STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL 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 12, 2017

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable David Gregory, Acting Chancellor
Dr. Philip B. Oldham, President

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Tennessee Technological 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 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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Tennessee Board of Regents
Tennessee Technological University
For the Year Ended June 30, 2016

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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. Philip B. Oldham, President

Report on the Financial Statements

We have audited the accompanying financial statements of Tennessee Technological 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 Tennessee Technological 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 Tennessee Technological 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 Tennessee Technological 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 21, the financial statements of Tennessee Technological University Foundation, a discretely presented component unit of Tennessee Technological University, include investments valued at $6,576,635.20 (9.7% 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 17; the schedule of Tennessee Technological University's proportionate share of the net pension liability for the Closed State and Higher Education Employee Pension Plan within TCRS on page 57; the schedule of Tennessee Technological University's proportionate share of the net pension asset for the State and Higher Education Employee Retirement Plan within TCRS on page 58; the schedule of Tennessee Technological University's contributions for the Closed State and Higher Education Employee Pension Plan within TCRS on page 59; the schedule of Tennessee Technological University's contributions for the State and Higher Education Employee Retirement Plan within TCRS on page 60; and the other postemployment benefits schedule of funding progress on page 61 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 62 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 November 30, 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
November 30, 2016

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

Introduction

This section of Tennessee Technological 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 Tennessee Technological University Foundation. More detailed information about the foundation is presented in Note 21 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	$ 41,213	$ 48,736
Capital assets, net	166,292	147,022
Other assets	83,781	79,992
Total assets	291,286	275,750
Deferred outflows of resources	7,564	5,234
Liabilities:		
Current liabilities	21,791	21,055
Noncurrent liabilities	84,781	74,553
Total liabilities	106,572	95,608

Deferred inflows of resources	3,082	10,334
Net Position:		
Net investment in capital assets	106,348	89,928
Restricted – nonexpendable	182	182
Restricted – expendable	3,789	3,948
Unrestricted	78,877	80,984
Total net position	$189,196	$175,042

Comparison of FY 2016 to FY 2015

- Assets of the university increased 5.6% from 2015 to 2016. Current assets decreased 15.4%, capital assets increased 13.1%, and other assets increased 4.7%.
- Current assets decreased by 15.4% for the year due to a $9.9 million decrease in current cash offset by a $1.2 million increase in accounts receivable, and a $493 thousand increase in prepaid expenses for the year.
- Cash decreased mainly due to an increase in the operating loss for the year and investments in capital assets. See explanations of changes in operating revenues and expenses below in the appropriate section. Accounts receivable increased due to a change in timing of third-party billings for the summer semester. Billings were delayed until later in the summer term to minimize the number of invoice adjustments that had to be done due to schedule adjustments. Prepaid expenses increased $157 thousand due to prepaid rent to the Tennessee Technological University Foundation for the Regions Building. The remainder was due to increases in prepaid maintenance licenses, prepaid subscriptions, and prepaid travel expenses for fiscal year 2017.
- Capital assets increased $19.3 million (13.1%). Construction upgrades to Tech Village student apartments, residential halls, academic buildings, land purchases, and other improvements accounted for $25.4 million in new assets. Equipment, software, and library holding investments were $2.6 million. The value of capital assets was reduced by current year depreciation expense and equipment and library holding disposals. See Note 6 to the financial statements.
- Other assets had an insignificant increase for the year at 4.7%. This increase was the result of a $3.8 million increase in noncurrent cash due to Unrestricted E&G funds and Auxiliary profits that were transferred to plant funds for various maintenance and capital projects. These transfers less current year plant expenditures resulted in the noncurrent cash increase.
- Deferred outflows increased $2.3 million (44.5%). This increase is due to a $2.4 million increase in deferred outflows related to pensions at June 30. The remaining difference is due to the deferred loss on refunding amortization of $97 thousand. See Note 11 to the financial statements for more pension information.
- Total liabilities increased 11.5% with current liabilities increasing 3.5% and noncurrent liabilities increasing 13.7%.

- Current liabilities increased 3.5% primarily due to a $1.5 million increase in accounts payable and a decrease in unearned revenue of $830 thousand. The accounts payable increase was due to an increase at June 30, 2016, for capital projects including parking and paving, Tech Village Phase 3, Eblen and Fitness Center Boiler, and various other smaller projects.
- The decrease in unearned revenue of $830 thousand was due to the deferral of third-party billings for summer semester that resulted in less collections.
- Noncurrent liabilities increased 13.7% primarily as the result of a $2.7 million increase in long-term debt and an increase of $7.1 million in net pension liability. Additional borrowings on student housing upgrade projects and the new fitness center were $5.4 million. See Note 8 to the financial statements for additional information on university debt. The university also incurred additional liability increases in other postemployment benefits (OPEB) actuarial cost of $285 thousand. See Note 11 to the financial statements for additional information on the pension.
- Deferred inflows related to pensions decreased $7.3 million at June 30, 2016. See Note 11 to the financial statements for additional information on the pension.
- Net position increased by 8.1% from 2015 to 2016. There were minimal decreases in restricted expendable and unrestricted net position for the year. Most of the change was due to a $16.4 million (18.3%) increase in capital assets. This is discussed in the capital asset and debt administration section of this Management's Discussion and Analysis.
- Restricted expendable for scholarships decreased $144 thousand and restricted expendable for other uses decreased $185 thousand due to an increase in expenditures on externally funded grants for scholarships and other.
- Unrestricted net position decreased $2.1 million (2.6%) due to the use of unrestricted reserves to fund current year operations and the use of transfers for plant projects.

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

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

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

Technological 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)

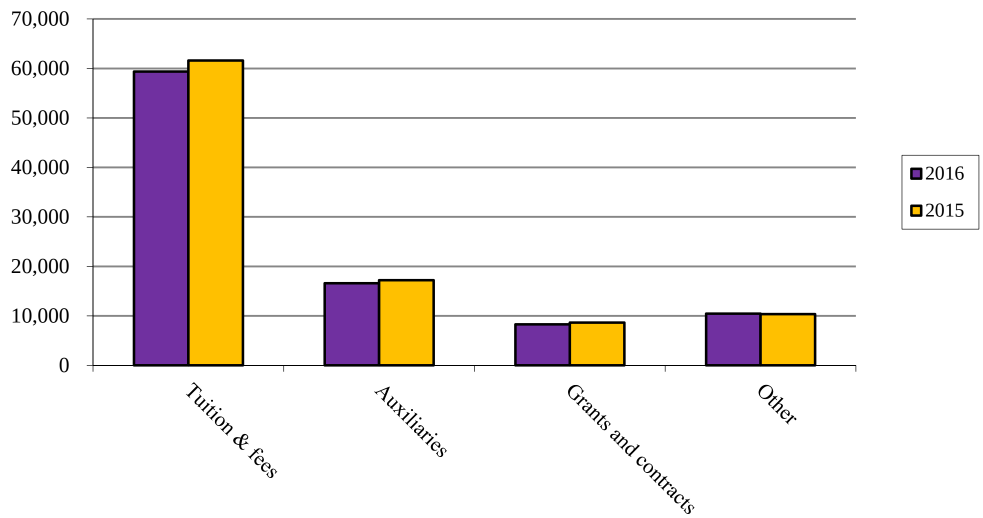
	2016	2015
Operating revenues	$ 94,736	$ 97,842
Operating expenses	170,038	163,381
Operating loss	(75,302)	(65,539)
Nonoperating revenues and expenses	80,087	80,823
Income before other revenues, expenses, gains, or losses	4,785	15,284
Other revenues, expenses, gains, or losses	9,369	4,502
Increase in net position	14,154	19,786
Net position at beginning of year	175,042	171,789
Cumulative effect of change in accounting principle	-	(16,437)
Net position at beginning of year, restated	175,042	155,352
Prior period adjustment	-	(96)
Net position at end of year	$189,196	$175,042

Operating Revenues

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

Comparison of FY 2016 to FY 2015

Operating Revenues by Source
(in thousands of dollars)

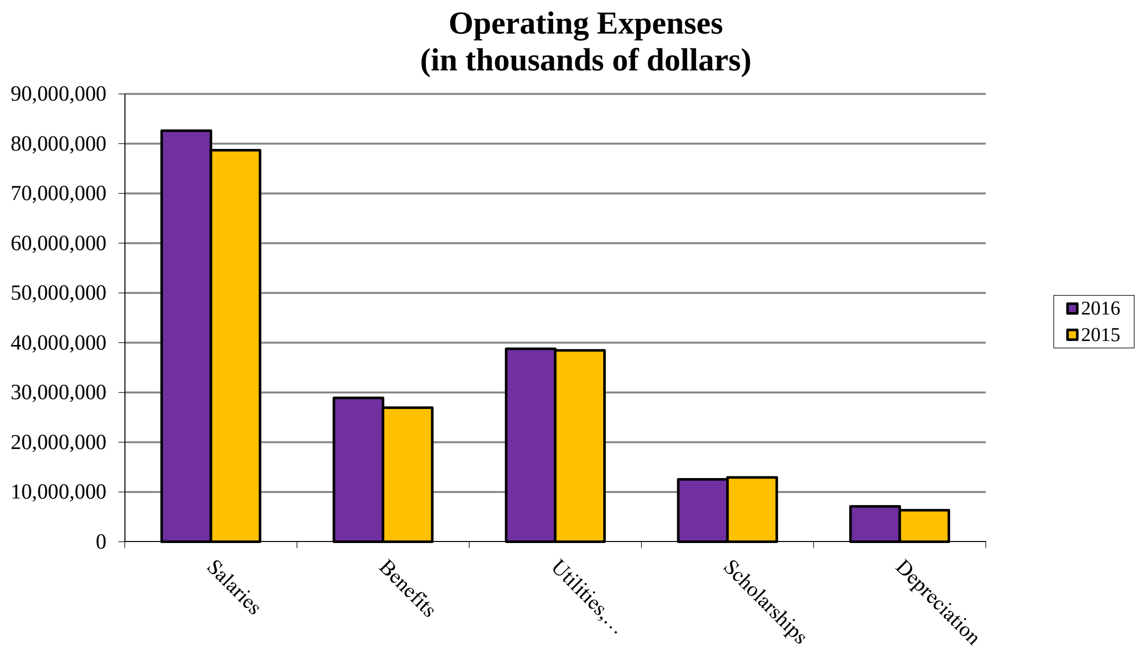


- Operating revenues of the university decreased 3.2%. Net tuition and fees decreased 3.6%, auxiliary revenues decreased 3.6%, grants and contracts decreased 4.1%, and other increased 1.0%.
- Tuition and fees net of the scholarship allowance decreased $2.2 million due to a decline in full-time equivalent enrollment of approximately 4.7%. This was offset by a tuition increase of 3.9% for in-state students and a 2.9% increase for out-of-state students. The remaining difference is primarily due to the increase in the scholarship allowance. The enrollment decline was mostly due to the impact of the Tennessee Promise program that allows qualifying students to attend a community college tuition free the first two years. Fiscal year 2016 was the first year of a two-year adjustment.
- Within tuition and fees, in-state tuition increased $3.4 million (4.8%). This increase was due to the collapsing of several fees into tuition. Out-of-state tuition decreased $1.9 million (10.9%) primarily from a decrease in international student enrollment.
- Auxiliary revenues had a decrease of 3.6% due to a decline in housing revenues of $478 thousand and a decrease in Post Office auxiliary revenues of $275 thousand. Housing decreased due to the enrollment decline. First-time freshmen enrollment declined 15.0% from fall 2014 to fall 2015. Total housing occupancy decreased 8.3% (368 students) for fall 2015 and spring 2016 compared to the prior year. This was partially offset by an increase in housing rates. The Auxiliary Post Office operation was transitioned to a service center operation in unrestricted E&G and the Post Office box fee was collapsed into tuition and fees.
- Grants and contracts have decreased 4.1% due to a reduced level of federally funded research projects.

- Other operating revenues had an insignificant increase of 1.0%. Changes within the category did happen as a result of the university's decision to collapse several miscellaneous fees into the tuition category and for the university to assume the role of the administrative organization for the Cookeville Higher Education Campus.

Operating Expenses

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



Comparison of FY 2016 to FY 2015

- Operating expenditures increased $6.7 million (4.1%) from 2015 to 2016.
- Salaries increased $3.9 million (4.9%) as the result of an across-the-board adjustment (ATB), compensation plan adjustments, faculty promotions, and an increase in filled positions.
- The ATB was approximately $274 thousand from a January 2015 increase. A 2.0% pool for compensation plan adjustments and faculty promotions was approximately $1.2 million. The remainder was due to an increase in the number of strategically placed positions and student salaries.
- Faculty and academic salaries increased $988 thousand. Filled faculty positions increased 1.2% from fall 2014 to fall 2015. The ATB increase was $135 thousand and the 2.0% compensation plan addition was $561 thousand. Faculty overload and

graduate assistants added another $372 thousand. There were slight decreases for the difference.

- Administrative salaries increased $439 thousand due to the appointment of new strategic senior-level positions for compliance, development, and the Cookeville Higher Education Campus along with the ATB.
- Professional Support salaries increased $1.9 million due to the ATB and the appointment of several new positions to support information technology services, retention, athletics, facility operations, and human resources. Athletics had an increase of $419 thousand related to coaching transitions.
- Benefits increased $1.9 million (7.3%). Retirement expenditures increased $858 thousand (17.1%) due to increased salaries and the actuarial pension calculations. Employee health insurance increased $449 thousand (3.8%). FICA and Medicare increased $222 thousand (4.2%). Employee fee waivers, discounts, and scholarships included in benefits also increased $330 thousand. The fee waiver increase is due to an increase in the number of graduate student placements. A $692 thousand increase is due to the effects of GASB Statement 68 actuarial pension cost on the closed retirement plan for the current year. See Note 11 to the financial statements.
- Utilities, supplies, and other services had an insignificant increase of $372 thousand (1.0%).
- Scholarship expense decreased $394 thousand (3.0%). A slight increase in scholarships classified as discount allowances reducing net tuition revenue resulted in a corresponding decrease in scholarship expense.
- Depreciation increased $793 thousand (12.5%) in fiscal year 2016 compared to fiscal year 2015 due to the addition of $37.9 million in assets being depreciated. See Note 6 of the financial statements.

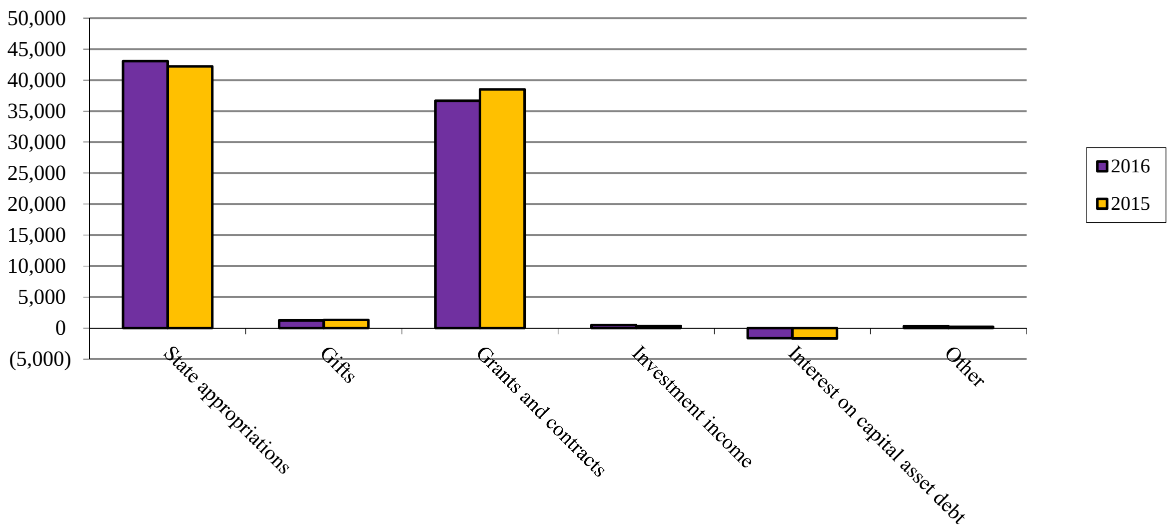
Nonoperating Revenues and Expenses

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

Nonoperating Revenues and Expenses
(in thousands of dollars)

	2016	2015
State appropriations	$43,065	$42,213
Gifts	1,233	1,306
Grants and contracts	36,666	38,488
Investment income	478	316
Interest on capital asset debt	(1,632)	(1,691)
Other	277	191
Total	$80,087	$80,823

Nonoperating Revenues and Expenses
(in thousands of dollars)



Comparison of FY 2016 to FY 2015

Nonoperating revenues and expenses decreased by $736 thousand (0.9%). State appropriations increased $852 thousand (2.0%) due to funding received to cover salary and benefit increases. Investment income increased $161 thousand (51%) due to increased interest rates in the Local Government Investment Pool. Grants and contracts decreased $1.8 million (4.7%). This was a decrease in the Federal PELL Grant and the Tennessee Lottery Scholarship funds that coincided with the enrollment decrease related to the Tennessee Promise. Other nonoperating revenue and expense increased $86 thousand (45.0%). This was due to increased traffic fines, salvage income, and a decrease in debt issue and administrative costs.

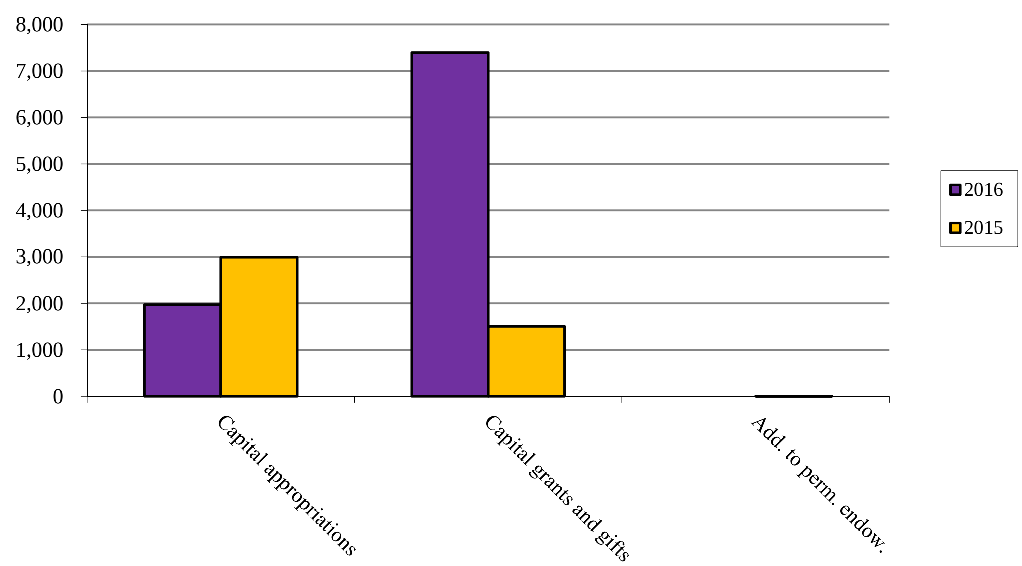
Other Revenues

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

Other Revenues
(in thousands of dollars)

	2016	2015
Capital appropriations	$1,975	$2,991
Capital grants and gifts	7,394	1,506
Additions to permanent endowments	-	5
Total	$9,369	$4,502

Other Revenues
(in thousands of dollars)



Comparison of FY 2016 to FY 2015

Other revenues increased $4.9 million (108.1%) during 2016. Capital appropriations to address campus deferred maintenance decreased by $1.0 million. Capital grants and gifts increased $5.9 million due to gift-in-kind assets of land, building, infrastructure, and equipment from taking over the operations of the Cookeville Higher Education Campus.

Capital Assets and Debt Administration

Capital Assets

Tennessee Technological University had $166.3 million invested in capital assets, net of accumulated depreciation of $131.1 million at June 30, 2016; and $147.0 million invested in capital assets, net of accumulated depreciation of $122.4 million at June 30, 2015. Depreciation charges totaled $7.1 million and $6.3 million for the years ended June 30, 2016, and June 30, 2015, respectively. See Note 6 to the financial statements.

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

	2016	2015
Land	$ 9,011	$ 4,404
Land improvements and infrastructure	14,897	11,688
Buildings	127,798	107,880
Equipment	8,793	8,281
Library holdings	1,135	1,183
Intangible assets	977	1,154
Art and historical collections	26	26
Projects in progress	3,655	12,406
Total	$166,292	$147,022

The university is involved in various renovation projects on campus that increased the capital assets by $12.4 million during fiscal year 2016. The Tech Village apartment renovations and residential hall renovations were the largest projects. Land, land improvements, and building acquisitions were $4.8 million. Another $2.2 million in equipment, library holdings, and software were purchased during the year. There were gift-in-kind assets of land, building, and infrastructure capitalized for the operation of the Cookeville Higher Education Campus in the amount of $6.5 million. Another $474 thousand were gift-in-kind assets from the Tennessee Technological University Foundation.

At June 30, 2016, outstanding commitments under construction contracts totaled $11 million for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $122 thousand of these costs.

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

Debt

The university had $60.7 million and $57.9 million in debt outstanding at June 30, 2016, and June 30, 2015, respectively. The table below summarizes these amounts by type of debt instrument.

Schedule of Debt Outstanding
(in thousands of dollars)

	2016	2015
Bonds payable	$36,600	$38,819
Unamortized bond premium	5,109	5,522
Revolving credit	18,983	13,597
Total	$60,692	$57,938

The Tennessee State School Bond Authority (TSSBA) issued bonds with interest rates ranging from 0.65% to 5% due serially until November 2033 on behalf of Tennessee Technological University. The university is responsible for the debt service of these bonds. The current portion of the $60.7 million outstanding at June 30, 2016, is $2.3 million.

In fiscal year 2016, $5.4 million in revolving credit facility was issued with the majority related to student housing and apartment renovations.

The ratings on debt issued by the TSSBA 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 Tennessee Promise program effective fall 2015, giving qualifying students tuition-free access at the state community colleges, has caused some enrollment decline in fiscal year 2016. This decline is expected to continue into fiscal year 2017. After the second year, transfers from the community colleges are expected to increase as the students matriculate into the university to pursue their bachelor degree.

The Focus on College and University Success (FOCUS) Act became effective July 1, 2016. This Act removes the six universities from the governance of the Tennessee Board of Regents. The universities will remain part of the State University and Community College System of Tennessee, but each will have their own local boards 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. This change to a local board will allow greater flexibility and opportunity to more quickly respond to specific needs of the university.

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

	University	Component Unit
Assets		
Current assets:		
Cash and cash equivalents (Notes 2 and 21)	$31,334,182.96	$242,492.84
Investments (Notes 3 and 4)	2,698.09	-
Accounts, notes, and grants receivable (net) (Note 5)	6,889,400.68	8,565.84
Due from primary government	1,213,302.56	-
Due from component unit	43,260.69	-
Inventories (at lower of cost or market)	302,046.96	13,536.43
Prepaid expenses	1,409,314.02	90,736.19
Accrued interest receivable	18,377.76	121,147.15
Total current assets	41,212,583.72	476,478.45
Noncurrent assets:		
Cash and cash equivalents (Note 2)	82,564,539.66	-
Investments (Notes 3, 4, and 21)	156,513.53	63,589,440.10
Accounts, notes, and grants receivable (net) (Note 5)	1,027,753.24	-
Net pension asset (Note 11)	32,133.81	-
Capital assets (net) (Notes 6 and 21)	166,292,171.38	4,262,102.31
Total noncurrent assets	250,073,111.62	67,851,542.41
Total assets	291,285,695.34	68,328,020.86
Deferred outflows of resources		
Deferred amount on debt refunding	746,982.53	-
Deferred outflows related to pensions (Note 11)	6,817,152.30	-
Total deferred outflows of resources	7,564,134.83	-
Liabilities		
Current liabilities:		
Accounts payable (Note 7)	4,305,386.25	169,478.76
Accrued liabilities	8,704,395.85	-
Due to primary government	479,923.28	43,260.69
Student deposits	577,054.74	-
Unearned revenue (Note 8)	3,795,549.57	225,853.90
Compensated absences (Note 8)	853,333.74	-
Accrued interest payable	306,631.67	-
Long-term liabilities, current portion (Notes 8 and 21)	2,316,217.91	82,222.20
Deposits held in custody for others	342,490.69	-
Other liabilities	109,716.33	-
Total current liabilities	21,790,700.03	520,815.55
Noncurrent liabilities:		
Net OPEB obligation (Note 12)	7,436,159.13	-
Net pension liability (Note 11)	14,269,753.83	-
Unearned revenue (Note 8)	100,000.00	-
Compensated absences (Note 8)	3,691,380.23	-
Long-term liabilities (Notes 8 and 21)	58,375,415.14	47,963.15
Due to grantors (Note 8)	908,630.55	-
Total noncurrent liabilities	84,781,338.88	47,963.15
Total liabilities	106,572,038.91	568,778.70
Deferred inflows of resources		
Deferred inflows related to pensions (Note 11)	3,081,899.00	-
Total deferred inflows of resources	3,081,899.00	-
Net position		
Net investment in capital assets	106,347,520.86	4,262,102.31
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	182,444.57	29,549,002.72
Research	-	546,948.69
Instructional department uses	-	2,630,775.79
Other	-	10,994,277.12
Expendable:		
Scholarships and fellowships	100,600.73	6,153,598.43
Research	1,809,798.64	180,139.52
Instructional department uses	482,934.97	1,840,938.19
Loans	328,777.57	-
Capital projects	159,716.92	1,426,834.51
Pensions	32,133.81	-
Other	875,367.63	9,840,129.60
Unrestricted	78,876,596.56	334,495.28
Total net position	$ 189,195,892.26	$ 67,759,242.16

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

Tennessee Board of Regents
TENNESSEE TECHNOLOGICAL 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 $41,158,710.18)	$59,370,858.04	$ -
Gifts and contributions	-	3,175,148.51
Governmental grants and contracts	7,899,985.54	-
Nongovernmental grants and contracts	395,369.82	-
Sales and services of educational activities	2,041,093.31	-
Sales and services of other activities	8,405,977.56	-
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $19,034.59)	11,963,796.32	-
Bookstore	581,283.05	-
Food service	2,070,651.26	-
Wellness facility (net of scholarship allowances of $2,702.91)	1,521,042.19	-
Other auxiliaries	458,859.57	-
Interest earned on loans to students	24,110.96	-
Other operating revenues	2,926.57	799,440.51
Total operating revenues	94,735,954.19	3,974,589.02
Expenses		
Operating expenses (Note 17):		
Salaries and wages	82,619,440.61	-
Benefits	28,910,082.33	-
Utilities, supplies, and other services	38,828,261.54	2,954,717.94
Scholarships and fellowships	12,551,762.55	1,899,853.50
Depreciation expense	7,128,434.66	-
Payments to or on behalf of Tennessee Technological University (Note 21)	-	1,558,043.99
Total operating expenses	170,037,981.69	6,412,615.43
Operating loss	(75,302,027.50)	(2,438,026.41)
Nonoperating revenues (expenses)		
State appropriations	43,065,487.50	-
Gifts, including $1,083,638.71 from component unit	1,233,088.80	-
Grants and contracts	36,665,549.00	-
Investment income (net of investment expense for the component unit of $287,048.94)	478,010.49	262,773.25
Interest on capital asset-related debt	(1,632,113.02)	-
Bond issuance costs	841.51	-
Other nonoperating revenues (expenses)	275,883.10	(163,285.48)
Total nonoperating revenues (expenses)	80,086,747.38	99,487.77
Income (loss) before other revenues, expenses, gains, or losses	4,784,719.88	(2,338,538.64)
Capital appropriations	1,975,428.60	-
Capital grants and gifts, including $474,405.28 from the component unit	7,393,881.22	3,920,346.59
Additions to permanent endowments	250.00	854,821.23
Total other revenues	9,369,559.82	4,775,167.82
Increase in net position	14,154,279.70	2,436,629.18
Net position - beginning of year	175,041,612.56	65,322,612.98
Net position - end of year	$ 189,195,892.26	$ 67,759,242.16

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

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

Cash flows from operating activities	
Tuition and fees	$57,102,252.12
Grants and contracts	8,417,951.14
Sales and services of educational activities	1,979,954.31
Sales and services of other activities	8,069,506.18
Payments to suppliers and vendors	(38,735,807.79)
Payments to employees	(82,534,127.33)
Payments for benefits	(30,614,697.52)
Payments for scholarships and fellowships	(12,550,372.91)
Loans issued to students	(430,474.82)
Collection of loans from students	272,101.41
Interest earned on loans to students	15,685.48
Auxiliary enterprise charges:	
Residence halls	12,026,617.58
Bookstore	500,665.28
Food services	1,891,523.47
Wellness facility	1,512,256.39
Other auxiliaries	445,347.58
Other receipts (payments)	3,073.57
Net cash used for operating activities	(72,628,545.86)
Cash flows from noncapital financing activities	
State appropriations	42,922,300.00
Gifts and grants received for other than capital or endowment purposes, including $1,083,638.71 from Tennessee Technological University Foundation	37,399,809.31
Private gifts for endowment purposes	250.00
Federal student loan receipts	35,434,407.00
Federal student loan disbursements	(35,590,585.00)
Changes in deposits held for others	(7,067.16)
Other noncapital financing receipts (payments)	283,899.67
Net cash provided by noncapital financing activities	80,443,013.82
Cash flows from capital and related financing activities	
Capital grants and gifts received	417,048.00
Proceeds from sale of capital assets	26,383.59
Purchases of capital assets and construction	(10,633,091.93)
Principal paid on capital debt	(2,219,118.09)
Interest paid on capital debt	(1,955,625.27)
Other capital and related financing receipts (payments)	(38,723.10)
Net cash used for capital and related financing activities	(14,403,126.80)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	63,228.12
Income on investments	478,504.68
Purchase of investments	(1,492.30)
Net cash provided by investing activities	540,240.50
Net decrease in cash and cash equivalents	(6,048,418.34)
Cash and cash equivalents - beginning of year	119,947,140.96
Cash and cash equivalents - end of year	$ 113,898,722.62

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

Reconciliation of operating loss to net cash provided used by operating activities:		
Operating loss		($75,302,027.50)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Noncash operating expenses		7,690,204.84
Change in assets, liabilities, and deferrals:		
Receivables, net		(1,221,536.87)
Inventories		4,649.63
Prepaid items		(493,640.09)
Net pension asset		(32,133.81)
Deferred outflows of resources - pensions		(2,427,402.84)
Net pension liability		7,097,597.83
Deferred inflows of resources - pensions		(7,252,065.00)
Accounts payable		(240,888.57)
Accrued liabilities		352,114.97
Unearned revenues		(850,407.88)
Deposits		(38,498.25)
Compensated absences		335,018.10
Due to grantors		(156,139.14)
Loans to students and employees		(93,391.28)
Net cash used by operating activities	$	(72,628,545.86)

Noncash investing, capital, or financing transactions		
Gifts in-kind - capital	$	6,976,833.22
Unrealized losses on investments	$	(3,248.01)
Loss on disposal of capital assets	$	(884.58)
Proceeds from capital debt issued by another party	$	5,385,934.25
Capital appropriations	$	2,034,684.62
Capital assets and construction purchased by other parties	$	7,021,305.94

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 Tennessee Technological University.

The Tennessee Technological 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 21 for more detailed information about the component unit.

Basis of Presentation

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

Basis of Accounting

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. All items are maintained on an average cost or first-in, first-out basis.

Compensated Absences

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

The amount of the liabilities for annual leave and compensatory time and their related benefits are reported in the statement of net position. There is no liability for unpaid accumulated sick leave since the university's policy is to pay this only if the employee dies or is absent because of illness, injury, or related family death.

Capital Assets

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

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

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

Pensions

For purposes of measuring the net pension liability (asset), 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

This classification includes demand deposits and petty cash on hand. At June 30, 2016, cash consisted of $13,055,660.24 in bank accounts, $8,140.00 of petty cash on hand, $81,636,513.13 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, $18,590,909.25 in LGIP deposits for capital projects, and $607,500.00 in escrow.

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	Less Than 1	1 to 5	6 to 10	More than 10	No Maturity Date
U.S. agencies	$142,055.35	$2,553.91	$35,186.53	$ -	$104,314.91	$ -
Collateralized mortgage obligation	144.18	144.18	-	-	-	-
Total debt investments	142,199.53	$2,698.09	$35,186.53	$ -	$104,314.91	$ -
Non-Fixed Income Investments						
Cash surrender value life insurance	17,012.09					
Total investments	$159,211.62					

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:

Investment Type	Balance	Credit Quality Rating Unrated
LGIP (amortized cost)	$100,227,422.38	$100,227,422.38
Collateralized mortgage obligation	144.18	144.18
Total	$100,227,566.56	$100,227,566.56

Investments of the university's endowment and similar funds were composed of the following:

Investments	Balance June 30, 2016
Collateralized mortgage obligation	$ 144.18
Local Government Investment Pool	342,027.10
Total	$342,171.28

Assets of endowment funds are pooled on a fair value basis, with each individual fund subscribing to or disposing of units on the basis of the value per unit fair value at the beginning of the calendar quarter within which the transaction takes place. At June 30, 2016, each unit had a fair value of $1.165564 and 177,131.16 units were owned by endowment, 7,671.56 units were owned by term endowment, and 108,764.33 units were owned by quasi-endowment.

The following tabulations summarize changes in relationships between cost and fair values of the pooled assets:

FY 2016	Pooled Assets			Fair
	Fair Value	Cost	Net Gains (Losses)	Value Per Unit
End of year	$342,171.28	$342,171.44	$(0.16)	$ 1.165564
Beginning of year	$341,638.78	$341,644.30	(5.52)	1.165825
Change in unit value				$(0.000261)
Unrealized net gains/(losses)			5.36	
Realized net gains/(losses)			-	
Total net gains/(losses)			$ 5.36	

The average annual earnings per unit, exclusive of net gains/(losses), were $0.002556 for the year ended June 30, 2016.

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					
U.S. agencies	$142,055.35	$ -	$142,055.35	$ -	$ -
Collateralized mortgage obligation	144.18	-	144.18	-	-
Total debt securities	142,199.53	-	142,199.53	-	-
Total assets at fair value	$142,199.53	$ -	$142,199.53	$ -	$ -

The table above includes all investments for the university with the exception of the cash surrender value life insurance of $17,012.09, which is not measured at fair value, which is recorded at cash surrender value.

Assets classified in Level 2 of the fair value hierarchy are valued using the *Wall Street Journal* and statements from investment companies.

Note 5. Receivables

Receivables at June 30, 2016, included the following:

Student accounts receivable	$2,699,733.34
Grants receivable	1,267,463.16
Notes receivable	111,184.64
Federal direct loans receivable	2,120,274.00
Other receivables	1,262,872.94
Subtotal	7,461,528.08
Less allowance for doubtful accounts	(567,560.64)
Total receivables	$6,893,967.44

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

Perkins loans receivable	$1,145,043.09
Less allowance for doubtful accounts	(121,856.61)
Total	$1,023,186.48

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	$ 4,404,125.62	$ 4,606,767.14	$ -	$ -	$ 9,010,892.76
Land improvements and infrastructure	22,024,706.54	1,359,288.80	3,095,884.15	-	26,479,879.49
Buildings	195,799,171.77	8,195,433.11	17,653,400.81	-	221,648,005.69
Equipment	27,784,430.91	2,331,178.55	172,753.10	599,022.94	29,689,339.62
Library holdings	2,943,888.30	219,322.34	-	483,097.14	2,680,113.50
Intangible assets	3,988,129.51	-	221,950.02	-	4,210,079.53
Art and historical collections	26,010.45	-	-	-	26,010.45
Projects in progress	13,592,213.67	11,206,302.98	(21,143,988.08)	-	3,654,528.57
Total	270,562,676.77	27,918,292.92	-	1,082,120.08	297,398,849.61
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	10,336,590.32	1,246,084.82	-	-	11,582,675.14
Buildings	87,919,194.04	5,931,114.01	-	-	93,850,308.05

Equipment	19,503,691.65	1,983,273.56	-	591,108.36	20,895,856.85
Library holdings	1,760,436.11	268,011.35	-	483,097.14	1,545,350.32
Intangible assets	2,834,374.39	398,113.48	-	-	3,232,487.87
Total	122,354,286.51	9,826,597.22	-	1,074,205.50	131,106,678.23
Capital assets, net	$148,208,390.26	$18,091,695.70	$ -	$ 7,914.58	$166,292,171.38

Current year additions to accumulated depreciation include $2,698,162.56 in accumulated depreciation from depreciated property transferred from another Tennessee Board of Regents institution. Current year depreciation expense is $7,128,434.66.

Note 7. Accounts Payable

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

Vendors payable	$4,239,572.72
Unapplied student payments	65,813.53
Total accounts payable	$4,305,386.25

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	$38,818,669.70	$ -	$2,219,118.09	$36,599,551.61	$2,316,217.91
Unamortized bond premium	5,521,663.14	-	412,723.65	5,108,939.49	-
Revolving credit facility	13,597,207.70	5,385,934.25	-	18,983,141.95	-
Subtotal	57,937,540.54	5,385,934.25	2,631,841.74	60,691,633.05	2,316,217.91
Other liabilities:					
Compensated absences	4,209,695.87	2,863,892.68	2,528,874.58	4,544,713.97	853,333.74
Due to grantors	1,064,769.69	-	156,139.14	908,630.55	-

Unearned revenue	4,745,957.45	3,775,549.57	4,625,957.45	3,895,549.57	3,795,549.57
Subtotal	10,020,423.01	6,639,442.25	7,310,971.17	9,348,894.09	4,648,883.31
Total long-term liabilities	$67,957,963.55	$12,025,376.50	$9,942,812.91	$70,040,527.14	$6,965,101.22

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 0.65% to 5%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to November 2033 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 TSSBA 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 $2,072,014.47 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	$ 2,316,217.91	$ 1,754,691.30	$ 4,070,909.21
2018	2,160,020.18	1,663,877.64	3,823,897.82
2019	2,357,063.65	1,549,653.98	3,906,717.63
2020	2,458,537.37	1,409,552.22	3,868,089.59
2021	2,576,774.64	1,293,091.23	3,869,865.87
2022 – 2026	12,881,051.59	4,708,326.71	17,589,378.30
2027 – 2031	9,803,051.85	1,865,393.19	11,668,445.04
2032 – 2034	2,046,834.42	130,693.51	2,177,527.93
Total	$36,599,551.61	$14,375,279.78	$50,974,831.39

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 was $18,983,141.95 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, only realized gains have been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2016, net appreciation of $175,961.96 is available to be spent, of which $5,863.43 is included in restricted net position expendable for scholarships and fellowships, $5,059.35 is included in restricted net position expendable for instructional departmental uses, $27,259.16 is included in restricted net position expendable for loans, $11,618.99 is included in restricted net position expendable for other, and $126,161.03 is included in unrestricted net position.

Note 10. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $36,599,551.61 in revenue bonds issued from January 2007 to May 2015 (see Note 8 for further detail). Proceeds from the bonds provided financing for student housing, conditioning center, and energy upgrades. The bonds are payable through 2033. Annual principal and interest payments on the bonds are expected to require 2.3% of available revenues. The total principal and interest remaining to be paid on the bonds is $50,974,831.39. Principal and interest paid for the current year and total available revenues were $4,138,052.97 and $167,933,791.95, 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 $4,252,591.24, 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 $14,269,753.83 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 1.106798%. The proportion measured as of June 30, 2014 was 1.039520%.

Pension expense – For the year ended June 30, 2016, the university recognized a pension expense of $1,761,019.

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	$1,509,974.00	$1,235,527.00
Net difference between projected and actual earnings on pension plan investments	-	1,834,417.00
Changes in proportion of net pension liability	906,399.00	-
Tennessee Technological University's contributions subsequent to the measurement date of June 30, 2015	4,252,591.24	-
Total	$6,668,964.24	$3,069,944.00

Deferred outflows of resources, resulting from the university's employer contributions of $4,252,591.24 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	$ (851,067)
2018	$ (851,067)
2019	$ (851,067)
2020	$1,899,628

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)	$33,436,209.00	$14,269,753.83	$(1,883,878.00)

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 $329,071.70 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.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. University employees contribute 5% of their salary to the State and Higher Education 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 $146,324.06, 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

Pension asset – At June 30, 2016, the university reported an asset of $32,133.81 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 1.155489%, representing the first-time presentation of this proportion.

Pension expense – For the year ended June 30, 2016, the university recognized a pension expense of $26,653.

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	$ -	$11,955.00
Net difference between projected and actual earnings on pension plan investments	1,864.00	-
Tennessee Technological University's contributions subsequent to the measurement date of June 30, 2015	146,324.06	-
Total	$148,188.06	$11,955.00

Deferred outflows of resources, resulting from the university's employer contributions of $146,324.06 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	$(1,028)
2018	$(1,028)
2019	$(1,028)
2020	$(1,028)
2021	$(1,494)
Thereafter	$(4,483)

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)	$(12,624.00)	$(32,133.81)	$(46,734.00)

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 $17,225.32 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 $1,787,672.

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 $3,918,013.04 for the year ended June 30, 2016, and $3,881,017.47 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 are 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 $1,673,841.54 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $696,929.81 for employer contributions. During the year ended June 30, 2015, contributions totaling $2,848,321.21 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $552,220.82 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 19. 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 Tennessee Technological 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)	$1,764,000.00
Interest on the net OPEB obligation	268,168.54
Adjustment to the ARC	(269,245.52)
Annual OPEB cost	1,762,923.02
Amount of contribution	(1,477,924.97)
Increase in net OPEB obligation	284,998.05
Net OPEB obligation – beginning of year	7,151,161.08
Net OPEB obligation – end of year	$7,436,159.13

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	$1,762,923.02	83.83%	$7,436,159.13
June 30, 2015	State Employee Group Plan	$1,721,112.31	85.57 %	$7,151,161.08
June 30, 2014	State Employee Group Plan	$1,662,741.65	78.36 %	$6,902,759.84

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)	$15,059,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$15,059,000.00
Actuarial value of assets as a percentage of the AAL	0.0%
Covered payroll (active plan members)	$56,487,773.69
UAAL as percentage of covered payroll	26.66%

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 $627,973,827.78 for buildings and $117,451,600.00 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 $31,597,068.75 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 $254,608.26 and expenses for personal property were $289,261.17 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 $11,036,465.41 for Roaden University Center upgrades, new fitness center, residential hall upgrades, new science building, and various other building and infrastructure upgrades of which $122,338.59 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 $6,386,104.67 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. Funds Held in Trust by Others

The university is a beneficiary under the William Jenkins Estate Account. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received $5,707.91 from these funds during the year ended June 30, 2016.

Note 17. 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	$42,343,449.40	$14,527,854.33	$ 9,813,752.35	$ -	$ -	$ 66,685,056.08
Research	4,450,228.73	1,413,520.51	2,670,988.70	-	-	8,534,737.94
Public service	2,216,721.40	724,295.82	1,802,102.67	-	-	4,743,119.89
Academic support	9,614,064.01	3,442,495.13	(1,285,883.73)	-	-	11,770,675.41
Student services	9,669,456.72	3,703,515.87	6,891,649.81	-	-	20,264,622.40
Institutional support	8,580,058.23	2,818,562.50	3,086,484.00	-	-	14,485,104.73
Maintenance and operation	3,653,837.14	1,683,042.68	12,011,950.85	-	-	17,348,830.67
Scholarships and fellowships	-	-	-	12,551,762.55	-	12,551,762.55
Auxiliary	2,091,624.98	596,795.49	3,837,216.89	-	-	6,525,637.36
Depreciation	-	-	-	-	7,128,434.66	7,128,434.66
Total	$82,619,440.61	$28,910,082.33	$38,828,261.54	$12,551,762.55	$7,128,434.66	$170,037,981.69

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 $6,022,765.79 were reallocated from academic support to the other functional areas and caused academic support operating expenses to appear as a negative amount in the schedule above.

Note 18. Affiliated Entity Not Included

The TTU Agricultural Foundation is a private, nonprofit foundation with the university as the sole beneficiary. The TTU Agricultural Foundation is controlled by a board independent of the university. The financial records, investments, and other financial transactions are handled external to the university and these amounts are not included in the university's financial report. As reported in the foundation's most recently audited financial report, at June 30, 2015, the assets of the foundation totaled $749,366.42, deferred outflows of resources were $0.00, liabilities were $0.00, deferred inflows of resources were $0.00, and the net position amounted to $749,366.42.

The Bryan Symphony Orchestra Association at Tennessee Technological University, Inc. (BSOA) is a nonprofit 501(c)(3) organization controlled by a board independent of the university. The mission of the BSOA is to provide an orchestra of the highest artistic standards, provide educational experiences for a diverse audience, and serve as a leader and a continuing force in the Upper Cumberland region. BSOA provides support to the Bryan Symphony Orchestra jointly with Tennessee Technological University. The financial records and transactions are handled external to the university. As reported in the BSOA's most recently audited financial report, at June 30, 2015, the assets of the BSOA totaled $165,229.00, liabilities were $45,465.00, and the net position amounted to $119,764.00. These amounts are not included in the university's financial report.

The Friends of the Appalachian Center for Crafts of Tennessee (FACCT) is a nonprofit 501(c)(3) that promotes and supports educational art and craft outreach activities. FACCT is controlled by a board independent of the university. FACCT provides non-monetary support to the Tennessee Technological University Craft Center through marketing and other promotional activities. FACCT is currently inactive. The financial records and transactions are handled external to the university. These amounts are not included in the university's financial report.

Note 19. On-behalf Payments

During the year ended June 30, 2016, the State of Tennessee made payments of $143,187.50 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 20. 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 21. Component Unit

The Tennessee Technological University Foundation is a legally separate, tax-exempt organization supporting Tennessee Technological 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 22-member board of the foundation is self-perpetuating and consists of graduates and friends of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements.

During the year ended June 30, 2016, the foundation made distributions of $1,558,043.99 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Tennessee Technological University, Office of the Vice President for Planning and Finance, P.O. Box 5037, Cookeville, TN 38505.

Cash and Cash Equivalents

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2016, cash and cash equivalents consists of $6,851.36 in custodial accounts of investment managers of the foundation, $225,000.00 of cash on deposit with others, and $10,641.48 in escrow.

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. The foundation is authorized to invest funds in accordance with its board of directors' policies.

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

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

		Investment Maturities (in Years)	
Investment Type	Fair Value	1 to 5	No Maturity Date
U.S. Treasury	$ 13,183.60	$13,183.60	$ -
Mutual bond funds	17,817,234.00	-	17,817,234.00
Total debt investments	17,830,417.60	$13,183.60	$17,817,234.00
Non-fixed income investments			
Corporate stocks	318,106.75		
Mutual equity funds	36,939,072.69		
Other			
Private equity	1,611,738.00		
Natural resources	457,392.00		
Land	1,903,982.00		
Cash surrender value life insurance	21,225.86		
Hedge fund	2,008,710.20		
Marketable alternative strategies	2,498,795.00		
Total investments	$63,589,440.10		

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

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

Investment Type	Fair Value	Credit Quality Rating Unrated
Mutual bond funds	$17,817,234.00	$17,817,234.00
Total	$17,817,234.00	$17,817,234.00

Custodial credit risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The foundation does not have a policy for custodial credit risk.

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

Investments of the foundation's endowment and similar funds are composed of the following:

Investments	Fair Value June 30, 2016
Investment manager custodial accounts	$ 2,455.33
Mutual Funds	54,504,961.26
Other:	
Real estate	1,903,982.00
Private equity funds	1,611,738.00
Natural resources funds	457,392.00
Hedge funds	2,008,710.20
Marketable alternative strategies	2,498,795.00
Total	$62,988,033.79

Assets of endowment funds are pooled on a fair value basis, with each individual fund subscribing to or disposing of units on the basis of the value per unit fair value at the beginning of the calendar quarter within which the transaction takes place. Of the total units at June 30, 2016, each having a fair value of $100.470701, 522,823.5236 units were owned by permanent endowments, 24,585.7754 units were owned by quasi-endowments, and 79,520.0744 units were owned by non-endowment operating accounts.

The following tabulations summarize changes in relationships between cost and fair values of the pooled assets:

FY 2016	Pooled Assets			
	Fair Value	Cost	Net Gains (Losses)	Fair Value Per Unit
End of year	$62,988,033.79	$64,570,012.48	$(1,581,978.69)	$100.470701
Beginning of year	$64,865,813.69	$65,220,920.07	(355,106.38)	106.464369
Change in unit value				$ (5.993668)
Unrealized net losses			(1,226,872.31)	
Realized net gains			-	
Total net losses			$(1,226,872.31)	

The average annual earnings per unit, exclusive of net gains/losses, were $2.406440 for the year ended June 30, 2016.

Alternative investments - The foundation has investments in a hedge fund, an alternative marketable investment, two private equity funds, and a natural resources fund. The estimated fair value of these assets is $6,576,635.20 at June 30, 2016. The largest funds are the hedge fund and alternative marketable investment, which represent 7.07% of the total portfolio of investments and 68.54% of all alternative investments. The private equity and natural resources funds represent 3.25% of portfolio assets and 31.46% of all alternative investments.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2016. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy 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.

The fair values for alternative investments are estimated using various valuation techniques. At June 30, 2016, the hedge fund and alternative marketable investment fund investments were valued at the net asset values as determined by the portfolio managers. All funds are issued audited financial statements on a calendar year basis or June 30 fiscal year end depending on the fund. To determine the fair value of the private equity and natural resources funds, those audited fair values are used as a beginning point, and valuations are adjusted for net capital activity and marketplace considerations to ascertain the reasonableness of estimated fair values provided by the portfolio managers. The Commonfund Capital Partners VI, LP fund has a fair value of $290,000.00 at June 30, 2016. There are no audited statements available at June 30, 2016, since its inception date was December 23, 2015.

Fair Value Measurement

The foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The university has the following recurring fair value measurements as of June 30, 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					
U.S. Treasuries	$ 13,183.60	$ 13,183.60	$ -	$ -	$ -
Mutual bond funds	17,817,234.00	18,375.09	-	-	17,798,858.91
Total debt securities	17,830,417.60	31,558.69	-	-	17,798,858.91
Equity securities					
Corporate stock	318,106.75	273,106.75	-	45,000.00	-
Mutual equity funds	36,939,072.69	232,970.34	-	-	36,706,102.35
Real estate	1,903,982.00	-	-	1,903,982.00	-
Private equities	1,611,738.00	-	-	-	1,611,738.00
Hedge funds	2,008,710.20	-	-	-	2,008,710.20
Natural resources	457,392.00	-	-	-	457,392.00
Marketable alternative strategies	2,498,795.00	-	-	-	2,498,795.00
Total equity securities	45,737,796.64	506,077.09	-	1,948,982.00	43,282,737.55
Total assets at fair value	$63,568,214.24	$537,635.78	$ -	$1,948,982.00	$61,081,596.46

The table above includes all investments for the foundation with the exception of the cash surrender value of life insurance of $21,225.86, which is not measured at fair value.

Assets and liabilities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Assets and liabilities classified in Level 3 are valued using public auction and most recent sale prices for assets not on an active market.

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

Assets and Liabilities Measured at the NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Mutual bond funds				
Multi-Strategy Bond Fund	$17,798,858.91	$ -	Monthly	5 business days
Mutual equity funds				
Equity Index Fund	$ 2,879,890.55	$ -	Daily	By 3:00 pm EST
Multi-Strategy Commodities Fund	$ 1,469,703.85	$ -	Monthly	5 business days
Multi-Strategy Equity Fund	$32,356,507.95	$ -	Monthly	5 business days
Hedge funds				
Multi-Strategy Global Hedged Partners	$ 2,008,710.20	$ -	Semi-annually	90 calendar days
Marketable alternative strategies				
Global Absolute Alpha Company	$ 2,498,795.00	$ -	Semi-annually	95 calendar days
Private equities				

Capital Partners V	$ 1,321,738.00	$ 920,000.00	Not applicable	Not applicable
Capital Partners VI	$ 290,000.00	$2,610,000.00	Not applicable	Not applicable
Natural resources				
Natural resources IX	$ 457,392.00	$ 434,625.00	Not applicable	Not applicable

The unfunded commitments listed above are due over the next several years with no set call dates. Two commitments totaling $1,354,625 terminate in May and December 2026. The third commitment of $2,610,000 terminates in December 2030. The termination dates include a three-year extension that most often is exercised by the general partner.

The following summarizes specific information about the above investments:

The Multi-Strategy Bond Fund's investment strategies include global bond and credit strategies. The Equity Index Fund focuses on domestic equities when strategizing investments. The Multi-Strategy Commodities Fund's investment strategy is global macro/CTA. The Multi-Strategy Equity Fund ranges from international equity to domestic and hedged equities on investment strategy. The Multi-Strategy Global Hedged Partners also has various investment strategies, including hedged equity, credit, event driven, and global macro/CTA. The Commonfund Global Absolute Alpha Company strategizes in hedged equity, credit, event driven, and multi-strategy investments. No funds were gated for any of these investments as of June 30, 2015 (date of last available audited financial statements). The private equities' investment strategies vary among many equity industries, including services, manufacturing, and consumer related. The natural resources investment strategies include allocations among energy, mining, and utilities. The funds themselves are liquidated when all underlying assets are liquidated. There is no exact date for this liquidation and will likely be after the termination date given in the previous paragraph. It is unlikely that any investment listed above will be sold for an amount different from the NAV per share.

Capital Assets

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

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$149,600.00	$3,523,224.49	$93,000.00	$3,579,824.49
Land improvements and infrastructure	-	144,292.93	-	144,292.93
Buildings	-	521,300.00	-	521,300.00
Equipment	-	7,856.86	-	7,856.86
Intangible assets	261,685.25	-	-	261,685.25
Art and historical collections	-	17,919.59	-	17,919.59
Total	411,285.25	4,214,593.87	93,000.00	4,532,879.12

Less accumulated depreciation/amortization:				
Land improvements and infrastructure	-	2,774.86	-	2,774.86
Buildings	-	5,923.86	-	5,923.86
Equipment	-	392.84	-	392.84
Intangible assets	261,685.25	-	-	261,685.25
Total	261,685.25	9,091.56	-	270,776.81
Capital assets, net	$149,600.00	$4,205,502.31	$93,000.00	$4,262,102.31

Due to the Golden Eagle Golf Club not being an operating activity of the foundation, total depreciation of $9,091.56 is included in other nonoperating revenues and expenses in the statement of revenues, expenses, and changes in net position.

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:					
Notes	$212,407.55	$ -	$82,222.20	$130,185.35	$82,222.20

Notes payable – The foundation borrowed funds to gift to the university to help build the Center for Science, Technology, Engineering, and Mathematics building. The note is interest-free, with payments of $6,851.85 due monthly through January 2018. The balance owed was $130,185.35 at June 30, 2016.

Debt service requirements to maturity for notes payable at June 30, 2016, are as follows:

Year Ending June 30	Principal
2017	$ 82,222.20
2018	47,963.15
Total	$130,185.35

Endowments

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

The foundation chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, a percentage (as defined by the foundation) of the book value of the endowment or a percentage of the actual earnings as designated by the donor has been authorized for expenditure. The remaining amount, if any, becomes part of the permanent endowment.

Funds Held in Trust by Others

The foundation is a beneficiary under the CTC Charitable Lead Trust and the Odom 2nd Chance Trust. The underlying assets are not considered assets of the foundation and are not included in the foundation's financial statements. The foundation received $74,032.86 from these funds during the fiscal year ended June 30, 2016.

Tennessee Board of Regents

TENNESSEE TECHNOLOGICAL UNIVERSITY

Required Supplementary Information

Schedule of Tennessee Technological 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	1.106798%	1.03952%
University's proportionate share of the net pension liability	$14,269,753.83	$ 7,172,156.00
University's covered payroll	$28,900,959.00	$28,398,868.00
University's proportionate share of the net pension liability as a percentage of its covered payroll	49.37%	25.26%
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
TENNESSEE TECHNOLOGICAL UNIVERSITY
Required Supplementary Information
Schedule of Tennessee Technological 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	1.155489%
University's proportionate share of the net pension asset	$ 32,134.00
University's covered payroll	$1,258,292.00
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
TENNESSEE TECHNOLOGICAL UNIVERSITY
Required Supplementary Information
Schedule of Tennessee Technological University's Contributions
Closed State and Higher Education Employee Pension Plan Within TCRS

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2016	$4,252,591.24	$4,252,591.24	$ -	$28,294,020.23	15.03%
2015	4,343,814.00	4,343,814.00	-	28,900,959.00	15.03%
2014	4,268,348.00	4,268,348.00	-	28,398,868.00	15.03%
2013	3,817,723.28	3,817,723.28	-	25,400,687.16	15.03%
2012	3,667,032.54	3,667,032.54	-	24,594,450.30	14.91%
2011	3,499,531.11	3,499,531.11	-	23,471,033.60	14.91%
2010	3,038,943.48	3,038,943.48	-	23,340,579.72	13.02%
2009	3,320,996.40	3,320,996.40	-	25,506,884.79	13.02%
2008	3,371,880.21	3,371,880.21	-	24,756,829.74	13.62%
2007	3,361,727.03	3,361,727.03	-	24,610,007.54	13.66%

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

	2016	2015
Contractually determined contribution	$ 146,324.06	$ 48,695.81
Contributions in relation to the contractually determined contribution	146,324.06	48,695.81
Contribution deficiency (excess)	$ -	$ -
Covered payroll	$3,788,706.68	$1,258,292.25
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
TENNESSEE TECHNOLOGICAL 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	$ -	$15,059,000.00	$15,059,000.00	0%	$56,487,773.69	26.66%
July 1, 2013	State Employee Group Plan	$ -	$15,220,000.00	$15,220,000.00	0%	$53,779,701.96	28.30%
July 1, 2011	State Employee Group Plan	$ -	$17,870,000.00	$17,870,000.00	0%	$48,082,261.00	37.17%

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

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

Cash flows from operating activities	
Gifts and contributions	$ 3,115,839.28
Payments to suppliers and vendors	(2,883,345.41)
Payments for scholarships and fellowships	(1,899,853.50)
Payments to Tennessee Technological University	(1,083,638.71)
Other receipts (payments)	763,561.83
Net cash used for operating activities	(1,987,436.51)
Cash flows from noncapital financing activities	
Private gifts for endowment purposes	854,821.23
Net cash provided by noncapital financing activities	854,821.23
Cash flows from capital and related financing activities	
Capital grants and gifts received	15,065.00
Proceeds from sale of capital assets	54,925.00
Purchases of capital assets and construction	(851,119.89)
Principal paid on capital debt	(82,222.20)
Other capital and related financing receipts (payments)	(1,644.45)
Net cash used for capital and related financing activities	(864,996.54)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	7,131,664.97
Income on investments	1,612,854.38
Purchases of investments	(12,454,455.75)
Net cash used for investing activities	(3,709,936.40)
Net decrease in cash and cash equivalents	(5,707,548.22)
Cash and cash equivalents - beginning of year	5,950,041.06
Cash and cash equivalents - end of year	$ 242,492.84
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	($2,438,026.41)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Gifts in-kind	474,405.28
Other adjustments	(80,694.18)
Changes in assets and liabilities:	
Receivables	(6,565.84)
Inventories	(13,536.43)
Prepaid items	(25,033.67)
Accounts payable	22,398.35
Unearned revenues	32,355.70
Loans to students	4,000.00
Other	43,260.69
Net cash used by operating activities	($1,987,436.51)
Noncash investing, capital, or financing transactions	
Gifts in-kind - capital	$ 3,905,281.59
Unrealized losses on investments	$ (1,255,382.86)
Loss on disposal of capital assets	$ (38,075.00)

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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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. Philip B. Oldham, President

We have audited the financial statements of Tennessee Technological 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 November 30, 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
November 30, 2016