# TENNESSEE STATE UNIVERSITY
## Management's Discussion and Analysis

### Introduction

This section of Tennessee State University's annual financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2021, with comparative information presented for the fiscal year ended June 30, 2020. 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 19 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 have 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, 2021, and June 30, 2020.

**Statement of Net Position**
**(in thousands of dollars)**

| | 2021 | 2020 |
|---|---|---|
| Assets: | | |
| Current assets | $ 65,021 | $ 37,691 |
| Capital assets, net | 231,283 | 187,852 |
| Other assets | 50,436 | 67,525 |
| Total Assets | 346,740 | 293,068 |
| | | |
| Deferred Outflows of Resources | | |
| Deferred loss on debt refunding | 394 | 508 |
| Deferred outflows – pensions | 6,845 | 7,086 |
| Deferred outflows – OPEB | 3,118 | 3,015 |
| Total Deferred Outflows | 10,357 | 10,609 |
| | | |
| Liabilities: | | |
| Current liabilities | 26,372 | 26,090 |
| Noncurrent liabilities | 98,183 | 60,561 |
| Total Liabilities | 124,555 | 86,651 |

| | | |
|---|---|---|
| Deferred Inflows of Resources | | |
| Deferred inflows – pensions | 713 | 3,183 |
| Deferred inflows – OPEB | 4,735 | 4,947 |
| Total Deferred Inflows | 5,448 | 8,130 |
| | | |
| Net Position: | | |
| Net investment in capital assets | 165,105 | 158,830 |
| Restricted – nonexpendable | 361 | 360 |
| Restricted – expendable | 8,192 | 8,089 |
| Unrestricted | 53,436 | 41,617 |
| Total Net Position | $ 227,094 | $ 208,896 |

Comparison of Fiscal Year 2021 to Fiscal Year 2020

- The increase in current assets includes a $29.9 million increase in grants receivables mainly due to the timing of money being drawn down.
- The $17 million decrease in other assets is mainly due to noncurrent cash and investments decreasing due to the timing of grant money being drawn down.
- The increase in net capital assets is mainly due to an increase of $37.5 million for the completion of the new Health Sciences Facility.
- Noncurrent liabilities increased $37.6 million for the year primarily due to the increase of outstanding loans from the revolving credit facility during the current year related to the student housing project.
- Deferred inflows of resources decreased $2.7 million at June 30, 2021. This decrease, particularly related to pensions, is the result of actuarial calculations, change in assumptions, change in amortization of investment gains and losses, and change in investment experience. See additional information in the notes to the financial statements referenced earlier.
- Unrestricted net position increased by $11.8 million from 2020 to 2021. This increase is primarily due to lost revenue being supplanted by the Higher Education Emergency Relief Funds (HEERF I and II) during the pandemic.

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

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

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

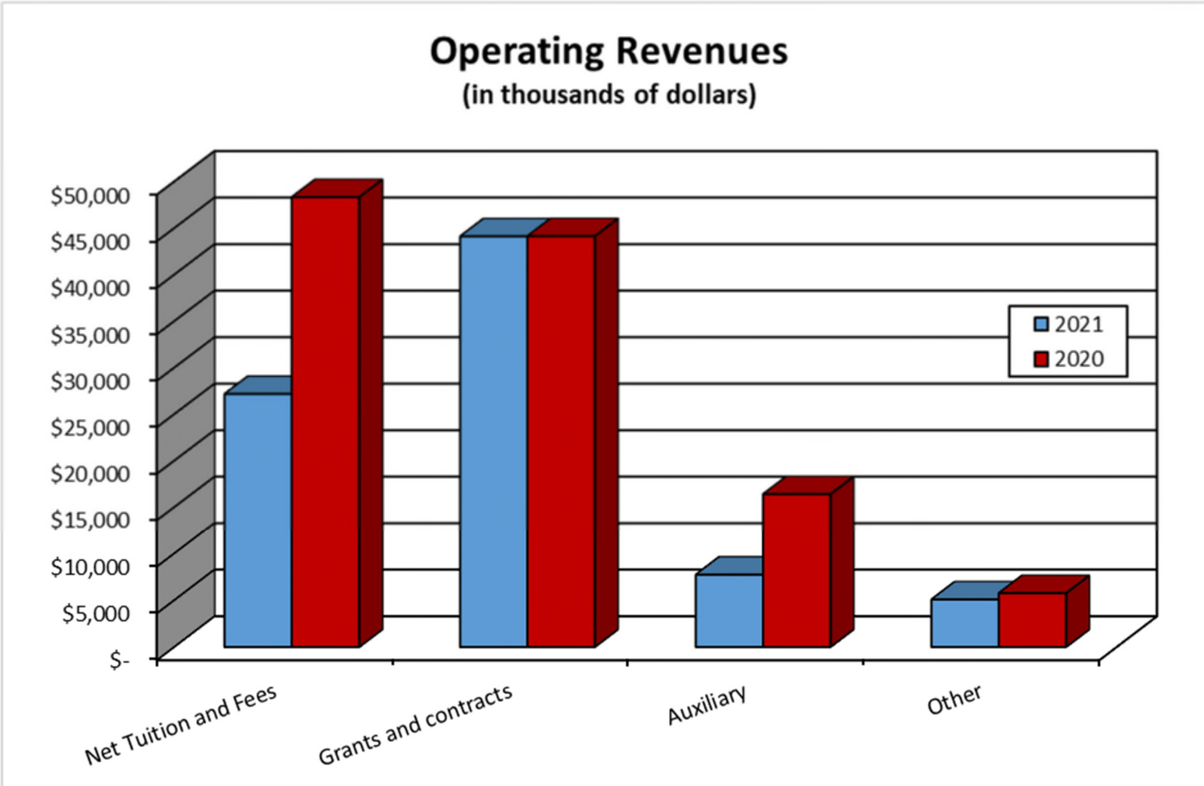
A summary of the university's revenues, expenses, and changes in net position for the year ended June 30, 2021, and June 30, 2020, follows.

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

| | 2021 | 2020 |
|---|---|---|
| Operating revenues | $ 84,116 | $114,662 |
| Operating expenses | 193,822 | 193,115 |
| Operating loss | (109,706) | (78,453) |
| Nonoperating revenues and expenses | 120,484 | 78,945 |
| Income (loss) before other revenues, expenses, gains, or losses | 10,778 | 492 |
| Other revenues, expenses, gains, or losses | 7,420 | 22,823 |
| Increase in net position | 18,198 | 23,315 |
| Net position at beginning of year | 208,896 | 185,581 |
| Net position at end of year | $227,094 | $208,896 |

Operating Revenues

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

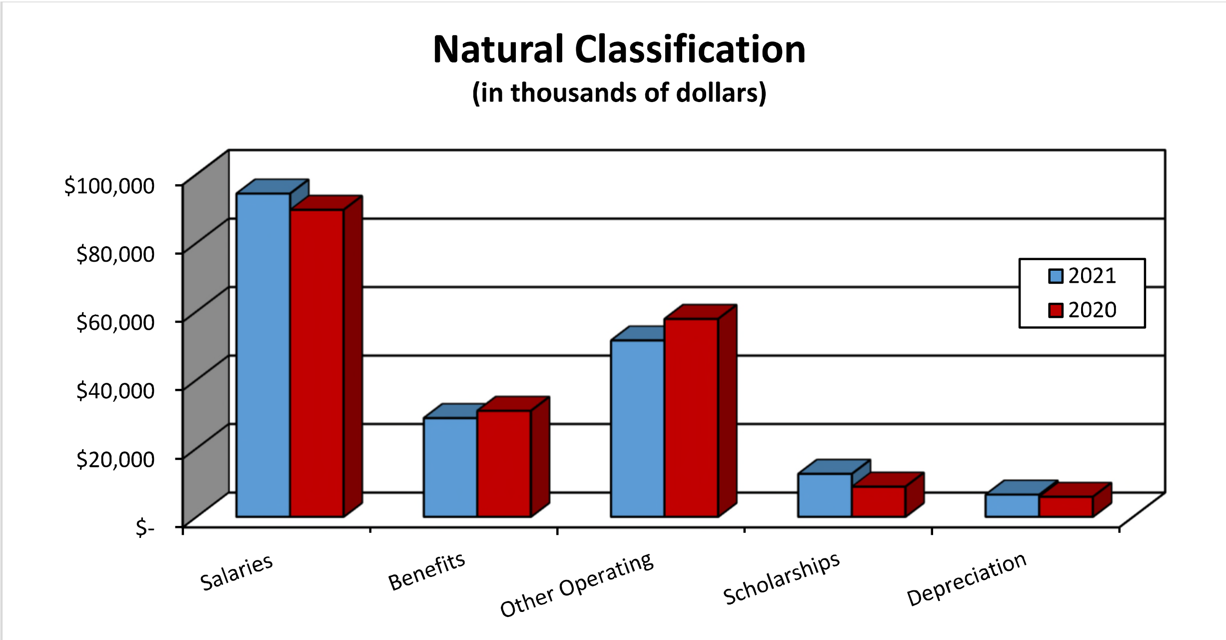



Comparison of Fiscal Year 2021 to Fiscal Year 2020

- Several operating revenue areas were down from the prior year due to the COVID-19 pandemic. These included tuition and fees, residential life, and food service revenue.

Operating Expenses

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

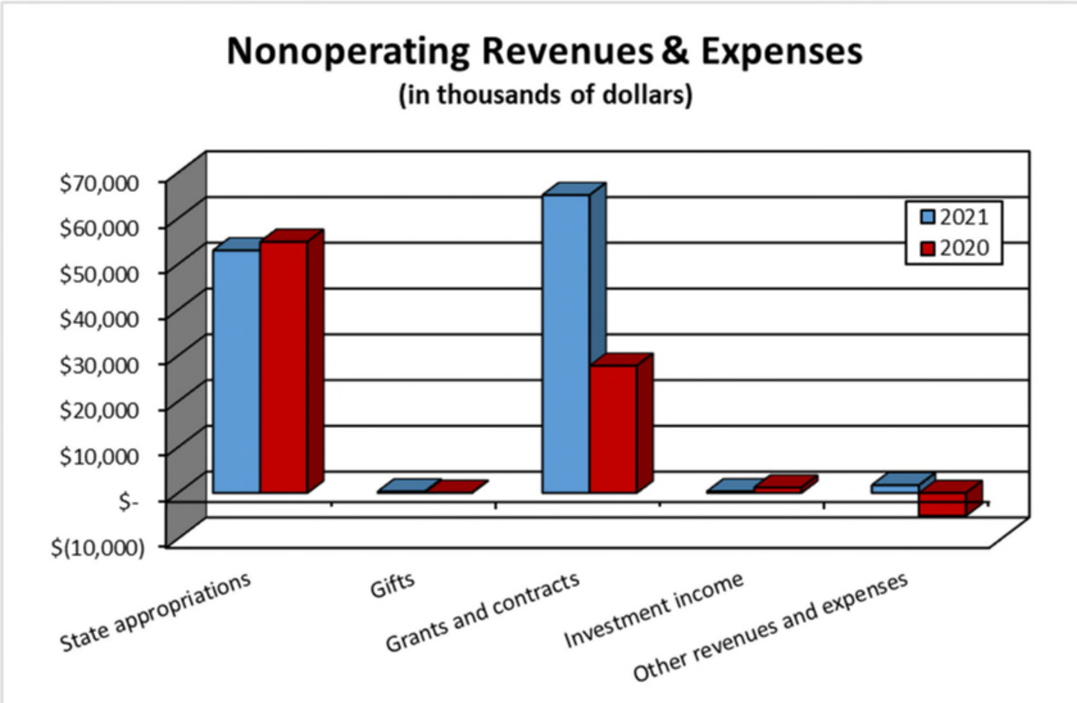



Comparison of Fiscal Year 2021 to Fiscal Year 2020

- Salaries increased largely due to the Voluntary Buyout Plan implemented during the fiscal year. The university had 71 employees participate with faculty receiving severance pay in the equivalent of 1 year of annual salary and staff receiving severance pay in the equivalent of 6 months' salary.
- Other operating expenses decreased during the fiscal year due to a reduction in the use of facilities due to remote work by employees. Travel was also significantly reduced during the fiscal year.
- Scholarships increased due to the number of scholarships provided to help retain students during the pandemic.

Nonoperating Revenues and Expenses

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

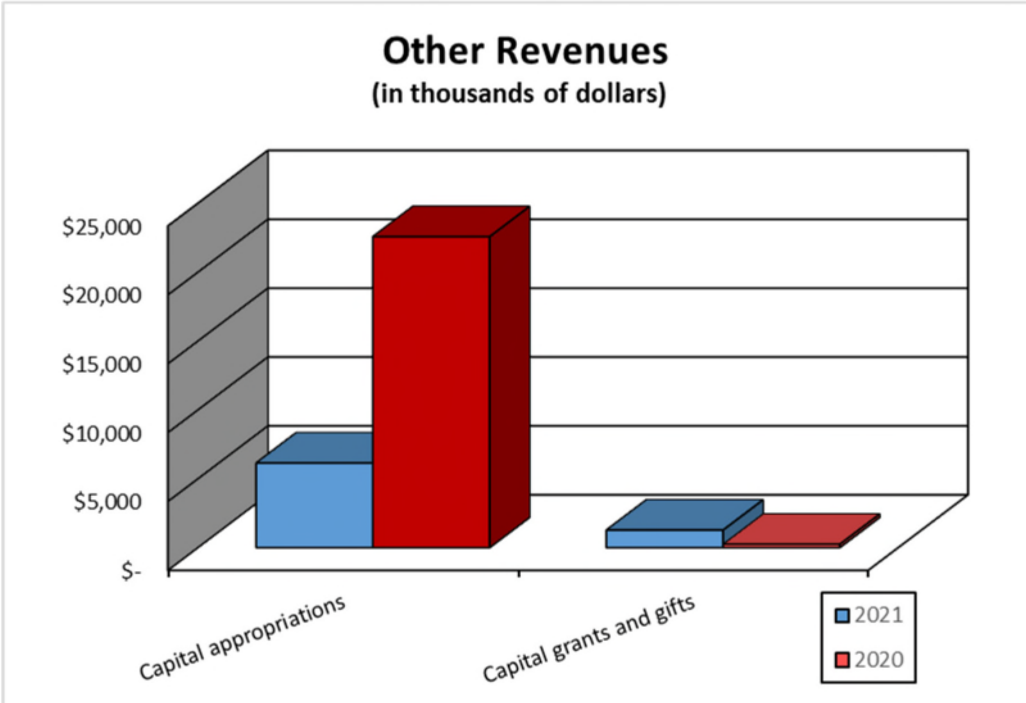



Comparison of Fiscal Year 2021 to Fiscal Year 2020

- State appropriations for general operations decreased by 3.4% over the prior year due to a reduction in funding for salaries to agricultural extension services.
- Investment income decreased by 70.5% due to interest rates declining.
- Grants and contracts increased due to the funding provided by the Higher Education Emergency Relief Funds (HEERF I and II) for lost revenue associated with the COVID-19 pandemic. Also, a decrease in student enrollment led to a decrease in Pell grant dollars in the current year.

Other Revenues

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




Comparison of Fiscal Year 2021 to Fiscal Year 2020

- Capital appropriations decreased by $16.4 million due to the completion of the Health Sciences Facility and no other active major projects funded by the state.
- Capital grants funded by the U.S. Department of Education and Agriculture were reduced due to no major projects in fiscal year 2021.

**Capital Assets and Debt Administration**

Capital Assets

Tennessee State University had $231,283,442.31 invested in capital assets, net of accumulated depreciation of $203,125,448.06 at June 30, 2021; and $187,851,959.67 invested in capital assets, net of accumulated depreciation of $197,741,863.75 at June 30, 2020. Depreciation charges totaled $6,488,331.98 and $5,862,544.36 for the years ended June 30, 2021, and June 30, 2020, respectively.

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

| | 2021 | 2020 |
|---|---|---|
| Land | $9,801 | $9,801 |
| Land improvements and infrastructure | 8,125 | 9,069 |
| Buildings | 153,180 | 119,212 |
| Equipment | 7,242 | 7,252 |
| Library holdings | 998 | 1,098 |
| Intangible assets | - | - |
| Projects in progress | 51,937 | 41,420 |
| Total | $231,283 | $187,852 |

Significant additions to capital assets occurred in fiscal year 2021. These additions were mainly from the ongoing construction of the student housing project and the completion of the Health Sciences Facility.

At June 30, 2021, outstanding commitments under construction contracts totaled $77,661,935.44 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $19,786,508.03 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 $66,572,351.71 and $29,529,661.19 in debt outstanding at June 30, 2021, and June 30, 2020, respectively. The table below summarizes these amounts by type of debt instrument.

**Outstanding Debt**
**(in thousands of dollars)**

| | 2021 | 2020 |
|---|---|---|
| TSSBA bonds payable | $20,311 | $23,081 |
| Unamortized bond premium/discount | 2,307 | 2,708 |
| Revolving credit facility | 43,954 | 3,741 |
| Total | $66,572 | $29,530 |

The Tennessee State School Bond Authority (TSSBA) issued bonds with interest rates ranging from 0.17% to 5.0% due to November 2031 on behalf of Tennessee State University. The university is responsible for the debt service of these bonds. The current portion of the $20,311,093.00 outstanding at June 30, 2021, is $2,874,549.63.

The ratings on debt issued by the TSSBA at June 30, 2021, were as follows:

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

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

**Economic Factors That Will Affect the Future**

On December 31, 2019, China reported cases of the COVID-19 virus occurring in Wuhan City, China, to the World Health Organization (WHO). At that time, there was little confirmed evidence of human-to-human transmission and the WHO did not declare the outbreak to be a public health emergency of international concern until January 31, 2020. On March 11, 2020, the WHO declared COVID-19 to be a global pandemic. To help slow the transmission of the virus in Tennessee, the university took the following actions: 1) Employees whose job responsibilities allowed were instructed to begin an alternate work-from-home schedule beginning March 17, 2020. 2) The university was on spring break the week of March 17. Spring break was extended an additional week to allow faculty to convert classes to an online format. All classes were resumed on March 30 and followed an online format until the end of the spring 2020 semester, and most extended the online format through the summer 2020 semester. As the university prepared for in-person classes for the fall 2020 semester, and maintained an ongoing response to the pandemic, the university developed the *Operations Guide.* The *Operations Guide* includes the operational terms and conditions governing the return of students to campus during the fall 2020 semester, and the terms under which employees will carry out their job duties either on campus or while continuing to work remotely during the fall 2020 academic semester. The in-person classes for students resumed August 31, 2020. The university continued to ensure the health and safety of the campus community for the spring 2021 semester. The classes for spring semester started on January 25, 2021. The classes were offered in the same manner as the fall 2020 semester, which was a combination of online, hybrid, and in-person, with approximately 85% of course delivery online. The faculty was allowed to teach online, in-person, or in a hybrid form, which was the same as the fall 2020 semester. The university will be in full operation for the fall 2021–2022 academic year, which includes in-person classes and campus operation with a priority on observing Centers for Disease Control and Prevention (CDC) guidelines for physical distancing, face coverings, hand washing, and enhanced cleaning of our facilities in order to keep students safe and healthy in their rooms as much as possible.

COVID-19 could continue to have a negative impact on the state's revenue collections, state funding for higher education, higher education enrollment, the fair value of higher education's investments, demand for on-campus housing, and interest in university programs involving international travel. The full impact of COVID-19 and the scope of any adverse impact on the university's finances and operations cannot be fully determined at this time.

**TENNESSEE STATE UNIVERSITY**
**Statement of Net Position**
**June 30, 2021**

| | University | Component Unit |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents (Notes 2 and 19) | $ 3,878,405.42 | $ 3,833,380.63 |
| Investments (Notes 3, 4, and 19) | 2,042,153.58 | 6,917,771.56 |
| Accounts, notes, and grants receivable (net) (Note 5) | 54,874,045.30 | 86,027.43 |
| Receivable for investments purchased | - | 359,039.56 |
| Due from State of Tennessee | 1,870,637.88 | - |
| Due from TSU | - | 184,185.85 |
| Due from TSU Foundation | 680,926.99 | - |
| Inventories | 34,600.07 | - |
| Prepaid expenses | 100,261.04 | 333,771.88 |
| Accrued interest receivable | 1,540,342.79 | - |
| Total current assets | 65,021,373.07 | 11,714,176.91 |
| Noncurrent assets: | | |
| Cash and cash equivalents (Notes 2 and 19) | 40,347,965.49 | 5,023,158.71 |
| Investments (Notes 3, 4, and 19) | 6,829,213.17 | 83,278,785.18 |
| Investments in Tennessee Retiree Group Trust | 1,026,377.17 | - |
| Accounts, notes, and grants receivable (net) (Note 5) | 273,757.69 | - |
| Due from State of Tennessee | 1,532,540.60 | - |
| Capital assets (net) (Note 6 and 19) | 231,283,442.31 | 6,327,745.90 |
| Net pension asset (Note 10) | 426,023.00 | - |
| Total noncurrent assets | 281,719,319.43 | 94,629,689.79 |
| Total assets | 346,740,692.50 | 106,343,866.70 |
| **Deferred outflows of resources** | | |
| Deferred amount on debt refunding | 394,136.66 | - |
| Deferred outflows related to pensions (Note 10) | 6,845,357.84 | - |
| Deferred outflows related to OPEB (Note 11) | 3,118,470.00 | - |
| Total deferred outflows of resources | 10,357,964.50 | - |
| **Liabilities** | | |
| Current liabilities: | | |
| Accounts payable (Note 7) | 7,527,384.66 | 112,003.63 |
| Payable for investments purchased | - | 1,026,635.06 |
| Accrued liabilities | 7,990,606.18 | - |
| Due to grantor (Note 8) | 272,374.26 | - |
| Due to State of Tennessee | 1,636,522.32 | - |
| Due to TSU | - | 680,926.99 |
| Due to TSU Foundation | 184,185.85 | - |
| Unearned revenue | 4,113,220.26 | - |
| Compensated absences (Note 8) | 922,390.95 | - |
| Accrued interest payable | 159,405.58 | - |
| Long-term liabilities, current portion (Note 8) | 2,874,549.63 | - |
| Deposits held in custody for others | 691,567.08 | - |
| Total current liabilities | 26,372,206.77 | 1,819,565.68 |
| Noncurrent liabilities: | | |
| Net pension liability (Note 10) | 18,366,675.00 | - |
| Net OPEB liability (Note 11) | 8,102,518.00 | - |
| Compensated absences (Note 8) | 6,681,311.51 | - |
| Long-term liabilities (Note 8) | 63,697,802.08 | - |
| Due to grantors (Note 8) | 1,335,040.71 | - |
| Total noncurrent liabilities | 98,183,347.30 | - |
| Total liabilities | 124,555,554.07 | 1,819,565.68 |
| **Deferred inflows of resources** | | |
| Deferred inflows related to pensions (Note 10) | 713,209.00 | - |
| Deferred inflows related to OPEB (Note 11) | 4,735,557.00 | - |
| Total deferred inflows of resources | 5,448,766.00 | - |
| **Net position** | | |
| Net investment in capital assets | 165,105,227.26 | 1,366,118.15 |
| Restricted for: | | |
| Nonexpendable: | | |
| Scholarships and fellowships | 360,795.86 | 11,194,471.32 |
| Research | - | 1,208,686.61 |
| Instructional department uses | - | 1,224,677.90 |
| Endowment for Educational Excellence | - | 62,961,349.44 |
| Other | - | 440,588.78 |
| Expendable: | | |
| Scholarships and fellowships | 1,205,836.72 | 2,963,824.38 |
| Research | 1,619,222.48 | 409,829.29 |
| Instructional department uses | 1,523,843.87 | 967,811.22 |
| Loans | 672,514.43 | - |
| Capital projects | 1,072,519.69 | - |
| Pension | 426,023.00 | - |
| Endowment for Educational Excellence | - | 1,124,917.19 |
| Other | 1,672,557.57 | 20,199,961.99 |
| Unrestricted | 53,435,796.05 | 462,064.75 |
| Total net position | $ 227,094,336.93 | $ 104,524,301.02 |

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

## TENNESSEE STATE UNIVERSITY
## Statement of Revenues, Expenses, and Changes in Net Position
## For the Year Ended June 30, 2021

| | University | Component Unit |
|---|---|---|
| **Revenues** | | |
| Operating revenues: | | |
| Student tuition and fees (Note 12) | $ 27,178,570.31 | - |
| Gifts and contributions | - | 5,681,442.64 |
| Governmental grants and contracts | 42,743,524.59 | - |
| Nongovernmental grants and contracts, including $7,835.00 from the component unit | 1,380,649.54 | - |
| Sales and services of educational activities | 5,254.00 | - |
| Sales and services of other activities | 4,162,827.67 | 873,342.31 |
| Auxiliary enterprises: | | |
| Residential life (Note 12) | 1,517,435.88 | - |
| Bookstore | 28,925.50 | - |
| Food service | 6,184,877.73 | - |
| Other auxiliaries | 891,781.51 | - |
| Interest earned on loans to students | 22,546.35 | - |
| Total operating revenues | 84,116,393.08 | 6,554,784.95 |
| **Expenses** | | |
| Operating expenses (Note 16): | | |
| Salaries and wages | 94,406,247.06 | - |
| Benefits | 28,845,617.07 | - |
| Utilities, supplies, and other services | 51,519,222.83 | 1,019,657.03 |
| Scholarships and fellowships | 12,562,256.54 | 1,650,163.10 |
| Depreciation expense | 6,488,331.98 | 18,179.22 |
| Payments to or on behalf of Tennessee State University (Note 19) | - | 322,516.77 |
| Total operating expenses | 193,821,675.48 | 3,010,516.12 |
| Operating income (loss) | (109,705,282.40) | 3,544,268.83 |
| **Nonoperating revenues (expenses)** | | |
| State appropriations | 53,001,100.00 | - |
| Gifts, including $314,681.77 from component unit | 319,897.55 | - |
| Grants and contracts | 65,102,126.46 | - |
| Investment income (expense) (net of investment expense for the institution of $85,234.94 and for component unit of $226,466.32) | 350,024.97 | 14,783,788.56 |
| Interest on capital asset-related debt | (855,556.31) | - |
| Bond issuance costs | (182.49) | - |
| Other nonoperating revenues (expenses) | 2,566,155.91 | - |
| Total nonoperating revenues | 120,483,566.09 | 14,783,788.56 |
| Income (loss) before other revenues, expenses, gains, or losses | 10,778,283.69 | 18,328,057.39 |
| Capital appropriations | 6,144,601.90 | - |
| Capital grants and gifts | 1,275,071.39 | - |
| Additions to permanent endowments | - | 876,704.91 |
| Total other revenues | 7,419,673.29 | 876,704.91 |
| Increase (decrease) in net position | 18,197,956.98 | 19,204,762.30 |
| Net position - beginning of year | 208,896,379.95 | 85,319,538.72 |
| Net position - end of year | $ 227,094,336.93 | $ 104,524,301.02 |

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

# TENNESSEE STATE UNIVERSITY
## Statement of Cash Flows
## For the Year Ended June 30, 2021

| | |
|---|---|
| **Cash flows from operating activities** | |
| Tuition and fees | $ 31,499,719.58 |
| Grants and contracts, including $7,835.00 from the component unit | 14,740,707.89 |
| Sales and services of educational activities | 5,254.00 |
| Sales and services of other activities | 3,736,789.03 |
| Payments to suppliers and vendors | (51,150,373.58) |
| Payments to employees | (94,263,758.94) |
| Payments for benefits | (29,349,424.85) |
| Payments for scholarships and fellowships | (12,562,256.54) |
| Loans issued to students | 3.40 |
| Collection of loans from students | 170,390.51 |
| Interest earned on loans to students | 22,921.35 |
| Funds disbursed for deposits held for others | (17,731.24) |
| Auxiliary enterprise charges: | |
| Residence halls | 1,517,435.88 |
| Bookstore | (611,257.96) |
| Food Service | 6,184,877.73 |
| Other auxiliaries | 898,277.01 |
| Other receipts (payments) | 448,925.24 |
| Net cash used for operating activities | (128,729,501.49) |
| **Cash flows from noncapital financing activities** | |
| State appropriations | 52,902,300.00 |
| Gifts and grants received for other than capital or endowment purposes, including $314,681.77 from the component unit | 65,422,024.01 |
| Federal student loan receipts | 34,482,264.00 |
| Federal student loan disbursements | (34,482,264.00) |
| Other non-capital financing receipts | 2,566,155.91 |
| Net cash provided by noncapital financing activities | 120,890,479.92 |
| **Cash flows from capital and related financing activities** | |
| Purchase of capital assets and construction | (3,848,420.19) |
| Principal paid on capital debt | (2,893,212.92) |
| Interest paid on capital debt | (1,546,542.40) |
| Bond issuance costs paid on new debt issue | (182.49) |
| Net cash used for capital and related financing activities | (8,288,358.00) |
| **Cash flows from investing activities** | |
| Proceeds from sales and maturities of investments | 4,465,129.19 |
| Income on investments | 401,747.97 |
| Purchase of investments | (926,953.72) |
| Net cash provided by investing activities | 3,939,923.44 |
| Net decrease in cash and cash equivalents | (12,187,456.13) |
| Cash and cash equivalents - beginning of year | 56,413,827.04 |
| Cash and cash equivalents - end of year | $ 44,226,370.91 |

# TENNESSEE STATE UNIVERSITY
## Statement of Cash Flows (cont.)
## For the Year Ended June 30, 2021

| | |
|---|---|
| **Reconciliation of operating loss to net cash used for operating activities:** | |
| Operating loss | $ (109,705,282.40) |
| Adjustments to reconcile operating loss to net cash used for operating activities: | |
| Noncash operating expenses | 7,319,154.41 |
| Change in assets, liabilities, and deferrals: | |
| Receivables, net | (24,797,105.71) |
| Due from primary government | 732,527.63 |
| Due from component unit | (673,504.42) |
| Inventories | 431.87 |
| Prepaid items | (100,261.04) |
| Deferred outflows of resources | 312,028.54 |
| Accounts payable | (655,244.34) |
| Accrued liabilities | 596,115.57 |
| Due to primary government | 266,473.75 |
| Due to component unit | 184,185.85 |
| Unearned revenues | 209,296.26 |
| Compensated absences | 141,119.07 |
| Net pension liability | 2,301,464.00 |
| Net OPEB liability | (1,105,017.00) |
| Deferred inflows of resources | (2,681,180.00) |
| Due to grantors | (1,057,347.29) |
| Deposits held in custody for others | (17,731.24) |
| Loans to students | 375.00 |
| Net cash used by operating activities | $ (128,729,501.49) |

| | |
|---|---|
| **Noncash investing, capital, or financing transactions** | |
| Unrealized gains on investments | $ (42,162.73) |
| Loss on disposal of capital assets | $ (530,766.96) |
| Proceeds of capital debt | $ 36,599,130.22 |
| Capital appropriations | $ 6,144,601.90 |
| Purchase of capital assets and construction | $ (45,540,627.47) |

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

**TENNESSEE STATE UNIVERSITY**
**Statement of Fiduciary Net Position**
**June 30, 2021**

| | Custodial Funds |
|---|---|
| **Assets** | |
| Cash (Note 2) | $ 548,349.46 |
| Receivables | |
| Student receivables (Note 5) | 61,171.42 |
| Total receivables | 61,171.42 |
| Total assets | 609,520.88 |
| | |
| **Liabilities** | |
| Accounts payable and accrued liabilities (Note 7) | 609,520.88 |
| Total liabilities | 609,520.88 |
| | |
| **Net position** | |
| Restricted for: | |
| Individuals and organizations | - |
| Total net position | $ - |

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

**TENNESSEE STATE UNIVERSITY**
**Statement of Changes in Fiduciary Net Position**
**June 30, 2021**

| | Custodial Funds |
|---|---|
| **Additions** | |
| Receipts for other organizations | $ 1,959,013.78 |
| Total additions | 1,959,013.78 |
| | |
| **Deductions** | |
| Disbursements for other organizations | 1,959,013.78 |
| Total deductions | 1,959,013.78 |
| | |
| Net increase in fiduciary net position | - |
| Net position - beginning of year | - |
| Net position - end of year | $ - |

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

## Note 1. Summary of Significant Accounting Policies

### Reporting Entity

The university is a part of the State University and Community College System of Tennessee (the system). The Focus on College and University Success Act of 2016 removed the six universities from the governance of the Tennessee Board of Regents, but they remain part of the system. The universities have their own local governing boards that provide governance, approve policies, set tuition and fee rates, and hire presidents. The system has continuing oversight responsibilities in the areas of budget approval and institutional debt. 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 Tennessee's *Annual Comprehensive Financial Report*. That report is available at https://www.tn.gov/finance/rd-doa/fa-accfin-ar.html.

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

The Tennessee State University Foundation is considered a component unit of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by its donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements. See Note 19 for more detailed information about the component unit.

### Basis of Presentation

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

### Basis of Accounting

In January 2017, the GASB issued Statement 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds.

Custodial funds generally should report fiduciary activities that are not held in a trust or an equivalent arrangement that meets specific criteria. The university implemented this standard as of July 1, 2020.

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

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

Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other activities that are defined as nonoperating by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* such as state appropriations and investment income.

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

### Cash Equivalents

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

### Inventories

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

### Compensated Absences

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

The amount of the liabilities for annual leave and compensatory time and their related benefits are reported in the statement of net position. There is no liability for unpaid accumulated sick leave since the university's policy is to pay this only if the employee 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 acquisition value at date of donation, less accumulated depreciation/amortization. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

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

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

**Pensions**

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

**Other Postemployment Benefits**

For purposes of measuring the net other postemployment benefits (OPEB) liability, as well as deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the Closed Employee Group OPEB Plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the State of Tennessee Postemployment Benefits Trust. For this purpose, benefits are recognized when due and payable in accordance with the benefit terms of the Closed Employee Group OPEB Plan. Investments are reported at fair value.

**Fiduciary Activities**

The university holds deposits for a book vendor as custodian or fiscal agent for students. These amounts are not university funds and are shown in separate statements.

**Net Position**

The university's net position is classified as follows:

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

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

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

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

**Scholarship Discounts and Allowances**

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

## Note 2. Cash and Cash Equivalents

In addition to demand deposits and petty cash on hand, this classification includes instruments that are readily convertible to known amounts of cash and that have original maturities of three months or less. At June 30, 2021, cash and cash equivalents consisted of $5,604,666.36 in bank accounts, $3,800.00 of petty cash on hand, $19,779,905.95 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, $1,072,519.69 in LGIP deposits for capital projects, and $18,313,828.37 in money market accounts. Of the $44,774,720.37 total cash, $548,349.46 is held by the fiduciary fund.

The LGIP is administered by the State Treasurer and is measured at amortized cost. The LGIP is part of the State Pooled Investment Fund. The fund's required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at https://treasury.tn.gov.

LGIP deposits for capital projects – Payments related to the university's capital projects are made by the State of Tennessee's Department of Finance and Administration. The university's estimated local share of the cost of each project is held in a separate LGIP account. As expenses are incurred, funds are withdrawn from the LGIP account by the system 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 system releases any remaining funds.

## Note 3. Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended, and GASB Statement 72, *Fair Value Measurement and Application,* as amended, investments are reported at fair value, including those with a maturity date of one year or less at the time of purchase, unless otherwise noted.

### Interest Rate Risk

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

At June 30, 2021, the university had the following debt investments and maturities:

| | | Investment Maturities (in Years) | | | | |
|---|---|---|---|---|---|---|
| Investment Type | Fair Value | Less Than 1 | 1 to 5 | 6 to 10 | More Than 10 | No Maturity Date |
| U.S. Treasury | $ 1,783,982.90 | $ 1,783,982.90 | $ - | $ - | $ - | $ - |
| U.S. agencies | 7,087,383.85 | 258,170.68 | 1,272,282.40 | 4,891,129.32 | 665,801.45 | - |
| Total debt investments | $ 8,871,366.75 | $ 2,042,153.58 | $ 1,272,282.40 | $4,891,129.32 | $665,801.45 | $ - |

### 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 the policy of its governing board. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States, repurchase agreements for United States securities, certificates of deposit in banks and savings and loan associations, bankers' acceptances, commercial paper, money market mutual funds, and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. Securities are rated by Standard and Poor's, Moody's Investors Service, and/or Fitch Ratings and are presented below using the Standard and Poor's rating scale.

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

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

At June 30, 2021, the university's investments were rated as follows:

| | | Credit Quality Rating | |
|---|---|---|---|
| Investment Type | Balance | AA | Unrated |
| LGIP (amortized cost) | $20,852,425.64 | $ - | $20,852,425.64 |
| U.S. agencies | 6,996,868.10 | 258,170.68 | 6,738,697.42 |
| Total | $27,849,293.74 | $258,170.68 | $27,591,123.06 |

### 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. The policy restricts investments in bankers' acceptances, commercial paper, and money market mutual funds. The policy limits bankers' acceptances to not exceed 20% of the total investments on the date of acquisition and limits the combined amount of bankers' acceptances and commercial paper to not exceed 35% of the total investments at the date of acquisition. The amount invested in any one bank shall not exceed 5% of total investments on the date of acquisition. Additionally, no more than 5% of total investments at the date of acquisition may be invested in the commercial paper of a single issuer. The policy further limits the total holdings of an issuer's commercial paper to not more than 2% of the issuing corporation's total outstanding commercial paper. The policy limits investments in money market mutual funds to not exceed 10% of total investments on the date of acquisition.

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

| Issuer | Percentage of Total Investments June 30, 2021 |
|---|---|
| Federal National Mortgage Association | 31.77% |
| Federal Home Loan Mortgage Corporations | 44.19% |

## Note 4. Fair Value Measurement

The university categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The university has the following recurring fair value measurements as of June 30, 2021:

| | June 30, 2021 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Investments Measured at the Net Asset Value (NAV) |
|---|---|---|---|---|---|
| Assets by Fair Value Level | | | | | |
| Debt securities: | | | | | |
| U.S. Treasury | $ 1,783,982.90 | $ - | $ 1,783,982.90 | $ - | $ - |
| U.S. agencies | 7,087,383.85 | - | 7,087,383.85 | - | - |
| Total assets at fair value | $ 8,871,366.75 | $ - | $ 8,871,366.75 | $ - | $ - |

Assets classified in Level 2 of the fair value hierarchy are valued using a third-party investment manager (Wellspring Financial Solutions of Raymond James and Associates, Inc.).

## Note 5. Receivables

Receivables at June 30, 2021, included the following:

| | |
|---|---|
| Student accounts receivable | $ 29,616,084.63 |
| Grants receivable | 39,991,472.64 |
| Notes receivable | 51,442.53 |
| Other receivables | 748,309.00 |
| Subtotal | 70,407,308.80 |
| Less allowance for doubtful accounts | (15,500,527.78) |
| Total receivables | $ 54,906,781.02 |

Federal Perkins Loan Program funds at June 30, 2021, included the following:

| | |
|---|---|
| Perkins loans receivable | $ 3,978,567.78 |
| Less allowance for doubtful accounts | (3,676,374.39) |
| Total | $ 302,193.39 |

Of the $55,208,974.41 total accounts, notes, and grants receivable, $61,171.42 is held by the fiduciary fund.

## Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2021, was as follows:

| | Beginning Balance | Additions | Transfers | Reductions | Ending Balance |
|---|---|---|---|---|---|
| Land | $ 9,800,923.30 | $ - | $ - | $ - | $ 9,800,923.30 |
| Land improvements and infrastructure | 54,166,932.82 | - | - | - | 54,166,932.82 |
| Buildings | 243,612,086.87 | - | 37,536,942.17 | - | 281,149,029.04 |
| Equipment | 31,281,951.69 | 1,727,485.46 | - | 771,442.77 | 32,237,994.38 |
| Library holdings | 2,632,412.47 | 143,550.95 | - | 338,909.60 | 2,437,053.82 |
| Intangible assets | 2,679,599.35 | - | - | - | 2,679,599.35 |
| Projects in progress | 41,419,916.92 | 48,054,382.91 | (37,536,942.17) | - | 51,937,357.66 |
| Total | 385,593,823.42 | 49,925,419.32 | - | 1,110,352.37 | 434,408,890.37 |
| Less accumulated depreciation/amortization: | | | | | |
| Land improvements and infrastructure | 45,097,952.35 | 944,390.62 | - | - | 46,042,342.97 |

| | | | | | |
|---|---|---|---|---|---|
| Buildings | 124,399,944.30 | 3,568,979.01 | - | - | 127,968,923.31 |
| Equipment | 24,030,024.91 | 1,731,256.97 | - | 765,838.07 | 24,995,443.81 |
| Library holdings | 1,534,342.84 | 243,705.38 | - | 338,909.60 | 1,439,138.62 |
| Intangible assets | 2,679,599.35 | - | - | - | 2,679,599.35 |
| Total | 197,741,863.75 | 6,488,331.98 | - | 1,104,747.67 | 203,125,448.06 |
| Capital assets, net | $187,851,959.67 | $43,437,087.34 | $ - | $ 5,604.70 | $231,283,442.31 |

## Note 7. Accounts Payable

Accounts payable at June 30, 2021, included the following:

| | |
|---|---|
| Vendors payable | $7,823,140.50 |
| Other payables | 313,765.04 |
| Total accounts payable | $8,136,905.54 |

Of the $8,136,905.54 total accounts payable, $609,520.88 is held by the fiduciary fund.

## Note 8. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2021, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Payables: | | | | | |
| TSSBA debt: | | | | | |
| Bonds | $ 23,080,952.92 | $ 123,353.00 | $ 2,893,212.92 | $ 20,311,093.00 | $ 2,874,549.63 |
| Unamortized bond premium/discount | 2,708,118.30 | - | 401,394.87 | 2,306,723.43 | - |
| Revolving credit facility | 3,740,589.97 | 40,219,857.53 | 5,912.22 | 43,954,535.28 | - |
| Subtotal | 29,529,661.19 | 40,343,210.53 | 3,300,520.01 | 66,572,351.71 | 2,874,549.63 |
| Other liabilities: | | | | | |
| Compensated absences | 7,462,583.39 | 1,455,350.30 | 1,314,231.23 | 7,603,702.46 | 922,390.95 |
| Due to grantor | 2,664,762.26 | - | 1,057,347.29 | 1,607,414.97 | 272,374.26 |
| Subtotal | 10,127,345.65 | 1,455,350.30 | 2,371,578.52 | 9,211,117.43 | 1,194,765.21 |
| Total long-term liabilities | $ 39,657,006.84 | $ 41,798,560.83 | $ 5,672,098.53 | $ 75,783,469.14 | $ 4,069,314.84 |

**TSSBA Debt – Bonds**

Bonds, with interest rates ranging from 0.17% to 5%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 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.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2021, are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2022 | $ 2,874,549.63 | $ 803,023.58 | $ 3,677,573.21 |
| 2023 | 2,913,440.73 | 695,292.37 | 3,608,733.10 |
| 2024 | 2,418,386.52 | 596,940.00 | 3,015,326.52 |
| 2025 | 2,526,955.73 | 506,110.95 | 3,033,066.68 |
| 2026 | 2,687,096.39 | 399,223.49 | 3,086,319.88 |
| 2027–2031 | 6,490,131.00 | 732,082.93 | 7,222,213.93 |
| 2032 | 400,533.00 | 10,013.33 | 410,546.33 |
| Total | $ 20,311,093.00 | $ 3,742,686.65 | $ 24,053,779.65 |

**TSSBA Debt – Revolving Credit Facility**

The TSSBA receives loans from the revolving credit facility to finance the costs of various capital projects during the construction phase. When projects are placed in service, TSSBA issues long-term, fixed-rate debt to finance the project over its useful payback period and repays the revolving credit facility debt. The total outstanding loans from the revolving credit facility for the university were $43,954,535.28 at June 30, 2021.

More detailed information regarding the bonds and revolving credit facility can be found in the notes to the financial statements in the financial report for the TSSBA. That report is available on the state's website at https://www.comptroller.tn.gov/boards/tennessee-state-school-bond-authority/investor-information/tssba-financial-reports.html.

**Refunding of Debt**

On February 24, 2021, the state issued $123,353.00 in revenue bonds with interest rates ranging from 0.17% to 1.03% to advance refund $103,830.86 of outstanding 2012–2015 Series bonds with interest rates of 5%. The net proceeds of $123,170.51 (after payment of $182,49 in underwriter's fees and issuance costs) were deposited with an escrow agent to provide for all future debt service payments on the bonds. As a result, the 2014B Series bonds are considered to be defeased, and the refunded liability for those bonds has been removed from the university's long-term liabilities; however, $217,232.74 of these bonds remain outstanding.

Although the advance refunding resulted in the recognition of a deferred loss of $11,964.91 to be amortized over the next 5 years, the university in effect reduced its aggregate debt service payments by $8,170.85 over the next 5 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $7,871.32.

## Note 9. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $20,311,093.00 in revenue bonds issued from May 2012 to February 2021 (see Note 8 for further detail). Proceeds from the bonds provided financing for Housing Phase 2, Research and Sponsored Program Building, Housing Fire Safety Upgrade, Energy Savings Performance Contract, Hale Stadium Improvements, Student Housing, Avon Williams Campus Improvements, Student Housing Fire Suppression Retrofit, and the Health Sciences Facility. The bonds are payable through 2032. Annual principal and interest payments on the bonds are expected to require 2.39% of available revenues. The total principal and interest remaining to be paid on the bonds is $24,053,779.65. Principal and interest paid for the current year and total available revenues were $3,696,499.12 and $154,535,195.54, respectively. The amount of principal and interest paid for the current year does not include debt of $123,353.00 defeased through a bond refunding in the current year.

## Note 10. Pension Plans

### Defined Benefit Plans

#### Closed State and Higher Education Employee Pension Plan

*General Information About the Pension Plan*

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

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

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

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

Plus:

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

A reduced early retirement benefit is available at age 55 and vested. Members are vested with 5 years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service are required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest.

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The university's employees are noncontributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by the university for the year ended June 30, 2021, to the Closed State and Higher Education Employee Pension Plan were $4,684,864.74, which is 20.23% of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

Pension liability – At June 30, 2021, the university reported a liability of $18,366,675 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The university's proportion of the net pension liability was based on a projection of the university's contributions during the year ended June 30, 2020, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2020, measurement date, the university's proportion was 1.121074%. The proportion measured as of June 30, 2019, was 1.137630%.

Pension expense – For the year ended June 30, 2021, the university recognized a pension expense of $4,987,790.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2021, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 529,788.00 | $ 166,854.00 |
| Net difference between projected and actual earnings on pension plan investments | 1,141,360.00 | - |
| Changes in proportion of net pension liability | - | 494,079.00 |
| TSU's contributions subsequent to the measurement date of June 30, 2020 | 4,684,864.74 | - |
| Total | $ 6,356,012.74 | $ 660,933.00 |

Deferred outflows of resources, resulting from the university's employer contributions of $4,684,864.74 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ending June 30 | |
|---|---|
| 2022 | $ (746,826) |
| 2023 | $ 256,714 |
| 2024 | $ 716,409 |
| 2025 | $ 783,918 |
| 2026 | $ - |
| Thereafter | $ - |

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

Actuarial assumptions – The total pension liability as of the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 2.5% |
| Salary increases | Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4% |
| Investment rate of return | 7.25%, net of pension plan investment expenses, including inflation |
| Cost-of-living adjustment | 2.25% |

Mortality rates were based on customized tables based on actual experience, including a projection of mortality improvement using Scale MP-2019 (static projection to six years beyond the valuation date).

The actuarial assumptions used in the June 30, 2020, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

| Asset Class | Long-term Expected Real Rate of Return | Target Allocation |
|---|---|---|
| U.S. equity | 5.69% | 31% |
| Developed market international equity | 5.29% | 14% |
| Emerging market international equity | 6.36% | 4% |
| Private equity and strategic lending | 5.79% | 20% |
| U.S. fixed income | 2.01% | 20% |

| | | |
|---|---|---|
| Real estate | 4.32% | 10% |
| Short-term securities | 0.00% | 1% |
| | | 100% |

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability to changes in the discount rate – The following presents the university's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the university's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate:

| | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|---|---|---|---|
| University's proportionate share of the net pension liability (asset) | $40,709,246 | $18,366,675 | $(475,812) |

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies.

*Payable to the Pension Plan*

At June 30, 2021, the university reported a payable of $415,682.99 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2021.

**State and Higher Education Employee Retirement Plan**

*General Information About the Pension Plan*

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

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

Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. University employees contribute 5% of their salary to the State and Higher Education Employee Retirement Plan. The higher education institutions make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the university for the year ended June 30, 2021, to the State and Higher Education Employee Retirement Plan were $294,672.10, which is 1.80% of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

*Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

Pension asset – At June 30, 2021, the university reported an asset of $426,023 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2020, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The university's proportion of the net pension asset was based on a projection of the university's contributions during the year ended June 30, 2020, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2020, measurement date, the university's proportion was 1.209837%. At the June 30, 2019, measurement date, the university's proportion was 1.447632%.

Pension expense – For the year ended June 30, 2021, the university recognized a pension expense of $239,134.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2021, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 29,972.00 | $ 13,460.00 |
| Net difference between projected and actual earnings on pension plan investments | 43,841.00 | - |
| Changes in assumptions | 11,889.00 | - |
| Changes in proportion of net pension asset | 108,971.00 | 38,816.00 |
| TSU's contributions subsequent to the measurement date of June 30, 2020 | 294,672.10 | - |
| Total | $ 489,345.10 | $ 52,276.00 |

Deferred outflows of resources, resulting from the university's employer contributions of $294,672.10 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ending June 30 | |
|---|---|
| 2022 | \$16,738 |
| 2023 | \$22,174 |
| 2024 | \$25,155 |
| 2025 | \$27,599 |
| 2026 | \$12,020 |
| Thereafter | \$38,711 |

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

Actuarial assumptions – The total pension liability as of the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 2.5% |
| Salary increases | Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4% |
| Investment rate of return | 7.25%, net of pension plan investment expenses, including inflation |
| Cost-of-living adjustment | 2.25% |

Mortality rates were based on customized tables based on actual experience, including a projection of mortality improvement using Scale MP-2019 (static projection to six years beyond the valuation date).

The actuarial assumptions used in the June 30, 2020, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best estimate of expected real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

| Asset Class | Long-term Expected Real Rate of Return | Target Allocation |
|---|---|---|
| U.S. equity | 5.69% | 31% |
| Developed market international equity | 5.29% | 14% |
| Emerging market international equity | 6.36% | 4% |
| Private equity and strategic lending | 5.79% | 20% |
| U.S. fixed income | 2.01% | 20% |
| Real estate | 4.32% | 10% |
| Short-term securities | 0.00% | 1% |
| | | 100% |

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension asset to changes in the discount rate – The following presents the university's proportionate share of the net pension asset calculated using the discount rate of 7.25%, as well as what the university's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate:

| | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|---|---|---|---|
| University's proportionate share of the net pension liability (asset) | $410,698 | $(426,023) | $(1,057,743) |

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies.

*Payable to the Pension Plan*

At June 30, 2021, the university reported a payable of $29,741.11 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2021.

**Total Defined Benefit Pension Expense**

The total pension expense for the year ended June 30, 2021, for all state government defined benefit pension plans was $5,226,924.

**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, 1987, and the Federal Employees Retirement System (FERS) for participants employed after December 31, 1986. Both CSRS and FERS provide retirement, death, and disability benefits, as well as annual cost-of-living adjustments to plan members and beneficiaries. All regular full-time employees of the Tennessee State University Agricultural Extension Service who hold federal appointments for 51% or more of their time are required to participate in either one of the two Federal Retirement Programs. For both systems, benefit provisions are established by federal statutes. Federal statutes are amended by the U.S. Congress. Two of 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 1-888-767-6738. Additionally, the financial statements can be found at https://www.opm.gov/news/reports-publications/publications-database/publication-listings/.

Funding policy – Participating employees and the university are required to contribute to the CSRS plan. Contribution requirements are established and may be amended by federal statutes. The university was required to contribute 7% of covered payroll to the CSRS plan, and employees were required to contribute 7% of covered payroll. Contributions for the year ended June 30, 2021, were $26,041.52, which consisted of $13,020.76 from the university and $13,020.76 from the employees. Contributions for the year ended June 30, 2020, were $25,986.00, which consisted of $12,933.00 from the university and $12,993.00 from the employees. Contributions met the requirements for each year.

At June 30, 2021, the university reported a payable of $2,479.32 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2021.

**Defined Contribution Plans**

**Optional Retirement Plans**

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

Funding policy – For employees employed prior to July 1, 2014, plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. For employees hired after June 30, 2014, plan members will contribute 5% to the ORP and the university will contribute 9% of the employee's base salary. Pension expense equaled the required contributions made to the ORP and was $3,768,442.98 for the year ended June 30, 2021, and $3,844,638.40 for the year ended June 30, 2020. Contributions met the requirements for each year.

Members are immediately 100% vested in the employer contributions made pursuant to the ORP. The Treasury Department has selected three investment vendors who offer a variety of investment products in which members are responsible for selecting how the contributions are invested. Each member makes the decision when to reallocate future contributions or when to transfer funds from one investment product to another. Funds are held by the investment vendor in the name of the member, not in the name of the State of Tennessee. The State of Tennessee has no discretion over these funds other than to make the initial contributions.

Payable to the plan – At June 30, 2021, the university reported a payable of $310,328.66 for the outstanding amount of legally required contributions to the plan required for the year ended June 30, 2021.

**Deferred Compensation Plans**

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

There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

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

During the year ended June 30, 2021, contributions totaling $2,008,199.88 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $1,314,975.82 for employer contributions. During the year ended June 30, 2020, contributions totaling $1,884,000.87 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $1,587,275.25 for employer contributions.

At June 30, 2021, the university reported a payable of $282,307.45 for the outstanding amount of legally required contributions to the plan required for the year ended June 30, 2021.

## Note 11. Other Postemployment Benefits

### Closed State Employee Group OPEB Plan

*General Information About the OPEB Plan*

Plan description – Employees of the university who were hired prior to July 1, 2015, and choose coverage, are provided with pre-65 retiree health insurance benefits through the Closed State Employee Group OPEB Plan (EGOP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The employers participating in this plan include the State of Tennessee (primary government), the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee, and the institutions that make up the State University and Community College System. The State of Tennessee Postemployment Benefits Trust (OPEB Trust) was established to accumulate resources to pay for the retiree benefits of EGOP participants. The OPEB Trust prepares a stand-alone financial report that can be found at https://www.tn.gov/finance/rd-doa/opeb22121.html.

Benefits provided – The EGOP is offered to provide health insurance coverage to eligible retired and disabled participants and is the only postemployment benefit provided to eligible pre-65 participants. Benefits are established and amended by an insurance committee created by Title 8, Chapter 27, Section 201, *Tennessee Code Annotated*. All retirees and disabled employees of the primary government and certain component units, who are eligible and choose coverage, and who have not yet reached the age of 65, are enrolled in this plan. All members have the option of choosing between the premier preferred provider organization (PPO) plan, the standard PPO plan, or the wellness health savings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members receive the same plan benefits as active employees, at a blended premium rate that considers the cost of active and retired employees. This creates an implicit subsidy for the retirees. The retirees' cost is then directly subsidized by the employers, based on years of service. Therefore, retirees with 30 years of service are subsidized 80%; 20 but less than 30 years, 70%; and less than 20 years, 60%.

Contributions – Annually, an insurance committee, created in accordance with Title 8, Chapter 27, Section 201, *Tennessee Code Annotated*, establishes the required contributions to the plan by member employees through the premiums established to approximate claims cost for the year. Pre-age 65 retired members of the EGOP pay a premium based on a blended rate that considers the cost of active and retired employees as well as their individual years of service. Therefore, retirees pay either 20%, 30%, 40%, or 100% of the appropriate premium rate. These payments are deposited into the OPEB Trust. Employers contribute to the OPEB Trust based on an actuarially determined contribution (ADC) rate calculated in a manner to meet the funding goals of the state. The total ADC rate for plan employers for the year ended June 30, 2021, was $137.1 million. The university's share of the ADC was $1,688,245. During the fiscal year, the university contributed $1,688,245 to the OPEB Trust. The Tennessee General Assembly has the authority to change the contribution requirements of the employees participating in the EGOP.

*Net OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB*

Proportionate share – The university's proportionate share of the collective net OPEB liability related to the EGOP was $8,102,518. At the June 30, 2020, measurement date, the university's proportion of the collective net OPEB liability was 0.967928%. The proportion existing at the prior measurement date was 0.966995%. This resulted in a change in proportion of 0.000933% between the current and prior measurement dates. The university's proportion of the collective net OPEB liability was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2020, and a measurement date of June 30, 2020.

OPEB expense – For the year ended June 30, 2021, the university recognized OPEB expense of $268,153.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2021, the university reported deferred outflows of resources and deferred inflows of resources related to OPEB paid by the EGOP from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ - | $ 792,104 |
| Changes in assumptions | 416,868 | 2,136,119 |
| Net difference between actual and projected investment earnings | 154,998 | - |
| Changes in proportion and differences between benefits paid and proportionate share of benefits paid | 858,359 | 1,807,334 |
| Contributions subsequent to the measurement date | 1,688,245 | - |
| Total | $ 3,118,470 | $ 4,735,557 |

Deferred outflows of resources, resulting from the university's employer contributions of $1,688,245 subsequent to the measurement date, will be recognized as a decrease in net OPEB liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year Ending June 30 | |
|---|---|
| 2022 | $(642,949) |
| 2023 | $(642,949) |
| 2024 | $(642,949) |
| 2025 | $(644,640) |
| 2026 | $(644,535) |
| Thereafter | $ (87,310) |

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

Actuarial assumptions – The collective total OPEB liability in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|---|---|
| Inflation | 2.1% |
| Salary increases | Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4% |
| Healthcare cost trend rates | 9.02% for 2021, decreasing annually to an ultimate rate of 4.50% for 2031 and later years |

| | |
|---|---|
| Retiree's share of benefit-related costs | Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation, a weighted average has been used with weights derived from the current distribution of members among plans offered. |

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2020, valuations were the same as those employed in the July 1, 2017, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS) for Group I employees. These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Employees and Healthy Participant Mortality Table projected generationally with MP-2016 from the central year for pre-retirement. For post-retirement the tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender-distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load.

Long-term expected rate of return – The long-term expected rate of return of 6% on OPEB Trust investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Title 8, Chapter 27, Section 802, *Tennessee Code Annotated*, establishes the responsibility of the trustees to adopt written investment policies authorizing how assets in the OPEB Trust may be invested and reinvested by the State Treasurer. The treasurer may invest trust assets in any security or investment in which the Tennessee Consolidated Retirement System (TCRS) is permitted to invest, provided that investments by the OPEB Trust shall be governed by the investment policies and guidelines adopted by the trustees. Any changes to the investment policy will be the responsibility of the established trustees. The OPEB Trust investment policy target asset allocation and allocation range for each major asset class is summarized in the following table:

| | Allocation Range | | |
|---|---|---|---|
| Asset Class | Minimum | Maximum | Total Allocation |
| Equities | 25% | 80% | 53% |
| Fixed income and short-term securities | 20% | 50% | 25% |
| Real estate | 0% | 20% | 10% |
| Private equity and strategic lending | 0% | 20% | 7% |
| Cash and cash equivalents | 0% | 25% | 5% |
| | | | 100% |

The best estimates of geometric real rates of return for each major asset class included in the target asset allocation as of June 30, 2020, are summarized in the following table:

| Asset Class | Long-term Expected Real Rate of Return |
|---|---|
| U.S. equity | 4.11% |
| Developed market international equity | 5.19% |
| Emerging market international equity | 5.29% |
| Private equity and strategic lending | 4.11% |
| U.S. fixed income | 0.00% |
| Real estate | 3.72% |
| Cash (government) | (0.69%) |

Discount rate – The discount rate used to measure the total OPEB liability was 6%. This is the same rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the ADC rates. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on these assumptions, the OPEB Fund's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in assumptions – The excise tax was removed from the liability calculation, as of the measurement date, due to a change in federal law concerning health benefits provided to employees. Other minor changes include a change in the long-term inflation rate, adjustments to the medical and drug trend rate to reflect more recent experience, and a change in the expected per capita health claims. These changes combined to decrease the total OPEB liability.

Sensitivity of the proportionate share of the collective net OPEB liability to changes in the discount rate – The following presents the university's proportionate share of the collective net OPEB liability of the EGOP, as well as what the proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (5%) or 1 percentage point higher (7%) than the current rate:

| | 1% Decrease (5%) | Current Discount Rate (6%) | 1% Increase (7%) |
|---|---|---|---|
| University's proportionate share of the collective net OPEB liability | \$8,865,570 | \$8,102,518 | \$7,400,502 |

Sensitivity of the proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rate – The following presents the university's proportionate share of the collective net OPEB liability of the EGOP, as well as what the proportionate share of the collective net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (8.02% decreasing to 3.5%) or 1 percentage point higher (10.02% decreasing to 5.5%) than the current rate:

| | 1% Decrease (8.02% decreasing to 3.5%) | Healthcare Cost Trend Rates (9.02% decreasing to 4.5%) | 1% Increase (10.02% decreasing to 5.5%) |
|---|---|---|---|
| University's proportionate share of the collective net OPEB liability | $7,188,871 | $8,102,518 | $9,155,791 |

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the State of Tennessee's *Annual Comprehensive Financial Report* found at http://www.tn.gov/finance/rd-doa/fa-accfin-ar.html.

**Closed Tennessee OPEB Plan**

*General Information About the OPEB Plan*

Plan description – Employees of the university who were hired prior to July 1, 2015, and choose coverage, are provided with post-65 retiree health insurance benefits through the Closed Tennessee OPEB Plan (TNP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be a multiple-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). However, for accounting purposes, this plan will be treated as a single-employer plan. This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The State of Tennessee (primary government), as well as the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee, and the other institutions that make up the State University and Community College System, also participate in this plan. This plan also serves eligible post-65 retirees of employers who participate in the state-administered Teacher Group Insurance and Local Government Insurance Plans.

Benefits provided – The TNP is offered to help fill most of the coverage gaps created by Medicare and is the only postemployment benefit provided to eligible post-65 retired and disabled employees of participating employers. This plan does not include pharmacy. In accordance with Title 8, Chapter 27, Section 209, *Tennessee Code Annotated*, benefits are established and amended by cooperation of insurance committees created by Sections 8-27-201, 301, and 701, *Tennessee Code Annotated*. Retirees and disabled employees of the state, component units, local education agencies, and certain local governments, who have reached the age of 65, are Medicare-eligible, and also receive a benefit from the Tennessee Consolidated Retirement System, may participate in this plan. All plan members receive the same plan benefits at the same premium rates. Many retirees receive direct subsidies toward their premium cost; however, participating employers determine their own policy in this regard. The primary government contributes to the premiums of component unit retirees based on years of service. Therefore, 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. The university does not provide any subsidies for retirees in the TNP. The primary government paid $84,600 for OPEB as the benefits came due during the reporting period. This plan is funded on a pay-as-you-go basis, and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement 75.

In accordance with Title 8, Chapter 27, Part 209, *Tennessee Code Annotated*, the state insurance committees established by Sections 8-27-201, 301, and 701, *Tennessee Code Annotated,* determine the required payments to the plan by member employers and employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs are allocated to plan participants. Employers contribute towards employee costs based on their own developed practices.

*Total OPEB Liability and OPEB Expense*

Proportionate share – The primary government is entirely responsible for the TNP OPEB liability associated with the university's employees. The primary government's proportionate share of the total OPEB liability associated with the university was $2,523,392. At the June 30, 2020, measurement date, the proportion of the collective total OPEB liability associated with the university was 0.001224%. This represents a change of 0.000010% from the prior proportion of 0.001234%. The proportion of the collective total OPEB liability associated with the university was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2020, and a measurement date of June 30, 2020.

Actuarial assumptions – The total OPEB liability in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|---|---|
| Inflation | 2.1% |
| Salary increases | Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4% |
| Healthcare cost trend rates | The premium subsidies provided to retirees in the Closed Tennessee OPEB Plan are assumed to remain unchanged for the entire projection; therefore, trend rates are not applicable. |

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2020, valuations were the same as those employed in the July 1, 2017, pension actuarial valuation of the

Tennessee Consolidated Retirement System (TCRS) for Group I employees. These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Employees and Healthy Participant Mortality Table projected generationally with MP-2016 from the central year for pre-retirement. For post-retirement the tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender-distinct table published in IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate – The discount rate used to measure the total OPEB liability was 2.21%. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA as shown on the Bond Buyer GO 20-Bond Municipal index.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate – The following presents the primary government's proportionate share of the university's related collective total OPEB liability, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.21%) or 1 percentage point higher (3.21%) than the current rate. The university does not report a proportionate share of the OPEB liability for employees in the TNP.

| | 1% Decrease (1.21%) | Current Discount Rate (2.21%) | 1% Increase (3.21%) |
|---|---|---|---|
| Primary government's proportionate share of the collective total OPEB liability | $2,881,933 | $2,523,392 | $2,226,699 |

OPEB expense – For the year ended June 30, 2021, the primary government recognized OPEB expense of $120,220 for employees of the university participating in the TNP.

**Total OPEB Expense**

The total OPEB expense for the year ended June 30, 2021, was $388,373, which consisted of OPEB expense of $268,153 for the EGOP and $120,220 paid by the primary government for the TNP.

## Note 12. Revenues

A summary of adjustments and allowances by revenue classification is presented as follows:

| Revenue Source | Gross Revenue | Less Scholarship Allowances | Less Uncollectible Debts | Net Revenue |
|---|---|---|---|---|
| **Operating revenues:** | | | | |
| Tuition and fees | $ 67,413,223.39 | $ 29,251,948.87 | $ 10,982,704.21 | $ 27,178,570.31 |
| Residential life | 8,096,074.25 | 6,578,638.37 | - | 1,517,435.88 |
| Total | $ 75,509,297.64 | $ 35,830,587.24 | $ 10,982,704.21 | $ 28,696,006.19 |

## Note 13. Insurance-related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, medical malpractice liability, and workers' compensation. By statute, the maximum liability for general liability, automobile liability, and medical malpractice liability is $300,000 per person and $1,000,000 per occurrence. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The state purchases commercial insurance for real property, crime and fidelity coverage on the state's officials and employees, and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first $25,000 to $75,000 of losses based on a tiered deductible system that accounts for averaged losses over a three-year period and the type of loss. The RMF is responsible for property losses for the annual aggregate deductible of $7.5 million for perils other than earthquake and flood. Purchased insurance coverage is responsible for losses exceeding the $7.5 million annual aggregate deductible. For earthquake, named storm, wind/hail, and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $500 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in the New Madrid Zone. Settled claims resulting from these risks have not exceeded maximum commercial insurance coverage in any of the three past fiscal years.

The university participates in the RMF. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2021, is presented in Tennessee's *Annual Comprehensive Financial Report*, which is available on the state's website at www.tn.gov/finance/rd-doa/fa-accfin-ar.html. At June 30, 2021, the RMF held $234 million in cash designated for payment of claims.

At June 30, 2021, the scheduled coverage for the university was $653,282,975 for buildings and $124,534,000 for contents.

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

## Note 14. Commitments and Contingencies

### Sick Leave

The university records the cost of sick leave when paid. The dollar amount of unused sick leave was $35,432,611.99 at June 30, 2021.

### Operating Leases

The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were $180,638.54 and expenses for personal property were $541,441.06 for the year ended June 30, 2021. All operating leases are cancelable at the lessee’s option.

### Construction in Progress

At June 30, 2021, outstanding commitments under construction contracts totaled $77,661,935.44 for Strange Music Building Roof Replacement; ADA compliance and adaptions; tornado repairs and replacement; Health Sciences Facility; Boswell door replacement; migration implementation; multiple building upgrades; campus building envelope; multiple building fire alarms; campus HVAC repairs; power plant equipment; electrical upgrades phase 1 and phase 2; Harned Hall HVAC upgrade; McCord Hall fire alarm system replacement; McMinnville AG Center; landscape improvements phase 1; mechanical, plumbing, and electrical system; perimeter road design; and safety upgrades, of which $19,786,508.03 will be funded by future state capital outlay appropriations.

### Litigation

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

## Note 15. Chairs of Excellence

The university had $8,886,589.44 on deposit at June 30, 2021, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

## Note 16. Natural Classification With Functional Classifications

The university's operating expenses for the year ended June 30, 2021, are as follows:

| | Natural Classification | | | | | |
|---|---|---|---|---|---|---|
| Functional Classification | Salaries | Benefits | Other Operating | Scholarships | Depreciation | Total |
| Instruction | $45,407,606.14 | $13,302,050.07 | $12,949,537.84 | $ 1,064,065.94 | $ - | $ 72,723,259.99 |
| Research | 8,228,836.08 | 2,102,016.46 | 2,449,982.73 | 345,092.25 | - | 13,125,927.52 |
| Public service | 8,809,063.14 | 3,118,886.31 | 2,595,991.06 | 34,000.00 | - | 14,557,940.51 |
| Academic support | 5,714,323.69 | 1,901,254.03 | 2,460,737.98 | 5,500.00 | - | 10,081,815.70 |
| Student services | 9,507,310.78 | 2,904,487.21 | 3,055,714.55 | 18,343.00 | - | 15,485,855.54 |
| Institutional support | 8,289,958.96 | 2,621,383.67 | 7,092,127.43 | - | - | 18,003,470.06 |
| Maintenance and operation | 5,301,158.29 | 2,005,432.36 | 7,584,757.84 | - | - | 14,891,348.49 |
| Scholarships and fellowships | - | - | 20,000.00 | 10,577,955.73 | - | 10,597,955.73 |
| Auxiliary | 3,147,989.98 | 890,106.96 | 13,310,373.40 | 517,299.62 | - | 17,865,769.96 |
| Depreciation | - | - | - | - | 6,488,331.98 | 6,488,331.98 |
| Total | $94,406,247.06 | $28,845,617.07 | $51,519,222.83 | $12,562,256.54 | $6,488,331.98 | $193,821,675.48 |

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 $572,473.84 were reallocated from academic support to the other functional areas.

## Note 17. On-behalf Payments

During the year ended June 30, 2021, the State of Tennessee made payments of $84,600 on behalf of the university for retirees participating in the Closed Tennessee OPEB Plan. The Closed Tennessee Plan is a postemployment benefit healthcare plan and is discussed further in Note 11. The plan is reported in Tennessee's *Annual Comprehensive Financial Report*, which is available on the state's website at http://www.tn.gov/finance/rd-doa/fa-accfin-ar.html.

## Note 18. Voluntary Buyout Program

The university implemented a Voluntary Buyout Plan in fiscal year 2021 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 71 employees participate in the Voluntary Buyout Program with 32 terminating by October 31, 2020, 2 terminating by November 30, 2020, 6 terminating by December 31, 2020, and 31 terminating by January 31, 2021.

**Severance Pay**

- Faculty received a cash payout in the equivalent of 1 year of annual salary (12- and 9-month faculty members).
- Staff to include executive/administrative/professional (excluding members of the President's Cabinet and Academic Deans) and clerical/support personnel received a cash payment in the equivalent of 6 months' salary.

**Severance Benefits**

- one year of the university's portion of health insurance premiums, if enrolled in a health plan;
- use of the Wellness Center at no cost for two years;
- discounts for athletic, theater, and other events for two years;
- full use of the library for a period of two years;
- identification card good for two years; and
- payment of one class (up to four hours) for the employee at the university for spring 2021.

As of June 30, 2021, expenses for payout of severance pay and benefits for the Voluntary Buyout Plan were $4,747,027.62.

## Note 19. Component Unit

The Tennessee State University Foundation is a legally separate, tax-exempt organization supporting Tennessee State University. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the university in support of its programs. The 25-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, 2021, the foundation made distributions of $322,516.77 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Casey Jo Lightfoot, 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 that are readily convertible to known amounts of cash and that have original maturities of three months or less. At June 30, 2021, cash and cash equivalents consisted of $7,265,037.35 in bank accounts and $1,591,501.99 in money markets.

### Deposits

At June 30, 2021, the foundation's bank balance was $8,856,539.34. Of that amount, $8,076,764.69 was uninsured and uncollateralized.

### Investments

The foundation is authorized to invest funds in accordance with its board of directors' policies. In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended, and GASB Statement 72, *Fair Value Measurement and Application,* as amended, investments are reported at fair value, including those with a maturity date of one year or less at the time of purchase, unless otherwise noted. The foundation is authorized to invest funds in accordance with its board of directors' policies.

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

At June 30, 2021, the foundation had the following debt 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 | $ 6,261,867.68 | $ - | $ 3,789,556.58 | $ 2,472,311.10 | $ - | $ - |
| U.S. agencies | 1,412,477.97 | 76,522.54 | 342,048.44 | 993,906.99 | - | - |
| Corporate bonds | 7,115,089.99 | 397,725.89 | 3,526,559.75 | 3,102,806.50 | 87,997.85 | - |
| Mutual bond funds | 14,730,720.61 | - | - | - | - | 14,730,720.61 |
| Foreign bonds | 689,287.37 | 148,967.42 | 361,261.88 | - | 179,058.07 | - |
| Total debt investments | $30,209,443.62 | $ 623,215.85 | $ 8,019,426.65 | $ 6,569,024.59 | $ 267,055.92 | $14,730,720.61 |

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

At June 30, 2021, the foundation's investments were rated as follows:

| | | Credit Quality Rating | | | | |
|---|---|---|---|---|---|---|
| Investment Type | Balance | AAA | AA | A | BBB | Unrated |
| U.S. agencies | $ 1,412,477.97 | $ - | $ 1,412,477.97 | $ - | $ - | $ - |
| Corporate bonds | 7,115,089.99 | 209,575.91 | 564,099.91 | 3,660,936.29 | 2,680,477.88 | - |
| Mutual bond funds | 14,730,720.61 | - | - | - | - | 14,730,720.61 |
| Foreign bonds | 689,287.37 | 10,643.60 | - | 544,637.72 | 134,006.05 | - |
| Total | $23,947,575.94 | $220,219.51 | $ 1,976,577.88 | $ 4,205,574.01 | $ 2,814,483.93 | $14,730,720.61 |

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the foundation's investment in a single issuer. The foundation places no limit on the amount it may invest in any one issuer.

At June 30, 2021, more than 5% of the foundation's investments were invested in the following single issuers:

| Issuer | Percentage of Total Investments |
|---|---|
| IShares S&P 500 Index Fund G Shares | 24.10% |
| State Street Hedged International Developed Equity Index Fund K Class | 5.90% |
| Multi-Manager International Equity Fund P | 5.60% |

Alternative investments – The foundation had investments in hedge funds and real estate investment trusts. The estimated fair value of these assets was $9,444,221.19 at June 30, 2021.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2021. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques. The following hedge funds were purchased for the purpose of diversifying the investment portfolio against volatility in the market. The fund values are as of June 30, 2021.

| | |
|---|---|
| Hedge Fund Managers (Strategic) Ltd. | $ 3,300,591.99 |
| Radcliffe International Ultra Short Duration Select Fund | 1,788,906.25 |
| Taconic Offshore | 752,282.98 |
| Varadero International LTD | 725,168.93 |
| Mackay Municipal Capital Trading | 550,486.18 |
| NB Insurance-Linked Strategies | 525,370.46 |
| New 2nd Capital Fund II | 174,116.00 |
| Total | $ 7,816,922.79 |

*InvenTrust Properties*

The value of shares for the InvenTrust Properties is estimated to be $2.89 per share (ignoring purchase price discounts for categories of purchasers). The estimated value may not reflect the actual market value for these shares on any given date. The fund was valued at $682,754.58, as of June 30, 2021.

*Highlands REIT Inc.*

The value of shares for Highlands REIT Inc. is estimated to be $0.28 per share (ignoring purchase price discounts for categories of purchasers). The estimated value may not reflect the actual market value for these shares on any given date. The fund was valued at $66,149.23, as of June 30, 2021.

*Xenia Hotels & Resorts, Inc.*

The value of shares held for Xenia Hotels and Resorts, Inc. is estimated to be $18.37 per share (ignoring purchase price discounts for categories of purchasers). The estimated value may not reflect the actual market value for these shares on any given date. The fund was valued at $94,274.84, as of June 30, 2021.

*Cousins Properties Incorporated*

The value of shares held for Cousins Properties Incorporated is estimated to be $36.78 per share (ignoring purchase price discounts for categories of purchasers). The estimated value may not reflect the actual market value for these shares on any given date. The fund was valued at $157,602.30, as of June 30, 2021.

*Vanguard ETF*

The value of shares held for Vanguard Real Estate Index Funds is estimated to be $101.79 per share (ignoring purchase price discounts for categories of purchasers). The estimated value may not reflect the actual market value for these shares on any given date. The fund was valued at $626,517.45, as of June 30, 2021.

## Fair Value Measurement

The foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The university has the following recurring fair value measurements as of June 30, 2021:

| | June 30, 2021 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Investments Measured at the Net Asset Value (NAV) |
|---|---|---|---|---|---|
| Assets by Fair Value Level | | | | | |
| Debt securities | | | | | |
| U.S. Treasuries | $ 6,261,867.68 | $ 6,261,867.68 | $ - | $ - | $ - |
| U.S. agencies | 1,412,477.97 | - | 1,412,477.97 | - | - |
| Corporate bonds | 7,115,089.99 | - | 7,115,089.99 | - | - |
| Mutual bond funds | 14,730,720.61 | 14,730,720.61 | - | - | - |
| Foreign bonds | 689,287.37 | - | 689,287.37 | - | - |
| Total debt securities | 30,209,443.62 | 20,992,588.29 | 9,216,855.33 | - | - |
| Equity securities | | | | | |
| Corporate stock | 55,953.92 | 55,953.92 | - | - | - |
| Mutual equity funds | 49,736,703.51 | 49,736,703.51 | - | - | - |
| Equity REITs | 1,627,298.40 | 1,561,149.17 | - | - | 66,149.23 |
| Hedge funds | 7,816,922.79 | - | - | - | 7,816,922.79 |
| Exchange traded funds | 615,886.49 | 615,886.49 | - | - | - |
| Total equity securities | 59,852,765.11 | 51,969,693.09 | - | - | 7,883,072.02 |
| Total assets at fair value | $90,062,208.73 | $72,962,281.38 | $ 9,216,855.33 | $ - | $ 7,883,072.02 |

The table above included all investments for the foundation with the exception of the cash surrender value of life insurance of $134,348.01, which is not measured at fair value.

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Assets classified in Level 2 of the fair value hierarchy are valued using various benchmarks, including the S&P 500 TR Index and Barclays Capital U.S. Aggregate TR Index, in consultation with fund managers.

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

| | Fair Value | Unfunded Commitments | Redemption Frequency (if currently eligible) | Redemption Notice Period |
|---|---|---|---|---|
| **Assets and Liabilities Measured at the NAV** | | | | |
| Hedge Fund Managers (Strategic) Ltd. | $ 3,300,591.99 | N/A | Quarterly (on redemption dates- January 1, April 1, July 1, and October 1—which begin on or after the first anniversary of the purchase of shares being redeemed) | At least 91 days prior to the applicable valuation date (the day immediately preceding the applicable redemption date) |
| Radcliffe International Ultra Short Duration Select Fund | $ 1,788,906.25 | N/A | Monthly | At least 40 days prior to the applicable valuation date (the day immediately preceding the applicable redemption date) |
| Taconic Offshore | $ 752,282.98 | N/A | Quarterly withdraws up to 25% of the balance as of the end of any calendar quarter of any year | 60 days prior written notice, and full withdrawal with 60 days written notice as of the close of business on the Business Day immediately preceding each successive one-year anniversary. Investment anniversary is November 1, 2017. |
| Varadero International Ltd. | $ 725,168.93 | N/A | Quarterly | May redeem all or a portion of shares as of the last calendar day of each calendar quarter upon receipt of at least 90 calendar days prior written notice. |
| Mackay Municipal Capital Trading | $ 550,486.18 | N/A | Quarterly | May redeem all or a portion of shares as of the last calendar day of each calendar quarter upon receipt of at least 65 calendar days prior written notice. |
| NB Insurance-Linked Strategies | $ 525,370.46 | N/A | Quarterly | May redeem all or a portion of shares as of the last calendar quarter upon receipt of at least 90 calendar days prior written notice. |
| New 2nd Capital | $ 174,116.00 | N/A | N/A | N/A |
| Highlands REIT Inc. | $ 66,149.23 | N/A | N/A | N/A |

## Capital Assets

Capital asset activity for the year ended June 30, 2021, was as follows:

| | Beginning Balance | Additions | Transfers | Reductions | Ending Balance |
|---|---|---|---|---|---|
| Land | $ 30,000.00 | $ - | $ - | $ - | $ 30,000.00 |
| Buildings | 285,873.35 | - | - | - | 285,873.35 |
| Equipment | 103,608.09 | - | - | - | 103,608.09 |
| Art and historical treasures | 6,000,000.00 | - | - | - | 6,000,000.00 |
| Total | 6,419,481.44 | - | - | - | 6,419,481.44 |
| Less accumulated depreciation | | | | | |
| Buildings | 34,903.15 | 6,648.22 | - | - | 41,551.37 |
| Equipment | 38,653.17 | 11,531.00 | - | - | 50,184.17 |
| Total | 73,556.32 | 18,179.22 | - | - | 91,735.54 |
| Capital assets, net | $6,345,925.12 | $ 18,179.22 | $ - | $ - | $6,327,745.90 |

The foundation has elected not to capitalize the Bobby Jones Gospel Television Show Collection consisting mainly of videotapes, trophies, plaques, documents, and photos. This collection is held in the university's library collections. This election not to capitalize is based on the collections being held for public exhibition, education, and research in furtherance of public service rather than financial gain. The collections are protected, cared for, and preserved by custodians in the university library.

## Endowments

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

General endowment – The foundation chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, 3.8% of the fair value's three-year rolling average has been authorized for expenditure. The remaining amount, if any, is reinvested into the endowment. At June 30, 2021, net appreciation of $416,406.46 is available to be spent, of which $391,152.97 is included in restricted net position expendable for scholarships and fellowships, and $25,253.49 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, 2021, net appreciation of $908,616.17 is available to be spent, all of which is included in restricted net position expendable for scholarships and fellowships.

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, 2021, net appreciation of $199,969.88 is available to be spent, all of which is included in restricted net position expendable for other.

# TENNESSEE STATE UNIVERSITY

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

| | Proportion of the Net Pension Liability | Proportionate Share of the Net Pension Liability | Covered Payroll | Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|
| 2021 | 1.121074% | $18,366,675 | $24,815,108 | 74.01% | 90.58% |
| 2020 | 1.137630% | 16,065,211 | 25,650,300 | 62.63% | 91.67% |
| 2019 | 1.170750% | 18,912,435 | 27,122,822 | 69.73% | 90.26% |
| 2018 | 1.203914% | 21,545,247 | 28,892,907 | 74.57% | 88.88% |
| 2017 | 1.252600% | 22,854,483 | 30,596,327 | 74.70% | 87.96% |
| 2016 | 1.191040% | 15,355,873 | 31,096,832 | 49.38% | 91.26% |
| 2015 | 1.216453% | 8,392,903 | 33,236,633 | 25.25% | 95.11% |

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

2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information is available.

# TENNESSEE STATE UNIVERSITY
## Required Supplementary Information
## Schedule of Tennessee State University's Proportionate Share of the Net Pension Asset
## State and Higher Education Employee Retirement Plan Within TCRS

| | Proportion of the Net Pension Asset | Proportionate Share of the Net Pension Asset | Covered Payroll | Proportionate Share of the Net Pension Asset as a Percentage of Its Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|
| 2021 | 1.209837% | $426,023 | $13,847,373 | 3.08% | 112.90% |
| 2020 | 1.447632% | 600,442 | 13,579,603 | 4.42% | 122.36% |
| 2019 | 1.480061% | 570,905 | 11,466,708 | 4.98% | 132.39% |
| 2018 | 1.204732% | 249,842 | 6,688,201 | 3.74% | 131.51% |
| 2017 | 1.441635% | 121,450 | 4,472,678 | 2.72% | 130.56% |
| 2016 | 1.527868% | 42,489 | 1,663,791 | 2.55% | 142.55% |

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

2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information is available.

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

| | Contractually Determined Contributions | Contributions in Relation to Contractually Determined Contributions | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a Percentage of Covered Payroll |
|---|---|---|---|---|---|
| 2021 | $4,684,865 | $4,684,865 | $ - | $23,157,920 | 20.23% |
| 2020 | 4,878,656 | 4,878,656 | - | 24,815,108 | 19.66% |
| 2019 | 4,932,552 | 4,932,552 | - | 25,650,300 | 19.23% |
| 2018 | 5,115,289 | 5,115,289 | - | 27,122,828 | 18.87% |
| 2017 | 4,339,729 | 4,339,729 | - | 28,892,907 | 15.02% |
| 2016 | 4,596,552 | 4,596,552 | - | 30,579,269 | 15.03% |
| 2015 | 4,673,854 | 4,673,854 | - | 31,096,832 | 15.03% |
| 2014 | 4,994,849 | 4,994,849 | - | 33,236,633 | 15.03% |
| 2013 | 4,284,542 | 4,284,542 | - | 28,506,603 | 15.03% |
| 2012 | 4,191,277 | 4,191,277 | - | 28,110,510 | 14.91% |

**Notes to Schedule:**

Changes of assumptions: In 2017, the following assumptions were changed: decreased inflation rate from 3% to 2.5%; decreased the investment rate of return from 7.5% to 7.25%; decreased the cost-of-living adjustment from 2.5% to 2.25%; and decreased salary growth graded ranges from an average of 4.25% to an average of 4%.

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

# TENNESSEE STATE UNIVERSITY
## Required Supplementary Information
## Schedule of Tennessee State University's Contributions
## State and Higher Education Employee Retirement Plan Within TCRS

| | Contractually Determined Contributions | Contributions in Relation to Contractually Determined Contributions | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a Percentage of Covered Payroll |
|---|---|---|---|---|---|
| 2021 | $ 294,672 | $ 294,672 | $ - | $16,370,639 | 1.80% |
| 2020 | 239,579 | 239,579 | - | 13,847,373 | 1.73% |
| 2019 | 225,442 | 225,442 | - | 13,579,603 | 1.66% |
| 2018 | 440,493 | 440,493 | - | 11,466,708 | 3.84% |
| 2017 | 246,338 | 246,338 | - | 6,688,201 | 3.68% |
| 2016 | 156,296 | 156,296 | - | 4,472,678 | 3.49% |
| 2015 | 64,389 | 64,389 | - | 1,663,791 | 3.87% |

**Notes to Schedule:**

Changes of assumptions: In 2017, the following assumptions were changed: decreased inflation rate from 3% to 2.5%; decreased the investment rate of return from 7.5% to 7.25%; decreased the cost-of-living adjustment from 2.5% to 2.25%; and decreased salary growth graded ranges from an average of 4.25% to an average of 4%.

1) This is a 10-year schedule; however, contributions to this plan began in 2015. Years will be added to this schedule in future years until 10 years of information is available.

2) To correspond with the reporting date, the amounts presented were determined as of June 30 of the stated fiscal year.

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

| | Contractually Determined Contributions | Contributions in Relation to Contractually Determined Contributions | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a Percentage of Covered Payroll | Number of Covered Employees |
|---|---|---|---|---|---|---|
| 2021 | $ 10,209 | $ 13,020 | $(2,811) | $145,840 | 8.93% | 2 |
| 2020 | 10,209 | 12,993 | (2,784) | 145,840 | 8.91% | 2 |
| 2019 | 10,009 | 12,744 | (2,735) | 142,981 | 8.91% | 2 |
| 2018 | 9,861 | 12,435 | (2,574) | 140,867 | 8.83% | 2 |
| 2017 | 10,670 | 14,708 | (4,038) | 152,428 | 9.65% | 3 |
| 2016 | 11,273 | 15,589 | (4,316) | 161,040 | 9.68% | 3 |
| 2015 | 17,024 | 20,556 | (3,532) | 243,201 | 8.45% | 4 |
| 2014 | 15,244 | 19,407 | (4,163) | 217,778 | 8.91% | 4 |
| 2013 | 15,234 | 19,396 | (4,162) | 217,624 | 8.91% | 5 |
| 2012 | 18,659 | 22,685 | (4,026) | 266,555 | 8.51% | 5 |

1) This is a 10-year schedule.

2) The population of covered employees during the fiscal year is also listed to display trends.

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

# TENNESSEE STATE UNIVERSITY

## Required Supplementary Information

## Schedule of Tennessee State University's Proportionate Share of the Collective Net OPEB Liability

## Closed State Employee Group OPEB Plan

| | University's Proportion of the Collective Total/Net OPEB Liability | University's Proportionate Share of the Collective Total/Net OPEB Liability | University's Covered-Employee Payroll | University's Proportionate Share of the Collective Total/Net OPEB Liability as a Percentage of Its Covered-Employee Payroll | OPEB Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability |
|---|---|---|---|---|---|
| 2021 | 0.97% | $ 8,102,518 | $42,540,363 | 19.05% | 25.20% |
| 2020 | 0.97% | 9,207,535 | 44,628,612 | 20.63% | 18.33% |
| 2019 | 1.03% | 14,282,898 | 48,402,923 | 29.51% | N/A |
| 2018 | 0.94% | 12,624,884 | 52,420,006 | 24.08% | N/A |

1) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

2) The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

3) During fiscal year 2019, the plan transitioned from a pay-as-you-go OPEB plan to a prefunding arrangement where assets are accumulated in a qualifying trust and benefits are paid from that trust. The transition resulted in a significant increase to the discount rate from 3.6% to 6%.

# TENNESSEE STATE UNIVERSITY
## Required Supplementary Information
## Schedule of Tennessee State University's Contributions
## Closed State Employee Group OPEB Plan

| | Actuarially Determined Contributions | Contributions in Relation to Actuarially Determined Contributions | Contribution Deficiency (Excess) | Covered-Employee Payroll | Contributions as a Percentage of Covered-Employee Payroll |
|---|---|---|---|---|---|
| 2021 | $1,688,245 | $1,688,245 | $ - | $27,440,123 | 6.15% |
| 2020 | 1,621,304 | 1,621,304 | - | 42,540,363 | 3.81% |
| 2019 | 1,515,171 | 1,307,950 | 207,221 | 44,628,612 | 2.93% |

1) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

2) Actuarially determined contribution rates are determined based on valuations as of June 30 two years prior to the fiscal year-end in which the contributions are reported.

# TENNESSEE STATE UNIVERSITY
## Required Supplementary Information
## Schedule of Tennessee State University's Proportionate Share of the Collective Total OPEB Liability
## Closed Tennessee OPEB Plan

| | University's Proportion of the Collective Total OPEB Liability | Primary Government's Proportionate Share of the Collective Total OPEB Liability | Primary Government's Total OPEB Liability Associated With the University | University's Covered-Employee Payroll | University's Proportionate Share of the Collective Total OPEB Liability as a Percentage of Its Covered Payroll |
|---|---|---|---|---|---|
| 2021 | 0.00% | $ 2,523,392 | $2,523,392 | $58,321,169 | 0.00% |
| 2020 | 0.00% | 2,160,474 | 2,160,474 | 57,528,415 | 0.00% |
| 2019 | 0.00% | 2,365,278 | 2,365,278 | 60,709,984 | 0.00% |
| 2018 | 0.00% | 2,239,715 | 2,239,715 | 59,593,144 | 0.00% |

1) There are no assets accumulating in a trust that meets the criteria in paragraph 4 of GASB Statement 75 related to this OPEB plan.

2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

3) The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

4) Change of assumptions: In 2021, the discount rate changed from 3.51% to 2.21%.

## TENNESSEE STATE UNIVERSITY
## Supplementary Schedule of Cash Flows - Component Unit
## For the Year Ended June 30, 2021

| | |
|---|---|
| **Cash flows from operating activities** | |
| Gifts and contributions | $ 5,497,256.79 |
| Sales and services of other activities | 873,342.31 |
| Payments to suppliers and vendors | (1,019,657.03) |
| Payments for scholarships and fellowships | (1,650,163.10) |
| Payments to Tennessee State University | (322,516.77) |
| Payments from Tennessee State University | 527,746.48 |
| Net cash provided by operating activities | 3,906,008.68 |
| **Cash flows from noncapital financing activities** | |
| Private gifts for endowment purposes | 876,704.91 |
| Net cash provided by noncapital financing activities | 876,704.91 |
| **Cash flows from investing activities** | |
| Proceeds from sales and maturities of investments | 13,881,824.39 |
| Income on investments | 1,003,671.14 |
| Purchases of investments | (21,023,794.29) |
| Net cash used for investing activities | (6,138,298.76) |
| Net decrease in cash and cash equivalents | (1,355,585.17) |
| Cash and cash equivalents - beginning of year | 10,212,124.51 |
| Cash and cash equivalents - end of year | $ 8,856,539.34 |
| **Reconciliation of operating income to net cash provided by operating activities:** | |
| Operating income | $ 3,544,268.83 |
| Adjustments to reconcile operating loss to net cash used by operating activities: | |
| Noncash operating expenses | 18,179.22 |
| Due from TSU | (184,185.85) |
| Due to TSU | 527,746.48 |
| Net cash provided by operating activities | $ 3,906,008.68 |
| **Noncash investing, capital, and financing activities** | |
| Unrealized gains on investments | $ 12,067,301.49 |

Jason E. Mumpower
*Comptroller*

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

The Honorable Bill Lee, Governor
Members of the General Assembly
Dr. Glenda Baskin Glover, President

We have audited the financial statements of Tennessee State University, an institution of the State University and Community College System of Tennessee, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated September 28, 2022. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

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

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

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



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- Management has not ensured processes were in place to record significant financial transactions, and as noted in the prior four audits, management has continued to disregard basic financial controls by not sufficiently performing bank reconciliations.
- As noted in the prior six audits, management allowed a breakdown of controls that resulted in errors in the financial statements.

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

- As noted in the prior four audits, university personnel did not perform adequate collection procedures for accounts receivable.

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

## Compliance and Other Matters

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

## Tennessee State University's Responses to Findings

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

## Purpose of This Report

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

Katherine J. Stickel

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
September 28, 2022

## Findings and Recommendations

### 1. Management has not ensured processes were in place to record significant financial transactions, and as noted in the prior four audits, management has continued to disregard basic financial controls by not sufficiently performing bank reconciliations

University management did not correct control deficiencies related to the university's and the foundation's financial operations by ensuring adequate processes were in place to record significant transactions, and as noted in the prior four audits, Business Office personnel did not prepare and review bank reconciliations completely or timely.

**Response to Prior-Year Finding**

In response to the absence of proper bank reconciliations, as noted in the most recent prior audit finding, management concurred and stated that bank reconciliations were being performed within 10 to 60 days after month's end, management was investigating unresolved differences between cash per the bank and the accounting records, care was being taken to ensure all banking transactions were included in the accounting records, and staff had undergone additional training. Management also stated they would revise the bank reconciliation policy to require reconciliations to be performed within 30 days of month's end; however, management has since declined to revise the policy. In the years since we initially reported this finding, efforts to implement controls and training have failed, and management has continued to prepare incomplete and untimely reconciliations and neglected to resolve unreconciled differences.

**Condition, Cause, and Effect**

Although Tennessee State University and its foundation are two legally separate entities with separate bank accounts and bank reconciliations, for years, certain funds were combined within the university's operating accounts. Management has still not taken the proper due care to ensure cash balances are correct and transactions are recorded in the appropriate ledger as to university or foundation, allowing unrecorded and misrecorded transactions to accumulate. Also, management has continued to fail to record all transactions timely or make adjustments to the general ledger as needed. As a result, management has been unable to adequately reconcile the bank statements to the general ledger.

The gravity of the bank reconciliation problems had become clear to leadership during the prior audit in fall 2020. University management stated that due to unreconciled differences with prior-year reconciliations and little to no staff available to perform this function, they contracted with a CPA firm in fall 2020 to prepare bank reconciliations for university and foundation accounts from July 2020 through February 2021. University and foundation personnel prepared bank reconciliations for the remaining months of the fiscal year, from March 2021 through June 2021. Yet management still disregarded their responsibilities to properly reconcile the bank accounts. Subsequent bank reconciliations, while performed, still include large unidentified differences between the accounting records and the bank statements through the last known date at the writing of this report, May 2022.

*Not accurately recording transactions*

In the prior-year audit, we identified many past accounting errors while working through the June 2020 bank reconciliation in an extensive collaboration between the auditors, management, and the contracted CPA firm. Those problems included transactions recorded to the foundation that should have been recorded to the university and vice versa, transactions recorded to the correct entity but to incorrect accounts, and transactions that were not recorded in the general ledger of either entity. As part of the prior audit, we made adjustments to the prior audited financial statements and asked management to correct the general ledger. After all that collaborative effort, management failed to make all the required entries to the accounting records to give themselves a fresh start. While there would have been some timing challenges getting the entries made in time for the 2021 financials, as of August 2022, they were not completed for the 2022 financials either. For June 30, 2021, management instead skipped accounting protocols and plugged the difference to investment income.

In the June bank reconciliations for the university and the foundation, management identified the following reconciling differences between the general ledger and the bank activity; however, the general ledger did not reflect the true activity of the various bank accounts.

- The university bank reconciliation included $369,616 of receipts recorded by the bank from March 2020 through June 2021 but not recorded in the general ledger.
- The university bank reconciliation included $3,246,579 of outgoing wire transfers from July 2019 through June 2021 recorded by the bank but not recorded in the general ledger.
- The foundation bank reconciliation included $23,740 of June receipts recorded by the bank but not recorded in the foundation general ledger.
- The foundation bank reconciliation included a voided deposit of $20,000 and $3,196 of returns recorded by the bank but not recorded in the foundation general ledger.
- The foundation and university bank reconciliation included $680,927 of funds owed to the university at year-end. This error consisted of $419,222 of funds transferred from the university to the foundation in error; $153,181 of foundation expenses paid by the university in 2020; $102,095 of foundation expenses paid by the university in 2021; and $6,429 deposited into the foundation account instead of the university account.

Because management did not complete the June reconciliations until approximately 10 months after the end of the fiscal year and after the financial statements were prepared, management was unable to correct the errors in the financial statements. Adjustments were made as needed for the audit report.

*Not adequately performing bank reconciliations*

Since management neither corrected the cash reported in the general ledger nor began to ensure accurate foundation accounting, large unknown reconciling items continued to exist on the bank reconciliations. Leadership was unable to answer fundamental questions about differences noted on the bank reconciliation, and as we asked questions, the unaccounted-for amount increased from

$41,704 to $989,704. We reviewed the origination of the errors and made additional adjustments as needed on the 2021 audited statements.

The June 2021 university bank reconciliation contained similar errors and included an unreconciled difference of $113,945 between the bank and the general ledger. The auditor was able to determine some of the unreconciled differences, bringing the remaining unreconciled difference to $17,178.

The university has written policies and procedures for completing bank reconciliations; however, they were not adequate. While current best practices recommend that management prepare and review bank reconciliations within 30 calendar days after month's end, university policy states that reconciliations should be prepared and completed within 60 days after month's end. Even though the policy allowed additional time, Business Office staff did not follow the policy, and reconciliations were consistently performed even later than that.

None of the reconciliations performed were truly "complete" in that they still included unreconciled differences. For the reconciliation efforts attempted from March 2021 through June 2021, auditors found the following timeliness issues:

- Three of 4 university reconciliations (75%) were completed from 58 to 302 days after month-end.
- One of 4 foundation reconciliations (25%) was prepared 41 days after month-end. An additional reconciliation for the month, which attempted to account for significant unreconciled items from prior months, was subsequently prepared 296 days after month-end.

If management does not address weaknesses related to fiscal management and specifically the cash and bank reconciliation process, the university risks negative impacts to its financial stability and reputation. Incomplete and untimely bank reconciliations could prevent management from correcting significant reporting errors in the financial statements or from detecting possible misappropriations of cash. Untimely reconciliations could also hinder the recovery of potential bank errors. As reconciling items and other amounts are not resolved each month, the chances of identifying and correcting errors decrease.

## **Criteria**

University management is responsible for designing and implementing a system of internal control to ensure the university achieves its objectives, including reporting accurate financial information. University management must monitor the daily operations and activities of the university, the foundation, and its staff.

Completely and timely reconciling bank account balances is an essential control to identify and correct errors and to ensure proper accounting for cash. Bank reconciliations are a basic control for any business or governmental entity. Best business practices recommend that bank reconciliations be completed within 30 calendar days after the end of the month. Reconciliations should not be considered "complete" if the reconciliations still include significant unresolved differences.

**Recommendation**

As the steward of the university's assets, including both its physical assets and reputation, university management must address identified deficiencies and correct ongoing issues, as accurately recording transactions is essential to good financial management. Properly preparing and reviewing bank reconciliations in a timely manner is a basic control that management must no longer ignore.

The Vice President of Business and Finance and the Controller must ensure staff identify unreconciled bank reconciliation items to determine if cash has been misappropriated or errors exist with bank transactions. Each month, Business Office personnel and foundation personnel should prepare and review bank account reconciliations for each bank statement, soon after receiving the bank statements but no later than 30 days after the end of the month. Bank reconciliation policies should be updated to require the university's Business Office personnel and foundation personnel to perform reconciliations within 30 days. Once those policies are modified, management must ensure staff follow them consistently and are properly trained to complete the reconciliations. Management must ensure transactions are recorded in the general ledger, recorded in the correct accounts, and recorded to the proper entity. Each month, management must investigate and correct the unresolved differences between cash per the bank and cash per the accounting records. Management must make the proper adjustments to the accounting records to reflect inaccurate and unrecorded transactions noted in this and prior audits.

**Management's Comment**

We partially concur. We are refining the policy to complete reconciliations no later than 30 days after the end of the month. Finance personnel prepares and reviews separate bank reconciliations for each month. Management has investigated the unresolved differences between cash per bank and cash per the accounting records and has made the necessary adjustments to the accounting records.

Processes have been put into place to review cash transactions daily and ensure that the appropriate entries are made timely.

Additional staff has been hired to ensure that bank reconciliations are performed timely. In addition, new staff members have been trained on how to properly and timely perform bank reconciliations.

**Auditor's Comment**

Management had not made all of the necessary adjustments to the accounting records by the end of our fieldwork date. We will review the accounting records in the subsequent audit to ensure the adjustments were made to the fiscal year 2022 financial statements.

## 2. <u>As noted in the prior six audits, management allowed a breakdown of controls that resulted in errors in the financial statements</u>

### <u>Condition and Cause</u>

Management has continued to allow a breakdown of controls related to financial reporting and has not corrected control deficiencies noted in the prior six audits. Tennessee State University's procedures for preparing and reviewing its financial statements and the accompanying notes to the financial statements remained inadequate to ensure the accuracy, proper classification, and disclosure of information.

In response to the most recent prior audit finding, management stated that they had hired additional personnel, made organizational structure changes, retained a CPA firm to assist with financial statements, and added more training for staff. Because TSU added new staff and provided additional training during or after the fiscal year, not enough time has elapsed to see the full effect of these changes, and additional changes may be needed to address the errors noted in the current-year audit.

*<u>Cash – University and Foundation</u>*

We noted the following errors in the university's and foundation's cash:

- Many cash errors were noted in the prior audit that were not corrected by management in the general ledger (see finding 1). Those problems included transactions recorded to the foundation that should have been recorded to the university and vice versa, transactions recorded to the correct entity but to incorrect accounts, and transactions that were not recorded in the general ledger of either entity. Because the cash entries had to be corrected for the audit report, there were additional entries needed in the categories of due to/from between the university and the foundation; accounts, notes, and grants receivable; accrued liabilities; net position; gifts and contributions revenue; and utilities, supplies, and other services.
- Management also adjusted cash for pending investment trades in violation of generally accepted accounting principles (GAAP). GAAP requires governments to report the effect of investment transactions with an adjustment to investment assets, along with an investment receivable or payable, at trade date and an adjustment to cash at settlement date. At June 30, 2021, certain investment trades for the foundation were not yet settled, and the expected cash settlement should have been reported as a receivable for investments sold of $359,040 and a payable for investments purchased of $1,026,635. Rather than reporting the receivable and the payable, management incorrectly reduced cash for the net amount of $667,595.
- In addition, the amounts reported on the university financial statements as current and noncurrent cash did not agree to supporting documentation. As a result, current cash was overstated, and noncurrent cash was understated by $403,431. Total cash reported for the university was not affected by this classification error.

*Accounts Receivable – University*

We noted the following issues with the university's accounts receivable:

- Management has not performed a write-off of uncollectible accounts receivable since 2017 (see finding 3).
- Management did not ensure that amounts reported in the receivables note agreed with supporting documentation. According to the Controller, the note was prepared before management finalized all entries in the general ledger, which caused the note disclosure errors.
    - Student accounts receivable were disclosed as $29,411,323 instead of $29,616,085, causing an understatement of $204,762.
    - Grants receivable were disclosed as $39,901,864 instead of $39,991,473, an understatement of $89,608.
    - Notes receivable of $51,443 were not disclosed.
    - Other receivables were disclosed as $806,610 instead of 748,309, an overstatement of $58,301.
    - The allowance for doubtful accounts was incorrectly disclosed as $15,420,650 instead of $15,500,528, an understatement of $79,878.
    - Perkins loans receivables were disclosed as $4,070,240 instead of $3,978,568, an overstatement of $91,672.
- The receivables subsidiary ledger did not reconcile to the general ledger and included $475,569 more in accounts receivables compared to the general ledger because management did not perform sufficient reconciliations to detect and correct errors in recording transactions. Although we noted this error in prior audits, the difference has continued to grow. The Controller stated that these ledgers have not agreed for multiple years and reported plans to hire a consulting firm to train staff and implement a daily reconciliation program.

*Capital Assets – University*

Management incorrectly reported capital assets in the financial statements and notes to the financial statements.

- Capital assets (net) and capital appropriations were overstated by $700,000 on the financial statements and projects in progress was overstated by $700,000 in the capital asset note due to a duplication and a calculation error.
- The supporting schedules used to calculate equipment accumulated depreciation in the capital asset note contained calculation errors, causing errors on the financial statements and in the notes to the financial statements.
    - In the financial statements, capital assets (net) were understated by $574,061, depreciation expense was overstated by $48,899, and other nonoperating expenses were overstated by $525,162.

- In the equipment accumulated depreciation line in the capital asset note, additions were overstated by $48,899, reductions were understated by $525,162, and the ending balance was overstated by $574,061.

*Scholarship Discount and Allowances – University*

Management's calculation for scholarship discounts and allowances was based on an incorrect query from the general ledger system. As a result, management overstated residential life auxiliary revenue by $459,357, tuition and fees revenue by $2,288,653, and scholarship and fellowship expense by $2,748,010. Although net position was not affected, users of the financial statements may be misled by the overstatement of housing revenues.

*Investment Income – Foundation*

Because net position on the statement of net position and the statement of revenues, expenses, and changes in net position did not agree due to unrecorded and misrecorded cash transactions, management made an unsupported off-book adjustment to the foundation financial statements to increase investment income and unrestricted net position by $1,119,898 (see finding 1).

*HEERF Revenue and Expenses – University*

Management incorrectly recorded revenue and expenses related to lost revenue for Higher Education Emergency Relief Funds (HEERF) twice. As a result, management overstated other nonoperating revenue and overstated utilities, supplies, and other services operating expenses by $20,881,432. This caused similar errors in the notes to the financial statements. Management stated that they recorded lost revenue twice: 1) to record the initial grant receivable and revenue from the federal government and 2) to record lost revenue and associated expenses. However, management should not have made the second entry to record the lost revenue and associated expenses. Although this error had no effect on ending net position, the overstatement of revenues could affect the decisions of users.

*Insurance Recoveries – University*

Management recorded insurance recoveries received of $2,571,761 from prior-year tornado damage as a reduction in expenses rather than an increase in other nonoperating revenue. As a result, both utilities, supplies, and other services operating expenses and other nonoperating revenues were understated by $2,571,761. This caused similar errors in the notes to the financial statements. Management was unaware of the classification requirements of the Governmental Accounting Standards Board (GASB) Codification Section 1400 for insurance recoveries reported in subsequent years until we brought the requirements to their attention.

*Supplementary Schedule of Cash Flows – Foundation*

Management omitted unrealized gains/(losses) on investments of $12,067,301 in the noncash investing, capital, and financing activities section of the supplementary schedule of cash flows – component unit.

*Fiduciary Activities – University*

Management did not properly account for fiduciary activities of the university.

- TSU did not perform a sufficient analysis of the newly effective GASB Statement No. 84, *Fiduciary Activities*, to determine whether activities should be reported as fiduciary. We performed an analysis and determined that the e-book bundle[1] paid to the vendor met the criteria for fiduciary activity according to the GASB statement. Because management believed the funds were held less than 90 days and did not meet the criteria for reporting, they did not prepare the required statement of fiduciary net position and a statement of changes in fiduciary net position until after we informed management of our analysis showing that separate fiduciary statements were required.
- We also noted the following errors in the fiduciary statements received on July 29, 2022:
    - Management reported a negative beginning net position, causing cash and beginning net position to be understated by $686,140.
    - Management overstated additions and cash by $28,751 due to recording additions for the amount collected through e-book rates above the amount billed from the vendor. The additional amount received should have been recorded as cash and bookstore revenues for the university.
    - Management overstated cash and the due to university liability by $109,039 by including non-fiduciary funds related to the e-book program in the fiduciary statement, which should not be treated as a fiduciary activity.

*Net Position – Foundation*

During our audit and subsequent to the preparation of the financial statements, the Executive Director of the Foundation discovered that the amounts reported on the unaudited financial statements for net position were not correct. The following misstatements were noted:

- Invested in capital assets, net was overstated by $17,809.
- Nonexpendable net position restricted for scholarships and fellowships was overstated by $326,333.
- Nonexpendable net position restricted for research was understated by $278,536.
- Nonexpendable net position restricted for instructional department uses was understated by $149,502.
- Nonexpendable net position restricted for other uses was overstated by $5,496,158.
- Expendable net position restricted for scholarships and fellowships was understated by $200,178.
- Expendable net position restricted for research was understated by $87,626.
- Expendable net position restricted for instructional department uses was understated by $95,975.

[1] TSU contracted with Follett Bookstore to provide e-books to students. TSU charges the students a rate based on course and then remits a contract amount to Follett based on the number of books sold.

- Expendable net position restricted for other uses was understated by $4,747,612.
- Unrestricted net position was understated by $96,592.

*Additions to Permanent Endowments – Foundation*

Management reported additions to permanent endowments as gifts and contributions on the statement of revenues, expenses, and changes in net position. As a result, additions to permanent endowments were understated and gifts and contributions were overstated by $876,705. The Executive Director of the Foundation stated that a manual reclassification entry is required after the financial system creates the financial statements, but this entry was not prepared.

*University and Foundation*

In addition to the reasons management provided for the errors noted above, the university experienced high turnover in its Business Office employees. Staff who prepared entries throughout the year were often not the same staff who prepared year-end entries or the financial statements and notes. The lack of continuity of staff and the loss of institutional knowledge made financial statement preparation more difficult.

We recommended correcting entries, all of which management agreed to post to the financial statements and notes for the audit report.

**Criteria**

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

Section 9-18-102, *Tennessee Code Annotated*, states,

> (a) Each agency of state government and institution of higher education . . . shall establish and maintain internal controls, which shall provide reasonable assurance that:
>
> (1) Obligations and costs are in compliance with applicable law;
>
> (2) Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
>
> (3) Revenues and expenditures are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets.

## Effect

Management's failure to adequately implement a system of internal control increases the risk of TSU not achieving key objectives related to financial reporting. When management and staff do not take adequate care when preparing financial statements and the accompanying notes to the financial statements, the risk of errors in the financial statements increases. Providing inaccurate financial information can negatively impact the decision-making ability of users of the financial statements.

## Recommendation

As stewards of TSU's assets, TSU management must address identified deficiencies and correct pervasive issues. The Vice President of Business and Finance should ensure improved communication and cooperation between all staff with accounting responsibilities and should ensure staff timely complete the information necessary to compile and review the financial statements and notes. The Vice President of Business and Finance should ensure all staff are properly trained and should institute procedures that ensure the accuracy, proper classification, and disclosure of information presented in the financial statements and the accompanying notes. These procedures must include reconciliation processes, both between book and bank and between general and subsidiary ledgers. These procedures should also address the preparation of the financial statements and the notes, as well as the subsequent review process. Management should perform adequate reviews on the statements and the notes to mitigate the risk of errors. Management should ensure staff preparing and/or reviewing the financial statements have adequate knowledge of governmental accounting and reporting requirements to properly perform their responsibilities.

## Management's Comment

We partially concur. The university has addressed accounting staff shortages and continues building, training, and retaining a qualified finance team. Maintaining such a team will ensure that the specific errors documented in the audit finding do not recur.

Management agrees with the assertion that not enough time has elapsed to see the full effect of these changes for the fiscal year 2021 audited financial report.

Although the continued delay in finalizing the audit of the prior year's financial statements has increased the difficulty of preparing the subsequent year's financial statements, management has worked with State Audit staff to formulate a plan that should facilitate the completion of the annual audit so that it is completed before the preparation of the subsequent year's financial report. This plan could not be implemented before the fiscal year 2021 audit and preparing the fiscal year 2022 financial statements. The plan was implemented before the fiscal year 2022 audit and preparing the fiscal year 2023 financial statements.

Management is committed to retaining qualified finance staff to be trained and acquire the necessary experience to prepare the financial statements and the accompanying notes to the financial statements. In addition, having experienced personnel familiar with TSU will help reduce or eliminate errors in the financial statements. Management is also committed to having adequate, qualified staff that will review the financial statements and notes before completion to ensure the accuracy, proper classification, and disclosure of information presented in the financial statements and accompanying notes.

## Auditor's Comment

Management's comments do not dispute the errors reported in our finding. Although management's comments provide details of their efforts to improve controls, as stated previously in the finding and in management's comments, not enough time has elapsed to see the full effect of these changes. We will review the financial statements in the subsequent audit to determine if management's efforts have sufficiently corrected the breakdown of controls related to financial reporting.

## 3. As noted in the prior four audits, university personnel did not perform adequate collection procedures for accounts receivable

## Condition

Our review of Tennessee State University's accounts receivable collection procedures revealed that the university still did not consistently perform timely collection procedures and collection agency assignments in adherence with policy. As accounts receivable cannot be written off until the university has exhausted all collection efforts, accounts receivable reported in the notes may not accurately reflect the amount that the university expects to collect. In addition, we noted that the Bursar's Office did not have a sufficient tracking system for collection letters to ensure they were sent out timely and that the office did not always keep copies of collection letters on file.

In their response to the prior-year finding, management stated they had updated their procedures for the "Collection of Accounts Receivable" policy, effective December 1, 2020, and formed a new Executive Leadership Team of the Division of Business and Finance to work with Bursar's Office staff to ensure that collection efforts are timely and to develop an efficient tracking system that documents when collection letters are mailed. In addition, a dedicated position was created as of August 2021 to focus primarily on collection of accounts receivable. This position was intended to ensure that staff perform collection efforts timely and that the tracking system documents when collection letters are mailed. This position was also intended to meet with the Business and Finance executive staff monthly to ensure progress is made; however, this position has not yet been filled. In the years since we initially reported this finding, management has taken appropriate actions to revise the "Collection of Accounts Receivable" policy; however, management's efforts to ensure accounts receivable collection is performed timely have failed.

At June 30, 2021, the university had 6,140 separate accounts receivable of $100 or more that were outstanding for more than 90 days, totaling $30,892,312. From that group, we selected the largest receivable, representing $8.9 million, and 29 random accounts, representing $178,483, subject to collection procedures. While we did not note any problems with the largest receivable account, we noted errors with all of the random student accounts (100%) tested. TSU management could either not provide evidence of collection efforts at all, or, for those items for which TSU could provide evidence, the collection attempts and collection agency assignments were not timely based on the university's procedures during the period under audit. For receivables with collection efforts due prior to the audit period, we only tested to see if collection efforts were performed during the audit period. For example, if the account should have been sent to collections prior to the audit period, we tested to determine the account was sent to collections during the audit period.

We noted the following errors in the random items.

- For three accounts tested, TSU staff should have sent three collection notices; however, we were unable to find evidence these letters were sent.
- TSU staff did not submit nine accounts to the first and/or second collection agencies timely.
    - One account should have been placed with both collection agencies prior to the audit period.
    - One account should have been placed with the first collection agency in fiscal year 2020 and the second collection agency in fiscal year 2021.
    - Four accounts were previously submitted to the first collection agency; however, they should have also been placed with the second collection agency prior to the audit period.
    - Three accounts should have been placed with both collection agencies during the audit period.
- For 14 accounts tested, TSU did not properly write off the receivable after the second collection agency determined the account to be uncollectible.
- For three accounts tested, the student provided documentation that the account was incorrect; however, TSU staff did not update the accounts.

## Criteria

According to the university's "Collection of Accounts Receivable" policy, for student receivables:

- Receivables are due the day before the first day of the term.
- The first delinquency notice should be sent out beginning on the purge date of the subsequent fall or spring term, and the two subsequent notices, in 30-day intervals.
- The default date and first placement date with a collection agency should occur 30 days after the third delinquency notice.
- The second placement date with a collection agency should occur nine months after an unsuccessful first placement.
- Write-off should occur nine months after unsuccessful placement with the second collection agency.

**Cause**

Management created a revised accounts receivable policy during the fiscal year to address and implement changes. However, staff did not adhere to the requirements of the policy.

**Effect**

Not adhering to appropriate collection efforts could result in the university being unable to collect funds it is owed in a timely manner or at all. It might also result in the university's financial statements not accurately reflecting what it may reasonably expect to collect. As time passes, the likelihood of collecting past-due accounts decreases.

**Recommendation**

Management should ensure that staff perform collection efforts timely in accordance with policy and that the tracking system documents when staff send billing and collection letters. Management should provide oversight and review of the collection process to ensure that staff complete each step properly.

When the university has exhausted its collection efforts, management should submit the receivables for write-off. After the write-off of accounts receivable is approved by the Commissioner of Finance and Administration and the Comptroller of the Treasury, management should remove them from the accounting records, thus reducing the amount of gross receivables reported in the notes to the financial statements.

**Management's Comment**

We partially concur. The university has addressed our staffing needs and hired qualified and competent staff that allows Bursar Offices to perform adequate collection procedures for accounts receivable.

The university hired additional resources, ensuring that the staffing challenges were satisfied. The Associate Vice President for Financial Services is working with the Bursar's Office to hire, train and retain staff to ensure compliance with policy and perform adequate procedures for collecting accounts receivable.

In addition to adequate staffing, management will utilize software to help ensure that collection efforts are timely and to implement an efficient tracking system that maintains documentation of when account statements or collection letters are mailed.

Management will enforce the policy that students should not be able to register for the following semester if they have a receivable due.

**Auditor's Comment**

Management's comments do not dispute the errors reported in our finding. Although management's comments provide details of their efforts to improve collection procedures for accounts receivable, these efforts have not yet resolved the continued errors identified for the current period. We will review this area in the subsequent audit to determine if management has since corrected the issues noted regarding collection efforts.