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, 2015

Justin P. Wilson, Comptroller

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The mission of the Comptroller's Office is to improve the quality of life for all Tennesseans by making government work better.

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STATE OF TENNESSEE
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January 14, 2016

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, 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, 2015. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

15/064

Audit Report
Tennessee Board of Regents
Tennessee Technological University
For the Year Ended June 30, 2015

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Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

The university did not provide adequate internal controls in one specific area
The university did not design and monitor internal controls in a specific area. We observed a condition that was in violation of industry-accepted best practices. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated* (page 58).

The university's financial aid office understated to the Department of Education returns of Title IV student financial aid of students who withdrew from classes
Tennessee Technological University did not correctly return to the U.S. Department of Education Title IV student financial aid of students who withdrew from classes (page 58).

STATE OF TENNESSEE
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Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, 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, 2015, 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, 2015, 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, 2015, and the changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 20, the university implemented Governmental Accounting Standards Board Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*; and Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date,* during the year ended June 30, 2015. 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 $3,409,184.52 (5.2% 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 16, the schedule of funding progress on page 51, 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 52, the schedule of Tennessee Technological University's contributions for the Closed State and Higher Education Employee Pension Plan within TCRS on page 53, and the schedule of Tennessee Technological University's contributions for the State and Higher Education

Employee Retirement Plan within TCRS on page 54 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 schedule of cash flows – component unit on page 55 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The 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 schedule of cash flows – component unit is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2015, on our consideration of the university's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the university's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
December 11, 2015

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, 2015, with comparative information presented for the fiscal years ended June 30, 2014. 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, 2015, and June 30, 2014.

Summary of Net Position
(in thousands of dollars)

	2015	2014
Assets:		
Current assets	$ 48,736	$ 47,404
Capital assets, net	147,022	131,018
Other assets	79,992	71,061
Total assets	275,750	249,483
Deferred outflows of resources:		
Deferred outflows	5,234	69
Total deferred outflows	5,234	69
Liabilities:		
Current liabilities	21,055	18,187
Noncurrent liabilities	74,553	59,576
Total liabilities	95,608	77,763

Deferred inflows of resources:		
Other deferred inflows	10,334	-
Total deferred inflows	10,334	-
Net Position:		
Net investment in capital assets	89,928	80,982
Restricted – nonexpendable	182	177
Restricted – expendable	3,948	3,779
Unrestricted	80,984	86,851
Total net position	$175,042	$171,789

- Assets of the university increased 10.5% from 2014 to 2015. Current assets increased 2.8%, capital assets increased 12.2%, and other assets increased 12.6%.

- Capital assets increased $16,004,075 (12.2%). Construction upgrades to Tech Village student apartments, residential halls, academic buildings, land purchases, and other improvements accounted for $19,805,712 in new assets. New software projects were $232,945. Equipment purchases and library holding investments were $2,310,041. The value of capital assets was reduced by current year depreciation expense and equipment and library holding disposals. See Note 5 to the financial statements.

- The primary increase in other assets is an increase in noncurrent cash of $9,204,536. Unrestricted E&G funds in the amount of $11,150,426 were transferred to plant funds for various maintenance and capital projects. Auxiliary profits of $7,188,511 were designated for renewal and replacement reserves. These transfers less current year plant expenses resulted in the noncurrent cash increase.

- Deferred outflows of resources increased $5,164,610. This is due to an increased unamortized loss on debt refunding of $774,861. There were five bonds refunded in 2015. See Note 7 to the financial statements. The remaining increase is due to the implementation of GASB 68 for pensions. The deferred outflow of resources related to pensions at June 30 is $4,389,749. See Note 10 to the financial statements for more pension information.

- Total liabilities increased 22.9% with current liabilities increasing 15.8% and noncurrent liabilities increasing 25.1%.

- Current liabilities increased 15.8% primarily due to a $2,563,584 increase in accrued liabilities. Accrued liabilities increased $1,969,172 due to the timing of tax deposits made the first of the new fiscal year. Retirement transfers of $353,869 for TCRS were not made until July. Accrued liabilities also increased due to an increase in accrued salaries of $149,959 and accrued royalties of $275,186. Unearned revenue increased by $372,763 due to an approximate 6% tuition increase. Current portion of long-term debt increased $112,569 due to more debt-funded projects over the past few years.

- Noncurrent liabilities increased 25.1%, primarily as the result of a $7,720,618 increase in long-term debt and an increase of $7,172,156 in net pension liability. Additional borrowings on student housing upgrade projects were $9,375,870. See Note 7 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 $248,401. For the current year, GASB 68 for pensions was implemented, resulting in the net pension liability at June 30 of $7,172,156. See Note 10 to the financial statements for additional pension information.

- Deferred inflows of resources increased $10,333,964 due to the implementation of GASB 68 on pensions. See Note 10 to the financial statements for additional pension information.
- Net position increased only slightly at 1.9% from 2014 to 2015. Although there was a $19,785,847 excess of total revenues over expenses, the total change was minimal due to an offset of $16,437,561 for the cumulative effect of a change in accounting principal with the implementation of GASB 68 for pensions. See Note 20 to the financial statements.
- Net investments in capital assets increased $8,945,748 (11.0%) as discussed in the capital asset and debt administration section of this Management's Discussion and Analysis.
- Restricted expendable for other increased $154,094 due to an increase in foundation funds of $61,333 for use in unexpended plant projects and a $92,761 increase in externally funded grants for other.
- Unrestricted net position decreased $5,866,938 (6.8%) due to the implementation of GASB 68. The effect at June 30, 2015, of the implementation of GASB 68 was a $13,116,370 decrease to net position. This amount was offset by auxiliary profits of $7,188,511 being designated for renewal and replacement reserves. These transfers less current year plant expenses resulted in the net increase.

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 years ended June 30, 2015, and June 30, 2014, follows.

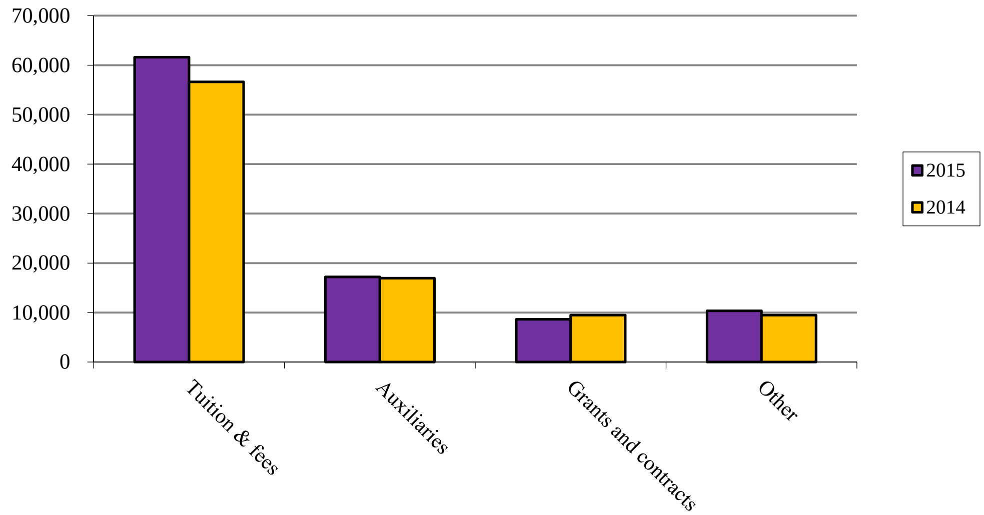
Summary of Revenues, Expenses, and Changes in Net Position
(in thousands of dollars)

	2015	2014
Operating revenues	$ 97,842	$ 92,500
Operating expenses	163,381	162,804
Operating loss	(65,539)	(70,304)
Nonoperating revenues and expenses	80,823	81,859
Income before other revenues, expenses, gains, or losses	15,284	11,555
Other revenues, expenses, gains, or losses	4,502	3,586
Increase in net position	19,786	15,141
Net position at beginning of year	171,789	156,648
Cumulative effect of change in accounting principle	(16,437)	-
Net position at beginning of year, restated	155,352	171,789
Prior period adjustment	(96)	-
Net position at end of year	$175,042	$171,789

Operating Revenues

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

Operating Revenues by Source
(in thousands of dollars)



Comparison of FY 2015 to FY 2014

- Operating revenues of the university increased 5.8%. Net tuition and fees increased 8.8%, auxiliary revenues increased 1.6%, grants and contracts decreased 8.7%, and other increased 9.4%.

- Tuition and fees net of the scholarship allowance increased $5,000,467 due to a tuition increase of approximately 6% for in-state students and an approximate 2% increase for out-of-state students. FTE enrollment increased approximately 1% for undergraduate students. In-state tuition increased $4,426,974 (6.6%). Out-of-state tuition increased $1,612,795 (10.1%), primarily from an increase in international student enrollment. A new debt service fee for a student recreation and fitness center increased revenue by $928,432. Revenues from academic course fees dedicated to specific high-cost programs increased by $614,479 (25.3%) due to increases in enrollment, rates, and expansion of covered classes. The remaining difference is primarily due to the scholarship allowance increasing.

- Auxiliary revenues had an insignificant change of 1.6%.

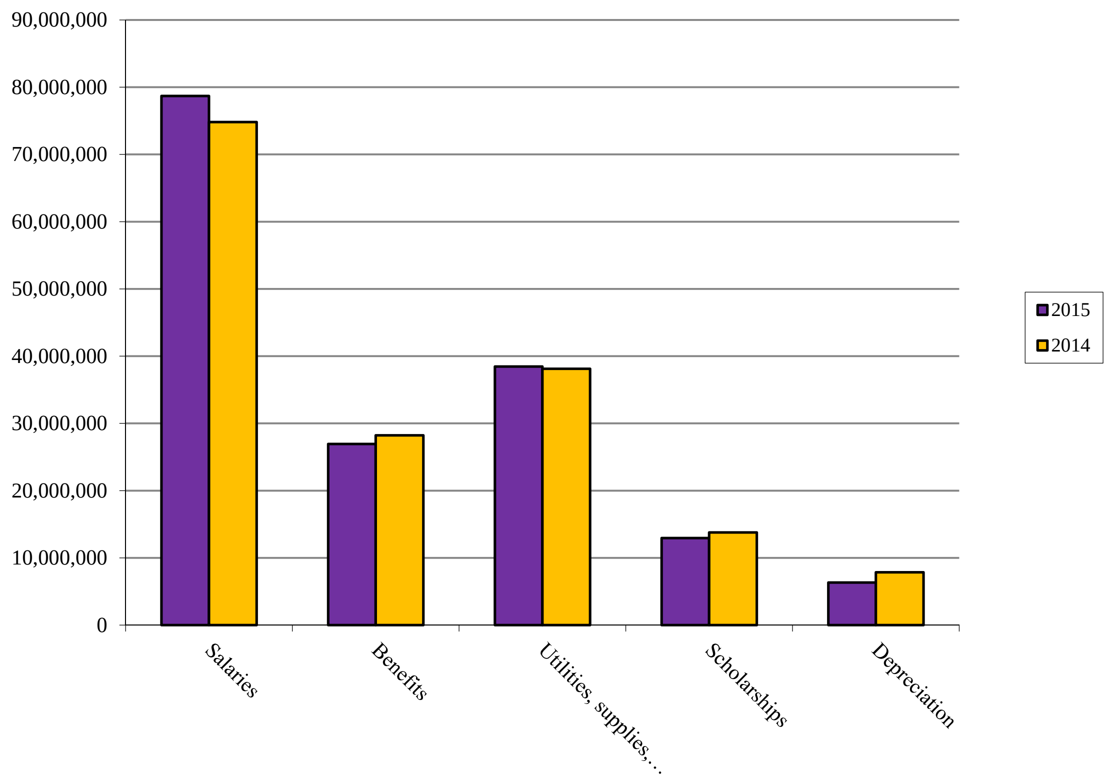
- Grants and contracts have decreased 8.7% due to a reduced level of federally funded research projects.

- Other operating revenues increased by $892,038 (9.4%). The Child Development Lab revenue increased $171,472 due to an enrollment and fee increase. Income related to federal programs increased $140,083. The remaining increase was due to an increase in the Student Athletic Fee of $615,828. The remaining difference encompasses several minor decreases.

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:

Operating Expenses
(in thousands of dollars)



Comparison of FY 2015 to FY 2014

- Operating expenses increased $576,821 (0.35%) from 2014 to 2015.
- Salaries increased $3,874,512 (5.2%) 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 $273,564. Compensation plan adjustments and faculty promotions were approximately another $198,298. The remainder was due to an increase in the number of strategically placed positions, adjuncts, and student salaries.
- Faculty and academic salaries increased $1,764,853. Filled faculty positions increased 3.6% from Fall 2013 to Fall 2014. Summer school and adjuncts increased $714,646.

- Administrative salaries increased $347,674 due to the appointment of new strategic senior level positions for research and student services along with the ATB.
- Professional Support salaries increased $1,833,271 due to the ATB and appointment of several new positions to align emphasis on information technology services, advisement, retention, athletics, and human resources.
- Benefits decreased $1,269,447 (4.5%). Retirement expenses decreased $2,934,384 (37.0%). Employee health insurance increased $775,707 (7.1%). Employee fee waivers included in benefits also increased $661,091. The fee waiver increase is due to an emphasis in the number of graduate student placements. The decrease is due to the implementation of GASB 68 that resulted in current year contributions not being expensed and the actuarial expense of the defined benefit plan being implemented. See Note 10 to the financial statements.
- Utilities, supplies, and other services had an insignificant increase of $326,176 (.86%).
- Scholarship expense decreased $836,671 (6.1%) due to an increase in the amount of student financial aid that is classified as discount allowance against revenue.
- Depreciation decreased $1,517,749 (19.3%) in FY 2015 compared to FY 2014 due to the change in estimated useful lives of buildings from 40 years to 60 years. See Note 5 of the financial statements.

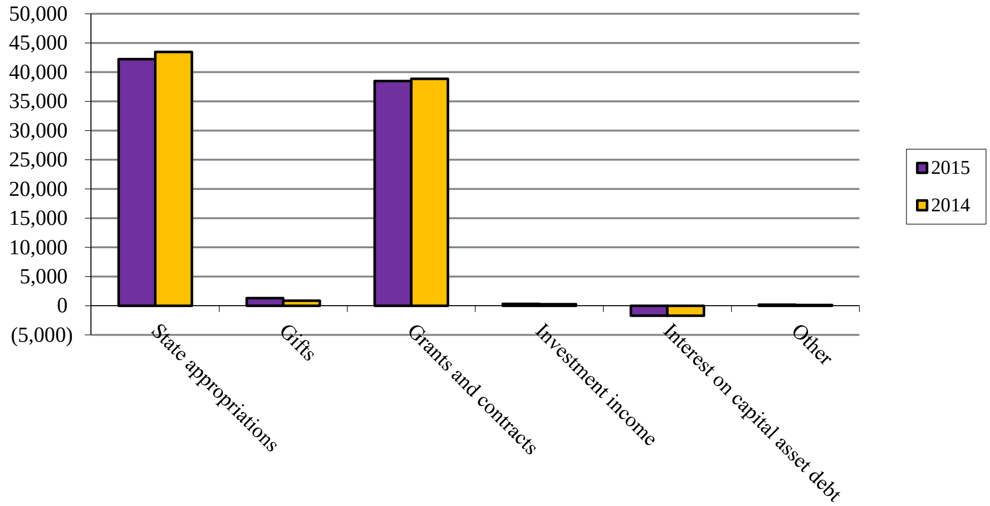
Nonoperating Revenues and Expenses

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)

	2015	2014
State appropriations	$42,213	$43,447
Gifts	1,306	856
Grants and contracts	38,488	38,854
Investment income	316	259
Interest on capital asset debt	(1,691)	(1,696)
Other	191	139
Total	$80,823	$81,859

Nonoperating Revenues and Expenses
(in thousands of dollars)



Comparison of FY 2015 to FY 2014

Nonoperating revenues and expenses decreased by $1,037,178 (1.3%). State appropriations decreased $1,234,172 (2.8%) due to funding received under the funding formula. Gifts increased $449,802 (52.6%) due to additional support to the university's operations and maintenance projects. Other changes were immaterial.

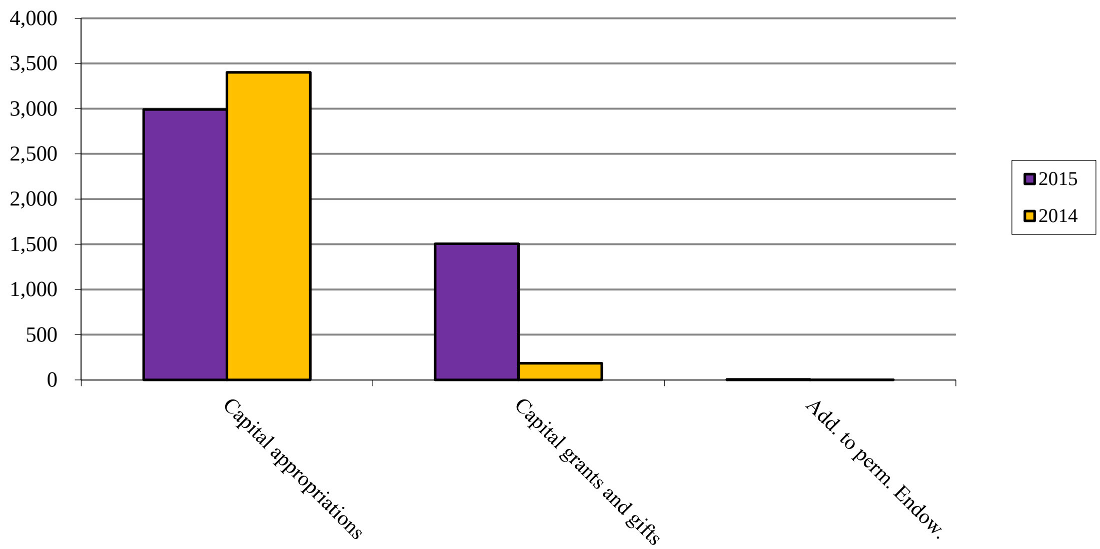
Other Revenues

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)

	2015	2014
Capital appropriations	$2,991	$3,401
Capital grants and gifts	1,506	184
Additions to permanent endowments	5	1
Total	$4,502	$3,586

Other Revenues
(in thousands of dollars)



Comparison of FY 2015 to FY 2014

Other revenues increased $915,655 (25.5%) during 2015. Capital appropriations to address deferred maintenance on the campus decreased by $410,873. Capital grants and gifts increased $1,321,778 with the majority being due to gift-in-kind assets and the remaining being from a capital grant to aid in the steam plant conversion.

Capital Assets and Debt Administration

Capital Assets

Tennessee Technological University had $147,021,815 invested in capital assets, net of accumulated depreciation of $122,354,287 at June 30, 2015; and $131,017,740 invested in capital assets, net of accumulated depreciation of $117,478,509 at June 30, 2014. Depreciation charges totaled $6,335,266 and $7,853,015 for the years ended June 30, 2015, and June 30, 2014, respectively.

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

	2015	2014
Land	$ 4,404	$ 3,224
Land improvements and infrastructure	11,688	10,467

Buildings	107,880	97,670
Equipment	8,281	7,882
Library holdings	1,183	1,248
Intangible assets	1,154	1,459
Art and historical collections	26	26
Projects in progress	12,406	9,042
Total	$147,022	$131,018

The university is involved in various renovation projects on campus that increased the capital assets by $16,301,413 during fiscal year 2015. The Tech Village apartment renovations and residential hall renovations were the largest projects. Land, land improvements, and building acquisitions were $3,676,542. Another $2,370,743 in equipment, library holdings, and software was capitalized during the year.

At June 30, 2015, outstanding commitments under construction contracts totaled $10,594,569 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $303,440 of these costs.

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

Debt

The university had $57,937,541 and $50,104,353 in debt outstanding at June 30, 2015, and June 30, 2014, respectively. The table below summarizes these amounts by type of debt instrument.

Schedule of Debt Outstanding
(in thousands of dollars)

	2015	2014
Bonds payable	$38,819	$41,999
Unamortized bond premium	5,522	3,888
Revolving credit	13,597	4,217
Total	$57,938	$50,104

The TSSBA issued bonds with interest rates ranging from 0.35% to 5% due serially until 2033 on behalf of Tennessee Technological University. The university is responsible for the debt service of these bonds. The current portion of the $57,937,541 outstanding at June 30, 2015, is $2,219,118.

In fiscal year 2015, $9,379,667 in revolving credit facility was issued with the majority related to student housing and apartment renovations. There were five bond series refunded in 2015. This resulted in the issuance of $15,692,951 par value revenue bonds and repayment of $16,991,519 principal and adding $2,965,330 in unamortized bond premiums. The debt refunding realized a

$1,122,181 economic gain related to future debt service. See Note 7 to the financial statements for a full disclosure of the bond refunding.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2015, 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 7 to the financial statements.

Economic Factors That Will Affect the Future

The Tennessee Higher Education Commission (THEC) has implemented an outcomes based funding formula for higher education to comply with state law effective January 2010. The funding formula is based on student progression toward an academic degree; the number of degrees conferred each academic year; and a six-year graduation rate. Although the full impact of the new funding formula is not known, the university's strategic planning process is centered on student success measures that align with the new outcomes funding model. It is anticipated that the funding formula will have a positive funding impact for the university over the long term. As of June 30, 2015, THEC is considering changes to the funding formula. The university will continue to work with THEC to appropriately respond to formula updates. Another factor that has significant impact on revenue is the growth in international students over the past few years. Out-of-state tuition is approximately 18% of mandatory fees compared to 11% in fiscal year 2012. This produces some dependency on world events.

In an effort to carry out the mandates and to help the State of Tennessee's Complete College Tennessee Act, Tennessee Technological University, as of July 1, 2015, became the managing partner for operations of the Cookeville Higher Education Campus. The Cookeville Higher Education Campus is a collaboration between Tennessee Technological University, Nashville State Community College, and Volunteer State Community College. The collaboration is an effort to increase access, retention, and transfer of community college students into the university environment.

Tennessee Board of Regents
TENNESSEE TECHNOLOGICAL UNIVERSITY
Statement of Net Position
June 30, 2015

	University	Component Unit
Assets		
Current assets:		
Cash and cash equivalents (Notes 2 and 21)	$ 41,262,786.81	$ 1,040,614.33
Accounts, notes, and grants receivable (net) (Note 4)	5,644,982.15	2,000.00
Due from primary government	590,216.89	-
Inventories (at lower of cost or market)	306,696.59	-
Prepaid expenses	915,673.93	56,703.52
Accrued interest receivable	16,140.77	40,720.95
Total current assets	48,736,497.14	1,140,038.80
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 21)	78,684,354.15	4,909,426.73
Investments (Notes 3 and 21)	224,153.66	59,564,837.11
Accounts, notes, and grants receivable (net) (Note 4)	1,083,251.62	4,000.00
Capital assets (net) (Notes 5 and 21)	147,021,814.66	149,600.00
Total noncurrent assets	227,013,574.09	64,627,863.84
Total assets	275,750,071.23	65,767,902.64
Deferred outflows of resources		
Deferred amount on debt refunding (Note 7)	843,782.68	-
Deferred outflows related to pensions (Note 10)	4,389,749.46	-
Total deferred outflows of resources	5,233,532.14	-
Liabilities		
Current liabilities:		
Accounts payable (Note 6)	2,815,992.86	232,882.11
Accrued liabilities	9,062,687.48	-
Student deposits	616,040.68	-
Unearned revenue (Note 7)	4,625,957.45	-
Compensated absences (Note 7)	882,986.12	-
Accrued interest payable	315,061.93	-
Long-term liabilities, current portion (Notes 7 and 21)	2,219,118.09	82,222.20
Deposits held in custody for others	422,211.47	-
Other liabilities	94,751.76	-
Total current liabilities	21,054,807.84	315,104.31
Noncurrent liabilities:		
Net OPEB obligation (Note 11)	7,151,161.08	-
Net pension liability (Note 10)	7,172,156.00	-
Unearned revenue (Note 7)	120,000.00	-
Compensated absences (Note 7)	3,326,709.75	-
Long-term liabilities (Notes 7 and 21)	55,718,422.45	130,185.35
Due to grantors (Note 7)	1,064,769.69	-
Other liabilities	-	-
Total noncurrent liabilities	74,553,218.97	130,185.35
Total liabilities	95,608,026.81	445,289.66
Deferred inflows of resources		
Deferred inflows related to pensions (Note 10)	10,333,964.00	-
Total deferred inflows of resources	10,333,964.00	-
Net position		
Net investment in capital assets	89,928,056.80	149,600.00
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	182,105.88	30,527,620.41
Research	-	554,650.22
Instructional department uses	-	2,870,040.36
Other	-	11,192,794.23
Expendable:		
Scholarships and fellowships (Note 8)	244,265.09	6,123,303.70
Research	1,598,435.89	183,659.08
Instructional department uses (Note 8)	498,946.61	1,879,192.96
Loans (Note 8)	372,739.73	-
Capital projects	171,818.78	1,149,989.41
Other (Note 8)	1,060,864.00	10,041,290.28
Unrestricted (Note 8)	80,984,379.78	650,472.33
Total net position	$ 175,041,612.56	$ 65,322,612.98

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, 2015

	University	Component Unit
Revenues		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $40,736,867.23)	$ 61,615,023.30	$ -
Gifts and contributions	-	2,179,991.89
Governmental grants and contracts	8,118,542.33	-
Nongovernmental grants and contracts	527,835.57	-
Sales and services of educational activities	1,704,087.69	-
Sales and services of other activities	8,637,918.76	-
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $22,387.97; all residential life revenues are used as security for revenue bonds; see Note 9)	12,453,164.46	-
Bookstore (all bookstore revenues are used as security for revenue bonds; see Note 9)	540,436.46	-
Food service (all food service revenues are used as security for revenue bonds; see Note 9)	2,064,568.68	-
Wellness facility (all wellness facility revenues are used as security for revenue bonds; see Note 9)	1,417,279.40	-
Other auxiliaries (all other auxiliaries revenues are used as security for revenue bonds; see Note 9)	737,074.68	-
Interest earned on loans to students	24,050.05	-
Other operating revenues	2,276.37	785,400.94
Total operating revenues	97,842,257.75	2,965,392.83
Expenses		
Operating expenses (Note 16):		
Salaries and wages	78,696,631.61	-
Benefits	26,947,111.29	-
Utilities, supplies, and other services	38,455,840.72	1,891,656.62
Scholarships and fellowships	12,945,859.06	1,820,597.00
Depreciation expense	6,335,265.77	12,144.87
Payments to or on behalf of Tennessee Technological University (Note 21)	-	2,240,510.29
Total operating expenses	163,380,708.45	5,964,908.78
Operating loss	(65,538,450.70)	(2,999,515.95)
Nonoperating revenues (expenses)		
State appropriations	42,212,912.50	-
Gifts, including $1,127,222.86 from component unit	1,305,661.56	-
Grants and contracts	38,487,603.74	-
Investment income (net of investment expense for the component unit of $407,538.09)	316,531.36	(985,833.76)
Interest on capital asset-related debt	(1,691,434.01)	(15,596.00)
Bond issuance costs	(37,424.25)	-
Other nonoperating revenues (expenses)	228,918.26	14,169.95
Total nonoperating revenues (expenses)	80,822,769.16	(987,259.81)
Income (loss) before other revenues, expenses, gains, or losses	15,284,318.46	(3,986,775.76)
Capital appropriations	2,990,424.60	-
Capital grants and gifts, including $1,113,287.43 from the component unit	1,505,804.18	301,965.40
Additions to permanent endowments	5,300.00	1,331,877.62
Total other revenues	4,501,528.78	1,633,843.02
Increase (decrease) in net position	19,785,847.24	(2,352,932.74)
Net position - beginning of year, as originally reported	171,789,061.22	67,675,545.72
Cumulative effect of change in accounting principle (Note 20)	(16,437,561.00)	-
Net position - beginning of year restated	155,351,500.22	67,675,545.72
Prior period adjustment (Note 17)	(95,734.90)	-
Net position - end of year	$ 175,041,612.56	$ 65,322,612.98

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, 2015

Cash flows from operating activities	
Tuition and fees	$ 62,117,024.75
Grants and contracts	8,747,239.86
Sales and services of educational activities	1,693,026.46
Sales and services of other activities	8,548,133.90
Payments to suppliers and vendors	(38,156,877.91)
Payments to employees	(77,313,427.42)
Payments for benefits	(28,677,702.47)
Payments for scholarships and fellowships	(12,952,801.51)
Loans issued to students	(395,901.82)
Collection of loans from students	344,123.73
Interest earned on loans to students	19,461.59
Auxiliary enterprise charges:	
Residence halls	12,336,714.34
Bookstore	571,205.77
Food services	2,392,791.28
Wellness facility	1,444,668.00
Other auxiliaries	736,220.66
Other receipts (payments)	2,126.37
Net cash used for operating activities	(58,543,974.42)
Cash flows from noncapital financing activities	
State appropriations	42,093,900.00
Proceeds from noncapital debt	
Gifts and grants received for other than capital or endowment purposes, including $1,127,222.86 from Tennessee Technological University Foundation	40,293,571.97
Private gifts for endowment purposes	5,300.00
Federal student loan receipts	35,628,593.01
Federal student loan disbursements	(36,604,754.00)
Changes in deposits held for others	(49,042.05)
Other noncapital financing receipts (payments)	257,015.20
Net cash provided by noncapital financing activities	81,624,584.13
Cash flows from capital and related financing activities	
Proceeds from capital debt	9,379,666.90
Capital appropriations	2,931,168.58
Capital grants and gifts received	286,877.75
Proceeds from sale of capital assets	10,766.44
Purchases of capital assets and construction	(21,458,217.80)
Principal paid on capital debt	(2,106,549.63)
Interest paid on capital debt	(1,959,380.66)
Other capital and related financing receipts (payments)	(30,129.03)
Net cash used for capital and related financing activities	(12,945,797.45)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	88,961.56
Income on investments	287,662.25
Net cash provided by investing activities	376,623.81
Net increase in cash and cash equivalents	10,511,436.07
Cash and cash equivalents - beginning of year	109,435,704.89
Cash and cash equivalents - end of year	$ 119,947,140.96

Tennessee Board of Regents
TENNESSEE TECHNOLOGICAL UNIVERSITY
Statement of Cash Flows (continued)
For the Year Ended June 30, 2015

Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$	(65,538,450.70)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense		6,335,265.77
Gifts in-kind		23,259.44
Pension expense		1,068,559.00
Other adjustments (Note 19)		141,612.50
Change in assets and liabilities:		
Receivables, net		847,320.36
Inventories		51,486.34
Prepaid items		(85,241.16)
Deferred outflows of outflows		(4,389,749.46)
Accounts payable		9,663.55
Accrued liabilities		2,630,528.69
Unearned revenues		352,763.26
Deposits		13,932.43
Compensated absences		305,072.38
Due to grantors		(145,361.42)
Loans to students and employees		(164,635.40)
Net cash used for operating activities	$	(58,543,974.42)

Noncash investing, capital, or financing transactions		
Gifts in-kind - capital	$	1,218,926.43
Unrealized gains (losses) on investments	$	(6,292.58)
Gain (loss) on disposal of capital assets	$	(9,357.18)
Trade-in allowance	$	4,251.00
Bond refunding proceeds	$	15,692,951.37
Bond refunding premium	$	2,965,330.15
Bond refunding proceeds to escrow	$	(18,658,281.52)

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

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

The financial statements present only that portion of the Tennessee Board of Regents' activities that is attributable to the transactions of 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 and how to obtain the report.

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

Net Position

The university's net position is classified as follows:

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

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

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

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

Scholarship Discounts and Allowances

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

Note 2. Cash and Cash Equivalents

In addition to demand deposits and petty cash on hand, this classification includes instruments that are readily convertible to known amounts of cash and that have original maturities of three months or less. At June 30, 2015, cash and cash equivalents consisted of $10,919,288.32 in bank accounts, $7,400.95 of petty cash on hand, $91,938,883.57 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, $15,406,068.12 in LGIP deposits for capital projects, and $1,675,500.00 in escrow.

The LGIP is part of the State Pooled Investment Fund. 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, 2015, the university had the following investments and maturities:

		Investment Maturities (in Years)			
Investment Type	Fair Value	1 to 5	6 to 10	More than 10	No Maturity Date
U.S. agencies	$206,630.11	$80,860.12	$381.60	$125,388.39	$ -
Collateralized mortgage obligations	553.25	553.25	-	-	-
Cash surrender value life insurance	16,970.30	-	-	-	16,970.30
Total investments	$224,153.66	$81,413.37	$381.60	$125,388.39	$16,970.30

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, 2015, the university's investments were rated as follows:

Investment Type	Fair Value	Credit Quality Rating Unrated
LGIP	$107,344,951.69	$107,344,951.69
Collateralized mortgage obligation	553.25	553.25
Total	$107,345,504.94	$107,345,504.94

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

Investments	Fair Value June 30, 2015
Collateralized mortgage obligation	$ 553.25
Local Government Investment Pool	341,085.53
Total	$341,638.78

Assets of endowments are pooled on a fair-value basis, with each individual fund subscribing to or disposing of units on the basis of the fair value per unit at the beginning of the calendar quarter within which the transaction takes place. Of the total units at June 30, 2015, each having a fair value of $1.165825, 176,798.21 units were owned by permanent endowments, 7,654.09 units were owned by term endowments, and 108,592.31 units were owned by quasi-endowments.

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

FY 2015	Pooled Assets			
	Fair Value	Cost	Net Gains (Losses)	Fair Value Per Unit
End of year	$341,638.78	$341,644.30	$ (5.52)	$ 1.165825
Beginning of year	$336,228.48	$336,217.06	11.42	1.173239
Change in unit value				$ (0.007414)
Unrealized net gains/(losses)			(16.94)	
Realized net gains/(losses)			-	
Total net gains/(losses)			$ (16.94)	

The average annual earnings per unit, exclusive of net gains/(losses), were $0.001084 for the year ended June 30, 2015.

Note 4. Receivables

Receivables at June 30, 2015, included the following:

Student accounts receivable	$1,538,187.19
Grants receivable	1,701,796.74
Notes receivable	151,548.59
Federal Direct Loans receivable	1,918,471.00
Other receivables	930,158.90
Subtotal	6,240,162.42
Less allowance for doubtful accounts	(595,180.27)
Total receivables	$5,644,982.15

Federal Perkins Loan Program funds at June 30, 2015, included the following:

Perkins loans receivable	$1,183,289.89
Less allowance for doubtful accounts	(100,038.27)
Total	$1,083,251.62

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 3,223,774.95	$ 1,180,350.67	$ -	$ -	$ 4,404,125.62
Land improvements and infrastructure	19,825,596.23	994,209.68	1,204,900.63	-	22,024,706.54
Buildings	183,427,237.61	1,501,981.48	11,549,634.06	679,681.38	195,799,171.77
Equipment	26,006,414.64	1,908,239.34	344,484.60	474,707.67	27,784,430.91
Library holdings	3,028,786.07	229,558.51	-	314,456.28	2,943,888.30
Intangible assets	3,916,892.31	-	71,237.20	-	3,988,129.51
Art and historical collections	26,010.45	-	-	-	26,010.45
Projects in progress	9,041,536.25	16,534,358.31	(13,170,256.49)	-	12,405,638.07
Total	248,496,248.51	22,348,697.99	-	1,468,845.33	269,376,101.17
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	9,358,214.11	978,376.21	-	-	10,336,590.32
Buildings	85,757,631.72	2,841,243.70	-	679,681.38	87,919,194.04
Equipment	18,124,434.53	1,844,607.61	-	465,350.49	19,503,691.65
Library holdings	1,780,503.56	294,388.83	-	314,456.28	1,760,436.11
Intangible assets	2,457,724.97	376,649.42	-	-	2,834,374.39
Total	117,478,508.89	6,335,265.77	-	1,459,488.15	122,354,286.51
Capital assets, net	$131,017,739.62	$16,013,432.22	$ -	$ 9,357.18	$147,021,814.66

The decrease in building depreciation expense for the current period is due to a change in accounting estimate. During fiscal year 2015, it was determined that buildings were more appropriately depreciated over a period of between 30 and 60 years, instead of the 40 years previously used. This change resulted in a reduction in depreciation expense of $2,114,152.70.

Note 6. Accounts Payable

Accounts payable at June 30, 2015, included the following:

Vendors payable	$2,587,119.41
Unapplied student payments	220,375.45
Other payables	8,498.00
Total accounts payable	$2,815,992.86

Note 7. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$41,998,777.59	$15,917,959.78	$19,098,067.67	$38,818,669.70	$2,219,118.09
Unamortized bond premium/discount	3,888,034.52	2,965,330.15	1,331,701.53	5,521,663.14	-
Revolving credit facility	4,217,540.80	9,379,666.90	-	13,597,207.70	-
Subtotal	50,104,352.91	28,262,956.83	20,429,769.20	57,937,540.54	2,219,118.09
Other liabilities:					
Compensated absences	3,904,623.49	2,026,532.03	1,721,459.65	4,209,695.87	882,986.12
Due to grantors	1,210,131.11	-	145,361.42	1,064,769.69	-
Unearned revenue	4,393,194.19	4,605,957.45	4,253,194.19	4,745,957.45	4,625,957.45
Subtotal	9,507,948.79	6,632,489.48	6,120,015.26	10,020,423.01	5,508,943.57
Total long-term liabilities	$59,612,301.70	$34,895,446.31	$26,549,784.46	$67,957,963.55	$7,728,061.66

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 0.35% to 5.00%, 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 9 for further details. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the statement of net position is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was $2,072,014.47 at June 30, 2015.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2015, are as follows:

Year Ending June 30	Principal	Interest	Total
2016	$ 2,219,118.09	$ 1,833,247.38	$ 4,052,365.47
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 – 2025	13,117,860.32	5,285,289.27	18,403,149.59
2026 – 2030	11,019,271.41	2,437,705.60	13,456,977.01

2031 – 2034	3,170,580.77	274,509.77	3,445,090.54
Total	$38,818,669.70	$16,208,527.16	$55,027,196.86

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 $13,597,207.70 at June 30, 2015.

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.

Refunding of Debt

On August 27, 2014, the state issued $2,466,465.85 in revenue bonds with interest rates ranging from 0.35% to 5.00% to advance refund $2,564,191.64 of outstanding 2008B, 2005A, and 2009A Series bonds with interest rates ranging from 4.25% to 5.00%. The net proceeds of $2,955,915.37 (after payment of $6,183.24 in underwriter's fees and issuance costs) were deposited with an escrow agent to provide for all future debt service payments on the bonds. As a result, the 2008B, 2005A, and 2009A Series bonds are considered to be defeased, and the liability for those bonds has been removed from the university's long-term liabilities.

Although the advance refunding resulted in the recognition of a deferred loss of $391,723.73 to be amortized over the next 9 years, the university in effect reduced its aggregate debt service payments by $240,366.70 over the next 10 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $117,184.22.

On May 7, 2015, the state issued $13,226,485.52 in revenue bonds with interest rates ranging from 0.67% to 5.00% to advance refund $14,427,326.40 of outstanding 2007C and 2010A Series bonds with interest rates ranging from 4.00% to 5.00%. The net proceeds of $15,889,569.68 (after payment of $31,621.64 in underwriter's fees and issuance costs) were deposited with an escrow agent to provide for all future debt service payments on the bonds. As a result, the 2007C and 2010A Series bonds are considered to be defeased, and the liability for those bonds has been removed from the university's long-term liabilities.

Although the advance refunding resulted in the recognition of a deferred loss of $439,954.35 to be amortized over the next 13 years, the university in effect reduced its aggregate debt service payments by $1,671,627.34 over the next 15 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $1,004,996.55.

Note 8. 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, 2015, net appreciation of $180,993.35 is available to be spent, of which $6,156.60 is included in restricted net position expendable for scholarships and fellowships, $5,982.44 is included in restricted net position expendable for instructional departmental uses, $31,144.94 is included in restricted net position expendable for loans, $11,739.90 is included in restricted net position expendable for other, and $125,969.47 is included in unrestricted net position.

Note 9. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $38,818,669.70 in revenue bonds issued from January 2007 to May 2015 (see Note 7 for further detail). Proceeds from the bonds provided financing for student housing 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 $55,027,196.86. Principal and interest paid for the current year and total available revenues were $4,063,060.77 and $169,429,711.43, respectively. The amount of principal and interest paid for the current year does not include debt of $16,991,518.04 defeased through a bond refunding in the current year.

Note 10. Pension Plans

Defined Benefit Plans

Closed State and Higher Education Employee Pension Plan

General Information about the Pension Plan

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

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of member's highest compensation for 5 consecutive years (up to Social Security integration level)	x	1.50%	x	Years of Service Credit	x	105%
Plus:						
Average of member's highest compensation for 5 consecutive years (over the Social Security integration level)	x	1.75%	x	Years of Service Credit	x	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest.

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, 2015, to the Closed State and Higher Education Employee Pension Plan were $4,341,053.65, 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, 2015, the university reported a liability of $7,172,156.00 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, 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, 2014, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2014, measurement date, the university's proportion was 1.039520%, representing the first-time presentation of this proportion.

Pension expense – For the year ended June 30, 2015, the university recognized a pension expense of $1,068,559.00.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2015, 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	$ -	$ 1,547,233.00
Net difference between projected and actual earnings on pension plan investments	-	8,786,731.00
Tennessee Technological University's contributions subsequent to the measurement date of June 30, 2014	4,341,053.65	-
Total	$4,341,053.65	$10,333,964.00

Deferred outflows of resources, resulting from the university's employer contributions of $4,341,053.65 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ended June 30, 2016. 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	
2016	$(2,583,491.00)
2017	(2,583,491.00)
2018	(2,583,491.00)
2019	(2,583,491.00)

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

Actuarial assumptions – The total pension liability as of June 30, 2014, 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, 2014, 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)*	24,599,667.00	7,172,156.00	(7,497,261.00)

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, 2015, the university reported a payable of $340,576.82 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2015.

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 using the member's highest five consecutive year average compensation and the member's 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. 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. Employees contribute 5% of their salary. 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, 2015, to the State and Higher Education Employee Retirement Plan were $48,695.81, which is 3.87% of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension liabilities – Since the measurement date is June 30, 2014, which is prior to the July 1, 2014, inception of the State and Higher Education Employee Retirement Plan, there is not a net pension liability to report at June 30, 2015.

Pension expense – Since the measurement date is June 30, 2014, the university did not recognize a pension expense at June 30, 2015.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2015, the university reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Tennessee Technological University's contributions subsequent to the measurement date of June 30, 2014	$48,695.81	$ -

The university's employer contributions of $48,695.81 reported as pension related deferred outflows of resources, subsequent to the measurement date, will be recognized as a reduction in net pension liability in the year ended June 30, 2016.

Payable to the Pension Plan

At June 30, 2015, the university reported a payable of $5,799.59 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2015.

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, of *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. The required contributions made to the ORP were $3,881,017.47 for the year ended June 30, 2015, and $3,667,921.24 for the year ended June 30, 2014. 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. IRC 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 Public Chapter No. 259 of *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, 2015, contributions totaling $2,848,321.21 were made by employees participating in the plan, and the university recognized pension expense of $552,220.82 for employer contributions. During the year ended June 30, 2014, contributions totaling $2,703,725.48 were made by employees participating in the plan, with contributions of $469,905.00 made by the university.

Note 11. Other Postemployment Benefits

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that provides postemployment health insurance benefits to eligible university retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. 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 Section 8-27-701, *Tennessee Code Annotated*, for the Medicare Supplement Plan. Prior to reaching age 65, all 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. 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/act/cafr.shtml.

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 members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is 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. Retirees in the State Employee Group Plan 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)	$1,714,000.00
Interest on the net OPEB obligation	276,110.39
Adjustment to the ARC	(268,998.08)
Annual OPEB cost	1,721,112.31
Amount of contribution	(1,472,711.07)
Increase in net OPEB obligation	248,401.24
Net OPEB obligation – beginning of year	6,902,759.84
Net OPEB obligation – end of year	$7,151,161.08

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
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
June 30, 2013	State Employee Group Plan	$1,973,703.45	63.03%	$6,543,017.46

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, 2013
Actuarial accrued liability (AAL)	$15,220,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$15,220,000.00

Actuarial value of assets as a percentage of the AAL	0.0%
Covered payroll (active plan members)	$53,779,701.96
UAAL as percentage of covered payroll	28.30%

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, 2013, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.5% initially. The rate decreased to 7.0% in fiscal year 2015 and then reduces by decrements to an ultimate rate of 4.19% in fiscal year 2044. All rates include a 2.5% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3.0%.

Note 12. 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, 2015, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. 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, 2015, the Risk Management Fund held $127.9 million in cash designated for payment of claims.

At June 30, 2015, the scheduled coverage for the university was $612,980,103 for buildings and $114,741,600 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 13. Commitments and Contingencies

Sick Leave

The university records the cost of sick leave when paid. The dollar amount of unused sick leave was $29,603,405.98 at June 30, 2015.

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 $78,753.08 and expenses for personal property were $316,563.34 for the year ended June 30, 2015. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2015, outstanding commitments under construction contracts totaled $10,594,568.76 for Tech Village, Roaden University Center Upgrades, the new fitness center, and various building and infrastructure upgrades, of which $303,440.01 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 14. Chairs of Excellence

The university had $6,191,005.91 on deposit at June 30, 2015, 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 15. 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 $4,754.02 from these funds during the year ended June 30, 2015.

Note 16. Natural Classification With Functional Classifications

The university's operating expenses for the year ended June 30, 2015, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$41,468,126.83	$14,039,079.00	$10,000,898.65	$ -	$ -	$ 65,508,104.48
Research	4,332,442.66	1,340,705.32	2,498,555.88	-	-	8,171,703.86
Public service	2,117,651.07	590,583.43	1,984,489.68	-	-	4,692,724.18
Academic support	9,162,901.47	2,981,458.75	(2,022,772.57)	-	-	10,121,587.65
Student services	8,429,959.06	3,402,893.22	7,247,400.79	-	-	19,080,253.07
Institutional support	8,326,784.75	2,836,615.89	3,348,044.77	-	-	14,511,445.41
Maintenance & operation	2,670,886.01	1,152,400.47	11,491,843.46	-	-	15,315,129.94
Scholarships & fellowships	-	-	-	12,945,859.06	-	12,945,859.06
Auxiliary	2,187,879.76	603,375.21	3,907,380.06	-	-	6,698,635.03

Depreciation	-	-	-	-	6,335,265.77	6,335,265.77
Total	$78,696,631.61	$26,947,111.29	$38,455,840.72	$12,945,859.06	$6,335,265.77	$163,380,708.45

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 $6,455,463.60 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 17. Prior-year Adjustments

Tennessee Technological University had recorded program income in prior years related to a grant from the National Science Foundation (NSF). NSF ruled that the monies were not program income, thereby classifying them as royalties. According to Tennessee Technological University's Policy, the author of the royalty is due 50% of the royalty income after expenditures. A royalty expense liability has been recorded in the current year, reducing the restricted fund balance by $183,650.14.

In fiscal year 2011, project expenditures of $63,847.24 were recorded for various building upgrades as a payable from local monies. These monies were never drawn by the state. It was noted the funding was covered by state capital appropriations. Accounts payable for capital projects was decreased by this amount, thereby increasing unrestricted plant funds by $63,847.24.

In fiscal year 2014, it was originally determined that an outdoor tennis project would be expensed. After further consideration and the extension of the useful life of the outdoor tennis courts, $24,068.00 was added to capital projects, increasing net investment in capital assets by $24,068.00.

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, 2014, the assets of the foundation totaled $753,225.52, deferred outflows of resources were $0.00, liabilities were $0.00, deferred inflows of resources were $0.00, and the net position amounted to $753,225.52.

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 to 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, 2014, the assets of the BSOA totaled $142,756.00, deferred outflows of resources were $0.00, liabilities were $30,343.00, deferred inflows of resources were $0.00, and the net position amounted to $112,413.00. 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. 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, 2015, the State of Tennessee made payments of $141,612.50 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 11. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Note 20. Cumulative Effect of a Change in Accounting Principle

During fiscal year 2015, the university implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions,* and GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements establish standards for the measurement, recognition, and display of the net pension liability and related expenses, deferred outflows of resources, deferred inflows of resources, note disclosures, and required supplementary information. The implementation of these statements resulted in a cumulative adjustment to beginning net position of $(16,437,561.00). This cumulative adjustment does not include related deferred outflows and deferred inflows of resources.

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 26-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, 2015, the foundation made distributions of $2,240,510.29 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 4037, Cookeville, TN 38505.

Cash and Cash Equivalents

In addition to demand deposits and petty cash on hand, this classification includes instruments that are readily convertible to known amounts of cash and that have original maturities of three months or less. At June 30, 2015, cash and cash equivalents consisted of $1,280,431.91 in the Local Government Investment Pool administered by the State Treasurer, and $4,669,609.15 in custodial accounts of investment managers of the foundation.

Investments

The foundation is authorized to invest funds in accordance with its board of directors' policies. In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and 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 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, 2015, the foundation had the following investments and maturities:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	No Maturity Date
U.S. Treasury	$ 13,486.72	$ -	$ -	$13,486.72	$ -
Corporate stocks	523,774.39	-	-	-	523,774.39

Mutual bond funds	19,061,034.01	-	-	-	19,061,034.01
Mutual equity funds	34,634,571.52	-	-	-	34,634,571.52
Land	1,903,982.00	-	-	-	1,903,982.00
Other:					
Real estate investment trust	20,106.24	-	-	-	20,106.24
Private equity	993,180.00	-	-	-	993,180.00
Natural resources	296,404.00	-	-	-	296,404.00
Cash surrender value life insurance	18,803.95	-	-	-	18,803.95
Hedge fund	2,099,494.28	-	-	-	2,099,494.28
Total investments	$59,564,837.11	$ -	$ -	$13,486.72	$59,551,350.39

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, 2015, the foundation's investments were rated as follows:

Investment Type	Fair Value	Credit Quality Rating Unrated
LGIP	$ 1,280,431.91	$ 1,280,431.91
Mutual bond funds	19,061,034.01	19,061,034.01
Total	$20,341,465.92	$20,341,465.92

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.

Concentration of credit risk – 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, 2015
Local Government Investment Pool	$ 1,280,431.91
Investment manager custodial accounts	4,665,163.48
Mutual Funds	53,627,158.02
Other:	
Real estate	1,903,982.00
Private equity funds	993,180.00

Natural resources funds	296,404.00
Hedge funds	2,099,494.28
Total	$64,865,813.69

Assets of endowments are pooled on a fair-value basis, with each individual fund subscribing to or disposing of units on the basis of the fair value per unit at the beginning of the calendar quarter within which the transaction takes place. Of the total units at June 30, 2015, each having a fair value of $106.464369, 507,466.9066 units were owned by permanent endowment, 13,815.5570 units were owned by quasi-endowments, and 87,990.0497 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 2015	Pooled Assets			Fair
			Net Gains	Value
	Fair Value	Cost	(Losses)	Per Unit
End of year	$64,865,813.69	$65,220,920.07	$ (355,106.38)	$106.464369
Beginning of year	$66,773,830.85	$61,433,767.93	5,340,062.92	115.945985
Change in unit value				$ (9.481616)
Unrealized net gains/(losses)			(5,695,169.30)	
Realized net gains/(losses)			-	
Total net gains/(losses)			$(5,695,169.30)	

The average annual earnings per unit, exclusive of net gains/(losses), were $7.643402 for the year ended June 30, 2015.

Alternative investments

The foundation had investments in a hedge fund, a private equity fund, a natural resources fund, and a real estate investment trust. The estimated fair value of these assets was $3,409,184.52 at June 30, 2015. The largest fund is a hedge fund portfolio which represents 61.6% of portfolio assets.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2015. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques.

The private equity and natural resources funds represent 37.8% of the fund portfolio fair values. The real estate investment trust represents less than 1% of the portfolio. The fair values for these funds are estimated using various valuation techniques. At June 30, 2015, these investments were valued at the net asset values as determined by the portfolio managers. The funds are issued audited financial statements on a calendar-year basis. Using those audited fair values as a beginning point, valuations are adjusted for net capital activity and marketplace considerations to ascertain the reasonableness of estimated fair values provided by the portfolio managers.

Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 403,252.49	$142,194.37	$ -	$ 395,846.86	$149,600.00
Buildings	728,692.30	-	-	728,692.30	-
Intangible assets	261,685.25	-	-	-	261,685.25
Total	1,393,630.04	142,194.37	-	1,124,539.16	411,285.25
Less accumulated depreciation/amortization:					
Buildings	7,590.54	12,144.87	-	19,735.41	-
Intangible assets	261,685.25	-	-	-	261,685.25
Total	269,275.79	12,144.87	-	19,735.41	261,685.25
Capital assets, net	$1,124,354.25	$130,049.50	$ -	$1,104,803.75	$149,600.00

Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Notes	$1,044,629.75	$ -	$832,222.20	$212,407.55	$82,222.20

Notes payable – The foundation borrowed funds to gift funds to the university for the STEM Center. The note is interest-free, with payments of $6,851.85 due monthly through January 2018. The balance owed by the foundation was $212,407.55 at June 30, 2015.

Debt service requirements to maturity for notes payable at June 30, 2015, are as follows:

Year Ending June 30	Principal
2016	$ 82,222.20
2017	82,222.20
2018	47,963.15
Total	$212,407.55

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 the 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, 2015.

Tennessee Board of Regents
Tennessee Technological University
Required Supplementary Information
OPEB 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, 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%
July 1, 2010	State Employee Group Plan	$ -	$19,836,000.00	$19,836,000.00	0%	$49,518,539.00	40.06%

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

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

	2014
University's proportion of the net pension liability	1.039520%
University's proportionate share of the net pension liability	$ 7,172,156.00
University's covered-employee payroll	$28,398,868.00
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	25.26%
Plan fiduciary net position as a percentage of the total pension liability	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 Contributions

Closed State and Higher Education Employee Pension Plan within TCRS

	2014	2015
Contractually determined contribution	$ 4,268,348.00	$4,341,053.65
Contributions in relation to the contractually determined contribution	4,268,348.00	4,341,053.65
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$28,398,868.00	$28,882,592.27
Contributions as a percentage of covered-employee payroll	15.03%	15.03%

This is a ten-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information are available.

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

	2015
Contractually determined contribution	$48,695.81
Contributions in relation to the contractually determined contribution	48,695.81
Contribution deficiency (excess)	$ -
Covered-employee payroll	$1,258,292.25
Contributions as a percentage of covered-employee payroll	3.87%

This is a ten-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information are available.

Tennessee Board of Regents
TENNESSEE TECHNOLOGICAL UNIVERSITY
Supplementary Schedule of Cash Flows - Component Unit
For the Year Ended June 30, 2015

Cash flows from operating activities	
Gifts and contributions	$ 2,121,999.13
Payments to suppliers and vendors	(1,708,871.90)
Payments for scholarships and fellowships	(1,820,597.00)
Payments to Tennessee Technological University	(1,127,222.86)
Other receipts (payments)	622,347.09
Net cash used for operating activities	(1,912,345.54)
Cash flows from noncapital financing activities	
Private gifts for endowment purposes	1,331,877.62
Other non-capital financial receipts (payments)	5,641.08
Net cash provided by noncapital financing activities	1,337,518.70
Cash flows from capital and related financing activities	
Capital grants and gifts received	286,967.76
Proceeds from sale of capital assets	889,714.10
Purchases of capital assets and construction	(955,963.64)
Principal paid on capital debt	(832,222.20)
Interest paid on capital debt	(25,346.24)
Other capital and related financing receipts (payments)	(2,466.67)
Net cash used for capital and related financing activities	(639,316.89)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	118,742,589.33
Income on investments	4,764,066.78
Purchases of investments	(132,155,445.75)
Net cash used for investing activities	(8,648,789.64)
Net decrease in cash and cash equivalents	(9,862,933.37)
Cash and cash equivalents - beginning of year	15,812,974.43
Cash and cash equivalents - end of year	$ 5,950,041.06

Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	(2,999,515.95)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation expense	12,144.87
Gifts in-kind	1,113,287.43
Other adjustments	(1,417.41)
Changes in assets and liabilities:	
Receivables	(2,000.00)
Prepaid items	24,386.41
Accounts payable	(59,230.89)
Net cash used for operating activities	$ (1,912,345.54)
Noncash investing, capital, or financing transactions	
Gifts in-kind - capital	$ 14,997.64
Unrealized gains (losses) on investments	$ (5,600,415.63)
Gain (loss) on disposal of capital assets	$ 10,995.54

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 John G. Morgan, 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, 2015, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated December 11, 2015. 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies that we consider to be material weaknesses. We did identify a deficiency in internal control, as described below, that we consider to be a significant deficiency.

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

This deficiency is described in the Findings and Recommendations section of this report.

Compliance and Other Matters

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

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

Tennessee Technological University's Responses to Findings

The university's responses to the findings identified in our audit are included in the Findings and Recommendations section of this report. The university's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on them.

Purpose of This Report

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

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
December 11, 2015

Findings and Recommendations

1. <u>The university did not provide adequate internal controls in one specific area</u>

<u>Finding</u>

The university did not properly design and monitor internal controls in a specific area. We observed a condition that was in violation of industry-accepted best practices. Inconsistent implementation of internal controls increases the risk of fraud or error.

The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the university with detailed information regarding the specific conditions we identified, as well as our recommendations for improvement.

<u>Recommendation</u>

Management should ensure that this condition is remedied by the prompt development and consistent implementation of internal controls in one area. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

<u>Management's Comment</u>

We concur with the finding. Processes are being reviewed and a corrective action plan is being developed to ensure that internal controls are adequate to minimize the risks identified by State Audit. The corrective action plan will be implemented by February 1, 2016.

<u>2. The university's financial aid office understated to the Department of Education returns of Title IV student financial aid of students who withdrew from classes</u>

<u>Condition</u>

Tennessee Technological University did not correctly return to the U.S. Department of Education (ED) Title IV student financial aid of students who withdrew from classes. This resulted in questioned costs of $4,775.

Following federal guidance in the OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations," Part 5, we reviewed the accounts of 13 students who received Title IV aid and withdrew, dropped, or were terminated from classes at any point during the year. For 1 of 13 accounts tested (7.7%), though the return amount was calculated properly in Banner, the student information system, an incorrect amount was returned to ED.

Based on the nature of the error (an automated process followed by a manual process), we performed additional testwork and focused on Title IV recipients who withdrew from classes before the 60% point in the fall 2014 and spring 2015 semesters. By focusing on the early portion of the semester, we could concentrate our testwork on those students whose withdrawal from classes would have required a return of funds to ED. We reviewed an additional sample of 37 student accounts with required returns and compared amounts calculated in Banner to amounts that were returned for each student. Our testwork revealed that returns for 3 of 37 students tested (8.1%) were not made correctly to ED.

Prior to our testwork, the university had returned $192,588 to ED. Our testwork ultimately examined $106,418 of returns due and found the actual returns to be understated by $4,775.

Criteria

According to the 2014-2015 *Federal Student Aid Handbook*, Volume 5, Page 96, "[a] school **must** return unearned funds for which it is responsible **as soon as possible but** [emphasis in original] no later than 45 days from the determination of a student's withdrawal."

Cause

The Director of Financial Aid stated that these errors were caused by oversight. Although the returns calculations are automated in Banner, the recording of the returns to the students' accounts is a manual process. The Financial Aid Department had no review process for comparing returns manually posted to students' accounts with the returns calculated by Banner. The director entered the return information into each student's Banner account using paper copies of the Banner "Return of Title IV Funds Calculation Process" report. For two of the four errors found, including the initial error noted, the director entered incorrect amounts into the students' accounts, causing the returns to be understated. For the other two errors found, the director completely overlooked the students' required returns noted in the reports.

Effect

Not comparing totals from Banner reports to return amounts posted to students' accounts allows posting errors to go undetected, resulting in questioned costs. Understating returns could result in adverse actions against the university.

Recommendation

The Director of Financial Aid should perform a reconciliation between the original Banner calculation reports and amounts to be reported and returned to ED to ensure that returns of Title IV student financial aid are processed correctly and timely.

Management's Comment

We concur with the finding and recommendation. Three mathematical errors were found in the review of the 2014-15 withdrawal calculations prior to the close of the award year. The errors were corrected and updated on the student accounts and submitted to the Department of Education.

The Office of Financial Aid has amended its review policy to eliminate this error on future reports. The process is as follows:

1) Financial Aid Assistant (FAA) will run the withdrawal report in query mode.
2) Director will run the withdrawal report in update mode.
3) FAA and Director will meet to compare reports.
4) Director will make adjustments to student accounts.
5) (New) FAA will then take the update report and compare to RSIAREV to ensure the amount listed on the report is the same as what was adjusted on the student account. FAA will initial each item if correct and bring the final report to Director for correcting, or if no corrections need to be made, file the report for the audit.