Management’s Discussion and Analysis

This section of Tennessee State University’s annual financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2011, with comparative information presented for the fiscal year ended June 30, 2010. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

Using This Annual Report

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

The Statement of Net Assets

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

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

Statement of Net Assets (in thousands of dollars)

	Institution		Component Unit	
	2011	**2010**	**2011**	**2010**
Assets				
Current assets	$ 37,402	$ 22,840	$ 4,882	$ 5,019
Capital assets, net	167,144	169,098	6,000	6,000
Other assets	62,295	58,369	37,249	31,029
Total Assets	**266,841**	**250,307**	**48,131**	**42,048**
Liabilities				
Current liabilities	22,324	19,896	8	26
Noncurrent liabilities	51,036	49,384	-	-
Total Liabilities	**73,360**	**69,280**	**8**	**26**
Net Assets				
Invested in capital assets, net of related debt	132,365	130,672	6,000	6,000
Restricted - nonexpendable	74	74	34,195	31,212
Restricted - expendable	6,339	7,253	7,748	4,556
Unrestricted	54,703	43,028	180	254
Total Net Assets	**$ 193,481**	**$ 181,027**	**$ 48,123**	**$ 42,022**

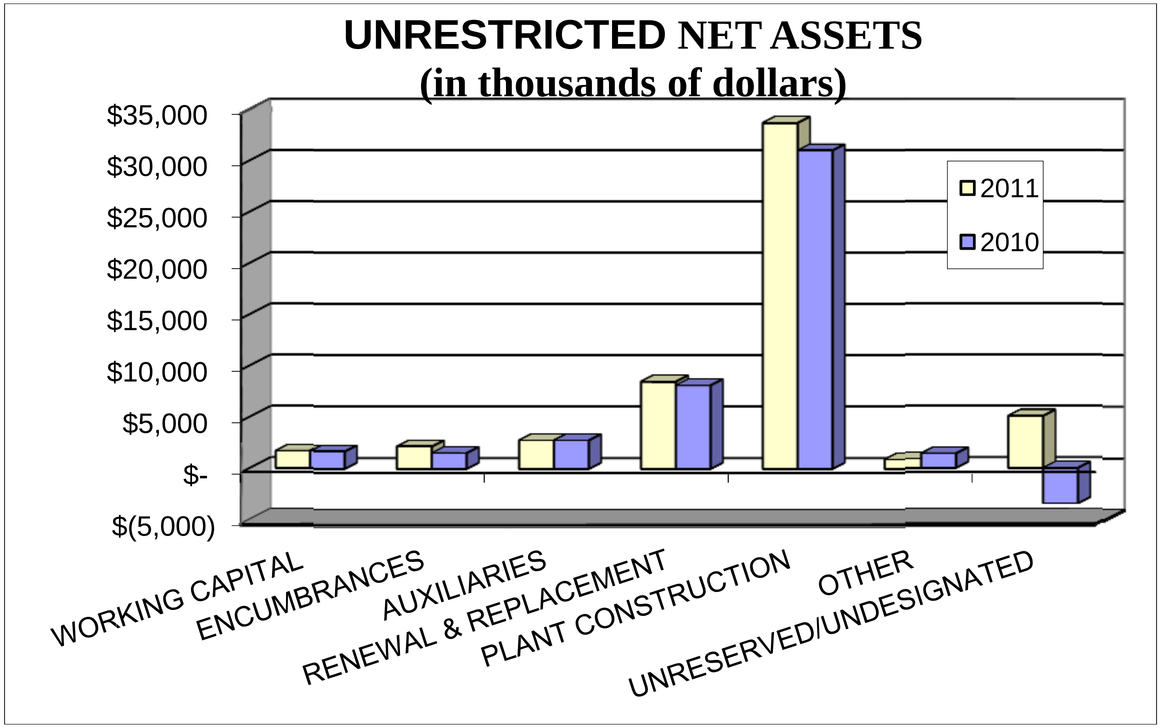
Comparison of FY 2011 to FY 2010

- Current assets and other assets increased due to increased holdings in LGIP received from increased student fees.
- Current liabilities increased due to more deferred revenue being obtained from unspent grant proceeds.
- Noncurrent liabilities increased primarily from new commercial paper being issued for the Indoor Practice Facility.
- The decrease in restricted, expendable net assets is due to more expenses than revenues related to restricted grants.
- The increase in unrestricted net assets is due to ARRA funding in previous years being considered restricted.

Comparison of FY 2011 to FY 2010 - Component Unit

- The increase in other assets is due primarily to investment income of over $5 million, and Title III funds of $772,780 received during the fiscal year.
- The increase in restricted expendable and non-expendable net assets is due to investment income increases. The expendable portion is primarily unrealized gains that are not allocated for expenditure or reinvestment. The non-expendable portion is the interest and dividends allocated to be reinvested as part of the corpus of the endowments.

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



Comparison of FY 2011 to FY 2010

- The increase in unreserved/undesignated net assets is due primarily to an increase in state appropriations (which are unrestricted) to alleviate strains caused by the removal of ARRA funds (which were restricted) that had been received in prior years.

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

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

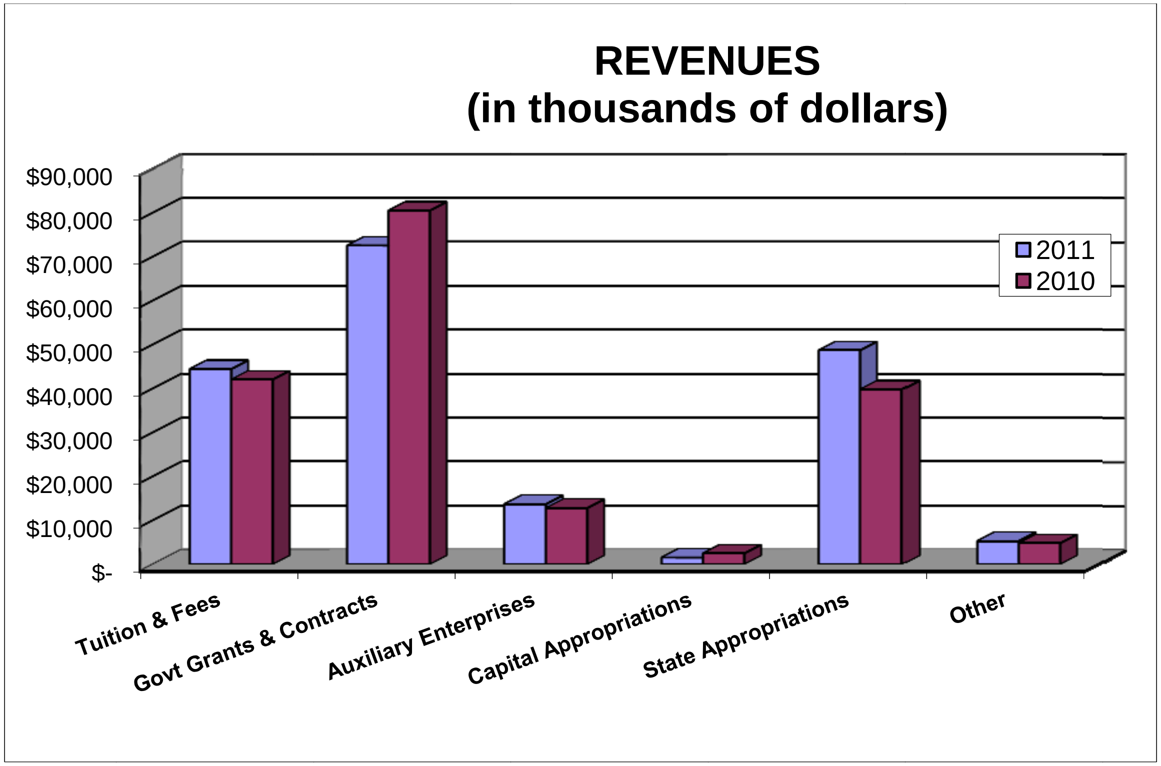
Tennessee State University

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

	Institution		Component Unit	
	2011	**2010**	**2011**	**2010**
Operating Revenues:				
Net tuition and fees	$ 44,446	$ 42,058	$ -	$ -
Grants and contracts	40,915	38,952	1,190	1,165
Auxiliary	13,699	12,813	-	-
Other	5,098	4,220	290	211
Total Operating Revenues	104,158	98,043	1,480	1,376
Operating Expenses	171,580	169,029	1,529	1,696
Operating loss	**(67,422)**	**(70,986)**	**(49)**	**(320)**
Nonoperating revenues and expenses				
State appropriations	48,745	39,811	-	-
Gifts	75	17	-	-
Grants and contracts	29,574	37,893	773	900
Investment income	342	548	5,333	1,808
Other revenues and expenses	(1,880)	(1,917)	-	-
Total nonoperating revenues and expenses	**76,856**	**76,352**	**6,106**	**2,708**
Income (loss) before other revenues expenses, gain, or losses	**9,434**	**5,366**	**6,057**	**2,388**
Other revenues, expenses, gains, or losses				
Capital appropriations	1,560	2,484	-	-
Capital grants and gifts	1,199	3,655	-	6,000
Additions to permanent endowments			114	547
Total other revenues, expenses, gains, or losses:	2,759	6,139	114	6,547
Increase (decrease) in net assets	**12,193**	**11,505**	**6,171**	**8,935**
Net assets at beginning of year	**181,027**	**170,442**	**42,022**	**34,015**
Prior Period Adjustment	262	(920)	(70)	(928)
Net assets at end of year	$ 193,482	$ 181,027	$ 48,123	$ 42,022

Revenues

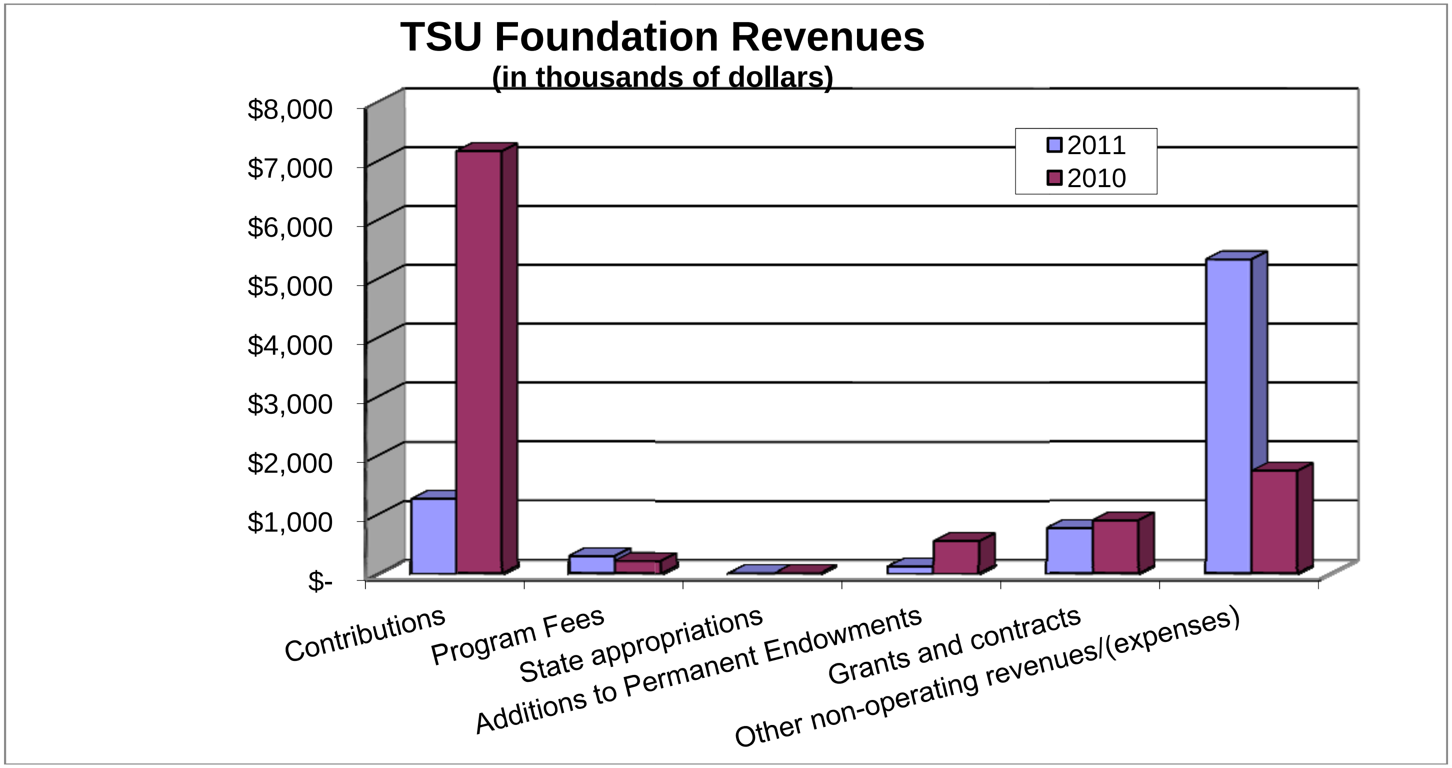
The following is a graphic illustration of revenues by source (both operating and non-operating), which are used to fund the university's operating activities for the years ended June 30, 2011, and June 30, 2010.



Comparison of FY 2011 to FY 2010

- Tuition and fees increased due to an increase approved by the Tennessee Board of Regents.

- State appropriations increased due to a one-time additional state appropriation due to the reduction of ARRA funds received in fiscal 2010.
- Grants and contracts increased due to more funding for the Cooperative Extension, IAgER, and Sites-M grants.
- Non-operating grants and contracts decreased due to the removal of ARRA funding of about $8 million.
- Capital grants and gifts decreased due to the change of the Clement Hall Renovation Project from phase II to the completion phase.



Comparison of FY 2011 to FY 2010 - Component Unit

- In fiscal year 2010, the TSU Foundation received a one-time capital gift of videotapes of TV programs and other media with an appraised value of $6 million.

- Investment income increased as a result of additional funding available for investing and an unrealized gain of over $3 million.

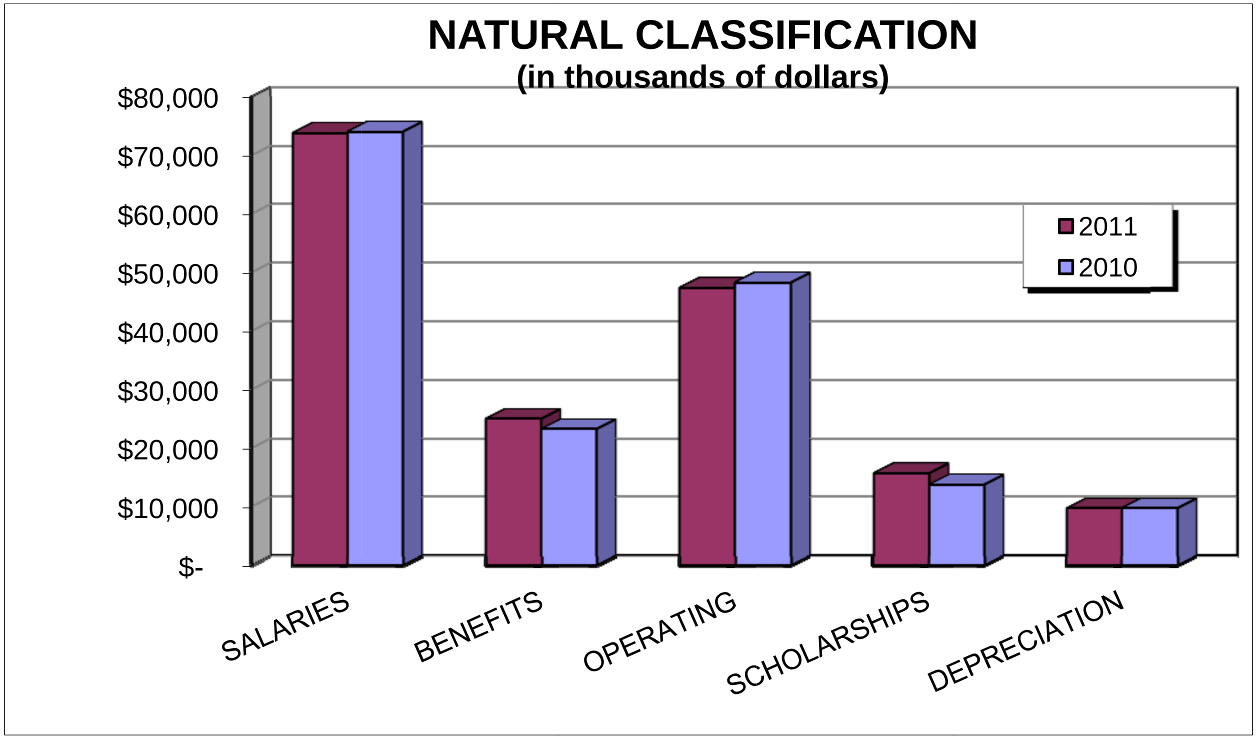
- Additions to permanent endowment decreased due to additional contributions in the prior fiscal year, including a new endowment for the May Chair of Sustainable Agriculture of over $400 thousand.

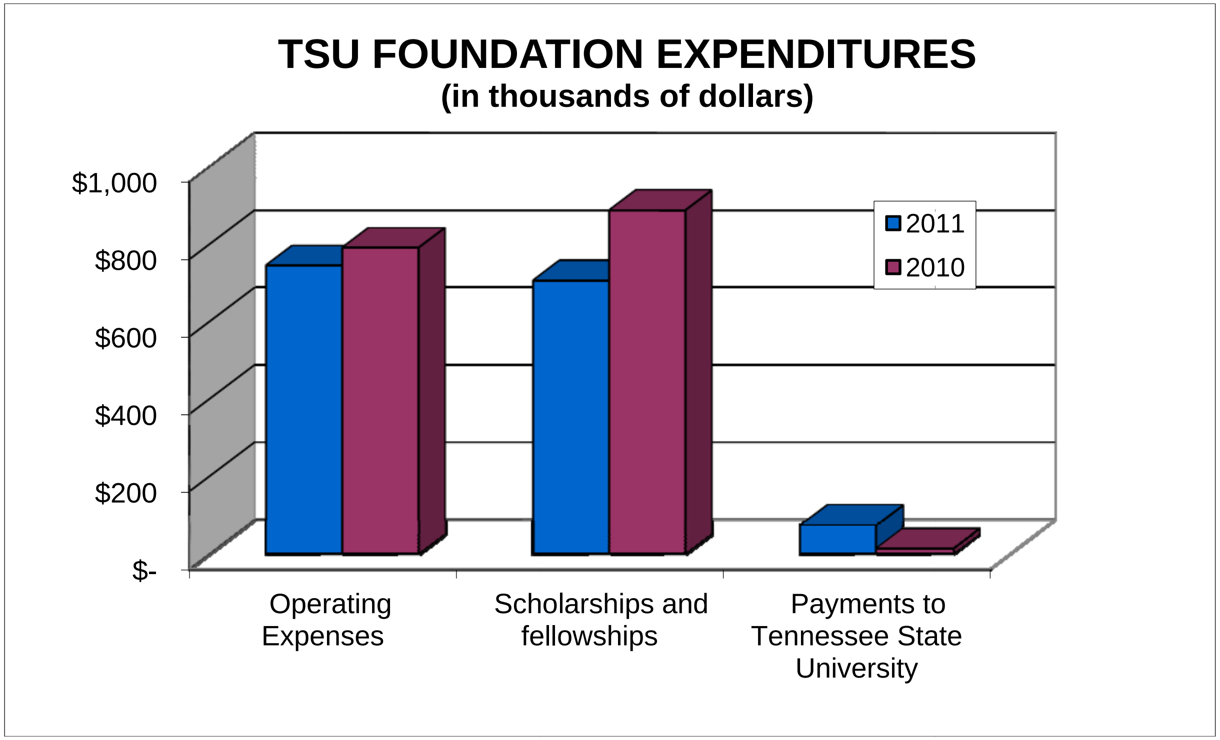
Expenses

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

NATURAL CLASSIFICATION
(in thousands of dollars)

	UNIVERSITY		COMPONENT UNIT	
	2011	2010	2011	2010
SALARIES	$ 73,824	$ 74,038	$ -	$ -
BENEFITS	24,994	23,238	-	-
OPERATING	47,366	48,272	746	792
SCHOLARSHIPS	15,704	13,756	707	889
PAYMENTS TO TSU	-	-	75	15
DEPRECIATION	9,692	9,725	-	-
TOTAL	$ 171,580	$ 169,029	$ 1,528	$ 1,696


NATURAL CLASSIFICATION
(in thousands of dollars)
$80,000
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$-
2011
2010
SALARIES
BENEFITS
OPERATING
SCHOLARSHIPS
DEPRECIATION



Comparison of FY 2011 to FY 2010 - University

- Benefit expenditures increased due to the state not requiring the payment of group insurance for two months during FY10. Group insurance as a result increased by about $2 million.

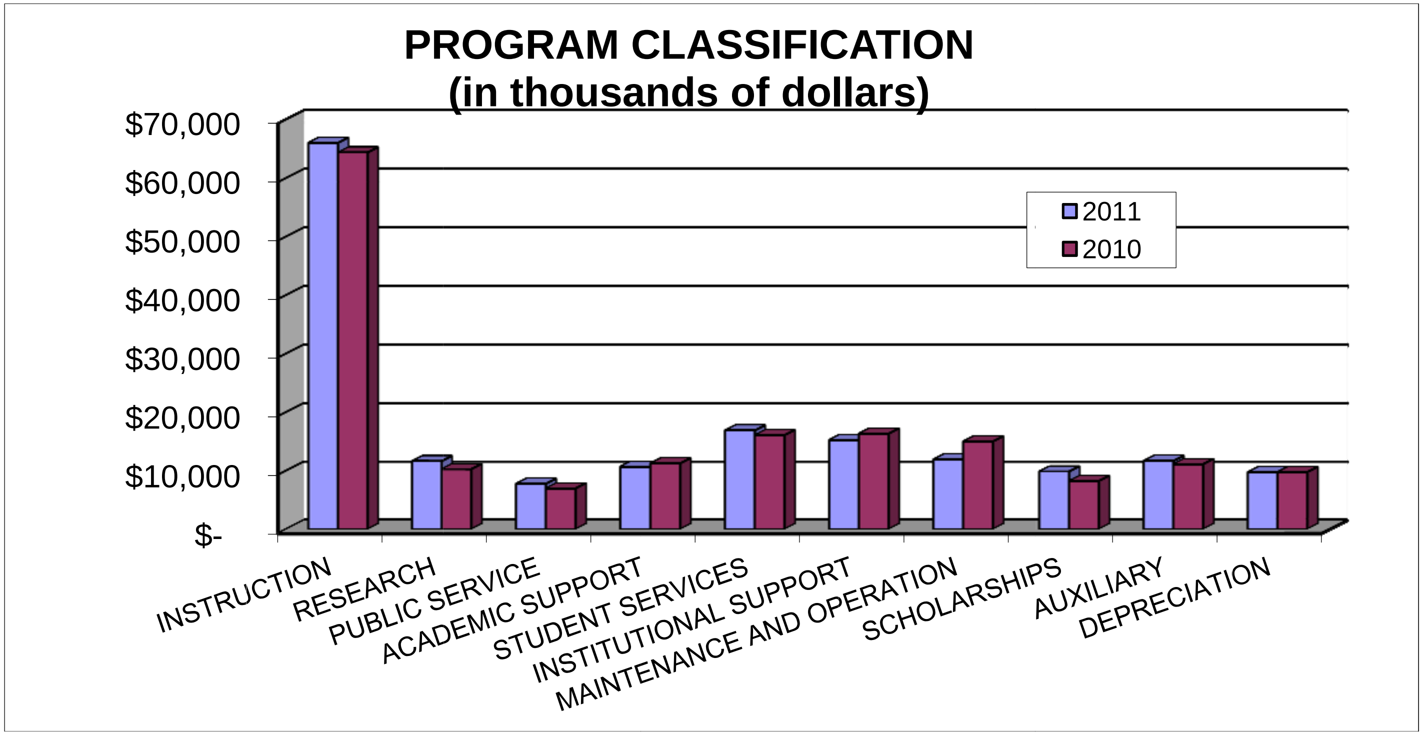
- Scholarships increased to compensate for the increases in tuition and fees, housing, and food services.

Comparison of FY 2011 to FY 2010 - Component Unit

- Scholarships decreased due to market losses in prior periods affecting the amount available for allocation to scholarships.

PROGRAM CLASSIFICATION
(in thousands of dollars)

	2011	2010
INSTRUCTION	$ 65,994	$ 64,344
RESEARCH	11,564	10,229
PUBLIC SERVICE	7,658	6,940
ACADEMIC SUPPORT	10,700	11,210
STUDENT SERVICES	16,852	16,035
INSTITUTIONAL SUPPORT	15,425	16,296
MAINTENANCE AND OPERATION	12,271	14,957
SCHOLARSHIPS	9,807	8,204
AUXILIARY	11,617	11,089
DEPRECIATION	9,692	9,725
TOTAL	$ 171,580	$ 169,029



Comparison of FY 2011 to FY 2010

- Maintenance and operation expenses decreased due a reduction of noncapital-related maintenance repairs.
- Research increased due to the salaries and benefits of employees working on new grants associated with research.
- Public service increased due grant increases, allowing additional salaries and benefits of employees.
- Scholarships increased to compensate for the increases in tuition and fees, housing, and food services.

Capital Assets and Debt Administration

Capital Assets

The University had $167,144,220.62 invested in capital assets, net of accumulated depreciation of $156,565,297.98 at June 30, 2011; and $169,097,936.01 invested in capital assets, net of accumulated depreciation of $148,580,902.06 at June 30, 2010. Depreciation charges totaled $9,691,524.89 and $9,724,861.23 for the years ended June 30, 2011, and June 30, 2010, respectively. Details of these assets are shown below.

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

	2011	2010
Land	$ 9,525	$ 9,525
Land Improvements & Infrastructure	16,007	16,307
Buildings	117,878	122,727
Equipment	6,030	5,538
Library Holdings	7,445	7,657
Intangible Assets	1,430	1,669
Projects in Progress	8,829	5,675
Total	$ 167,144	$ 169,098

Comparison of FY 2011 to FY 2010

- The decrease of almost $5 million in buildings is due to depreciation.
- The decrease in intangible assets is due to depreciation for the year.
- The increase in projects in progress is due to almost $3 million in additions to the Hale Stadium Improvements project that are on-going.

More detailed information about the university's capital assets is presented in Note 5 to the financial statements.

Component Unit
Schedule of Capital Assets(in thousands of dollars)

	2011	2010
Intangible assets	$ 6,000	$ 6,000
Total	$ 6,000	$ 6,000

Comparison of FY 2011 to FY 2010

The TSU Foundation received a one-time non-cash gift of videotapes of TV programs and other media with an appraised value of $6 million during fiscal year 2010. More detailed information about the foundation's capital assets is presented in Note 19 to the financial statements.

Debt

The university had $39,142,358.22 and $38,425,618.47 in debt outstanding at June 30, 2011, and June 30, 2010, respectively. The table below summarizes these amounts by type of debt instrument.

(in thousands of dollars)	2011	2010
Bonds	$ 35,942	$ 38,133
Commercial paper	3,200	292
Total	$ 39,142	$ 38,425

During the fiscal year 2011, an additional amount of over $2.9 million was issued in commercial paper for the Indoor Practice Facility, while payments of more than $2 million were made to the principal debt on the bonds.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2011, were as follows:

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

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

Economic Factors That Will Affect the Future

The enrollment for the fall 2011 semester is expected to be stable; however, the exact enrollment is unknown. The university is expecting a reduction in state funding of over $8 million. The fiscal year 2012 budget will include an increase in tuition and fees. The impact of the fee increase on enrollment is not known. The university is not aware of any other factors that will have a significant effect on the financial position or results of operations.

Requests for Information

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

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

_T_ ennessee _S_ tate _U_ niversity
Unaudited Statement of Net Assets
June 30, 2011

	Institution	Component Unit
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 19)	$ 23,802,442.37	$ 4,742,596.62
Short-term investments (Notes 3 and 19)	404,249.96	139,011.35
Accounts, notes, and grants receivable (net) (Note 4)	11,232,396.39	825.60
Due from primary government	17,858.60	-
Inventories (at lower of cost or market)	21,995.34	-
Prepaid expenses and deferred charges	39,198.21	-
Accrued interest receivable	1,884,028.63	-
Total current assets	37,402,169.50	4,882,433.57
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 19)	42,719,591.43	2,194,391.25
Investments (Notes 3 and 19)	17,343,502.83	35,054,469.89
Accounts, notes, and grants receivable (net) (Note 4)	2,231,670.49	-
Capital assets (net) (Note 5)	167,144,220.62	6,000,000.00
Total noncurrent assets	229,438,985.37	43,248,861.14
Total assets	266,841,154.87	48,131,294.71
LIABILITIES		
Current liabilities:		
Accounts payable (Note 6)	3,821,455.45	7,956.38
Accrued liabilities	7,619,092.10	-
Due to grantors (Note 7)	49,881.24	-
Student deposits	1,198,930.21	-
Deferred revenue	5,519,539.76	-
Compensated absences (Note 7)	1,007,663.77	-
Accrued interest payable	304,712.42	-
Long-term liabilities, current portion (Note 7)	2,296,833.44	-
Deposits held in custody for others	505,912.03	-
Total current liabilities	22,324,020.42	7,956.38
Noncurrent liabilities:		
Net OPEB obligation (Note 7 and 12)	6,488,748.44	-
Compensated absences (Note 7)	3,932,987.66	-
Long-term liabilities (Note 7)	36,845,524.78	-
Due to grantors (Note 7)	3,768,394.69	-
Total noncurrent liabilities	51,035,655.57	-
Total liabilities	73,359,675.99	7,956.38

T ennessee *S* tate *U* niversity
Unaudited Statement of Net Assets
June 30, 2011

	Institution	Component Unit
NET ASSETS		
Invested in capital assets, net of related debt	132,365,296.99	6,000,000.00
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	24,466.48	3,552,921.98
Research	50,000.00	489,792.51
Instructional department uses	-	76,406.66
Other	-	30,075,588.43
Expendable:		
Scholarships and fellowships	1,100,658.20	1,311,500.15
Research	675,798.96	14,530.80
Instructional department uses	2,415,679.82	299,497.10
Loans	823,056.42	-
Other	1,323,412.65	6,122,265.01
Unrestricted (Note 9)	54,703,109.36	180,835.69
Total net assets	$ 193,481,478.88	$ 48,123,338.33

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

T ennessee *S* tate *U* niversity

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

For the Year Ended June 30, 2011

		Institution	Component Unit
REVENUES			
Operating revenues:			
Student tuition and fees (net of scholarship			
allowances of	$ 22,971,445.40	$ 44,445,870.93	$ -
Gifts and contributions		-	1,189,709.55
Governmental grants and contracts		39,993,827.55	-
Non-governmental grants and contracts		921,487.84	-
Sales and services of educational departments		4,740,800.16	-
Auxiliary enterprises:			
Residential life (net of scholarship			
allowances of	3,307,037.27		
all residential life revenues are			
used as security for revenue bonds, see Note 10)		6,435,470.32	-
Bookstore		342,544.57	-
Food service		6,059,932.20	-
Other auxiliaries		861,617.04	-
Interest earned on loans to students		124,377.51	-
Other operating revenues		232,567.52	290,246.72
Total operating revenues		104,158,495.64	1,479,956.27
EXPENSES			
Operating Expenses			
Salaries and wages		73,824,392.19	-
Benefits		24,994,091.97	-
Utilities, supplies, and other services		47,366,112.30	746,442.63
Scholarships and fellowships		15,704,293.95	707,323.50
Depreciation expense		9,691,524.89	-
Payments to or on behalf of Tennessee State University		-	74,782.65
Total operating expenses		171,580,415.30	1,528,548.78
Operating income (loss)		(67,421,919.66)	(48,592.51)

*T*ennessee *S*tate *U*niversity
Unaudited Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2011

		Institution	Component Unit
NONOPERATING REVENUES (EXPENSES)			
State appropriations		48,744,577.00	-
Gifts, including	74,782.65		
from component unit to institution		74,782.65	-
Grants and contracts		29,574,014.74	772,780.00
Investment income (net of			
investment expense of	175,067.06		
for the component unit)		342,304.02	5,333,396.38
Interest on capital asset-related debt		(1,859,594.54)	-
Other non-operating revenues/(expenses)		(20,533.28)	-
Net nonoperating revenues		76,855,550.59	6,106,176.38
Income before other revenues, expenses			
gains, or losses		9,433,630.93	6,057,583.87
Capital appropriations		1,559,740.62	-
Capital grants and gifts		1,199,543.62	-
Additions to permanent endowments		-	114,482.34
Total other revenues		2,759,284.24	114,482.34
Increase (decrease) in net assets		12,192,915.17	6,172,066.21
NET ASSETS			
Net Assets -beginning of year		181,027,114.90	42,021,679.61
Prior period adjustment (Note 17 and 19)		261,448.81	(70,407.49)
Net Assets - end of year		$ 193,481,478.88	$ 48,123,338.33

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

T ennessee *S* tate *U* niversity

Unaudited Statement of Cash Flows

for the Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees		$ 44,682,673.71
Grants and contracts		41,125,493.45
Sales and services of educational activities		4,685,863.89
Payments to suppliers and vendors		(46,313,812.16)
Payments to employees		(73,989,736.61)
Payments for benefits		(23,933,548.46)
Payments for scholarships and fellowships		(15,704,293.95)
Loans issued to students		(456,202.73)
Collection of loans from students		581,186.34
Interest earned on loans to students		102,187.70
Auxiliary enterprise charges:		
Residence halls		6,435,470.32
Bookstore		320,397.29
Food services		6,030,203.01
Other auxiliaries		863,291.04
Other receipts (payments)		232,567.52
Net cash provided (used) by operating activities		(55,338,259.64)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations		48,695,300.00
Gifts and grants received for other than capital or endowment purposes, including	$ 74,782.65	
from (component unit) to the institution		37,564,208.16
Federal student loan receipts		71,432,738.41
Federal student loan disbursements		(71,432,738.41)
Changes in deposits held for others		283,038.98
Net cash provided (used) by non-capital financing activities		86,542,547.14
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt		2,907,843.84
Capital - state appropriation		1,559,740.62
Capital grants and gifts received		1,646,970.02
Purchase of capital assets and construction		(7,582,577.61)
Principal paid on capital debt and lease		(2,191,104.09)
Interest paid on capital debt and lease		(1,894,382.46)
Net cash provided (used) by capital and related financing activities		(5,553,509.68)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments		13,118,694.73
Income on investments		579,157.59
Purchase of investments		(13,506,473.66)
Net cash provided (used) by investing activities		191,378.66
Net increase (decrease) in cash and cash equivalents		25,842,156.48
Cash and cash equivalents - beginning of year		40,679,877.32
Cash and cash equivalents - end of year (Note 2)	$	66,522,033.80

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

Operating income/(loss)	$	(67,421,919.66)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense		9,691,524.89
Other adjustments		64,477.00
Change in assets and liabilities:		
Receivables, net		(759,336.70)
Inventories		189.94
Prepaid/deferred items		(22,842.41)
Accounts payable		878,170.90
Accrued liabilities		927,762.03
Deferred revenues		1,125,121.26
Deposits		(18,400.00)
Compensated absences		(97,039.94)
Due to grantors		112,097.25
Loans to students		181,935.80
Net cash provided (used) by operating activities	$	(55,338,259.64)

Non-cash investing, capital, and financing transactions

Unrealized gains/(losses) on investments	$	(229,707.05)
Gain/(loss) on disposal of capital assets		(14,348.79)

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

Standard Notes to the Financial Statements
June 30, 2011

1. **Summary of Significant Accounting Policies**

REPORTING ENTITY

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

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

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

BASIS OF PRESENTATION

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

BASIS OF ACCOUNTING

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The university has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The university has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

Amounts reported as operating revenues include: 1) tuition and fees, net of waivers and discounts, 2) certain federal, state, local and private grants and contracts, 3) sales and services of auxiliary enterprises, and 4) other sources of revenue. Operating expenses for the university include: 1) salaries and wages, 2) employee benefits, 3) scholarships and fellowships, 4) depreciation, and 5) utilities, supplies, and other services.

All other activity is non-operating in nature. This activity includes: 1) state appropriations for operations, 2) investment income, 3) bond issuance costs, 4) interest on capital asset-related debt, and 5) gifts and non-exchange transactions.

When both restricted and unrestricted resources are available for use, generally it is the university's policy to use the restricted resources first.

CASH EQUIVALENTS

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

INVENTORIES

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

COMPENSATED ABSENCES

The university's employees accrue annual leave at varying rates, depending upon length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are reported in the Statement of Net Assets.

CAPITAL ASSETS

Capital assets, which include property, plant, equipment, library holdings, and intangible assets, are reported in the Statement of Net Assets at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' useful lives are not capitalized.

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

These assets, with the exception of land, are depreciated/amortized using the straight-line method over the estimated useful lives of the assets, which range from 5 to 40 years.

NET ASSETS

The university's net assets are classified as follows:

INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT*:* This represents the university's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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

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

UNRESTRICTED NET ASSETS: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the university, and may be used at the discretion of the university to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

SCHOLARSHIP DISCOUNTS AND ALLOWANCES

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

2. **Cash**

This classification includes demand deposits and petty cash on hand. At June 30, 2011, cash consists of $11,151,622.55 in bank accounts, $3,750.00 of petty cash on hand, $52,546,562.15 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $2,820,099.10 in the LGIP Deposits – Capital Projects account.

LGIP Deposits – Capital Projects - Payments related to the university's capital projects are made by the State of Tennessee's Department of Finance and Administration. The university's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the university for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

3. **Investments**

All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

As of June 30, 2011, the university had the following investments and maturities.

Investment Maturities (In Years)					
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
US Agencies	$ 17,344,064.15	$ 561.32	$ 11,130,843.10	$ 6,137,472.90	$ 75,186.83
Certificates of Deposit	403,688.64	403,688.64	-	-	-
Total	$ 17,747,752.79	$ 404,249.96	$ 11,130,843.10	$ 6,137,472.90	$ 75,186.83

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

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

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

The policy requires that prime commercial paper shall be limited to that of corporations that meet the following criteria: 1) Senior long-term debt, if any, should have a minimum rating of A1 or equivalent, and short-term debt should have a minimum rating of A1 or equivalent, as provided by a majority of the rating services that rate the issuer. If there is no long-term debt rating, the short-term debt rating must be A1 by all rating services (minimum of two). 2) The rating should be based on the merits of the issuer or guarantee by a nonbank. 3) A financial review should be made to ascertain the issuer’s financial strength to cover the debt. 4) Commercial paper of a banking institution should not be purchased. Prime commercial paper shall not have a maturity that exceeds 270 days. As of June 30, 2011, the university’s investments were rated as follows:

Credit Quality Rating			
Investment Type	Fair Value	AAA	Unrated
LGIP	$ 55,366,661.25	$ -	$ 55,366,661.25
US Agencies	15,117,559.62	15,117,559.62	-
Total	$ 70,484,220.87	$ 15,117,559.62	$ 55,366,661.25

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

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

Issuer	Percentage of Total Investments
Federal National Mortgage Assn.	29%
Federal Home Loan Mortgage Corp.	16%
Federal Home Loan Bank	39%

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

Accounts receivable included the following:

	June 30, 2011
Student accounts receivable	$ 5,246,789.90
Grants receivable	8,285,642.43
Notes receivable	25,576.90
State appropriation receivable	137,600.00
Other receivables	569,639.01
Subtotal	14,265,248.24
Less allowance for doubtful account	(3,018,635.31)
Total	$ 11,246,612.93

Federal Perkins Loan Program funds include the following:

	June 30, 2011
Perkins Loans receivable	$ 2,975,184.33
Less allowance for doubtful accounts	(757,730.38)
Total	$ 2,217,453.95

5. **Capital Assets**

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Transfers	Reduction	Ending Balance
Land	$ 9,525,009.24	$ -	$ -	$ -	$ 9,525,009.24
Land Improve & Infrastructure	47,485,427.37	-	1,414,786.51	-	48,900,213.88
Buildings	209,616,191.98	-	-	-	209,616,191.98
Equipment	26,111,716.21	1,717,092.55	-	(459,130.32)	27,369,678.44
Library Holdings	16,585,561.70	1,466,443.03	-	(1,262,347.44)	16,789,657.29
Intangible Assets	2,679,599.36	-	-	-	2,679,599.36
Projects in Progress	5,675,332.21	4,568,622.71	(1,414,786.51)	-	8,829,168.41
Total	$ 317,678,838.07	$ 7,752,158.29	$ -	$ (1,721,477.76)	$ 323,709,518.60
Less Accumulated Depreciation Amort:					
Land Improve & Infrasstructure	$ 31,178,307.24	$ 1,714,578.46	$ -	$ -	$ 32,892,885.70
Buildings	86,889,039.82	4,848,841.96	-	-	91,737,881.78
Equipment	20,574,035.17	1,210,747.40	-	(444,781.53)	21,340,001.04
Intangible Assets	1,010,860.01	238,391.34	-	-	1,249,251.35
Library Holdings	8,928,659.82	1,678,965.73	-	(1,262,347.44)	9,345,278.11
Total Accumulated Depreciation	$ 148,580,902.06	$ 9,691,524.89	$ -	$ (1,707,128.97)	$ 156,565,297.98

6. **Accounts Payable**

Accounts payable included the following:

	June 30, 2011
Vendor Payable	$ 2,627,526.40
Oher Payables	1,193,929.05
Total	$ 3,821,455.45

7. **Long-term Liabilities**

Long term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reduction	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$ 38,133,462.31	$ -	$ (2,191,104.09)	$ 35,942,358.22	$ 2,296,833.44
Commercial Paper	292,156.16	2,907,843.84	-	3,200,000.00	-
Subtotal	$ 38,425,618.47	$ 2,907,843.84	$ (2,191,104.09)	$ 39,142,358.22	$ 2,296,833.44
Other Liabilities:					
Comp Absences	$ 5,037,691.37	$ 2,392,034.23	$ (2,489,074.17)	$ 4,940,651.43	$ 1,007,663.77
Due to Grantor	3,708,971.25	142,119.31	(32,814.63)	3,818,275.93	49,881.24
Net OPEB Obligation	5,456,386.81	2,287,964.77	(1,255,603.14)	6,488,748.44	-
Subtotal	$ 14,203,049.43	$ 4,822,118.31	$ (3,777,491.94)	$ 15,247,675.80	$ 1,057,545.01
Total LT Liabilities	$ 52,628,667.90	$ 7,729,962.15	$ (5,968,596.03)	$ 54,390,034.02	$ 3,354,378.45

TSSBA Debt - Bonds Payable

Bonds, with interest rates ranging from 3.25% to 5.00%, were issued by the Tennessee State School Bond Authority. The bonds are due serially until 2032 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations. See Note 10 for further details. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the Statement of Net Assets is shown net of assets held by the authority in the debt service reserve and net of unexpended debt proceeds. The reserve amount was $530,473.56 at June 30, 2011.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2011, are as follows:

For the Year(s) Ending June 30	Principal	Interest	Total
2012	$ 2,296,833.44	$ 1,774,019.77	$ 4,070,853.21
2013	2,378,345.14	1,678,048.66	4,056,393.80
2014	2,484,823.22	1,565,070.01	4,049,893.23
2015	2,545,961.60	1,454,319.91	4,000,281.51
2016	2,373,503.55	1,340,368.56	3,713,872.11
2017 - 2021	11,431,413.00	4,996,572.30	16,427,985.30
2022 - 2026	8,453,879.76	2,368,769.82	10,822,649.58
2027 - 2031	3,482,572.31	560,963.84	4,043,536.15
2032	495,026.20	24,751.32	519,777.52
Total	$ 35,942,358.22	$ 15,762,884.19	$ 51,705,242.41

TSSBA Debt - Commercial Paper

The Tennessee State School Bond Authority issues commercial paper to finance costs of various capital projects during the construction phase. When projects are placed in service, long-term, fixed-rate debt is issued by TSSBA to finance the project over its useful payback period and the commercial paper is redeemed. The amount outstanding for projects at the university was $3,200,000.00 at June 30, 2011.

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

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

8. **Endowments**

If a donor has not provided specific instructions to the Tennessee State University, state law permits the university to authorize for expenditure the earnings of the investments of endowment funds. When administering its power to spend these earnings, the university is required to consider the university's long-term and short-term needs, present and anticipated financial requirements, expected return on its investments, price-level trends, and general economic conditions. Any earnings spent are required to be spent for the purposes for which the endowment was established.

The university chooses to spend only a portion of the investment income each year. At June 30, 2011, net appreciation of $43,567.04 is available to be spent, of which $2,109.91 is included in restricted net assets expendable for scholarships and fellowships, and $41,457.13 is included in restricted net assets expendable for instructional departmental uses.

9. **Unrestricted Net Assets**

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

		FY 2011
Working Capital	$	1,655,284.21
Encumbrances		2,165,311.81
Designated Fees		903,086.09
Auxiliaries		2,772,956.73
Plant Construction		33,647,679.59
Renewal and Replacement of Equipment		8,489,340.43
Undesignated Balance		5,069,450.50
Total	$	54,703,109.36

10. **Pledged Revenues**

The university has pledged certain revenues and fees, including state appropriations, to repay $35,942,358.22 in revenue bonds issued from May 1990 to November 2008. Proceeds from the bonds provided financing for Dormitory Renovations, Student Housing/Apartments, North Campus Improvements, Chiller Replacement, Research and Sponsored Programs Building, Student Housing Fire Suppression, Energy Savings Performance Contracting, and Avon Williams Campus. The bonds are payable through 2032. Annual principal and interest payments on the bonds are expected to require 3% of available revenues. The total principal and interest remaining to be paid on the bonds is $51,705,242.41. Principal and interest paid for the current year and total available revenues were $4,080,602.53 and $138,885,307.85, respectively.

11. **Pension Plans**

Defined Benefit Plan

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report is available on the state's website at http://www.state.tn.us/treasury/tcrs/index.html.

Funding Policy - Plan members are noncontributory. The university is required to contribute at an actuarially determined rate. The current rate is 14.91**%** of annual covered payroll. The contribution requirements of the university are established and may be amended by the TCRS Board of Trustees. The university's contributions to TCRS for the years ending June 30, 2011, 2010, and 2009 were $4,078,956.87, $3,621,292.79, and $3,926,390.23, respectively, equal to the required contributions for each year.

Federal Retirement Program

Plan Description – The University contributes to the Federal Retirement Program, a cost-sharing multiple-employer defined benefit pension plan administered by the Civil Service Retirement System (CSRS) for participants employed prior to January 1, 1984, and the Federal Employees Retirement System (FERS) for participants employed after December 31, 1983. Both systems provide retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and beneficiaries. All regular full-time employees of the Tennessee State University Agricultural Extension Service who hold federal appointments for 51% or more of their time are required to participate in either one of the two Federal Retirement Programs. For both systems, benefit provisions are established in federal statutes. Federal statutes are amended by the U.S. Congress. All the university's extension employees currently participate in CSRS.

The CSRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Office of Personnel Management, Retirement Information Office, P.O. Box 45, Boyers, Pennsylvania, 16017-0045, or by calling (202) 606-0500.

Funding Policy – Participating employees and the university are required to contribute to the CSRS plan. Contribution requirements are established and may be amended by federal statutes. The university was required to contribute 7% of covered payroll to the CSRS plan. Employees were required to contribute 7% of the covered payroll. Contributions to CSRS for the year ended June 30, 2011, were $42,711.56, which consisted of $21,355.78 from the university and $21,355.78 from the employees; contributions for the year ended June 30, 2010, were $45,778.12, which consisted of $22,889.06 from the university and $22,889.06 from the employees; contributions for the year ended June 30, 2009, were $52,581.80, which consisted of $26,290.90 from the university and $26,290.90 from the employees. Contributions met the requirements for each year.

Defined Contribution Plans

Plan Description – The university contributes to three defined contribution plans: Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), ING Life and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly.

Funding Policy – Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans for the year ended June 30, 2011, was $3,668,221.04 and for the year ended June 30, 2010, was $3,756,432.87. Contributions met the requirements for each year.

12. **Other Postemployment Benefits**

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that provides postemployment health insurance benefits to eligible university retirees. This program includes two plans available to higher education employees – the State Employee Group Plan and the Medicare Supplement Plan. Both plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Tennessee Code Annotated (TCA) 8-27-201 for the state plan and TCA 8-27-701for the Medicare Supplement Plan. In previous fiscal years, prior to reaching the age of 65 all members had the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. However, as of January 1, 2010, the insurance plan structure was changed and as a result all members now have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy. The state makes on-behalf payments to the Medicare Supplement Plan for the university's eligible retirees. See Note 18. The plans are reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

Funding Policy. The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Retired employees who have not reached the age of 65 pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service are subsidized 80 percent; 25 years, 70 percent; and 20 years, 60 percent. Retired employees who are 65 years of age or older have flat rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; 25 years, $37.50; and 20 years, $25. Contributions for the State Employee Group Plan for the year ended June 30, 2011, were $12,035,230.82, which consisted of $9,742,130.81 from the university and $2,293,100.01 from the employees.

Annual OPEB Cost and Net OPEB Obligation

	State Plan
Annual Required Contribution (ARC)	$ 2,275,000.00
Interest on the net OPEB obligation	245,537.41
Adjustment to the ARC	(232,572.64)
Annual OPEB cost	2,287,964.77
Amount of Contribution	(1,255,603.14)
Increase/decrease in net OPEB	1,032,361.63
Net OPEB Obligation - beginning of year	5,456,386.81
NET OPEB Obligation - end of year	$ 6,488,748.44

Year-End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	NET OPEB Obligation at Year-End
June 30, 2011	Statement Employment Group Plan	$ 2,287,964.77	54.9%	$ 6,488,748.44
June 30, 2010	Statement Employment Group Plan	2,516,339.06	39.4%	5,456,386.81
June 30, 2009	Statement Employment Group Plan	3,130,404.95	38.4%	3,930,462.13

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

Actuarial valuation date	July 1, 2010
Actuarial acrued liability (AAL)	$ 20,747,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	20,747,000.00
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	71,599,111.07
UAAL as percentagae of covered payroll	29.0%

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

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

In the July 1, 2010, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10% in fiscal year 2011, decreased to 9.5% in fiscal year 2012 and then reduced by decrements to an ultimate rate of 5% in fiscal year 2021. All rates include a 3% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007.

13. **Chairs of Excellence**

The university had $4,749,453.56 on deposit at June 30, 2011, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in these financial statements.

14. **Insurance-Related Activities**

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

The university participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2010, and June 30, 2009, are presented in the Tennessee Comprehensive Annual Financial Report. The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html. Since the university participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, Tennessee Code Annotated, Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in Tennessee Code Annotated, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. The amount of cash and cash equivalents designated for payment of claims held by the Risk Management Fund at June 30, 2011, was not available. At June 30, 2010, the Risk Management Fund held $114.5 million in cash and cash equivalents designated for payment of claims.

At June 30, 2011, the scheduled coverage for the university was $587,223,500.00 for buildings and $87,980,200.00 for contents.

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

15. **Commitments and Contingencies**

Sick Leave - The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $31,538,612.38 at June 30, 2011.

Operating Leases - The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real and personal property were $237,637.28 and $152,893.90, respectively for the year ended June 30, 2011. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2011, outstanding commitments under construction contracts totaled $4,576,689.68 for ADA Improvements, Avon Williams Campus Improvements, Biotech Security Center, Performing Arts/Radio Station, Football Practice Facility, Power Plant Mechanical Upgrades, Housing Upgrades/Improvements, and Roof Repair/Replacement, of which $1,749,875.76 will be funded by future state capital outlay appropriations.

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

16. Natural Classifications with Functional Classifications

The university's operating expenses by functional classification for the year ended June 30, 2011, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 35,932,655.22	$ 11,189,016.99	$ 16,578,135.98	$ 2,294,584.81	$ -	$ 65,994,393.00
Research	6,181,176.94	1,676,793.33	2,897,676.37	808,080.21	-	11,563,726.85
Public Service	4,574,542.65	1,882,711.70	1,193,424.70	7,146.00	-	7,657,825.05
Academic Support	5,979,175.77	2,168,092.70	2,479,367.07	73,996.75	-	10,700,632.29
Student Services	7,070,411.12	2,396,266.80	4,625,038.16	2,760,285.72	-	16,852,001.80
Institutional Support	9,267,525.65	3,570,437.40	2,579,918.78	7,161.00	-	15,425,042.83
M&O	2,903,488.54	1,491,726.62	7,856,536.10	19,431.00	-	12,271,182.26
Scholarships & Fellowships	-	-	129,925.00	9,677,321.96	-	9,807,246.96
Auxiliary	1,915,416.30	619,046.43	9,026,090.14	56,286.50	-	11,616,839.37
Depreciation	-	-	-	-	9,691,524.89	9,691,524.89
Total Expenses	$ 73,824,392.19	$ 24,994,091.97	$ 47,366,112.30	$ 15,704,293.95	$ 9,691,524.89	$ 171,580,415.30

17. Prior Period Adjustment(s)

A prior period adjustment was made for $261,448.84 in other receivables due to a 10% overpayment to the Tennessee Consolidated Retirement System (TCRS) for a select group of employees over the past three years.

18. On-Behalf Payments

During the year ended June 30, 2011, the State of Tennessee made payments of $64,477.00 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 12. The plan is reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

19. **Component Unit(s)**

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 20-member board of the Foundation is self-perpetuating and consists of graduates and friends of the University. The size of the board shall be determined by the majority votes of its members, and any vacancy in its membership shall be filled in the same way. The entire membership of the Board of Trustees shall not exceed twenty-five (25) in number and a minimum of eight (8). All trustees shall serve until the expiration of their respective terms and until their respective successors are selected and qualified. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

During the year ended June 30, 2011, the Foundation made distributions of $74,782.65 to or on behalf of the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Betsy Jackson, Executive Director, 3500 John A. Merritt Boulevard, Nashville, TN 37209.

Cash and Cash Equivalents – In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2011, cash and cash equivalents consists of $4,306,921.34 in bank accounts, and $2,630,066.53 in money markets.

Investments – The Foundation is authorized to invest funds in accordance with its board of directors' policies. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

As of June 30, 2011, the Foundation had the following investments and maturities.

		Investment Maturities (In Years)				
Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	More than 10	No Maturity Date
US Treasury	$ 2,663,734.80	$ -	$ 761,845.45	$ 1,901,889.35	$ -	$ -
US Agencies	937,673.69	84,084.44	853,589.25	-	-	-
Corporate Stocks	15,345,231.48	-	-	-	-	15,345,231.48
Corporate Bonds	6,096,240.66	54,926.91	3,753,933.36	2,287,380.39	-	-
Mutual Bond Funds	235,465.63	-	-	-	-	235,465.63
Mutual Equity Funds	491,786.94	-	-	-	-	491,786.94
Foreign Stock	2,173,624.82	-	-	-	-	2,173,624.82
International Mutual Funds	2,911,066.76	-	-	-	-	2,911,066.76
Mortgage Backed Securities	1,038,300.62	-	-	77,167.74	961,132.88	-
Collateralized Mortgage Obligations	1,088,867.97	-	711,525.94	28,397.91	348,944.12	-
Rights & Warrants	9,546.01	-	-	9,546.01	-	-
Real Estate Investment Trusts	2,201,941.86	-	-	-	-	2,201,941.86
Money Market Accounts	1,339,486.63	-	-	-	-	1,339,486.63
Money Market Funds	1,290,579.90	-	-	-	-	1,290,579.90
Savings Accounts	306,553.15	-	-	-	-	306,553.15
Less Amounts Reported as Cash and Cash Equivalents:						
Money Markets	(2,630,066.53)	-	-	-	-	(2,630,066.53)
Savings Accounts	(306,553.15)	-	-	-	-	(306,553.15)
Total	$ 35,193,481.24	$ 139,011.35	$ 6,080,894.00	$ 4,304,381.40	$ 1,310,077.00	$ 23,359,117.49

Interest Rate Risk. The Foundation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value arising from increasing interest rates.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Securities are rated using Standard and Poor's, Moody's, and/or Fitch and are presented below using the Standard and Poor's rating scale. The Foundation investment policy states that fixed income securities must be rated BBB or higher at the time of purchase, with an average portfolio rating of an A. Asset backed securities, mortgage backed securities, and collateralized mortgage obligations should have a AA rating or higher at the time of purchase. Unrated bonds may be purchased, but shall not exceed 20% of the portfolio. As of June 30, 2011, the Foundation's investments were rated as follows:

Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
US Agencies	$ 937,673.69	$ 937,673.69	$ -	$ -	$ -	$ -
Corporate Bonds	6,096,240.66	192,327.80	588,432.16	4,570,792.99	744,687.71	-
Mutual Bond Funds	235,465.63	-	-	-	-	235,465.63
Collateralized Mortgage Obligations	1,088,867.97	1,088,867.97	-	-	-	-
Money Market Funds	1,290,579.90	-	-	-	-	1,290,579.90
Total	$ 9,648,827.85	$ 2,218,869.46	$ 588,432.16	$ 4,570,792.99	$ 744,687.71	$ 1,526,045.53

Alternative Investments.

The foundation has investments in Real Estate Investment Trusts (REITS). The estimated fair value of these assets is $2,201,941.86 at June 30, 2011.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2011. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques.

The value of shares for Inland Amerian is estimated to be the offering of $8.03 per share (ignoring purchase price discounts for certain categories of purchasers); provided however that if the Company has sold property and has made one or more special distribution to its stockholders of all or a portion of the net proceeds per Share will be equal to $8.03 per Share distributed to the stockholders prior to the valuation date.

The value of shares for Behringer Harvard is estimated to be the offering of $4.55 per share (ignoring purchase price discounts for certain categories of purchasers); provided however that if the Company has sold property and has made one or more special distributions to its stockholders of all or a portion of the net proceeds, per Share will be equal to $4.55 per Share distributed to the stockholders prior to the valuation date.

Capital Assets - Capital asset activity for the year ended June 30, 2011, was as follows:

	Beg Balance	Additions	Transfers	Reductions	End Balance
Intangible assets	$6,000,000.00				$6,000,000.00
Capital assets, net	$6,000,000.00				$6,000,000.00

Endowments - If a donor has not provided specific instructions to the foundation, the foundation's policies and procedures 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-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

General Endowment--The foundation chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, 70% of the 3-year rolling average of net earnings has been authorized for expenditure. The remaining amount, is reinvested in the endowment. At June 30, 2011, net appreciation of $366,536.09 is available to be spent, of which $335,730.63 is included in restricted net assets expendable for scholarships and fellowships, $11,694.24 is included in restricted net assets expendable for instructional departmental uses, and $19,111.22 is included in restricted net assets expendable for other.

Consent Decree Endowment--According to the established agreement within the Consent Decree, the budget committee shall appropriate for distribution each year from Consent Decree Endowment Funds, an amount equal to 75% of the interest and dividend income. The remaining 25% is to be reinvested in the corpus of the fund. At June 30, 2011, net appreciation of $171,390.04 is available to be spent, all of which is included in restricted net assets expendable for other.

Title III Endowment--According to the established agreement between the Foundation and the Tennessee State University Title III Program, an amount equal to 50% of the interest and dividend income should be allocated for distribution annually. The remaining 50% is to be reinvested in the corpus of the fund. At June 30, 2011, net appreciation of $499,168.73 is available to be spent, all of which is included in restricted net assets expendable for other.

Prior period adjustment(s) - A prior period adjustment of $70,407.49 was made due to a withdrawal of funds from a money market account, and interest gained on that account during the FY10 that was not previously included.

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress for Tennessee State University

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2007	$ -	$ 26,258,000	$ 26,258,000	-	$ 92,730,202	28.32%
July 1, 2009	-	22,568,000	22,568,000	-	72,648,998	31.06%
July 1, 2010	-	20,747,000	20,747,000	-	71,599,111	28.98%

Tennessee State University
Supplementary Information
Supplementary Schedule of Cash Flows - Component Unit
for the Year Ended June 30, 2011

		Component Unit
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$	1,189,709.55
Payments to suppliers and vendors		(762,735.15)
Payments for scholarships and fellowships		(707,323.50)
Payments to Tennessee State University		(74,782.65)
Other receipts (payments)		290,246.72
Net cash provided (used) by operating activities		(64,885.03)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Gifts and grants received for other than capital or endowment purposes		772,780.00
Private gifts for endowment purposes		114,482.34
Net cash provided (used) by non-capital financing activities		887,262.34
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		6,562,576.34
Income on investments		806,302.49
Purchase of investments		(8,421,752.14)
Other investing receipts (payments)		
Net cash provided (used) by investing activities		(1,052,873.31)
Net increase (decrease) in cash and cash equivalents		(230,496.00)
Cash and cash equivalents - beginning of year		7,167,483.87
Cash and cash equivalents - end of year (Note 19)	$	6,936,987.87

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Supplementary Information
Supplementary Schedule of Cash Flows - Component Unit
for the Year Ended June 30, 2011

		Component Unit
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income/(loss)	$	(48,592.51)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Change in assets and liabilities:		
Receivables, net		1,721.59
Accounts payable		(18,014.11)
Net cash provided (used) by operating activities	$	(64,885.03)
Non-cash investing, capital, and financing transactions		
Unrealized gains/(losses) on investments	$	3,818,994.03

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