Tennessee Comptroller of the Treasury

Financial and Compliance Audit Report

Tennessee State University

For the Year Ended June 30, 2022

Jason E. Mumpower
Comptroller of the Treasury

Division of State Audit

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Tennessee Comptroller of the Treasury

TENNESSEE COMPTROLLER OF THE TREASURY

JASON E. MUMPOWER
Comptroller

March 28, 2024

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

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of Tennessee State University, an institution of the State University and Community College System of Tennessee, for the year ended June 30, 2022. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

Consideration of the internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Findings and Recommendations section of this report. The university's management has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

Katherine J. Stickel

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

23/026

Audit Report
Tennessee State University
For the Year Ended June 30, 2022

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TENNESSEE STATE UNIVERSITY

AUDIT HIGHLIGHTS

Tennessee State University's Mission

Tennessee State University, through its legacy as an HBCU and land grant institution, transforms lives, prepares a diverse population of leaders, and contributes to economic and community development by providing affordable and accessible educational programs at various degree levels promoting academic excellence through scholarly inquiry, teaching, research, lifelong learning, and public service.

Opinion on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

TSU management lacks appropriate oversight, allowing a breakdown of controls that created an error-prone environment that has resulted in errors in the financial statements, inadequate daily operations, and deficiencies in oversight of federal programs
Management lacks sufficient controls, oversight, or knowledge over several key areas in their accounting ledger and related systems. These specific weaknesses create an environment prone to errors and untimely identification of errors, and cause enormous complexity in the audit trail for even simple activities for both management and the audit team (page 81).

As noted in the prior five audits, management has continued to disregard basic financial controls by not sufficiently performing bank reconciliations, and management has recorded unsupported financial transactions to improperly eliminate differences in the reconciliations*
The university and its foundation continued to fail to perform reconciliations timely and completely. Both entities reperformed the reconciliations for each month multiple times; the reconciliations were

not prepared and reviewed timely, and the final versions still included unreconciled differences. To eliminate the unreconciled differences, the university posted several large entries to the accounting system without appropriate supporting documentation, and the foundation adjusted the value of reconciling items without explanation or justification for the adjustments (page 90).

As noted in the prior seven audits, management allowed controls to break down, resulting in errors in the financial statements*

Management has continued to allow a breakdown of controls related to financial reporting and has not corrected control deficiencies noted in the prior seven audits. Tennessee State University's procedures for preparing and reviewing its financial statements and accompanying notes to the financial statements did not ensure the accuracy, proper classification, and disclosure of information (page 97).

The university has not properly reported costs associated with construction projects

Management has not developed procedures to ensure the university records capital projects in accordance with generally accepted accounting principles. Our testwork revealed that 16 of 32 projects (50%) should have been capitalized or expensed before or during fiscal year 2022 (page 104).

The university did not appropriately charge tuition for some courses and did not charge student fees in accordance with the approved fee chart

The university did not properly apply tuition and maintenance fees for some courses, resulting in either undercharging or overcharging students. In addition, online undergraduate students were charged fees that did not agree with the board-approved published fee charts (page 106).

The university did not adequately support or identify student withdrawal dates and types

The university did not have adequate policies and procedures to ensure dates and types of student withdrawals from the university were accurate. Our testwork revealed that for student withdrawals, the university assigned incorrect withdrawal dates or types, did not accurately calculate and apply refunds, or did not have sufficient documentation to determine the correct withdrawal date and type (page 111).

As noted in the prior five audits, university personnel did not perform adequate collection procedures for accounts receivable*

As noted in the prior five audits, our review of the university's accounts receivable collection procedures revealed that the university did not consistently perform timely collection procedures and collection agency assignments in adherence with policy (page 115).

The university did not discharge student debt within federal guidance or their internal policy, and scholarship determinations and award calculations were not adequately documented in compliance with federal guidance for Higher Education Emergency Relief Funds

The university did not discharge debt in compliance with federal guidance or the university's internal guidance. In addition, university management did not comply with federal requirements regarding

HBCU HEERF funds for tuition assistance grants, and management overspent the HBCU award. This noncompliance resulted in questioned costs between $17,514,433 and $23,374,124 (page 119).

The university did not provide adequate internal controls in one specific area

The university did not design and monitor effective internal controls in one specific area. Pursuant to Standard 6.63 of the U.S. Government Accountability Office's *Government Auditing Standards*, we omitted details from this finding because they are confidential under provisions of Section 10-7-504(i), *Tennessee Code Annotated* (page 126).

* This finding is repeated from prior audits.

Prior Audit Findings

Three findings from the prior audit report concerning control deficiencies related to significant financial transactions and not sufficiently performing bank reconciliations, financial statement preparation, and inadequate collection procedures for accounts receivable were not resolved and have been repeated.

Jason E. Mumpower
Comptroller

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying 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, its fiduciary fund information, and its discretely presented component unit as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Tennessee State University, its fiduciary fund information, and its discretely presented component unit as of June 30, 2022; and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibility for the Audit of the Financial Statements section of our report. We are required to be independent of the university and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the university's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks; such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the university's internal control; accordingly, no such opinion is expressed;
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; and

- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the university's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matters

As discussed in Note 1, the financial statements of Tennessee State University, an institution of the State University and Community College System of Tennessee, are intended to present the financial position, the changes in financial position, and the cash flows of only Tennessee State University. They do not purport to, and do not, present fairly the financial position of the State University and Community College System of Tennessee as of June 30, 2022, and the changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 19, the financial statements of the Tennessee State University Foundation, a discretely presented component unit of Tennessee State University, include alternative investments valued at $13,527,965.70 (13% of net position of the foundation), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the university implemented Governmental Accounting Standards Board Statement 87, *Leases*, during the year ended June 30, 2022. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 9 through 18, the schedule of Tennessee State University's proportionate share of the net pension liability (asset) – Closed State and Higher Education Employee Pension Plan within TCRS on page 69, the schedule of Tennessee State University's proportionate share of the net pension asset – State and Higher Education Employee Retirement Plan within TCRS on page 70, the schedule of Tennessee State University's contributions – Closed State and Higher Education Employee Pension Plan within TCRS on page 71, the schedule of Tennessee State University's contributions – State and Higher Education Employee Retirement Plan within TCRS on page 72, the schedule of Tennessee State University's contributions – Civil Service Retirement System on page 73, the schedule of Tennessee State University's proportionate share of the collective total/net OPEB liability – Closed State Employee Group OPEB Plan on page 74, the schedule of Tennessee State University's contributions – Closed State Employee Group OPEB Plan on page 75, and the schedule of Tennessee State University's proportionate share of the collective total OPEB liability – Closed Tennessee OPEB Plan on page 76 be presented to supplement the basic financial statements. Such information is the responsibility of management, and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the university's basic financial statements. The supplementary schedule of cash flows – component unit on page 77 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary schedule of cash flows – component unit is the responsibility of the university's management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedule of cash flows – component unit is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2024, on our consideration of the university's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the university's internal control over financial reporting and compliance.

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
March 27, 2024

TENNESSEE STATE UNIVERSITY
Management's Discussion and Analysis
June 30, 2022

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, 2022, with comparative information presented for the fiscal year ended June 30, 2021. 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 has been incurred but not yet expended for capital assets, such amounts are not included. The next category is restricted net position, which is sub-divided into two categories, nonexpendable and expendable. Nonexpendable restricted net position includes endowment and similar resources whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity. Expendable restricted net position is available for expenditure by the university but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the resources. The final category is unrestricted net position. Unrestricted net position is available to the university for any lawful purpose of the university.

The following table summarizes the university's assets, liabilities, deferred outflows/inflows, and net position at June 30, 2022, and June 30, 2021.

Summary of Net Position
(in thousands of dollars)

	2022	2021
Assets:		
Current assets	$ 64,945	$ 65,021
Capital assets, net	263,920	231,283
Other assets	68,179	50,436
Total Assets	397,044	346,740
Deferred Outflows of Resources		
Deferred amount on debt refunding	290	394
Other deferred outflows of resources	18,408	9,963
Total Deferred Outflows of Resources	18,698	10,357

Liabilities:				
Current liabilities		28,847		26,372
Noncurrent liabilities		104,867		98,183
Total Liabilities		133,714		124,555
Deferred Inflows of Resources				
Other deferred inflows of resources		30,494		5,448
Total Deferred Inflows of Resources		30,494		5,448
Net Position:				
Net investment in capital assets		168,600		165,105
Restricted - nonexpendable		362		361
Restricted - expendable		17,340		8,192
Unrestricted		65,232		53,436
Total Net Position	$	251,534	$	227,094

Comparison of Fiscal Year 2022 to Fiscal Year 2021

- The increase in net capital assets is mainly due to an increase of $31.4 million for the construction of the new student housing facility.
- The increase in other assets is mainly due to favorable investment earnings recorded to the pension plan fiduciary net position determined by an actual valuation as of June 30, 2021.
- Deferred outflows of resources increased $8.3 million at June 30, 2022. This increase, 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.
- Current liabilities increased $2.5 million for the year primarily due to the timing of invoices paid for both normal operations and tornado repairs and increased deferral of grant funding received in advance of spending.
- Noncurrent liabilities increased $6.7 million for the year primarily due to the $28.4 million increase of outstanding loans from the revolving credit facility during the current year related to the student housing project, offset by an elimination of the $18.4 million net pension liability at June 30, 2022.
- Deferred inflows of resources increased $25 million at June 30, 2022. This increase, 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.

- Restricted net position increased by $9.1 million. This increase was primarily due to an increase in the amount restricted for pensions. This amount is reflective of the net pension asset at June 30, 2022.
- Unrestricted net position increased by $11.8 million from 2021 to 2022. This increase is primarily due to increased revenue from operating and nonoperating grants and contracts.

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.

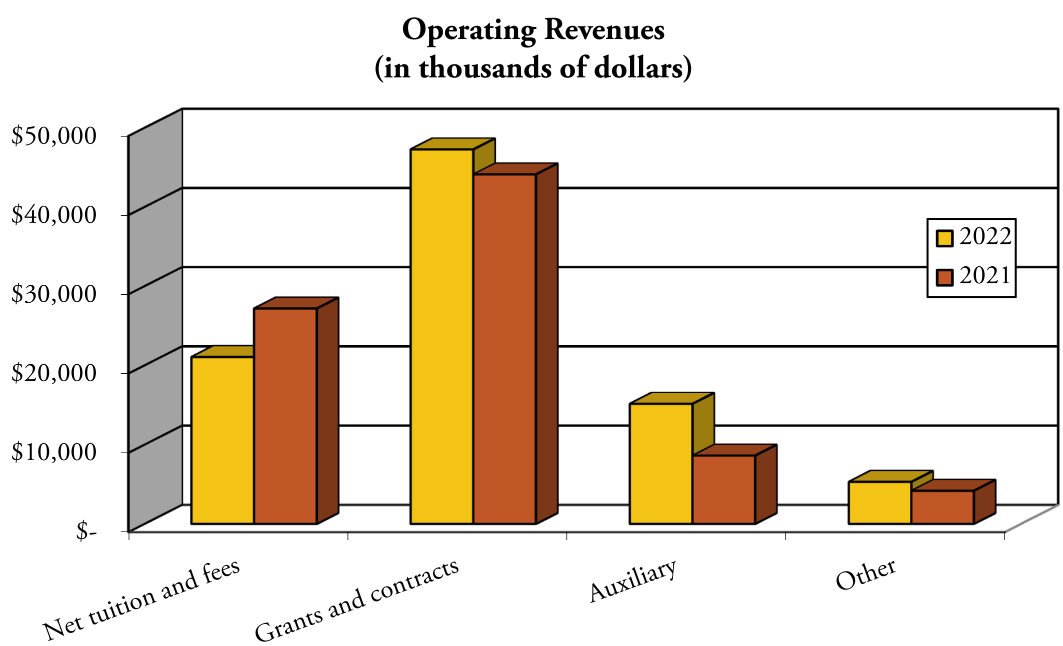
A summary of the university's revenues, expenses, and changes in net position for the year ended June 30, 2022, and June 30, 2021, follows.

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

		2022		2021
Operating revenues	$	90,089	$	84,116
Operating expenses		212,951		193,822
Operating loss		(122,862)		(109,706)
Nonoperating revenues and expenses		144,535		120,484
Income before other revenues, expenses, gains, or losses		21,673		10,778
Other revenues, expenses, gains, or losses		2,767		7,420
Increase in net position		24,440		18,198
Net position at beginning of year		227,094		208,896
Net position at end of year	$	251,534	$	227,094

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 2022 to Fiscal Year 2021

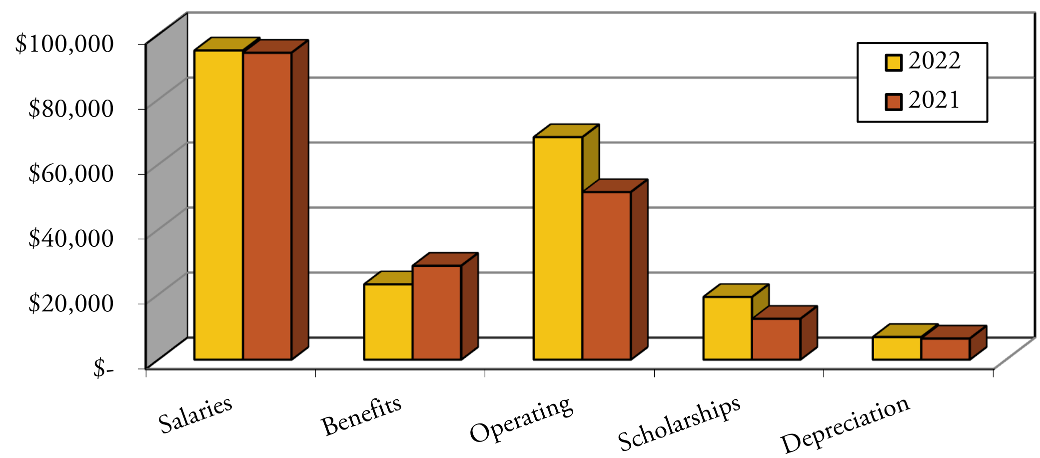
- Several operating revenue areas increased from the prior year as the COVID-19 pandemic stabilized during the fiscal year. These included tuition and fees and food service revenue.

- Operating grants and contracts increased $4.5 million due to an increased level of federal, state, and private externally funded projects.

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:

Natural Classification
(in thousands of dollars)



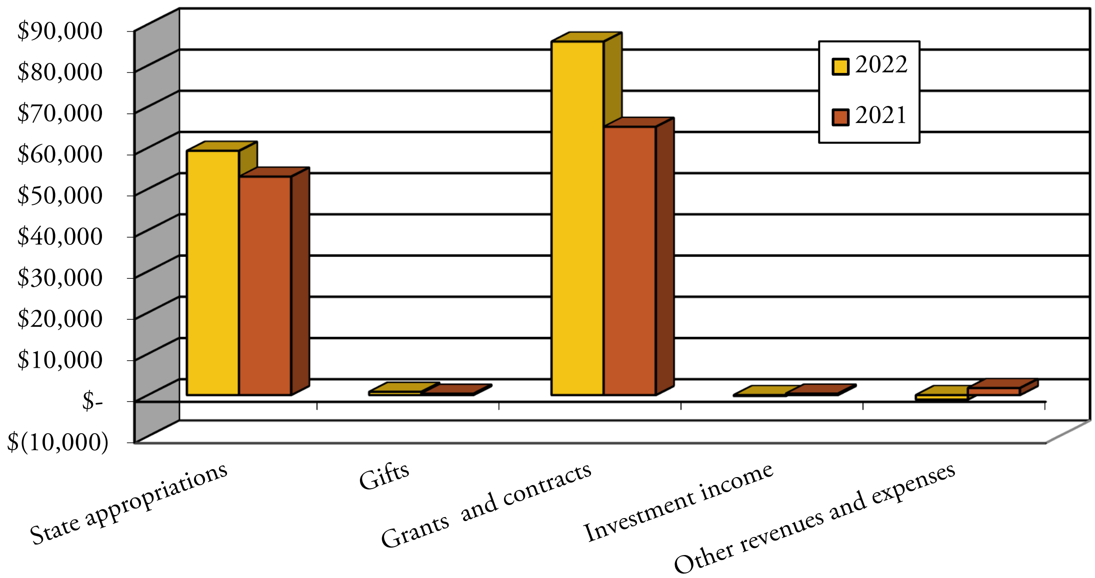
Comparison of Fiscal Year 2022 to Fiscal Year 2021

- Operating expenses increased from the prior year primarily driven by the return to work by employees as the pandemic stabilized.
- Scholarships increased due to increased student enrollment.

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:

Nonoperating Revenues and Expenses
(in thousands of dollars)



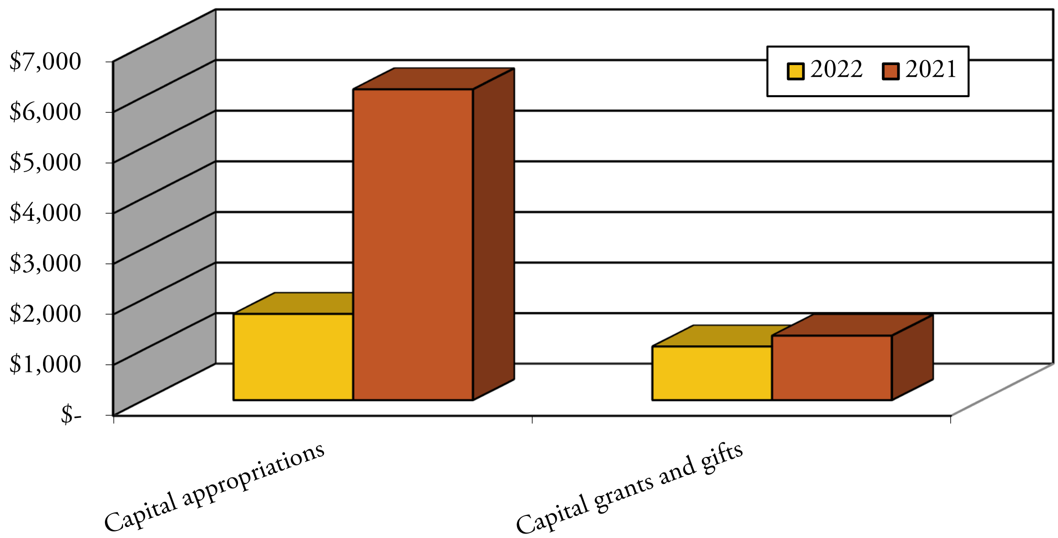
Comparison of Fiscal Year 2022 to Fiscal Year 2021

- State appropriation for general operations increased by $6.3 million over the prior year due to increased funding provided by the Tennessee General Assembly to support the university's retention efforts and continued expansion of the agriculture extension services.
- Grants and contracts increased due to the funding provided by the Higher Education Emergency Relief Funds (HEERF II and III) to aid in lost revenue and tuition assistance associated with the COVID-19 pandemic.

Other Revenues

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

Other Revenues
(in thousands of dollars)



Comparison of Fiscal Year 2022 to Fiscal Year 2021

- Capital appropriations decreased by $4.4 million due to the completion of the Health Sciences Facility, and the university had no additional major projects currently funded by the state during the fiscal year.

Capital Assets and Debt Administration

Capital Assets

Tennessee State University had $263,919,895.49 invested in capital assets, net of accumulated depreciation of $208,905,713.60 at June 30, 2022; and $231,283,442.31 invested in capital assets, net of accumulated depreciation of $203,125,448.06 at June 30, 2021. Depreciation charges totaled $6,957,609.92 and $6,488,331.98 for the years ended June 30, 2022, and June 30, 2021, respectively.

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

		2022		2021
Land	$	10,074	$	9,801
Land improvements and infrastructure		12,003		8,125
Buildings		151,068		153,180
Equipment		7,852		7,242
Library holdings		1,014		998
Intangible assets		-		-
Right-to-use - buildings		635		-
Right-to-use - equipment		44		-
Projects in progress		81,230		51,937
Total	$	263,920	$	231,283

Significant additions to capital assets occurred in fiscal year 2022. These additions were mainly from the ongoing construction of the student housing project and final costs associated with the completion of the Health Sciences Facility.

At June 30, 2022, outstanding commitments under construction contracts totaled $77,623,488.73 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $29,487,678.33 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 $91,792,451.38 and $66,572,351.71 in debt outstanding at June 30, 2022, and June 30, 2021, respectively. The table below summarizes these amounts by type of debt instrument.

Schedule of Outstanding Debt
(in thousands of dollars)

		2022		2021
TSSBA Bonds payable	$	17,436	$	20,311
Unamortized bond premium/discount		1,979		2,307
TSSBA Revolving Credit Facility		72,377		43,954
Total	$	91,792	$	66,572

The TSSBA issued bonds with interest rates ranging from 0.17% to 5.0% due serially 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 $17,436,543.37 outstanding at June 30, 2022, is $2,913,440.73.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2022, 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 9 to the financial statements.

Economic Factors That Will Affect the Future

Since March 11, 2020, when the WHO declared COVID-19 to be a global pandemic, the university has taken steps to soften or offset the effects of the public health crisis. These steps included instructing employees whose job responsibilities allowed to begin alternate work-from-home schedules beginning March 17, 2020, and all classes starting March 30, 2020, followed an online format through the spring and summer 2020 semesters. A combination of ground and online courses was offered during the fall 2020 and spring 2021 semesters. The university fully resumed the normal combination of ground and online classes for the fall 2021 semester. COVID-19 still could 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. Some of these adverse effects have been temporarily offset by federal assistance programs. 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, 2022

	University	Component Unit
Assets		
Current assets:		
Cash and cash equivalents (Notes 2 and 19)	$ 7,624,436.47	$ 3,594,766.77
Investments (Notes 3, 4, and 19)	241,237.33	4,829,609.36
Accounts, notes, and grants receivable (net) (Note 5)	53,293,138.20	82,563.49
Due from State of Tennessee	1,804,495.38	-
Due from TSU Foundation	25,995.21	-
Prepaid expenses	380,763.37	14,500.00
Accrued interest receivable	1,575,032.59	-
Total current assets	64,945,098.55	8,521,439.62
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 19)	50,051,209.28	812,325.45
Investments (Notes 3, 4, and 19)	7,603,222.81	86,635,892.87
Investment in Tennessee Retiree Group Trust	1,316,665.06	-
Accounts, notes, and grants receivable (net) (Note 5)	210,966.21	-
Due from State of Tennessee	1,200,483.61	-
Capital assets (net) (Notes 6 and 19)	263,919,895.49	6,310,068.18
Net pension asset (Note 10)	7,795,901.00	-
Total noncurrent assets	332,098,343.46	93,758,286.50
Total assets	397,043,442.01	102,279,726.12
Deferred outflows of resources		
Deferred amount on debt refunding (Note 8)	290,080.88	-
Deferred outflows related to pensions (Note 10)	15,417,738.83	-
Deferred outflows related to OPEB (Note 11)	2,990,425.65	-
Total deferred outflows of resources	18,698,245.36	-
Liabilities		
Current liabilities:		
Accounts payable (Note 7)	7,378,154.48	55,923.96
Accrued liabilities	7,547,114.97	-
Due to grantor (Note 8)	272,070.51	-
Due to State of Tennessee	3,763,412.52	-
Due to TSU	-	25,995.21
Lease liability	141,533.00	-
Unearned revenue	4,989,262.87	-
Compensated absences (Note 8)	890,490.82	-
Accrued interest payable	206,645.44	-
Long-term liabilities, current portion (Note 8)	2,913,440.73	-
Deposits held in custody for others	744,388.34	-
Other liabilities	-	295,624.27
Total current liabilities	28,846,513.68	377,543.44
Noncurrent liabilities:		
Due to grantors (Note 8)	1,079,576.71	-
Lease liability	541,539.00	-
Compensated absences (Note 8)	7,353,161.98	-
Long-term liabilities (Note 8)	88,879,010.65	-
Net OPEB liability (Note 11)	7,013,495.40	-
Total noncurrent liabilities	104,866,783.74	-
Total liabilities	133,713,297.42	377,543.44
Deferred inflows of resources		
Deferred inflows related to pensions (Note 10)	26,155,109.00	-
Deferred inflows related to OPEB (Note 11)	4,339,320.00	-
Total deferred inflows of resources	30,494,429.00	-
Net position		
Net investment in capital assets	168,599,942.87	6,310,068.18
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	361,545.08	8,443,655.19
Research	-	1,084,873.57
Instructional department uses	-	1,123,462.05
Endowment for Educational Excellence	-	55,921,087.24
Other	-	1,225,323.28
Expendable:		
Scholarships and fellowships	1,262,351.56	10,576,213.81
Research	1,809,571.11	377,651.98
Instructional department uses	1,590,325.55	1,985,410.52
Loans	584,133.11	-
Capital projects	822,981.16	-
Pension	7,795,901.00	-
Endowment for Educational Excellence	-	1,698,050.17
Other	3,474,859.92	11,696,455.28
Unrestricted	65,232,349.59	1,459,931.41
Total net position	$ 251,533,960.95	$ 101,902,182.68

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, 2022

	University	Component Unit
Revenues		
Operating revenues:		
Student tuition and fees (Note 12)	$ 21,059,112.22	$ -
Gifts and contributions	-	13,076,567.95
Governmental grants and contracts	47,275,123.36	-
Nongovernmental grants and contracts	1,285,143.24	-
Sales and services of educational activities	57,058.12	-
Sales and services of other activities	5,222,784.47	235,005.86
Auxiliary enterprises:		
Residential life (Note 12)	768,692.58	-
Bookstore	204,938.13	-
Food service	12,876,842.24	-
Other auxiliaries	1,305,304.83	-
Interest earned on loans to students	33,845.36	-
Total operating revenues	90,088,844.55	13,311,573.81
Expenses		
Operating expenses (Notes 16 and 19):		
Salaries and wages	95,119,226.18	-
Benefits	23,160,076.96	-
Utilities, supplies, and other services	68,436,378.08	3,391,912.97
Scholarships and fellowships	19,277,864.66	784,513.70
Depreciation expense	6,957,609.92	17,677.72
Payments to or on behalf of Tennessee State University	-	786,903.92
Total operating expenses	212,951,155.80	4,981,008.31
Operating income (loss)	(122,862,311.25)	8,330,565.50
Nonoperating revenues (expenses)		
State appropriations	59,264,609.15	-
Gifts, including $786,903.92 from component unit	786,903.92	-
Grants and contracts	85,803,865.87	-
Investment loss (net of investment expense for the component unit of $1,337,938.32)	(230,986.02)	(11,393,501.24)
Interest on capital asset-related debt	(1,062,035.15)	-
Other nonoperating revenues (expenses)	(27,130.08)	-
Total nonoperating revenues (expenses)	144,535,227.69	(11,393,501.24)
Income (loss) before other revenues, expenses, gains, or losses	21,672,916.44	(3,062,935.74)
Capital appropriations	1,704,787.24	-
Capital grants and gifts	1,061,920.34	-
Additions to permanent endowments	-	440,817.40
Total other revenues	2,766,707.58	440,817.40
Increase (decrease) in net position	24,439,624.02	(2,622,118.34)
Net position - beginning of year	227,094,336.93	104,524,301.02
Net position - end of year	$ 251,533,960.95	$ 101,902,182.68

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, 2022

Cash flows from operating activities		
Tuition and fees	$	16,241,138.37
Grants and contracts		47,263,839.95
Sales and services of educational activities		57,058.12
Sales and services of other activities		5,592,208.18
Payments to suppliers and vendors		(68,078,873.78)
Payments to employees		(94,944,479.99)
Payments for benefits		(30,577,617.05)
Payments for scholarships and fellowships		(19,277,864.66)
Loans issued to students		62,791.48
Interest earned on loans to students		(844.44)
Funds received for deposits held for others		90,642.05
Funds disbursed for deposits held for others		(37,820.79)
Auxiliary enterprise charges:		
Residence halls		759,942.88
Bookstore		266,209.55
Food services		12,876,842.24
Other auxiliaries		1,305,304.83
Other receipts		2,636,381.21
Net cash used for operating activities		(125,765,141.85)
Cash flows from noncapital financing activities		
State appropriations		56,457,900.00
Gifts and grants received for other than capital or endowment purposes, including $786,903.92 from component unit		93,917,192.73
Federal student loan receipts		34,894,017.00
Federal student loan disbursements		(34,894,017.00)
Net cash provided by noncapital financing activities		150,375,092.73
Cash flows from capital and related financing activities		
Capital grants and gifts received		1,393,977.33
Purchases of capital assets and construction		(8,947,066.39)
Principal paid on capital debt		(2,874,549.63)
Interest paid on capital debt		(1,238,670.05)
Net cash used for capital and related financing activities		(11,666,308.74)
Cash flows from investing activities		
Proceeds from sales and maturities of investments		6,071,672.06
Income on investments		298,913.76
Purchase of investments		(5,864,953.12)
Net cash provided by investing activities		505,632.70
Net increase in cash and cash equivalents		13,449,274.84
Cash and cash equivalents - beginning of year		44,226,370.91
Cash and cash equivalents - end of year	$	57,675,645.75

TENNESSEE STATE UNIVERSITY
Statement of Cash Flows (cont.)
For the Year Ended June 30, 2022

Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (122,862,311.25)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Noncash operating expenses	9,764,319.07
Change in assets, liabilities, and deferrals:	
Receivables, net	(5,709,854.99)
Due from State of Tennessee	66,142.50
Due from TSU Foundation	654,931.78
Inventories	34,600.07
Prepaid items	(280,502.33)
Net pension asset	(7,369,878.00)
Deferred outflows of resources	(8,444,336.64)
Accounts payable	14,212.74
Accrued liabilities	(443,491.21)
Due to State of Tennessee	2,126,890.20
Due to TSU Foundation	(184,185.85)
Unearned revenues	876,042.61
Compensated absences	639,950.34
Net pension liability	(18,366,675.00)
Net OPEB liability	(1,089,022.60)
Deferred inflows of resources	25,045,663.00
Due to grantors	(255,767.75)
Loans to students	(34,689.80)
Other	52,821.26
Net cash used for operating activities	$ (125,765,141.85)

Noncash investing, capital, or financing transactions	
Unrealized losses on investments	$ (529,899.78)
Proceeds from capital debt	$ 28,422,579.86
Capital appropriations	$ 1,704,787.24
Purchase of capital assets and construction	$ (29,963,924.71)
Other capital and related financing receipts	$ 163,442.92

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

TENNESSEE STATE UNIVERSITY
Statement of Fiduciary Net Position
June 30, 2022

	Custodial Funds
Assets	
Cash and cash equivalents (Note 2)	$ 1,051,608.70
Receivables	
Student receivables (Note 5)	94,500.54
Total receivables	94,500.54
Total assets	1,146,109.24
Liabilities	
Accounts payable and accrued liabilities (Note 7)	1,146,109.24
Total liabilities	1,146,109.24
Net position	-
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
For the Year Ended June 30, 2022

	Custodial Funds
Additions	
Receipts for other organizations	$ 2,245,218.95
Total additions	2,245,218.95
Deductions	
Disbursements for other organizations	2,245,218.95
Total deductions	2,245,218.95
Net increase (decrease) 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.

TENNESSEE STATE UNIVERSITY
Notes to the Financial Statements
June 30, 2022

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 June 2017, the GASB issued Statement 87, *Leases*. This statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The university implemented this standard as of July 1, 2021.

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.

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, intangible assets, and lease assets, are reported in the statement of net position at historical cost or at acquisition value at date of donation, or the present value of lease payments plus other associated lease costs 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. The capitalization threshold for leased assets is set to be the present value of lease payments which equal or exceed the capitalization threshold of the categories already established.

These assets, with the exception of works of art and historical treasures/collections deemed inexhaustible and land, are depreciated/amortized using the straight-line method over the estimated useful lives of the assets or life of the lease agreement, which range from 1 to 60 years.

Pensions

For purposes of measuring the net pension 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 has 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, 2022, cash and cash equivalents consisted of $40,889,578.16 in bank accounts; $3,800 of petty cash on hand; $11,380,056.80 in the Local Government Investment Pool (LGIP) administered by the State Treasurer; $822,981.16 in LGIP deposits for capital projects; and $5,630,838.33 in money market accounts. Of the $58,727,254.45 total cash, $1,051,608.70 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 financial statements for the State Pooled Investment Fund. That report is available on the state's website at https://treasury.tn.gov/Explore-Your-TN-Treasury/About-the-Treasury/Department-Reports.

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, 2022, 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. agencies	$ 7,844,460.14	$ 241,237.33	$3,665,791.68	$ 3,504,415.30	$ 433,015.83	$ -
Total debt investments	$ 7,844,460.14	$ 241,237.33	$3,665,791.68	$ 3,504,415.30	$ 433,015.83	$ -

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, 2022, the university's investments were rated as follows:

		Credit Quality Rating	
Investement Type	Fair Value	AA	Unrated
LGIP (amortized cost)	12,203,037.96	$ -	12,203,037.96
U.S. agencies	7,844,460.14	402,217.65	7,442,242.49
Total	$ 20,047,498.10	$ 402,217.65	$ 19,645,280.45

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
Federal National Mortgage Association	47.54%
Federal Home Loan Bank	5.13%
Federal Home Loan Mortgage Corporation	44.72%

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, 2022:

Assets by fair value level	June 30, 2022	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)
Debt securities:					
U.S. agencies	$ 7,844,460.14	$ -	$ 7,844,460.14	$ -	$ -
Total debt securities	7,844,460.14	-	7,844,460.14	-	-
Total assets at fair value	$ 7,844,460.14	$ -	$ 7,844,460.14	$ -	$ -

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 a third-party investment manager (Wellspring Financial Solutions of Raymond James & Associates, Inc.).

Note 5. Receivables

Receivables at June 30, 2022, included the following:

	June 30, 2022
Student accounts receivable	$ 38,720,570.61
Grants receivable	33,293,499.29
Notes receivable	51,442.53
Other receivables	327,512.32
Subtotal	72,393,024.75
Less allowance for doubtful accounts	(19,033,821.71)
Total receivables	$ 53,359,203.04

Federal Perkins Loan Program funds at June 30, 2022, included the following:

Perkins loan receivable	$	3,322,653.84
Less allowance for doubtful accounts		3,083,251.93
Total	$	239,401.91

Of the $53,598,604.95 total of accounts, notes, and grants receivable, $94,500.54 is held by the fiduciary fund.

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2022, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 9,800,923.30	$ 273,000.00	$ -	$ -	$ 10,073,923.30
Land improvements and infrastructure	54,166,932.82	-	5,359,370	216,428.90	59,309,873.99
Buildings	281,149,029.04	1,037,060.04	444,606.40	-	282,630,695.48
Equipment	32,237,994.38	2,359,050.11	-	891,434.46	33,705,610.03
Library holdings	2,437,053.82	253,993.75	-	313,040.00	2,378,007.57
Intangible assets					
Software	2,679,599.35	-	-	-	2,679,599.35
Right-to-use – buildings	764,787.95	-	-	-	764,787.95
Right-to-use – equipment	53,399.43	-	-	-	53,399.43
Projects in progress	51,937,357.66	35,096,330.80	(5,803,976.47)	-	81,229,711.99
Total	435,227,077.75	39,019,434.70	-	1,420,903.36	472,825,609.09

Less accumulated depreciation/amortization:					
Land improvements and					
infrastructure	46,042,342.97	1,264,193.04	-	-	47,306,536.01
Buildings	127,968,923.31	3,593,101.53	-	-	131,562,024.84
Equipment	24,995,443.81	1,722,935.95	-	864,304.38	25,854,075.38
Library holdings	1,439,138.62	237,800.76	-	313,040.00	1,363,899.38
Intangible assets					
Software	2,679,599.35	-	-	-	2,679,599.35
Right-to-use – buildings	-	129,869.65	-	-	129,869.65
Right-to-use – equipment	-	9,708.99	-	-	9,708.99
Total	203,125,448.06	6,957,609.92	-	1,177,344.38	208,905,713.60
Capital assets, net	$ 232,101,629.69	$ 32,061,824.78	$ -	$ 243,559	$ 263,919,895.49

Note 7. Accounts Payable

Accounts payable at June 30, 2022, included the following:

	June 30, 2022
Vendors payable	$ 8,233,781.40
Other payables	290,482.32
Total accounts payable	$ 8,524,263.72

Of the $8,524,263.72 total of accounts payable, $1,146,109.24 is held by the fiduciary fund.

Note 8. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2022, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 20,311,093.00	$ -	$ 2,874,549.63	$ 17,436,543.37	$ 2,913,440.73
Unamortized bond premium/discount	2,306,723.43	-	327,930.56	1,978,792.87	-
Revolving credit facility	43,954,535.28	28,422,579.86	-	72,377,115.14	-
Subtotal	66,572,351.71	28,422,579.86	3,202,480.19	91,792,451.38	2,913,440.73
Other liabilities:					
Compensated absences	7,603,702.46	2,068,246.06	1,428,295.72	8,243,652.80	890,490.82
Due to grantors	1,607,414.97	-	255,767.75	1,351,647.22	272,070.51
Subtotal	9,211,117.43	2,068,246.06	1,684,063.47	9,595,300.02	1,162,561.33
Total long-term liabilities	$ 75,783,469.14	$ 30,490,825.92	$ 4,886,543.66	$ 101,387,751.40	$ 4,076,002.06

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 0.167% to 5.000%, 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. The bonded indebtedness with the TSSBA included in long-term liabilities on the statement of net position is shown net of unexpended debt proceeds.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2022, are as follows:

Year Ending June 30	Principal	Interest	Total
2023	$ 2,913,440.73	$ 696,286.02	$ 3,609,726.75
2024	2,418,386.52	597,926.08	3,016,312.60
2025	2,526,955.73	507,086.05	3,034,041.78
2026	2,687,096.39	400,179.43	3,087,275.82
2027	1,886,651.30	294,075.95	2,180,727.25
2028–2032	5,004,012.70	449,046.73	5,453,059.43
Total	$ 17,436,543.37	$ 2,944,600.26	$ 20,381,143.63

TSSBA Debt – Revolving Credit Facility

The Tennessee State School Bond Authority (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 $72,377,115.14 at June 30, 2022.

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.

Note 9. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $17,436,543.37 in revenue bonds issued from August 2014 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 Health Sciences Facility. The bonds are payable through 2032. Annual principal and interest payments on the bonds are expected to require 2.06% of available revenues. The total principal and interest remaining to be paid on the bonds is $20,381,143.63. Principal and interest paid for the current year and total available revenues were $3,678,752.85 and $178,229,567.09, respectively.

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, 2022, to the Closed State and Higher Education Employee Pension Plan were $4,653,751.80. Additional contributions of $2,720,896.65 were made to the pension plan by the State of Tennessee on behalf of the university. 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 (Assets), Pension Expense (Negative Pension Expense), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset – At June 30, 2022, the university reported an asset of $6,700,138 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2021, 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, 2021, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2021, measurement date, the university's proportion was 1.095066%. The proportion measured as of June 30, 2020, was 1.121074%.

Pension expense – For the year ended June 30, 2022, the university recognized a negative pension expense of ($1,264,496).

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2022, 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	$ 144,001.00	$ 1,634,671.00
Net difference between projected and actual earnings on pension plan investments	-	23,254,342
Changes in assumptions	7,078,934.00	-
Changes in proportion of net pension asset	-	450,264.00
Contributions subsequent to the measurement date	7,374,648.45	-
Total	$ 14,597,583.45	$ 25,339,277.00

Deferred outflows of resources, resulting from employer contributions of $7,374,648.45 subsequent to the measurement date, will be recognized as a reduction in net pension liability in the year ending June 30, 2023. 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	
2023	$ (3,394,455)
2024	$ (2,941,029)
2025	$ (5,507,563)
2026	$ (6,273,295)

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, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.125%

Mortality rates were based on customized tables based on actual experience, including a projected mortality improvement using Scale MP-2020 (generational projection).

The actuarial assumptions used in the June 30, 2021, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2016, through June 30, 2020. As a result of the 2020 actuarial experience study, investment and 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, 2020, actuarial experience study. A blend of future capital market projections and historical market returns was used in 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 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 of 2.25%. 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	4.88%	31%
Developed market international equity	5.37%	14%
Emerging market international equity	6.09%	4%
Private equity and strategic lending	6.57%	20%
U.S. fixed income	1.20%	20%
Real estate	4.38%	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 6.75% based on a blending of the factors described above.

Discount rate – The discount rate used to measure the total pension liability was 6.75%. 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 (asset) to changes in the discount rate – The following presents the university's proportionate share of the net pension liability (asset) calculated using the discount rate of 6.75%, as well as what the university's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
University's proportionate share of the net pension liability (asset)	$17,697,583	$(6,700,138)	$(27,182,233)

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, 2022, the university reported a payable of $395,683.62 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2022.

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, 2022, to the State and Higher Education Employee Retirement Plan were $383,363.38, which is 1.86% 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, 2022, the university reported an asset of $1,095,763 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2021, 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, 2021, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2021, measurement date, the university's proportion was 1.292989%. At the June 30, 2020, measurement date, the university's proportion was 1.209837%.

Pension expense – For the year ended June 30, 2022, the university recognized a pension expense of $146,371.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2022, 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	$ 27,283.00	$ 129,347.00
Net difference between projected and actual earnings on pension plan investments	-	624,173.00
Changes in assumptions	314,964.00	-
Changes in proportion of net pension asset	94,545.00	62,312.00
Contributions subsequent to the measurement date	383,363.38	-
Total	$ 820,155.38	$ 815,832.00

Deferred outflows of resources, resulting from the university's employer contributions of $383,363.38 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2023. 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		
2023	$	(120,875)
2024	$	(117,689)
2025	$	(115,078)
2026	$	(131,715)
2027	$	34,660
Thereafter	$	71,657

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, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.125%

Mortality rates were based on customized tables based on actual experience, including a projected mortality improvement using Scale MP-2020 (generational projection).

The actuarial assumptions used in the June 30, 2021, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2016, through June 30, 2020. 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, 2020, actuarial experience study. A blend of future capital market projections and historical market returns was used in 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 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 of 2.25%. 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	4.88%	31%
Developed market international equity	5.37%	14%
Emerging market international equity	6.09%	4%
Private equity and strategic lending	6.57%	20%
U.S. fixed income	1.20%	20%
Real estate	4.38%	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 6.75% based on a blending of the factors described above.

Discount rate – The discount rate used to measure the total pension liability was 6.75%. 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 6.75%, 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 (5.75%) or 1 percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
University's proportionate share of the net pension liability (asset)	$169,301	$(1,095,763)	$(2,052,178)

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, 2022, the university reported a payable of $34,436.04 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2022.

Total Defined Benefit Pension Expense

The total negative pension expense for the year ended June 30, 2022, for all state government defined benefit pension plans was $(1,118,125).

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. One of the university's extension employees currently participates in CSRS.

The CSRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Office of Personnel Management, Retirement Information Office, P.O. Box 45, Boyers, Pennsylvania, 16017-0045, or by calling (202) 606-0500. Additionally, the financial statements can be found at https://www.opm.gov/about-us/.

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, 2022, were $10,217.84, which consisted of $5,108.92 from the university and $5,108.92 from the employees. 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 met the requirements for each year.

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 $3,838,700.94 for the year ended June 30, 2022, and $3,768,442.98 for the year ended June 30, 2021. 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, 2022, the university reported a payable of $347,713.52 for the outstanding amount of legally required contributions to the plan required for the year then ended.

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, 2022, contributions totaling $2,293,225.95 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $1,580,249.66 for employer contributions. 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.

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, 2022, was $126.3 million. The university's share of the ADC was $7,013,495.40. During the fiscal year, the university contributed $1,514,312.00 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 $7,013,495.40. At the June 30, 2021, measurement date, the university's proportion of the collective net OPEB liability was 0.983616%. The proportion existing at the prior measurement date was 0.967928%. This resulted in a change in proportion of 0.015688% 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, 2021, and a measurement date of June 30, 2021.

OPEB expense – For the year ended June 30, 2022, the university recognized OPEB expense of $157,096.04.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2022, 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	$ -	$ 670,186.00
Net difference between actual and projected investment earnings	-	485,528.00
Changes in assumptions	463,452.00	1,730,651.00
Changes in proportion and differences between benefits paid and proportionate share of benefits paid	1,012,661.65	1,452,955.00
Contributions subsequent to the measurement date	1,514,312.00	-
Total	$ 2,990,425.65	$ 4,339,320.00

Deferred outflows of resources, resulting from the university's employer contributions of $1,514,312 subsequent to the measurement date, will be recognized as a decrease in net OPEB liability in the year ending June 30, 2023. 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	
2023	$ (716,385)
2024	$ (716,384)
2025	$ (718,104)
2026	$ (717,508)
2027	$ (3,315)
Thereafter	$ 8,490

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, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Healthcare cost trend rates	7.36% for 2022, decreasing annually to an ultimate rate of 4.50% for 2029 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, 2021, valuations were the same as those employed in the July 1, 2021, 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, 2016, through June 30, 2020. 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. For pre-retirement non-disabled general employees, the mortality rates employed in this valuation are taken from the PUB-2010 Headcount-Weighted Employee mortality table projected generationally with MP-2020 from 2010. Post-retirement tables are Headcount-Weighted Below Median Healthy Annuitant and adjusted with a 6% load for males and a 14% load for females, projected generationally from 2010 with MP-2020. 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, projected generationally from 2018 with MP-2020.

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 asset 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, 2021, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
U.S. equity	4.10%
Developed market international equity	4.81%
Emerging market international equity	5.33%
Private equity and strategic lending	3.71%
U.S. fixed income	0.32%
Real estate	2.91%
Cash (government)	(0.22%)

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 Trust 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 Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in assumptions – The long-term inflation rate was increased from 2.1% to 2.25%. Other changes in assumptions include changes made to the medical and drug trend rates, and coverage and acceptance rates to reflect more recent experience and subsidy amounts. Also, changes in retirement, withdrawal, and mortality rates were made to match those provided by TCRS. The net change in liability as a result of these changes is not considered significant.

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	$7,736,880.03	$7,013,495.40	$6,330,070.30

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 (6.36% decreasing to 3.5%) or 1 percentage point higher (8.36% decreasing to 5.5%) than the current rate:

	1% Decrease (6.36% decreasing to 3.5%)	Healthcare Cost Trend Rates (7.36% decreasing to 4.5%)	1% Increase (8.36% decreasing to 5.5%)
University's proportionate share of the collective net OPEB liability	$6,037,140.03	$7,013,495.40	$8,126,851.03

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 $85,812.50 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 $2,268,798. At the June 30, 2021, measurement date, the proportion of the collective total OPEB liability associated with the university was 1.276377%. This represents a change of 0.052575% from the prior proportion of 1.223802%. 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, 2021, and a measurement date of June 30, 2021.

Actuarial assumptions – The total OPEB liability in the June 30, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
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, 2021, valuations were the same as those employed in the July 1, 2021, 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, 2016, through June 30, 2020. 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. For pre-retirement non-disabled general employees, the mortality rates employed in this valuation are taken from the PUB-2010 Headcount-Weighted Employee mortality table projected generationally with MP-2020 from 2010. Post-retirement tables are Headcount-Weighted Below Median Healthy Annuitant and adjusted with a 6% load for males and a 14% load for females, projected generationally from 2010 with MP-2020. 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, projected generationally from 2018 with MP-2020.

Discount rate – The discount rate used to measure the total OPEB liability was 2.16%. 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/Aa2 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 (1.16 %) or 1 percentage point higher (3.16%) than the current rate. The university does not report a proportionate share of the OPEB liability for employees in the TNP.

	1% Decrease (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
Primary government's proportionate share of the collective total OPEB liability	$2,550,736	$2,268,798	$2,030,557

OPEB expense – For the year ended June 30, 2022, the primary government recognized OPEB expense of $77,527 for employees of the university participating in the TNP.

Total OPEB Expense

The total OPEB expense for the year ended June 30, 2022, was $234,623.04, which consisted of OPEB expense of $157,096.04 for the EGOP and $77,527.00 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	$	66,246,080.72	$	(40,910,283.75)	$	(4,276,684.75)	$	21,059,112.22
Residental life		13,938,068.77		(13,169,376.19)		-		768,692.58
Total	$	80,184,149.49	$	(54,079,659.94)	$	(4,276,684.75)	$	21,827,804.80

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 $600 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, 2022, 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, 2022, the RMF held $245 million in cash designated for payment of claims.

At June 30, 2022, the scheduled coverage for the university was $692,333,897 for buildings and $128,634,000 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 $36,745,587.74 at June 30, 2022.

Construction in Progress

At June 30, 2022, outstanding commitments under construction contracts totaled $77,623,488.73 for Strange Music Building Roof Replacement, ADA compliance and adaptations, Goodwill Manor and Harned Hall Exterior Renovation, Boswell door replacement, migration implementation, multiple building upgrades, ADA adaptations, 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, MPE system, perimeter road design, safety upgrades, Poultry Science Center, Drive to 55 Project, Several Buildings' Waterproofing and Exterior Repair, and Foundation and South Halls & Library Roof Replacements, of which $29,487,678.33 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.

Questioned Costs

The following costs were questioned as a result of the current-year audit:

Program	Amount Questioned
Higher Education Emergency Relief Funds (HEERF)	$17,514,433 to $23,374,124

Final resolution of these questioned costs will be determined by the grantor.

Note 15. Chairs of Excellence

The university had $7,815,361.55 on deposit at June 30, 2022, 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, 2022, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 43,443,856.19	$ 9,674,528.73	$ 10,766,343.68	$ 818,162.62	$ -	$ 64,702,891.22
Research	8,393,142.26	2,263,498.63	3,779,117.86	483,180.00	-	14,918,938.75
Public service	9,290,352.90	2,648,734.82	2,987,701.55	(16,300.00)	-	14,910,489.27
Academic support	5,985,952.63	1,422,928.54	3,649,637.17	206,211.23	-	11,264,729.57
Student services	10,810,400.37	2,832,644.36	6,954,716.59	18,561.00	-	20,616,322.32
Institutional support	8,718,729.66	2,080,966.95	10,721,782.44	-	-	21,521,479.05
Maintenance and operation	5,228,847.18	1,459,919.55	12,546,281.05	-	-	19,235,047.78
Scholarships and fellowships	-	-	3,603.14	17,544,913.04	-	17,548,516.18
Auxiliary	3,247,944.99	776,855.38	17,027,194.60	223,136.77	-	21,275,131.74
Depreciation	-	-	-	-	6,957,609.92	6,957,609.92
Total	$ 95,119,226.18	$ 23,160,076.96	$ 68,436,378.08	$ 19,277,864.66	$ 6,957,609.92	$ 212,951,155.80

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 $704,414.71 were reallocated from academic support to the other functional areas.

Note 17. On-behalf Payments

During the year ended June 30, 2022, the State of Tennessee made payments of $85,812.50 on behalf of the university for retirees participating in the Closed Tennessee OPEB Plan. The Closed Tennessee OPEB 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.

The State of Tennessee also made payments of $2,720,896.65 on behalf of the university for retirees participating in the Closed State and Higher Education Employee Pension Plan. The Closed State and Higher Education Employee Pension Plan is a defined benefit pension plan with membership in the Tennessee Consolidated Retirement System and is discussed further in Note 10. 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.

Note 18. Subsequent Events

On March 15, 2021, the Tennessee General Assembly voted to extend the Tennessee State University (TSU) Board of Trustees through June 30, 2023, not including a one-year wind down period in the absence of further extensions. As of March 27, 2024, no new legislation has been passed to extend the TSU Board of Trustees. The TSU Board of Trustees is currently in the wind down period and is set to terminate on June 30, 2024, without further action by the Tennessee General Assembly.

The Tennessee Student Assistance Corporation (TSAC) conducted a review of TSU's procedures for administering state financial aid program in July 2023. The report, issued October 11, 2023, detailed 24 observations, warnings, and findings. Due to the pervasiveness of the issues found, TSAC plans to withhold grant and scholarship payments until 1) TSU returns all amounts erroneously received from TSAC, 2) the review issues are resolved, and 3) TSAC receives and approves a satisfactory review response from TSU. As of March 27, 2024, this matter has not been resolved and state grant and scholarship funds continue to be withheld.

The university has evaluated subsequent events for potential recognition and disclosure through June 30, 2022. In August 2022, the university committed $7,195,163.00 in lease agreements with local hotels to house students during the 2022–2023 academic year.

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 21-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, 2022, the foundation made distributions of $786,903.92 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, 2022, cash and cash equivalents consisted of $3,406,413.55 in bank accounts and $1,000,678.67 in money market accounts.

Deposits

At June 30, 2022, the foundation's bank balance was $4,407,092.22. Of that amount, $3,626,112.30 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, 2022, 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. Treasuries	$ 5,302,334.35	$ -	$ 3,879,200.75	$ 1,423,133.60	$ -	$ -
U.S. agencies	883,386.23	175,400.46	149,521.23	558,464.54	-	-
Corporate bonds	8,546,883.40	941,650.86	2,877,567.59	4,376,556.44	351,108.51	-
Mutual bond funds	11,954,836.37	-	-	-	-	11,954,836.37
Foreign bonds	514,838.41	105,479.57	253,251.17	156,107.67	-	-
Total debt investments	$ 27,202,278.76	$ 1,222,530.89	$ 7,159,540.74	$ 6,514,262.25	$ 351,108.51	$ 11,954,836.37

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, 2022, the foundation's investments were rated as follows:

		Credit Quality Rating				
Investement Type	Fair Value	AAA	AA	A	BBB	Unrated
US agencies	$ 883,386.23	$ -	$ 883,386.23	$ -	$ -	$ -
Corporate bonds	8,546,883.40	154,324.46	440,646.28	5,354,891.82	2,526,833.69	70,187.15
Mutual bond funds	11,954,836.37	-	-	-	-	11,954,836.37
Foreign bonds	514,838.41	9,778.90	-	378,907.21	126,152.30	-
Total	$ 21,899,944.41	$ 164,103.36	$ 1,324,032.51	$ 5,733,799.03	$ 2,652,985.99	$ 12,025,023.52

Alternative investments – The foundation had investments in hedge funds and real estate investment trusts. The estimated fair value of these assets was $13,527,965.70 at June 30, 2022.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2022. 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.

Investments	Fair Value
Hedge Fund Managers (Strategic) Ltd.	$ 3,352,717.51
Radcliffe International Ultra Short Duration Select Fund	1,765,708.65
Taconic Offshore	1,438,475.24
Varadero International LTD	779,205.00
Mackay Municipal Capital Trading	1,008,988.63
NB Insurance-Linked Strategies	1,160,350.74
New 2nd Capital Fund II	588,040.00
Victory Market NTRL Inc	983,514.02
Lowercarbon 411.2 LP	21,950.17
Lowercarbon 419.1 LP	17,419.49
Lowercarbon CH4 1893.4 Oppty Fund	3,517.08
Lowercarbon N20 333.9 Opportunity LP	20,201.20
Metropolitan VII, LP	939,136.00
Spark Capital VII, LP	31,720.00
Spark Capital Growth Fund IV	45,357.00
VMG Partners Fund V	185,687.00
Clearlake Capital Partners VII	299,243.00

InvenTrust Properties

The value of shares for the InvenTrust Properties is estimated to be $26.14 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 $617,583.64, as of June 30, 2022.

Highlands REIT Inc.

The value of shares for Highlands REIT Inc. is estimated to be $0.29 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 $68,511.70, as of June 30, 2022.

Xenia Hotels and Resorts, Inc.

The value of shares held for Xenia Hotels and Resorts, Inc. is estimated to be $14.69 per share. The estimated value may not reflect the actual market value for these shares on any given date. The fund was valued at $75,389.08 as of June 30, 2022.

Cousins Properties Incorporated

The value of shares held for Cousins Properties Incorporated is estimated to be $29.23 per share. The estimated value may not reflect the actual market value for these shares on any given date. The fund was valued at $125,250.55, as of June 30, 2022.

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, 2022:

	June 30, 2022	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	$ 5,302,334.35	$ 5,302,334.35	$ -	$ -	$ -
U.S. agencies	883,386.23	-	883,386.23	-	-
Corporate bonds	8,546,883.40	-	8,546,883.40	-	-
Mutual bond funds	11,954,836.37	11,954,836.37	-	-	-
Foreign bonds	514,838.41	-	514,838.41	-	-
Total debt securities	$ 27,202,278.76	$ 17,257,170.72	$9,945,108.04	$ -	$ -
Equity securities:					
Corporate stock	30,216.45	30,216.45	-	-	-
Mutual equity funds	46,968,239.75	46,968,239.75	-	-	-
Equity REITs	2,446,538.17	2,378,026.47	-	-	68,511.70
Exchange traded fund	2,047,052.48	2,047,052.48	-	-	-
Hedge funds	12,641,230.73	-	-	-	12,641,230.73
Total other investments	64,133,277.58	51,423,535.15	-	-	12,709,742.43
Total assets at fair value	$ 91,335,556.34	$ 68,680,705.87	$9,945,108.04	$ -	$ 12,709,742.43

Notes to the Financial Statements (Continued)

The table above included all investments for the foundation with the exception of the cash surrender value of life insurance of $129,945.89, which is not measured at fair value.

Assets and liabilities 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 measured at the net asset value per share (or its equivalent) is presented in the following table.

	Fair Value at June 30, 2022	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Assets and Liabilities Measured at the NAV				
Hedge fund Manager (Strategic) Ltd.	$ 3,352,717.51	N/A	Quarterly (on redemption dates - January 1, April 1, July 1, and October 1 - which begin on the or after the first anniversary of the purchase of the 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	$ 1,765,708.65	N/A	Monthly redemption on the last business day of the month	30 days prior written notice, prior to the relevant month end
Taconic Offshore	$ 1,438,475.24	N/A	Quarter redemptions at 25%, or annual redemptions at 100% with no lock	60 days prior written notice, and full withdrawal with 60 days written notice as of the close of businees on the business day immediately preceding each successive one-year anniversary. Investment anniversary is November 1, 2017.

Varadero International Ltd.	$ 779,205.00	N/A	Quarterly redemptions, subject to a mandatory fund level gate of 25% if withdrawals exceed 25% of the Master Fund's net asset value during a calendar quarter. 100% at the one year anniversary	90 days notice post lock-up
Mackay Municipal Capital Trading	$ 1,008,988.63	N/A	Quarterly redemptions, subject to a mandatory fund level gate of 25% if withdrawals exceed 25% if withdrawals exceed 25% of the Master Fund's net asset value during a calendar quarter	65 days prior written notice
NB Insurance-Linked Strategies	$ 1,160,350.74	N/A	Quarterly redemptions at 25% of the investor's capital at quarter end	90 days prior written notice
New 2nd Capital II	$ 588,040.00	$ 496,766.00	4 year investment period, 10 year term	N/A
Highlands REIT Inc.	$ 68,511.70	N/A	Daily	Trade date plus one day
Victory Market Neutral Inc.	$ 983,514.02	N/A	Daily	NA
Lowercarbon 411.2 LP	$ 21,950.17	$ 1,518.75	3-6 year investment period, 10 year term	N/A
Lowercarbon 419.1 LP	$ 17,419.49	$ 9,996.25	3-6 year investment period, 10 year term	N/A
Lowercarbon CH4 1893.4 Opportunity Fund	$ 3,517.08	$ 23,980.00	3-6 year investment period, 10 year term	N/A
Lowercarbon N203339 Opportunity LP	$ 20,201.20	$ 2,250.00	3-6 year investment period, 10 year term	N/A
Meropolitan VII, LP	$ 939,136.00	$ 100,000.00	3-6 year investment period, 10 year term	N/A
Spark Capital VII, LP	$ 31,720.00	$ 133,600.00	3-6 year investment period, 10 year term	N/A
Spark Capital Growth Fund IV	$ 45,357.00	$ 283,050.00	3-6 year investment period, 10 year term	N/A
VMG Partners Fund V	$ 185,687.00	$ 798,031.00	3-6 year investment period, 10 year term	N/A
Clearlake Capital Partners VII	$ 299,243.00	$ 687,202.89	3-6 year investment period, 10 year term	N/A

Notes to the Financial Statements (Continued)

Capital Assets

Capital asset activity for the year ended June 30, 2022, 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/amortization:					
Buildings	41,551.37	6,648.22	-	-	48,199.59
Equipment	50,184.17	11,029.50	-	-	61,213.67
Total	91,735.54	17,677.72	-	-	109,413.26
Capital assets, net	$ 6,327,745.90	$ (17,677.72)	$ -	$ -	$ 6,310,068.18

The foundation has elected not to depreciate 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 depreciate 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.

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 general endowment's fair value's three-year rolling average has been authorized for expenditure, as well as up to 75% of the Consent Decree endowment's interest and dividend income, and up to 50% of the Title III endowment's interest and dividend income. The remaining amount, if any, is reinvested into the endowment. At June 30, 2022, net appreciation of $ 1,257,761.22 is available to be spent, of which $1,229,674.31 is included in restricted net position expendable for scholarships and fellowships and $28,086.91 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 (Asset)
Closed State and Higher Education Employee Pension Plan Within TCRS

	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered Payroll	Proportionate Share of the Net Pension Liability/ Asset as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2022	1.095066%	$ (6,700,138)	$23,157,920	28.93%	103.3%
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
2022	1.292989%	$1,095,763	$16,370,639	6.69%	121.71%
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
2022	$4,653,752	$7,374,648	$(2,720,896)	$22,701,165	32.49%
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%

Notes to Schedule:

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

2) Additional contributions were made to the plan by the State of Tennessee on behalf of the university for the year ended June 30, 2022.

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
2022	$ 383,363	$ 383,363	$ -	$20,611,010	1.86%
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:

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
2022	$ 2,177	$ 5,109	$ -	$ 31,104	16.43%	1
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

Notes to Schedule:

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-employee 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 Total/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
2022	0.98%	$7,013,495	$27,440,123	25.56%	39.00%
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. This change was reflected in the June 30, 2020, reporting period due to the one-year lookback on OPEB measurement.

4) The OPEB liability measured as of June 30, 2019, was measured with a 6% discount rate. This was a significant increase from the rate used in prior years and was due to the OPEB plan's transition from pay-as-you-go funding to a prefunding arrangement through a qualifying trust.

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
2022	$1,514,312	$1,514,312	$ -	$38,074,609	3.98%
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
2022	0.00%	$2,268,798	$2,268,798	$51,184,526	0.00%
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.

Supplementary Information
TENNESSEE STATE UNIVERSITY
Schedule of Cash Flows - Component Unit
For the Year Ended June 30, 2022

Cash flows from operating activities	
Gifts and contributions	$ 13,076,567.95
Sales and services of other activities	557,741.68
Payments to suppliers and vendors	(3,447,992.64)
Payments for scholarships and fellowships	(784,513.70)
Payments to Tennessee State University	(1,441,835.70)
Receipts from Tennessee State University	184,185.85
Net cash provided by operating activities	8,144,153.44
Cash flows from noncapital financing activities	
Gifts and grants received for other than capital or endowment purposes	440,817.40
Net cash provided by noncapital financing activities	440,817.40
Cash flows from investing activities	
Proceeds from sales and maturities of investments	18,024,104.77
Income on investments	1,604,020.88
Purchases of investments	(32,662,543.61)
Net cash used for investing activities	(13,034,417.96)
Net decrease in cash and cash equivalents	(4,449,447.12)
Cash and cash equivalents - beginning of year	8,856,539.34
Cash and cash equivalents - end of year	$ 4,407,092.22
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 8,330,565.50
Adjustments to reconcile operating income to net cash provided by operating activities:	
Noncash operating expenses	17,677.72
Change in assets, liabilities, and deferrals:	
Receivables	3,463.94
Due from TSU	184,185.85
Prepaid items	319,271.88
Accounts payable	(56,079.67)
Due to TSU	(654,931.78)
Net cash provided by operating activities	$ 8,144,153.44
Noncash investing, capital, or financing transactions	
Unrealized losses on investments	$ (13,051,196.85)

Tennessee Comptroller of the Treasury

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, 2022, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated March 27, 2024. 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.

Report on 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.

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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:

- TSU management lacks appropriate oversight, allowing a breakdown of controls that created an error-prone environment that has resulted in errors in the financial statements, inadequate daily operations, and deficiencies in oversight of federal programs.
- As noted in the prior five audits, management has continued to disregard basic financial controls by not sufficiently performing bank reconciliations, and management has recorded unsupported financial transactions to improperly eliminate differences in the reconciliations.
- As noted in the prior seven audits, management allowed controls to breakdown, resulting 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 deficiencies to be significant deficiencies:

- The university has not properly reported costs associated with construction projects.
- The university did not appropriately charge tuition for some courses and did not charge student fees in accordance with the approved fee chart.
- The university did not adequately support or identify student withdrawal dates and types.
- As noted in the prior five audits, university personnel did not perform adequate collection procedures for accounts receivable.
- The university did not provide adequate internal controls in one specific area.

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

Report on 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*.

We did, however, note certain immaterial instances of noncompliance that we have included in the Findings and Recommendations section of this report.

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
March 27, 2024

Findings and Recommendations

Finding 1

TSU management lacks appropriate oversight, allowing a breakdown of controls that created an error-prone environment that has resulted in errors in the financial statements, inadequate daily operations, and deficiencies in oversight of federal programs

Condition and Cause

TSU management is responsible for designing and implementing a system of internal control to ensure the university achieves its objectives, including operating effectively and efficiently; reporting accurate financial information; and complying with applicable federal laws, regulations, and grant agreements. TSU management must monitor the ongoing, daily operations and activities of the university and its staff. Management must prepare and fairly present the university's financial statements and the accompanying notes in accordance with accounting principles generally accepted in the United States of America. Because TSU is a recipient of federal grant awards, management must also ensure the university complies with the requirements and provisions of those federal awards. While ensuring the university achieves these objectives, TSU management must safeguard the assets of the university, including its financial and physical assets, as well as TSU's reputation and legacy, to ensure the ongoing viability of the university and to reasonably ensure the university achieves its mission and strategic goals.

Management lacks sufficient controls, oversight, or knowledge over several key areas in their accounting ledger and related systems. These specific weaknesses create an environment prone to errors and untimely identification of errors, and cause enormous complexity in the audit trail for even simple activities for both management and the audit team. Management's inadequate processes to record entries, timely identify errors, and perform routine reconciliations allowed old errors to remain and new errors to enter the ledger. These factors created several known audit errors and increased the risk for other undiscovered errors. Management has either not adequately identified these weaknesses or deemed the weaknesses as immaterial. As such, management has not addressed these internal control and oversight issues with adequate policy, training, or procedure changes. This allowed poor controls and oversight to exist and remain throughout the audit period.

General Ledger Environment

During the course of the audit, several issues were noted related to management's mishandling of routine activities recorded in the accounting system's general ledger. These issues are indicative of not only management's lack of oversight in daily activities, but also management's inability to properly establish an environment of adequate policies and procedures.

We tested 25 journal entries for accuracy, adequate support, and proper approvals. For 2 of the 25 journal entries tested (8%), management could not provide adequate support to verify the journal entry was accurate or for an appropriate business purpose. Specifically:

- For one entry, the supporting documentation was only a copy of the first page of a bank reconciliation showing an unreconciled difference, and management stated there was no other support. The support provided was not considered adequate since actual transactions did not support the unreconciled difference, nor did the university have any research or detailed analysis to verify the nature of the unreconciled differences. The entry reduced cash by $316,577.72 and placed it into a clearing account, which was eventually written off and expensed. See finding 2.
- For one entry, the supporting documentation was not adequate to support the write-off of the account, and management stated there was no other support for the entry. The entry was used to completely write off a clearing account of $776,684.75 on the books. The provided support was not considered adequate since actual transactions did not support the unreconciled difference. See finding 2.

Management's unprecedented lack of control over the accounting system was also highlighted by the commonality of activities requiring more than one entry, entries recorded in the wrong direction, or activities that were double-booked. These series of entries and the various known and potential errors create difficulties for both the audit team and management to determine the accuracy of any specific transaction and, as a result, difficulty in determining the accuracy of the ledger or in creating proper reconciliations. While the complete scope of these issues is difficult to determine, we will highlight a few prominent examples of basic entries requiring significant effort to record.

Direct Loan Drawdown

TSU drew down cash from the G5 system, the U.S. Department of Education's grants system, for the Direct Loan 2020 and Direct Loan 2021 federal awards for $76,706 and $10,348,883, respectively, on September 1, 2020. The ledger required a total cash debit of $10,425,589 to record the two drawdowns. Thirteen entries later and into the following fiscal year, the university still did not have the activity properly booked.

During fiscal year 2021, the activity was booked correctly with the first entry; no further entries were required. However, management posted two additional entries in fiscal year 2021, double-booking the Direct Loan 2021 draw, and then reversing the double-booking entry. The third entry again recorded the correct amounts for fiscal year 2021.

The university then attempted to book the same direct loan draw ten more times during fiscal year 2022. **Table 1** exhibits each entry, the journal's entry cash, and the ledger cash recorded.

Table 1
Ledger Entry Errors, December 2020 Through February 2022

Entries	Entry Cash	Cash Recorded	Entry Date
1	$10,425,589.00	$10,425,589.00	12/10/2020
2	$10,348,883.00	$20,774,472.00	6/23/2021
3	($10,348,883.00)	$10,425,589.00	7/29/2021
4	($10,425,589.00)	$0.00	2/21/2022
5	($10,425,589.00)	($10,425,589.00)	2/21/2022
6	$10,348,883.00	($76,706.00)	2/21/2022
7	($10,425,589.00)	($10,502,295.00)	2/21/2022
8	$10,425,589.00	($76,706.00)	2/21/2022
9	$10,425,589.00	$10,348,883.00	2/21/2022
10	($10,348,883.00)	$0.00	2/21/2022
11	($10,348,883.00)	($10,348,883.00)	2/21/2022
12	$10,425,589.00	$76,706.00	2/21/2022
13	$10,425,589.00	$10,502,295.00	2/21/2022

The entries viewed chronologically paint a picture of the university's lack of understanding of what should have been booked, entries already booked, and how the next entry would impact the ledger cash recorded. On February 21, 2022, alone, ten entries were posted. The result of the collection of entries ultimately double-booked the direct loan 2020 draw, creating an overstatement of cash by $76,706, in fiscal year 2022. The audited statements were corrected.

The Automated Standard Application for Payments (ASAP) Wire

TSU received wires from the federal government from the Automated Standard Application for Payments (ASAP) system. The incoming transactions occurred on June 8, 2021, and June 15, 2021, in the amounts of $101,641.99 and $712,696.79, totaling $814,338.78. **Table 2** exhibits all recorded ASAP ledger entries.

Table 2
ASAP Ledger Entries, June 2021 Through February 2022

Entries	Entry Cash	Cash Recorded	Entry Date
1	$225,810.61	$225,810.61	6/28/2021
2	($124,168.62)	$101,641.99	8/31/2021
3	($225,810.61)	($124,168.62)	8/27/2021
4	$101,641.99	($22,526.63)	8/31/2021
5	($101,641.99)	($124,168.62)	9/08/2021
6	$938,507.40	$814,338.78	9/09/2021
7	($124,168.62)	$690,170.16	2/21/2022

The first entry recorded the June 8, 2021, wires of $101,641.99 and partially recorded $124,168.62 of the June 15, 2021, wires, for a total of $225,810.61. In the second entry, management removed the June 15 wires of $124,168.62, recorded in the first entry. The Director of Grants then posted an entry reversing the original entry of $225,810.61, causing the $124,168.62 to be removed twice. The fourth entry recorded the June 8, 2021, wires of $101,641.99 again, and then this amount was again removed by the fifth entry. At this point, the ledger had a negative $124,168.62 recorded.

The sixth entry recorded the entirety of the June 8 and 15 wires, $814,338.78, and the $124,168.62 portion, removing the cumulative negative balance. The entry result correctly recorded the transactions, but the university posted another entry five months later. The seventh entry created on February 21, 2022, removed the $124,168.62 booked in the sixth entry, resulting in a cash understatement of $124,168.62.

We noted several other examples of activities recorded in the wrong direction, activities recorded twice, and/or multiple correcting entries. Although these situations did not always result in a net error in the fiscal year or are not as complex as the above examples, they further demonstrate management's lack of control and oversight in the general ledger and in daily operations.

Another contributing factor affecting the proper operation of the general ledger is that TSU management began the practice of back-posting audit adjustments in the accounting system, beginning in fiscal year 2021 and continuing the practice into fiscal year 2022. When we noted an audit adjustment, management chose not to post the correction into the current active fiscal year; instead, the entry was back-posted into a prior fiscal year. The back-posted entries negatively impact the ledger and control environment, causing the ledger to no longer support previously performed reconciliations, limiting oversight of the adjustments by excluding them from current activity, and restricting the continuity of ledger activity. To back-post entries to these previous fiscal years, the university keeps multiple fiscal years open. This increases the risk that staff could inadvertently post required entries into a prior fiscal year, requiring additional management oversight to track and correct. This practice is not standard and is against best practices.

The university's accounting ledger developed various errors due to the practice of keeping multiple periods open and back-posting into those periods. The accounting system is not designed to keep several fiscal years open and did not correctly carry forward the entries back-posted in fiscal years 2020 and 2021. Since the entries did not carry forward, the ending balance for a prior year would not agree with the beginning balance for the following year and caused all subsequent years to have an incorrect ending balance. Management identified the problem while preparing the fiscal year 2022 statements and enlisted the assistance of Ellucian, the vendor for the accounting system, to help fix the ledger. The solution required management to post entries into each period to include the adjustment in the year and to forcibly correct the beginning balances. The series of entries created further complexities with the continuity of ledger activity. Although the beginning and ending balances were ultimately corrected by the university, management could have avoided the difficulties encountered, which required a specialist's assistance.

Bank Reconciliations and Unreconciled Differences – University and Foundation

As noted in the prior five audits, the university has inadequate bank reconciliation procedures. Bank reconciliations are not completed timely and do not properly reconcile between the ledger and the bank. The university posted unsupported entries into the ledger to force the ledger to agree with the bank. In addition to not completing the original bank reconciliations timely, the university performed reconciliations twice for each month, and the foundation performed four different reconciliations for each month. Neither the university nor the foundation retained all versions of the reconciliations for any month. Both the university and foundation lack sufficient processes to assess whether they appropriately performed a reconciliation or to identify the missing or erroneous activity on the ledger (see finding 2).

Inadequate Procedures for Preparing and Reviewing Financial Statements

As noted in the prior seven audits, TSU's procedures for preparing its financial statements and accompanying notes to the financial statements were not adequate to ensure the accuracy, proper classification, and disclosure of information. Since we initially reported this issue, efforts to implement controls, train staff, and redefine staff duties have failed, and management has continued to make reporting errors associated with the university and foundation (see finding 3).

Capital Asset Projects Were Not Appropriately Recorded and Capitalized Upon Completion

TSU management did not put procedures in place to ensure the appropriate personnel in the business office were notified of the completion of capital asset projects. This led to financial statement errors, as the completed projects were incorrectly reported as projects in progress and not depreciated. In addition, management included non-capitalizable expenditures in capital asset projects. See finding 4 for the breakdown of the capitalization controls and finding 3 for additional information on the financial statement impacts.

Student Charges – University

There were numerous errors with the application of charges on student accounts. These errors included double-charging dual enrollment students, completely waiving charges on a significant number of graduated courses, and other fee issues (see finding 5).

Student Withdrawals – University

The university did not have support for the withdrawal date or types for student withdrawals. The withdrawal date and type are important in determining the refund of charges for the student and the return of state and federal financial aid (see finding 6).

Inadequate Policies and Procedures for Collecting Accounts Receivable

As noted in the prior five audits, university management did not ensure staff consistently or timely collected accounts receivable or performed collection agency assignments for outstanding receivables (see finding 7).

Higher Education Emergency Relief Fund (HEERF) Awards – Single Audit

The university placed conditions on the debt discharges funded by the Higher Education Emergency Relief Fund (HEERF) against the federal guidance and did not properly maintain documentation required by federal guidance for award calculations for HEERF scholarships (see finding 8).

Inadequate Internal Controls

TSU did not design and monitor effective internal controls in one area. We found internal control deficiencies that violated university or industry-accepted best practices. Pursuant to Standard 6.63 of the U.S. Government Accountability Office's *Government Auditing Standards*, we omitted details from this finding because they are confidential under the provisions of Section 10-7-504(i), *Tennessee Code Annotated* (see finding 9).

Errors Noted by Another State Entity

In addition, the Tennessee Student Assistance Corporation (TSAC) performed a Program Review of TSU's procedures for administering state financial aid programs for the academic year 2022-23. In this October 11, 2023, report, TSAC noted 26 observations, warnings, and findings related to the university's administration of state financial aid. The report noted similar issues with student charges and withdrawals as we discovered during the audit. See findings 5 and 6 for further details.

In addition to the observations, warnings, and findings detailed in the report, TSAC noted overall concern with "TSU's general disregard to practices commonly observed at every other state institution in Tennessee, including:

- failure to establish and foster internal quality controls,

- failure to create, implement or adhere to federal, state, and institutional policies and procedures,
- lack of overall accountability for institutional functions,
- lack of communication and collaboration between departments that are involved in the awarding of state financial aid, and
- an excessive level of undocumented manual manipulation to the Banner Data System."

Although TSAC only tested students who received state aid in fiscal year 2023, the review noted similar issues identified by our audit and indicated that management's failure to provide proper oversight and to establish an appropriate system of internal controls continued into the fiscal year following our audit.

Report Issued by Forensic Auditor

At the request of the Tennessee General Assembly, CliftonLarsonAllen LLP (CLA) performed a forensic audit of Tennessee State University and the Tennessee State University Foundation for the period of July 1, 2019, through June 30, 2023. The forensic audit report issued by CLA contained 56 observations and 60 recommendations for consideration to help improve processes, documentation, and implementation of best practices. CLA identified nine general areas in which the university needs improvement:

1. There was a lack of sufficient supporting documentation maintained with certain transactions.
2. There was a lack of pre-approvals obtained or documented on certain expenditure transactions.
3. In certain areas, actual procedures followed varied from documented policies/procedures.
4. Budget processes are insufficient to allow the university the ability to adequately monitor its budget and spending.
5. Lack of timely document submission increased the time and effort required of university staff to ensure adequate documentation was provided for certain transactions and collect overpayments made to university employees.
6. The university significantly increased its scholarship spending, with total scholarships paid for institutional, departmental, and foundation scholarships increasing by 250% over the four years of the forensic audit. The largest increase was in fiscal year 2022, when the university received significant HEERF funding, a one-time funding source. This level of scholarship spending is not sustainable.
7. The university did not consistently maintain adequate documentation of scholarship criteria or scholarship awards applied to student accounts.

8. Deficiencies in accounts receivable collection efforts and student charges have resulted in lost tuition and fees revenue to the university and allowed the student accounts receivable balance to grow by approximately 113% from July 1, 2019, to June 30, 2023.
9. Deficiencies were identified in the transparency of the university bank reconciliations and financial reports shared with the Board. Additionally, the foundation does not prepare an endowment roll-forward which would facilitate easy tracking of endowment activity over time.

Criteria

Management is responsible for properly recording and accounting for the ledger activity to ensure that the university's financial statements and the accompanying notes are in accordance with accounting principles generally accepted in the United States of America. This includes designing, implementing, and maintaining internal control relevant to the recording and oversight of ledger activity to create financial statements that are fairly presented and 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.

Other specific criteria were included within the condition for each section as appropriate.

Effect

Management's failure to adequately implement a system of internal control increases the risk of TSU not achieving key objectives vital to the university's mission, strategic goals, and continued operations. If management does not address weaknesses related to fiscal management, financial reporting, federal compliance, and university operations, TSU is at risk of negative impacts on its financial stability, ongoing viability, and reputation.

Recommendation

TSU's Executive Leadership must take prompt corrective action to safeguard the university's legacy and future. As the steward of TSU's assets, including both physical assets and the university's reputation, Executive Leadership must address identified deficiencies and correct pervasive issues. Executive Leadership must develop adequate mechanisms to regularly assess and respond to known deficiencies. Upon failure to address and correct these deficiencies, Executive Leadership should hold itself and staff accountable. The Vice President of Business and Finance should ensure staff who are preparing and/or reviewing the ledger, other key systems, and the financial statements have adequate knowledge of accounting and reporting requirements to properly perform their responsibilities.

Management's Comment

We do not concur. As this finding is essentially a summary of the following findings, we refer you to our comments for findings 2-9.

As noted in finding #1, the issue of "Backdating" entries is not valid. State audit required management to explicitly sign off that all audit adjustments were entered. We understood that to mean the entries were required to be back dated for Banner to agree to audited financial statements for prior period issues. We also followed the approach that represents best practices and that was recommended by Ellucian Banner consultants.

We disagree with the part of finding that relates to bank reconciliations. That finding is explained in detail in finding #2 in this report. TSU made the audit entries communicated by state audit. The timing of the audit and the entries caused multiple reconciliations to be performed.

Regarding the issue of management's mishandling of routine activities recorded in the accounting system's general ledger, that is not the case. The response to finding #3 explains the TSU response in detail.

Auditor's Comment

We have reviewed management's comments. We also refer the reader to our comments for findings 2-9. With regard to backdating entries, we did not request or require management to post the entries to prior periods.

Finding 2

As noted in the prior five audits, management has continued to disregard basic financial controls by not sufficiently performing bank reconciliations, and management has recorded unsupported financial transactions to improperly eliminate differences in the reconciliations

Response to Prior-Year Finding

In the years since we initially reported this finding, Tennessee State University's efforts to implement controls and training have repeatedly failed. In the current audit, we continued to note issues relating to the bank reconciliations containing unreconciled differences used to balance the reconciliations, as well as reconciliations that were not completed timely.

In response to the prior-year finding, management stated they investigated the unresolved differences between cash per the bank and cash per the accounting records in the bank reconciliation, made the necessary adjustments to the accounting records, and hired additional staff. In January 2022, management instituted new software to help staff perform bank reconciliations. Management also stated they were refining the university's bank reconciliation policy to require complete reconciliations within 30 days after the end of the month. The previous policy, which allowed 60 days to complete all reconciliations, was still in effect during fiscal year 2022. On November 17, 2022, the university instituted a new bank reconciliation policy stating, "The reconciliation should be performed timely, within 30 days after the month's end and 45 days after the year-end close." Due to the year-end close exception, the new policy still does not follow best practices for performing all bank reconciliations within 30 days.

Condition and Cause

The university and its foundation continued to fail to perform reconciliations timely and completely during fiscal year 2022. The initial reconciliations performed were not complete as both entities reperformed the reconciliations for each month multiple times; the reconciliations were not prepared and reviewed timely, and the final versions still included unreconciled differences. To eliminate these unreconciled differences, during the audit period, the university posted several large entries to the accounting system to force the general ledger to reconcile to the reconciled bank balance without appropriate supporting documentation, and the foundation adjusted the value of certain reconciling items to cause the reconciliation to balance with no explanation or justification for the adjustments.

Multiple Reconciliations

The university performed the bank reconciliation for each month twice, and the foundation performed the bank reconciliation for each month 4 times. For the university and foundation, respectively, the additional reconciliations occurred between 41 to 194 days and 80 to 512 days after the initial reconciliations. The university completed the final reconciliation for each month of fiscal year 2022 in September 2022. The foundation completed the second version in October 2022, the third in January 2023, and the final in February 2023. The third and fourth versions of the foundation's reconciliations were completed after we requested the bank reconciliations for the 2022 audit.

Management determined these additional reconciliations were necessary after deciding to back-post audit adjustments from the prior audit into the preceding year's ledger instead of posting those adjustments in the current-year ledger. The audit team could not verify these claims since neither the university nor the foundation retained each version of the reconciliations. See Finding 1 for more on back-posted entries.

Reconciliation Timeliness

The university has written policies and procedures for completing bank reconciliations; however, the policies were not adequate. While current best practices recommend that management prepare and review bank reconciliations within 30 calendar days after month-end, university policy during the audit period stated that reconciliations should be prepared and completed within 60 days of month-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. The foundation does not have a bank reconciliation policy.

We evaluated each version of the bank reconciliations for timeliness. We found that 10 of 12 (83.3%) of the university's first reconciliations did not comply with the 30-day best practice; instead, they were completed 35 to 213 days after month-end. Six of 12 (50%) of the university's first reconciliations did not comply with its 60-day requirement, as they were completed between 68 to 213 days after month-end. Although each of the foundation's first reconciliations were prepared within 30 days of month-end, 6 of 12 (50%) of the foundation's first reconciliations were reviewed between 32 to 44 days after month-end. **Tables 1** and **2** demonstrate these results and represent how many days passed between the end of each month and the date the reconciliations were reviewed and approved.

Table 1
University's Reconciliation Timeliness, Fiscal Year 2022

Original Reconciliation Month	Days After Month-end	
	Version 1	Version 2
July 2021	213	409
August 2021	186	378
September 2021	157	348
October 2021	127	314
November 2021	98	287
December 2021	68	256
January 2022	38	225
February 2022	16	197
March 2022	35	166
April 2022	24	136
May 2022	36	105
June 2022	42	84

Table 2
Foundation's Reconciliation Timeliness, Fiscal Year 2022

Original Reconciliation Month	Days after month-end			
	Version 1	Version 2	Version 3	Version 4
July 2021	44	449	524	556
August 2021	37	408	492	524
September 2021	29	388	463	495
October 2021	30	357	432	464
November 2021	32	327	402	434
December 2021	41	296	371	403
January 2022	37	265	340	372
February 2022	29	237	312	344
March 2022	27	206	281	313
April 2022	17	176	251	283
May 2022	14	145	220	252
June 2022	35	115	190	222

Per discussions with management, the university's initial reconciliations were untimely because management waited to perform those reconciliations until they set up a third-party software and hired a new Financial Analyst III to assist with bank reconciliation preparation. The new staff member was hired in January 2022. However, 4 of the 6 (66.7%) reconciliations performed from January to June were initially completed over 30 days after month-end, ranging from 35 to 42 days, and all 6 months were beyond both 30 and 60 days for the final reconciliations, ranging from 84 to 225 days after month-end.

Unreconciled Differences

The final reconciliations for each month still contained unreconciled differences, and sometimes the reconciling items were incorrect. Auditors discovered eight entries in the accounting system that management created to force the system's cash balance to agree with the cash balance reported in the university's bank account after identifying reconciling items. The university lacked appropriate documentation to support the entries' nature and justification. The net impact of the entries, which were recorded in July 2021 and June 2022, reduced ledger cash for the year by $740,770.64.

Even after performing 2 reconciliations and posting the unreconciled difference entries, the university had significant unreconciled differences of $10,343 to $105,688 for 10 of 12 months (see **Table 3**). Removing these entries would greatly impact the differences for each month's reconciliations.

Table 3
The University's Unreconciled Cash Entries Per Month, Fiscal Year 2022

Month	Unreconciled Cash Entries
July 2021	$100.00
August 2021	$10,342.52
September 2021	$105,688.04
October 2021	$97,498.82
November 2021	$96,583.23
December 2021	$69,002.10
January 2022	($27,722.87)
February 2022	($30,485.14)
March 2022	$52,329.14
April 2022	$46,269.85
May 2022	$20,881.58
June 2022	$100.00

Foundation management was only able to provide the initial and fourth versions of the foundation's monthly bank reconciliations. We compared the first and fourth completed versions of the June 2022 reconciliation noting the first version contained significant unresolved differences. We audited the fourth version of the reconciliation and noted several improper reconciling items on this version of the June reconciliation, including reconciling items that were adjusted without explanation or support. Management agreed with those identified errors and, in response, provided a fifth version for each month, updating the treatment for the various reconciling items. The updated reconciling items did not cause significant unreconciled differences for the other months during the fiscal year. See **Table 4.**

Table 4
Unresolved Differences on Foundation's Bank Reconciliations

Month	Version 1	Version 4 Per Management	Audited Version 4
June 2022	($1,048,701.76)	$0.83	($11,791.35)

Management stated that the unreconciled differences for the university and the foundation were primarily caused by the historic issues with university and foundation cash from fiscal year 2020 and before. However, the administration lacked documentation or research verifying that the unreconciled activity was due to the historic cash issues. Management believes that the university's reconciliations for fiscal year 2021 contained significant errors beyond those previously discovered. However, even after management posted the unreconciled difference entries in July 2021, the university continued to struggle with properly reconciling each month without posting more unreconciled difference entries through June 2022. Due to these factors, the audit team requested additional information from management and performed additional procedures to reach assurance on the cash balance.

One Reconciliation for Multiple Accounts

While university and foundation management did perform separate reconciliations for the university and the foundation, the university continued to perform a single reconciliation for the operating, payroll, and merchant services bank accounts. This approach does create additional difficulty in identifying where unreconciled differences remain or where possible reconciling items would exist.

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 all 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 or require multiple reperformed versions.

Effect

A bank reconciliation is only as valuable as the entity's ability to complete the reconciliation properly, timely, and without significant differences. Properly completing a reconciliation ensures that activities are correctly recorded in the accounting system and resolved in an appropriate timeframe. The inability to properly perform a reconciliation highlights potential issues with activities being missing, booked in the wrong direction, double-booked, or not processed correctly with the bank. When the university does not perform bank reconciliations timely and completely, it significantly limits management's and the public's assurance that the ledger is accurate. Not completing reconciliations accurately and timely also reduces management's ability to identify possible misappropriation of assets.

Recommendation

Properly preparing and reviewing bank reconciliations in a timely manner is a basic control that management must not ignore. Furthermore, the ledger should accurately reflect the separate bank accounts and activity.

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, soon after receiving the bank statements but no later than 30 days after the end of the month, Business Office personnel and foundation personnel should prepare and review bank account reconciliations for each bank statement. The board should further update bank reconciliation policies to require the university's Business Office personnel and foundation personnel to perform all reconciliations within 30 days for all months. Once those policies are modified, management must ensure staff follow them consistently and are properly trained to complete the reconciliations. Management should perform separate reconciliations for each bank account and must ensure transactions are recorded in the general ledger and in the correct accounts, recorded to the proper entity, and properly supported. Each month, management must investigate and correct the unresolved differences between cash per the bank and cash per the accounting records. Management should close prior periods timely after year-end and have a policy or system control to close months from additional entries. This ensures that the fiscal years and months continue to agree with prepared reconciliations and other reports and maintains the financial activity for management and external oversight.

Management's Comment

We do not concur. Management disputes this finding as it is absolutely incorrect. Financial controls have been implemented to ensure that bank reconciliations are performed timely and accurately.

TSU policies regarding bank reconciliations were changed to incorporate the best practices as recommended to TSU by the Comptroller's Office, of reconciling bank statements within 30 days of the month end, and within 45 days of the year end. Additionally, the TSU Board of Trustees passed a resolution in November 2022 pertaining to this 30-day practice.

We received the audited financial statements, The Financial and Compliance Audit Report, late in the fiscal year which contained the audited beginning balances from the Comptroller's Office.

TSU hired an accountant in January 2022, with the specific responsibility of correcting procedures regarding bank reconciliations and preparing bank reconciliations timely and accurately. In addition, TSU invested in specialized software and adequate competent staff and implemented the successful change of practice to record all cash transactions daily which yielded success by the end of FY22.

For the months of January through May of 2022, bank statements were reconciled within the thirty-day period on average, thereby meeting the TSU goal. For the month of June 2022, bank statements were reconciled within 42 days, thereby meeting the TSU goal. Management was able to put department personnel as well as processes into place to review cash transactions daily and ensure that the appropriate entries are made timely. Therefore, management did not disregard or ignore basic financial controls as it pertains to bank reconciliations.

Management believes a solid basis was established to meet both policy and the expectations to sufficiently perform bank reconciliations going forward.

Management has not recorded unsupported financial transactions. State audit is perhaps referencing items from prior years where differences were identified and reconciled. Management was not able to successfully identify all the differences when catching up and reconciling all prior year cash transactions. However, any minor net unreconciled difference from these transactions in prior years was vastly immaterial to the financial statements.

Management does close prior periods timely after year-end and will continue to do so. Management has also established a system control to close months from additional entries so as to ensure that prior fiscal years and months agree with prepared reconciliations.

Management is confident that the persistent efforts made to establish a system to ensure sufficient bank reconciliations are done in a timely manner and that the ledger accurately reflects all cash transactions have been successful.

Management will continue to perform separate bank reconciliations for the Foundation and the University. Management has purposely established a separate ZBA bank account for payroll and a separate bank account for merchant transactions to facilitate performing the reconciliation of cash. It was not intended and is not feasible or necessary to establish a separate general ledger system for the merchant transactions.

Management has confirmed that all months to date subsequent to FY22 have been reconciled no later than 30 days after the end of the month. These reconciliations do not have any material unreconciled differences, if any differences at all.

Auditor's Comment

We have reviewed management's comments and determined adjustment to the finding was not warranted. Management did not provide evidence that the facts in the finding are inaccurate. In addition, management's comments are conflicting. Management's comments to finding 1 stated that management posted entries to prior periods; however, management's comments to this finding state that management closed prior periods timely after year-end. Management also stated they did not record unsupported financial transactions; however, they then state that they were not able to identify all the differences that were recorded. Management stated the bank reconciliations for the second half of the fiscal year were prepared within 30 days; however, as evidenced by the reperformance of bank reconciliations, the initial reconciliations were not accurately prepared.

We will review the bank reconciliations in the subsequent audit to determine if management's efforts have sufficiently corrected the issues noted in this finding.

Finding 3

As noted in the prior seven audits, management allowed controls to break down, resulting in errors in the financial statements

Guiding Criteria and Background

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,

> (b) 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.

As noted in the prior seven audits, Tennessee State University's and the university foundation's procedures for preparing and reviewing its financial statements and the accompanying notes to the financial statements did not ensure the accuracy, proper classification, and disclosure of information. In the years since we initially reported this finding, efforts to implement controls, train staff, and redefine staff duties have failed, and management has continued to make reporting errors associated with the university and the foundation.

In response to the most recent prior audit finding, management stated that they had addressed staff shortages and continued building, training, and retaining a qualified finance team. Because the university 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. Management may need to make additional changes to address the errors noted in the current year's audit.

Condition, Cause, and Criteria

During the current audit, we found financial statement issues at the university level with cash, receivables and revenues, capital assets and expenses, and net position. Both the university and the foundation had errors in their cash flow statements, and the foundation had issues with net position and the component unit note. See below for details.

Cash – University

University management did not have an adequate process to classify cash as current or noncurrent. Management classified only the petty cash balance plus two June bank deposits as current cash and the remainder of cash as noncurrent. The timing of cash receipts in the bank does not determine whether the cash should be considered current or noncurrent. Rather, this determination is to be based on the intended use of the cash.

The Codification of Governmental Accounting Standards Board (GASB), section 1800.109 states:

> For accounting and financial reporting purposes, the term current assets is used to designate cash and other assets or resources commonly identified as those that are reasonably expected to be realized in cash or sold or consumed within a year. Therefore, current assets generally include such resources as (a) cash available for current operations and items that are the equivalent of cash."

GASB Codification, section 1800.110 states:

> This concept of the nature of current assets contemplates the exclusion from that classification of such resources as (a) cash and claims to cash that are restricted as to withdrawal or use for other than current operations, that are designated for disbursement in the acquisition or construction of noncurrent assets, or that are segregated for the liquidation of long-term debts.

As a result of classifying only petty cash and two June deposits as current cash, the university overstated noncurrent cash and understated current cash by $6,538,630. The Vice President for Business and Finance asserted that current cash on the statement of net position is a management decision and is not specified in the accounting standards. The Vice President for Business and Finance did not agree that the standards define when cash is current or noncurrent even after the audit team provided the standards. Management could not provide evidence that they planned to use all cash other than petty cash and the two June bank deposits for noncurrent operations such as the acquisition or construction of noncurrent assets or the liquidation of long-term debt. Other significant cash-related issues are addressed in Finding 2.

Receivables and Revenues – University

University management did not appropriately track and reconcile receivables from the U.S. Department of Education (ED) grant programs. The university used an automated process in its accounting system, Banner, to automatically recognize the revenue and receivable when an expense was charged to a federal grant fund. Instead of recording the federal grant billing in that grant's fund, the university moved the activity from each specific federal grant into a shared general fund for all ED grants for billing purposes. When the cash was drawn down from the grantor, the university recorded it to the general ED grant fund. The university was then supposed to assign the drawn cash back to each specific federal grant fund. However, the university neither consistently returned the funds to the specific federal grant nor had an adequate reconciliation process for these grant programs to ensure that the amount of federal revenue recognized was accurate or to ensure receivables recognized at year-end were valid, as the reconciliation process did not consider the activity aggregated into the general ED grant fund. The university's process for billing and drawing ED grants is overly complicated, creating an environment that is highly prone to errors.

During the audit, we asked management to perform a reconciliation and analysis to determine the correct receivable amount for each program. Based on this analysis, the receivable balance in Banner was incorrect for all Title III and Title IV programs. We determined the net error was an overstatement of accounts receivable of $1,222,781 and nonoperating revenue of $1,284,434, as well as an understatement of tuition and fees revenue of $61,653. The audited statements were corrected.

In addition, the receivables subsidiary ledger did not reconcile to the general ledger and included $893,341 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.

Capital Assets and Expenses – University

University management has not properly capitalized and depreciated several completed capital asset projects. In addition, some projects that should have been expensed remained in projects in progress. See Finding 4 for detailed information regarding these errors. These issues led to the following misstatements, which were corrected for the audited financial statements:

- Capital assets were overstated by $664,674 on the statement of net position.
- Depreciation expense was understated by $448,245 on the statement of revenues, expenses, and changes in net position.
- Utilities, supplies, and other services expenses were understated by $216,429, as five projects should have been expensed.
- On the Capital Asset note, projects in progress were overstated by $5,803,976, land improvements and infrastructure were understated by $5,142,941, and buildings were understated by $444,606. Additional corrections to the notes were also made for the depreciation adjustment noted above.

Net Position –University

The university's balance in the Local Government Investment Pool accounts related to capital projects should be included in expendable net position restricted for capital projects. While university management did make this classification, it incorrectly used the prior-year balance instead of the current-year balance. This led to an overstatement of $852,450 in expendable net position restricted for capital projects, and a correlating understatement in unrestricted net position. The audited statements were corrected.

Cash Flow Statement – University and Foundation

The university and foundation cash flow statements both contain errors that required the audited statements to be corrected. The university improperly classified nonoperating grants as operating, and the foundation had various errors in the preparation and reporting of investing activities.

University – Nonoperating Grants

The university did not appropriately classify the changes in grants receivable between operating activities and nonoperating activities on the statement of cash flows. All changes in grants receivable were reported as operating activities. When completing the financial statements, management uses an off-book entry to reclassify nonoperating grant revenue to the proper statement line. However, management did not consider the impact of the receivables related to these nonoperating grants on the statement of cash flows.

GASB Codification 2450.114(c) states that the following should be included in the operating activities section: "Cash receipts from grants for specific activities that are considered to be operating activities of the grantor government." In addition, GASB Codification 2450.119(b) states that the noncapital financing activities should include "Cash receipts from grants or subsidies except (1) those specifically restricted for capital purposes . . . and (2) those for specific activities that are considered to be operating activities of the grantor government." This error resulted in cash flows from operating activities related to tuition and fees and grants and contracts being overstated by $61,652 and $7,291,902, respectively. Cash flows from noncapital financing related to grants and gifts was understated by $7,353,554.

Foundation – Investing Activities

The foundation's cash flow statement contained several errors related to the cash flows from investing activities section. The net effect of the following errors included a $11,247,321 understatement in proceeds from sales and maturities of investments, a $2,395,947 understatement in income on investments, and a $13,643,270 understatement of the purchase of investments. Specifically, we found the following specific errors:

- A $12,500,000 transfer from the foundation's operating bank account was included in income on investments.
- Management compiled the investment information into a data table to determine its investment activity. Upon review, the table contained two errors:
    1) The table included amounts purchased and sold prior to the fiscal year but posted in the current fiscal year.
    2) The table compiled the activities using the investments' cost basis information instead of the sale price amount when computing the investment activities.

Net Position – Foundation

The foundation did not record two activities to the proper net position category: a state grant and capital assets.

State Grant

First, the foundation did not properly record net position related to a $5,000,000 grant received from the State of Tennessee during the fiscal year. The state appropriated the grant for the foundation to use for scholarships and fellowships benefiting university students. Upon receipt of the grant funds, management determined the funds would be treated as a quasi-endowment and invested the entire $5,000,000 with the foundation's endowments to use only the investment income for scholarships. Because the grant award did not restrict any portion of the award in perpetuity, the grant should have been reported in net position as restricted expendable; however, the foundation reported the grant as nonexpendable. Specifically, the unaudited statements included $5,000,000 in nonexpendable net position restricted for other, while the losses on the fund of $678,766 were included in nonexpendable net position restricted for scholarships and fellowships. The audited statements were corrected to remove the incorrect classifications above and to include the entire balance at fiscal year-end of $4,321,234 in expendable net position restricted for scholarships and fellowships.

Capital Assets

In addition, the foundation did not correctly report the net position related to its net investment in capital assets. The foundation reported capital assets of $6,310,068, and reported net investment in capital assets as $1,360,588 even though the foundation had no debt related to its capital assets. We determined that management had incorrectly set up one capital asset fund to report its related net position as expendable net position restricted for other. Therefore, net investment in capital assets was understated by $4,949,479, while expendable net position restricted for other was overstated by the same amount. The audited statements were corrected.

Component Unit Note – Foundation

Management did not maintain adequate version controls to ensure the latest version of the notes to the financial statements were properly compiled after several late year-end adjustments were made. An older version of the component unit note was entered in the notes to the financial statements and went undiscovered during management's financial statement review process. As a result, cash and cash equivalents in banks and money market accounts were overstated in the notes to the financial statements by $1,428,226 and $9,685, respectively.

Effect

Management's failure to adequately implement an internal control system increases the risk of the university 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 the university's assets, university 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 should 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 reviewing the financial statements have adequate knowledge of governmental accounting and reporting requirements to properly perform their responsibilities.

Management's Comment

We do not concur in totality. Management disputes this overall finding as it relates largely to reclassifications. We have implemented significant financial controls that increase the accuracy and timeliness of the financial statements. This included hiring additional personnel to handle financial statement preparation, student receivables, and general ledger transactions.

Maintaining such a team ensures that the specific errors referenced in this audit finding continue to be eliminated. Adequate staffing to address financial statement preparation and submission remains a high priority. Management continues to build, train, and retain a qualified finance team.

Finally, the continued delay in finalizing the audit of the prior year's financial statements continues to increase the difficulty of preparing the subsequent year's financial statements. Management maintains its commitment to strengthen internal procedures and staffing.

Auditor's Comment

We have reviewed management's comments. We have not adjusted the finding since management's comments do not dispute the errors reported in the 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.

Finding 4

The university has not properly reported costs associated with construction projects

Condition

Tennessee State University management has not developed procedures to ensure the university records capital project costs in accordance with generally accepted accounting principles. The university did not transfer capitalized expenditures from projects in progress to categories such as buildings or land improvements and infrastructure when the assets were placed in service. The university also included non-capitalizable expenditures in projects in progress. To determine the extent of this issue, we performed testwork on all projects classified as projects in progress at June 30, 2023. Based on this testwork, 16 of 32 projects (50%) should have been capitalized or expensed before or during fiscal year 2022.

These issues led to the following errors. The financial statement impacts are corrected for the audited statements. See finding 3.

- Four projects, totaling $73,650, did not meet the $50,000 capitalization threshold and were completed in fiscal years 2017 through 2022. However, the amounts remained in projects in progress at June 30, 2022. These amounts should have been expensed in the fiscal year in which they occurred, including $27,996 in fiscal year 2022 and $45,654 in prior fiscal years.
- A landscaping project completed in fiscal year 2022 was included in projects in progress at June 30, 2022; however, it was not a capitalizable project since the expenses were for general groundskeeping, such as planting trees and shrubs. Management should have expensed the costs related to this project when incurred. The total cost of this project was $142,779, including $6,289 during fiscal year 2022 and $136,490 occurring before fiscal year 2022.
- Ten projects were completed in fiscal years 2019 through 2022 but remained in projects in progress at June 30, 2022. These projects included, but were not limited to, power plant updates, safety projects, elevator upgrades, and roof replacements. In total, management overstated projects in progress and understated land improvements and infrastructure on the capital asset note by $5,142,941. In addition, the university underreported depreciation expense and accumulated depreciation for these projects by $257,147 in fiscal year 2022, $105,316 in fiscal year 2021, and $42,891 in both fiscal years 2020 and 2019.
- Management capitalized the Health Sciences building when placed into service in the prior year. However, additional capitalizable costs of $444,606 were incurred on the project in

fiscal year 2022. While this amount was properly included in the total costs of the building when calculating depreciation, the university did not reclassify the additional expenses from projects in progress to buildings for note classification.

Criteria

Non-capitalized project costs should be expensed in the period incurred. GASB Codification 1600.103 states, "Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions should be recognized when the exchange takes place."

GASB Codification 1400.104 states, "Capital assets should be depreciated over their estimated useful lives." The estimated useful life begins when the asset is substantially complete and ready for its intended use.

Cause

During construction, facilities management oversees the progress and completion of the capital projects. However, there was no process in place for facilities management to inform the accounting staff within the business office that the project was completed. This resulted in the accounting staff being unaware that projects were complete.

Effect

Management's failure to adequately develop procedures to record capital project costs in accordance with generally accepted accounting procedures increases the risk of the university not achieving key objectives related to financial reporting. When management and staff do not follow proper accounting procedures when recording transactions and 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

Management should develop procedures to review all capital project expenditures to determine which ones are non-capitalizable and should be expensed in the period the cost is incurred. In addition, management should develop procedures to ensure capital assets are transferred from projects in progress to the proper capital asset category and should begin recognizing depreciation when the asset is placed into service.

Management's Comment

We do not concur. We agree that various construction projects were not moved from construction in progress in a timely manner, this issue is already included in Finding 3 and does not warrant being a separate finding. Although state audit never detected or addressed the issue in prior years (2019, 2020, 2021), had they done so, this issue could have been avoided. Construction projects are properly accounted for in the financial statements. State audit went back to prior years which had been audited and closed.

Management will continue to develop and implement procedures that review all capital project expenditures and determine which projects are capitalized or expensed in the proper period. Accounting personnel meet with Facilities Management at least quarterly and reviews the status of construction projects in process. As projects are completed and placed in service, projects are transferred from construction in process to the proper capital asset category and depreciation recognized.

Auditor's Comment

We have reviewed management's comments. We have not adjusted the finding since the facts of the finding remain undisputed.

Finding 5

The university did not appropriately charge tuition for some courses and did not charge student fees in accordance with the approved fee chart

Condition and Cause

Tennessee State University did not properly apply tuition and maintenance fees for some courses, resulting in either undercharging or overcharging students. In addition, online undergraduate students were charged fees that did not agree with the board-approved published fee charts. We noted issues in the following areas:

- course fee waivers,
- incorrect fee rates,

- student charges removed, and
- other unsupported charges.

Course Fee Waivers

Although the university charges tuition to students for enrolled courses, there are some cases when the institution should waive course fees for specific courses. We found that management improperly waived fees for some graduate courses, resulting in undercharging students. They also failed to waive the fees for four dual-enrollment courses that should have been waived, resulting in overcharging students.

Undercharged Tuition

University management did not charge tuition for all graduate courses that should have warranted tuition. To perform our work, we obtained a list of all student charges for each semester during fiscal year 2022, as well as each student's credit hours. We then used the published tuition and fee charts to compare the amount the university should have charged against the actual amount of tuition and fees on each student's account. Based on this testwork, the university undercharged graduate tuition for 752 of 4,024 graduate students tested (18.7%), totaling $1,938,677. See **Table 1.**

Table 1
Results of Uncharged Tuition Testwork for Graduate Students, Fiscal Year 2022

Term	Uncharged Tuition	Students Impacted	Total Graduate Students	Percent Impacted
Fall 2021	$993,401	332	1,624	20.4%
Spring 2022	$577,502	257	1,445	17.8%
Summer 2022	$367,774	163	955	17.1%
Total	**$1,938,677**	**752**	**4,024**	**18.7%**

Furthermore, we identified two **undergraduate** summer-term courses that were incorrectly applied as fee-waived in the system. This resulted in management not charging any tuition for four undergraduate students, creating $4,987 of lost tuition revenue for the university.

For each class created in the university's operating system, the system includes the option to set the course as fee-waived. The system then excludes the course credit hours set as fee-waived from the tuition calculation. For the errors noted, the academic department chairs who entered the courses incorrectly marked the impacted courses as fee-waived. The Bursar stated that management did not have a review process to verify that all fee-waived courses were appropriate. In addition, the Bursar's Office was not notified when the academic department checked the fee-waiver box.

According to the Bursar, the incorrectly applied fee waivers were disproportionately applied to graduate students' accounts because there are several graduate programs in which the students receive program-specific scholarships for the full tuition amount. The Bursar believes the academic department chairs may have considered the fee waiver to be the appropriate method to not charge students for those programs, rather than charging the tuition and then applying scholarships.

Overcharged Tuition

In addition, management did not assign the fee-waived status for 4 dual-enrollment courses, causing the system to incorrectly charge 33 of 136 (24.3%) dual-enrollment students both regular tuition and the dual-enrollment course fee. As a result, management overcharged these 33 students by $849 each, for a total of $28,017. Furthermore, the Bursar stated that management did not have a review process to confirm that special courses, such as dual enrollment, were assigned the fee-waived status.

Incorrect Fee Rates

Tennessee State University participates in the statewide eCampus program. An online network of courses from 4 state universities, 13 community colleges, and 24 centers for applied technology, eCampus has its own tuition and fees schedule. In addition, Tennessee State University has a special eRate tuition and fee schedule for out-of-state students who are enrolled 100% online.

We noted that the university did not charge tuition rates in accordance with the published fee charts for undergraduate eCampus and eRate students. Specifically, management did not apply the discounted rate to undergraduate eCampus and eRate students for credit hours taken over 12 hours, resulting in 86 students being overcharged a total of $95,416. Furthermore, management charged 362 undergraduate eCampus students the regular out-of-state fee of $530 per credit hour instead of the eCampus rate of $582 per credit hour, resulting in the university losing a total of $83,352 in tuition revenue. See **Tables 2** and **3.**

Table 2
Undergraduate Students Overcharged Tuition, Fiscal Year 2022

Program	Students Overcharged	Dollars Overcharged
eCampus	23	($36,963)
eRate	63	($58,453)
Total	86	($95,416)

Table 3
Undergraduate Students Undercharged Tuition, Fiscal Year 2022

Program	Students Undercharged	Dollars Undercharged
eCampus	362	$83,352

The Bursar stated that staff input the incorrect rates in the system and did not include the rules for the discounted rate for credit hours over 12 for both out-of-state eCampus and eRate undergraduate students. In addition, management did not have a review process to ensure that staff entered the proper fee rates or rules into the fee assessment.

Student Charges Removed

TSU staff removed $29,785 of charges for six undergraduate students without adequate support. Each student attended and received grades for courses in the term that the charges were removed. Three of the students' charges, totaling $22,465, were manually removed by two staff members in Enrollment Services, and two charges, totaling $4,880, were manually removed by a staff member in the Bursar's Office. For the final student, the fee system removed fees of $2,440 for reasons unknown by management. As of October 12, 2023, management could not provide explanations to justify removing these student fees.

Previously, system access allowed the Enrollment Services staff to make direct updates to student accounts. Their access would allow the direct manipulation of a student's fees without proper updates to student enrollment records. The Bursar's Office should be the only department with the roles and access to directly adjust student accounts. The new Bursar discovered this situation when hired in March 2022, and system access was updated in April 2022 in an attempt to fix the issue.

Other Unsupported Charges

During the audit, we discovered that one student owed an outstanding balance despite the university having no record of the student attending classes during the terms charged. The student was charged fees for a dorm room and meal plan for the fall 2017 and spring 2018 terms. The student still had an outstanding charge on their account as of February 26, 2024.

Errors Noted by Another State Entity

In addition, the Tennessee Student Assistance Corporation (TSAC) reported similar errors regarding student charges in an October 11, 2023, Program Review Report of the university's procedures for administering state financial aid programs for the 2022–2023 academic year. Although TSAC only tested students who received state aid during fiscal year 2023, the review noted similar issues we identified in our audit, indicating that the issues continued into the fiscal year following our audit.

Criteria

The Tennessee State University Board of Trustees sets tuition and fees using the process described in Board Policy 006. This authority is provided by Title 49, Chapter 7, Part 16. *Tennessee Code Annotated.* Tuition and fee schedules are then finalized and posted to the university website. Tuition should be charged in accordance with these fee schedules unless waivers or discounts apply based on other university policies, state statutes, or guidelines.

Effect

Tuition is the university's direct revenue source when performing its primary role in education. When the university overcharges tuition, it could place an undue and unfair financial hardship on the students. This hardship could cause students to take out student loans to cover the additional charges, or the added financial strain could result in the students feeling forced to withdraw from the university.

Undercharging tuition results in lost revenue for the university and requires the university to cover the lost revenue by other means, such as grants, state appropriations, tuition from other students, or plant funds. This could also impair management's ability to accurately estimate revenues for budgeting and appropriately determine future tuition rates for all students. The long-term impact of the lost revenue could limit the school's future growth by reducing the amount of additional facilities, housing, and instructors.

Recommendation

Management should ensure that all staff involved in creating courses and entering tuition and fees in the accounting system have been adequately trained. Management should establish a documented review process to ensure that courses have the proper fee waiver assignment and that the board-approved published fee rates are accurately entered into the system. The review process should include confirming that charges are correctly applied to students. Management should consider centralizing course creation to make the controls more effective or only allowing certain staff access to change the fee waiver status.

Management's Comment

We concur. We have promptly taken measures to ensure that tuition and fees are charged for all courses. The IT department has restricted access to the tuition waiver setting to key personnel only. Moving forward, we aim to have board-approved rates programmed and reviewed in a timely manner. The Bursar's Office is also working with the IT department to develop a report to assist in reviewing tuition and fees before publication each semester.

Finding 6

The university did not adequately support or identify student withdrawal dates and types

Condition and Cause

Tennessee State University (TSU) did not have adequate policies and procedures to ensure dates and types of student withdrawals (official or unofficial) from the university were accurate. We tested 31 students to verify that tuition and fees were accurately charged for students attending the university. Our testwork revealed that 7 of 31 students tested had withdrawn from the university. For all seven withdrawals, the university assigned incorrect withdrawal dates or types, did not accurately calculate and apply refunds, or there was not sufficient documentation to determine the correct withdrawal date and type.

The university does not have an official policy documenting the procedures staff must perform for student withdrawals and refunds; however, the Student Handbook and Bursar's Office website do lay out a general process to communicate to students. The lack of detailed procedures for university staff contributes to the inconsistency in addressing student withdrawals.

No Last Date of Attendance

For three of the students tested, the instructor did not report the last date of attendance to the Records Office or the Records Office could not support the withdrawal date or type assigned to the students. Each student's situation is discussed below:

- The Registrar stated that one student officially withdrew on October 8, 2021, from the fall 2021 term, and a Records Office employee incorrectly reported the student as an unofficial withdrawal. However, the employee no longer works with the university, and the Registrar could not locate the official withdrawal form submitted by the student. The Registrar asserts that the withdrawal date used was appropriate. The instructor did not report any attendance or the last date of attendance for the student. The date of the official withdrawal in the system would make the charges to the student's account appropriate; however, without supporting documentation, we were unable to verify the official withdrawal, attendance by the student, or the accuracy of any refund to the student or retained by the university.
- One student withdrew from the course through the student portal on September 29, 2021; however, the Records Office updated that the student had stopped attending with a date of October 5, 2021. The Registrar did not have documentation to support the last date of attendance recorded in the system. In this instance, the difference in dates had no impact on the student's charges.

- One student attempted to drop their one enrolled course online before the start of the term; however, the online portal would not allow them to drop the course. The student emailed the Records Office on August 31, 2021, informing them they would not attend the semester. The Records Office recorded the withdrawal date as September 3, 2021; however, the student's withdrawal should have been the day before the term started, August 15, 2021, or the email date of August 31, 2021. The student should have received a refund between $212 to $849, depending on the appropriate date.

Did Not Use Last Date of Attendance

Two of the students tested did not attend any of their enrolled courses for fall 2021. The instructor reported each student's last date of attendance as the day before the first day of classes, August 15, 2021; however, the Records Office did not purge the student or use the withdrawal date reported by the instructor. In both instances, TSU ultimately recorded an unofficial withdrawal with an effective date of October 4, 2021. These students had charges remaining on their accounts totaling $1,981, which should have been refunded based on the instructor's certification that the students did not attend classes.

The Records Office agreed the students should have been purged with an effective date at or before the start of the fall 2021 term. The university could not determine why these students were not purged or why an October withdrawal date was assigned to the students. The Records Office stated that the employee who recorded both withdrawals no longer works for the university.

Withdrawal via the Student Portal

One of the students tested did not attend and withdrew from their spring 2022 courses via the student portal on February 1, 2022, 14 days after the start of the term. The Bursar's Office stated the courses were manually deleted by Enrollment Services; however, an audit review noted that the courses were removed by the student in the student registration web portal. The student removed all their classes themselves; however the student did not complete an official withdrawal form for the term. The university could not explain why the system did not purge any of the charges or an employee did not update the charges. The student was charged $2,439 for these classes and should have received a refund of $1,829.

Manual Deletion

One of the students tested did not attend the fall 2021 term and showed as not attending any of their courses; however, the university charged the student for one course during the term. The Records Office stated that the student was purged from the term, and the system purge should have removed the associated course charges. However, the Bursar's Office stated that Enrollment Services manually deleted the student's enrollment records rather than a system purge as stated by the Records Office. Further review identified that the student enrolled in six courses, and course holds and registration for the courses were added to the student's account. When Enrollment Services deleted the student's enrollment on August 11, 2021, the office deleted all six course holds but only deleted five course registrations, causing the system to only remove the charges for five of the six courses. The sixth course was deleted after an audit inquiry on September 15, 2023, and the charges to the student's account were corrected.

Errors Noted by Another State Entity

In addition, the Tennessee Student Assistance Corporation (TSAC) reported similar errors regarding student withdrawals in an October 11, 2023, Program Review Report of TSU's procedures for administering state financial aid programs for the 2022-2023 academic year.

Although TSAC only tested students who received state aid during fiscal year 2023, the review noted similar issues identified by our audit and indicated the issues continued into the fiscal year following our audit.

Criteria

The withdrawal date and type are important in determining the amount of charges to be refunded to the student and returned to state and federal financial aid grantors. An official withdrawal occurs when a student informs the university they are withdrawing from the term. An unofficial withdrawal occurs when a student stops attending or never attended all classes and does not notify the university.

The university's official policy listing does not include a policy documenting the procedures for student withdrawals and refunds; however, the Student Handbook and Bursar's Office website do lay out a general process to communicate to students. The withdrawal date and type are used to determine the amount of charges to be refunded to the student and the state and federal financial aid grantors. Regarding refunds of fees, the TSU Bursar's website states:

- 100% before the first day of classes;
- 75% beginning the first day of classes through the fourteenth day (including weekends);
- 25% beginning the fifteenth (15th) day of classes through 25% of the term;
- 0% after the 25% refund period.

The TSU Financial Aid Office website further states:

- Student's [*sic*] who drop classes during the first 14 days will have their aid adjusted based on their enrollment status. Most types of financial aid are subject to this rule.
- Students must be in attendance a minimum of 60% of the semester to earn 100% of their aid. Any student who completely withdraws from the institution prior to the 60% point of the semester passing will have their aid adjusted for the semester. This may result in a balance owed to the University.

- Any student who is reported by an instructor(s) as "stopped attending" or "never attended" in all classes will be classified as an unofficial withdrawal from the university. Students will have their financial aid adjusted and/or may lose future eligibility for all types of financial aid. Students who officially withdraw from the university and are later reported as "never attended" or "stopped attending" before their withdrawal date may have additional financial aid adjustments. Students who are reported by their instructors as "never attended" in some of their courses may also have their financial aid adjusted.

Effect

An improper withdrawal date, type, or lack of sufficient support for the applied withdrawal date can result in over- or undercharging students based on the university's policy or applying an inappropriate grade to a student. Furthermore, federal, state, and other financial aid have requirements to return portions of a student's financial aid based on the student's withdrawal date. The university reporting improper withdrawal dates or lacking adequate support for the withdrawal can result in noncompliance with the financial aid guidance. This noncompliance can result in additional oversight requirements, penalties, or even losing access to specific financial aid grants or loans.

In addition, incorrect withdrawal dates and types can negatively impact students. These errors could result in incorrect charges on the students' accounts or the university not returning the correct amount of unearned charges to the student. An incorrect adjustment of a student's financial aid could result in the student owing a balance back to the university and could also result in the student losing future eligibility for all types of financial aid.

Recommendation

TSU management must ensure that withdrawal dates and types are accurate and adequately supported. TSU management should have a process to ensure instructors are sufficiently trained to know the importance of documenting the last date of attendance and have a routine procedure in place to remind instructors about reporting students' last date of attendance during the term. Management should ensure the Records Office has proper training and written policies to identify the proper withdrawal types and dates applicable to a student and the appropriate documentation to retain in support of the withdrawal. The accounting system should be appropriately set up to adjust charges and fees based on the applied withdrawal dates and type. The Records Office should communicate all student withdrawals to the Bursar's Office to ensure the accounts are updated appropriately and to the Financial Aid Office to calculate any required return of financial aid. The university should have a documented policy to cover the withdrawal process and should include specific situations when purging students and making manual deletions are appropriate.

Management's Comment

We do not concur. We dispute this finding because TSU supports and identifies withdrawal dates and types. The academic calendar has withdrawal dates that pertain to the last day a student may withdraw from class. Students also are sent emails reminding them of the withdrawal dates. The website of the Office of the Bursar contains all the required information for Dropped Courses and Withdrawal of Fees. It shows the students the prorated costs of housing and meal plans directly on the webpage.

Similarly, information regarding medical withdrawals is shared with the student and is on the TSU website. This website of the Division of Student Affairs contains a withdrawal form which includes all the information required for a medical withdrawal along with the required documentation. The refund policy upon withdrawal is also explained to the student.

TSU management continues to ensure that withdrawal dates and types are accurate and adequately supported and that faculty communicates procedures to appropriately update student accounts upon withdrawal. Moreover, the Records Office sends email messages using the University's email distribution system or Exchange to remind faculty of attendance reporting deadlines and procedures. The Office of Academic Affairs sends follow-up emails to the Deans and to the respective faculty on missing attendance.

Auditor's Comment

We have reviewed management's comments. We have not adjusted the finding since management did not provide evidence or support for the withdrawal dates and withdrawal types for the individual students identified in this finding.

Finding 7

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

Condition

Our review of Tennessee State University's (TSU) accounts receivable collection procedures revealed that the university has failed to implement procedures and lacks an adequate tracking system to ensure collection procedures are performed timely and collection agency assignments are 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 their response to the prior-year finding, management stated they had addressed their staffing needs and hired qualified and competent staff, which would allow the university to adequately perform collection procedures outlined in the "Collection of Accounts Receivable" policy, effective December 1, 2020. In the years since we initially reported this finding, management has taken appropriate actions to revise the "Collection of Accounts Receivable" policy; however, management has not been able to put procedures in place to ensure compliance with this policy. In response to the collection finding in fiscal year 2020, TSU management stated they would create a dedicated position to focus primarily on collections of accounts receivable to ensure staff perform collection efforts timely. This person would also be responsible for ensuring that the tracking system maintains documentation of 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 was not filled until March 2023, which was after the fiscal year under audit. In response to the collection finding in fiscal year 2021, TSU management stated they 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; however, this software is not expected to be implemented until February 2024.

At June 30, 2022, the university had 10,392 separate accounts receivable of $100 or more that were outstanding for more than 90 days, totaling $39,501,735. From that group, we selected the largest receivable, representing $9.5 million, and 36 random accounts, representing $240,449, subject to collection procedures. While we did not note any problems with the largest receivable account, we noted errors with all the random student accounts (100%) tested. TSU management was unable to provide evidence of all collection attempts, and/or 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 but was not, we tested to determine if the account was sent to collections during the audit period.

We noted the following errors in the random items.

- Of the 36 accounts tested, 32 students had student balances from prior to fiscal year 2022, while the remaining 4 students should have received collection letters during fiscal year 2022.
    - Of the four students with current balances, TSU management could not provide evidence that the first letter was sent to two of these students. For the remaining two students, collection letters were sent but were initiated 64 days late. Second, third, fourth, and fifth letters were sent to all four students during fiscal year 2023.

    - For the remaining 32 accounts, TSU should have sent letters prior to the fiscal year under audit. However, they could only provide documentation of all three letters for 5 of these 32 accounts. TSU management did not take corrective action and did not send collection letters during fiscal year 2022.

- TSU should have placed 32 student accounts with collection agencies prior to the fiscal year. TSU management could only provide documentation showing that 12 of these 32 accounts were placed with two collection agencies. For the remaining 20 students, TSU did not originally submit the accounts to the collection agencies when required, nor did they correct the issue during fiscal year 2022.
    - For the 12 student accounts that were placed with both collection agencies, none of the accounts had been written off as of June 30, 2022. All 12 accounts were submitted for write-off during fiscal year 2023. However, our testwork showed 10 of the accounts did not have sufficient documentation to be eligible for write-off per TSU's policy.

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 prior 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 and adequately documented those 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 do not concur. TSU's collection process of accounts receivables have substantially improved. In addition to designating personnel to specifically handle accounts receivables, we increased our collection efforts as well the amount of receivables that came in to the university. And collection procedures were better defined.

This report is being issued twenty-one months after the June 30, 2022 year end, it is important to note that during this period, TSU improved its communication to students and enhanced receivables collections overall. Determinations were made regarding uncollectable accounts. We submitted a request to write off 1,496 uncollectible student accounts, totaling $5,457,369. This request was approved by the state Comptroller's Office.

State audit commended TSU on the improvements. During the 2023 fiscal year, in May 2023, the Bursar's Office has hired a Collections Manager to provide dedicated leadership in this area. The team has also expanded with three new Collections Coordinator roles focused on maximizing results. Securing the right candidates for these vital positions remains a top priority. We are committed to a thorough recruitment process that results in coordinators who excel at driving progress, building collaboration, and getting work done. As we move quickly, we will not sacrifice quality hiring standards. The office looks forward to welcoming talented, dedicated coordinators who will strengthen our team and help us achieve our goals in the years to come.

While a new Collections system planned for the February 2024 rollout has been briefly delayed due to technical needs, it will now launch before the end of the 2024 Spring semester. This system will automate notifications and agency assignments to increase efficiency. With these enhancements to staffing, technology, and processes, the Bursar's Office will be equipped to continue successful collection efforts, building on the results achieved in FY23. The University remains committed to continuous improvement in collections and is confident these steps will yield both better experiences and outcomes.

Auditor's Comment

We have reviewed management's comments. We have not adjusted the finding since management's comments do not dispute the errors reported in our finding. We will review the sufficiency of any new collection controls in the subsequent audit to determine if management's efforts have resolved this finding.

Finding 8

The university did not discharge student debt within federal guidance or their internal policy, and scholarship determinations and award calculations were not adequately documented in compliance with federal guidance for Higher Education Emergency Relief Funds

Background

The Coronavirus Aid, Relief, and Economic Security Act established the Higher Education Emergency Relief Fund (HEERF) to provide relief to colleges and universities who had been affected by the coronavirus pandemic. The Coronavirus Response and Relief Supplemental Appropriations Act and the American Rescue Plan Act provided additional waves of funding for the program. Since the inception of HEERF, Tennessee State University has been awarded $115,573,226 through three primary types of HEERF funds. The first type was student funds intended to be used for emergency aid grants to students. The second type was institutional funds, which were allowed to be spent for certain things, such as additional emergency aid grants to students, including discharging student debt, supplies to combat the coronavirus, and lost revenue. Lastly, TSU was granted supplemental funds dedicated for Historically Black Colleges and Universities (HBCU). TSU was allowed to use their HBCU HEERF for additional institutional costs as well as providing scholarships and grants to students.

Executive leadership decided to use their HEERF funds primarily to discharge the debt of students, award scholarships, or issue student assistance grants. Executive leadership used the student funds to provide student assistance grants as emergency aid. Executive leadership chose to use a portion of the institutional HEERF award and a portion of the HBCU HEERF award to discharge debt. In addition, executive leadership used a portion of the HBCU HEERF award to provide additional scholarships to students during academic year 2021-2022. These scholarships were provided as either additional university scholarships or as tuition assistance grants, both of which could cover any part of the student's cost of attendance.

To receive these funds, TSU was required to follow federal regulations and additional federal guidance, such as Frequently Asked Questions (FAQs) published by the U.S. Department of Education (USDOE). Based on the work performed during our audit, we noted that TSU did not establish an adequate control structure for the institutional funds or HBCU portions of the HEERF award to ensure compliance with these federal guidelines. We noted the following issues because of the lack of internal controls.

<u>Debt Discharges</u>

Condition and Criteria

Tennessee State University management did not discharge debt in compliance with federal guidance because they conditioned the discharge on the student reenrolling. In addition, management did not discharge debt in accordance with TSU's internal guidance because they discharged debt outside of the parameters of the press release. Even after multiple discussions with TSU management, they were unable to provide us with any documentation of their policies and procedures surrounding these debt discharges. However, we were able to locate a press release on TSU's website, dated August 4, 2021, which stated,

> It's important to note that this account balance forgiveness initiative applies only to [fall 2021] returning students who were enrolled Spring 2020, Fall 2020, and Spring 2021. It will also cover Summer 2020 and 2021.

<u>Federal Guidance</u>

As noted in the press release, TSU only discharged student debt for students who reenrolled in the fall 2021 semester. However, an FAQ published by USDOE on May 11, 2021, stated,

> The institution cannot condition, nor imply that it will condition, discharging these funds on the condition the student takes any specified actions (i.e. no conditioning a discharge of debt on continued reenrollment).

The statement in TSU's press release is a violation of this guidance, as it allows for the debt discharge only if the student reenrolled in the fall 2021 semester.

TSU's internal policy

As mentioned above, TSU did not discharge debt in accordance with TSU's press release dated August 4, 2021. In addition, we tested a sample of 40 student debt discharges to determine whether management carried out the debt discharges as described in the press release. Based on this testwork, we noted that Tennessee State University management discharged debt outside of the parameters set forth in the press release. For 34 of 40 students tested (85%), the students' debt was discharged for terms outside of the eligible semesters. Each of the 34 students had debt discharged for the fall 2021 semester, totaling $135,344, and 2 of those students also had debt discharges for periods prior to spring 2020, totaling $225. The total estimated fall 2021 debt discharged was $14,019,614, representing 73.5 percent of the debt discharged during the fiscal year. Management stated they had updated the policy to include the fall 2021 semester; however, they were unable to provide documentation of the revised policy. Because management has made systematic errors in applying student payments to the correct terms, as discussed below, we were not able to determine the exact amount of questioned costs related to the student debt discharges; our best estimate of these questioned costs is $2,326,106.

Cause

Based on discussion with TSU personnel, the President and the executive leadership team determined the conditions of the debt discharge. However, this upper management group did not ensure the conditions met all federal requirements, such as conditioning discharges and documenting eligibility.

For discharges of semesters before spring 2020, the issue stemmed from historical errors in which payments to student accounts have not always been applied to the correct term in the accounting system. This creates scenarios where a student's account may balance in total, but each semester shows either an overpayment or underpayment. This created difficulties determining which debts were truly related to the semesters approved for discharge.

HEERF Scholarships

Condition and Criteria

Tennessee State University management did not comply with federal requirements regarding documenting how a student could receive the HBCU HEERF funds used for tuition assistance grants, the actual award decisions, or how management determined the amount of each student's award in accordance with federal requirements. In addition, management overspent the HBCU award. Management then transferred the overspent amount to other funding sources without verification that the transferred awards were in compliance with federal requirements of the new funding source.

According to the Certification and Agreement for the CARES Act a(2) funds,

> For grants made to students, the Recipient should maintain records on how grants were distributed to students, how the amount of each grant was calculated, and any instructions or directions given to students about the grants.

After numerous requests for documentation of management's methodology for awarding and calculating awards, management was only able to provide us with emails sent to some students. These emails contained language such as the following:

> Our records show that you have not registered for fall 2021. Since you do not owe a balance from the last semester, we will assist you with paying your fees for this fall semester.
>
> The tuition assistance grant is available for students returning this fall.
>
> . . . we will assist you with your tuition and fees for fall 2021. We are providing up to $10,000 for this academic year.

However, none of these emails describe how assistance would be determined. Management initially stated the award decision and award calculations were determined uniquely for each student who requested the award, but the determining factors were either not documented or the documentation was not retained. The Vice President of Business and Finance later stated that the President's directive was to provide tuition assistance grants as last-dollar scholarships that would clear the student's account. However, the Assistant Vice President of Financial Aid stated this was not the case during fiscal year 2022, and the only directive was to "help the students and students could receive refunds or still owe balances, depending on the individual's unique circumstances." Management could not provide documentation to support either of these directives. The amount of these awards totaled $15,188,327, which we are identifying as questioned costs.

In addition, management awarded $7,084,921 more in scholarships than they had available in HBCU HEERF funds. In an attempt to correct the overspending, management transferred $5,859,691 to institutional HEERF and $1,225,230 to the university's general funds. The *HEERF FAQ Rollup Document, Updated November 20, 2020,* Question 36, states:

> Institutions may also use the funds for Recipient's Institutional Costs received through the HEERF under Sections 18004(a)(1) and 18004(c) of the CARES Act to make additional emergency financial aid grants to students, provided that such emergency financial aid grants are for expenses related to the disruption of campus operations due to coronavirus (see FAQ #29). As long as awarding scholarships and providing payment for future academic terms are costs associated with significant changes to the delivery of instruction due to the coronavirus or, if provided to students in the form of emergency financial aid, are for expenses related to the disruption of campus operations due to coronavirus, such uses are allowable.

An example of a cost that could have been covered from institutional funds related to the disruption of campus operations due to coronavirus would be a scholarship to pay for access to an online library while physical libraries were closed. Since the university applied these scholarships and tuition assistance grants to any portion of the cost of attendance and did not restrict their use to only those charges related to the significant changes to the delivery of instruction due to the coronavirus, TSU was not in compliance with federal requirements related to the institutional portion of the HEERF award. Questioned costs related to these scholarships and tuition assistance grants are $5,859,691.

Cause

Executive leadership did not establish clear policies, procedures, or controls around the awarding of HEERF scholarships. Based on discussion with auditee personnel, the President provided the total amount to be used for each type of scholarship to management and staff. The Office of Financial Aid and the Office of Enrollment Services were both involved in awarding the scholarships to students. This decentralized process, along with a lack of policies and procedures from upper management, resulted in a failure to adequately document awards. In addition, the Associate Vice President of Financial Services did not track the scholarships to monitor the amount of scholarships awarded and funds available until a reconciliation at yearend, which identified the overspending.

Debt Discharges and HEERF Scholarships

Effect

USDOE guidance for HEERF funds included elements to ensure USDOE's ability to maintain adequate oversight of awards. The lack of documentation limits the oversight ability of the federal departments and other applicable entities, creating difficulties in identifying whether the award was appropriate or whether any students were treated unfairly.

Tennessee State University did not routinely track expenditure amounts and did not confirm the costs transferred to the institutional portion were allowable under institutional portion guidance. As a result, management overspent federal awards, and those awards were not in compliance with federal regulations, resulting in federal questioned costs.

Because management overspent HBCU HEERF funds and did not maintain documentation identifying whether a student award was ultimately funded by HBCU HEERF, institutional HEERF, or university general funds, management was unable to determine compliance with federal guidance. The missing identification limits management, federal grantor, and auditor oversight, increasing the likelihood of undiscovered question costs and noncompliance. The transfer documentation did not distinguish between tuition assistance grants and institutional scholarships; thus, we were unable to determine whether the questioned costs on the two scholarship issues identified overlap. Therefore, instead of an exact amount of questioned costs, a range between $17,514,433 and $23,374,124 was noted for total questioned costs.

Recommendation

Executive leadership should provide appropriate guidance and oversight when devising how to expend resources for a federal program, especially new programs with quickly evolving guidance and multiple programs providing similar types of funding. This should include the creation of documented policies, procedures, and controls for the implementation of those funds and the federal authority underpinning the procedures. Management should also document reviews by employees knowledgeable of the guidance and policy throughout the implementation process for comparing the implementation with federal guidance and university policy. Furthermore, management should properly apply payments to the appropriate term on student accounts to ensure accuracy in term balances. Management should also regularly monitor expenditures under federal awards to ensure there are available funds remaining. Finally, management should appropriately identify which expenditures are transferred between different portions of federal funds to allow appropriate oversight and to ensure compliance with federal guidelines under the new funding source.

Management's Comment

CFDA 84.425F

We do not concur with this finding.

This was an internal transfer between two HEERF accounts, from the institutional HEERF to the HBCU HEERF. Management made a correcting entry to record the scholarships under the correct federal award number. The full amount has not been drawn via G5 and the university has until June 30, 2023, to spend the funding and close out the CARES Act funding. When final reports are submitted to the awarding agency, all costs will be reported in the correct fund and award. This is simply an adjusting entry and by no means rises to the level of a finding.

CFDA 84.425J

We do not concur with this finding.

In reference to the questioned costs in 84.425J, we believe the auditors are unsubstantiated in reporting this as such. Per federal regulations (2 CFR 200.84), questioned costs are expenses that are questioned by the auditor because of an audit finding. A questioned cost 1) may result from a violation or possible violation of a state, regulation, or terms and conditions of a federal award, 2) may not be supported by adequate documentation, or 3) may appear unreasonable (does not reflect the actions that a prudent person would take in the circumstances). Neither of these conditions relate to the transactions included herein.

We have not violated any regulation; in fact, we remained in constant contact with the U.S. Department of Education to ensure that we were administering the funds in accordance with USDOE regulations. The auditors are inaccurate by issuing a finding that TSU did not discharge student debt within federal guidance. We are doing exactly as instructed by USDOE in assisting our students and allowing them to continue their education. We have provided all documentation available to explain our rationale and the decisions our President and the cabinet were making in a very fluid environment, which included a Pandemic Task Force.

It is unfortunate that the auditors concluded that TSU did not have an adequate control structure for the institutional funds or the HBCU portion of the HEERF funds. In the auditors' analysis, reference was made to only one letter sent to students, that is being referred to as a press release. This report based the analysis only on the August 4, 2021, letter to students. TSU provided several emails and letters to students regarding funding to pay off their balances. Grants were distributed to students in accordance with the HEERF guidelines and were based on the amount owed. Assistance to students was based on the amount owed up to a maximum of $10,000. This was shown to the auditors.

Requests were made by the auditors for documentation, policies, and procedures that are not required per the federal standards for the single audit. Again, we remained in contact with USDOE, the Management and Program Analyst with the Emergency Response Unit for the United States Department of Education.

We followed the directions of USDOE very carefully and we believe costs (scholarship amounts) are reasonable and are within the definition of costs of attendance as defined in section 472 of the Higher Education Act of 1965. We further believe that our Financial Aid Officers, who work day in and day out with our students and are trained and certified to administer financial aid funding to our students through Title IV programs, are the best suited in our university to award this funding. For these reasons, we believe these costs are allowable, in total, related to 84.425J.

Moreover, when the auditor brought it the attention of TSU that a policy was required before student debt could be discharged and that we did not follow federal policies or internal policies, we immediately notified the management and program specialist for the district that includes Tennessee. She directly informed us that per the guidance no such policy was required. In fact, these funds operate in the same manner as other grants the university had received.

The management representative for the USDOE HEERF requested the notifications that were sent to students and the list of students whose debt was discharged, the amount of the debt, and how the amount was calculated. We provided to the USDOE Management and Program Specialist the list of 4,576 students whose debt was discharged in the amount totaling $15,188,327. This is the exact same information that we provided to the state auditors. The USDOE Management and Program Specialist reviewed the documentation outlined above and indicated that "Regarding the $15 million as questioned costs, I have reviewed documentation requested and provided. Your account is in good standing with paying off student balances in the manner documented" as referenced in her communication on February 22, 2023.

TSU discharged student debt within federal guidelines, as shown by the communication from the USDOE. TSU did not and was not required to have an internal policy that differed from the federal guidance. Though TSU has proper documentation, federal guidance did not require the specific documentation referenced in the auditor's statement. TSU has maintained records in compliance with federal guidance for HEERF and USDOE has confirmed this.

Auditor's Comment

We have reviewed management's comments specific to their nonconcurrence with our finding and with the basis of questioned costs.

Our finding, including questioned costs, is based on management's inability to provide documentation of clear policies, procedures, or controls related to their spending of HEERF I, II, and III. We communicated with USDOE's Office of the General Counsel, who confirmed that "Institutions must document how each award was distributed to students under HEERF I, II, and III. The obligation for a grantee to 'maintain records on how grants were distributed to students, how the amount of each grant was calculated, and any instructions or directions given to students about the grants' is subsumed under the general recordkeeping requirements of 2 CFR § 200.334. Absent such records, a grantee would fail to demonstrate that the award amounts were 'reasonable and necessary' in accordance with 2 CFR § 200.404." We also confirmed that the general recordkeeping requirements of 2 CFR 200.334 apply to all HEERF grants, including grant awards made under Assistance Listing Number 84.425J, Historically Black Colleges and Universities.

We stand by the finding given that management has not provided documentation sufficient to support their assertions. Our duty is to report the matter to the federal grantor for ultimate consideration.

Finding 9

The university did not provide adequate internal controls in one specific area

Tennessee State University did not design and monitor effective internal controls in one specific area. We found an internal control deficiency in this area related to one of the university's systems.

Ineffective design and implementation of internal controls increase the risk of fraud, error, and data loss. Pursuant to Standard 6.63 of the U.S. Government Accountability Office's *Government Auditing Standards*, we omitted details from this finding because they are confidential under the provisions of Section 10-7-504(i), *Tennessee Code Annotated*. We provided the university with detailed information regarding the specific condition we identified, as well as the related criteria, causes, and our specific recommendations for improvement.

Recommendation

Management should remedy the condition by promptly developing and consistently implementing internal controls. Management should implement effective controls to ensure compliance with applicable requirements, assign staff to be responsible for ongoing monitoring of the risks and mitigating controls, and take action if deficiencies occur.

Management's Comment

We do not concur. The TSU office of Business and Finance has implemented internal controls to ensure the process is operating effectively.

Auditor's Comment

We have reviewed management's comments, and the facts remain as documented for the period covered. We will review the sufficiency of any new controls in the subsequent audit.