STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY

Financial and Compliance Audit Report

For the Year Ended June 30, 2016

Justin P. Wilson, Comptroller

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STATE OF TENNESSEE
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January 5, 2017

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable David Gregory, Acting Chancellor
Dr. Sidney McPhee, President

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Middle Tennessee State University, for the year ended June 30, 2016. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

Consideration of the internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

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Audit Report
Tennessee Board of Regents
Middle Tennessee State University
For the Year Ended June 30, 2016

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For the Year Ended June 30, 2016

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

The audit report contains no findings.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable David Gregory, Acting Chancellor
Dr. Sidney McPhee, President

Report on the Financial Statements

We have audited the accompanying financial statements of Middle Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the university's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Middle Tennessee State University and its discretely presented component unit as of June 30, 2016; and the respective changes in financial position; and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of Middle Tennessee State University, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only Middle Tennessee State University. They do not purport to, and do not, present fairly the financial position of the Tennessee Board of Regents, as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 20, the financial statements of Middle Tennessee State University Foundation, a discretely presented component unit of Middle Tennessee State University, include investments valued at $33,901,566.13 (35% of net position of the foundation), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 15; the schedule of Middle Tennessee State University's proportionate share of the net pension liability for the Closed State and Higher Education Employee Pension Plan within TCRS on page 53; the schedule of Middle Tennessee State University's proportionate share of the net pension asset for the State and Higher Education Employee Retirement Plan within TCRS on page 54; the schedule of Middle Tennessee State University's contributions for the Closed State and Higher Education Employee Pension Plan within TCRS on page 55; the schedule of Middle Tennessee State University's contributions for the State and Higher Education Employee Retirement Plan within TCRS on page 56; and the other postemployment benefits schedule of funding progress on page 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the university's basic financial statements. The supplementary schedule of cash flows – component unit on page 58 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 1, 2016, on our consideration of the university's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the university's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
December 1, 2016

Tennessee Board of Regents
MIDDLE TENNESSEE STATE UNIVERSITY
Management's Discussion and Analysis

Introduction

This section of Middle 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 year 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 independent auditor's report, the audited 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 Middle Tennessee State University Foundation. More detailed information about the foundation is presented in Note 20 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 of resources, 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 of resources, and is one indicator of the university's current financial condition.

The statement of net position also indicates the availability of net position for expenditure by the university. Net position is divided into three major categories. The first category, net investment in capital assets, represents the university's total investment in property, plant, and equipment, net of outstanding debt obligations related to these capital assets. To the extent debt or deferred inflows of resources have been incurred but not yet expended for capital assets, such amounts are not included. The next category is restricted net position, which is subdivided 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 of resources, and net position at June 30, 2016, and June 30, 2015.

Summary of Net Position
(in thousands of dollars)

	2016	2015
Assets:		
Current assets	$ 84,706	$ 86,139
Capital assets, net	542,748	538,672
Other assets	60,583	61,228
Total Assets	688,037	686,039
Deferred Outflows of Resources:		
Deferred amount on debt refunding	6,105	6,866
Deferred outflows – pensions	10,540	7,555
Total Deferred Outflows	16,645	14,421
Liabilities:		
Current liabilities	52,048	52,155
Noncurrent liabilities	264,031	268,454
Total Liabilities	316,079	320,609

Deferred Inflows of Resources:		
Deferred amount on debt refunding	136	152
Deferred inflows – pensions	5,302	18,578
Total Deferred Inflows	5,438	18,730
Net Position:		
Net investment in capital assets	322,138	303,760
Restricted – expendable	5,845	6,294
Restricted – nonexpendable	893	896
Unrestricted	54,289	50,171
Total Net Position	$383,165	$361,121

The university had the following significant changes between fiscal years on the statement of net position:

- The increase in net capital assets, along with the corresponding increase in net investment in capital assets, between fiscal years is a result of additions to the university's capitalized assets. More detailed information about the university's capital assets is presented in the Capital Asset section of this report.
- The increase in deferred outflows of resources and decrease in deferred inflows of resources related to pensions are due to adjustments required under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. See Notes 1 and 11 to the financial statements for more details.
- The remaining allocations remained relatively unchanged.

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

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

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the university. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the university. Nonoperating revenues are revenues received for which goods and services are not provided directly to the payor. Although Middle 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.

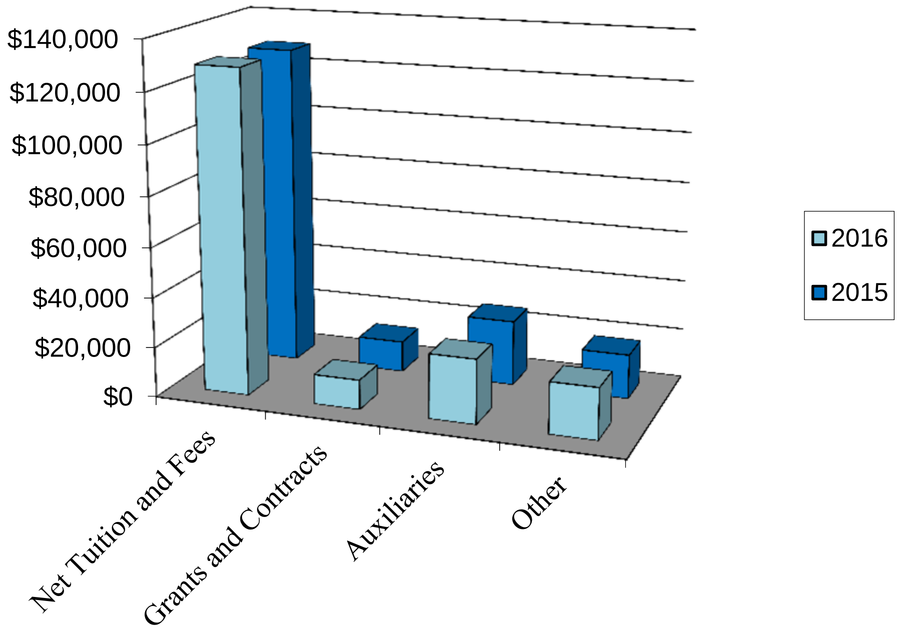
A summary of the university's revenues, expenses, and changes in net position for the year ended June 30, 2016, and June 30, 2015, follows.

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

	2016	2015
Operating revenues	$187,191	$184,687
Operating expenses	336,388	341,442
Operating loss	(149,197)	(156,755)
Nonoperating revenues and expenses	152,879	153,414
Income (loss) before other revenues, expenses, gains, or losses	3,682	(3,341)
Other revenues, expenses, gains, or losses	21,603	15,909
Increase in net position	25,285	12,568
Net position at beginning of year	361,121	378,105
Cumulative effect of change in accounting principle	-	(29,552)
Net position at beginning of year, restated	361,121	348,553
Prior period adjustment	(3,241)	-
Net Position at end of year	$383,165	$361,121

Operating Revenues

The following summarizes the operating revenues by source that were used to fund operating activities for the last two fiscal years (in thousands of dollars):

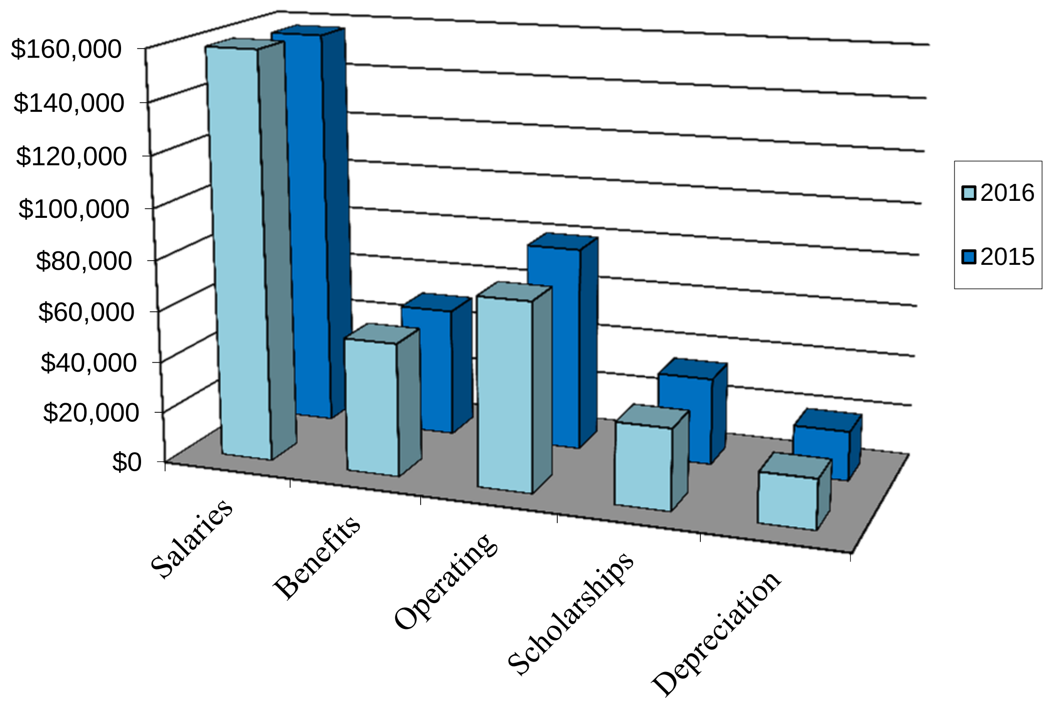


The university had the following significant changes in revenues between fiscal years:

- Net tuition and fees increased by $0.7 million resulting from a 3.1% fee increase for the 2015-16 academic year.
- Other operating revenues increased $2.7 million largely due to an increase in athletic game guarantees and post-season conference distributions.
- Revenues in other areas were relatively unchanged during the fiscal year.

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 (in thousands of dollars):

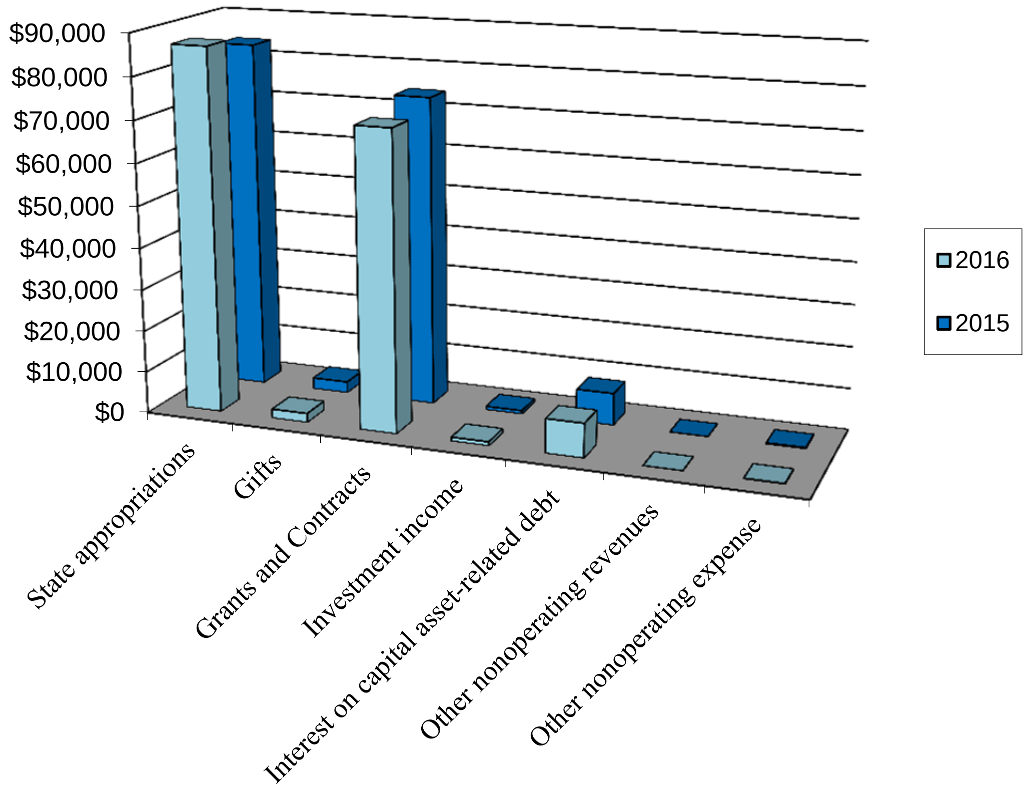


The university had the following significant changes in operating expenses between fiscal years:

- Salaries and wages increased due to a 2% salary increase effective July 1, 2015.
- Operating expenses decreased primarily as a result of a $3 million (plus interest) lawsuit settlement stemming from a 2013 trial court decision against the university subsequently upheld by the Court of Appeals.
- Other expense categories remained relatively unchanged between fiscal years.

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 (in thousands of dollars):

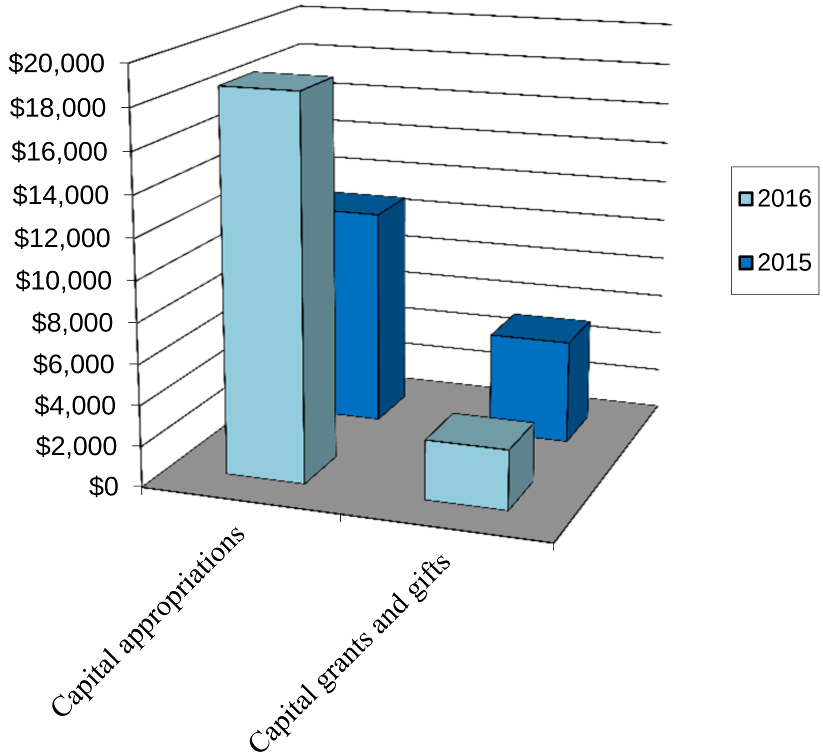


The university had the following significant changes in nonoperating revenues and expenses between fiscal years:

- ♦ The final state budget as proposed by the Governor and subsequently approved by the state legislature did not include any new state enhancement funds for improvements under the THEC Outcomes Based Funding Formula. It did however include adjustments to current base appropriations for higher education based strictly on performance, resulting in slight increased funding for the university.
- ♦ Nonoperating grants and contracts decreased as a result of decreases in the university's federal PELL award and scholarships from the Tennessee Education Lottery Scholarship program.
- ♦ Other categories were relatively unchanged during the fiscal year.

<u>Other Revenues</u>

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 (in thousands of dollars):



- ♦ Capital appropriations increased primarily as a result of capital expenditures incurred for the renovation of the Wiser-Patten Science Building ($14.8 million).
- ♦ Capital grants and gifts decreased primarily as a result of a decrease in capital gifts in-kind from the foundation.

Capital Asset and Debt Administration

<u>Capital Assets</u>

Middle Tennessee State University had $542.7 million invested in capital assets, net of accumulated depreciation of $263.1 million at June 30, 2016; and $538.7 million invested in capital assets, net of accumulated depreciation of $245.6 million at June 30, 2015. Depreciation charges totaled $19.4 million for both the years ended June 30, 2016, and June 30, 2015.

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

	2016	2015
Land	$ 17,334	$ 17,210
Land improvements and infrastructure	40,189	41,062
Buildings	435,767	436,916
Equipment	16,771	17,915
Library holdings	2,482	2,478
Intangible assets	1,860	391
Projects in progress	28,345	22,700
Total	$542,748	$538,672

Additions to capital assets occurred in fiscal year 2016 in the intangible assets and projects in progress categories. Intangible assets increased $1.5 million due to a contract with the City of Murfreesboro for priority use rights for the Adams Tennis Complex at Old Fort Park. In addition, major projects currently in progress at the university include the following: parking and transportation improvements and renovations to the Wiser-Patten Science Hall and Davis Science Building.

At June 30, 2016, outstanding commitments under construction contracts totaled $5.7 million for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $1.8 million of these costs.

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

<u>Debt</u>

The university had $230.2 million and $245.9 million 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	$215,962	$227,770
TSSBA revolving credit facility	14,300	18,150
Total Debt	$230,262	$245,920

The TSSBA issued bonds with interest rates ranging from 0.65% to 5.0% due serially until 2044 on behalf of Middle Tennessee State University. The university is responsible for the debt service of these bonds. The current portion of the $215.9 million outstanding at June 30, 2016, is $11.3 million.

The TSSBA issued loans from the revolving credit facility with variable interest rates on behalf of Middle Tennessee State University. The university is responsible for the debt service of the loans from the revolving credit facility. The outstanding amount at June 30, 2016, is $14.3 million.

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 final state budget as proposed by Governor Haslam and subsequently approved by the state legislature included a reduction adjustment in state funding for MTSU under the Tennessee Higher Education Commission (THEC) Outcomes Based Funding Formula and additional enhancement funds for improvements under the formula. The net effect was a small state appropriation increase for the university.

The new fiscal year budget did not include funds for higher education employee salaries, but the state is allowing the university to use funds from appropriations for increases. However, these funds are the same needed to cover inflationary costs, repair and purchase of computers and technology, and maintenance on infrastructure. Any remaining monies that can be devoted to pay increases will be used to pay a small cost-of-living increase for eligible employees.

The university is preparing for the implementation of the Focus on College and University Success (FOCUS) Act authorized by the Tennessee General Assembly and signed by Governor Bill Haslam. MTSU will be removed from direct control of the TBR and a new governing board will be created or appointed which will have local control over institutional operations, such as setting tuition and fee rates.

Under the new Fair Labor Standards Act effective December 1, the university anticipates a significant number of administrative positions will become non-exempt positions, which will require those individuals to report hours worked. This change will have a significant impact on the university's budget.

The TBR approved a 2.6% tuition increase for the university. However, fall enrollment was down 2.1% in headcount and 1% in Full Time Equivalency (FTE). Decreased revenue from this slight decline in enrollment will be managed centrally by the university without affecting academic departmental budgets.

The state budget for this next fiscal year does include $6.7 million in capital maintenance funds for MTSU. Improvements include the Saunders Fine Arts Building, HVAC updates, energy recovery boiler repair, electrical updates, building automation system control panel replacements, and exterior repairs to several buildings.

Tennessee Board of Regents
MIDDLE TENNESSEE STATE UNIVERSITY
Statement of Net Position
June 30, 2016

	University	Component Unit
Assets		
Current assets:		
Cash and cash equivalents (Notes 2 and 20)	$ 64,070,594.65	$ 4,412,635.77
Accounts, notes, and grants receivable (net) (Note 5)	12,738,186.28	-
Due from State of Tennessee	1,896,234.28	2,000.00
Due from MTSU Foundation	3,469,455.32	-
Pledges receivable (net) (Note 20)	-	1,460,662.65
Inventories (at lower of cost or market)	588,788.49	-
Prepaid expenses	1,904,430.92	6,057.00
Accrued interest receivable	38,404.11	152.74
Total current assets	84,706,094.05	5,881,508.16
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 20)	57,089,707.00	14,955,291.06
Investments (Notes 3, 4, and 20)	866,159.05	56,182,500.58
Accounts, notes, and grants receivable (net) (Note 5)	2,574,607.49	-
Net pension asset (Note 11)	53,044.15	-
Pledges receivable (net) (Note 20)	-	6,766,198.49
Capital assets (net) (Notes 6 and 20)	542,747,874.06	16,291,682.33
Total noncurrent assets	603,331,391.75	94,195,672.46
Total assets	688,037,485.80	100,077,180.62
Deferred outflows of resources		
Deferred amount on debt refunding	6,105,631.36	-
Deferred outflows related to pensions (Note 11)	10,539,935.90	-
Total deferred outflows of resources	16,645,567.26	-
Liabilities		
Current liabilities:		
Accounts payable (Note 7)	5,395,526.70	60,838.89
Accrued liabilities	20,284,100.67	-
Due to State of Tennessee	713,521.87	-
Due to MTSU	-	3,469,455.32
Student deposits	1,138,827.07	-
Unearned revenue	9,334,402.86	-
Compensated absences (Note 8)	1,937,169.92	-
Accrued interest payable	1,471,818.48	-
Long-term liabilities, current portion (Note 8)	11,289,152.52	-
Deposits held in custody for others	483,916.14	-
Total current liabilities	52,048,436.23	3,530,294.21
Noncurrent liabilities:		
Net OPEB obligation (Note 12)	13,068,255.92	-
Net pension liability (Note 11)	24,556,209.88	-
Compensated absences (Note 8)	4,985,505.44	-
Long-term liabilities (Note 8)	218,973,090.97	-
Due to grantors (Note 8)	2,448,430.69	-
Total noncurrent liabilities	264,031,492.90	-
Total liabilities	316,079,929.13	3,530,294.21
Deferred inflows of resources		
Deferred amount on debt refunding	135,422.82	-
Deferred inflows related to pensions (Note 11)	5,302,671.00	-
Total deferred inflows of resources	5,438,093.82	-
Net position		
Net investment in capital assets	322,138,637.39	16,291,682.33
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	10,900.00	34,416,974.40
Research	-	949,628.35
Instructional department uses	-	5,331,996.02
Other	882,127.39	25,545.99
Expendable:		
Scholarships and fellowships	108,374.02	14,182,953.45
Research	15,793.22	495,544.61
Instructional department uses	225,160.27	12,381,922.42
Loans	1,936,548.02	-
Capital projects	263,319.55	9,236,280.77
Debt service	593,887.24	-
Pensions	53,044.15	-
Other	2,648,622.88	1,833,742.33
Unrestricted	54,288,615.98	1,400,615.74
Total net position	$ 383,165,030.11	$ 96,546,886.41

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

Tennessee Board of Regents
MIDDLE TENNESSEE STATE UNIVERSITY
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2016

	University	Component Unit
Revenues		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $58,027,194.08)	$ 129,129,037.42	$ -
Gifts and contributions	-	5,523,902.27
Endowment income (per spending plan)	-	2,251,106.42
Governmental grants and contracts	10,715,160.41	-
Nongovernmental grants and contracts	1,118,106.95	4,303.19
Sales and services of educational activities	960,929.82	-
Sales and services of other activities	19,156,083.95	-
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $4,607,855.02)	10,060,981.04	-
Bookstore	552,011.68	-
Food service	2,107,000.00	-
Wellness facility (net of scholarship allowances of $921,571.00)	2,068,208.55	-
Other auxiliaries	10,965,039.55	-
Interest earned on loans to students	84,412.27	-
Other operating revenues	273,908.64	16,486.50
Total operating revenues	187,190,880.28	7,795,798.38
Expenses		
Operating expenses (Note 16):		
Salaries and wages	159,301,040.63	1,166,184.70
Benefits	52,263,505.62	428,471.99
Utilities, supplies, and other services	73,687,911.70	2,353,456.70
Scholarships and fellowships	31,719,982.04	1,902,162.47
Depreciation expense	19,416,010.33	341,627.41
Payments to or on behalf of Middle Tennessee State University (Note 20)	-	4,280,580.64
Total operating expenses	336,388,450.32	10,472,483.91
Operating loss	(149,197,570.04)	(2,676,685.53)
Nonoperating revenues (expenses)		
State appropriations	86,841,312.50	-
Gifts, including $2,082,541.87 from component unit	2,173,716.82	-
Grants and contracts	71,227,199.00	-
Investment income (net of investment expense for the institution of $10,817.57 and investment expense for the component unit of $408,103.03)	953,870.77	(5,334,577.10)
Interest on capital asset-related debt	(8,185,298.34)	-
Bond issuance costs	1,982.40	-
University support (Note 20)	-	1,594,656.69
Other nonoperating revenues (expenses)	(133,775.54)	(24,390.60)
Total nonoperating revenues (expenses)	152,879,007.61	(3,764,311.01)
Income (loss) before other revenues, expenses, gains, or losses	3,681,437.57	(6,440,996.54)
Capital appropriations	18,678,650.17	-
Capital grants and gifts, including $2,198,038.77 from the component unit	2,925,097.78	-
Additions to permanent endowments	-	580,507.75
Total other revenues	21,603,747.95	580,507.75
Increase (decrease) in net position	25,285,185.52	(5,860,488.79)
Net position - beginning of year, as originally reported	361,120,919.44	102,407,375.20
Prior period adjustment (Note 18)	(3,241,074.85)	-
Net position - end of year	$ 383,165,030.11	$ 96,546,886.41

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

Tennessee Board of Regents
MIDDLE TENNESSEE STATE UNIVERSITY
Statement of Cash Flows
For the Year Ended June 30, 2016

Cash flows from operating activities	
Tuition and fees	$ 128,841,735.45
Grants and contracts	12,332,488.60
Sales and services of educational activities	988,777.01
Sales and services of other activities	17,260,061.15
Payments to suppliers and vendors	(74,721,220.74)
Payments to employees	(159,196,555.07)
Payments for benefits	(55,804,244.50)
Payments for scholarships and fellowships	(31,719,982.04)
Loans issued to students	(6,400.00)
Collection of loans from students	32,815.74
Interest earned on loans to students	71,602.76
Auxiliary enterprise charges:	
Residence halls	10,180,098.38
Bookstore	558,003.18
Food services	1,952,661.32
Wellness facility	2,038,896.55
Other auxiliaries	10,989,365.50
Other receipts (payments)	19,754.26
Net cash used for operating activities	(136,182,142.45)
Cash flows from noncapital financing activities	
State appropriations	86,678,500.00
Gifts and grants received for other than capital or endowment purposes, including $2,082,541.87 from Middle Tennessee State University Foundation	73,319,033.82
Federal student loan receipts	106,476,678.19
Federal student loan disbursements	(106,273,790.00)
Changes in deposits held for others	(209,374.97)
Principal paid on noncapital debt	(559,249.56)
Interest paid on noncapital debt	(268,575.72)
Other noncapital financing receipts (payments)	19,805.97
Net cash provided by noncapital financing activities	159,183,027.73
Cash flows from capital and related financing activities	
Capital grants and gifts received, including $1,850,266.12 from Middle Tennessee State University Foundation	2,541,325.13
Purchases of capital assets and construction	(6,133,856.64)
Principal paid on capital debt	(13,691,459.24)
Interest paid on capital debt	(9,540,658.03)
Net cash used for capital and related financing activities	(26,824,648.78)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	90,483.35
Income on investments	953,362.98
Purchase of investments	(85,993.00)
Net cash provided by investing activities	957,853.33
Net decrease in cash and cash equivalents	(2,865,910.17)
Cash and cash equivalents - beginning of year	124,026,211.82
Cash and cash equivalents - end of year	$ 121,160,301.65

Tennessee Board of Regents
MIDDLE TENNESSEE STATE UNIVERSITY
Statement of Cash Flows (continued)
For the Year Ended June 30, 2016

Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$	(149,197,570.04)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Non-cash operating expenses		20,654,280.68
Change in assets, liabilities, and deferrals:		
Receivables, net		(1,725,763.78)
Inventories		31,774.18
Prepaid items		(1,045,827.88)
Other assets		(12,809.51)
Net pension asset		(53,044.15)
Deferred outflows of resources - pensions		(2,984,468.63)
Net pension liability		11,661,930.88
Deferred inflows of resources - pensions		(13,275,984.00)
Accounts payable		(2,104,815.96)
Accrued liabilities		1,001,022.89
Unearned revenues		277,573.79
Deposits		329,946.03
Compensated absences		168,779.34
Due to grantors		66,417.97
Loans to students		26,415.74
Net cash used for operating activities	$	(136,182,142.45)

Noncash investing, capital, or financing transactions		
Gifts in-kind - capital	$	383,772.65
Unrealized losses on investments	$	(2,738.90)
Loss on disposal of capital assets	$	(148,922.73)
Trade-in allowance	$	5,200.00
Proceeds from capital debt	$	909,606.90
Capital appropriations	$	20,450,783.24
Purchase of capital assets and construction	$	20,366,814.29
Other capital and related financing receipts (payments)	$	(7,402.49)

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The university is a part of the State University and Community College System of Tennessee (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 Middle Tennessee State University.

The Middle Tennessee State University Foundation is considered a component unit of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by its donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements. See Note 20 for more detailed information about the component unit.

Basis of Presentation

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

Basis of Accounting

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

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

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

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

Cash Equivalents

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

Inventories

Inventories are valued at the lower of cost or market.

Compensated Absences

The university's employees accrue annual and sick leave at varying rates, depending on length of service or classification. Prior to April 16, 2012, some employees earned compensatory time. These employees will continue to retain their accumulated balances until depleted.

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 dies or is absent because of illness, injury, or related family death.

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, and intangible assets, are reported in the statement of net position at historical cost or at acquisition value at date of donation, less accumulated depreciation/amortization. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

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

These assets, with the exception of land, are depreciated/amortized using the straight-line method over the estimated useful lives, which range from 5 to 60 years.

Pensions

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

Net Position

The university's net position is classified as follows:

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

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

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

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

Scholarship Discounts and Allowances

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

Note 2. Cash and Cash Equivalents

In addition to demand deposits and petty cash on hand, this classification includes instruments that are readily convertible to known amounts of cash and that have original maturities of three months or less. At June 30, 2016, cash and cash equivalents consisted of $45,878,775.83 in bank accounts, $35,610.00 of petty cash on hand, $73,972,764.09 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, $1,257,183.39 in LGIP deposits for capital projects, and $15,968.34 in a money market account.

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 risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

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

Note 3. Investments

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

Interest Rate Risk

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

At June 30, 2016, the university had the following investments and maturities:

		Investment Maturities (in Years)	
Investment Type	Fair Value	1 to 5	No Maturity Date
Corporate bonds	$ 83,533.75	$83,533.75	$ -
Mutual bond funds	371,870.43	-	371,870.43
Total debt investments	455,404.18	$83,533.75	$371,870.43
Non-Fixed Income Investments			
Mutual equity funds	278,414.27		
Exchange traded funds	132,340.60		
Total investments	$866,159.05		

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

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

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

At June 30, 2016, the university's investments were rated as follows:

		Credit Quality Rating		
Investment Type	Balance	A	A-	Unrated
LGIP (amortized cost)	$75,229,947.48	$ -	$ -	$75,229,947.48
Corporate bonds	83,533.75	27,700.25	55,833.50	-
Mutual bond funds	371,870.43	-	-	371,870.43
Total	$75,685,351.66	$27,700.25	$55,833.50	$75,601,817.91

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the university will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The university does not have a deposit policy for custodial credit risk. At June 30, 2016, the university had $866,159.05 of uninsured and unregistered investments for which the securities were held by the counterparty's trust department or agent but not in the university's name.

Note 4. Fair Value Measurement

The university categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The university has the following recurring fair value measurements as of June 30, 2016:

	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 Value Level					
Debt securities:					
Corporate bonds	$ 83,533.75	$ -	$83,533.75	$ -	$ -
Mutual bond funds	371,870.43	371,870.43	-	-	-
Total debt securities	455,404.18	371,870.43	83,533.75	-	-
Equity securities:					
Mutual equity funds	278,414.27	278,414.27	-	-	-
Exchange traded funds	132,340.60	132,340.60	-	-	-
Total equity securities	410,754.87	410,754.87	-	-	-
Total assets at fair value	$866,159.05	$782,625.30	$83,533.75	$ -	$ -

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

Note 5. Receivables

Receivables at June 30, 2016, included the following:

Student accounts receivable	$10,134,991.66
Grants receivable	2,041,196.54
Notes receivable	94,347.13
Athletics receivable	1,162,224.96
Auxiliary receivable	1,673,164.91
Other receivables	802,492.94
Subtotal	15,908,418.14
Less allowance for doubtful accounts	(3,170,231.86)
Total receivables	$12,738,186.28

Federal Perkins Loan Program funds at June 30, 2016, included the following:

Perkins loans receivable	$3,157,483.66
Less allowance for doubtful accounts	(582,876.17)
Total	$2,574,607.49

Note 6. Capital Assets

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 17,210,299.73	$ 124,060.08	$ -	$ -	$ 17,334,359.81
Land improvements and infrastructure	77,581,020.27	155,580.00	2,044,896.67	-	79,781,496.94
Buildings	592,499,718.99	-	15,185,509.01	125,000.00	607,560,228.00
Equipment	58,856,838.45	3,032,989.67	-	1,126,722.29	60,763,105.83
Library holdings	5,679,222.92	566,470.91	-	622,471.46	5,623,222.37
Intangible assets	6,374,959.85	122,100.00	-	-	6,497,059.85
Projects in progress	22,699,756.19	22,875,840.43	(17,230,405.68)	-	28,345,190.94
Total	780,901,816.40	26,877,041.09	-	1,874,193.75	805,904,663.74
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	36,519,303.98	3,073,157.60	-	-	39,592,461.58
Buildings	160,308,598.35	11,506,183.72	-	21,875.00	171,792,907.07
Equipment	40,941,844.56	4,136,830.03	-	1,086,124.56	43,992,550.03
Library holdings	3,201,663.96	562,322.24	-	622,471.46	3,141,514.74
Intangible assets	4,499,839.52	137,516.74	-	-	4,637,356.26
Total	245,471,250.37	19,416,010.33	-	1,730,471.02	263,156,789.68
Capital assets, net	$535,430,566.03	$ 7,461,030.76	$ -	$ 143,722.73	$542,747,874.06

The university has elected not to capitalize several campus collections consisting mainly of historical treasures. These collections are held in the Center for Popular Music, Center for Historical Preservation, and the Albert Gore Research Center. This election not to capitalize is based on the collections being held for public exhibition, education, and research in furtherance of public service rather than financial gain. The collections are protected, cared for, and preserved by custodians in each of the various areas. The university allows departments to retain proceeds from sales of large capital assets and collections for the acquisition of replacement items.

Note 7. Accounts Payable

Accounts payable at June 30, 2016, included the following:

Vendors payable	$5,234,756.33
Unapplied student payments	128,333.81
Other payables	32,436.56
Total accounts payable	$5,395,526.70

Note 8. Long-term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$205,454,391.23	$ -	$10,235,101.71	$195,219,289.52	$11,289,152.52
Unamortized bond premium/discount	22,315,359.15	-	1,572,799.34	20,742,559.81	-
Revolving credit facility	18,150,100.74	165,900.51	4,015,607.09	14,300,394.16	-
Subtotal	245,919,851.12	165,900.51	15,823,508.14	230,262,243.49	11,289,152.52
Other liabilities:					
Compensated absences	6,753,896.02	4,369,919.23	4,201,139.89	6,922,675.36	1,937,169.92
Due to grantors	2,382,012.72	405,508.00	339,090.03	2,448,430.69	-
Subtotal	9,135,908.74	4,775,427.23	4,540,229.92	9,371,106.05	1,937,169.92
Total long-term liabilities	$255,055,759.86	$4,941,327.74	$20,363,738.06	$239,633,349.54	$13,226,322.44

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 0.65% to 5.0%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2044 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations; see Note 10 for further details. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the statement of net position is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was $4,873,656.98 at June 30, 2016.

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

Year Ending June 30	Principal	Interest	Total
2017	$ 11,289,152.52	$ 8,543,771.90	$ 19,832,924.42
2018	8,084,669.33	8,166,442.03	16,251,111.36
2019	10,693,648.07	7,635,137.12	18,328,785.19
2020	10,956,627.11	7,164,190.31	18,120,817.42
2021	11,441,434.29	6,711,151.42	18,152,585.71
2022 – 2026	54,490,907.71	26,549,063.05	81,039,970.76
2027 – 2031	35,757,915.87	15,781,375.44	51,539,291.31

2032 – 2036	23,237,061.83	9,244,580.16	32,481,641.99
2037 – 2041	22,031,614.50	4,074,170.75	26,105,785.25
2042 – 2044	7,236,258.29	364,853.55	7,601,111.84
Total	$195,219,289.52	$94,234,735.73	$289,454,025.25

TSSBA Debt – Revolving Credit Facility

The Tennessee State School Bond Authority (TSSBA) receives loans from the revolving credit facility to finance the costs of various capital projects during the construction phase. When projects are placed in service, TSSBA issues long-term, fixed-rate debt to finance the project over its useful payback period and repays the revolving credit facility debt. The total outstanding loans from the revolving credit facility for the university were $14,300,394.16 at June 30, 2016.

More detailed information regarding the bonds and revolving credit facility can be found in the notes to the financial statements in the financial report for the TSSBA. That report is available on the state's website at www.comptroller.tn.gov/tssba/cafr.asp.

Note 9. Endowments

If a donor has not provided specific instructions to the university, state law permits the university 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 university is required to consider the university's 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 spent is required to be spent for the purposes for which the endowment was established.

The university chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the university, all interest earnings have been authorized for expenditure. At June 30, 2016, net appreciation of $13,765.63 is available to be spent, of which $25.09 is included in restricted net position expendable for scholarships and fellowships, and $13,740.54 is included in restricted net position expendable for loans.

Note 10. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $195,219,289.52 in revenue bonds issued from January 2007 to May 2015 (see Note 8 for further detail). Proceeds from the bonds provided financing for the construction of a cogeneration plant; the Wood/Stegall development facility; a printing services building; Greek Row housing; dormitory and family housing upgrades; student health, wellness, and recreation facility upgrades; purchase of a new fleet of airplanes for the Aerospace Department; energy savings and performance contracts; parking and transportation improvements; football stadium enhancements; purchase of the Ingram Building; construction of the Student Union Building; and the construction of two parking garages. The bonds are payable through 2044. Annual principal and interest payments on the bonds are expected to require less than 6.9% of available revenues. The total principal and interest remaining to be paid on the bonds is $289,454,025.25. Principal and interest paid for the current year and total available revenues were $22,436,007.14 and $325,560,179.66, respectively.

Note 11. Pension Plans

Defined Benefit Plans

Closed State and Higher Education Employee Pension Plan

General Information About the Pension Plan

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

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at 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 July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest.

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The university's employees are 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 $7,268,067.60, 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

Pension liability – At June 30, 2016, the university reported a liability of $24,556,209.88 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 1.904642%. The proportion measured as of June 30, 2014, was 1.868875%.

Pension expense – For the year ended June 30, 2016, the university recognized a pension expense of $2,760,985.00.

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 Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,598,449.00	$ 2,126,166.00
Net difference between projected and actual earnings on pension plan investments	-	3,156,770.00
Changes in proportion of net pension liability	481,862.00	-
Middle Tennessee State University's contributions subsequent to the measurement date of June 30, 2015	7,268,067.60	-
Total	$10,348,378.60	$5,282,936.00

Deferred outflows of resources, resulting from the university's employer contributions of $7,268,067.60 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending 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	$(1,734,044)
2018	$(1,734,044)
2019	$(1,734,044)
2020	$ 2,999,508

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%
Salary increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%

Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.5%

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%. 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%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% 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%. 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%, 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%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
University's net pension liability (asset)	$57,538,943.00	$24,556,209.88	$ (3,241,885.00)

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 $649,017.38 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2016.

State and Higher Education Employee Retirement Plan

General Information About the Pension Plan

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

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and 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 years' average compensation by

1% multiplied by the member's years of service credit. A reduced early retirement is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which a member's age and 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 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLA, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

<ins>Contributions</ins> – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. University employees contribute 5% of their salary to the State and Higher Education Employment Retirement Plan. The higher education institutions make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4% for all aggregate employee groups, except in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. 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 $188,480.30, which is 3.86% of covered payroll. The employer rate is 3.87% of covered payroll except for any salaries derived from federal funds where the employer rate is 2%. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

<ins>Pension asset</ins> – At June 30, 2016, the university reported an asset of $53,044.15 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015, and the total pension asset 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 1.907390%, representing the first-time presentation of this proportion.

Pension expense – For the year ended June 30, 2016, the university recognized a pension expense of $43,997.00.

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 Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$19,735.00
Net difference between projected and actual earnings on pension plan investments	3,077.00	-
Middle Tennessee State University's contributions subsequent to the measurement date of June 30, 2015	188,480.30	-
Total	$191,557.30	$19,735.00

Deferred outflows of resources, resulting from the university's employer contributions of $188,480.30 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending 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	$(1,698)
2018	$(1,698)
2019	$(1,698)
2020	$(1,698)
2021	$(2,467)
Thereafter	$(7,401)

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

Actuarial assumptions – The total pension liability (asset) 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%
Salary increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.5%

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%. 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%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% 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%. 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 (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%, 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%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
University's net pension liability (asset)	$ (20,839.00)	$ (53,044.15)	$ (77,145.00)

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 $19,283.64 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2016.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2016, for all state and local government defined benefit pension plans was $2,804,982.

Defined Contribution Plans

Optional Retirement Plans

Plan description – The university contributes to the Optional Retirement Plan (ORP). The ORP, administered by the Tennessee Treasury Department, is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. This statute also sets out the plan provisions. The plan provisions are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

Funding policy – For employees employed prior to July 1, 2014, plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. For employees hired after June 30, 2014, plan members will contribute 5% to the ORP and the university will contribute 9% of the employee's base salary. Pension expense equaled the required contributions made to the ORP and were $8,725,400.39 for the year ended June 30, 2016, and $8,714,952.72 for the year ended June 30, 2015. Contributions met the requirements for each year.

Members are immediately 100% vested in the employer contributions made pursuant to the ORP. The Treasury Department has selected three investment vendors who offer a variety of investment products in which members are responsible for selecting how the contributions are invested. Each member makes the decision when to reallocate future contributions or when to transfer funds from one investment product to another. Funds are held by the investment vendor in the name of the member, not in the name of the State of Tennessee. The State of Tennessee has no discretion over these funds other than to make the initial contributions. 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 the *Internal Revenue Code* (IRC), Section 457, and the other pursuant to IRC, Section 401(k). The third plan is administered by the university and was established in accordance with IRC, Section 403(b). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k), Section 403(b), and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. Sections 401(k), 403(b), and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 403(b) and the 457 plans is voluntary for employees. The university provides up to a $50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Chapter 259 of the Public Acts of 2013, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary, with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

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

During the year ended June 30, 2016, contributions totaling $3,529,208.98 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $1,205,803.66 for employer contributions. During the year ended June 30, 2015, contributions totaling $3,237,801.79 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $1,048,776.45 for employer contributions.

Note 12. Other Postemployment Benefits

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that provides postemployment health insurance benefits to eligible university retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-201, *Tennessee Code Annotated*, for the State Employee Group Plan and for the Medicare Supplement Plan. The State Employee Group Plan covers retirees until they reach the age of 65. Members have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that 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 17. The plans are reported in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/article/fa-accfin-cafr.

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 Middle Tennessee State University. The state is the sole contributor for the university retirees who participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

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. The plan's claims liabilities are periodically computed using actuarial and statistical techniques to establish premium rates. The plan's administrative costs are allocated to plan participants. Retired members pay the same base premium, adjusted for years of service, as active employees. Retirees with 30 years of service are subsidized 80%; retirees with 20 years of service but less than 30 years of service, 70%; and retirees with less than 20 years of service, 60%. Retirees in the Medicare Supplement Plan have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive

$50 per month; retirees with 20 years of service but less than 30 years of service, $37.50; and retirees with 15 years of service but less than 20 years of service, $25.

University's Annual OPEB Cost and Net OPEB Obligation
State Employee Group Plan

Annual required contribution (ARC)	$ 2,998,000.00
Interest on the net OPEB obligation	474,766.84
Adjustment to the ARC	(476,671.53)
Annual OPEB cost	2,996,095.31
Amount of contribution	(2,588,261.85)
Increase in net OPEB obligation	407,833.46
Net OPEB obligation – beginning of year	12,660,422.46
Net OPEB obligation – end of year	$13,068,255.92

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2016	State Employee Group Plan	$2,996,095.31	86.4%	$13,068,255.92
June 30, 2015	State Employee Group Plan	$3,036,628.09	86.7%	$12,660,422.46
June 30, 2014	State Employee Group Plan	$2,931,139.51	83.8%	$12,256,033.37

Funded Status and Funding Progress

The funded status of the university's portion of the State Employee Group Plan was as follows:

State Employee Group Plan

Actuarial valuation date	July 1, 2015
Actuarial accrued liability (AAL)	$23,748,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$23,748,000.00
Actuarial value of assets as a percentage of the AAL	0.0%
Covered payroll (active plan members)	$135,815,660.70

UAAL as percentage of covered payroll	17.5%

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% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5% initially. The rate decreased to 6.0% in fiscal year 2016 and then reduces by decrements to an ultimate rate of 4.7% in fiscal year 2050. All rates include a 2.5% 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%.

Note 13. Insurance-related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (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 three past fiscal years.

The university participates in the RMF. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. 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 year ended June 30, 2016, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/article/fa-accfin-cafr. Since the university participates in the RMF, it is subject to the liability limitations established by statute. The maximum liability for general liability, automobile liability, and medical malpractice liability is $300,000 per person and $1,000,000 per occurrence. Claims are paid through the state's RMF. At June 30, 2016, the RMF held $142.9 million in cash designated for payment of claims.

At June 30, 2016, the scheduled coverage for the university was $1,299,505,341.00 for buildings and $398,378,600.00 for contents.

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

Note 14. Commitments and Contingencies

Sick Leave

The university records the cost of sick leave when paid. The dollar amount of unused sick leave was $65,263,973.40 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 property were $248,781.48 and expenses for personal property were $59,184.98 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 $5,667,433.45 for major projects including Natatorium Demolition; Demolition of 2227 East Main Street; academic classroom building; Corlew & Cummings elevator replacements; Womack Housing plumbing upgrades; Central Plant control updates; chiller replacement; MTSU Master Plan; rec fields lighting; Flight Simulator Building; Warehouse Building Renovation; Bell Street renovations; Saunders HVAC; parking and transportation improvements; parking garage & Student Services; physical plant upgrades; several buildings elevator repair; Concrete Industry Management Building; Wiser Patton-Davis Science Facilities renovations; and an underground electrical update of which $1,793,236.42 will be funded by future state capital outlay appropriations.

Litigation

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

Note 15. Chairs of Excellence

The university had $28,374,453.97 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 the financial statements.

Note 16. Natural Classification With Functional Classifications

The university’s operating expenses for the year ended June 30, 2016, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 90,796,586.48	$29,753,551.86	$15,659,803.73	$ -	$ -	$136,209,942.07
Research	3,705,228.36	927,157.12	1,637,101.95	-	-	6,269,487.43
Public service	4,102,547.89	1,058,621.35	3,680,139.84	-	-	8,841,309.08
Academic support	19,076,569.46	6,578,668.19	1,395,165.17	-	-	27,050,402.82
Student services	16,320,435.38	5,201,747.09	16,651,216.99	-	-	38,173,399.46

Institutional support	11,110,198.13	3,406,644.97	7,982,629.15	-	-	22,499,472.25
Maintenance and operation	7,809,307.56	3,283,680.77	16,679,098.45	-	-	27,772,086.78
Scholarships and fellowships	-	-	-	31,719,982.04	-	31,719,982.04
Auxiliary	6,380,167.37	2,053,434.27	10,002,756.42	-	-	18,436,358.06
Depreciation	-	-	-	-	19,416,010.33	19,416,010.33
Total	$159,301,040.63	$52,263,505.62	$73,687,911.70	$31,719,982.04	$19,416,010.33	$336,388,450.32

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 $10,631,357.22 were reallocated from academic support to the other functional areas.

Note 17. On-behalf Payments

During the year ended June 30, 2016, the State of Tennessee made payments of $162,812.50 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 12. The plan is reported in the *Tennessee Comprehensive Annual Financial Report.* That report is available on the state's website at www.tn.gov/finance/article/fa-accfin-cafr.

Note 18. Prior-year Adjustment

Capital expenses in a prior fiscal year were inadvertently recorded twice on the new Science Facilities project. This resulted in an overstatement of capital assets in the amount of $3,368,262.80 and subsequently an overstatement in accumulated depreciation of $139,868.54. The net decrease in capital assets of $3,228,394.26 and a prior period adjustment have been recorded and reflected in the accompanying financial statements.

In addition, a capital asset valued at $1,521,671.78 was reclassified from the buildings category to the intangible assets category. An adjustment to accumulated depreciation in the amount of $12,680.59 as a result of the change in the number of years this asset should have been depreciated, along with the prior period adjustment, is also reflected in the accompanying financial statements.

Note 19. Subsequent Events

The Focus on College and University Success (FOCUS) Act (the 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.

Note 20. Component Unit

The Middle Tennessee State University Foundation is a legally separate, tax-exempt organization supporting Middle 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 36-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.

The foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the foundation's financial information in the university's financial statements for these differences.

During the year ended June 30, 2016, the foundation made distributions of $4,280,580.64 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Joe Bales, Vice President for University Advancement, 1301 East Main Street, Murfreesboro, TN 37132.

Fair value Measurements

The foundation reports certain assets at fair value. Fair value has been determined using quoted prices in active markets for identical assets that are accessible at the measurement date (Level 1), inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset (Level 2), or significant unobservable inputs (Level 3). The following table categorizes the recurring fair value measurements for assets at June 30, 2016.

	Total Fair Value at June 30, 2016	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Cash equivalents	$1,810,729.35	$1,810,729.35	$ -	$ -
Certificates of deposit	77,765.58	-	77,765.58	-
U.S. Treasury	302,374.46	302,374.46	-	-
Corporate stocks	513,054.11	513,054.11	-	-
Fixed income	2,509,787.31	2,509,787.31	-	-
Bonds	20,395.50	-	20,395.50	-
Mutual funds	715,074.33	715,074.33	-	-
Mutual equity funds	2,470,731.71	2,470,731.71	-	-
Equity funds	15,165,680.33	-	15,165,680.33	-
Cash surrender value of life insurance	506,071.12	-	506,071.12	-
Alternative investments	33,901,566.13	-	-	33,901,566.13
Pledges receivable	8,226,861.14	-	-	8,226,861.14
Total assets	$66,220,091.07	$8,321,751.27	$15,769,912.53	$42,128,427.27

The following table reconciles beginning and ending balances of all assets and liabilities valued using Level 3 inputs.

	Beginning Balance	Total Gains/(Losses), Realized and Unrealized	Purchases	Transfers In/(Out) of Level 3	Ending Balance
Assets:					
Alternative investments	$35,487,807.78	$(1,195,877.19)	$765,170.26	$(1,155,534.72)	$33,901,566.13
Pledges receivable	9,617,206.95	(1,390,345.81)	-	-	8,226,861.14
Total assets	$45,105,014.73	$(2,586,223.00	$765,170.26	$(1,155,534.72)	$42,128,427.27

All gains and losses, both realized and unrealized, have been reported on the statement of revenues, expenses, and changes in net position as investment income. Of this total, $(2,917,739.13) is attributable to the change in unrealized gains or losses relating to those assets still held at June 30, 2016.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts, money market funds, and a State of Tennessee Local Government Investment Pool account administered by the State Treasurer.

Investments

Investments are recorded on the date of contribution and are stated at fair value. Unrealized gains and losses are determined by the difference between fair values at the beginning and end of the year.

Investments held at June 30, 2016, were as follows:

	Cost	Fair Value
U.S. Treasury	$ 40,000.00	$ 302,374.46
Certificates of deposit	77,765.58	77,765.58
Corporate stocks	370,706.93	513,054.11
Fixed income	2,394,885.00	2,509,787.31
Bonds	15,004.95	20,395.50
Mutual funds	681,637.57	715,074.33
Mutual equity funds	3,257,401.00	2,470,731.71
Equity funds	13,700,000.00	15,165,680.33
Cash surrender value of life insurance	N/A	506,071.12
Alternative investments	32,260,581.90	33,901,566.13
Total investments	$52,797,982.93	$56,182,500.58

Investment return – The following schedule summarizes the total investment return and its classification on the foundation's statement of revenues, expenses, and changes in net position.

Dividends and interest (net of expenses of $408,103.03)	$ (168,088.98)
Net realized and unrealized gains	(2,915,381.70)
Total return on investments	(3,083,470.68)
Endowment income per spending plan	(2,251,106.42)
Investment return reduced by the portion of cumulative net appreciation designated for current operations	$(5,334,577.10)

Operating return – The board of trustees designates only a portion of the foundation's cumulative investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. The amount computed under the endowment spending policy of the investment pool is used to support current operations.

Alternative investments – The foundation had investments in offshore hedge fund-of-funds. The estimated fair value of these assets was $33,901,566.13 at June 30, 2016.

The foundation believes 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 that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques. Each offshore hedge fund-of-funds owned by the foundation has an annual independent CPA firm audit. Hedge fund values are determined by using monthly reports received directly from the hedge fund-of-funds managers, as well as from the foundation's registered investment advisors and/or investment custodian.

Pledges Receivable

Pledges receivable at June 30, 2016, are summarized below:

Current pledges	$1,460,662.65
Pledges due in one to five years	5,103,224.80
Pledges due after five years	1,683,333.35
Subtotal	8,247,220.80
Less discount to net present value	(20,359.66)
Total pledges receivable, net	$8,226,861.14

Capital Assets

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 2,596,153.77	$ -	$ -	$ -	$2,596,153.77
Land improvements and infrastructure	1,009,439.46	71,580.00	-	71,580.00	1,009,439.46
Buildings	19,931,308.96	122,100.00	-	122,100.00	19,931,308.96
Equipment	5,976.12	70,092.65	-	70,092.65	5,976.12
Projects in progress	102,143.82	-	-	102,143.82	-
Total	23,645,022.13	263,772.65	-	365,916.47	23,542,878.31
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	486,973.62	50,471.98	-	-	537,445.60
Buildings	6,419,457.50	290,557.82	-	-	6,710,015.32
Equipment	3,137.45	597.61	-	-	3,735.06
Total	6,909,568.57	341,627.41	-	-	7,251,195.98
Capital assets, net	$16,735,453.56	$(77,854.76)	$ -	$365,916.47	$16,291,682.33

Endowments

The Middle Tennessee State University Foundation's endowments consist of 626 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, net position associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, is classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The Board of Trustees of the Middle Tennessee State University Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as requiring the preservation of the fair value of the original gift, as of the gift date, of the endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Middle Tennessee State University Foundation classifies as permanently restricted net position (1) the original value of gifts donated to the permanent endowment; (2) the original value of subsequent gifts to the permanent endowment; (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund; and (4) the portion of the investment return that is added to the fund's principal. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net position is classified as temporarily restricted net position until the foundation appropriates those amounts for expenditure in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the foundation and the endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the foundation; and (7) the investment policies of the foundation.

Composition of Endowment by Net Position Class
As of June 30, 2016

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$40,724,144.76	$ 4,628,066.02	$ (98,753.35)	$45,253,457.43
Board-designated endowment funds	-	11,122,502.89	616,095.53	11,738,598.42
Total funds	$40,724,144.76	$15,750,568.91	$517,342.18	$56,992,055.85

Changes in Endowment Net Position
For the Fiscal Year Ended June 30, 2016

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net position, beginning of year	$39,935,024.93	$20,971,866.18	$ 684,052.68	$61,590,943.79
Investment return:				
Investment income	-	(180,736.18)	(11,396.62)	(192,132.80)
Net depreciation (realized and unrealized)	-	(2,985,978.02)	128,269.91	(2,857,708.11)
Total investment return	-	(3,166,714.20)	116,873.29	(3,049,840.91)
Contributions	580,507.75	85,026.90	-	665,534.65
Expenditures	-	(558,383.61)	(56,254.75)	(614,638.36)
Appropriations of endowment assets for expenditure	-	(2,020,834.58)	(247,927.08)	(2,268,761.66)
Transfers	208,612.08	439,608.22	20,598.04	668,818.34
Endowment net position, end of year	$40,724,144.76	$15,750,568.91	$ 517,342.18	$56,992,055.85

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the foundation is required to retain in a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net position. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and/or continued appropriation for fees and previously approved budgeted expenditures. At June 30, 2016, deficiencies of this nature totaled $203,169.42.

Return objectives and risk parameters – The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the historical dollar value of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that provide for adequate long-term purchasing power preservation, as well as current scholarship and other institutional support as appropriate. The foundation expects its endowment funds, over time, to provide an average rate of return of approximately 8.5% annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives – To satisfy its long-term rate-of-return objectives, the foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk restraints.

Spending policy and how the investment objectives relate – The foundation has a policy of appropriating for distribution each year 4% of the three-year rolling average total fair market value of the endowment. Payout policy is determined by the foundation year-to-year, and in a year of significantly declining investment values, the board may choose to not make an annual payout to preserve the future purchasing and payout power of the endowment. In establishing this policy, the foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the foundation expects the current spending policy to allow its endowment to grow at an average of 3.5% annually. This is consistent with the foundation's objective to maintain the historical dollar value of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Support From Middle Tennessee State University

During fiscal year 2016, the university paid certain payroll costs amounting to $1,594,656.69 for university personnel who also performed services supporting the foundation. These supporting costs paid by the university are reflected in the statement of revenues, expenses, and changes in net position as university support, with a like amount included in expenses. The university provides office space and the use of certain common facilities and services to the foundation at no cost. These costs have not been recorded as university support because they are not considered to be significant to the operations of the foundation.

Tennessee Board of Regents
MIDDLE TENNESSEE STATE UNIVERSITY
Required Supplementary Information
Schedule of Middle Tennessee State University's Proportionate Share of the Net Pension Liability
Closed State and Higher Education Employee Pension Plan Within TCRS

	2016	2015
University's proportion of the net pension liability	1.904642%	1.868875%
University's proportionate share of the net pension liability	$24,556,210.00	$12,894,279.00
University's covered payroll	$49,745,361.75	$51,118,689.00
University's proportionate share of the net pension liability as a percentage of its covered payroll	49.36%	25.22%
Plan fiduciary net position as a percentage of the total pension liability	91.26%	95.11%

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

2) This is a 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 are available.

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

	2016
University's proportion of the net pension asset	1.907390%
University's proportionate share of the net pension asset	$ 53,044.15
University's covered payroll	$2,077,083.91
University's proportionate share of the net pension asset as a percentage of its covered payroll	2.55%
Plan fiduciary net position as a percentage of the total pension liability	142.55%

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

2) This is a 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 are available.

Tennessee Board of Regents

MIDDLE TENNESSEE STATE UNIVERSITY

Required Supplementary Information

Schedule of Middle Tennessee State University's Contributions

Closed State and Higher Education Employee Pension Plan Within TCRS

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2016	$7,268,068.00	$7,268,068.00	$ -	$48,351,944.00	15.03%
2015	7,475,084.12	7,475,084.12	-	49,745,361.75	15.03%
2014	7,681,000.00	7,681,000.00	-	51,118,689.00	15.03%
2013	7,398,445.45	7,398,445.45	-	49,224,520.63	15.03%
2012	7,481,791.25	7,481,791.25	-	50,179,686.45	14.91%
2011	6,714,529.05	6,714,529.05	-	45,033,729.38	14.91%
2010	5,982,087.97	5,982,087.97	-	45,945,376.11	13.02%
2009	6,254,322.27	6,254,322.27	-	48,036,269.35	13.02%
2008	6,649,192.21	6,649,192.21	-	48,819,326.06	13.62%
2007	6,305,780.58	6,305,780.58	-	46,297,948.46	13.62%

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

	2016	2015
Contractually determined contribution	$ 188,480.00	$ 80,383.18
Contributions in relation to the contractually determined contribution	188,480.00	80,383.18
Contribution deficiency (excess)	$ -	$ -
Covered payroll	$4,876,823.00	$2,077,083.91
Contributions as a percentage of covered payroll	3.86%	3.87%

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

Tennessee Board of Regents
MIDDLE TENNESSEE STATE UNIVERSITY
Required Supplementary Information
Other Postemployment Benefits Schedule of Funding Progress

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (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, 2015	State Employee Group Plan	$ -	$23,748,000.00	$23,748,000.00	0%	$135,815,660.70	17.49%
July 1, 2013	State Employee Group Plan	$ -	$23,252,000.00	$23,252,000.00	0%	$130,711,627.79	17.79%
July 1, 2011	State Employee Group Plan	$ -	$27,510,000.00	$27,510,000.00	0%	$119,509,425.68	23.02%

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

Tennessee Board of Regents
MIDDLE TENNESSEE STATE UNIVERSITY
Supplementary Schedule of Cash Flows - Component Unit
For the Year Ended June 30, 2016

Cash flows from operating activities	
Gifts and contributions	$ 6,700,247.46
Grants and contracts	4,303.19
Payments to suppliers and vendors	(862,409.47)
Payments for scholarships and fellowships	(1,902,162.47)
Payments to Middle Tennessee State University	(3,932,807.99)
Other receipts (payments)	16,486.50
Net cash provided by operating activities	23,657.22
Cash flows from noncapital financing activities	
Private gifts for endowment purposes	580,507.75
Net cash provided by noncapital financing activities	580,507.75
Cash flows from capital and related financing activities	
Purchases of capital assets and construction	(245,628.83)
Net cash used for capital and related financing activities	(245,628.83)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	1,898,624.03
Income on investments	214,671.51
Purchases of investments	(2,001,131.98)
Other investing receipts (payments)	(24,390.60)
Net cash provided by investing activities	87,772.96
Net increase in cash and cash equivalents	446,309.10
Cash and cash equivalents - beginning of year	18,921,617.73
Cash and cash equivalents - end of year	$ 19,367,926.83
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	$ (2,676,685.53)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	341,627.41
Endowment income per spending plan	(2,251,106.42)
Gifts in-kind	1,594,656.69
Changes in assets and liabilities:	
Receivables	1,388,345.81
Prepaid items	(3,868.00)
Accounts payable	1,282,914.61
Other	347,772.65
Net cash provided by operating activities	$ 23,657.22
Noncash investing, capital, or financing transactions	
Unrealized losses on investments	$ (2,917,739.13)
Transfer of capital assets to institution	$ (347,772.65)

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

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable David Gregory, Acting Chancellor
Dr. Sidney McPhee, President

We have audited the financial statements of Middle Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated December 1, 2016. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of This Report

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

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
December 1, 2016