		44,352,775.38
Cash and cash equivalents - end of year (Note 2)	$	40,679,877.32

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

Operating income/(loss)	$	(70,986,090.43)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense		9,724,861.23
Other adjustments		55,135.00
Change in assets and liabilities:		
Receivables, net		(2,752,686.90)
Inventories		13,826.39
Prepaid/deferred items		(2,773.49)
Accounts payable		583,504.87
Accrued liabilities		1,257,474.71
Deferred revenues		(1,227,933.23)
Compensated absences		(112,321.28)
Due to grantors		(3,600,787.26)
Net cash provided (used) by operating activities	$	(67,047,790.39)

Non-cash investing, capital, or financing transactions

Unrealized gains/(losses) on investments	$	712,701.18
Loss on disposal of capital assets		(9,211.62)

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	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2007		$ 26,258,000	$ 26,258,000	0.00%	$ 92,730,202	28.32%
July 1, 2009		22,568,000	22,568,000	0.00%	72,648,998	31.06%

An additional year will be reported as the data becomes available. The amount reported here for covered payroll relates to the fiscal year in which the valuations were performed.

Tennessee State University
Supplementary Information
Supplementary Schedule of Cash Flows - Component Unit
for the Year Ended June 30, 2010

		Component Unit
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$	1,164,607.43
Payments to suppliers and vendors		(785,045.67)
Payments for scholarships and fellowships		(888,910.06)
Payments to TSU		(14,571.45)
Other receipts (payments)		211,312.31
Net cash provided (used) by operating activities		(312,607.44)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
from MEAC to the ETSU Foundation)		900,157.00
Private gifts for endowment purposes		547,167.22
Net cash provided (used) by non-capital financing activities		1,447,324.22
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		26,029,280.69
Income on investments		330,053.88
Purchase of investments		(29,137,193.11)
Net cash provided (used) by investing activities		(2,777,858.54)
Net increase (decrease) in cash and cash equivalents		(1,643,141.76)
Cash and cash equivalents - beginning of year		8,810,625.63
Cash and cash equivalents - end of year (Note 20)	$	7,167,483.87

Tennessee State University
Supplementary Information
Supplementary Schedule of Cash Flows - Component Unit
for the Year Ended June 30, 2010

		Component Unit
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income/(loss)	$	(319,634.50)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Change in assets and liabilities:		
Receivables, net		(2,647.19)
Accounts payable		9,674.25
Net cash provided (used) by operating activities	$	(312,607.44)
Non-cash investing, capital, or financing transactions		
Gifts in-kind - capital	$	6,000,000.00
Unrealized gains/(losses) on investments		1,016,916.85

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

Notes to the Financial Statements
June 30, 2010

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

The Tennessee State University Foundation is considered a component unit of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements. See Note 20 for more detailed information about the component unit and how to obtain the report.

BASIS OF PRESENTATION

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

BASIS OF ACCOUNTING

For financial statement purposes, the university is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant 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) certain federal, state, local and private grants and contracts, 3) sales and services of auxiliary enterprises, and 4) other sources of revenue. Operating expenses for the university include: 1) salaries and wages, 2) employee benefits, 3) scholarships and fellowships, 4) depreciation, and 5) utilities, supplies, and other services.

All other activity is non-operating 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 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 intangible assets, are reported in the Statement of Net Assets at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the 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 intangible assets is set at $100,000.

These assets, with the exception of land, are depreciated/amortized using the straight-line method over the estimated useful lives 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 non-operating 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. <u>Cash</u>

This classification includes demand deposits and petty cash on hand. At June 30, 2010, cash consists of $13,909,586.95 in bank accounts, $3,750.00 of petty cash on hand, $25,535,755.13 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $ 1,230,785.24 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. <u>Investments</u>

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, 2010, 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 than10
US Agencies	$ 17,333,691.68	$ 1,511,214.44	$ 11,567,709.32	$4,036,320.71	$218,447.21
Certificates of Deposit	398,851.67	388,742.32	10,109.35	-	-
Total	$ 17,732,543.35	$ 1,899,956.76	$ 11,577,818.67	$4,036,320.71	$218,447.21

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. Prime banker’s acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible, the original maturity must not be more than 270 days, and it must 1) arise out of the current shipment of goods between countries or with the United States, or 2) arise out of storage within the United States of goods under contract of sale or expected to move into the channel or trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

The policy requires that prime commercial paper shall be limited to that of corporations that meet the following criteria: 1) Senior long-term debt, if any, should have a minimum rating of A1 or equivalent, and short-term debt should have a minimum rating of A1 or equivalent, as provided by a majority of the rating services that rate the issuer. If there is no long-term debt rating, the short-term debt rating must be A1 by all rating services (minimum of two). 2) The rating should be based on the merits of the issuer or guarantee by a nonbank. 3) A financial review should be made to ascertain the issuer’s financial strength to cover the debt. 4) Commercial paper of a banking institution should not be purchased. Prime commercial paper shall not have a maturity that exceeds 270 days. As of June 30, 2010, the university’s investments were rated as follows:

		Credit Quality Rating	
Investment Type	Fair Value	AAA	Unrated
LGIP	$ 26,766,540.37	$ -	$ 26,766,540.37
US Agencies	17,333,691.68	17,333,691.68	-
Total	$ 44,100,232.05	$ 17,333,691.68	$ 26,766,540.37

Concentration of Credit Risk. TBR policy restricts investments in banker’s acceptances, commercial paper, and money market mutual funds. The policy limits banker’s acceptances to not exceed twenty percent of total investments on the date of acquisition and limits the combined amount of banker’s acceptances and commercial paper to not exceed thirty-five percent of total investments at the date of acquisition. The amount invested in any one bank shall not exceed five percent of total investments on the date of acquisition. Additionally, no more than five percent of total investments at the date of acquisition may be invested in the commercial paper of a single issuer. The policy further limits the total holdings of an issuer’s commercial paper to not more than two percent of the issuing corporation's total outstanding commercial paper. TBR policy limits investments in money market mutual funds to not exceed ten percent of total investments on the date of acquisition.

More than 5 percent of the university's investments were invested in the following single issuers.)

Issuer	Percentage of Total Investments
Federal National Mortgage Assn.	29%
Federal Home Loan Mortgage Corp.	15%
Federal Home Loan Bank	45%
Federal Farm Credit Banks	6%

4. **Accounts, Notes, and Grants Receivable**

Accounts receivable included the following:

	June 30, 2010
Student accounts receivable	$ 4,569,519.84
Grants receivable	8,052,238.46
Notes receivable	29,291.90
State appropriation receivable	152,800.00
Other receivables	349,698.95
Subtotal	13,153,549.15
Less allowance for doubtful account	(2,460,163.51)
Total	$ 10,693,385.64

Federal Perkins Loan Program funds include the following:

	June 30, 2010
Perkins loans receivable	$ 2,932,442.19
Less allowance for doubtful accounts	(618,734.98)
Total	$ 2,313,707.21

5. **Capital Assets**

Capital asset activity for the year ended June 30, 2010, was as follows:

	Beg. Balance	Additions	Transfers	Reduction	End Balance
Land	$ 9,525,009.24	$ -	$ -	$ -	$ 9,525,009.24
Land Improve & Infrastructure	39,043,809.26	-	8,441,618.11	-	47,485,427.37
Buildings	209,416,195.86	-	199,996.12	-	209,616,191.98
Equipment	25,488,726.07	1,722,316.94	-	1,099,326.80	26,111,716.21
Library Holdings	15,167,013.38	1,418,548.32	-	-	16,585,561.70
Intangible Assets	2,679,599.36	-	-	-	2,679,599.36
Projects in Progress	11,282,699.57	3,034,246.87	(8,641,614.23)	-	5,675,332.21
Total	312,603,052.74	6,175,112.13	-	1,099,326.80	317,678,838.07
Less Accumulation Depreciation/amort:					
Land Improve & Infrastructure	29,534,468.10	1,643,839.14	-	-	31,178,307.24
Buildings	82,017,773.49	4,871,266.33	-	-	86,889,039.82
Equipment	20,542,127.31	1,312,808.21	-	1,280,900.35	20,574,035.17
Intangible Assets	772,468.67	238,391.34	-	-	1,010,860.01
Library Holdings	7,270,103.61	1,658,556.21	-	-	8,928,659.82
Total Accum. Depreciation	140,136,941.18	9,724,861.23	-	1,280,900.35	148,580,902.06
Capital asset, net	$ 172,466,111.56	$ (3,549,749.10)	$ -	$ 181,573.55	$ 169,097,936.01

6. **Accounts Payable**

Accounts payable included the following:

	June 30, 2010
Vendor Payable	$ 2,267,553.17
Other Payables	506,150.70
Total	$ 2,773,703.87

7. **Long-term Liabilities**

Long term liability activity for the year ended June 30, 2010, was as follows:

	Beg. Balance	Additions	Reductions	End Balance	Curr. Portion
TSSBA debt:					
Bonds	$ 39,890,031.68	$ -	$ (1,756,569.37)	$ 38,133,462.31	$ 2,191,104.09
Commercial Paper	49,325.00	242,831.16	-	292,156.16	-
Subtotal	39,939,356.68	242,831.16	(1,756,569.37)	38,425,618.47	2,191,104.09
Other Liabilities:					
Comp Absences	5,150,012.65	2,018,753.03	(2,131,074.31)	5,037,691.37	1,020,852.03
Due to Grantor	3,549,346.55	176,819.80	(17,195.10)	3,708,971.25	32,814.63
Net OPEB Obligation	3,930,462.13	1,525,924.68	-	5,456,386.81	-
Subtotal	12,629,821.33	3,721,497.51	(2,148,269.41)	14,203,049.43	1,053,666.66
Total LT Liabilities	$ 52,569,178.01	$ 3,964,328.67	$ (3,904,838.78)	$ 52,628,667.90	$ 3,244,770.75

TSSBA Debt - Bonds Payable

Bonds, with interest rates ranging from 3.25% to 5.13%, 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, see Note 10 for further details. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the Statement of Net Assets is shown net of assets held by the authority in the debt service reserve and net of unexpended debt proceeds. The reserve amount was $530,473.56 at June 30, 2010. Unexpended debt proceeds were $ 0 at June 30, 2010.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2010, are as follows:

For the Year(s) Ending June 30	Principal	Interest	Total
2011	$ 2,191,104.09	$ 1,869,448.74	$ 4,060,552.83
2012	2,296,833.44	1,774,019.77	4,070,853.21
2013	2,378,345.14	1,678,048.66	4,056,393.80
2014	2,484,823.22	1,565,070.01	4,049,893.23
2015	2,545,961.60	1,454,319.91	4,000,281.51
2016-2020	11,758,779.33	5,570,253.13	17,329,032.46
2021-2025	9,205,774.14	2,841,701.67	12,047,475.81
2026-2030	4,836,727.21	806,440.34	5,643,167.55
2031-2032	435,114.14	73,030.70	508,144.84
Total	$ 38,133,462.31	$ 17,632,332.93	$ 55,765,795.24

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 $292,156.16 at June 30, 2010.

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

More detailed information regarding the bonds and commercial paper can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report is available on the state's website at http://tn.gov/comptroller/bf/tssbacafr.htm.

8. Endowments

If a donor has not provided specific instructions to the university, state law permits the university to authorize for expenditure the earnings of the investments of endowment funds. When administering its power to spend these earnings, the university is required to consider the university's long-term and short-term needs, present and anticipated financial requirements, expected return on its investments, price-level trends, and general economic conditions. Any earnings spent are 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 (including changes in the value of investments) each year. At June 30, 2010, net appreciation of $ 43,007.91 is available to be spent, of which $1,930.91 is included in restricted net assets expendable for scholarships and fellowships, and $41,077.00 is included in restricted net assets expendable for instructional departmental uses.

9. Unrestricted Net Assets

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

	FY 2010
Working Capital	$ 1,679,448.45
Encumbrances	1,530,255.84
Designated Fees	1,407,814.30
Auxiliaries	2,772,956.73
Plant Construction	30,970,244.01
Renewal and Replacement of Equipment	8,124,574.56
Undesignated balance	(3,456,445.71)
Total	$ 43,028,848.18

10. Pledged Revenues

The University has pledged certain revenues and fees, including state appropriations, to repay $38,133,462.31 in revenue bonds issued December 1989 to November 2008. Proceeds from the bonds provided financing for Dormitory Renovations, Student Housing/Apartments, North Campus Improvements, Chiller Replacement, Research and Sponsored Programs Building, Student Housing Fire Suppression, Energy Savings Performance Contracting, and Avon Williams Campus. The bonds are payable through 2032. Annual principal and interest payments on the bonds are expected to require 3% of available revenues. The total principal and interest remaining to be paid on the bonds is $ $55,765,795.24. Principal and interest paid for the current year and total available revenues were $3,706,805.66 and $123,927,688.23, respectively.

11. 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 is available on the state's website at http://www.state.tn.us/treasury/tcrs/index.html.

Funding Policy - Plan members are noncontributory. The university is required to contribute at an actuarially determined rate. The current rate is 13.02**%** 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, 2010, 2009, and 2008 were $3,621,292.79, $3,926,390.23, and $4,089,428.71, 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, 2010, were $45,778.12, which consisted of $22,889.06 from the university and $22,889.06 from the employees; contributions for the year ended June 30, 2009, were $52,581.80, which consisted of $26,290.90 from the university and $26,290.90 from the employees; contributions 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 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), ING Life 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, 2010, was $ 3,756,432.87 and for the year ended June 30, 2009, was $3,825,435.74. Contributions met the requirements for each year.

12. Other Postemployment Benefits

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that provides postemployment health insurance benefits to eligible university retirees. This program includes two plans available to higher education employees – the State Employee Group Plan and the Medicare Supplement Plan. 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) 8-27-101. 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. The POS and HMO options will no longer be available to members after January 1, 2011. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the university's eligible retirees, see Note 18. 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. In accordance with TCA 8-27-205(b), retirees not eligible for Medicare pay a percentage of the total state premium under the State Employee Group Plan based on years of service, leaving a portion of retiree premiums effectively subsidized by contributions to the State Employee Group Plan for active employees. Retirees with 30 years of service pay 20% of the total premium under the State Employee Group Plan. Retirees with 20 years but less than 30 years of service pay 30% of the total premium under the State Employee Group Plan. Retirees 55 and older with less than 20 years but more than 10 years of service pay 40% of the total premium under the State Employee Group Plan. Contributions for the State Employee Group Plan for the year ended June 30, 2010, were $9,760,635.74, which consisted of $8,045,608.31 from the university and $ 1,715,027.43 from the employees.

Annual OPEB Cost and Net OPEB Obligation

	State Plan
Annual Required Contribution (ARC)	$ 2,507,000.00
Interest on the net OPEB obligation	176,870.80
Adjustment to the ARC	(167,531.74)
Annual OPEB cost	2,516,339.06
Amount of contribution	(990,414.38)
Increase/decrease in net OPEB	1,525,924.68
Net OPEB Obligation - beginning of year	3,930,462.13
Net OPEB Obligation - end of year	$ 5,456,386.81

Year-End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-End
6/30/2008	Statement Employment Group Plan	$ 3,094,000.00	35.3%	$ 2,001,090.08
6/30/2009	Statement Employment Group Plan	3,130,404.95	38.4%	3,930,462.13
6/30/2010	Statement Employment Group Plan	2,516,339.06	39.4%	5,456,386.81

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2010, was as follows:

Actuarial valuation date	July 1, 2009
Actuarial accrued liability (AAL)	$ 22,568,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	22,568,000.00
Actuarial value of asssets as a % of the AAL	0.00%
Covered payroll (active plan members)	72,648,997.83
UAAL as percentage of covered payroll	31.10%

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

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

In the July 1, 2009, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6% initially, increased to 10% in the second year and then reduced by decrements to an ultimate rate of 5% in fiscal year 2021. All rates include a 3% 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.

13. Chairs of Excellence

The university had $4,207,445.89 on deposit at June 30, 2010, 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.

14. Insurance-Related Activities

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

The university participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2010, and June 30, 2009, are presented in the Tennessee Comprehensive Annual Financial Report. The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html. Since the university participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, Tennessee Code Annotated, Section 9-8-101 et seq. Liability for negligence of the University for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in Tennessee Code Annotated, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. The amount of cash and cash equivalents designated for payment of claims held by the Risk Management Fund at June 30, 2010, was not available. At June 30, 2009, the Risk Management Fund held $127.0 million in cash and cash equivalents designated for payment of claims.

At June 30, 2010, the scheduled coverage for the university was $ 590,246,188.00 for buildings and $ 87,959,099.00 for contents.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The university participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on estimates of the ultimate cost of claims, including the costs 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.

15. 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 $31,013,490.51 at June 30, 2010.

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 $ 245,148.33 and $153,075.91, respectively for the year ended June 30, 2010. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2010, outstanding commitments under construction contracts totaled $4,507,889.09 for *(*ADA Improvements, Avon Williams Campus Improvements, Power Plant Mechanical Upgrade, Elliott Hall Exhibition, Network Infrastructure Improvements, Wilson Hall Interiors Upgrade, Performing Arts/Radio Station, and Indoor Football Practice Facility of which $1.067,283.43 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.

16. Natural Classifications with Functional Classifications

The university's operating expenses by functional classification for the year ended June 30, 2010, are as follows:

Functional Classification	Natural Classification: Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 36,134,434.20	$ 10,582,762.41	$ 15,377,584.73	$ 2,249,246.61	$ -	$ 64,344,027.95
Research	5,641,699.08	1,298,994.57	2,787,430.90	500,275.51	-	10,228,400.06
Public Service	4,366,551.60	1,530,884.95	1,029,410.05	13,468.00	-	6,940,314.60
Academic Support	6,588,486.80	2,064,190.01	2,468,385.73	89,339.50	-	11,210,402.04
Student Services	7,070,838.41	2,179,565.56	4,229,471.21	2,555,461.00	-	16,035,336.18
Institutional Support	9,456,242.42	3,652,446.29	3,171,667.82	15,720.00	-	16,296,076.53
M&O	3,060,977.80	1,384,473.11	10,510,143.45	1,083.50	-	14,956,677.86
Scholarships &						-
Fellowships	-	(713.00)	33,250.98	8,171,810.63	-	8,204,348.61
Auxiliary	1,719,357.57	545,038.96	8,664,963.28	159,400.64	-	11,088,760.45
Depreciation	-	-	-	-	9,724,861.23	9,724,861.23
Total Expenses	$ 74,038,587.88	$ 23,237,642.86	$ 48,272,308.15	$ 13,755,805.39	$ 9,724,861.23	$ 169,029,205.51

17. Prior Period Adjustment(s)

A prior year audit adjustment of $849,162.90 was made to Net OPEB Obligation at Year-end due to an overstatement in the liability for FY 2009. A $190,785.17 adjustment was made to Accumulated Depreciation due to an overstatement in FY09 due to error in the depreciation expense calculation. In addition, a ($1,959,835.83) adjustment was made to Payroll Liabilities due to an understatement in liabilities in FY09.

18. On-Behalf Payments

During the year ended June 30, 2010, the State of Tennessee made payments of $55,135.00 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 12. The plan is reported in the 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.

19. Voluntary Buyout Program

The University implemented a Voluntary Buyout Plan in fiscal year 2010 as a strategy to assist the university in addressing budgetary constraints due to several years of state appropriation reductions and potential budget reductions in the forthcoming fiscal years. The university had 47 employees participate in the Voluntary Buyout Plan with all 47 of them terminating by June 30, 2010.

Severance pay was payable the month following the employee separation date, between July 20, 2009 and November 30, 2009. Severance pay included:

- Base severance payment equal to three times the employee's monthly rate of pay in effect on May 1, 2009.
- Service payment of $500 for each full or partial year of university service as of the employee separation date.
- Amount equivalent to the employee's next longevity payment based on their years of creditable state service.
- Amount equivalent to six months of the University's portion of the monthly health insurance premium.

Severance benefits included:

- Tuition assistance of $10,800 over two years at technology centers, community colleges, and state universities in Tennessee.
- Membership in the university wellness center.
- Faculty/staff rates for university athletic events.

As of June 30, 2010, expenditures for payout of accrued annual leave, compensatory time, worked holidays and tuition assistance for the Voluntary Buyout Plan were $169,619.98. Accrued expenses for severance pay were $1,446,814.12 at June 30, 2010.

20. 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 18-member board of the Foundation is self-perpetuating and consists of graduates and friends of the University. The size of the board shall be determined by the majority votes of its members, any vacancy in its membership shall be filled in the same way. The entire membership of the Board of Trustees shall not exceed (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 is 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, 2010, the Foundation made distributions of $14,571.45 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, 2010, cash and cash equivalents consists of $5,305,238.76 in bank accounts and $1,862,245.11 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, 2010, 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	$ 1,975,933.95		$ 921,966.50	$ 1,053,967.45		
US Agencies	870,583.26		870,583.26			
Corporate Stocks	11,893,190.61					$ 11,893,190.61
Corporate Bonds	5,712,273.44	$ 182,422.44	3,430,695.47	2,099,155.53		
Mutual Bond Funds	230,253.75					230,253.75
Mutual Equity Funds	2,699,257.48					2,699,257.48
Foreign Stock	1,214,737.24					1,214,737.24
Mortgage Backed Securities	1,249,636.18			60,710.91	$ 1,188,925.27	
Collateralized Mortgage Obligations	622,864.78			425,072.71	197,792.07	
Real Estate Investment Trusts	2,408,888.36					2,408,888.36
Money Market Accounts	1,862,245.11					1,862,245.11
Savings Account	3,124.51					3,124.51
Less Amounts Reported as Cash and Cash Equivalents:						
Money Market Accounts	(1,862,245.11)					(1,862,245.11)
Savings Account	(3,124.51)					(3,124.51)
Total	$ 28,877,619.05	$ 182,422.44	$ 5,223,245.23	$ 3,638,906.60	$ 1,386,717.34	$ 18,446,327.44

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. As of June 30, 2010, the Foundation's investments were rated as follows:

		Credit Quality Rating				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
US Agencies	$ 870,583.26	$ 870,583.26				
Corporate Bonds	5,712,273.44	192,910.90	$ 1,230,299.95	$ 4,037,899.07	$ 251,163.52	
Mutual Bond Funds	230,253.75					$ 230,253.75
Collateralized mortgage Obl	622,864.78	622,864.78				
Total	$ 7,435,975.23	$1,686,358.94	$ 1,230,299.95	$ 4,037,899.07	$ 251,163.52	$ 230,253.75

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, 2010:

Issuer	Percentage of Total Investments
Inland American	6%

Alternative Investments.

The foundation has investments in **REITS**. The estimated fair value of these assets is $2,408,888.36 at June 30, 2010.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2010. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques.

The value of shares for Inland America is estimated to be the offering of $10 per share (ignoring purchase price discounts for certain categories of purchasers); provided however that if the Company has sold property and has made one or more special distributions to its stockholders of all or a portion of the net proceeds per Share will be equal to $10 per Share distributed to the stockholders prior to the valuation date.

The value of shares for Behringer Harvard is estimated to be the offering of $4.25 per share (ignoring purchase price discounts for certain categories of purchasers); provided however that if the Company has sold property and has made one or more special distributions to its stockholders of all or a portion of the net proceeds per Share will be equal to $4.25 per Share distributed to the stockholders prior to the valuation date.

Capital Assets - Capital asset activity for the year ended June 30, 2010, was as follows:

	Beg Balance	Additions	Transfers	Reductions	End Balance
Library Holdings	$ -	$ 6,000,000.00	$ -	$ -	$ 6,000,000.00
Capital assets, net	$ -	$ 6,000,000.00	$ -	$ -	$ 6,000,000.00

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

The foundation chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, 70% of the 3-year rolling average of net earnings has been authorized for expenditure. The remaining amount of 30% is reinvested in the endowment. At June 30, 2010, net appreciation of $1,066,050.35 is available to be spent, of which $311,229.56 is included in restricted net assets expendable for scholarships and fellowships, $9,114.36 is included in restricted net assets expendable for instructional departmental uses, and $745,706.43 is included in restricted net assets expendable for other.

Prior period adjustment(s) –A prior year audit adjustment of $928,212.56 was made to cash due to an overstatement for FY 2009.