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, 2016, with comparative information presented for the fiscal years ended June 30, 2015. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

The university has one discretely presented component unit, the Tennessee State University Foundation. More detailed information about the foundation is presented in Note 18 to the financial statements. This discussion and analysis focuses on the university and does not include the foundation.

Overview of the Financial Statements

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

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

The Statement of Net Position

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

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

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

The following table summarizes the university's assets, liabilities, deferred outflows/inflows, and net position at June 30, 2016, and June 30, 2015.

Statement of Net Position (in thousands of dollars)		
	2016	2015
Assets:		
Current assets	46,774	44,481
Capital assets, net	164,313	163,719
Other assets	65,294	61,934
Total Assets	**276,381**	**270,134**
Deferred Outflows of Resources		
Deferred loss on debt refunding	1,064	1,190
Other deferred outflows	11,956	4,738
Total Deferred Outflows	**13,020**	**5,928**
Liabilities:		
Current liabilities	23,605	24,183
Noncurrent liabilities	55,990	52,466
Total Liabilities	**79,595**	**76,649**
Deferred Inflows of Resources		
Other deferred inflows	9,238	12,093
Total Deferred Inflows	**9,238**	**12,093**
Net Position:		
Net investment in capital assets	136,935	133,801
Restricted – nonexpendable	338	336
Restricted – expendable	4,116	5,070
Unrestricted	59,179	48,114
Total Net Position	**200,568**	**187,321**

Comparison of FY 2016 to FY 2015

- Current assets increased due to a large amount of unpaid receivables at year end.
- Other deferred outflows increased due to pension investment earnings being lower than originally assumed by the actuary.
- Other deferred inflows decreased due to one year of amortization of the prior balance.
- Restricted expendable decreased due to spending for additional scholarships from Building Bridges in FY16 over the revenues received.
- Unrestricted increased due to the changes referred to in the deferred inflows and deferred outflows.

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

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

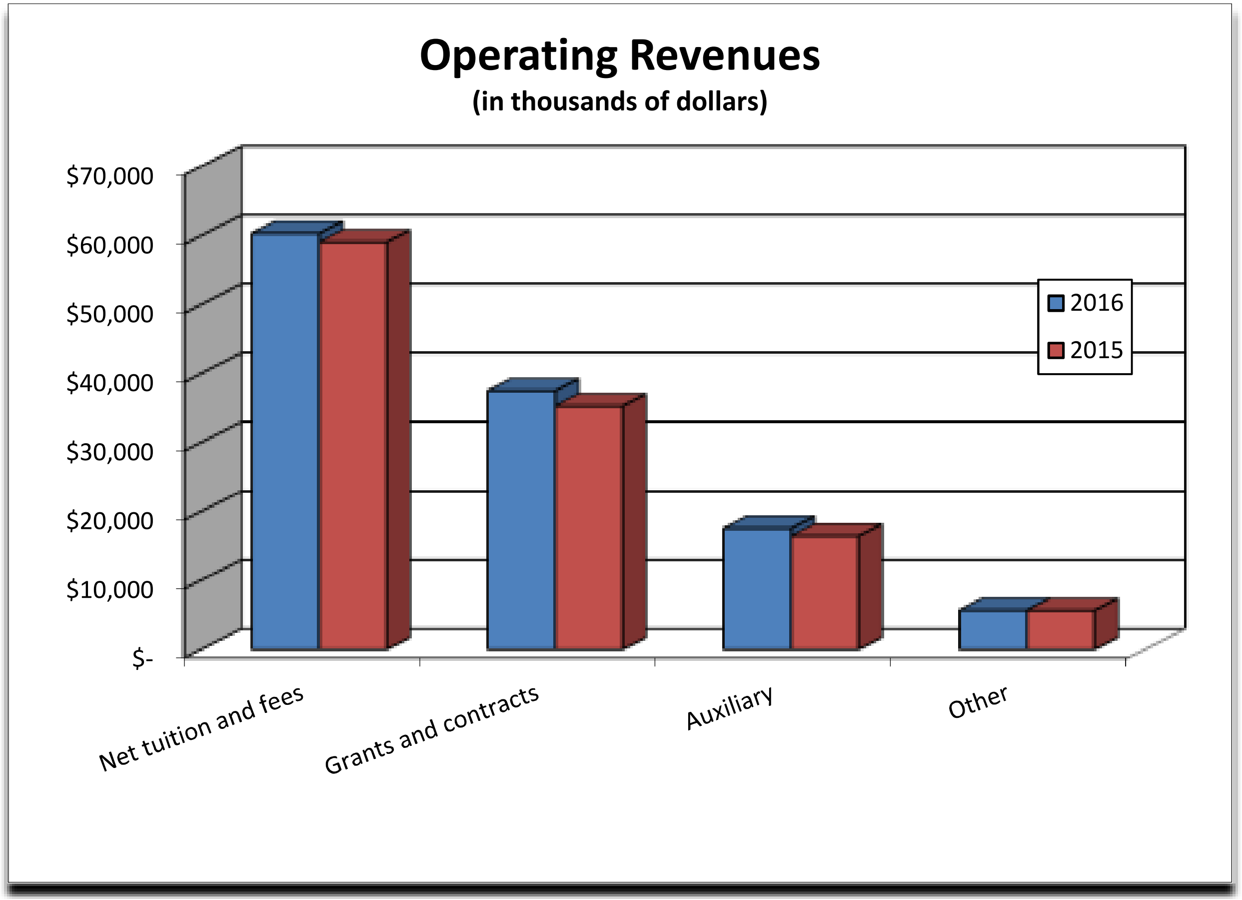
Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the university. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the university. Nonoperating revenues are revenues received for which goods and services are not provided directly to the payor. Although Tennessee State University is dependent upon state appropriations and gifts to fund educational and general operations, under GASB standards these funding sources are reported as nonoperating revenues, as is investment income. As a result, the university has historically reported an excess of operating expenses over operating revenues, resulting in an operating loss. 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, 2016, and June 30, 2015, follows.

Statement of Revenues, Expenses, and Changes in Net Position (in thousands of dollars)		
	2016	2015
Operating revenues	120,951	116,399
Operating expenses	179,119	178,393
Operating loss	(58,168)	(61,994)
Nonoperating revenues and expenses	67,584	67,709
Income (loss) before other revenues, expenses, gains, or losses	9,416	5,715
Other revenues, expenses, gains, or losses	3,831	4,962
Increase (decrease) in net position	13,247	10,677
Net position at beginning of year	187,321	196,646
Prior period adjustment	-	(767)
Cumulative effect	-	(19,235)
Net position at end of year	200,568	187,321

Operating Revenues

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

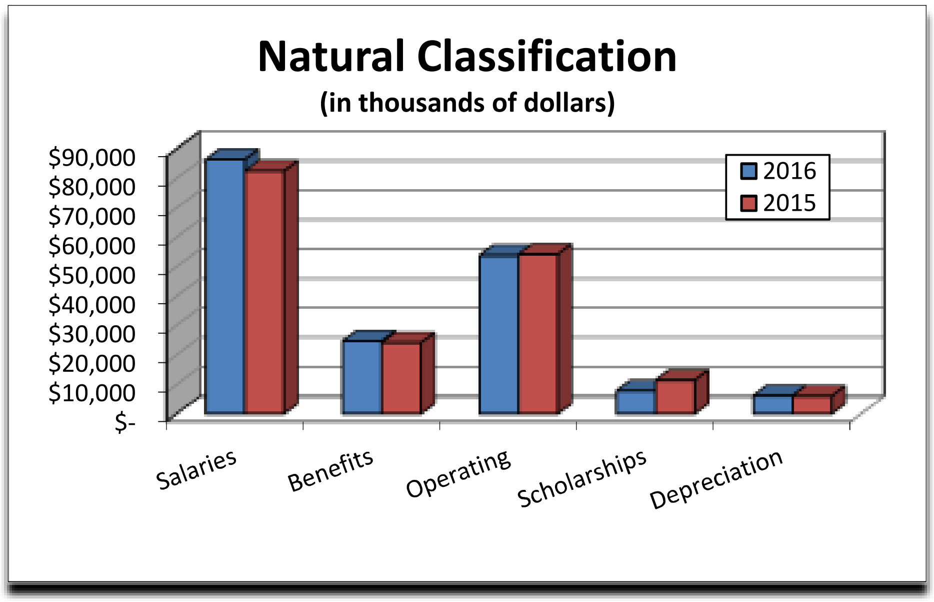


Comparison of FY 2016 to FY 2015

- No material variances were noted when comparing fiscal year 2016 to fiscal year 2015.

Operating Expenses

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

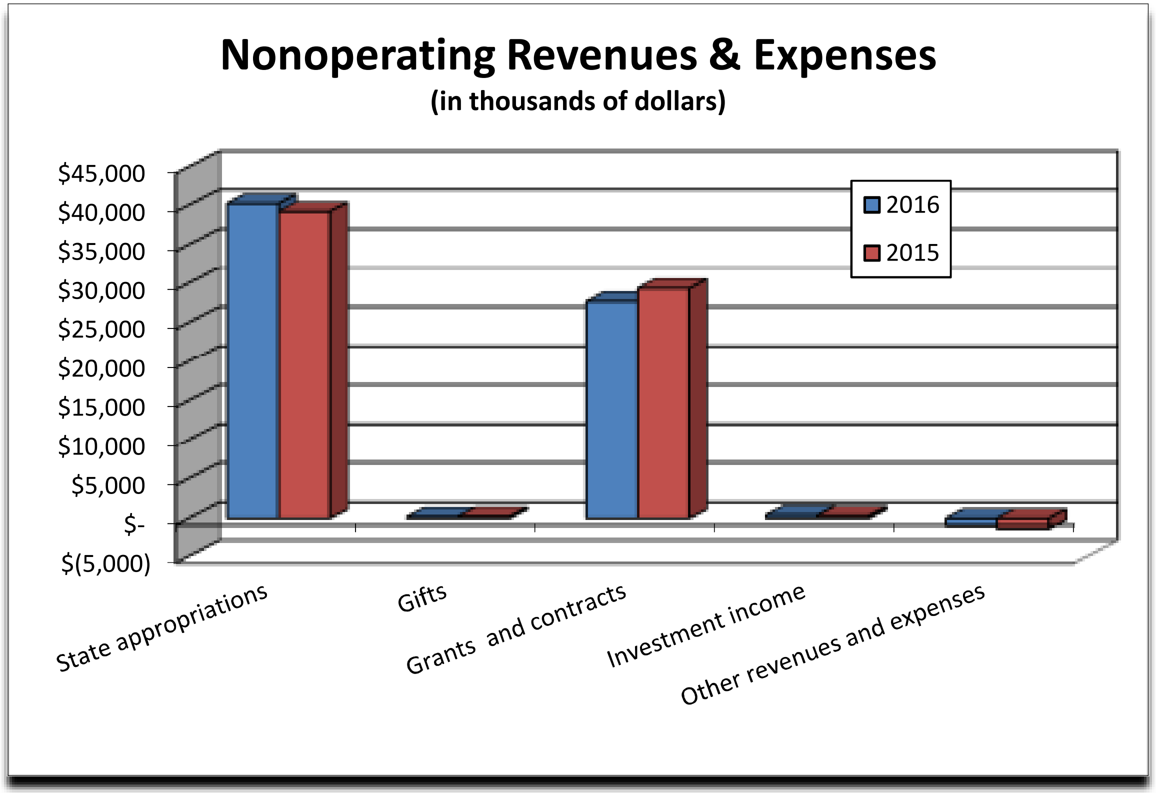


Comparison of FY 2016 to FY 2015

- Salaries increased due to paying additional graduate assistants for the Cooperative Extension Program.
- Scholarships decreased due a lower number of students in FY16 than in FY15. This caused less spending in both Pell grants and unrestricted scholarships.

Nonoperating Revenues and Expenses

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

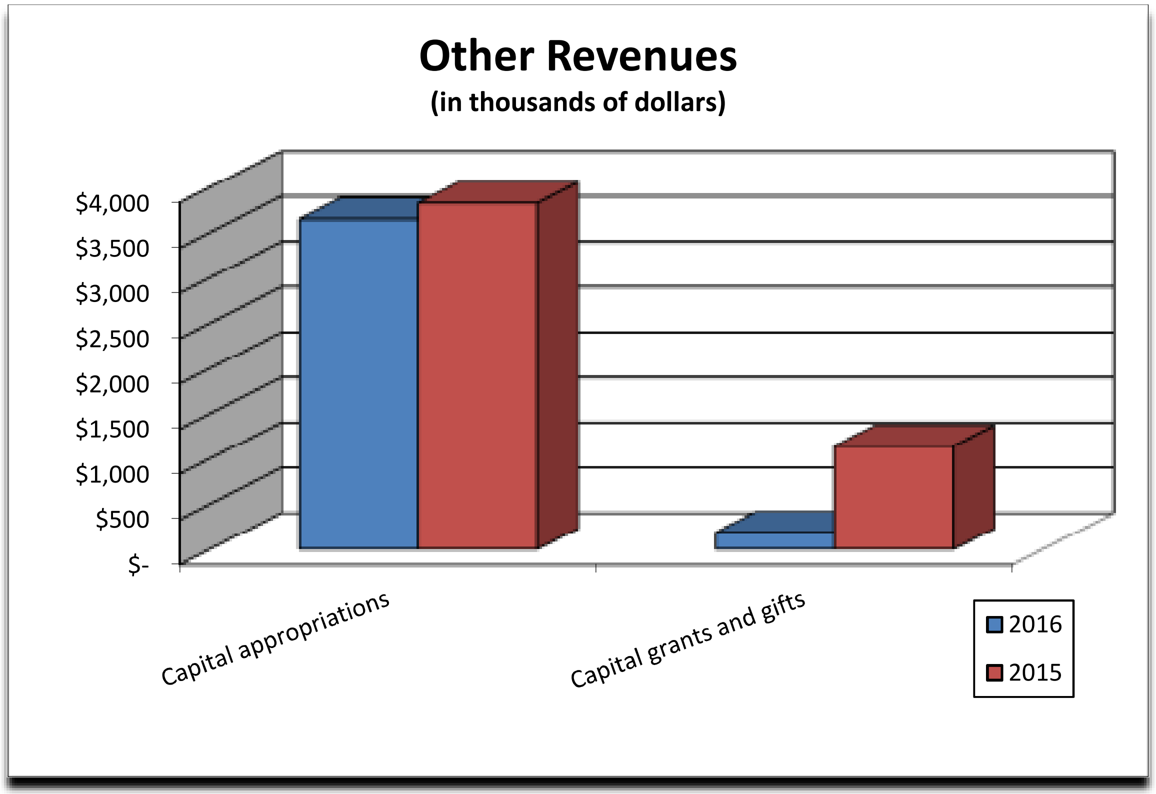


Comparison of FY 2016 to FY 2015

- Grants and contracts decreased due to fewer Pell grants being awarded in fiscal year 2016 than in 2015.

Other Revenues

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



Comparison of FY 2016 to FY 2015

- Capital grants and gifts decreased due to the completion of the Biotech building in fiscal year 2015; therefore no revenue was received in fiscal year 2016 for that building.

Capital Assets and Debt Administration

Capital Assets

Tennessee State University had $164,312,707.12 invested in capital assets, net of accumulated depreciation of $178,765,577.66 at June 30, 2016; and $163,719,236.88 invested in capital assets, net of accumulated depreciation of $173,207,345.50 at June 30, 2015. Depreciation charges totaled $6,269,318.36 and $6,121,376.21 for the years ended June 30, 2015, and June 30, 2015, respectively.

Schedule of Capital Assets, Net of Depreciation (in thousands of dollars)		
	2016	2015
Land	$ 9,686	$ 9,600
Land improvements & infrastructure	11,590	12,418
Buildings	129,400	129,948
Equipment	7,771	7,918
Library holdings	1,270	1,349
Intangible assets	238	477
Projects in progress	4,358	2,009
Total	$ 164,313	$ 163,719

Significant additions to capital assets occurred in fiscal year 2016. These additions were from farm buildings and campus elevators.

At June 30, 2016, outstanding commitments under construction contracts totaled $2,241,753.82 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $2,159,929.36 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 $28,375,428.67 and $31,107,887.40 in debt outstanding at June 30, 2016, and June 30, 2015, respectively. The table below summarizes these amounts by type of debt instrument.

Outstanding Debt (in thousands of dollars)		
	2016	2015
TSSBA bonds payable	27,182	29,766
Unamortized bond premium/discount	1,193	1,342
Total	28,375	31,108

The TSSBA issued bonds with interest rates ranging from 0.65% to 5.243% due May 2032 on behalf of Tennessee State University. The university is responsible for the debt service of these bonds. The current portion of the $27,182,294.75 outstanding at June 30, 2015, is $ 2,853,926.60.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2016, were as follows:

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

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

Economic Factors That Will Affect the Future

The Focus on College and University Success (FOCUS) Act became effective July 1, 2016. This Act removes the six universities from the governance of the Tennessee Board of Regents. The universities will remain part of the State University and Community College System of Tennessee, but each will have its own local board that will provide governance, approve policies, set tuition and fee rates, and hire presidents. The Act also enhances the role of the Tennessee Higher Education Commission (THEC) by requiring THEC to provide greater coordination across the state, including capital project management, institutional mission approval, and higher education finance.

During the period of transition (July 1, 2016 until the local board is convened), the six universities will continue under the governance of the Tennessee Board of Regents. Each university will submit proposals to the Southern Association of Colleges and Schools Council on Colleges (SACSCOC) for substantive change of governance during Fall 2016. The SACSCOC will meet during December 2016 to consider those proposals. The economic impact of this change is uncertain.

Tennessee State University
Unaudited Statement of Net Position
June 30, 2016

	Institution	Component Unit
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 18)	$ 25,531,532.83	$ 3,760,428.53
Short-term investments (Notes 3 and 18)	616,890.80	2,988,699.80
Accounts, notes, and grants receivable (net) (Note 5)	16,576,373.98	-
Due from primary government	1,323,445.24	-
Due from component unit	153,416.61	-
Inventories (at lower of cost or market)	35,504.11	-
Prepaid expenses	153,499.80	-
Accrued interest receivable	2,383,139.64	-
Total current assets	$ 46,773,803.01	$ 6,749,128.33
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 18)	$ 53,108,078.91	$ 4,144,016.70
Investments (Notes 3 and 18)	10,457,942.57	46,101,915.58
Accounts, notes, and grants receivable (net) (Note 5)	1,686,212.11	-
Net pension asset (Note 10)	42,489.00	-
Capital assets (net) (Note 6 and 18)	164,312,707.12	6,312,879.06
Total noncurrent assets	229,607,429.71	56,558,811.34
Total assets	$ 276,381,232.72	$ 63,307,939.67
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on debt refunding	$ 1,063,688.10	$ -
Deferred outflows related to pensions	11,956,785.55	-
Total deferred outflows of resources	$ 13,020,473.65	$ -

Tennessee State University
Unaudited Statement of Net Position
June 30, 2016

	Institution	Component Unit
LIABILITIES		
Current liabilities:		
Accounts payable (Note 7)	$ 4,977,482.63	$ 133,294.66
Accrued liabilities	8,535,710.22	-
Due to primary government	1,686.00	153,416.61
Unearned revenue	5,496,346.89	-
Compensated absences (Note 8)	1,086,534.66	-
Accrued interest payable	155,665.50	-
Long-term liabilities, current portion (Note 8)	2,853,926.60	-
Deposits held in custody for others	498,135.95	-
Total current liabilities	$ 23,605,488.45	$ 286,711.27
Noncurrent liabilities:		
Net OPEB obligation (Note 11)	$ 7,337,423.71	$ -
Net pension liability (Note 10)	15,355,873.00	-
Compensated absences (Note 8)	4,299,756.29	-
Long-term liabilities (Note 8)	25,521,502.07	-
Due to grantors (Note 8)	3,475,533.14	-
Total noncurrent liabilities	55,990,088.21	-
Total liabilities	$ 79,595,576.66	$ 286,711.27
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	$ 9,238,363.00	$ -
Total deferred inflows of resources	$ 9,238,363.00	$ -

Tennessee State University
Unaudited Statement of Net Position
June 30, 2016

	Institution	Component Unit
NET POSITION		
Net investment in capital assets	$ 136,935,347.94	$ 6,311,378.02
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	337,732.91	6,485,160.67
Research	-	722,463.45
Instructional department uses	-	818,620.24
Other	-	41,293,841.09
Expendable:		
Scholarships and fellowships	385,850.29	2,504,048.55
Research	518,659.44	162,485.82
Instructional department uses	1,379,375.70	531,649.50
Loans	820,647.98	-
Other	1,011,636.07	3,722,090.02
Unrestricted	59,178,516.38	469,491.04
Total net position	$ 200,567,766.71	$ 63,021,228.40

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

Tennessee State University
Unaudited Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2016

		Institution	Component Unit
REVENUES			
Operating revenues:			
Student tuition and fees (net of scholarship allowances of	$ 28,198,906.42	$ 60,304,467.73	$ -
Gifts and contributions		-	2,089,088.47
Governmental grants and contracts		36,037,148.76	-
Non-governmental grants and contracts (Including	$ 133,100.00		
from component units)		1,454,779.17	-
Sales and services of educational activities		157,527.60	-
Sales and services of other activities		5,156,126.32	293,292.85
Auxiliary enterprises:			
Residential life (net of scholarship allowances of	$ 5,921,927.75		
all residential life revenues are used as security for revenue bonds, see Note 8)		6,106,504.59	-
Bookstore		2,205,079.15	
Food service		8,302,070.64	
Other auxiliaries		915,737.46	-
Interest earned on loans to students		311,526.41	-
Total operating revenues		$ 120,950,967.83	$ 2,382,381.32
EXPENSES			
Operating Expenses (Note 15)			
Salaries and wages		$ 86,450,131.55	$ -
Benefits		24,698,568.18	-
Utilities, supplies, and other services		53,779,899.05	1,072,867.22
Scholarships and fellowships		7,921,494.85	2,199,437.91
Depreciation expense		6,269,318.36	7,350.33
Payments to or on behalf of TSU (Note 18)		-	389,691.04
Total operating expenses		$ 179,119,411.99	$ 3,669,346.50
Operating income (loss)		$ (58,168,444.16)	$ (1,286,965.18)

Tennessee State University
Unaudited Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2016

		Institution	Component Unit
NONOPERATING REVENUES (EXPENSES)			
State appropriations		$ 40,222,037.50	$ -
Gifts, including	$ 226,591.04		
from component unit to institution		245,150.39	-
Grants and contracts		27,692,122.44	-
Investment income (net of			
investment expense of	$ 128,365.60		
for the institution and	$ 162,052.34		
for the component unit)		416,694.63	(2,145,713.69)
Interest on capital asset-related debt		(981,223.55)	-
Other non-operating revenues/(expenses)		(10,470.02)	-
Net nonoperating revenues		$ 67,584,311.39	$ (2,145,713.69)
Income before other revenues, expenses gains, or losses		$ 9,415,867.23	$ (3,432,678.87)
Capital appropriations		$ 3,645,668.51	$ -
Capital grants and gifts, including	$ 30,000.00		
from component unit(s)		185,548.94	-
Additions to permanent endowments		-	696,598.56
Total other revenues		$ 3,831,217.45	$ 696,598.56
Increase (decrease) in net position		$ 13,247,084.68	$ (2,736,080.31)
NET POSITION			
Net position -beginning of year		$ 187,320,682.03	$ 70,359,764.08
Prior period adjustment (Note 18)		-	(4,602,455.37)
Net position - end of year		$ 200,567,766.71	$ 63,021,228.40

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

Tennessee State University
Unaudited Statement of Cash Flows
for the Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees			$	57,082,305.31
Grants and contracts				35,603,704.84
Sales and services of educational activities				157,527.60
Sales and services of other activities				4,399,568.89
Payments to suppliers and vendors				(54,977,186.07)
Payments to employees				(87,121,951.29)
Payments for benefits				(27,220,129.68)
Payments for scholarships and fellowships				(7,921,494.85)
Loans issued to students				(698,051.41)
Collection of loans from students				827,377.33
Interest earned on loans to students				312,348.33
Auxiliary enterprise charges:				
Residence halls				6,106,504.59
Bookstore				2,094,133.64
Food services				8,309,301.49
Other auxiliaries				1,030,567.04
Net cash provided (used) by operating activities			$	(62,015,474.24)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
State appropriations			$	40,134,300.00
Gifts and grants received for other than capital				
or endowment purposes, including	$	473,303.55		
from TSU Foundation to the institution)				27,947,362.33
Federal/state student loan receipts				57,776,600.00
Federal/state student loan disbursements				(57,776,600.00)
Changes in deposits held for others				24,459.10
Principal paid on noncapital debt				(374,392.39)
Interest paid on noncapital debt				(149,807.62)
Net cash provided (used) by non-capital financing activities			$	67,581,921.42
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital - state appropriation			$	3,645,668.51
Capital grants and gifts received				508,297.09
Purchase of capital assets and construction				(6,867,754.75)

Principal paid on capital debt and lease		(2,209,166.30)
Interest paid on capital debt and lease		(1,141,130.07)
Net cash provided (used) by capital and related financing activities	$	(6,064,085.52)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	$	8,064,049.46
Income on investments		539,858.62
Purchase of investments		(5,160,592.08)
Net cash provided (used) by investing activities	$	3,443,316.00
Net increase (decrease) in cash and cash equivalents	$	2,945,677.66
Cash and cash equivalents - beginning of year		75,693,934.08
Cash and cash equivalents - end of year (Note 2)	$	78,639,611.74
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income/(loss)	$	(58,168,444.16)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense		6,269,318.36
Pension expense		1,600,860.00
Other adjustments		87,737.50
Change in assets, liabilities, and deferrals:		
Receivables, net		(5,456,471.29)
Inventories		1,405.84
Prepaid items		(136,823.18)
Other assets		158,612.51
Deferred outflows		(4,066,555.11)
Accounts payable		(1,746,129.50)
Accrued liabilities		5,662.52
Unearned revenues		208,490.73
Compensated absences		(808,110.39)
Due to grantors		(103,866.73)
Loans to students		138,838.66
Net cash provided (used) by operating activities	$	(62,015,474.24)
Non-cash investing, capital, and financing transactions		
Unrealized gains/(losses) on investments	$	35,546.77
Gain/(loss) on disposal of capital assets	$	(10,470.02)

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

TENNESSEE BOARD OF REGENTS
TENNESSEE STATE UNIVERSITY

Standard Notes to the Financial Statements
June 30, 2016

1. Summary of Significant Accounting Policies

REPORTING ENTITY

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

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

The Tennessee State University Foundation is considered a component unit of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements. See Note 18 for more detailed information about the component unit and how to obtain the report.

BASIS OF PRESENTATION

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

BASIS OF ACCOUNTING

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

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

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

CASH EQUIVALENTS

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

INVENTORIES

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

COMPENSATED ABSENCES

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

CAPITAL ASSETS

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

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

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

PENSIONS

For purposes of measuring the net pension liability, 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 plan's 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.

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.

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

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

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

SCHOLARSHIP DISCOUNTS AND ALLOWANCES

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

EARLY IMPLEMENTATION OF ACCOUNTING PRONOUNCEMENT

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This statement establishes requirements for recognition and measurement of pension plan expense and liabilities, note disclosures, and required supplementary information for pensions that have the characteristics described above. The university's federal retirement program is described in Note 9. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2015. However, the university has elected to early implement the provisions of this statement for fiscal year 2016.

2. Cash

This classification includes demand deposits and petty cash on hand. At June 30, 2016, cash consists of $18,362,812.52 in bank accounts, $3,800.00 of petty cash on hand, $9,745,922.25 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, $49,659.00 in the Deposits – Capital Projects account, and $50,477,417.97 in money market accounts.

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

The Local Government Investment Pool (LGIP) is administered by the State Treasurer. The LGIP is part of the State Pooled Investment Fund. There are no minimum or maximum limitations on withdrawals with the exception of a 24-hour notification period for withdrawals of $5 million or more. The fund's required risks disclosures are presented in the *State of Tennessee's Treasurer's Report.* That report is available on the state's website at http://www.tn.gov/treasury or by calling (615) 741-2956.

3. Investments

In accordance with GASB Statement 31, 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.

As of June 30, 2016, the university had the following investments and maturities.

		Investment Maturities (In Years)				
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10	No Maturity Date
US Treasury	$ 1,441,940.97	$ 604,146.10	$ -	$ 837,794.87	$ -	$ -
US Agencies	9,632,892.40	12,744.70	5,432,454.49	3,043,820.15	1,128,230.55	15,642.51
Total Debt Instruments	$ 11,074,833.37	$ 616,890.80	$ 5,432,454.49	$ 3,881,615.02	$ 1,128,230.55	$ 15,642.51
Total	$ 11,074,833.37					

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, 2016, the university's investments were rated as follows:

Investment Type	Carrying Value	Credit Quality Rating AA	Credit Quality Rating Unrated
Local Government Investment Pool (LGIP)	$ 9,795,581.25	$ -	$ 9,795,581.25
US Agencies	8,685,897.13	8,685,897.13	-
Total	$ 18,481,478.38	$ 8,685,897.13	$ 9,795,581.25

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

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

Issuer	Percentage of Total Investments
Federal National Mortgage Association	40.69%
Federal Home Loan Bank	15.97%
Federal Farm Credit Banks	6.78%
Federal Home Loan Mortgage Corportations	14.99%

4. Fair Value Measurement

The university 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, 2016:

Asset	June 30, 2016	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 Level Value					
Debt Securities					
US Treasury	$ 1,441,940.97	$ 1,441,940.97	$ -	$ -	$ -
US Agencies	9,632,892.40	9,632,892.40	-	-	-
Total debt securities	11,074,833.37	11,074,833.37	-	-	-
Total assets at fair value	$ 11,074,833.37	$ 11,074,833.37	$ -	$ -	$ -

Assets and liabilities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

5. Accounts, Notes, and Grants Receivable

Accounts receivable included the following:

Accounts Receivable	June 30, 2016
Student accounts receivable	$ 12,700,716.54
Grants receivable	5,532,897.69
Notes receivable	129,891.62
Other receivables	1,260,808.17
Subtotal	$ 19,624,314.02
Less allowance for doubtful accounts	(2,723,827.35)
Total	$ 16,900,486.67

Federal Perkins Loan Program funds include the following:

Perkins Loans receivable	June 30, 2016
Perkins loans receivable	$ 5,333,410.87
Less allowance for doubtful accounts	(3,971,311.45)
Total	$ 1,362,099.42

6. Capital Assets

Capital asset activity for the year ended June 30, 2016, was as follows:

Capital Asset	Beg Balance	Additions	Transfers	Reductions	End Balance
Land	$ 9,599,509.24	$ 86,139.00	$ -	$ -	$ 9,685,648.24
Land Improvements					
& Infrastructure	51,307,822.54	-	385,075.48	-	51,692,898.02
Buildings	239,980,224.49	65,618.61	2,302,036.83	-	242,347,879.93
Equipment	27,835,024.74	1,434,625.68	-	253,464.19	29,016,186.23
Library holdings	3,515,799.91	249,978.70	-	468,092.03	3,297,686.58
Intangible assets	2,679,599.36	-	-	-	2,679,599.36
Projects in progress	2,008,602.10	5,036,896.63	(2,687,112.31)	-	4,358,386.42
Total	$ 336,926,582.38	$ 6,873,258.62	$ -	$ 721,556.22	$ 343,078,284.78
Less accumulated					
depreciation/amortization:					
Land Improvements					
& Infrastructure	$ 38,889,181.27	$ 1,213,487.29	$ -	$ -	$ 40,102,668.56
Buildings	110,032,495.50	2,915,767.86	-	-	112,948,263.36
Equipment	19,916,481.41	1,571,903.20	-	242,994.17	21,245,390.44
Library holdings	2,166,370.64	329,768.67	-	468,092.03	2,028,047.28
Intangible assets	2,202,816.68	238,391.34	-	-	2,441,208.02
Total	$ 173,207,345.50	$ 6,269,318.36	$ -	$ 711,086.20	$ 178,765,577.66
Capital assets, net	$ 163,719,236.88	$ 603,940.26	$ -	$ 10,470.02	$ 164,312,707.12

7. Accounts Payable

Accounts payable included the following:

Accounts Payable	June 30, 2016
Vendors payable	$ 3,927,683.32
Other payables	1,049,799.31
Total	$ 4,977,482.63

8. Long-term Liabilities

Long term liability activity for the year ended June 30, 2016, was as follows:

Long-term Liabilities	Beg Balance	Additions	Reductions	End Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 29,765,853.44	$ -	$ 2,583,558.69	$ 27,182,294.75	$ 2,853,926.60
Unamortized bond premium/discount	1,342,033.96	-	148,900.04	1,193,133.92	-
Subtotal	$ 31,107,887.40	$ -	$ 2,732,458.73	$ 28,375,428.67	$ 2,853,926.60
Other Liabilities					
Compensated absences	$ 6,194,401.34	$ 629,969.27	$ 1,438,079.66	$ 5,386,290.95	$ 1,086,534.66
Due to grantors	3,250,922.39	328,477.48	103,866.73	3,475,533.14	-
Subtotal	$ 9,445,323.73	$ 958,446.75	$ 1,541,946.39	$ 8,861,824.09	$ 1,086,534.66
Total long-term liabilities	$ 40,553,211.13	$ 958,446.75	$ 4,274,405.12	$ 37,237,252.76	$ 3,940,461.26

TSSBA Debt - Bonds Payable

Bonds, with interest rates ranging from 0.65% to 5.243%, were issued by the Tennessee State School Bond Authority. The bonds are due serially until May 1, 2032 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations. See Note 9 for further details. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the Statement of Net Position is shown net of assets held by the authority in the debt service reserve and net of unexpended debt proceeds. The reserve amount was $401,868.80 at June 30, 2016.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2016, are as follows:

For the Year(s) Ending June 30	Principal	Interest	Total
2017	$ 2,853,926.60	$ 938,749.31	$ 3,792,675.91
2018	2,187,284.23	853,920.19	3,041,204.42
2019	2,644,901.24	749,774.07	3,394,675.31
2020	2,737,864.58	678,234.56	3,416,099.14
2021	2,207,684.04	605,698.72	2,813,382.76
2022-2026	10,274,471.70	2,010,619.78	12,285,091.48
2027-2031	3,781,136.16	566,995.01	4,348,131.17
2032	495,026.20	24,751.31	519,777.51
Total	$ 27,182,294.75	$ 6,428,742.95	$ 33,611,037.70

9. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $27,182,294.75 in revenue bonds issued from December 1989 to April 2015. Proceeds from the bonds provided financing for Avon Williams Campus improvements; chiller replacement; dormitory renovations; energy savings and performance contracts; student housing/apartments; research and sponsored programs; and student housing fire suppression. The bonds are payable through 2032. Annual principal and interest payments on the bonds are expected to require 2.26% of available revenues. The total principal and interest remaining to be paid on the bonds is $33,611,037.70. Principal and interest paid for the current year and total available revenues were $3,599,626.28 and $158,930,676.22, respectively.

10. Pension Plans

Defined Benefit Plan

Closed State and Higher Education Employee Pension Plan

General Information about the Pension Plan

Plan Description - State 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 www.treasury.tn.gov/tcrs.

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 five years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service is 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 the 2nd of July 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.

<u>Contributions</u> - 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. Tennessee State University employees are non-contributory, 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, 2016 to the Closed State and Higher Education Employee Pension Plan were $4,596,551.64, which is 15.03% of covered payroll. The employer rate 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, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

<u>Pension liability</u> – At June 30, 2016, the university reported a liability of $15,355,871 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The university's proportion of the net pension liability was based on a projection of the university's contributions during the year ended June 30, 2015, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2015 measurement date, the university's proportion was 1.191040%. The proportion measured as of June 30, 2014 was 1.216453%.

Pension expense – For the year ended June 30, 2016, the university recognized a pension expense of $1,565,617. Allocated pension expense was $1,651,211 before being reduced by $85,594 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2016, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,624,903.00	$ 1,329,567.00
Net difference between projected and actual earnings on pension plan investments	$ 5,576,570.00	$ 7,550,610.00
Changes in proportion of Net Pension Liability (Asset)	$ -	$ 342,378.00
Contributions subsequent to the measurement date of June 30, 2015	$ 4,596,551.64	N/A
Total	$ 11,798,024.64	$ 9,222,555.00

Deferred outflows of resources, resulting from the university's employer contributions of $4,596,551.64 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ended June 30, 2017. 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 Ended June 30:		
2017	$	(1,245,286.00)
2018	$	(1,245,286.00)
2019	$	(1,245,286.00)
2020	$	1,714,774.00
2021	$	-
Thereafter	$	-

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

Actuarial assumptions - The total pension liability as of June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.5 percent

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. 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, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established 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 inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return 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	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
Total	N/A	100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate - The discount rate used to measure the total pension liability was 7.5 percent. 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 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 7.5 percent, 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 (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

Pension Liability	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
University's net pension liability (asset)	$ 35,981,150.00	$ 15,355,873.00	$ (2,027,266.00)

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 www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2016, the university reported a payable of $359,497.27 for the outstanding amount of legally required contributions to the pension plan for the year ended June 30, 2016.

State and Higher Education Employee Retirement Plan

General Information about the Pension Plan

Plan description – State 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.* 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 publically available financial report that can be obtained at www.treasury.tn.gov/tcrs .

Benefits provided – Tennessee Code Annotated Title 8, Chapters 34-37 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 service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula multiplying the member's highest five consecutive year average compensation by 1.0%, multiplied by the member's years of service credit. A reduced early retirement benefit is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which the member's age and service credit total 80. Service related disability benefits are provided regardless of length of service. Five years of service is 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 2nd 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. Tennessee State University employees contribute 5% of salary to the State and Higher Education Employee Retirement 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 State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the university for the year ended June 30, 2016 to the State and Higher Education Employee Retirement Plan were $156,295.91, which is 3.49% 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.

Note: The employer rate is 3.87%, except for any salaries derived from federal funds where the employer rate is 2%.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Asset – At June 30, 2016, the university reported an asset of $42,489 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015, 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, 2015 to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2015 measurement date, the university's proportion was 1.527868%.

Pension expense – For the year ended June 30, 2016, the university recognized a pension expense of $35,243.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2016, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 15,808.00
Net difference between projected and actual earnings on pension plan investments	2,465.00	-
Contributions subsequent to the measurement date of June 30, 2015	156,295.91	N/A
Total	$ 158,760.91	$ 15,808.00

Deferred outflows of resources, resulting from the university's employer contributions of $156,295.91 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ended June 30, 2017. 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 Ended June 30:		
2017	$	(1,360.00)
2018	$	(1,360.00)
2019	$	(1,360.00)
2020	$	(1,360.00)
2021	$	(1,976.00)
Thereafter	$	(5,928.00)

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, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.5 percent

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. 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, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established 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 inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return 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	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
Total	N/A	100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate - The discount rate used to measure the total pension liability (asset) was 7.5 percent. 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 pursuant to an actuarial valuation 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 (asset).

Sensitivity of the 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 7.5 percent, 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 (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

Pension Asset	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
University's net pension liability (asset)	$ (16,693.00)	$ (42,489.00)	$ (61,795.00)

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 www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2016, the university reported a payable of $9,290.97 for the outstanding amount of legally required contributions to the pension plan for the year ended June 30, 2016.

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. All three (3) of the university's eligible 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. Additionally the financial statements can be found at https://www.opm.gov/news/reports-publications/publications-database/publication-listings.

Funding Policy – Participating employees and the university are required to contribute to the CSRS plan. Contribution requirements are established and may be amended by federal statutes. The university was required to contribute 7% of covered payroll to the CSRS plan, and employees were required to contribute 7% of covered payroll. Contributions for the year ended June 30, 2016 were $31,177.68, which consisted of $15,588.84 from the university and $15,588.84 from the employees. Contributions for the year ended June 30, 2015 were $41,112.74, which consisted of $20,556.37 from the university and $20,556.37 from the employees. Contributions met the requirements for each year. No payables were outstanding at year end, as all contributions were paid within the fiscal year.

Defined Contribution Plans

Optional Retirement Plan

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 35, Part 4 of the TCA. 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 10 percent of the employee's base salary up to the social security wage base and 11 percent above the social security wage base. For employees hired after June 30, 2014, plan members will contribute 5 percent to the ORP and the university will contribute 9 percent of the employee's base salary. The required contributions made to the ORP were $3,921,973.26 for the year ended June 30, 2016, and $ 3,883,751.34 for the year ended June 30, 2015. Contributions met the requirements for each year.

Members are immediately 100 percent 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. Accordingly, the State of Tennessee is not acting in a trustee capacity, nor does it have a fiduciary responsibility for the funds held by the investment vendors.

Deferred Compensation Plans

Employees are offered three deferred compensation plans. The university, through the State of Tennessee, provides two plans, one established pursuant to 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). All costs of administering and funding these programs, with the exclusion of the $50 monthly employer match for the Section 401(k) plan, 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. IRC Sections 401(k), 403(b) and 457 establish participation, contribution, and withdrawal provisions for the plans. Employees hired after June 30, 2014, are automatically enrolled to contribute 2% of their salaries to the state's 401(k) plan, with the employer contributing an additional 5% to the plan. Employees will vest immediately to both the employee and employer contributions. During the year ended June 30, 2016, contributions totaling $1,405,753.80 were made by employees participating in the plan, with a related match of $627,137.39 made by the university. During the year ended June 30, 2015, contributions totaling $1,287,402.67 were made by employees participating in the plan, with a related match of $459,471.14 made by the university.

11. Other Postemployment Benefits

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that provides postemployment health insurance benefits to eligible university retirees. This program includes two plans available to higher education employees – the State Employee Group Plan and the Medicare Supplement Plan. Both plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Tennessee Code Annotated (TCA) 8-27-201 for the state plan and the Medicare Supplement Plan. Prior to reaching the age of

65, all members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy. Employees hired on or after July 1, 2015, are not eligible to continue insurance coverage at retirement in either the Employee Group plan or the Medicare Supplement plan. The state makes on-behalf payments to the Medicare Supplement Plan for the university's eligible retirees, see Note 16. 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://www.tn.gov/finance/act/cafr.shtm1.

Special Funding Situation. The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan, which covers the retirees of other governmental entities, including the university. The state is the sole contributor for the university retirees who participate in the Medicare Supplement Plan.

Funding Policy. The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Retired employees who have not reached the age of 65 pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. Retired employees who are 65 years of age or older have flat rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25. Contributions for the State Employee Group Plan for the year ended June 30, 2016, were $14,634,405.76, which consisted of $11,777,906.08 from the university and $2,856,499.68 from the employees.

Annual OPEB Cost and Net OPEB Obligation

Annual Required Contribution (ARC)	$ 1,431,000.00
Interst on the net OPEB obligation	$ 275,195.42
Adjustment to the ARC	$ (276,300.62)
Annual OPEB cost	$ 1,429,894.80
Amount of contribution	$ (1,431,015.59)
Increase/decrease in net OPEB obligation	$ (1,120.79)
Net OPEB Obligation – beginning of year	$ 7,338,544.50

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
6/30/2016	State Employee Group Plan	$ 1,429,894.80	100.1%	$ 7,337,296.97
6/30/2015	State Employee Group Plan	$ 1,410,610.08	103.4%	$ 7,338,544.50
6/30/2014	State Employee Group Plan	$ 1,361,563.77	96.7%	$ 7,385,868.12

Funded Status and Funding Progress. The funded status of the plan as of July 1, 2015, was as follows:

Actuarial valuation date	July 1, 2015
Actuarial accrued liability (AAL)	$ 10,020,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 10,020,000.00
Actuarial value of assets as a % of the AAL	0.00%
Covered payroll (active plan members)	$ 80,342,492.34
UAAL as a percentage of covered payroll	12.5%

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, 2015 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 3.75 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5 percent initially, decreased to 6.0 percent in fiscal year 2016 and then reduced by decrements to an ultimate rate of 4.7 percent in fiscal year 2050. All rates include a 2.5 percent inflation assumption. Premium subsidies in the Medicare Supplement plan are projected to remain unchanged and, consequently, trend rates are not applicable. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3.0 percent.

12. Chairs of Excellence

The university had $5,997,334.62 on deposit at June 30, 2016, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in these financial statements.

13. Insurance-Related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice liability, 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 (RMF). The state purchases commercial insurance for real property, builder's risk (for construction projects starting prior to July 1, 2012), and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012, thus builder's risk is no longer covered by the RMF. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The RMF is responsible for property losses for the annual aggregate deductible of $10 million for perils other than earthquake and flood. Purchased insurance coverage is responsible for losses exceeding the $10 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 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. The amounts of settlements have not exceeded insurance coverage for each of the past three fiscal years.

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, 2016, is presented in the Tennessee Comprehensive Annual Financial Report. The CAFR is available on the state's website at http://www.tn.gov/finance/act/cafr.shtm1. 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, 2016, was not available.

At June 30, 2016, the scheduled coverage for the university was $573,190,700 for buildings and $87,014,100 for contents.

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

14. Commitments and Contingencies

Sick Leave - The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $33,278,065.21 at June 30, 2016.

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 $273,947.53 and $397,203.01, respectively for the year ended June 30, 2016. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2016, outstanding commitments under construction contracts totaled $2,241,753.82 for Gentry Drainage, Hankal Hall Upgrades, Utility Tunnel, New Farm Buildings, Mechanical Updates, Roof Repairs, and Elevator Replacement, of which $2,159,929.36 will be funded by future state capital outlay appropriations.

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

15. Natural Classifications with Functional Classifications

The university's operating expenses by functional classification for the year ended June 30, 2016, are as follows:

Functional Classification	Natural Classification Salaries	Benefits	Other Operating	Scholarship	Depreciation	Total
Instruction	$ 39,088,590.74	$ 11,468,014.09	$ 10,467,353.62	$ 1,956,111.33	$ -	$ 62,980,069.78
Research	8,874,571.41	2,387,657.59	4,009,745.36	779,604.38	-	16,051,578.74
Public Service	9,926,787.84	2,819,246.27	2,881,868.31	15,476.00	-	15,643,378.42
Academic Support	5,378,220.76	1,520,489.68	2,785,997.20	21,250.00	-	9,705,957.64
Student Services	7,846,580.19	2,173,398.09	5,462,216.59	3,445,047.12	-	18,927,241.99
Institutional Support	7,417,513.27	2,002,098.19	5,877,473.89	16,650.00	-	15,313,735.35
M&O	5,193,464.93	1,732,039.45	9,938,747.64	-	-	16,864,252.02
Scholarships & Fellowships	-	-	40,710.09	1,384,972.30	-	1,425,682.39
Auxiliary	2,724,402.41	595,624.82	12,315,786.35	302,383.72	-	15,938,197.30
Depreciation	-	-	-	-	6,269,318.36	6,269,318.36
Total Expenses	$ 86,450,131.55	$ 24,698,568.18	$ 53,779,899.05	$ 7,921,494.85	$ 6,269,318.36	$ 179,119,411.99

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 $333,618.62 were reallocated from academic support to the other functional areas.

16. On-Behalf Payments

During the year ended June 30, 2016, the State of Tennessee made payments of $87,737.50 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 11. The plan is reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at http://www.tn.gov/finance/act/cafr.shtml.

17. Subsequent Event

The Focus on College and University Success (FOCUS) Act became effective July 1, 2016. This Act removes the six universities from the governance of the Tennessee Board of Regents. The universities will remain part of the State University and Community College System of Tennessee, but each will have its own local board that will provide governance, approve policies, set tuition and fee rates, and hire presidents. The Act also enhances the role of the Tennessee Higher Education Commission (THEC) by requiring THEC to provide greater coordination across the state, including capital project management, institutional mission approval, and higher education finance. During the period of transition (July 1, 2016 until the local board is convened), the six universities will continue under the governance of the Tennessee Board of Regents. Each university will submit proposals to the Southern Association of Colleges and Schools Council on Colleges (SACSCOC) for substantive change of governance during Fall 2016. The SACSCOC will meet during December 2016 to consider those proposals.

18. Component Unit(s)

Tennessee State University Foundation is a legally separate, tax-exempt organization supporting Tennessee State University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the university in support of its programs. The 20-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, 2016, the Foundation made distributions of $389,691.04 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Eloise Alexis, Associate VP of Institutional Advancement, 3500 John A. Merritt Blvd, 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, 2016, cash and cash equivalents consists of $6,891,853.17 in bank accounts, and $1,012,592.06 in money market accounts.

At June 30, 2016, $7,306,363.26 of the Foundation's bank balance of $7,904,445.23 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$ 7,306,363.26
Total	$ 7,306,363.26

Investments – The Foundation is authorized to invest funds in accordance with its board of directors' policies. In accordance with GASB Statement 31, 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.

As of June 30, 2016, 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	No Maturity Date
US Treasury	$ 931,196.35	$ -	$ 931,196.35	$ -	$ -	$ -
US Agencies	1,572,839.25	344,521.86	941,227.67	252,021.92	-	35,067.80
Corporate bonds	3,402,977.98	382,179.51	1,782,873.66	1,130,641.39	-	107,283.42
Mutual bond funds	7,945,081.71	-	-	-	-	7,945,081.71
CMO	717,358.51	226,011.00	491,347.51	-	-	-
Total Debt Instruments	$ 14,569,453.80	$ 952,712.37	$ 4,146,645.19	$ 1,382,663.31	$ -	$ 8,087,432.93
Non-Fixed Income Inv.						
Corporate stocks	$ 37,607.34					
Mutual equity funds	23,878,706.59					
Mutual equity funds - (ETF)	3,726,931.06					
Other – Hedge funds	5,152,314.71					
Other – Foreign stock	14,423.61					
Other – REITs	1,711,178.27					
Total	$ 49,090,615.38					

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

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations. Securities are rated using Standard and Poor's, Moody's, and/or Fitch's and are presented below using the Standard and Poor's rating scale. As of June 30, 2016, the Foundation's investments were rated as follows:

		Credit Quality Rating				
Investment Type	Carrying Value	AAA	AA	A	BBB	Unrated
US Agencies	$ 1,572,839.25	$ 1,572,839.25	$ -	$ -	$ -	$ -
Corporate bonds	3,402,977.98	282,760.29	580,913.22	1,277,758.58	1,154,262.47	107,283.42
Mutual bond funds	7,945,081.71	-	-	-	-	7,945,081.71
CMO	717,358.51	717,358.51	-	-	-	-
Other – ETF	3,726,931.06	-	-	-	-	3,726,931.06
Other – REITs	1,711,178.27	-	-	-	-	1,711,178.27
Total	$ 19,076,366.78	$ 2,572,958.05	$ 580,913.22	$ 1,277,758.58	$ 1,154,262.47	$ 13,490,474.46

Alternative Investments

The foundation has investments in hedge funds and real estate investment trusts. The estimated fair value of these assets is $6,863,492.98 at June 30, 2016.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2016. 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 investments are as follows:

Hedge Fund Managers (Strategic) Ltd

The value of the shares for Hedge Fund Managers (Strategic) Ltd is estimated to be $95.97 per share (ignoring purchase price discounts for 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 $95.97 per share distributed to the stockholders prior to the valuation date. The fund was purchased for the purpose of diversifying the investment portfolio against volatility in the market. The fund was valued at $5,152,314.71, as of June 30, 2016.

TIER REIT Inc

The value of shares for TIER REIT Inc. is estimated to be $15.33 per share (ignoring purchase price discounts for 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 $15.33 per share distributed to the stockholders prior to the valuation date. The estimated value may not reflect the actual market value for these shares on any given date. The fund was valued at $388,799.46 as of June 30, 2016.

InvenTrust Properties

The value of shares for the InvenTrust Properties is estimated to be $3.14 per share (ignoring purchase price discounts for 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 $3.14 per share distributed to the stockholders prior to the valuation date. The estimated value may not reflect the actual market value for these shares on any given date. The fund was valued at $741,816.39, as of June 30, 2016.

Xenia Hotels & Resorts Inc.

The value of shares held for Xenia Hotels and Resorts, Inc. is $16.78 per share according to the New York Stock Exchange. The fund was valued at $495,513.40 as of June 30, 2016.

Highlands REIT Inc

The value of shares for Highland REIT Inc. is estimated to be $0.36 per share (ignoring purchase price discounts for 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 $0.36 per share distributed to the stockholders prior to the valuation date. The estimated value may not reflect the actual market value for these shares on any given date. The fund was valued at $85,049.02, as of June 30, 2016.

Fair Value Measurement - The foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The foundation has the following recurring fair value measurements as of June 30, 2016:

Assets	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at the Net Asset Value (NAV)
Assets by Fair Level Value					
Debt Securities					
US Treasury	$ 931,196.35	$ 931,196.35	$ -	$ -	$ -
US Agencies	1,572,839.25	1,572,839.25	-	-	-
Corporate bonds	3,402,977.98	-	3,402,977.98	-	-
Mutual bond funds	7,945,081.71	7,945,081.71	-	-	-
CMO	717,358.51	-	717,358.51	-	-
Total debt securities	14,569,453.80	10,449,117.31	4,120,336.49	-	-
Equity Securities					
Corporate stock	37,607.34	37,607.34	-	-	-
Mutual equity funds	27,605,637.65	27,605,637.65	-	-	-
Equity REITs	1,711,178.27	-	1,711,178.27	-	-
Hedge Funds	5,152,314.71	-	5,152,314.71	-	-
Other – Foregin stocks	14,423.61	14,423.61	-	-	-
Total equity securities	34,521,161.58	27,657,668.60	6,863,492.98	-	-
Total assets at fair value	$ 49,090,615.38	$ 38,106,785.91	$ 10,983,829.47	$ -	$ -

Assets and liabilities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Assets and liabilities classified in Level 2 of the fair value hierarchy are valued using various benchmarks, including the S&P 500 TR Index and Barclays Caiptal US Aggregate TR Index.

Capital Assets - Capital asset activity for the year ended June 30, 2016, was as follows:

Capital Asset	Beg Balance	Additions	Transfers	Reductions	End Balance
Land	$ -	$ 30,000.00	$ -	$ -	$ 30,000.00
Buildings	5,000,000.00	-	-	4,714,126.65	285,873.35
Equipment	-	6,018.09	-	-	6,018.09
Art & historical collections	6,000,000.00	-	-	-	6,000,000.00
Total	$ 11,000,000.00	$ 36,018.09	$ -	$ 4,714,126.65	$ 6,321,891.44
Less accumulated depreciation/amortization:					
Buildings	$ 83,333.33	$ 6,648.22	$ -	$ 81,671.28	$ 8,310.27
Equipment	-	702.11	-	-	702.11
Total	$ 83,333.33	$ 7,350.33	$ -	$ 81,671.28	$ 9,012.38
Capital assets, net	$ 10,916,666.67	$ 28,667.76	$ -	$ 4,632,455.37	$ 6,312,879.06

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, 3.8% of the fair values three-year rolling average has been authorized for expenditure. The remaining amount, if any, is reinvested into the endowment. At June 30, 2016, net appreciation of $1,073,556.61 is available to be spent, of which $976,946.51 is included in restricted net position expendable for scholarships and fellowships, $19,513.05 is included in restricted net position expendable for instructional departmental uses, $17,768.35 is included in restricted net position expendable for other, and $59,328.70 is included in unrestricted net position.

Consent decree endowment – According to the established agreement within the Consent Decree, the budget committee may appropriate for distribution each year from Consent Decree Endowment Funds, an amount up to 75% of the investment earnings. The remainder is to be reinvested in the corpus of the fund. At June 30, 2016, net appreciation of $553,588.95 is available to be spent, of which $4,832.32 is included in restricted net position expendable for scholarships and fellowships and $548,756.63 is included in restricted net position expendable for other.

Title III endowment – According to the established agreement between the foundation and the Tennessee State University Title III Program, an amount up to 50% of the investment earnings may be allocated for distribution, annually. The remainder is to be reinvested in the corpus of the fund. At June 30, 2016, net appreciation of $ 552,151.29 is available to be spent, all of which is included in restricted net position expendable for other.

Prior period adjustment - A prior period adjustment of $4,602,455.37 was made to correct capital assets held by the TSU Foundation. Of this amount, $30,000 increased the value of land, $4,714,126.65 decreased buildings, and $81,671.28 decreased accumulated depreciation on buildings.

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, 2011	$ -	$ 13,336,000.00	$ 13,336,000.00	0.00%	$ 71,294,388.00	18.71%
July 1, 2013	$ -	$ 10,054,000.00	$ 10,054,000.00	0.00%	$ 79,201,391.28	12.69%
July 1, 2015	$ -	$ 10,020,000.00	$ 10,020,000.00	0.00%	$ 80,342,492.34	12.47%

The amount reported here for covered payroll relates to the fiscal year in which the valuations were performed.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Tennessee State University's Proportionate Share of the Net Pension Liability
Fiscal Year Ending June 30

	Closed State and Higher Education Employee Pension Plan within TCRS		State and Higher Education Employee Retirement Plan
	2016	2015	2016
Institution's proportion of the net pension liability	1.191040%	1.216453%	1.527868%
Institution's proportionate share of the net pension liability	$ 15,355,871.00	$ 8,392,904.00	$ (42,489.00)
Institution's covered-employee payroll	$ 31,100,135.00	$ 33,236,633.00	$ 1,663,791.00
Instititions's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	49.37%	25.25%	-2.55%
Plan fiduciary net position as a percentage of the total pension liability	91.26%	95.11%	142.55%

(1) This is a ten 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 ten years of information is available.

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Tennessee State University's Contributions
Fiscal Year Ended June 30

	Closed State and Higher Education Employee Pension Plan within TCRS			State and Higher Education Employee Retirement Plan	
	2016	2015	2014	2016	2015
Contractually determined contribution	$ 4,596,551.64	$ 4,674,436.00	$ 4,994,849.00	$ 89,453.56	$ 33,276.00
Contributions in relation to the actuarially determined contribution	4,596,551.64	4,674,436.00	4,994,849.00	156,295.91	64,389.00
Contribution deficiency (excess)	$ -	$ -	$ -	$ (66,842.35)	$ (31,113.00)
Covered-employee payroll	$ 30,596,327.11	$ 31,100,135.00	$ 33,236,633.00	$ 4,472,677.89	$ 1,663,791.00
Contributions as a percentage of covered-employee payroll	15.02%	15.03%	15.03%	3.49%	3.87%

(1) This is a ten 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 ten years of information is available.

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Tennessee State University's Contributions
Fiscal Year Ended June 30

	Civil Service Retirement System									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually determined contribution	$ 11,272.79	$ 17,024.05	$ 15,244.44	$ 15,233.67	$ 18,658.84	$ 19,891.24	$ 22,934.14	$ 26,290.89	$ 27,923.78	$ 27,996.90
Contributions	15,588.84	20,556.37	19,406.77	19,396.10	22,685.10	21,355.78	22,889.06	26,290.90	28,230.84	27,996.90
Contribution deficiency (excess)	$ (4,316.05)	$ (3,532.32)	$ (4,162.33)	$ (4,162.43)	$ (4,026.26)	$ (1,464.54)	$ 45.08	$ (0.01)	$ (307.06)	$ -
Covered-employee payroll	$ 161,039.91	$ 243,200.73	$ 217,777.68	$ 217,623.92	$ 266,554.92	$ 284,160.59	$ 327,630.54	$ 375,584.21	$ 398,911.20	$ 399,955.71
Contributions as a percentage of covered-employee payroll	9.68%	8.45%	8.91%	8.91%	8.51%	7.52%	6.99%	7.00%	7.08%	7.00%
Number of covered-employees	3	4	4	5	5	5	6	6	6	6

(1) This is a ten year schedule.
(2) Population of covered employees during the fiscal year are also listed to display trends.
(3) The percentage of covered-employee payroll does not match the 7% required contribution due to cost-sharing agreements with Davidson County. A portion of the covered-employees payroll is paid through other entitie but the full Civil Service Retirement System (CSRS) payment is made by Tennessee State University. Davidson County is billed quarterly to reimburse TSU for a portion of the CSRS plan amounts.

Tennessee State University Foundation
Supplementary Information
Supplementary Schedule of Cash Flows - Component Unit
for the Year Ended June 30, 2016

		Component Unit
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$	2,089,088.47
Sales and services of other activities		295,342.83
Payments to suppliers and vendors		(974,191.87)
Payments for scholarships and fellowships		(2,199,437.91)
Payments to TSU		(473,303.55)
Net cash provided (used) by operating activities	$	(1,262,502.03)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	$	696,598.56
Net cash provided (used) by non-capital financing activities	$	696,598.56
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets and construction	$	(6,018.09)
Net cash provided (used) by capital and related financing activities	$	(6,018.09)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	$	45,770,482.03
Income on investments		1,084,106.73
Purchase of investments		(45,444,102.31)
Net cash provided (used) by investing activities	$	1,410,486.45
Net increase (decrease) in cash and cash equivalents	$	838,564.89
Cash and cash equivalents - beginning of year		7,065,880.34
Cash and cash equivalents - end of year (Note 18)	$	7,904,445.23

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

Operating income/(loss)	$	(1,286,965.18)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense		7,350.33
Change in assets, liabilities, and deferrals:		
Receivables, net		7,291.90
Accounts payable		9,820.92
Net cash provided (used) by operating activities	$	(1,262,502.03)

Non-cash investing, capital, and financing transactions		
Unrealized gains/(losses) on investments	$	(4,969,328.47)

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