STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

TENNESSEE TECHNOLOGICAL UNIVERSITY

Financial and Compliance Audit Report

For the Year Ended June 30, 2017

Justin P. Wilson, Comptroller

Division of State Audit
Financial and Compliance Section

Deborah V. Loveless, CPA, CGFM, CGMA
Director

FINANCIAL AND COMPLIANCE
Edward Burr, CPA, CGFM
Assistant Director

Donna Jewell, CPA, CFE
Audit Manager

Joshua Cheasty
Mark Collins, CFE
In-Charge Auditors

Justin Daniel, CPA, CFE
Travis Mann
Jeff Patterson
Staff Auditors

INFORMATION SYSTEMS
Daniel V. Willis, CPA, CISA, CGFM
Assistant Director

Brent L. Rumbley, CPA, CISA, CFE
Audit Manager

Sam Osborn, CISA
In-Charge Auditor

Andrew Bullard
Laurel Gruber, CPA
Landon Legate
Malik M. Moughrabi
Staff Auditors

Gerry Boaz, CPA, CGFM, CGMA
Technical Manager

Amy Brack
Editor

Amanda Adams
Assistant Editor

Comptroller of the Treasury, Division of State Audit
Cordell Hull Building
425 Fifth Avenue North
Nashville, TN 37243
(615) 401-7897

Reports are available at
www.comptroller.tn.gov/sa/AuditReportCategories.asp

Mission Statement
The mission of the Comptroller's Office is
to make government work better.

Comptroller Website
www.comptroller.tn.gov

TENNESSEE COMPTROLLER OF THE TREASURY

JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

March 15, 2018

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

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the State University and Community College System of Tennessee, Tennessee Technological University, for the year ended June 30, 2017. 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
Division of State Audit

17/329

Audit Report

Tennessee Technological University

For the Year Ended June 30, 2017

TABLE OF CONTENTS

TABLE OF CONTENTS (Continued)

State of Tennessee

A u d i t H i g h l i g h t s

Comptroller of the Treasury Division of State Audit

Financial and Compliance Audit

Tennessee Technological University

For the Year Ended June 30, 2017

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

Tennessee Technological University did not provide adequate internal controls in three areas
Tennessee Technological University did not design and monitor effective internal controls in three areas. We found multiple internal control deficiencies in these areas related to three of the university's systems. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated* (page 67).

Tennessee Technological University staff did not enter into written agreements with the non-institutional agencies or organizations providing employment under the Federal Work-Study program
Tennessee Technological University did not properly obtain the required Federal Work-Study written agreements detailing the work conditions for non-institutional employers, resulting in $48,716 in questioned costs (page 67).

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
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 State University and Community College System of Tennessee, 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, 2017, 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, 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, 2017; 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 State University and Community College System of Tennessee, 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 State University and Community College System of Tennessee as of June 30, 2017, 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 22, the financial statements of Tennessee Technological University Foundation, a discretely presented component unit of Tennessee Technological University, include investments valued at $6,077,629.15 (7.3% of net position of the foundation), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 15; the schedule of Tennessee Technological University's proportionate share of the net pension liability – Closed State and Higher Education Employee Pension Plan within TCRS on page 59; the schedule of Tennessee Technological University's proportionate share of the net pension asset – State and Higher Education Employee Retirement Plan within TCRS on page 60; the schedule of Tennessee Technological University's contributions – Closed State and Higher Education Employee Pension Plan within TCRS on page 61; the schedule of Tennessee Technological University's contributions – State and Higher Education Employee Retirement Plan within TCRS on page 62; and the other postemployment benefits schedule of funding progress on page 63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the university's basic financial statements. The supplementary schedule of cash flows – component unit on page 64 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2017, 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 12, 2017

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, 2017, with comparative information presented for the fiscal year ended June 30, 2016. 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, financial statements, and the 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 22 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, 2017, and June 30, 2016.

Summary of Net Position
(in thousands of dollars)

	2017	2016
Assets:		
Current assets	$ 38,660	$ 41,213
Capital assets, net	178,987	166,292
Other assets	88,829	83,781
Total assets	306,476	291,286
Deferred outflows of resources:		
Deferred outflows of resources	12,686	7,564
Total deferred outflows of resources	12,686	7,564
Liabilities:		
Current liabilities	24,301	21,791
Noncurrent liabilities	96,234	84,781
Total liabilities	120,535	106,572
Deferred inflows of resources:		
Deferred inflows of resources	1,136	3,082
Total deferred inflows of resources	1,136	3,082

Net position:		
Net investment in capital assets	114,511	106,348
Restricted – nonexpendable	178	182
Restricted – expendable	5,004	3,789
Unrestricted	77,798	78,877
Total net position	$197,491	$189,196

- Assets of the university increased 5.2% from 2016 to 2017. Current assets decreased 6.2%, capital assets increased 7.6%, and other assets increased 6.0%.
- Current assets decreased by 6.2% for the year due to a $3.1 million decrease in current cash.
- Current cash decreased due to an increased level of construction and renovation projects that moved $5.1 million into the noncurrent category. This decrease was partially offset by an increase in current liabilities of $2.5 million.
- Capital assets increased $12.7 million (7.6%). Construction upgrades to student apartments, residential halls, academic buildings, land purchases, and other improvements accounted for $13.4 million in new assets. Costs associated with the new fitness center and science complex were $3.5 million. Equipment and library holding investments were $2.1 million. The value of capital assets was reduced by current year depreciation expense and equipment and library holding disposals. See Note 6 to the financial statements.
- Other assets increased 6.0% for the year. This increase was the result of a $5.1 million increase in noncurrent cash due to unrestricted Education & General funds and Auxiliary profits that were transferred to plant funds for various maintenance and capital projects. These transfers less current year plant expenditures resulted in the noncurrent cash increase. See the current cash bullet above.
- Deferred outflows of resources increased and deferred inflows of resources decreased due to calculations of the net differences between projected and actual earnings on plan investments related to Tennessee Consolidated Retirement System (TCRS) pensions for fiscal year 2016. Additional information on pensions can be found in Note 11 of the financial statements.
- Total liabilities increased 13.1% with current liabilities increasing 11.5% and noncurrent liabilities increasing 13.5%.
- Current liabilities increased 11.5% primarily due to a $1.2 million increase in accounts payable for capital projects including the new science building, storm sewer, roof replacements, several academic building upgrades, and various other smaller projects.
- Noncurrent liabilities increased 13.5% primarily as the result of a $6.9 million increase in the net pension liability in fiscal year 2017. See Note 11 to the financial statements for additional information on pensions. The remaining increase was due to a $4.6 million increase in long-term debt. Additional borrowings on student housing upgrades, parking, and the new fitness center were $7.5 million. This was offset by

current year principal repayments. See Note 8 to the financial statements for additional information on university debt.

- Net position increased by 4.4% from 2016 to 2017. There were minimal decreases in restricted nonexpendable and unrestricted net position for the year. Most of the change was due to an \$8.2 million (7.7%) increase in capital assets. This is discussed in the capital asset and debt administration section of this Management's Discussion and Analysis.
- Restricted expendable for capital projects increased \$1.3 million due to an increase in foundation funds for use in capital projects.
- Unrestricted net position decreased \$1.1 million (1.4%) due to the use of unrestricted reserves to fund current year operations and the use of transfers for plant projects.

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

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

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

A summary of the university's revenues, expenses, and changes in net position for the years ended June 30, 2017, and June 30, 2016, follows.

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

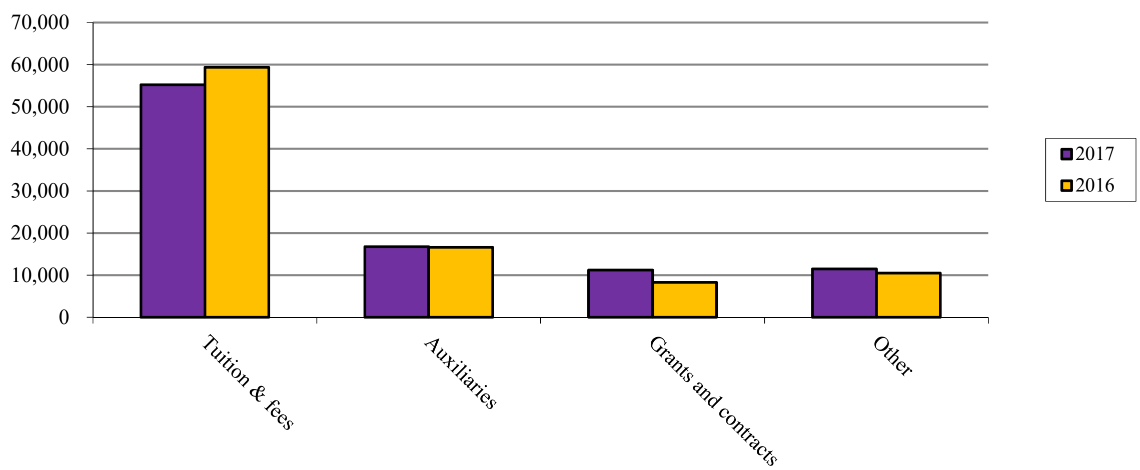
	2017	2016
Operating revenues	\$ 94,626	\$ 94,736
Operating expenses	176,356	170,038
Operating loss	(81,730)	(75,302)

Nonoperating revenues and expenses	84,383	80,087
Income before other revenues, expenses, gains, or losses	2,653	4,785
Other revenues, expenses, gains, or losses	5,642	9,369
Increase in net position	8,295	14,154
Net position at beginning of year	189,196	175,042
Net position at end of year	$197,491	$189,196

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)



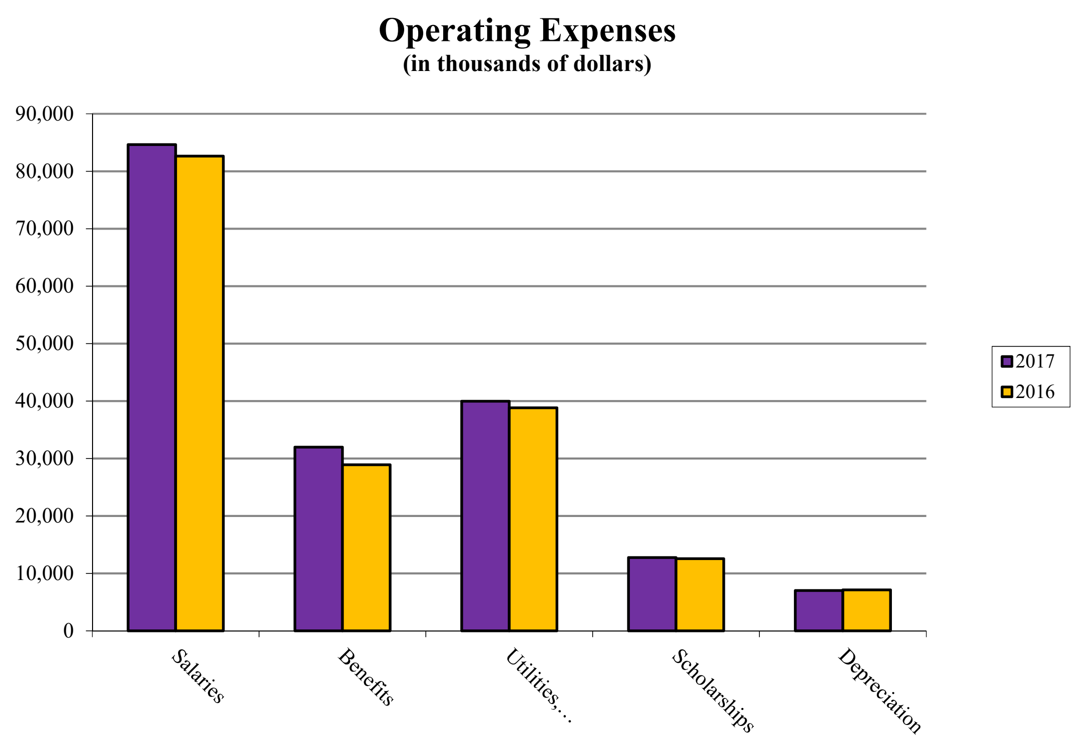
Comparison of FY 2017 to FY 2016

- Operating revenues of the university decreased 0.1%. Net tuition and fees decreased 7.0%, auxiliary revenues increased 0.9%, grants and contracts increased 35.0%, and other increased 9.5%.
- Tuition and fees net of the scholarship allowance decreased $4.2 million due to a decline in FTE enrollment of approximately 3.6%. This was offset by a tuition increase of 2.8% for in-state students and 2.9% for out-of-state students. Out-of-state tuition accounted for $4.3 million of the decline due to a decrease in international students. The remaining difference is primarily due to the increase in the scholarship allowance and various other fee increases that includes an increase in the debt service fee of $574 thousand and the specialized academic course fee of $887 thousand. Most of the special academic course fee increase was due to a $20 increase in the Engineering special academic course fee. Fiscal year 2017 was the first year the $100 debt service fee for the new fitness center covers seniors and graduate students.

- Auxiliary revenues had a total increase of 0.9%. Within the auxiliary revenues, the bookstore, fitness center, and Post Office had a decrease of 9.2% ($53 thousand), 4.0% ($61 thousand), and 84.2% ($80 thousand), respectively. The bookstore revenues decreased due to sales not being at a level high enough to earn additional commissions over the guarantee. The fitness center revenues dropped due to the decline in enrollment and the cheer clinic. The Post Office revenue dropped significantly due to fiscal year 2017 being the first full year after the operation was transitioned to a service center operation in unrestricted Education & General funds.
- Grants and contracts increased 35.0% due to an increased level of federal, state, and privately funded research projects.
- Other operating revenues increased approximately 9.5%. This increase was due to the implementation of zoned parking in the Fall Semester 2016. This increased revenue $1.1 million.

Operating Expenses

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



Comparison of FY 2017 to FY 2016

- Operating expenditures increased $6.3 million (3.7%) from 2016 to 2017.
- Salaries increased $2.0 million (2.4%) as the result of a 1.0% cost of living adjustment, 1% merit adjustment, faculty promotions, and an increase in filled positions.
- Benefits increased $3.1 million (10.6%). Retirement expenditures increased $2.5 million (42.9%) due to GASB 68 actuarial pension calculations. Employee health insurance increased $814 thousand (6.7%). FICA and Medicare increased $124 thousand (2.3%). These increases were offset by decreases in compensated absences, other post-employment benefits, employee fee waivers, discounts and scholarships included in benefits. See Note 11 to the financial statements for further explanation of the pension plans.
- Utilities, supplies, and other services had an increase of $1.1 million (2.9%). This increase was due to a $1.1 million increase in expenditures for deferred maintenance to property, plant, and equipment.

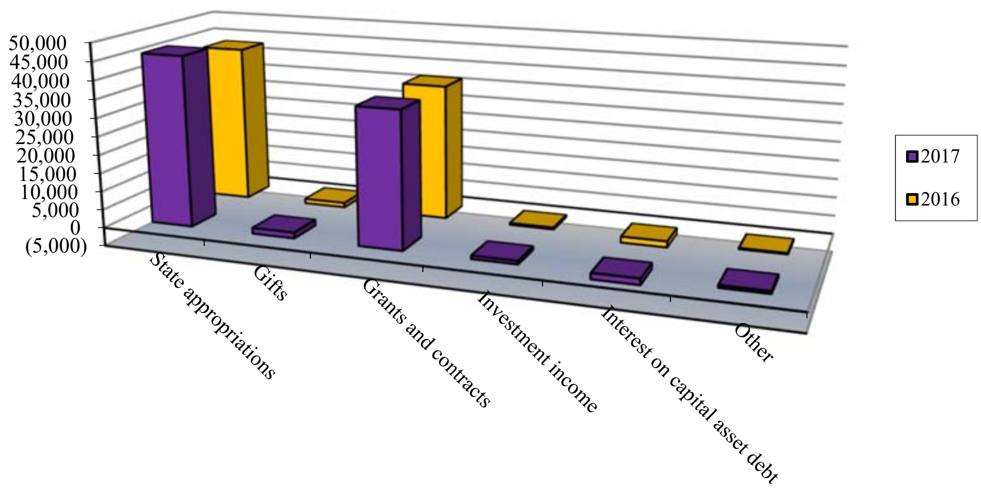
Nonoperating Revenues and Expenses

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)

	2017	2016
State appropriations	$46,332	$43,065
Gifts	1,538	1,233
Grants and contracts	36,639	36,666
Investment income	868	478
Interest on capital asset debt	(1,626)	(1,632)
Other	632	277
	$84,383	$80,087

Nonoperating Revenues and Expenses
(in thousands of dollars)



Comparison of FY 2017 to FY 2016

- Nonoperating revenues and expenses increased by $4.3 million (5.4%).
- State appropriations increased $3.3 million (7.6%) due to funding formula outcomes of $2.8 million and the rest to cover benefit increases.
- Investment income increased $390 thousand (81.6%) due to increased interest rates in the Local Government Investment Pool.
- Other nonoperating revenue and expense increased $355 thousand (128.5%). This was due to an increase in insurance recovery funds of $456 thousand and the remainder a decrease in traffic fines of $83 thousand offset by a decrease in debt administrative cost.

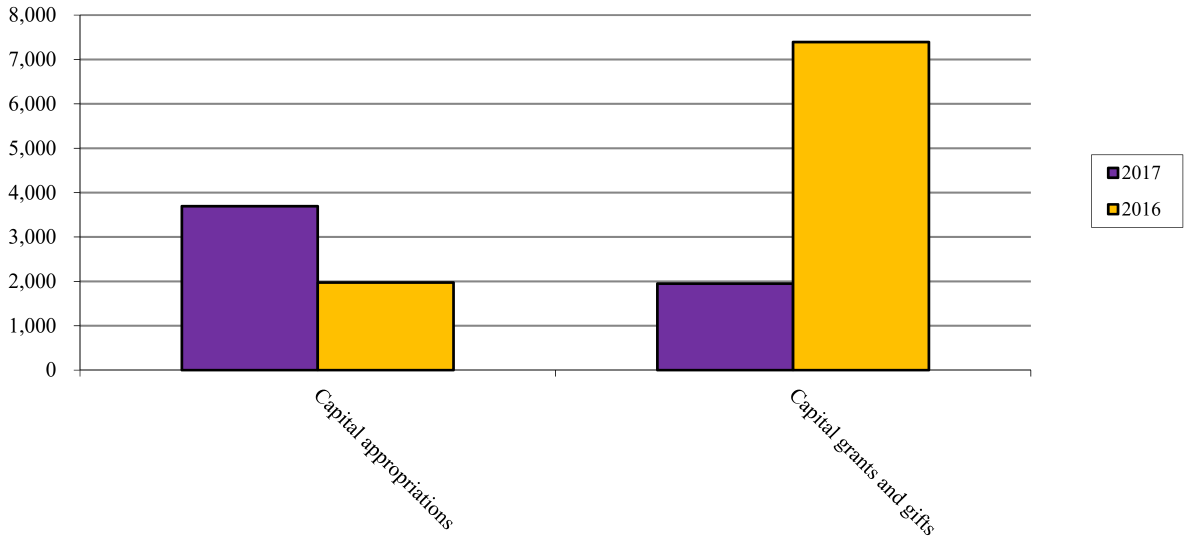
Other Revenues

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

Other Revenues
(in thousands of dollars)

	2017	2016
Capital appropriations	$3,693	$1,975
Capital grants and gifts	1,949	7,394
	$5,642	$9,369

Other Revenues
(in thousands of dollars)



Comparison of FY 2017 to FY 2016

- Other revenues decreased $3.7 million (39.8%) for 2017.
- Capital appropriations to address campus deferred maintenance and to fund the new science building increased by $1.7 million.
- Capital grants and gifts decreased $5.4 million. This decrease was due to fiscal year 2016 having gift-in-kind assets of land, building, infrastructure, and equipment from taking over the operations of the Cookeville Higher Education Campus.

Capital Assets and Debt Administration

Capital Assets

Tennessee Technological University had $179.0 million invested in capital assets, net of accumulated depreciation of $136.0 million at June 30, 2017; and $166.3 million invested in capital assets, net of accumulated depreciation of $131.1 million at June 30, 2016. Depreciation charges totaled $7.0 million and $7.1 million for the years ended June 30, 2017, and June 30, 2016, respectively. See Note 6 to the financial statements.

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

	2017	2016
Land	$ 11,370	$ 9,011
Land improvements & infrastructure	15,658	14,897
Buildings	124,652	127,798
Equipment	8,855	8,793
Library holdings	995	1,135
Intangible assets	718	977
Art & historical collections	26	26
Projects in progress	16,713	3,655
Total Capital Assets, Net of Depreciation	$ 178,987	$ 166,292

The university is involved in various renovation, new construction, and other projects on campus that increased the capital assets by $14.6 million during fiscal year 2017. Residential hall renovations, academic building renovations, and beginning work on the new science building and fitness center were the largest projects. Land, land improvements, and infrastructure were $2.5 million. Another $2.1 million in equipment and library holdings was purchased during the year. New projects in progress for a super computer, solar tree, and sculpture were $443 thousand. Another $186 thousand was gift-in-kind assets from the Tennessee Technological University Foundation.

At June 30, 2017, outstanding commitments under construction contracts totaled $179 million for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $80 million of these costs. The largest of these projects are the new science building, fitness center, parking improvements, and improvements to the university center.

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

Debt

The university had $65.1 million and $60.7 million in debt outstanding at June 30, 2017, and June 30, 2016, respectively. The table below summarizes these amounts by type of debt instrument.

Schedule of Debt Outstanding
(in thousands of dollars)

Debt Instrument	2017	2016
Bonds payable	$34,278	$36,600
Unamortized bond premium	4,696	5,109

Revolving credit/commercial paper	26,158	18,983
Total outstanding debt	$65,132	$60,692

The TSSBA issued bonds with interest rates ranging from 0.65% to 5.0% 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 $65.1 million outstanding at June 30, 2017, is $2.2 million.

In fiscal year 2017, $7.5 million in revolving credit facility was issued with the majority related to student housing renovations and the new fitness center.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2017, were as follows:

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

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

Economic Factors That Will Affect the Future

On July 1, 2017, Volunteer State Community College will assume the management role of Cookeville Higher Education Campus. Tennessee Technological University will turn over all administrative accounting and budgeting duties and assets to Volunteer State Community College.

TENNESSEE TECHNOLOGICAL UNIVERSITY
Statement of Net Position
June 30, 2017

	University	Component Unit
Assets		
Current assets:		
Cash and cash equivalents (Notes 2 and 22)	$ 28,235,928.90	$ 1,460,099.07
Accounts, notes, and grants receivable (net) (Note 5)	6,758,674.91	366,277.13
Due from State of Tennessee	1,917,910.08	-
Inventories	307,292.54	11,659.62
Prepaid expenses	1,426,871.30	160,682.01
Accrued interest	13,072.33	142,215.72
Total current assets	38,659,750.06	2,140,933.55
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 22)	87,680,244.21	2,803,864.59
Investments (Notes 3, 4, and 22)	112,635.03	68,364,130.64
Accounts, notes, and grants receivable (net) (Note 5)	932,928.19	-
Capital assets (net) (Notes 6 and 22)	178,986,831.62	11,756,211.02
Net pension asset (Note 11)	103,386.00	-
Total noncurrent assets	267,816,025.05	82,924,206.25
Total assets	306,475,775.11	85,065,139.80
Deferred outflows of resources		
Deferred amount on debt refunding	656,548.26	-
Deferred outflows related to pensions (Note 11)	12,029,519.03	-
Total deferred outflows of resources	12,686,067.29	-
Liabilities		
Current liabilities:		
Accounts payable (Notes 7 and 22)	2,812,666.17	1,336,014.82
Accrued liabilities (Note 22)	9,680,636.55	51,059.09
Due to State of Tennessee	3,399,896.14	-
Student deposits	555,574.23	-
Unearned revenue (Note 8)	3,843,827.74	75,125.65
Compensated absences (Note 8)	1,065,438.71	-
Accrued interest payable	313,794.52	36.56
Long-term liabilities, current portion (Notes 8 and 22)	2,154,145.11	47,963.15
Deposits held in custody for others	371,380.92	-
Other liabilities	103,125.20	-
Total current liabilities	24,300,485.29	1,510,199.27
Noncurrent liabilities:		
Net OPEB obligation (Note 12)	7,599,258.33	-
Net pension liability (Note 11)	21,153,652.00	-
Unearned revenue (Note 8)	80,000.00	-
Compensated absences (Note 8)	3,621,402.70	-
Long-term liabilities (Notes 8 and 22)	62,978,132.39	75,204.72
Due to grantors (Note 8)	801,968.32	-
Total noncurrent liabilities	96,234,413.74	75,204.72
Total liabilities	120,534,899.03	1,585,403.99
Deferred inflows of resources		
Deferred inflows related to pensions (Note 11)	1,136,349.00	-
Total deferred inflows of resources	1,136,349.00	-
Net position		
Net investment in capital assets	114,511,102.38	11,756,211.02
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	178,171.68	33,648,983.88
Research	-	606,609.85
Instructional department uses	-	2,840,618.79
Other	-	14,116,208.97
Expendable:		
Scholarships and fellowships	90,613.54	7,165,697.48
Research	1,450,503.38	232,539.64
Instructional department uses	459,680.52	2,146,025.31
Loans	282,635.27	-
Capital projects	1,480,578.89	1,788,004.85
Pension	103,386.00	-
Other	1,135,680.51	9,087,600.20
Unrestricted	77,798,242.20	91,235.82
Total net position	$ 197,490,594.37	$ 83,479,735.81

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

TENNESSEE TECHNOLOGICAL UNIVERSITY
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2017

	University	Component Unit
Revenues		
Operating revenues:		
Student tuition and fees (Note 13)	$ 55,202,967.76	$ -
Gifts and contributions	-	5,786,102.44
Governmental grants and contracts (Note 13)	10,760,934.31	-
Nongovernmental grants and contracts	442,647.44	-
Sales and services of educational activities (Note 13)	2,024,684.27	-
Sales and services of other activities (Note 13)	9,417,219.70	-
Auxiliary enterprises:		
Residential life (Note 13)	12,320,340.42	-
Bookstore (Note 13)	528,087.66	-
Food service (Note 13)	2,068,205.45	-
Wellness facility (Note 13)	1,460,221.75	-
Other auxiliaries (Note 13)	374,563.70	-
Interest earned on loans to students	19,636.20	-
Other operating revenues (Note 13)	6,578.25	774,088.46
Total operating revenues	94,626,086.91	6,560,190.90
Expenses		
Operating expenses (Note 18):		
Salaries and wages	84,631,636.06	-
Benefits	31,976,669.19	-
Utilities, supplies, and other services	39,954,113.87	2,456,168.58
Scholarships and fellowships	12,767,569.94	2,037,755.00
Depreciation expense	7,026,418.89	-
Payments to or on behalf of Tennessee Technological University (Note 22)	-	3,332,942.78
Total operating expenses	176,356,407.95	7,826,866.36
Operating loss	(81,730,321.04)	(1,266,675.46)
Nonoperating revenues (expenses)		
State appropriations	46,332,162.50	-
Gifts, including $1,389,201.31 from component unit	1,538,222.49	-
Grants and contracts	36,639,155.98	-
Investment income (net of investment expense for the component unit of $370,532.26)	867,561.54	8,799,287.67
Interest on capital asset-related debt	(1,626,558.60)	-
Other nonoperating revenues (expenses) (Note 13)	632,324.79	(1,965,972.45)
Total nonoperating revenues (expenses)	84,382,868.70	6,833,315.22
Income (loss) before other revenues, expenses, gains, or losses	2,652,547.66	5,566,639.76
Capital appropriations	3,692,812.98	-
Capital grants and gifts, including $1,943,741.47 from the component unit	1,949,291.47	7,639,954.97
Additions to permanent endowments	50.00	2,513,898.92
Total other revenues	5,642,154.45	10,153,853.89
Increase in net position	8,294,702.11	15,720,493.65
Net position - beginning of year	189,195,892.26	67,759,242.16
Net position - end of year	$ 197,490,594.37	$ 83,479,735.81

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

TENNESSEE TECHNOLOGICAL UNIVERSITY
Statement of Cash Flows
For the Year Ended June 30, 2017

Cash flows from operating activities	
Tuition and fees	$ 55,795,461.91
Grants and contracts	10,609,687.55
Sales and services of educational activities	2,056,610.64
Sales and services of other activities	9,517,363.74
Payments to suppliers and vendors	(37,127,216.92)
Payments to employees	(84,491,546.20)
Payments for benefits	(31,736,144.33)
Payments for scholarships and fellowships	(12,789,761.57)
Loans issued to students	(264,801.89)
Collection of loans from students	184,030.07
Interest earned on loans to students	12,575.64
Auxiliary enterprise charges:	
Residence halls	12,379,994.95
Bookstore	597,239.44
Food services	2,274,836.86
Wellness facility	1,465,838.82
Other auxiliaries	370,769.32
Other receipts (payments)	6,431.25
Net cash used for operating activities	(71,138,630.72)
Cash flows from noncapital financing activities	
State appropriations	46,151,600.00
Gifts and grants received for other than capital or endowment purposes, including $1,389,201.31 from Tennessee Technological University Foundation	38,115,010.44
Private gifts for endowment purposes	50.00
Federal student loan receipts	35,195,764.00
Federal student loan disbursements	(35,117,211.00)
Changes in deposits held for others	29,785.82
Other noncapital financing receipts (payments)	670,686.95
Net cash provided by noncapital financing activities	85,045,686.21
Cash flows from capital and related financing activities	
Capital grants and gifts received, including $1,532,000.00 from Tennessee Technological University Foundation	1,537,550.00
Proceeds from sale of capital assets	33,267.00
Purchases of capital assets and construction	(9,733,042.24)
Principal paid on capital debt	(2,662,092.98)
Interest paid on capital debt	(1,941,685.13)
Other capital and related financing receipts (payments)	(43,016.38)
Net cash used for capital and related financing activities	(12,809,019.73)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	41,226.77
Income on investments	878,187.96
Net cash provided by investing activities	919,414.73
Net increase in cash and cash equivalents	2,017,450.49
Cash and cash equivalents - beginning of year	113,898,722.62
Cash and cash equivalents - end of year	$ 115,916,173.11

TENNESSEE TECHNOLOGICAL UNIVERSITY
Statement of Cash Flows (continued)
For the Year Ended June 30, 2017

Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$	(81,730,321.04)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Noncash operating expenses		9,002,050.69
Change in assets, liabilities, and deferrals:		
Receivables, net		268,568.65
Due from primary government		(269,076.56)
Inventories		(5,245.58)
Prepaid items		(17,557.28)
Net pension asset		(71,252.19)
Deferred outflows of resources - pensions		(5,212,366.73)
Net pension liability		6,883,898.17
Deferred inflows of resources - pensions		(1,945,550.00)
Accounts payable		(1,147,113.43)
Accrued liabilities		969,229.14
Due to primary government		2,044,167.49
Net OPEB Obligation		163,099.20
Unearned revenues		28,278.17
Deposits		(25,770.75)
Compensated absences		142,127.44
Due to grantors		(106,662.23)
Loans to students		(109,133.88)
Net cash used for operating activities	$	(71,138,630.72)

Noncash investing, capital, or financing transactions		
Gifts in-kind - capital	$	411,741.47
Unrealized losses on investments	$	(6,327.79)
Gain on disposal of capital assets	$	10,807.42
Proceeds from capital debt	$	7,515,461.08
Capital appropriations	$	1,891,932.43
Purchase of capital assets and construction	$	(9,407,393.51)

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 (the system). The Focus on College and University Success Act of 2016 removed the six universities from the governance of the Tennessee Board of Regents, but they remain part of the system. The universities have their own local governing boards that provide governance, approve policies, set tuition and fee rates, and hire presidents. The system has limited oversight responsibilities during the transition period and continuing oversight responsibilities in the areas of budget approval and institutional debt. 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 system's 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 22 for more detailed information about the component unit.

Basis of Presentation

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

Basis of Accounting

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

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

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

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

Cash Equivalents

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

Inventories

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

Compensated Absences

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

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

Capital Assets

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

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

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

Pensions

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

Net Position

The university's net position is classified as follows:

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

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

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

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

Scholarship Discounts and Allowances

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

Note 2. Cash

This classification includes demand deposits and petty cash on hand. At June 30, 2017, cash consisted of $15,338,268.04 in bank accounts, $27,491.38 of petty cash on hand, $74,186,303.04 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, and $26,364,110.65 in LGIP deposits for capital projects.

The LGIP is administered by the State Treasurer and is measured at amortized cost. The LGIP is part of the State Pooled Investment Fund. There are no minimum or maximum limitations on withdrawals with the exception of a 24-hour notification period for withdrawals of $5 million or more. The fund's required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

LGIP deposits for capital projects – Payments related to the university's capital projects are made by the State of Tennessee's Department of Finance and Administration. The university's estimated local share of the cost of each project is held in a separate LGIP account. As expenses are incurred, funds are withdrawn from the LGIP account by the system and transferred to the Department of Finance and Administration. The funds in the account are not available to the university for any other purpose until the project is completed and the system 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, and GASB Statement 72, *Fair Value Measurement and Application,* 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, 2017, the university had the following debt investments and maturities:

		Investment Maturities (in Years)				
Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	More than 10	No Maturity Date
U.S. agencies	$94,645.97	$ -	$15,538.21	$3,379.68	$75,728.08	$ -

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 the system's 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.

The 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, 2017, the university's investments were rated as follows:

Investment Type	Balance	Credit Quality Rating Unrated
LGIP (amortized cost)	$100,550,413.69	$100,550,413.69

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

Investments	Balance June 30, 2017
LGIP (amortized cost)	$338,317.74

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, 2017, each having a fair value of $1.168146, 172,761.15 units were owned by permanent endowments, 7,710.52 units were owned by term endowments, and 109,147.62 units were owned by quasi-endowments.

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

FY 2017	Pooled Assets			
	Fair Value	Cost	Net Gains (Losses)	Fair Value Per Unit
End of year	$338,317.74	$338,317.74	$ -	$ 1.168146
Beginning of year	$342,171.28	$342,171.44	(0.16)	1.165564
Change in unit value				$(0.002582)
Unrealized net gains			0.16	
Realized net gains			-	
Total net gains			$0.16	

The average annual earnings per unit, exclusive of net gains/(losses), were $0.005523 for the year ended June 30, 2017.

Note 4. Fair Value Measurement

The university categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The university has the following recurring fair value measurements as of June 30, 2017:

	June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at the Net Asset Value (NAV)
Assets by Fair Value Level					
Debt securities					
U.S. agencies	$94,645.97	$ -	$94,645.97	$ -	$ -

The table above includes all investments for the university with the exception of the cash surrender value life insurance of $17,989.06, which is not measured at fair value, but rather at cash surrender value.

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

Note 5. Receivables

Receivables at June 30, 2017, included the following:

Student accounts receivable	$1,845,907.30
Grants receivable	1,620,228.89
Notes receivable	88,401.09
Federal direct loans receivable	2,028,071.00
Other receivables	1,603,859.15
Subtotal	7,186,467.43
Less allowance for doubtful accounts	(401,968.92)
Total receivables	$6,784,498.51

Federal Perkins Loan Program funds at June 30, 2017, included the following:

Perkins loans receivable	$1,027,882.18
Less allowance for doubtful accounts	(120,777.59)
Total	$ 907,104.59

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 9,010,892.76	$ 2,359,056.90	$ -	$ -	$ 11,369,949.66
Land improvements and infrastructure	26,479,879.49	134,867.03	1,777,556.54	-	28,392,303.06
Buildings	221,648,005.69	252,038.02	-	-	221,900,043.71
Equipment	29,689,339.62	2,047,733.99	-	1,790,274.57	29,946,799.04
Library holdings	2,680,113.50	108,621.42	-	305,674.65	2,483,060.27
Intangible assets	4,210,079.53	-	-	-	4,210,079.53
Art and historical collections	26,010.45	-	-	-	26,010.45
Projects in progress	3,654,528.57	14,835,901.08	(1,777,556.54)	-	16,712,873.11
Total	297,398,849.61	19,738,218.44	-	2,095,949.22	315,041,118.83
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	11,582,675.14	1,151,463.60	-	-	12,734,138.74
Buildings	93,850,308.05	3,398,507.55	-	-	97,248,815.60
Equipment	20,895,856.85	1,968,909.27	-	1,773,135.26	21,091,630.86
Library holdings	1,545,350.32	248,306.01	-	305,674.65	1,487,981.68
Intangible assets	3,232,487.87	259,232.46	-	-	3,491,720.33
Total	131,106,678.23	7,026,418.89	-	2,078,809.91	136,054,287.21
Capital assets, net	$166,292,171.38	$12,711,799.55	$ -	$ 17,139.31	$178,986,831.62

Note 7. Accounts Payable

Accounts payable at June 30, 2017, included the following:

Vendors payable	$2,714,900.57
Unapplied student payments	97,765.60
Total accounts payable	$2,812,666.17

Note 8. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$36,599,551.61	$ -	$2,322,092.98	$34,277,458.63	$2,154,145.11
Unamortized bond premium	5,108,939.49	-	412,723.65	4,696,215.84	-
Revolving credit facility	18,983,141.95	7,515,461.08	340,000.00	26,158,603.03	-
Subtotal	60,691,633.05	7,515,461.08	3,074,816.63	65,132,277.50	2,154,145.11
Other liabilities:					
Compensated absences	4,544,713.97	2,618,196.97	2,476,069.53	4,686,841.41	1,065,438.71
Due to grantors	908,630.55	-	106,662.23	801,968.32	-
Unearned revenue	3,895,549.57	3,823,827.74	3,795,549.57	3,923,827.74	3,843,827.74
Subtotal	9,348,894.09	6,442,024.71	6,378,281.33	9,412,637.47	4,909,266.45
Total long-term liabilities	$70,040,527.14	$13,957,485.79	$9,453,097.96	$74,544,914.97	$7,063,411.56

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 0.65% 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 10 for further details. The bonded indebtedness with the TSSBA included in long-term liabilities on the statement of net position is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was $2,072,014.47 at June 30, 2017.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2017, are as follows:

Year Ending June 30	Principal	Interest	Total
2018	$ 2,154,145.11	$ 1,663,877.65	$ 3,818,022.76
2019	2,357,063.65	1,549,653.98	3,906,717.63
2020	2,458,537.37	1,409,552.24	3,868,089.61
2021	2,576,774.64	1,293,091.24	3,869,865.88
2022	2,701,115.98	1,175,398.14	3,876,514.12
2023 – 2027	12,636,473.20	4,132,988.09	16,769,461.29
2028 – 2032	8,527,852.93	1,352,211.40	9,880,064.33

2033 – 2034	865,495.75	43,815.72	909,311.47
Total	$34,277,458.63	$12,620,588.46	$46,898,047.09

TSSBA Debt – Revolving Credit Facility

The Tennessee State School Bond Authority (TSSBA) receives loans from the revolving credit facility to finance the costs of various capital projects during the construction phase. When projects are placed in service, TSSBA issues long-term, fixed-rate debt to finance the project over its useful payback period and repays the revolving credit facility debt. The total outstanding loans from the revolving credit facility for the university were $25,380,769.29 at June 30, 2017. In addition, the university has expended $777,833.74 on projects that TSSBA has not yet withdrawn from the revolving credit facility. Although all revolving credit facility is classified as long-term debt, the university is currently making a $340,000.00 annual payment for one project with nine years remaining. There are two other projects that the university will likely make annual payments of $1,241,039.00 for ten years. This decision to bond will be determined by market conditions.

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

Note 9. Endowments

If a donor has not provided specific instructions to the university, state law permits the university to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the university is required to consider 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 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, 2017, net appreciation of $164,333.30 is available to be spent, of which $6,331.93 is included in restricted net position expendable for scholarships and fellowships, $5,063.26 is included in restricted net position expendable for instructional department uses, $15,803.83 is included in restricted net position expendable for loans, $10,554.68 is included in restricted net position expendable for other, and $126,579.60 is included in unrestricted net position.

Note 10. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $34,277,458.63 in revenue bonds issued from January 2007 to May 2015 (see Note 8 for further detail). Proceeds from the bonds provided financing for student housing, conditioning center, and energy upgrades. The bonds are payable through November 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 $46,898,047.09. Principal and interest paid for the current year and total available revenues were $4,152,250.86 and $169,920,560.98, respectively.

Note 11. Pension Plans

<u>Defined Benefit Plans</u>

Closed State and Higher Education Employee Pension Plan

General Information About the Pension Plan

<u>Plan description</u> – 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.

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

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

Plus:

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

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

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The university's employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by the university for the year ended June 30, 2017, to the Closed State and Higher Education Employee Pension Plan were $4,208,058.72, which is 15.02% 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, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability – At June 30, 2017, the university reported a liability of $21,153,652 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2016, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2016, measurement date, the university's proportion was 1.15938%. The proportion measured as of June 30, 2015, was 1.106798%.

Pension expense – For the year ended June 30, 2017, the university recognized a pension expense of $4,062,748.00.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2017, 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	$ 1,186,282.00	$1,124,023.00
Net difference between projected and actual earnings on pension plan investments	5,115,960.00	-
Changes in proportion of net pension liability	1,243,840.25	-
Tennessee Technological University's contributions subsequent to the measurement date of June 30, 2016	4,208,058.72	-
Total	$11,754,140.97	$1,124,023.00

Deferred outflows of resources, resulting from the university's employer contributions of $4,208,058.72 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2018. 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 Ending June 30	
2018	$ 684,841
2019	$ 684,841
2020	$3,566,216
2021	$1,486,159
2022	$ -
Thereafter	$ -

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

Actuarial assumptions – The total pension liability as of the June 30, 2016, 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, 2016, 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 proportionate share of net pension liability to changes in the discount rate – The following presents the university's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the university's proportionate share of the net pension liability 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 proportionate share of the net pension liability	$41,571,180	$21,153,652	$3,936,971

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, 2017, the university reported a payable of $324,583.52 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2017.

State and Higher Education Employee Retirement Plan

General Information About the Pension Plan

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

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated,* establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula multiplying the member's highest 5 consecutive years' average compensation by 1% multiplied by the member's years of service credit. A reduced early retirement is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which a member's age and service credit total 80. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. University employees contribute 5% of their salary to the State and Higher Education Employment Employee Retirement Plan. 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, 2017, to the State and Higher Education Employee Retirement Plan were $255,800.19, which is 3.88% 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 Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset – At June 30, 2017, the university reported an asset of $103,386 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. The university's proportion of the net pension asset was based on a projection of the university's contributions during the year ended June 30, 2016, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2016, measurement date, the university's proportion was 1.227201%. At the June 30, 2015, measurement date, the university's proportion was 1.155489%.

Pension expense – For the year ended June 30, 2017, the university recognized a pension expense of $57,729.00.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2017, 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	$ 7,522.00	$11,110.00
Net difference between projected and actual earnings on pension plan investments	12,055.87	-
Changes in proportion of net pension asset	-	1,216.00
Tennessee Technological University's contributions subsequent to the measurement date of June 30, 2016	255,800.19	-
Total	$275,378.06	$12,326.00

Deferred outflows of resources, resulting from the university's employer contributions of $255,800.19 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2018. 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 Ending June 30	
2018	$2,339
2019	$2,339
2020	$2,339
2021	$1,844
2022	$ (799)
Thereafter	$ (810)

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

Actuarial assumptions – The total pension asset as of the June 30, 2016, 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, 2016, 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 asset was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Sensitivity of the proportionate share of net pension asset to changes in the discount rate – The following presents the university's proportionate share of the net pension asset calculated using the discount rate of 7.5%, as well as what the university's proportionate share of the net pension 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 proportionate share of the net pension asset	$12,363	$103,386	$171,575

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, 2017, the university reported a payable of $39,101.30 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2017.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2017, for all state and local government defined benefit pension plans was $4,120,477.00.

Defined Contribution Plans

Optional Retirement Plans

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

Funding policy – For employees employed prior to July 1, 2014, plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. For employees hired after June 30, 2014, plan members will contribute 5% to the ORP and the university will contribute 9% of the employee's base salary. Pension expense equaled the required contributions made to the ORP and was $3,924,368.79 for the year ended June 30, 2017, and $3,918,013.04 for the year ended June 30, 2016. Contributions met the requirements for each year.

Members are immediately 100% vested in the employer contributions made pursuant to the ORP. The Treasury Department has selected three investment vendors who offer a variety of investment products in which members are responsible for selecting how the contributions are invested. Each member makes the decision when to reallocate future contributions or when to transfer funds from one investment product to another. Funds are held by the investment vendor in the name of the member, not in the name of the State of Tennessee. The State of Tennessee has no discretion over these funds other than to make the initial contributions. Accordingly, the State of Tennessee is not acting in a trustee capacity, nor does it have a fiduciary responsibility for the funds held by the investment vendors.

Deferred Compensation Plans

Employees are offered three deferred compensation plans. The university, through the State of Tennessee, provides two plans, one established pursuant to the *Internal Revenue Code* (IRC), Section 457, and the other pursuant to IRC, Section 401(k). The third plan is administered by the university and was established in accordance with IRC, Section 403(b). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k), Section 403(b), and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. Sections 401(k), 403(b), and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 403(b) and the 457 plans is voluntary for employees. The university provides up to a $50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Chapter 259 of the Public Acts of 2013, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary, with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

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

During the year ended June 30, 2017, contributions totaling $1,823,519.04 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $854,233.27 for employer contributions. During the year ended June 30, 2016, contributions totaling $1,673,841.54 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $696,929.81 for employer contributions.

At June 30, 2017, the university reported a payable of $213,979.53 for the outstanding amount of legally required contributions to the plan required for the year ended June 30, 2017.

Note 12. Other Postemployment Benefits

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that provides postemployment health insurance benefits to eligible university retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-201, *Tennessee Code Annotated,* for the State Employee Group Plan and for the Medicare Supplement Plan. The State Employee Group Plan covers retirees until they reach the age of 65. Members have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. Employees hired on or after July 1, 2015, are not eligible to continue insurance coverage at retirement in either the Employee Group Plan or the Medicare Supplement Plan. The state makes on-behalf payments to the Medicare Supplement Plan for the university's eligible retirees; see Note 20. The plans are reported in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/article/fa-accfin-cafr.

Special Funding Situation

The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan, which covers the retirees of other governmental entities, including the university. The state is the sole contributor for the university retirees who participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. The plan's claims liabilities are periodically computed using actuarial and statistical techniques to establish premium rates. The plan's administrative costs are allocated to plan participants. Retired members pay the same base premium, adjusted for years of service, as active employees. Retirees with 30 years of service are subsidized 80%; retirees with

20 years of service but less than 30 years of service, 70%; and retirees with less than 20 years of service, 60%. Retirees in the Medicare Supplement Plan have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; retirees with 20 years of service but less than 30 years of service, $37.50; and retirees with 15 years of service but less than 20 years of service, $25.

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

Annual required contribution (ARC)	$1,824,000.00
Interest on the net OPEB obligation	278,855.97
Adjustment to the ARC	(279,975.87)
Annual OPEB cost	1,822,880.10
Amount of contribution	(1,659,780.90)
Increase in net OPEB obligation	163,099.20
Net OPEB obligation – beginning of year	7,436,159.13
Net OPEB obligation – end of year	$7,599,258.33

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2017	State Employee Group Plan	$1,822,880.10	91.1%	$7,599,258.33
June 30, 2016	State Employee Group Plan	$1,762,923.02	83.8%	$7,436,159.13
June 30, 2015	State Employee Group Plan	$1,721,112.31	85.6%	$7,151,161.08

Funded Status and Funding Progress

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

State Employee Group Plan

Actuarial valuation date	July 1, 2015
Actuarial accrued liability (AAL)	$15,059,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$15,059,000.00
Actuarial value of assets as a percentage of the AAL	0.0%

Covered payroll (active plan members)	$56,487,773.69
UAAL as percentage of covered payroll	26.7%

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

Actuarial Methods and Assumptions

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

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

Note 13. Revenues

A summary of adjustments and allowances by revenue classification is presented as follows:

Revenue Source	Gross Revenue	Less Scholarship Allowances	Less Uncollectible Debts	Net Revenue
Operating revenues:				
Tuition and fees	$ 97,471,833.63	$(42,122,336.34)	$(146,529.53)	$55,202,967.76
Governmental grants and contracts	10,760,950.43	-	(16.12)	10,760,934.31
Sales and services of educational activities	2,025,178.48	-	(494.21)	2,024,684.27

Sales and services of other activities	9,422,445.08	-	(5,225.38)	9,417,219.70
Residential life	12,317,845.51	-	2,494.91	12,320,340.42
Bookstore	526,268.24	-	1,819.42	528,087.66
Food service	2,065,089.50	-	3,115.95	2,068,205.45
Wellness facility	1,464,058.99	(3,836.62)	(0.62)	1,460,221.75
Other auxiliaries	374,721.86	-	(158.16)	374,563.70
Other operating revenue	6,581.25	-	(3.00)	6,578.25
Nonoperating revenues:				
Other nonoperating revenues	633,168.64	-	(843.85)	632,324.79
Total	**$137,068,141.61**	**$42,126,172.96**	**$145,840.59**	**$94,796,128.06**

Note 14. Insurance-related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice liability, and workers' compensation. By statute, the maximum liability for general liability, automobile liability, and professional medical malpractice liability is $300,000 per person and $1,000,000 per occurrence. 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, crime and fidelity coverage on the state's officials and employees, and cyber liability coverage. 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 $7.5 million for perils other than earthquake and flood. Purchased insurance coverage is responsible for losses exceeding the $7.5 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. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2017, is presented in the *Tennessee Comprehensive Annual Financial Report*

(CAFR). The CAFR is available on the state's website at www.tn.gov/finance/article/fa-accfin-cafr. At June 30, 2017, the RMF held $167 million in cash designated for payment of claims.

At June 30, 2017, the scheduled coverage for the university was $633,074,745.00 for buildings and $135,655,000.00 for contents.

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

Note 15. Commitments and Contingencies

Sick Leave

The university records the cost of sick leave when paid. The dollar amount of unused sick leave was $32,339,270.90 at June 30, 2017.

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 $418,356.19 and expenses for personal property were $294,869.14 for the year ended June 30, 2017. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2017, outstanding commitments under construction contracts totaled $178,852,566.45 for the new science building, new fitness center, parking improvements, Roaden Center upgrades, and various other renovations and upgrades, of which $80,045,816.50 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 16. Chairs of Excellence

The university had $6,734,354.15 on deposit at June 30, 2017, 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 17. Funds Held in Trust by Others

The university is a beneficiary under the William Jenkins Estate trust. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received $4,595.35 from these funds during the year ended June 30, 2017.

Note 18. Natural Classification With Functional Classifications

The university's operating expenses for the year ended June 30, 2017, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$43,038,360.15	$15,724,147.96	$ 9,513,819.21	$ -	$ -	$ 68,276,327.32
Research	4,575,360.21	1,572,761.99	3,775,566.58	-	-	9,923,688.78
Public service	2,678,815.73	930,135.76	2,189,669.27	-	-	5,798,620.76
Academic support	10,070,984.86	3,912,255.95	(2,011,179.09)	-	-	11,972,061.72
Student services	9,727,999.82	3,986,156.49	7,259,700.22	-	-	20,973,856.53
Institutional support	8,636,568.98	3,277,435.39	3,236,648.99	-	-	15,150,653.36
Maintenance and operation	3,716,432.84	1,913,225.34	12,133,667.88	-	-	17,763,326.06
Scholarships and fellowships	-	-	-	12,767,569.94	-	12,767,569.94
Auxiliary	2,187,113.47	660,550.31	3,856,220.81	-	-	6,703,884.59
Depreciation	-	-	-	-	7,026,418.89	7,026,418.89
Total	$84,631,636.06	$31,976,669.19	$39,954,113.87	$12,767,569.94	$7,026,418.89	$176,356,407.95

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 $6,355,382.25 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 19. 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, 2016, the assets of the foundation totaled $737,333.80, and the net position amounted to $737,333.80.

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, 2015, the assets of the BSOA totaled $165,229.00, liabilities were $45,465.00, and the net position amounted to $119,764.00. These amounts are not included in the university's financial report.

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

Note 20. On-behalf Payments

During the year ended June 30, 2017, the State of Tennessee made payments of $151,962.50 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 12. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/article/fa-accfin-cafr.

Note 21. Subsequent Events

As of July 1, 2017, the management of the Cookeville Higher Education Campus (CHEC) was taken over by Volunteer State Community College. All property, plant, and equipment was transferred to Volunteer State Community College. Total cost of property, plant, and equipment in capital assets to be transferred to Volunteer State is $9,298,498.11 with a book value of

$6,364,624.63. Technology Access Fee and Parking funds for the benefit of the CHEC to be transferred was $252,498.19.

Note 22. 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 17-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.

Tech Farms, LLC was established in December 2015 in anticipation of a future real estate gift. The sole member of the limited liability company is the Tennessee Technological University Foundation. The farm, now known as Tech Farms, was given on March 6, 2017. The purpose of the limited liability company is to own, manage, and operate agricultural resources. The farm will also be used by Tennessee Technological University for research, teaching, and outreach programs. Although it is legally separate from the foundation, it is reported in the foundation's financial statements as a blended component unit. The exclusion of the limited liability company from the foundation's reporting entity would render the foundation's financial statements incomplete. The assets, liabilities, revenues, and expenses of the limited liability company are included in the foundation's statement of net position and statement of revenues, expenditures, and changes in net position. Upon dissolution of the limited liability company, the assets shall be distributed to the foundation.

During the year ended June 30, 2017, the foundation made distributions of $3,332,942.78 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Tennessee Technological University, Office of the Vice President for Planning and Finance, P.O. Box 5037, Cookeville, TN 38505.

Cash and Cash Equivalents

In addition to demand deposits and petty cash on hand, this classification includes instruments that are readily convertible to known amounts of cash and that have original maturities of three months or less. At June 30, 2017, cash and cash equivalents consisted of $6,747.72 in custodial accounts of investment managers of the foundation, $200.00 of petty cash on hand, and $4,257,015.94 in the Local Government Investment Pool (LGIP) administered by the State Treasurer.

The LGIP is measured at amortized cost and is part of the Pooled Investment Fund. There are no minimum or maximum limitations on withdrawals with the exception of a 24-hour notification period for withdrawals of $5 million or more. The LGIP is part of the State Pooled Investment Fund. The fund's required risks 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.

Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, as amended, and GASB Statement 72, *Fair Value Measurement and Application,* as amended, investments are reported at fair value, including those with a maturity date of one year or less at the time of purchase, unless otherwise noted. The foundation is authorized to invest funds in accordance with its board of directors' policies.

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, 2017, the foundation had the following investments and maturities:

		Investment Maturities (in Years)	
Investment Type	Fair Value	1 to 5	No Maturity Date
U.S. Treasury	$ 12,175.00	$12,175.00	$ -
Mutual bond funds	15,611,774.93	-	15,611,774.93
Total debt investments	15,623,949.93	$12,175.00	$15,611,774.93
Non-fixed income investments			
Corporate stocks	366,367.75		
Mutual equity funds	42,818,528.27		
Other			
Private equity	2,445,154.00		
Natural resources	746,694.00		
Real estate	3,455,000.00		
Cash surrender value life insurance	22,655.54		
Hedge fund	315,750.65		
Marketable alternative strategies	2,570,030.50		
Total investments	$68,364,130.64		

The real estate listed above is held for investment. The foundation conveyed ownership of the building in June 2017 to the Industrial Development Board of the City of Cookeville, Tennessee (IDBC). In connection with a 15-year payment in lieu of tax (PILOT) lease, the foundation transferred ownership for $1 and will lease the property from IDBC, and then lease a portion of the property to Science Applications International Corporation (SAIC). The foundation will continue to receive all revenue related to the property with no payments being made between the foundation and IDBC. Tennessee Technological University Foundation would only be liable for replacement property taxes arising out of the non-SAIC space and any future underperformance sums owed by SAIC. The foundation may require SAIC to pay those amounts determined to be owed in the future related to SAIC's underperformance of the PILOT lease. At the termination of the PILOT lease the real estate is transferred back to the foundation for $100.

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, 2017, the foundation's investments were rated as follows:

Investment Type	Balance	Unrated
LGIP (amortized cost)	$ 4,257,015.94	$ 4,257,015.94
Mutual bond funds	15,611,774.93	15,611,774.93
Total	$19,868,790.87	$19,868,790.87

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.

Foreign currency risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The foundation places no limit on the amount it may invest in foreign currency.

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

Investments	Fair Value June 30, 2017
Local Government Investment Pool	$ 4,257,015.94
Investment manager custodial accounts	2,466.24
Mutual Funds	58,138,145.55

Other:	
Real estate	3,455,000.00
Private equity funds	2,445,154.00
Natural resources funds	746,694.00
Hedge funds	315,750.65
Marketable alternative strategies	2,570,030.50
Total	$71,930,256.88

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, 2017, each having a fair value of $117.916689, 521,008.4074 units were owned by permanent endowments, 25,633.6120 units were owned by quasi-endowments, and 63,367.1092 units were owned by non-endowment operating accounts.

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

	Pooled Assets			
FY 2017	Fair Value	Cost	Net Gains (Losses)	Fair Value Per Unit
End of year	$71,930,256.88	$64,988,883.35	$6,941,373.53	$117.916689
Beginning of year	$62,988,033.79	$64,570,012.48	(1,581,978.69)	100.470701
Change in unit value				$17.445988
Unrealized net gain			8,523,352.22	
Realized net gains			-	
Total net gain			$8,523,352.22	

The average annual earnings per unit, exclusive of net gains/(losses), were $0.3016 for the year ended June 30, 2017.

Alternative investments

The foundation had investments in a hedge fund, an alternative marketable investment, two private equity funds, and a natural resources fund. The estimated fair value of these assets was $6,077,629.15 at June 30, 2017. The largest funds are the private equity and natural resources funds, which represent 4.70% of the total portfolio of investments and 52.52% of all alternative investments. The hedge fund and alternative marketable investment represent 4.22% of portfolio assets and 47.48% of all alternative investments.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2017. 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. At June 30, 2017, the hedge fund and alternative marketable investment fund investments were valued at the net asset values as determined by the portfolio managers. All funds are issued audited financial statements on a calendar year basis or June 30 fiscal year end depending on the fund. To determine the fair value of the private equity and natural resources funds, those audited fair values are used as a beginning point, and valuations are adjusted for net capital activity and marketplace considerations to ascertain the reasonableness of estimated fair values provided by the portfolio managers.

Fair Value Measurement

The foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The university has the following recurring fair value measurements as of June 30, 2017:

	June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at the Net Asset Value (NAV)
Assets by Fair Value Level					
Debt securities					
U.S. Treasuries	$ 12,175.00	$ 12,175.00	$ -	$ -	$ -
Mutual bond funds	15,611,774.93	18,510.67	-	-	15,593,264.26
Total debt securities	15,623,949.93	30,685.67	-	-	15,593,264.26
Equity securities					
Corporate stock	366,367.75	321,367.75	-	45,000.00	-
Mutual equity funds	42,818,528.27	273,646.98	-	-	42,544,881.29
Real estate	3,455,000.00	-	-	3,455,000.00	-
Private equities	2,445,154.00	.	-	-	2,445,154.00
Hedge funds	315,750.65	.	-	-	315,750.65
Natural resources	746,694.00	.	-	-	746,694.00

Marketable alternative strategies	2,570,030.50	-	-	-	2,570,030.50
Total equity securities	52,717,525.17	595,014.73	-	3,500,000.00	48,622,510.44
Total assets at fair value	$68,341,475.10	$625,700.40	$ -	$3,500,000.00	$64,215,774.70

The table above includes all investments for the foundation with the exception of the cash surrender value of life insurance of $22,655.54, which is not measured at fair value.

Assets and liabilities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Assets and liabilities classified in Level 3 are valued using real estate appraisal and most recent sales prices for those assets not on an active market. A recent appraisal was obtained on the real estate for this fiscal year. This appraisal value, combined with improvements made after the appraisal date, resulted in an increase in fair value of the building from the public auction price valuation used in 2016.

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

Assets and Liabilities Measured at the NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Mutual bond funds				
Multi-Strategy Bond Fund	$15,593,264.26	$ -	Monthly	5 business days
Mutual equity funds				
Equity Index Fund	$ 1,693,286.49	$ -	Daily	By 3:00 pm EST
Multi-Strategy Equity Fund	$40,851,594.80	$ -	Monthly	5 business days
Hedge funds				
Multi-Strategy Global Hedged Partners	$ 315,750.65	$ -	Semi-annually	90 calendar days
Marketable alternative strategies				
Global Absolute Alpha Company	$ 2,570,030.50	$ -	Quarterly	65 calendar days
Private equities				
Capital Partners V	$ 1,598,499.00	$ 716,000.00	Not applicable	Not applicable
Capital Partners VI	$ 846,655.00	$2,153,250.00	Not applicable	Not applicable
Natural resources				
Natural resources IX	$ 746,694.00	$ 304,000.00	Not applicable	Not applicable

The unfunded commitments listed above are due over the next several years with no set call dates. Two commitments totaling $1,020,000 terminate in May and December 2026. The third commitment of $2,153,250 terminates in December 2030. The termination dates include a three-year extension that most often is exercised by the general partner.

The following summarizes specific information about the above investments:

The Multi-Strategy Bond Fund's investment strategies include global bond and credit strategies. The Equity Index Fund focuses on domestic equities when strategizing investments. The Multi-Strategy Equity Fund ranges from international equity to domestic and hedged equities on investment strategy. The Multi-Strategy Global Hedged Partners Fund also has various investment strategies, including hedged equity, credit, event-driven, and global macro/CTA. The Commonfund Global Absolute Alpha Company strategizes in hedged equity, credit, event-driven, and multi-strategy investments. No funds were gated for any of these investments as of December 31, 2016 (date of last available audited financial statements). The private equities' investment strategies vary among many equity industries, including services, manufacturing, and consumer-related. The natural resources investment strategies include allocations among energy, mining, and utilities. The funds themselves are liquidated when all underlying assets are liquidated. There is no exact date for this liquidation and it will likely be after the termination date given in the previous paragraph. It is unlikely that any investment listed will be sold for an amount different from the NAV per share. See subsequent event note for liquidation information on the Multi-Strategy Global Hedged Partners fund.

Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$3,579,824.49	$7,103,235.42	$223,324.09	$10,459,735.82
Land improvements and infrastructure	144,292.93	376,500.00	-	520,792.93
Buildings	521,300.00	106,529.00	-	627,829.00
Equipment	7,856.86	185,361.33	5,000.00	188,218.19
Intangible assets	261,685.25	-	-	261,685.25
Art and historical collections	17,919.59	-	-	17,919.59
Total	4,532,879.12	7,771,625.75	228,324.09	12,076,180.78

Less accumulated depreciation/amortization:				
Land improvements and infrastructure	2,774.86	17,374.46	-	20,149.32
Buildings	5,923.86	24,484.55	-	30,408.41
Equipment	392.84	7,500.61	166.67	7,726.78
Intangible assets	261,685.25	-	-	261,685.25
Total	270,776.81	49,359.62	166.67	319,969.76
Capital assets, net	$4,262,102.31	$7,722,266.13	$228,157.42	$11,756,211.02

Due to the Golden Eagle Golf Club and Tech Farms, LLC not being operating activities of the foundation, total depreciation of $49,359.62 is included in other non-operating revenues and expenses in the statement of revenues, expenses, and changes in net position.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities for the foundation at June 30, 2017, included the following:

Construction vendor payables	$970,122.76
Other payables	365,892.06
Construction retainage payable	51,059.09
Total accounts payable and accrued liabilities	$1,387,073.91

Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Notes:					
STEM	$130,185.35	$ -	$82,222.20	$ 47,963.15	$47,963.15
Real estate	-	75,204.72	-	75,204.72	-
Total long-term liabilities	$130,185.35	$75,204.72	$82,222.20	$123,167.87	$47,963.15

Notes payable – The foundation borrowed funds to gift to the university to help build the Center for Science, Technology, Engineering, and Mathematics building. The note is interest-free, with payments of $6,851.85 due monthly through January 2018. The balance owed by the foundation was $47,963.15 at June 30, 2017.

The foundation also borrowed funds for the real estate building held for investment to improve space occupied by SAIC. The note bears an annually adjusted interest rate of 1.25% fixed for the first five years beginning June 2017. At the end of five years, the interest rate will convert to an annual rate equal to the WSJ prime less 2.5%, but not less than 1.25% annually, adjusted monthly. Beginning January 2020, principal payments of $9,400.59 are due each January until maturity in January 2027.

Debt service requirements to maturity for notes payable at June 30, 2017, are as follows:

Year Ending June 30	Principal	Interest	Total
2018	$ 47,963.15	$ 940.06	$ 48,903.21
2019	-	940.06	940.06
2020	9,400.59	881.31	10,281.90
2021	9,400.59	763.80	10,164.39
2022	9,400.59	646.29	10,046.88
2023 – 2027	47,002.95	1,468.84	48,471.79
Total	$123,167.87	$5,640.36	$128,808.23

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.

Blended Component Unit

The following is a condensed statement of net position; condensed statement of revenues, expenses, and changes in net position; and a condensed statement of cash flows showing assets, liabilities, revenues, and expenses that are reported as a blended component unit of the foundation.

Tech Farms, LLC
Condensed Statement of Net Position
June 30, 2017

ASSETS	
Current assets:	
Cash and cash equivalents	$ 45,456.14
Total current assets	45,456.14
Noncurrent assets:	
Capital assets (net)	7,559,415.78
Total noncurrent assets	7,559,415.78
Total assets	7,604,871.92
LIABILITIES	
Current liabilities:	
Accounts payable	25,748.45
Total current liabilities	25,748.45
Noncurrent liabilities:	
Total liabilities	25,748.45
NET POSITION	
Net investment in capital assets	7,559,415.78
Restricted for expendable:	
Other	19,707.69
Total net position	$7,579,123.47

Tech Farms LLC
Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2017

Operating revenues	$2,149,644.00
Operating income	2,149,644.00
Other non-operating revenues/(expenses)	(2,089,871.16)
Net nonoperating revenues	(2,089,871.16)
Income before other revenues, expenses, gains, or losses	59,772.84
Capital grants and gifts	7,519,309.00
Total other revenues	7,519,309.00
Increase in net position	7,579,081.84
Net position - beginning of year	41.63
Net position - end of year	$7,579,123.47

Tech Farms LLC
Condensed Statement of Cash Flows
For the Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Gifts and contributions	$ 100,100.00
Payments to suppliers and vendors	(95,624.42)
Other receipts (payments)	38,843.36
Net cash used by operating activities	43,318.94
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets and construction	(41,165.12)
Net cash used by capital and related financing activities	(41,165.12)
Net increase in cash and cash equivalents	2,153.82
Cash and cash equivalents - beginning of year	43,302.32
Cash and cash equivalents - end of year (Note 2)	$ 45,456.14
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating income	$2,149,644.00
Adjustments to reconcile operating loss to net cash used by operating activities:	
Other adjustments	(2,076,962.82)
Change in assets, liabilities, and deferrals:	
Accounts payable	13,898.45
Other	(43,260.69)
Net cash used by operating activities	$43,318.94
Non-cash investing, capital, and financing transactions	
Gifts in-kind - capital	$7,519,309.00

Construction in Progress

At June 30, 2017, outstanding commitments under construction contracts for the foundation totaled $516,315.15 for improvements to the real estate building held for investment. These costs will be reimbursed by Science Applications International Corporation (SAIC) in accordance with the SAIC lease.

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, 2017.

Subsequent Events

The Commonfund Multi-Strategy Global Hedged Partners fund is currently in liquidation. The foundation owned 236,302 shares on November 30, 2016. The two payouts for this fiscal year were as follows: December 2016 – 170,460 shares (72%) for $1,453,881.81 and March 2017 – 29,632 shares (12.5%) for $255,121.79. The estimated payout schedule for the remaining funds is an 11 percent redemption August 2017 and the remaining 4.5 percent in December 2017 or shortly thereafter. It is unlikely that the amount received will be materially different than expected.

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

	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	1.159380%	$21,153,652.00	$28,294,020.23	74.76%	87.96%
2016	1.106798%	14,269,753.83	28,900,959.00	49.37%	91.26%
2015	1.039520%	7,172,156.00	28,398,868.00	25.26%	95.11%

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

2) This is a 10-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 10 years of information are available.

TENNESSEE TECHNOLOGICAL UNIVERSITY
Required Supplementary Information
Schedule of Tennessee Technological University's Proportionate Share of the Net Pension Asset
State and Higher Education Employee Retirement Plan Within TCRS

	2017	2016
University's proportion of the net pension asset	1.227201%	1.155489%
University's proportionate share of the net pension asset	$ 103,386.00	$ 32,134.00
University's covered payroll	$3,788,707.00	$1,258,292.00
University's proportionate share of the net pension asset as a percentage of its covered payroll	2.73%	2.55%
Plan fiduciary net position as a percentage of the total pension liability	130.56%	142.55%

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

2) This is a 10-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 10 years of information are available.

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

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2017	$4,208,058.72	$4,208,058.72	$ -	$ 28,016,368.78	15.02%
2016	4,252,591.24	4,252,591.24	-	28,294,020.23	15.03%
2015	4,343,814.00	4,343,814.00	-	28,900,959.00	15.03%
2014	4,268,348.00	4,268,348.00	-	28,398,868.00	15.03%
2013	3,817,723.28	3,817,723.28	-	25,400,687.16	15.03%
2012	3,667,032.54	3,667,032.54	-	24,594,450.30	14.91%
2011	3,499,531.11	3,499,531.11	-	23,471,033.60	14.91%
2010	3,038,943.48	3,038,943.48	-	23,340,579.72	13.02%
2009	3,320,996.40	3,320,996.40	-	25,506,884.79	13.02%
2008	3,371,880.21	3,371,880.21	-	24,756,829.74	13.62%

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

	2017	2016	2015
Contractually determined contribution	$ 255,800.19	$ 146,324.06	$ 48,695.81
Contributions in relation to the contractually determined contribution	255,800.19	146,324.06	48,695.81
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$6,584,425.59	$3,788,706.68	$1,258,292.25
Contributions as a percentage of covered payroll	3.88%	3.86%	3.87%

This is a 10-year schedule; however, contributions to this plan began in 2015. Years will be added to this schedule in future years until 10 years of information are available.

TENNESSEE TECHNOLOGICAL UNIVERSITY
Required Supplementary Information
Other Postemployment Benefits Schedule of Funding Progress

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
July 1, 2015	State Employee Group Plan	$ -	$15,059,000	$15,059,000	0%	$56,487,773.69	26.66%
July 1, 2013	State Employee Group Plan	$ -	$15,220,000	$15,220,000	0%	$53,779,701.96	28.30%
July 1, 2011	State Employee Group Plan	$ -	$17,870,000	$17,870,000.	0%	$48,082,261.00	37.17%

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

TENNESSEE TECHNOLOGICAL UNIVERSITY
Supplementary Schedule of Cash Flows - Component Unit
For the Year Ended June 30, 2017

Cash flows from operating activities	
Gifts and contributions	$ 3,679,376.06
Payments to suppliers and vendors	(2,691,308.44)
Payments for scholarships and fellowships	(2,037,755.00)
Payments to Tennessee Technological University	(2,921,201.31)
Other receipts (payments)	1,085,511.12
Net cash used for operating activities	(2,885,377.57)
Cash flows from noncapital financing activities	
Private gifts for endowment purposes	2,513,898.92
Net cash provided by noncapital financing activities	2,513,898.92
Cash flows from capital and related financing activities	
Capital grants and gifts received	104,200.00
Proceeds from sale of capital assets	583,721.89
Purchases of capital assets and construction	(964,046.86)
Principal paid on capital debt	(82,222.20)
Other capital and related financing receipts (payments)	(422.22)
Net cash used for capital and related financing activities	(358,769.39)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	7,846,995.96
Income on investments	1,012,490.88
Purchases of investments	(4,107,767.98)
Net cash provided by investing activities	4,751,718.86
Net increase in cash and cash equivalents	4,021,470.82
Cash and cash equivalents - beginning of year	242,492.84
Cash and cash equivalents - end of year	$ 4,263,963.66
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (1,266,675.46)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Gifts in-kind	411,741.47
Other adjustments	(1,972,135.35)
Changes in assets and liabilities:	
Receivables	(9,427.37)
Inventories	1,876.81
Prepaid items	(78,944.82)
Accounts payable	28,677.89
Unearned revenue	42,769.95
Other liabilities	(43,260.69)
Net cash used by operating activities	$ (2,885,377.57)
Noncash investing, capital, or financing transactions	
Gifts in-kind - capital	$ 7,535,754.97
Unrealized gains on investments	$ 8,625,232.23
Gain on disposal of capital assets	$ 18,312.86

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

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
Dr. Philip B. Oldham, President

We have audited the financial statements of Tennessee Technological University, an institution of the State University and Community College System of Tennessee, 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, 2017, 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 12, 2017. 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; 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.

- Tennessee Technological University did not provide adequate internal controls in three areas

These deficiencies are 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 an immaterial instance 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 12, 2017

Findings and Recommendations

1. Tennessee Technological University did not provide adequate internal controls in three areas

Tennessee Technological University did not design and monitor effective internal controls in three areas. We found multiple internal control deficiencies in these areas related to three of the university's systems because management did not implement controls that were sufficient. In addition, some of these conditions were in violation of university policies and/or industry-accepted best practices.

Ineffective implementation of internal controls increases the likelihood of errors, data loss, and unauthorized access to university information. 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 the related criteria, causes, and our specific recommendations for improvement.

Recommendation

Management should ensure that these conditions are remedied by promptly developing and consistently implementing internal controls in these areas. 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.

Management's Comment

We concur. Management has already begun developing procedures to enhance effectiveness in the specific areas noted in the findings. Staff have been assigned responsibility for ongoing monitoring of risks and controls.

2. Tennessee Technological University staff did not enter into written agreements with the non-institutional agencies or organizations providing employment under the Federal Work-Study program

Condition

Tennessee Technological University (TTU) did not properly obtain the required Federal Work-Study (FWS) written agreements detailing the work conditions for non-institutional employers. TTU received $440,140.56 in total FWS payments throughout the year ended June 30, 2017; the amounts paid for work performed for non-institutional employers in that time period was $48,716.26.

We reviewed the accounts of students who received FWS to identify all non-institutional employers and ascertain if written agreements with the non-institutional employers had been executed. We identified 66 non-institutional employers utilized for FWS through the TTU

University Service Center. The University Service Center provides opportunities for students to apply learned academic objectives through participation in community service on and off campus. TTU did not have written agreements executed with any of the 66 non-institutional employers (100%) who employed TTU students through the FWS program throughout 2017. Once we informed the Director of Financial Aid of this matter, he started obtaining the required agreements.

Criteria

According to the *Code of Federal Regulations*, Title 34, Section 675.20(b):

> If an institution wishes to have its students employed under this part by a Federal, State or local public agency, or a private nonprofit or for-profit organization, it shall enter into a written agreement with that agency or organization. The agreement must set forth the FWS work conditions. The agreement must indicate whether the institution or the agency or organization shall pay the students employed, except that the agreement between an institution and a for-profit organization must require the employer to pay the non-Federal share of the student earnings.

Cause

The Director of Financial Aid did not verify that non-institutional contracts were being maintained as required. According to the Director of Financial Aid, he had not collected the necessary written agreements with non-institutional employers due to a lack of communication between himself and the University Service Center Assistant Director.

Effect

The university was not in compliance with a special tests and provisions compliance requirement for the Federal Work-Study program.

Recommendation

The Director of Financial Aid and the Assistant Director for the University Service Center should work together to ensure compliance with FWS requirements as set forth in the *Code of Federal Regulations*. The Financial Aid Office and the University Service Center should develop a system of collecting and maintaining non-institutional employer contracts prior to student FWS activity. The Director of Financial Aid should make sure that continuing education is provided for Financial Aid and University Service Center staff to ensure familiarity with FWS compliance requirements.

Management's Comment

We concur.

When this issue was identified, we understood that we were not compliant with this regulation. We quickly began the process of becoming compliant. The following steps were made:

8/22/2017	Copy of FSA Handbook Off-Campus Work-Study Agreement forwarded to University Counsel and Secretary to the Board, Kae Carpenter.
9/1/2017	Working with Ms. Carpenter over the period of a week, the document met with her approval.

After this process was completed, we began identifying all students working at an off-campus site and sending them an email to provide us a copy of the Off-Campus Agreement from their employer. In addition, we contacted each employer and asked that they complete the form, one for 2016-17 and another to set up 2017-18.

We received 100% of the documents back. This was accomplished after the audit finding was discussed with State Audit personnel. To comply with federal regulations, we understand that this document must be in place prior to a student earning hours at off-campus sites.

We have made the decision to handle all off-campus assignments internally within the Office of Financial Aid in order to avoid issues with agreements, timesheets and proper paying of student workers.