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, 2014, with comparative information presented for the fiscal years ended June 30, 2013. 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 has one discretely presented component unit, the Tennessee State University Foundation. More detailed information about the foundation is presented in Note 18 to the financial statements. This discussion and analysis focuses on the University and does not include the foundation.

Overview of the Financial Statements

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

The University's financial report includes the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. Notes to the financial statements are also presented to provide additional information that is essential to a full understanding of the financial statements.

The Statement of Net Position

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

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

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

The following table summarizes the University's assets, liabilities, deferred outflows/inflows, and net position at June 30, 2014, and June 30, 2013.

Statement of Net Position (in thousands of dollars)

	2014	2013
Assets:		
Current assets	36,210	41,699
Capital assets, net	164,247	164,281
Other assets	63,659	61,023
Total Assets	**264,116**	**267,003**
Deferred Outflows of Resources		
Deferred loss on debt refunding	86	97
Total Deferred Outflows	**86**	**97**
Liabilities:		
Current liabilities	22,200	21,878
Noncurrent liabilities	45,356	48,718
Total Liabilities	**67,556**	**70,596**
Net Position:		
Net investment in capital assets	131,681	128,935
Restricted – nonexpendable	334	74
Restricted – expendable	5,720	5,891
Unrestricted	58,911	61,604
Total Net Position	**196,646**	**196,504**

Comparison of FY 2014 to FY2013

- Current assets were reduced due to current cash paying off over $3 million in liabilities; and through investments maturing and being reinvested into longer term investments.

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

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

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

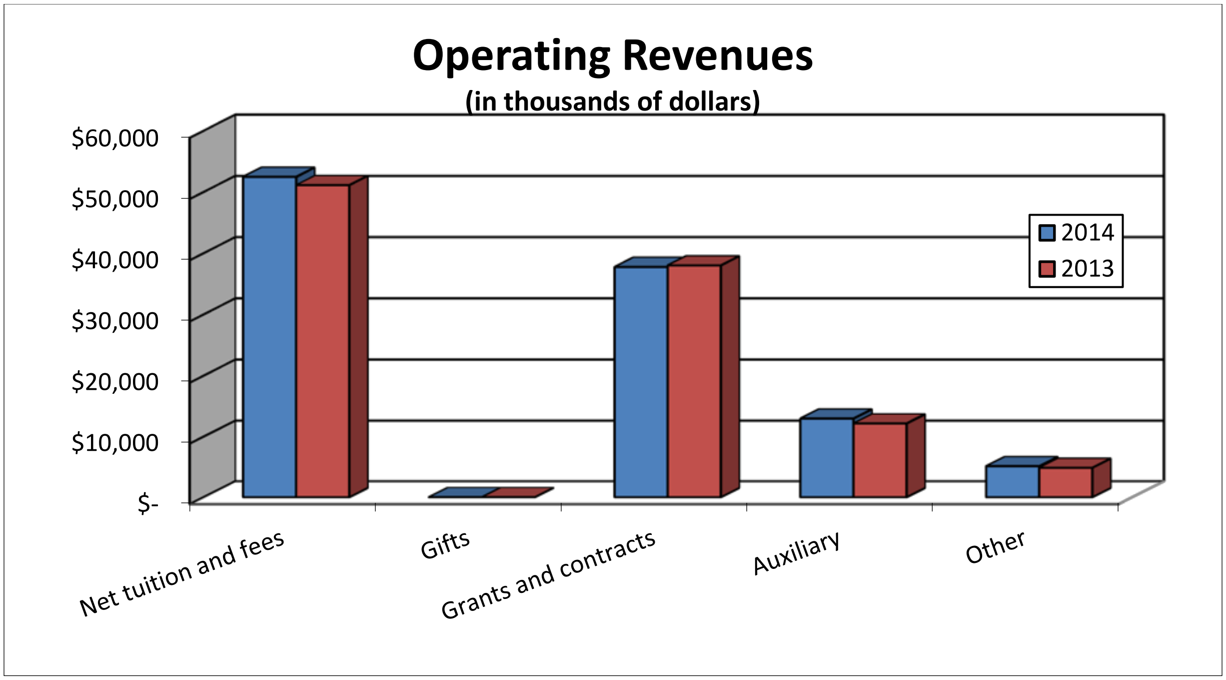
A summary of the University's revenues, expenses, and changes in net position for the year ended June 30, 2014, and June 30, 2013, follows.

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

Operating revenues	108,263	106,215
Operating expenses	182,930	176,626
Operating loss	(74,667)	(70,411)
Nonoperating revenues and expenses	67,747	65,044
Loss before other revenues, expenses, gains, or losses	(6,920)	(5,367)
Othere revenues, expenses, gains, or losses	6,109	9,235
Increase in net position	(811)	3,868
Net position at beginning of year	196,504	192,636
Prior period adjustment	953	-
Net position at end of year	196,646	196,504

Operating Revenues

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

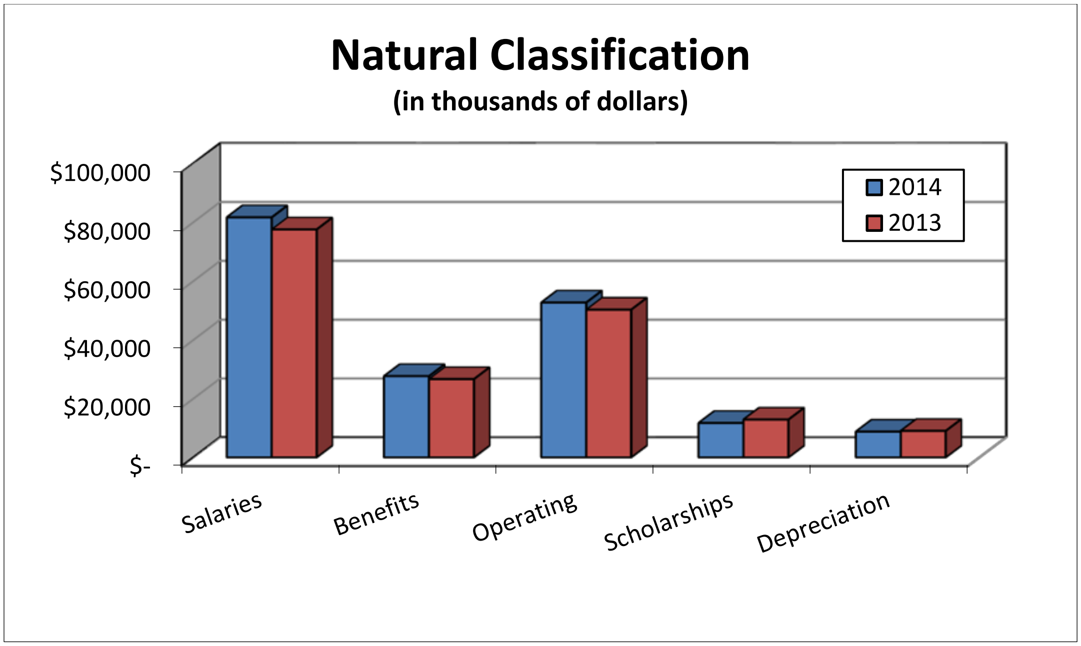


Comparison of FY 2014 to FY 2013

- No material variances were noted when comparing FY 2014 to FY2013.

Operating Expenses

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

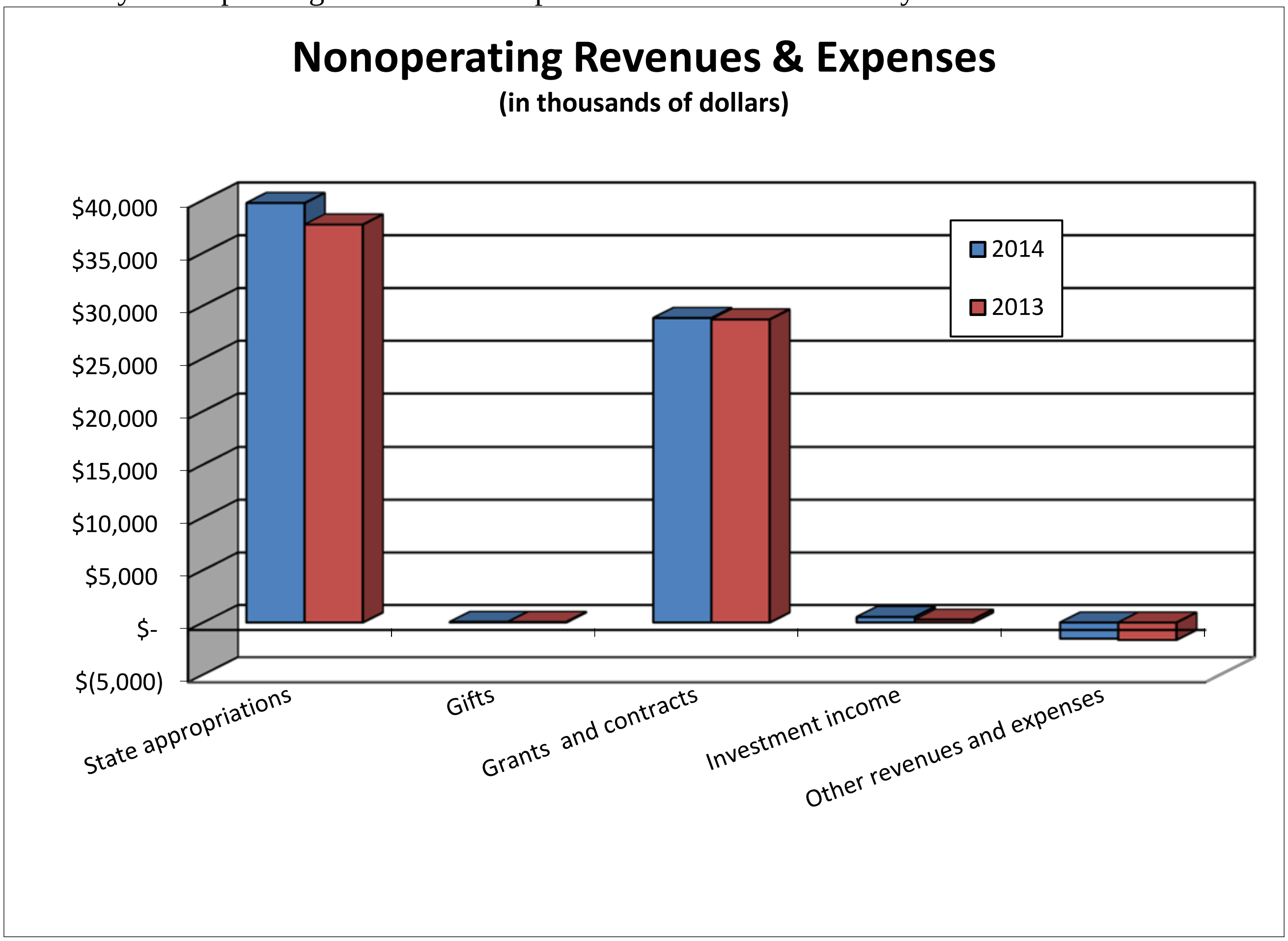


Comparison of FY 2014 to FY 2013

- No material variances were noted when comparing FY 2014 to FY2013.

Nonoperating Revenues and Expenses

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

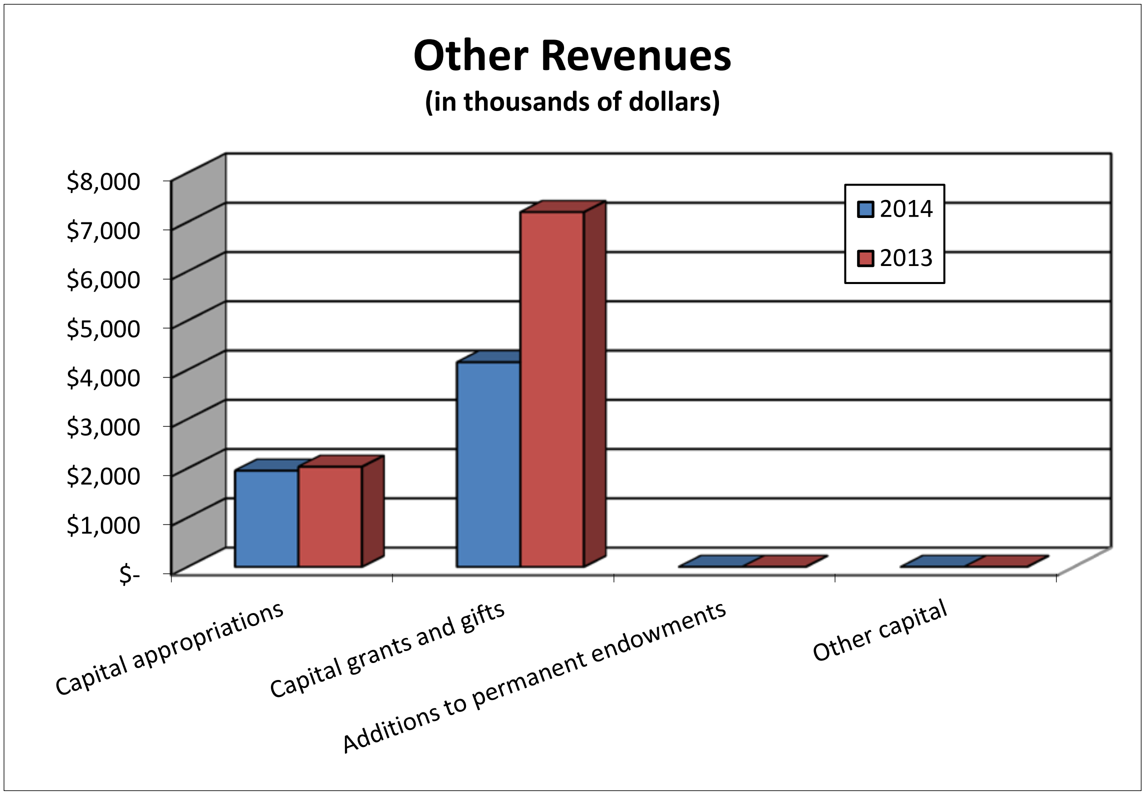


Comparison of FY 2014 to FY 2013

- No material variances were noted when comparing FY 2014 to FY2013.

Other Revenues

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



Comparison of FY 2014 to FY 2013

- Capital grants and gifts decreased with the decreased expenditures and revenues related to the Agriculture Biotech Building ($5.3 million in FY13 and $1.5 million in FY14).

Capital Assets and Debt Administration

Capital Assets

Tennessee State University had $164,246,554.21 invested in capital assets, net of accumulated depreciation of $172,397,679.30 at June 30, 2014; and $164,281,519.11 invested in capital assets, net of accumulated depreciation of $164,345,736.39 at June 30, 2013. Depreciation charges totaled $8,783,486.34 and $9,036,687.53 for the years ended June 30, 2014, and June 30, 2013, respectively.

Schedule of Capital Assets, Net of Depreciation (in thousands of dollars)		
	2014	2013
Land	9,600	9,525
Land Improvements & Infrastructure	11,553	12,605
Buildings	121,427	123,698
Equipment	7,490	6,624
Library Holdings	1,450	1,573
Intangible Assets	715	954
Projects in Progress	12,012	9,302
Total	164,247	164,281

Significant additions to capital assets occurred in fiscal year 2014. At year end, the agriculture Biotech Building construction was still in progress with additional expenditures for FY14 of over $2.3 million and the upgrade of the Electrical Distribution system of $1.1 million.

At June 30, 2014, outstanding commitments under construction contracts totaled $3,263,483.82 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $3,093,505.79 of these costs.

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

Debt

The University had $32,651,450.40 and $35,444,280.36 in debt outstanding at June 30, 2014, and June 30, 2013, respectively. The table below summarizes these amounts by type of debt instrument.

Outstanding Debt (in thousands of dollars)		
	2014	2013
TSSBA bonds payable	31,167	33,793
Unamortized bond premium/discou	1,485	1,651
Total	32,652	35,444

The TSSBA issued bonds with interest rates ranging from 2.5% to 5.67% due May 1, 2032 on behalf of Tennessee State University. The University is responsible for the debt service of these bonds. The current portion of the $31,166,733.92 outstanding at June 30, 2014, is $2,670,414.60.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2014, were as follows:

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

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

Economic Factors That Will Affect the Future

The university is not aware of any factors that will have a significant effect on the financial position or results of operations.

Tennessee State University
Unaudited Statement of Net Position
June 30, 2014

	Institution	Component Unit
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2, 3 and 18)	$ 21,507,567.90	$ 4,066,394.16
Short-term investments (Notes 4 and 18)	240,521.75	2,985,288.51
Accounts, notes, and grants receivable (net)	12,292,241.34	500.00
Due from primary government	137,500.00	-
Due from component unit	145,252.82	-
Inventories (at lower of cost or market)	89,551.40	-
Accrued interest receivable	1,797,272.06	-
Total current assets	36,209,907.27	7,052,182.67
Noncurrent assets:		
Cash and cash equivalents (Notes 2, 3, and 18)	46,438,421.43	2,342,524.89
Short-term investments (Notes 4 and 18)	15,351,427.48	48,149,274.41
Accounts, notes, and grants receivable (net) (Note 5)	1,869,021.48	-
Capital assets (net) (Note 6 and 18)	164,246,554.21	6,000,000.00
Total noncurrent assets	227,905,424.60	56,491,799.30
Total assets	$ 264,115,331.87	$ 63,543,981.97
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on debt refunding	86,173.65	-
Total deferred outflows of resources	$ 86,173.65	$ -
LIABILITIES		
Current liabilities:		
Accounts payable (Note 7)	$ 4,524,600.06	$ 48,204.08
Accrued liabilities	8,153,387.80	-
Due to grantors (Note 8)	314,057.87	-
Due to primary government	-	145,252.82
Unearned revenue	4,740,986.64	-
Compensated absences (Note 8)	1,074,424.18	-
Accrued interest payable	262,962.79	-
Long-term liabilities, current portion (Note 8)	2,670,414.60	-
Deposits held in custody for others	383,322.59	-
Other liabilities	75,678.47	-
Total current liabilities	22,199,835.00	193,456.90
Noncurrent liabilities:		
Net OPEB obligation (Note 11)	7,385,868.12	-
Compensated absences (Note 8)	4,913,392.55	-
Long-term liabilities (Note 8)	29,981,035.80	-
Due to grantors (Note 8)	3,075,433.51	-
Total noncurrent liabilities	45,355,729.98	-
Total liabilities	$ 67,555,564.98	$ 193,456.90
NET POSITION		
Net investment in capital assets	$ 131,681,277.46	$ 6,000,000.00
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	334,206.04	5,656,699.87
Research	-	668,265.85
Instructional department uses	-	780,742.24
Other	-	35,661,299.20
Expendable:		
Scholarships and fellowships	872,843.10	2,929,695.60
Research	452,187.30	54,867.93
Instructional department uses	1,856,832.08	379,640.96
Loans	820,647.98	-
Other	1,717,365.33	11,060,867.38
Unrestricted	58,910,581.25	158,446.04
Total net position	$ 196,645,940.54	$ 63,350,525.07

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

Tennessee State University
Unaudited Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2014

		Institution	Component Unit
REVENUES			
Operating revenues:			
Student tuition and fees (net of scholarship			
allowances of	$ 24,840,139.81	$ 52,489,250.65	$ -
Gifts and contributions		-	2,648,713.70
Governmental grants and contracts		36,609,302.79	-
Non-governmental grants and contracts		1,038,558.12	-
Sales and services of educational activities		191,774.59	-
Sales and services of other activities		4,752,882.09	386,120.80
Auxiliary enterprises:			
Residential life (net of scholarship			
allowances of	$ 4,564,353.27		
all residential life revenues are			
used as security for revenue bonds, see Note 9)		5,887,886.87	-
Bookstore		214,440.62	-
Food service		6,063,380.96	-
Other auxiliaries		833,516.40	-
Interest earned on loans to students		165,177.92	-
Other operating revenues		16,756.74	-
Total operating revenues		108,262,927.75	3,034,834.50
EXPENSES			
Operating Expenses (Note 15)			
Salaries and wages		81,796,341.96	-
Benefits		27,753,873.33	-
Utilities, supplies, and other services		52,854,689.09	732,652.02
Scholarships and fellowships		11,741,541.98	1,694,495.07
Depreciation expense		8,783,486.34	-
Payments to or on behalf of TSU (Note 18)		-	151,400.99
Total operating expenses		182,929,932.70	2,578,548.08
Operating income (loss)		(74,667,004.95)	456,286.42
NONOPERATING REVENUES (EXPENSES)			
State appropriations		39,729,883.50	-
Gifts, including	$ 151,400.99		
from component unit(s) to institution		185,115.19	-
Grants and contracts		28,836,135.69	43,674.27
Investment income (net of			
investment expense of	$ 102,166.88		
for the institution and	$ 233,943.70		
for the component unit(s))		538,123.33	6,251,848.79
Interest on capital asset-related debt		(1,507,935.15)	-
Other non-operating revenues/(expenses)		(34,352.44)	-
Net nonoperating revenues		67,746,970.12	6,295,523.06
Income before other revenues, expenses			
gains, or losses		(6,920,034.83)	6,751,809.48
Capital appropriations		1,953,631.28	-
Capital grants and gifts, including	$ -		
from component unit(s)		4,155,150.66	-
Additions to permanent endowments		-	594,843.40
Total other revenues		6,108,781.94	594,843.40
Increase (decrease) in net position		(811,252.89)	7,346,652.88
NET POSITION			
Net position -beginning of year, as originally reported		196,504,247.96	56,003,872.19
Prior period adjustment (Note 16)		952,945.47	-
Net position - end of year		$ 196,645,940.54	$ 63,350,525.07

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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees		$	51,186,667.87
Grants and contracts			39,762,556.93
Sales and services of educational activities			191,774.59
Sales and services of other activities			4,431,331.32
Payments to suppliers and vendors			(53,162,397.54)
Payments to employees			(81,222,582.85)
Payments for benefits			(27,520,691.51)
Payments for scholarships and fellowships			(11,741,541.98)
Loans issued to students			(603,905.57)
Collection of loans from students			619,898.23
Interest earned on loans to students			11,933.00
Auxiliary enterprise charges:			
Residence halls			5,888,982.22
Bookstore			203,769.08
Food services			6,073,307.15
Other auxiliaries			829,348.86
Other receipts (payments)			(71,965.49)
Net cash provided (used) by operating activities		$	(65,123,515.69)

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

State appropriations		$	39,521,300.00
Gifts and grants received for other than capital or endowment purposes, including	$ 151,400.99		
from the TSU Foundation to the institution.			29,021,250.88
Federal/state student loan receipts			69,073,361.25
Federal/state student loan disbursements			(69,073,361.25)
Changes in deposits held for others			35,237.82
Net cash provided (used) by non-capital financing activities		$	68,577,788.70

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital - state appropriation			1,953,631.28
Capital grants and gifts received			4,805,209.26
Purchase of capital assets and construction			(8,063,463.95)
Principal paid on capital debt and lease			(2,626,415.54)
Interest paid on capital debt and lease			(1,683,861.24)
Net cash provided (used) by capital and related financing activities		$	(5,614,900.19)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	$	6,305,439.17
Income on investments		620,208.58
Purchase of investments		(6,452,623.18)
Net cash provided (used) by investing activities	$	473,024.57
Net increase (decrease) in cash and cash equivalents		(1,687,602.61)
Cash and cash equivalents - beginning of year		69,633,591.94
Cash and cash equivalents - end of year (Note 2)	$	67,945,989.33

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

Operating income/(loss)	$	(74,667,004.95)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense		8,783,486.34
Other adjustments		71,083.50
Change in assets, liabilities, and deferrals:		
Receivables, net		1,041,334.06
Inventories		(67,845.02)
Other assets		(145,252.82)
Accounts payable		(1,119,260.07)
Accrued liabilities		421,890.73
Unearned revenues		54,196.26
Compensated absences		285,487.59
Due to grantors		241,585.19
Loans to students		(79,747.09)
Other		56,530.59
Net cash provided (used) by operating activities	$	(65,123,515.69)

Non-cash investing, capital, and financing transactions

Unrealized gains/(losses) on investments	127,873.13
Gain/(loss) on disposal of capital assets	(34,352.44)

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, 2010	-	20,747,000.00	20,747,000.00	0	71,599,111.00	28.98%
July 1, 2011	-	13,336,000.00	13,336,000.00	0	71,294,388.00	18.71%
July 1, 2013	-	10,054,000.00	10,054,000.00	0	79,201,391.28	12.69%

The amount reported here for covered payroll relates to the fiscal year in which the valuations were performed, with the exception of the July 1, 2010 actuarial valuation. The covered payroll date for the July 1, 2010 actuarial valuation is July 1, 2009.

Tennessee State University
Supplementary Information
Supplementary Schedule of Cash Flows - Component Unit
for the Year Ended June 30, 2014

		Component Unit
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions		2,648,713.70
Sales and services of other activities		386,120.80
Payments to suppliers and vendors		(717,475.52)
Payments for scholarships and fellowships		(1,694,495.07)
Payments to Tennessee State University		(151,400.99)
Other receipts (payments)		164,400.70
Net cash provided (used) by operating activities	$	635,863.62
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Gifts and grants received for other than capital or endowment purposes		43,674.27
Private gifts for endowment purposes		594,843.40
Net cash provided (used) by non-capital financing activities	$	638,517.67
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	$	8,356,525.74
Income on investments		1,208,171.48
Purchase of investments		(10,714,013.78)
Other investing receipts (payments)		434.17
Net cash provided (used) by investing activities	$	(1,148,882.39)

Net increase (decrease) in cash and cash equivalents		125,498.90
Cash and cash equivalents - beginning of year		6,283,420.15
Cash and cash equivalents - end of year (Note 18)	$	6,408,919.05

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

Operating income/(loss)	$	456,286.42
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Change in assets, liabilities, and deferrals:		
Receivables, net		1,214.37
Other assets		19,147.88
Accounts payable		13,962.13
Other		145,252.82
Net cash provided (used) by operating activities	$	635,863.62

Non-cash investing, capital, and financing transactions

Unrealized gains/(losses) on investments	4,575,269.15

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

Standard Notes to the Financial Statements
June 30, 2014

1. Summary of Significant Accounting Policies

REPORTING ENTITY

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

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

The Tennessee State University Foundation is considered a component unit of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements. See Note 18 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 applicable to governmental colleges and universities engaged in business-type activities as prescribed by the Governmental Accounting Standards Board (GASB).

BASIS OF ACCOUNTING

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

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

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

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

CASH EQUIVALENTS

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

INVENTORIES

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

COMPENSATED ABSENCES

The university's employees accrue annual and sick leave at varying rates, depending upon length of service or classification. Some employees also earn compensatory time. The amount of the liabilities for annual leave and compensatory time and their related benefits are reported in the Statement of Net Position. There is no liability for unpaid accumulated sick leave since the university's policy is to pay this only if the employee is sick or upon death.

CAPITAL ASSETS

Capital assets, which include property, plant, equipment, library holdings, works of art, historical treasures/collections, and intangible assets, are reported in the Statement of Net Position at historical cost or at 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. The capitalization threshold for art, historical treasures/collections, and similar assets is set at $5,000.

These assets, with the exception of works of art and historical treasures/collections deemed inexhaustible and land, are depreciated/amortized using the straight-line method over the estimated useful lives of the assets, which range from 5 to 40 years.

NET POSITION

The university's net position is classified as follows:

NET INVESTMENT IN CAPITAL ASSETS*:* This represents the university's total investment in capital assets, net of 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 net investment in capital assets.

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

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

UNRESTRICTED NET POSITION: Unrestricted net position represents resources derived from student tuition and fees, state appropriations, 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 position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the university, and the amount that is paid by the student and/or third parties making payments on the 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, 2014, cash consists of $15,527,333.72 in bank accounts, $3,700 of petty cash on hand, $10,767,980.98 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, $1,068,171.32 in the LGIP Deposits – Capital Projects account, and $40,578,803.31 in money market accounts.

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.

The Local Government Investment Pool (LGIP) is administered by the State Treasurer. The LGIP is part of the State Pooled Investment Fund. The fund's required risks disclosures are presented in the *State of Tennessee's Treasurer's Report.* That report is available on the state's website at http://www.tn.gov/treasury or by calling (615) 741-2956.

3. Deposits

In accordance with the laws of the State of Tennessee, financial institutions have pledged securities as collateral for university funds on deposit. Financial institutions may participate in a bank collateral pool administered by the State Treasurer. For those financial institutions participating in the bank collateral pool, the required collateral accepted as security for deposits shall be collateral whose market value is equal to either one hundred fifteen percent (115%), one hundred percent (100%), or ninety percent (90%) of the uninsured deposits. The pledge level is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level. For all other financial institutions, the required collateral accepted as security for deposits shall be collateral whose market value is equal to one hundred five percent (105%) of the uninsured deposits.

At June 30, 2014, $500,993.18 of the university's bank balance of $15,527,333.72 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$ 500,993.18
Total	$ 500,993.18

4. 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, 2014, the university had the following investments and maturities.

		Investment Maturities (In Years)				
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10	No Maturity Date
U.S. Treasury Notes	$ 1,275,819.03	$ -	$ 1,275,819.03	$ -	$ -	$ -
U.S. Agencies	8,212,698.35	-	5,724,800.42	2,449,039.09	-	38,858.84
Government mortgage backed securities	6,103,431.85	240,521.75	1,218,888.04	2,174,173.39	2,469,848.67	-
Total	$ 15,591,949.23	$ 240,521.75	$ 8,219,507.49	$ 4,623,212.48	$ 2,469,848.67	$ 38,858.84

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

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

TBR policy restricts investments in banker's acceptances and commercial paper. The policy requires that prime banker's acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term debt rating by a majority of the rating services that have rated the issuer. 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, 2014, the university's investments were rated as follows:

		Credit Qualty Rating		
Investment Type	Fair Value	AAA	AA	Unrated
LGIP	$ 11,836,152.30	$ -	$ -	$ 11,836,152.30
U.S. Agencies	6,474,700.00	-	6,474,700.00	-
Government mortgage backed securities	6,103,431.85	138,194.79	5,965,237.06	-
Total	$ 24,414,284.15	$ 138,194.79	$ 12,439,937.06	$ 11,836,152.30

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the university's investment in a single issuer. 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 June 30, 2014
Federal National Mortgage Association	36.79%
Federal Home Loan Bank	18.20%
Federal Home Loan Mortgage Corporations	25.68%

5. Accounts, Notes, and Grants Receivable

Accounts receivable included the following:

	June 30, 2014
Student accounts receivable	$ 7,950,594.60
Grants receivable	7,447,512.42
Notes receivable	13,207.21
Other receivables	642,127.48
Subtotal	16,053,441.71
Less allowance for doubtful accounts	(3,750,970.16)
Total receivables	$ 12,302,471.55

Federal Perkins Loan Program funds include the following:

	June 30, 2014
Perkins loans receivable	$ 5,710,180.91
Less allowance for doubtful accounts	(3,851,389.64)
Total	$ 1,858,791.27

6. Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beg Balance	Additions	Transfers	Reductions	End Balance
Land	$ 9,525,009.24	$ 74,500.00	$ -	$ -	$ 9,599,509.24
Land improve & infra	48,986,002.13	-	148,360.00	-	49,134,362.13
Buildings	225,467,194.08	-	3,118,849.18	-	228,586,043.26
Equipment	28,579,704.55	2,474,130.66	-	220,052.34	30,833,782.87
Library holdings	4,087,643.97	257,111.17	-	545,843.53	3,798,911.61
Intangible assets	2,679,599.36	-	-	-	2,679,599.36
Art & hist collections	-	-	-	-	-
Projects in progress	9,302,102.17	5,977,132.05	(3,267,209.18)	-	12,012,025.04
Total	328,627,255.50	8,782,873.88	-	765,895.87	336,644,233.51
Less accumulated depreciation/amortization:					
Land improve & infra	36,380,532.89	1,201,067.19	-	-	37,581,600.08
Buildings	101,768,931.87	5,389,911.00	-	-	107,158,842.87
Equipment	21,955,609.10	1,574,225.64	-	185,699.90	23,344,134.84
Library holdings	2,514,628.51	379,891.18	-	545,843.53	2,348,676.16
Intangible assets	1,726,034.02	238,391.33	-	-	1,964,425.35
Art & hist collections	-	-	-	-	-
Total	164,345,736.39	8,783,486.34	-	731,543.43	172,397,679.30
Capital assets, net	$ 164,281,519.11	$ (612.46)	$ -	$ 34,352.44	$ 164,246,554.21

7. Accounts Payable

Accounts payable included the following:

	June 30, 2014
Vendors payable	$ 3,625,007.31
Other payables	899,592.75
Total	$ 4,524,600.06

8. Long-term Liabilities

Long term liability activity for the year ended June 30, 2014, was as follows:

	Beg Balance	Additions	Reductions	End Balance	Curr Portion
TSSBA debt:					
Bonds	$ 33,793,149.46	$ -	$ 2,626,415.54	$ 31,166,733.92	$ 2,670,414.60
Unamortized bond premium/discount	1,651,130.90	-	166,414.42	1,484,716.48	-
Subtotal	35,444,280.36	-	2,792,829.96	32,651,450.40	2,670,414.60
Other liabilities					
Compensated absences	5,702,329.14	3,147,461.63	2,861,974.04	5,987,816.73	1,074,424.18
Due to grantors	3,974,709.85	541,117.64	1,126,336.11	3,389,491.38	314,057.87
Subtotal	9,677,038.99	3,688,579.27	3,988,310.15	9,377,308.11	1,388,482.05
Total long-term liabilities	$ 45,121,319.35	$ 3,688,579.27	$ 6,781,140.11	$ 42,028,758.51	$ 4,058,896.65

TSSBA Debt - Bonds Payable

Bonds, with interest rates ranging from 2.5% to 5.666%, were issued by the Tennessee State School Bond Authority. The bonds are due serially until May 1, 2032 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations, see Note 9 for further details. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the Statement of Net Position is shown net of assets held by the authority in the debt service reserve and net of unexpended debt proceeds. The reserve amount was $530,473.56 at June 30, 2014.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2014, are as follows:

For the Year(s) Ending June 30	Principal	Interest	Total
2015	$ 2,670,414.60	$ 1,570,551.64	$ 4,240,966.24
2016	2,505,948.05	1,448,583.92	3,954,531.97
2017	2,626,169.06	1,327,241.18	3,953,410.24
2018	2,343,214.94	1,202,789.56	3,546,004.50
2019	2,452,217.89	1,084,193.62	3,536,411.51
2020-2024	10,438,863.88	3,637,612.92	14,076,476.80
2025-2029	6,717,010.00	1,176,665.67	7,893,675.67
2030-2032	1,412,895.50	143,675.47	1,556,570.97
Total	$ 31,166,733.92	$ 11,591,313.98	$ 42,758,047.90

9. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $31,166,733.92 in revenue bonds issued from December 1989 to August 2012. Proceeds from the bonds provided financing for Avon Williams Campus improvements; chiller replacement; dormitory renovations; energy savings and performance contracts; student housing/apartments; research and sponsored programs; and student housing fire suppression.. The bonds are payable through 2032.

Annual principal and interest payments on the bonds are expected to require 3.06% of available revenues. The total principal and interest remaining to be paid on the bonds is $42,758,047.90. Principal and interest paid for the current year and total available revenues were $4,309,362.40 and $140,750,061.93, respectively.

10. 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 15.03% 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, 2014, 2013, and 2012 were $4,757,263.98, $4,284,542.47, and $4,191,277.07, 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, 2014, were $38,813.54, which consisted of $19,406.77 from the university and $19,406.77 from the employees; contributions for the year ended June 30, 2013, were $38,792.20, which consisted of $19,396.10 from the university and $19,396.10 from the employees; contributions for the year ended June 30, 2012, were $45,370.20, which consisted of $22,685.10 from the university and $22,685.10 from the employees. Contributions 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, 2014, was $3,817,223.06 and for the year ended June 30, 2013, was $3,561,753.59. Contributions met the requirements for each year.

11. Other Postemployment Benefits

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that provides postemployment health insurance benefits to eligible university retirees. This program includes two plans available to higher education employees – the State Employee Group Plan and the Medicare Supplement Plan. 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 for the state plan and TCA 8-27-701 for the Medicare Supplement Plan. Prior to reaching the age of 65, all members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy. The state makes on-behalf payments to the Medicare Supplement Plan for the university's eligible retirees, see Note 17. 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. Administrative costs of the plan are allocated to plan participants. Retired employees who have not reached the age of 65 pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. Retired employees who are 65 years of age or older have flat rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25. Contributions for the State Employee Group Plan for the year ended June 30, 2014, were $13,857,105.78, which consisted of $11,054,750.29 from the university and $2,802,355.78 from the employees.

Annual OPEB Cost and Net OPEB Obligation

Annual required contribution (ARC)	$ 1,354,000.00
Interest on net OPEB obligation	293,637.00
Adjustment to the ARC	(286,073.23)
Annual OPEB Cost	1,361,563.77
Amount of Contribution	(1,316,620.76)
Increase/decrease in net OPEB obligation	44,943.01
Net OPEB Obligation - beginning of year	7,340,925.11
Net OPEB Obligation - end of year	$ 7,385,868.12

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
6/30/2014	State Employee Group Plan	$ 1,361,563.77	96.7%	$ 7,385,868.12
6/30/2013	State Employee Group Plan	$ 1,712,035.05	74.2%	$ 7,340,925.11
6/30/2012	State Employee Group Plan	$ 1,696,904.04	79.2%	$ 6,898,453.54

Funded Status and Funding Progress. The funded status of the plan as of July 1, 2013, was as follows:

State Employee Group Plan	
Actuarial valuation date	July 1, 2013
Actuarial accrued liability (AAL)	$ 10,054,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 10,054,000.00
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	$ 79,201,391.28
UAAL as percentage of covered payroll	12.7%

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

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

In the July 1, 2013, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.5 percent initially, decreased to 7.0 percent in fiscal year 2015 and then reduced by decrements to an ultimate rate of 4.19 percent in fiscal year 2044. All rates include a 2.5 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3.0 percent.

12. Chairs of Excellence

The university had $5,805,850.69 on deposit at June 30, 2014, 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.

13. 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 (including flood and earthquake) cyber, aircraft, fine arts, 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, 2013, and June 30, 2012, 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, 2014, was not available.

At June 30, 2014, the scheduled coverage for the university was $572,429,400 for buildings and $86,619,100 for contents.

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

14. 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 $30,535,306.33 at June 30, 2014.

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 $226,078.30 and $317,156.86, respectively for the year ended June 30, 2014. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2014, outstanding commitments under construction contracts totaled $3,263,483.82 for Hankle Hall Upgrades, Gentry Drainage Corrections, ADA, Master Plan, and Utility Tunnel Stabilization of which $3,093,505.79 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.

15. Natural Classifications with Functional Classifications

The university's operating expenses by functional classification for the year ended June 30, 2014, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarship	Depreciation	Total
Instruction	$ 38,416,535.20	$ 12,506,434.25	$ 12,434,081.39	$ 1,605,393.70		$ 64,962,444.54
Research	8,524,514.20	2,590,137.30	4,760,183.18	531,286.00		16,406,120.68
Public service	6,286,549.67	2,607,873.84	2,105,353.83	3,840.00		11,003,617.34
Academic support	5,644,353.48	1,952,270.43	3,218,743.70	100,572.00		10,915,939.61
Student services	8,097,583.87	2,716,218.31	4,998,030.24	3,094,426.25		18,906,258.67
Institutional support	9,020,139.55	3,164,153.42	4,539,179.99	28,005.00		16,751,477.96
M&O	3,329,781.74	1,431,433.97	11,521,741.14			16,282,956.85
Scholarships & fellow.	5,635.33	1,767.03	28,441.06	6,119,100.57		6,154,943.99
Auxiliary	2,471,248.92	783,584.78	9,248,934.56	258,918.46		12,762,686.72
Depreciation					8,783,486.34	8,783,486.34
Total Expenses	$ 81,796,341.96	$ 27,753,873.33	$ 52,854,689.09	$ 11,741,541.98	$ 8,783,486.34	$ 182,929,932.70

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services, and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling $531,473.89 were reallocated from academic support to the other functional areas.

16. Prior Period Adjustment(s)

A prior period adjustment of $719,409.93 was made due to Capital Asset accruals in FY13. As of FYE 6/30/13 work had been performed, but no liability nor the related revenue had been created. The capital assets associated with this prior period adjustment were the Boswell Fume Hoods, Gentry Center Storm Drainage, and the Biotech Building. An additional adjustment of ($428,451.44) to correct for overstated receivables and revenues related to Title III plant funds.

An additional prior period adjustment of $661,986.98 was made in regards to Perkins loans. Liabilities were overstated in prior years, causing cancellation accounts to be understated by this amount.

17. On-Behalf Payments

During the year ended June 30, 2014, the State of Tennessee made payments of $71,083.50 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 11. The plan is reported in the 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.

18. 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 22-member board of the Foundation is self-perpetuating and consists of graduates and friends of the university. Although the university does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the university, the Foundation is considered a component unit of the university and is discretely presented in the university's financial statements.

During the year ended June 30, 2014, the Foundation made distributions of $151,400.99 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Betsy Jackson, Executive Director, 3500 John A. Merritt Boulevard, Nashville, TN 37209.

Cash and Cash Equivalents – In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2014, cash and cash equivalents consists of $4,215,422.17 in bank accounts, and $2,193,496.88 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, 2014, the Foundation had the following investments and maturities.

Investment Type	Fair Value	Investment Maturities (In Years)				
		Less than 1	1 to 5	6 to 10	More than 10	No Maturity Date
US Treasury	$ 3,232,060.29	$ 50,707.16	$ 77,284.76	$ 3,104,068.37	$ -	$ -
US Agencies	1,037,611.11	74,023.68	963,587.43	-	-	-
Corporate Stocks	20,741,739.84	-	-	-	-	20,741,739.84
Corporate Bonds	7,302,790.21	1,320,928.41	5,058,375.29	923,486.51	-	-
Mutual bond funds	3,440,683.62	-	-	-	-	3,440,683.62
Mutual equity funds	3,857,782.50	-	-	-	-	3,857,782.50
Foreign stock	2,875,543.62	-	-	-	-	2,875,543.62
Foreign mutual funds	4,179,367.33	-	-	-	-	4,179,367.33
Government mortgage-backed securities	1,047,939.78	-	14,495.50	42,772.76	990,671.52	-
Collateralized mortgage obligations	1,150,127.75	-	71,634.81	1,040,747.73	37,745.21	-
Real estate investment trusts	2,268,916.87	-	-	-	-	2,268,916.87
Money market accounts	2,193,496.88	-	-	-	-	2,193,496.88
Savings accounts	152,171.10	-	-	-	-	152,171.10
Less Amounts Reported as Cash and Cash Equivalents:						
Money market accounts	(2,193,496.88)	-	-	-	-	(2,193,496.88)
Savings accounts	(152,171.10)	-	-	-	-	(152,171.10)
Total	$ 51,134,562.92	$ 1,445,659.25	$ 6,185,377.79	$ 5,111,075.37	$ 1,028,416.73	$ 37,364,033.78

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. The Foundation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value 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 Foundation has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations. Securities are rated using Standard and Poor's, Moody's, and/or Fitch's and are presented below using the Standard and Poor's rating scale. As of June 30, 2014, the Foundation's investments were rated as follows:

Investment Type	Fair Value	AAA	AA	Credit Qualty Rating A	BBB	Unrated
US Agencies	$ 1,037,611.11	$ -	$ 1,037,611.11	$ -	$ -	$ -
Corporate bonds	7,302,790.21	269,068.46	764,754.41	4,976,268.36	1,292,698.98	-
Mutual bond funds	3,440,683.62	-	-	-	-	3,440,683.62
Government mortgage backed securities	1,047,939.78	-	1,047,939.78	-	-	-
Collateralized mortgage obligations	1,150,127.75	698,380.91	451,746.84	-	-	-
Total	$ 13,979,152.47	$ 967,449.37	$ 3,302,052.14	$ 4,976,268.36	$ 1,292,698.98	$ 3,440,683.62

Alternative Investments.

The foundation has investments in Real Estate Investment Trusts (**REIT**s). The estimated fair value of these assets is $2,268,916.87 at June 30, 2014.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2014. 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 the shares for Inland America is estimated to be the offering of $6.94 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 $6.94 per Share distributed to the stockholders prior to the valuation date.

The value of the shares for Behringer Harvard is estimated to be the offering of $4.20 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 $4.20 per Share distributed to the stockholders prior to the valuation date.

Capital Assets - Capital asset activity for the year ended June 30, 2014, was as follows:

	Beg Balance	Additions	Transfers	Reductions	End Balance
Art & historical collections	$ 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.

General Endowment–The foundation chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, 3.8% of the fair market value's three-year rolling average has been authorized for expenditure. The remaining amount, if any, is reinvested into the endowment. At June 30, 2014, net appreciation of $ 998,395.47 is available to be spent, of which $964,192.35 is included in restricted net position expendable for scholarships and fellowships, $14,331.10 is included in restricted net position expendable for instructional departmental uses, and $19,872.02 is included in restricted net position expendable for other.

Consent Decree Endowment –According to the established agreement within the Consent Decree, the budget committee may appropriate for distribution each year from Consent Decree Endowment Funds, an amount up to 75% of the interest and dividend income. The remainder is to be reinvested in the corpus of the fund. At June 30, 2014, net appreciation of $415,547.75 is available to be spent, all of which is included in restricted net position expendable for other.

Title III Endowment– According to the established agreement between the foundation and the Tennessee State University Title III Program, an amount up to 50% of the interest and dividend income may be allocated for distribution annually. The remainder is to be reinvested in the corpus of the fund. At June 30, 2014, net appreciation of $692,367.87 is available to be spent, all of which is included in restricted net position expendable for other.

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, 2010	-	20,747,000.00	20,747,000.00	0	71,599,111.00	28.98%
July 1, 2011	-	13,336,000.00	13,336,000.00	0	71,294,388.00	18.71%
July 1, 2013	-	10,054,000.00	10,054,000.00	0	79,201,391.28	12.69%

The amount reported here for covered payroll relates to the fiscal year in which the valuations were performed, with the exception of the July 1, 2010 actuarial valuation. The covered payroll date for the July 1, 2010 actuarial valuation is July 1, 2009.

Tennessee State University
Supplementary Information
Supplementary Schedule of Cash Flows - Component Unit
for the Year Ended June 30, 2014

		Component Unit
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions		2,648,713.70
Sales and services of other activities		386,120.80
Payments to suppliers and vendors		(717,475.52)
Payments for scholarships and fellowships		(1,694,495.07)
Payments to Tennessee State University		(151,400.99)
Other receipts (payments)		164,400.70
Net cash provided (used) by operating activities	$	635,863.62
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Gifts and grants received for other than capital or endowment purposes		43,674.27
Private gifts for endowment purposes		594,843.40
Net cash provided (used) by non-capital financing activities	$	638,517.67
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	$	8,356,525.74
Income on investments		1,208,171.48
Purchase of investments		(10,714,013.78)
Other investing receipts (payments)		434.17
Net cash provided (used) by investing activities	$	(1,148,882.39)

Net increase (decrease) in cash and cash equivalents		125,498.90
Cash and cash equivalents - beginning of year		6,283,420.15
Cash and cash equivalents - end of year (Note 18)	$	6,408,919.05

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

Operating income/(loss)	$	456,286.42
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Change in assets, liabilities, and deferrals:		
Receivables, net		1,214.37
Other assets		19,147.88
Accounts payable		13,962.13
Other		145,252.82
Net cash provided (used) by operating activities	$	635,863.62

Non-cash investing, capital, and financing transactions

Unrealized gains/(losses) on investments	4,575,269.15

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