Tennessee Comptroller of the Treasury

Financial and Compliance Audit Report

Tennessee Technological University

For the Year Ended June 30, 2019

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Comptroller of the Treasury

Division of State Audit

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TENNESSEE COMPTROLLER OF THE TREASURY

JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

October 30, 2020

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

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of Tennessee Technological University, an institution of the State University and Community College System of Tennessee, for the year ended June 30, 2019. 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,

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit

20/033

Audit Report

Tennessee Technological University

For the Year Ended June 30, 2019

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Tennessee Technological University

For the Year Ended June 30, 2019

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

The university did not properly prepare bank reconciliations
Tennessee Technological University did not properly prepare bank reconciliations (page 71).

As noted in the prior audit, the university did not provide adequate internal controls in one specific area*
Tennessee Technological University did not design and monitor effective internal controls in one area. We found an internal control deficiency in this area. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated* (page 72).

* This finding is repeated from the prior audit.

Justin P. Wilson
Comptroller

Jason E. Mumpower
Deputy Comptroller

Independent Auditor's Report

The Honorable Bill Lee, Governor
Members of the General Assembly
Dr. Philip 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, 2019, 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Tennessee Technological University and its discretely presented component unit as of June 30, 2019; 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, 2019, 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 $10,637,693.92 (11.2% of net position of the foundation), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 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 62; 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 63; the schedule of Tennessee Technological University's contributions – Closed State and Higher Education Employee Pension Plan within TCRS on page 64; the schedule of Tennessee Technological University's contributions – State and Higher Education Employee Retirement Plan within TCRS on page 65; the schedule of Tennessee Technological University's proportionate share of the collective total OPEB liability – Closed State Employee Group OPEB Plan on page 66; and the schedule of Tennessee Technological University's proportionate share of the collective total OPEB liability – Closed Tennessee OPEB Plan on page

67 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 68 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 September 3, 2020, 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
Division of State Audit
September 3, 2020

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, 2019, with comparative information presented for the fiscal year ended June 30, 2018. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and the notes to the financial statements. 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, 2019, and June 30, 2018.

Summary of Net Position
(in thousands of dollars)

	2019	2018
Assets:		
Current assets	$ 45,849	$ 42,030
Capital assets, net	265,111	194,743
Other assets	97,094	90,977
Total assets	408,054	327,750
Deferred outflows of resources:		
Deferred outflows of resources	16,384	13,592
Total deferred outflows of resources	16,384	13,592
Liabilities:		
Current liabilities	26,345	27,995
Noncurrent liabilities	143,121	116,374
Total liabilities	169,466	144,369
Deferred inflows of resources:		
Deferred inflows of resources	2,448	1,623
Total deferred inflows of resources	2,448	1,623

Net position:		
Net investment in capital assets	163,736	118,814
Restricted – nonexpendable	180	179
Restricted – expendable	5,394	4,308
Unrestricted	83,214	72,049
Total net position	$252,524	$195,350

Comparison of Fiscal Year 2019 to Fiscal Year 2018

- Current assets increased by 9.1% for the year primarily due to a $3.5 million increase in current cash. This increase in current cash was partially offset by an increase in current liabilities of $1.6 million (5.9%).
- Capital assets increased $70.4 million (36.1%). Construction upgrades to residential halls, academic buildings, and other improvements accounted for $15.3 million in new assets. Costs associated with the new fitness center, science complex, and Roaden University Center were $60.6 million. The value of capital assets was reduced by current year depreciation expense and equipment and library holding disposals. See Note 6 to the financial statements.
- Other assets increased 6.7% for the year. This increase was the result of a $5.9 million increase in noncurrent cash due to unrestricted education and 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 and are designated for specific projects and cannot be used for current expenses.
- Deferred outflows of resources increased 20.5% for the year primarily related to other postemployment benefits (OPEB) and pension obligations. Additional information on pensions and OPEB can be found in Notes 11 and 12, respectively, of the financial statements.
- Current liabilities decreased 5.9% primarily due to fewer capital project payables being owed to the state at June 30, 2019, with the largest decrease relating to the Roaden University Center.
- Noncurrent liabilities increased 23% primarily as the result of a $26.7 million increase in the university's long-term debt obligations. Additional borrowings on student housing upgrades, parking, and the new fitness center were $28.4 million. This was offset by current year principal repayments. See Note 8 to the financial statements for additional information on university debt.
- Deferred inflows of resources increased $825 thousand at June 30, 2019. This increase, particularly related to pensions and OPEB, is the result of actuarial calculations and amortization of investment gains and losses and investment experience. See Notes 11 and 12 to the financial statements for additional information on pensions and OPEB.
- Net position increased by 29.3% from 2018 to 2019. This increase is primarily due to an increase in investment of capital assets in the amount of $44.9 million along with an increase in unrestricted net position of $11.2 million. The increase in capital assets is

discussed in the Capital Asset and Debt Administration section of this management's discussion and analysis. Expendable restricted net position increased by 25.2% from 2018 to 2019 primarily due to a new $1 million gift for scholarships.

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.

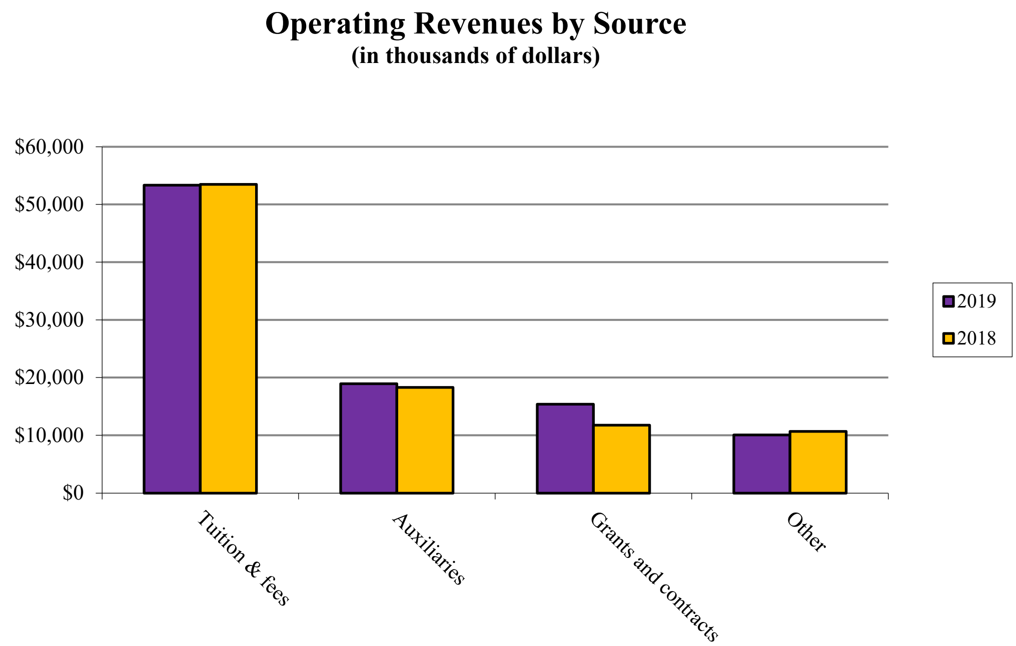
A summary of the university's revenues, expenses, and changes in net position for the years ended June 30, 2019, and June 30, 2018, follows.

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

	2019	2018
Operating revenues	$ 97,697	$ 94,205
Operating expenses	184,385	179,208
Operating loss	(86,688)	(85,003)
Nonoperating revenues and expenses	102,454	85,733
Income before other revenues, expenses, gains, or losses	15,766	730
Other revenues, expenses, gains, or losses	41,408	6,932
Increase in net position	57,174	7,662
Net position at beginning of year	195,350	197,491
Cumulative effect of change in accounting principle	-	(9,803)
Net position – beginning of year restated	195,350	187,688
Net position at end of year	$252,524	$195,350

Operating Revenues

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



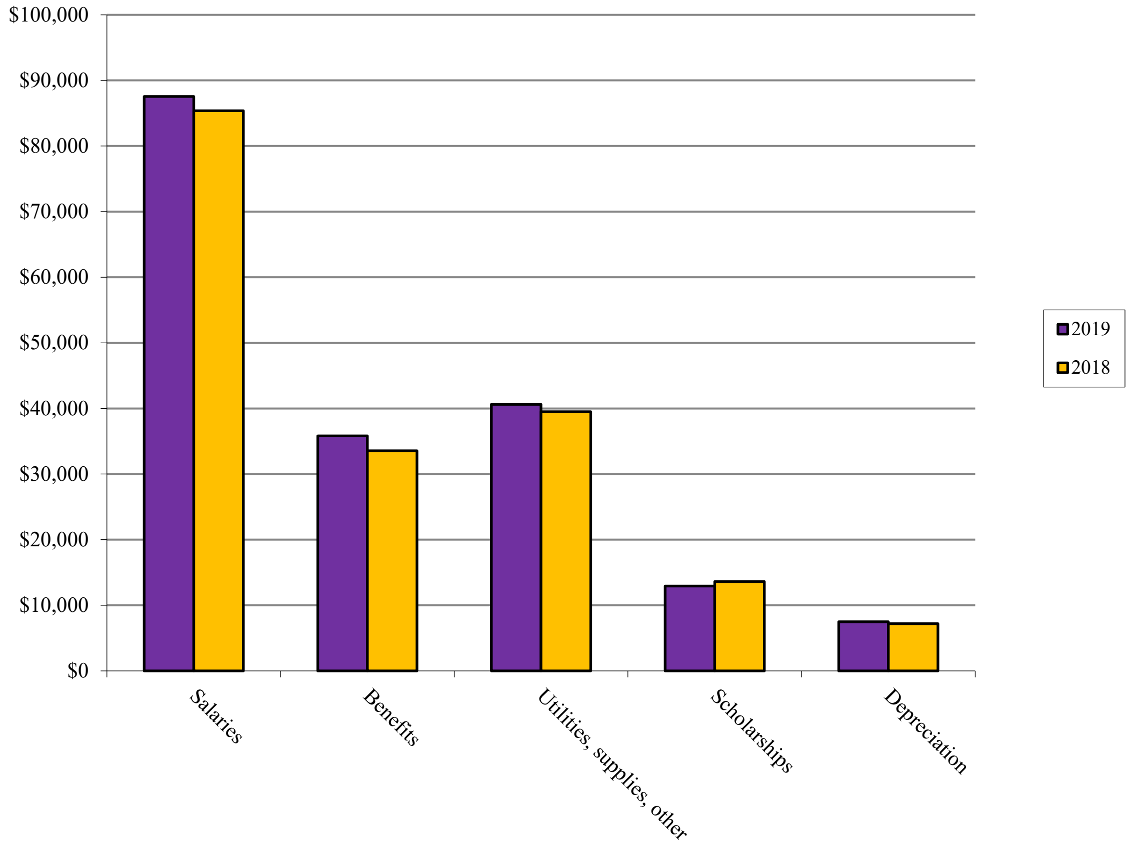
Comparison of Fiscal Year 2019 to Fiscal Year 2018

- Operating research grants and contracts increased 30.8% ($3.6 million) due to an increased level of federal, state, and privately funded research projects.

Operating Expenses

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

Operating Expenses
(in thousands of dollars)



<u>Comparison of Fiscal Year 2019 to Fiscal Year 2018</u>

- Salaries increased $2.2 million (2.5%) as the result of a 2.5% merit adjustment, faculty promotions, and an increase in filled positions.
- Benefits increased $2.3 million (6.8%). Retirement expenditures increased $4.2 million due to GASB Statement 68 and GASB Statement 75 actuarial pension and OPEB calculations, which included the new prefunding obligation payments to the OPEB trust. These increases were partially offset by decreases in health insurance costs of $2 million. See Notes 11 and 12 to the financial statements for further explanation of the pension plans and OPEB.
- Utilities, supplies, and other services had an increase of $1.1 million (2.8%). This was primarily due to an increase in maintenance, repairs, and services expenses due to increased activity/expenses for fiscal year 2019 for several buildings' waterproofing and roof replacements.

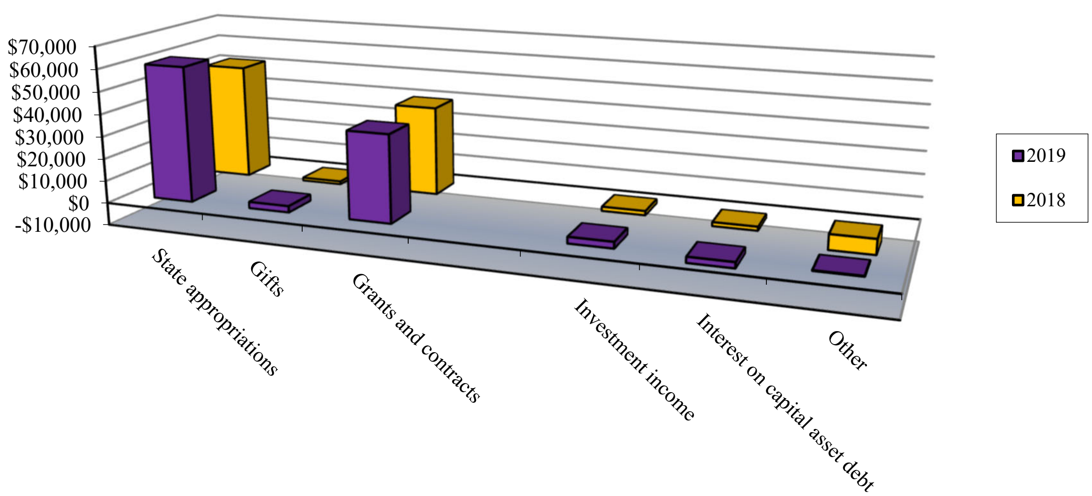
Nonoperating Revenues and Expenses

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)

	2019	2018
State appropriations	$ 60,556	$51,512
Gifts	2,802	1,308
Grants and contracts	38,655	39,625
Investment income	2,803	1,862
Interest on capital asset debt	(2,531)	(1,721)
Other	169	(6,853)
	$102,454	$85,733

Nonoperating Revenues and Expenses
(in thousands of dollars)



Comparison of Fiscal Year 2019 to Fiscal Year 2018

- State appropriations increased $9.0 million (17.6%) due to legislative amendments of $3 million designated for the College of Engineering and $700 thousand as recognition of the university's Carnegie classification. Additional increases included $2.2 million for increasing OPEB costs, a state award of $500 thousand to match a National Science Foundation grant, $1.3 million in partial funding for a 2.5% salary pool, and a remaining $1.8 million increase in funding formula outcomes and adjustments.

- Gifts increased $1.5 million (114.2%) primarily due to a large estate gift to the university in fiscal year 2019 in the amount of $933 thousand.
- Investment income increased $940 thousand (50.5%) due to increased interest rates in the Local Government Investment Pool (LGIP) and due to a much larger balance of funds held for capital projects within LGIP.
- Other nonoperating revenues and expenses had a net increase of $7 million due to a prior year nonoperating loss on disposal of the operation of the Cookeville Higher Education Campus (CHEC) ($6,660,511.03). This figure is composed of the property, plant, and equipment that were transferred to the new managing partner. While continuing to offer classes at CHEC, Tennessee Tech released operation of the campus to Volunteer State Community College on July 1, 2017.

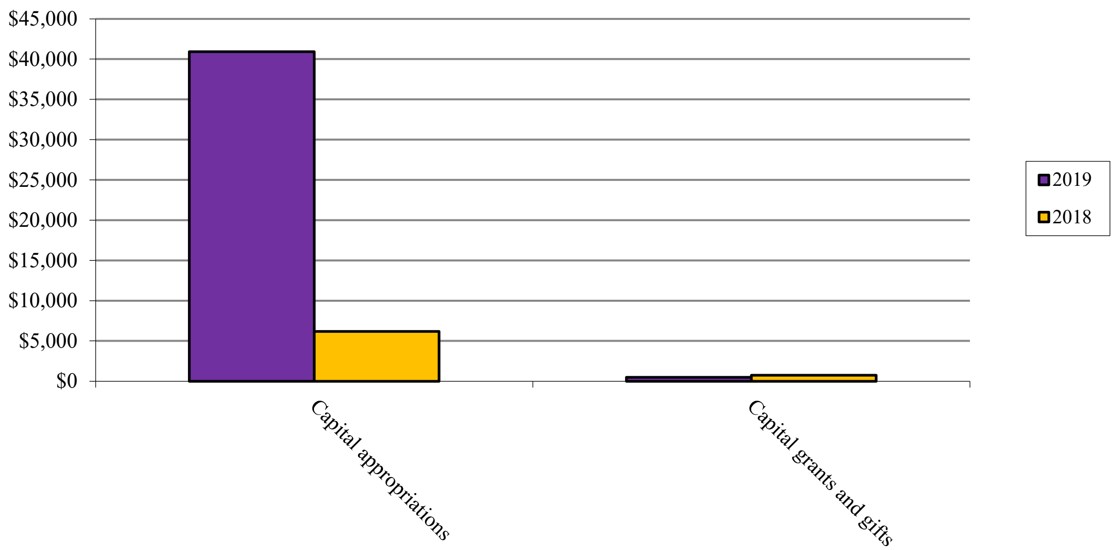
Other Revenues

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)

	2019	2018
Capital appropriations	$40,919	$6,188
Capital grants and gifts	489	744
	$41,408	$6,932

Other Revenues
(in thousands of dollars)



Comparison of Fiscal Year 2019 to Fiscal Year 2018

- Capital appropriations to address campus deferred maintenance and to fund the new science building increased by $34.7 million.

Capital Assets and Debt Administration

Capital Assets

Tennessee Technological University had $265.1 million invested in capital assets, net of accumulated depreciation of $145 million, at June 30, 2019; and $194.7 million invested in capital assets, net of accumulated depreciation of $139 million, at June 30, 2018. Depreciation charges totaled $7.5 million and $7.2 million for the years ended June 30, 2019, and June 30, 2018, respectively. See Note 6 to the financial statements.

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

	2019	2018
Land	$ 11,207	$ 11,207
Land improvements and infrastructure	18,349	16,696
Buildings	133,333	127,556
Equipment	8,352	8,584
Library holdings	739	861
Intangible assets	485	601

Art and historical collections	26	26
Works of art	173	63
Projects in progress	92,447	29,149
Total Capital Assets, Net of Depreciation	$265,111	$194,743

The university is involved in various renovations, new construction, and other projects on campus that increased the capital assets by $70.4 million during fiscal year 2019. Residential hall renovations, academic building renovations, Roaden University Center renovations, and continuing work on the new science building and fitness center were the largest projects.

At June 30, 2019, outstanding commitments under construction contracts totaled $89.8 million for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $39.4 million of these costs. The largest of these projects are the new science building, fitness center, and parking improvements.

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

Debt

The university had $101.9 million and $76.3 million in debt outstanding at June 30, 2019, and June 30, 2018, respectively. The table below summarizes these amounts by type of debt instrument.

Schedule of Debt Outstanding
(in thousands of dollars)

Debt Instrument	2019	2018
Bonds payable	$ 36,366	$38,273
Unamortized bond premium	5,892	6,465
Revolving credit facility	59,620	31,588
Total outstanding debt	$101,878	$76,326

The Tennessee State School Bond Authority (TSSBA) issued bonds with interest rates ranging from 1.599% to 5% due serially until November 2037 on behalf of Tennessee Technological University. The university is responsible for the debt service of these bonds. The current portion of the $101.9 million outstanding at June 30, 2019, is $2.7 million.

In fiscal year 2019, $28 million in revolving credit facility was issued with the majority related to the new fitness center ($22.2 million) and student housing renovations ($5.8 million). It is anticipated the majority of the revolving credit will be moved to bond financing in fiscal year 2020.

The ratings on debt issued by the TSSBA at June 30, 2019, 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

Tennessee Technological University has experienced a declining trend in international enrollment for the past several years. This decline follows national trends as many U.S. institutions have reported significant drops in the enrollment and retention of international students. Specifically, for the university, the current visa application process along with an increase in visa denials has directly contributed to our declining international student population. As this population has declined, so have the corresponding out-of-state revenues. The university is continually reviewing the resource allocation methodologies related to international student revenues and plans to decrease reliance on these sources until the current political climate becomes more stable.

TENNESSEE TECHNOLOGICAL UNIVERSITY
Statement of Net Position
June 30, 2019

	University	Component Unit
Assets		
Current assets:		
Cash and cash equivalents (Notes 2 and 22)	$ 34,309,168.92	$ 844,298.44
Accounts, notes, and grants receivable (net) (Note 5)	7,522,371.26	94,027.07
Due from State of Tennessee	2,327,824.87	-
Due from TTU Foundation	30,647.95	-
Inventories	304,687.33	22,223.11
Prepaid expenses	1,338,230.78	15,553.31
Accrued interest receivable	15,653.02	223,694.62
Other assets	-	51,512.31
Total current assets	45,848,584.13	1,251,308.86
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 22)	95,774,027.33	6,765,385.42
Investments (Notes 3, 4, and 22)	73,733.89	76,970,030.30
Investment in Tennessee Retiree Group Trust	235,340.90	-
Accounts, notes, and grants receivable (net) (Note 5)	592,021.28	-
Capital assets (net) (Notes 6 and 22)	265,111,545.33	12,134,526.33
Net pension asset (Note 11)	418,621.00	-
Other assets	-	220,164.30
Total noncurrent assets	362,205,289.73	96,090,106.35
Total assets	408,053,873.86	97,341,415.21
Deferred outflows of resources		
Deferred amount on debt refunding	589,623.50	-
Deferred outflows related to OPEB (Note 12)	5,927,604.50	-
Deferred outflows related to pensions (Note 11)	9,867,261.23	-
Total deferred outflows of resources	16,384,489.23	-
Liabilities		
Current liabilities:		
Accounts payable (Note 7)	3,437,802.72	668,689.59
Accrued liabilities	9,196,053.44	2,418.37
Due to State of Tennessee	2,268,532.72	-
Due to TTU	-	30,647.95
Student deposits	667,360.59	-
Unearned revenue (Note 8)	4,175,494.49	172,781.42
Compensated absences (Note 8)	1,233,776.67	-
Total OPEB liability (Note 12)	1,732,518.50	-
Accrued interest payable	420,213.08	409.36
Long-term liabilities, current portion (Notes 8 and 22)	2,683,285.27	105,264.80
Deposits held in custody for others	409,942.40	-
Other liabilities	120,395.24	-
Total current liabilities	26,345,375.12	980,211.49
Noncurrent liabilities:		
Total OPEB liability (Note 12)	20,819,217.52	-
Net pension liability (Note 11)	18,937,296.00	-
Unearned revenue (Note 8)	40,000.00	-
Compensated absences (Note 8)	3,500,687.27	-
Long-term liabilities (Notes 8 and 22)	99,195,113.15	736,853.62
Due to grantors (Note 8)	628,490.92	-
Total noncurrent liabilities	143,120,804.86	736,853.62
Total liabilities	169,466,179.98	1,717,065.11
Deferred inflows of resources		
Deferred amount on debt refunding	260,665.37	-
Deferred inflows related to OPEB (Note 12)	1,526,009.01	-
Deferred inflows related to pensions (Note 11)	661,162.00	-
Deferred inflows related to split-interest agreements	-	271,676.61
Total deferred inflows of resources	2,447,836.38	271,676.61
Net position		
Net investment in capital assets	163,735,898.79	12,134,526.33
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	179,563.91	39,988,255.06
Research	-	696,362.85
Instructional department uses	-	4,040,207.04
Other	-	14,535,667.51
Expendable:		
Scholarships and fellowships	1,092,522.56	9,534,281.50
Research	1,495,066.04	275,223.37
Instructional department uses	449,031.76	2,215,761.95
Loans	259,685.20	-
Capital projects	-	2,512,825.77
Pension	418,621.00	-
Other	1,679,657.34	9,017,276.55
Unrestricted	83,214,300.13	402,285.56
Total net position	$ 252,524,346.73	$ 95,352,673.49

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, 2019

	University	Component Unit
Revenues		
Operating revenues:		
Student tuition and fees (Note 13)	$ 53,328,854.30	$ -
Gifts and contributions	-	3,581,501.24
Governmental grants and contracts	14,797,789.28	-
Nongovernmental grants and contracts	575,967.71	-
Sales and services of educational activities (Note 13)	1,262,386.92	-
Sales and services of other activities (Note 13)	8,623,260.73	-
Auxiliary enterprises:		
Residential life (Note 13)	13,607,035.09	-
Bookstore (Note 13)	464,369.41	-
Food service (Note 13)	2,962,607.67	-
Wellness facility (Note 13)	1,561,510.22	-
Other auxiliaries (Note 13)	346,608.19	-
Interest earned on loans to students	20,820.06	-
Other operating revenues (Note 13)	145,681.05	955,261.49
Total operating revenues	97,696,890.63	4,536,762.73
Expenses		
Operating expenses (Note 18):		
Salaries and wages	87,541,048.42	-
Benefits	35,808,646.22	-
Utilities, supplies, and other services	40,611,844.09	2,381,517.53
Scholarships and fellowships	12,926,694.98	1,730,209.58
Depreciation expense	7,497,162.58	4,920.00
Payments to or on behalf of Tennessee Technological University (Note 22)	-	2,117,815.32
Total operating expenses	184,385,396.29	6,234,462.43
Operating loss	(86,688,505.66)	(1,697,699.70)
Nonoperating revenues (expenses)		
State appropriations	60,556,376.00	-
Gifts, including $1,679,134.21 from component unit	2,802,338.44	-
Grants and contracts	38,655,076.00	-
Investment income (net of investment expense for the component unit of $360,991.42)	2,802,842.89	6,183,646.58
Interest on capital asset-related debt	(2,530,891.80)	-
Other nonoperating revenues (Note 13)	169,106.29	9,695.96
Total nonoperating revenues (expenses)	102,454,847.82	6,193,342.54
Income before other revenues, expenses, gains, or losses	15,766,342.16	4,495,642.84
Capital appropriations	40,918,584.04	-
Capital grants and gifts, including $438,681.11 from the component unit	488,825.55	204,160.01
Additions to permanent endowments	-	1,340,879.10
Total other revenues	41,407,409.59	1,545,039.11
Increase in net position	57,173,751.75	6,040,681.95
Net position - beginning of year	195,350,594.98	89,311,991.54
Net position - end of year	$ 252,524,346.73	$ 95,352,673.49

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, 2019

Cash flows from operating activities	
Tuition and fees	$ 53,052,783.86
Grants and contracts	13,938,984.75
Sales and services of educational activities	1,270,800.43
Sales and services of other activities	8,591,486.15
Payments to suppliers and vendors	(37,109,796.25)
Payments to employees	(87,464,664.97)
Payments for benefits	(33,276,658.48)
Payments for scholarships and fellowships	(12,922,388.27)
Loans issued to students	(121,699.97)
Collection of loans from students	216,266.67
Interest earned on loans to students	18,396.99
Funds received for deposits held for others	2,395,807.62
Funds disbursed for deposits held for others	(2,413,079.48)
Auxiliary enterprise charges:	
Residence halls	13,574,016.15
Bookstore	441,947.35
Food services	2,991,501.27
Wellness facility	1,573,116.37
Other auxiliaries	349,973.37
Other receipts (payments)	150,473.26
Net cash used for operating activities	(74,742,733.18)
Cash flows from noncapital financing activities	
State appropriations	57,962,500.00
Gifts and grants received for other than capital or endowment purposes, including $1,679,134.21 from Tennessee Technological University Foundation	41,434,337.32
Federal student loan receipts	36,095,644.00
Federal student loan disbursements	(36,107,616.00)
Other noncapital financing receipts (payments)	264,135.64
Net cash provided by noncapital financing activities	99,649,000.96
Cash flows from capital and related financing activities	
Capital grants and gifts received	36,344.44
Proceeds from sale of capital assets	4,830.93
Purchases of capital assets and construction	(12,822,413.46)
Principal paid on capital debt	(2,267,615.04)
Interest paid on capital debt	(2,992,242.33)
Other capital and related financing payments	(35,376.51)
Net cash used for capital and related financing activities	(18,076,471.97)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	12,681.73
Income on investments	2,802,204.34
Purchase of investments	(236,345.12)
Net cash provided by investing activities	2,578,540.95
Net increase in cash and cash equivalents	9,408,336.76
Cash and cash equivalents - beginning of year	120,674,859.49
Cash and cash equivalents - end of year	$ 130,083,196.25

TENNESSEE TECHNOLOGICAL UNIVERSITY
Statement of Cash Flows (continued)
For the Year Ended June 30, 2019

Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$	(86,688,505.66)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Noncash operating expenses		13,495,286.76
Gifts in-kind		44,309.45
Change in assets, liabilities, and deferrals:		
Receivables, net		464,590.15
Due from State of Tennessee		(537,825.18)
Inventories		(10,182.87)
Prepaid items		198,496.22
Net pension asset		(162,241.00)
Deferred outflows of resources		(2,892,191.62)
Accounts payable		9,835.41
Accrued liabilities		(1,759,780.18)
Due to State of Tennessee		(42,219.66)
Unearned revenues		162,673.22
Deposits		(70,974.11)
Compensated absences		(44,493.11)
Net pension liability		(2,010,065.00)
Total OPEB liability		4,457,568.01
Deferred inflows of resources		855,881.01
Due to grantors		(65,054.23)
Loans to students		(130,568.93)
Other		(17,271.86)
Net cash used for operating activities	$	(74,742,733.18)

Noncash investing, capital, or financing transactions		
Gifts in-kind - capital	$	452,481.11
Unrealized gains on investments	$	660.85
Loss on disposal of capital assets	$	(34,373.04)
Proceeds from capital debt	$	28,391,751.23
Capital appropriations	$	37,320,135.86
Purchase of capital assets and construction	$	(65,711,887.09)

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*. That report is available at https://www.tn.gov/finance/rd-doa/fa-accfin-cafr.html.

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, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* 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 is sick or upon death.

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, works of art, historical treasures/collections, and intangible assets, are reported in the statement of net position at historical cost or at acquisition value at date of donation, less accumulated depreciation/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:

<u>Net investment in capital assets</u> – 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.

<u>Nonexpendable restricted net position</u> – 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.

<u>Expendable restricted net position</u> – 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.

<u>Unrestricted net position</u> – 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, 2019, cash consisted of $20,672,676.67 in bank accounts, $5,801.66 of petty cash on hand, $100,661,390.87 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, and $8,743,327.05 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. 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 for 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, 2019, 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	$54,535.75	$ -	$139.39	$5,733.03	$48,663.33	$ -
Total debt investments	$54,535.75	$ -	$139.39	$5,733.03	$48,663.33	$ -

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 policy of its governing board. 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, 2019, the university's investments were rated as follows:

Investment Type	Balance	Credit Quality Rating Unrated
LGIP (amortized cost)	$109,404,717.92	$109,404,717.92

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

Investments	Fair Value June 30, 2019
LGIP (amortized cost)	$1,282,839,50

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, 2019, each having a fair value of $0.294793, 173,974.07 units were owned by permanent endowments, 8,198.79 units were owned by term endowments, and 4,169,484.43 units were owned by quasi-endowments.

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

FY 2019	Pooled Assets			
	Fair Value	Cost	Net Gains (Losses)	Fair Value Per Unit
End of year	$1,282,839.50	$1,282,839.50	$ -	$ 0.294793
Beginning of year	$ 340,127.43	$ 340,127.43	-	1.167732
Change in unit value				$(0.872939)
Unrealized net gains			-	
Realized net gains			-	
Total net gains			-	

The average annual earnings per unit, exclusive of net gains/(losses), were $0.002912 for the year ended June 30, 2019.

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, 2019:

	June 30, 2019	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	$54,535.75	$ -	$54,535.75	$ -	$ -

The table above includes all investments for the university with the exception of the cash surrender value life insurance of $19,198.14, 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 statements from investment companies.

Note 5. Receivables

Receivables at June 30, 2019, included the following:

Student accounts receivable	$2,085,697.28
Grants receivable	3,328,093.47
Notes receivable	170,357.03
Federal direct loans receivable	2,065,867.00
Other receivables	523,150.78
Subtotal	8,173,165.56
Less allowance for doubtful accounts	(626,983.11)
Total receivables	$7,546,182.45

Federal Perkins Loan Program funds at June 30, 2019, included the following:

Perkins loans receivable	$ 692,638.18
Less allowance for doubtful accounts	(124,428.09)
Total	$ 568,210.09

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 11,207,039.94	$ -	$ -	$ -	$ 11,207,039.94
Land improvements and infrastructure	30,305,930.60	145,000.00	2,915,884.85	-	33,366,815.45
Buildings	225,608,608.75	116,679.00	9,487,622.55	-	235,212,910.30
Equipment	30,857,681.03	1,743,397.27	-	1,273,128.62	31,327,949.68
Library holdings	2,307,685.29	86,908.79	-	306,899.92	2,087,694.16
Intangible assets	4,210,079.53	-	-	-	4,210,079.53
Art and historical collections	26,010.45	-	-	-	26,010.45
Works of art	63,240.70	118,080.97	-	-	181,321.67
Projects in progress	29,149,132.27	75,910,937.44	(12,403,507.40)	208,972.52	92,447,589.79
Total	333,735,408.56	78,121,003.47	-	1,789,001.06	410,067,410.97
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	13,610,248.81	1,407,791.20	-	-	15,018,040.01
Buildings	98,052,032.81	3,827,746.51	-	-	101,879,779.32
Equipment	22,273,279.60	1,930,184.99	-	1,227,192.81	22,976,271.78
Library holdings	1,446,226.92	208,769.42	-	306,899.92	1,348,096.42
Intangible assets	3,608,372.62	116,558.96	-	-	3,724,931.58
Works of art	2,635.03	6,111.50	-	-	8,746.53
Total	138,992,795.79	7,497,162.58	-	1,534,092.73	144,955,865.64
Capital assets, net	$194,742,612.77	$70,623,840.89	$ -	$ 254,908.33	$265,111,545.33

Note 7. Accounts Payable

Accounts payable at June 30, 2019, included the following:

Vendors payable	$3,354,147.50
Unapplied student payments	83,655.22
Total accounts payable	$3,437,802.72

Note 8. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$38,273,595.87	$ 360,180.24	$2,267,615.04	$ 36,366,161.07	$2,683,285.27
Unamortized bond premium/discount	6,464,825.17	-	572,399.56	5,892,425.61	-
Revolving credit facility	31,588,240.75	28,031,570.99	-	59,619,811.74	-
Subtotal	76,326,661.79	28,391,751.23	2,840,014.60	101,878,398.42	2,683,285.27
Other liabilities:					
Compensated absences	4,778,957.05	2,769,219.77	2,813,712.88	4,734,463.94	1,233,776.67
Due to grantor	693,545.15	-	65,054.23	628,490.92	-
Unearned revenue	4,052,821.27	4,175,494.49	4,012,821.27	4,215,494.49	4,175,494.49
Subtotal	9,525,323.47	6,944,714.26	6,891,588.38	9,578,449.35	5,409,271.16
Total long-term liabilities	$85,851,985.26	$35,336,465.49	$9,731,602.98	$111,456,847.77	$8,092,556.43

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 1.599% to 5%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to November 2037 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. Unexpended debt proceeds were $132,677.74 at June 30, 2019.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2019, are as follows:

Year Ending June 30	Principal	Interest	Total
2020	$ 2,683,285.27	$ 1,713,069.84	$ 4,396,355.11
2021	2,813,048.04	1,585,083.30	4,398,131.34
2022	2,949,505.98	1,455,273.59	4,404,779.57
2023	3,058,265.05	1,310,296.73	4,368,561.78
2024	2,517,214.27	1,180,115.84	3,697,330.11
2025–2029	12,694,817.76	4,044,606.33	16,739,424.09

2030–2034	7,727,749.85	1,254,579.10	8,982,328.95
2035–2038	1,922,274.85	211,913.84	2,134,188.69
Total	$36,366,161.07	$12,754,938.57	$49,121,099.64

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 $57,738,310.03 at June 30, 2019. In addition, the university has expended $1,881,501.71 on projects that TSSBA has not yet withdrawn from the revolving credit facility.

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 https://www.comptroller.tn.gov/boards/tennessee-state-school-bond-authority/investor-information/tssba-financial-reports.html.

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 earnings of the investments of endowment funds 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, 2019, net appreciation of $1,106,687.82 is available to be spent, of which $949,823.74 is included in restricted net position expendable for scholarships and fellowships, $5,087.48 is included in restricted net position expendable for instructional departmental uses, $11,400.26 is included in restricted net position expendable for loans, $11,143.42 is included in restricted net position expendable for other, and $129,232.92 is included in unrestricted net position.

Note 10. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $36,366,161.07 in revenue bonds issued from April 2009 to September 2017 (see Note 8 for further detail). Proceeds from the bonds provided financing for student housing, the conditioning center, and energy upgrades. The bonds are payable through November 2037. 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 $49,121,099.64. Principal and interest paid for the current year and total available revenues were $4,100,575.64 and $185,465,472.55, respectively.

Note 11. Pension Plans

Defined Benefit Plans

Closed State and Higher Education Employee Pension Plan

General Information About the Pension Plan

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

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

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

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

Plus:

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

A reduced early retirement benefit is available at age 55 and vested. Members are vested with 5 years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service are 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 noncontributory, 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, 2019, to the Closed State and Higher Education Employee Pension Plan were $5,043,468.46, which is 19.23% 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, 2019, the university reported a liability of $18,937,296.00 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2018, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2018, measurement date, the university's proportion was 1.172288%. The proportion measured as of June 30, 2017, was 1.170505%.

Pension expense – For the year ended June 30, 2019, the university recognized a pension expense of $4,773,433.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2019, 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	$1,710,721.00	$ 88,036.00
Net difference between projected and actual earnings on pension plan investments	-	544,322.00
Changes in assumptions	2,381,674.00	-
Changes in proportion of net pension liability	509,837.00	-
TTU's contributions subsequent to the measurement date of June 30, 2018	5,043,468.46	-
Total	$9,645,700.46	$632,358.00

Deferred outflows of resources, resulting from the university's employer contributions of $5,043,468.46 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2020. 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	
2020	$ 3,845,118
2021	$ 1,746,524
2022	$(1,272,272)
2023	$ (349,496)
2024	$ -
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, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with mortality improvement projected six years beyond each actuarial valuation date.

The actuarial assumptions used in the June 30, 2018, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. 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, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation 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	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
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 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25%. 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 7.25%, 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 (6.25%) or 1 percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
University's proportionate share of the net pension liability	$41,620,494	$18,937,296	$(152,807)

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, 2019, the university reported a payable of $388,845.84 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2019.

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 years of service 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 years of service total 80. Service-related disability benefits are provided regardless of length of service. Five years of service are 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 Employee Retirement Plan. The higher education institutions make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the university for the year ended June 30, 2019, to the State and Higher Education Employee Retirement Plan were $167,252.77, which is 1.66% 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, 2019, the university reported an asset of $418,621 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2018, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The university's proportion of the net pension asset was based on a projection of the university's contributions during the year ended June 30, 2018, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2018, measurement date, the university's proportion was 1.085267%. At the June 30, 2017, measurement date, the university's proportion was 1.236249%.

Pension expense – For the year ended June 30, 2019, the university recognized a pension expense of $126,569.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2019, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 11,707.00	$ 7,018.00
Net difference between projected and actual earnings on pension plan investments	-	20,214.00
Changes in assumptions	14,220.00	-
Changes in proportion of net pension asset	28,381.00	1,572.00
TTU's contributions subsequent to the measurement date of June 30, 2018	167,252.77	-
Total	$221,560.77	$28,804.00

Deferred outflows of resources, resulting from the university's employer contributions of $167,252.77 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2020. 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	
2020	$ 583
2021	$ 145
2022	$(2,192)
2023	$ 2,685
2024	$ 5,358
Thereafter	$18,925

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, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with generational mortality improvement.

The actuarial assumptions used in the June 30, 2018, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. 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, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best estimate of expected real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation 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	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
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 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25%. 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 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 7.25%, 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 (6.25%) or 1 percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
University's proportionate share of the net pension asset	$69,437	$418,621	$679,908

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, 2019, the university reported a payable of $34,186.18 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2019.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2019, for all state government defined benefit pension plans was $4,900,002.

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 25, Part 2, *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 $3,984,285.43 for the year ended June 30, 2019, and $3,946,904.09 for the year ended June 30, 2018. 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 if they elect to be in the TCRS pension 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, 2019, contributions totaling $2,046,530.69 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $1,040,646.59 for employer contributions. During the year ended June 30, 2018, contributions totaling $1,826,577.14 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $914,934.40 for employer contributions.

At June 30, 2019, the university reported a payable of $293,737.46 for the outstanding amount of legally required contributions to the plan required for the year ended June 30, 2019.

Note 12. Other Postemployment Benefits

Closed State Employee Group OPEB Plan

General Information About the OPEB Plan

Plan description – Employees of the university who were hired prior to July 1, 2015, and choose coverage, are provided with pre-65 retiree health insurance benefits through the Closed State Employee Group OPEB Plan (EGOP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The employers participating in this plan include the State of Tennessee (primary government), the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee, and the institutions that make up the State University and Community College System.

Benefits provided – The EGOP is offered to provide health insurance coverage to eligible retired and disabled participants and is the only postemployment benefit provided to eligible pre-65 participants. Benefits are established and amended by an insurance committee created by Title 8, Chapter 27, Section 201, *Tennessee Code Annotated*. All retirees and disabled employees of the primary government and certain component units, who are eligible and choose coverage, and who have not yet reached the age of 65, are enrolled in this plan. All members have the option of choosing between the premier preferred provider organization (PPO) plan, the standard PPO plan, or the wellness health savings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members receive the same plan benefits as active employees, at a blended premium rate that considers the cost of active employees. This creates an implicit subsidy for the retirees. The retirees' cost is then directly subsidized by the employers, based on years of service. Therefore, retirees with 30 years of service are subsidized 80%; 20 but less than 30 years, 70%; and less than 20 years, 60%. During the current measurement period, this plan was funded on a pay-as-you-go basis and there were no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement 75. However, during the current fiscal year, the plan transitioned to a prefunding arrangement where assets will be accumulating in a qualifying trust.

Contributions – Annually, an insurance committee, created in accordance with Title 8, Chapter 27, Section 201, *Tennessee Code Annotated*, establishes the required payments to the plan by member employers and employees. Active members of the Employee Group Insurance Plan and pre-age 65 retired members of the EGOP pay the same rate. Claims liabilities of the plans are periodically computed using actuarial and statistical techniques to establish premium rates. While the plan operated on a pay-as-you-go basis, employers made the minimum required payments for retiree costs. However, once the plan transitioned to the prefunding arrangement through the qualifying trust, employers began making contributions to the trust based on an actuarily determined contribution rate (ADC). Employer contributions by the university for the year ended June 30, 2019, to the EGOP were $1,732,518.50, which is 3.11% of covered-employee payroll.

Total OPEB Liability

Proportionate share – The university's proportionate share of the collective total OPEB liability related to the EGOP was $22,551,736.02. At the June 30, 2018, measurement date, the university's proportion of the collective total OPEB liability was 1.628004%. The proportion existing at the prior measurement date was 1.347756%. This resulted in a change in proportion of 0.28% between the current and prior measurement dates. The university's proportion of the collective total OPEB liability was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2018, and a measurement date of June 30, 2018.

Actuarial assumptions – The collective total OPEB liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Healthcare cost trend rates	6.75% for 2019, decreasing annually to an ultimate rate of 3.91% for 2050 and later years
Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation, a weighted average has been used with weights derived from the current distribution of members among plans offered.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2018, valuations were the same as those employed in the July 1, 2017, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender-distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate – The discount rate used to measure the total OPEB liability was 3.62%. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Fidelity 20-Year Municipal GO AA index.

Changes in assumptions – The discount rate was changed from 3.56% as of the beginning of the measurement period to 3.62% as of June 30, 2018. This change in assumption decreased the total OPEB liability. Additionally, the near-term healthcare cost trend rates were changed from 5.4%, 5.3%, and 5.2% for plan years 2019, 2020, and 2021, respectively, to 6.75%, 6.25%, and 5.75%, respectively. Furthermore, the assumed initial per capita costs and premium amounts were revised to reflect rates adopted for the 2019 plan year. These two changes in assumptions increased the total OPEB liability.

Significant changes subsequent to the measurement date – During fiscal year 2019, the EGOP transitioned from a pay-as-you-go funding arrangement to a prefunded arrangement where assets would be deposited and accumulated in a qualifying trust, and benefits would be paid directly from the trust assets. In the first year of this arrangement, participating employers made estimated total contributions to the trust of $297.2 million. The trust had an estimated net position of $213.3 million at June 30, 2019. These plan assets will significantly reduce the net OPEB liability recorded by employers for the year ended June 30, 2020.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate – The following presents the university's proportionate share of the collective total OPEB liability of the EGOP, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.62%) or 1 percentage point higher (4.62%) than the current rate (expressed in thousands):

	1% Decrease (2.62%)	Current Discount Rate (3.62%)	1% Increase (4.62%)
University's proportionate share of the collective total OPEB liability	$24,059,952.00	$22,551,736.02	$21,132,384.00

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the healthcare cost trend rate – The following presents the university's proportionate share of the collective total OPEB liability of the EGOP, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (5.75% decreasing to 2.91%) or 1 percentage point higher (7.75% decreasing to 4.91%) than the current rate (expressed in thousands):

	1% Decrease (5.75% decreasing to 2.91%)	Healthcare Cost Trend Rates (6.75% decreasing to 3.91%)	1% Increase (7.75% decreasing to 4.91%)
University's proportionate share of the collective total OPEB liability	$20,367,583.00	$22,551,736.02	$25,105,511.00

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

OPEB expense – For the year ended June 30, 2019, the university recognized OPEB expense of $2,220,390.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2019, the university reported deferred outflows of resources and deferred inflows of resources related to OPEB paid by the EGOP from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 806,116.01
Changes in assumptions	993,294.00	719,893.00
Changes in proportion and differences between benefits paid and proportionate share of benefits paid	3,201,792.00	-
Contributions subsequent to the measurement date	1,732,518.50	-
Total	$5,927,604.50	$1,526,009.01

Deferred outflows of resources, resulting from the university's employer contributions of $1,732,518.50 subsequent to the measurement date, will be recognized as a decrease in total OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30	
2020	$378,397
2021	$378,397
2022	$378,397
2023	$378,397
2024	$378,397
Thereafter	$777,092

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

Closed Tennessee OPEB Plan

General Information About the OPEB Plan

Plan description – Employees of the university who were hired prior to July 1, 2015, and choose coverage, are provided with post-65 retiree health insurance benefits through the Closed Tennessee OPEB Plan (TNP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be a multiple-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). However, for accounting purposes, this plan will be treated as a single-employer plan. This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The State of Tennessee (primary government), as well as the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee, and the other institutions that make up the State University and Community College System, also participate in this plan. This plan also serves eligible post-65 retirees of employers who participate in the state-administered Teacher Group Insurance and Local Government Insurance Plans.

Benefits provided – The TNP is offered to help fill most of the coverage gaps created by Medicare and is the only postemployment benefit provided to eligible post-65 retired and disabled employees of participating employers. This plan does not include pharmacy. In accordance with Title 8, Chapter 27, Section 209, *Tennessee Code Annotated*, benefits are established and amended by cooperation of insurance committees created by Sections 8-27-201, 301, and 701, *Tennessee Code Annotated*. Retirees and disabled employees of the state, component units, local education agencies, and certain local governments, who have reached the age of 65, are Medicare-eligible, and also receive a benefit from the Tennessee Consolidated Retirement System may participate in this plan. All plan members receive the same plan benefits at the same premium rates. Many retirees receive direct subsidies toward their premium cost; however, participating employers determine their own policy in this regard. The primary government contributes to the premiums of component unit retirees based on years of service. Therefore, retirees with 30 years of service receive \$50 per month; 20 but less than 30 years, \$37.50; and 15 but less than 20 years, \$25. The university does not provide any subsidies for retirees in the TNP. The primary government paid \$138,637.50 for OPEB as the benefits came due during the reporting period. This plan is funded on a pay-as-you-go basis, and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement 75.

In accordance with Title 8, Chapter 27, Part 209, *Tennessee Code Annotated*, the state insurance committees established by Sections 8-27-201, 301, and 701, *Tennessee Code Annotated,* determine the required payments to the plan by member employers and employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs are allocated to plan participants.

Total OPEB Liability and OPEB Expense

Proportionate share – The primary government is entirely responsible for the TNP OPEB liability associated with the university's employees. The primary government's proportionate share of the total OPEB liability associated with the university was \$3,109,108. At the June 30, 2018, measurement date, the proportion of the collective total OPEB liability associated with the university was 1.67%. The proportion of the collective total OPEB liability associated with the university was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. There has been no change in the university's proportion since the prior measurement date. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2018, and a measurement date of June 30, 2018.

Actuarial assumptions – The total OPEB liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Healthcare cost trend rates	The premium subsidies provided to retirees in the Closed Tennessee OPEB Plan are assumed to remain unchanged for the entire projection; therefore, trend rates are not applicable.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2018, valuations were the same as those employed in the July 1, 2017, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender-distinct table published in IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate – The discount rate used to measure the total OPEB liability was 3.62%. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Fidelity 20-Year Municipal GO AA index.

Changes in assumptions – The discount rate was changed from 3.56% as of the beginning of the measurement period to 3.62% as of June 30, 2018. This change in assumption decreased the total OPEB liability.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate – The following presents the primary government's proportionate share of the university's related collective total OPEB liability, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.62%) or 1 percentage point higher (4.62%) than the current rate. The university does not report a proportionate share of the OPEB liability for employees in the TNP.

	1% Decrease (2.62%)	Current Discount Rate (3.62%)	1% Increase (4.62%)
Primary government's proportionate share of the collective total OPEB liability	$3,510,127	$3,109,108	$2,772,296

OPEB expense – For the year ended June 30, 2019, the primary government recognized OPEB expense of $152,986 for employees of the university participating in the TNP.

Total OPEB Expense

The total OPEB expense for the year ended June 30, 2019, was $2,373,376, which consisted of OPEB expense of $2,220,390 for the EGOP and $152,986 paid by the primary government for the TNP.

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	$ 96,871,030.14	$43,214,464.27	$327,711.57	$53,328,854.30
Sales and services of educational activities	1,262,926.60	-	539.68	1,262,386.92
Sales and services of other activities	8,623,340.15	-	79.42	8,623,260.73
Residential life	13,625,198.99	15,319.31	2,844.59	13,607,035.09
Bookstore	464,393.59	-	24.18	464,369.41
Food service	2,968,431.00	-	5,823.33	2,962,607.67
Wellness facility	1,564,535.78	3,025.56	-	1,561,510.22
Other auxiliaries	345,545.67	-	(1,062.52)	346,608.19
Other operating revenue	145,686.88	-	5.83	145,681.05
Nonoperating revenues:				
Other nonoperating revenues	167,728.26	-	(1,378.03)	169,106.29
Total	$126,038,817.06	$43,232,809.14	$334,588.05	$82,471,419.87

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, medical malpractice liability, and workers' compensation. By statute, the maximum liability for general liability, automobile liability, and medical malpractice liability is $300,000 per person and $1,000,000 per occurrence. 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, 2019, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/rd-doa/fa-accfin-cafr.html. At June 30, 2019, the RMF held $186 million in cash designated for payment of claims.

At June 30, 2019, the scheduled coverage for the university was $720,104,080 for buildings and $134,085,000 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 $34,547,635.74 at June 30, 2019.

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 $141,774.55 and expenses for personal property were $359,718.93 for the year ended June 30, 2019. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2019, outstanding commitments under construction contracts totaled $89,788,888.83 for the new science building, new fitness center, parking improvements, and various other renovations and upgrades, of which $39,409,572.35 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 $7,160,283.20 on deposit at June 30, 2019, 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 trusts. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received $5,221.73 from these funds during the year ended June 30, 2019.

Note 18. Natural Classification With Functional Classifications

The university's operating expenses for the year ended June 30, 2019, are as follows:

Functional Classification	Natural Classification: Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$43,781,987.00	$17,502,971.67	$ 8,746,476.06	$ -	$ -	$ 70,031,434.73
Research	5,004,714.88	1,877,828.11	3,436,637.77	-	-	10,319,180.76
Public service	4,022,924.10	1,447,699.13	3,188,767.62	-	-	8,659,390.85
Academic support	10,139,936.39	4,369,235.05	(2,329,468.04)	-	-	12,179,703.40
Student services	9,963,108.31	4,329,935.91	6,993,889.43	-	-	21,286,933.65
Institutional support	8,511,120.48	3,351,957.86	3,240,412.44	-	-	15,103,490.78
Maintenance and operation	3,934,034.49	2,124,692.74	13,400,718.37	-	-	19,459,445.60
Scholarships and fellowships	-	39,585.10	-	12,926,694.98	-	12,966,280.08
Auxiliary	2,183,222.77	764,740.65	3,934,410.44	-	-	6,882,373.86
Depreciation	-	-	-	-	7,497,162.58	7,497,162.58
Total	$87,541,048.42	$35,808,646.22	$40,611,844.09	$12,926,694.98	$7,497,162.58	$184,385,396.29

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 $6,242,867.62 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 Entities 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, 2018, the assets of the foundation totaled $829,684.07, and the net position amounted to $829,684.07.

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, 2018, the assets of the BSOA totaled $374,617, liabilities were $52,607, and the net position amounted to $322,010. 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, 2019, the State of Tennessee made payments of $2,399,676.00 on behalf of the university for retirees participating in the State Employee Group OPEB Plan and the Closed Tennessee OPEB Plan. The State Employee Group OPEB Plan and the Closed Tennessee Plan are postemployment benefit healthcare plans and are discussed further in Note 12. 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/rd-doa/fa-accfin-cafr.html.

Note 21. Subsequent Events

In early 2020, an outbreak of the novel strain of coronavirus (COVID-19) emerged globally. As a result, there have been mandates from federal, state, and local authorities resulting in an overall decline in economic activity. The university's management is currently evaluating the financial and enrollment impacts of the virus on Tennessee Tech. Since the outbreak began after the financial statement reporting presenting herein, the statements and notes do not include any adjustments that might result from the outcome of this uncertainty.

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 15-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 agriculture resources. The farm is 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, 2019, the foundation made distributions of $2,117,815.32 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, TTU 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, 2019, cash and cash equivalents consisted of $3,808,394.46 in custodial accounts of investment managers of the foundation, $71,199.46 in bank accounts for Tech Farms, $200.00 of petty cash on hand, and $3,729,889.94 in the Local Government Investment Pool administered by the State Treasurer.

Deposits

At June 30, 2019, the foundation's bank balance was $3,808,394.46. Of that amount, $444,085.96 was uninsured and uncollateralized.

The foundation also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is measured at amortized cost and is part of the State Pooled Investment Fund. The fund's required risk disclosures are presented in the *State of Tennessee Treasurer's Report.* That report is available on the state's website at www.treasury.tn.gov.

Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for 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, 2019, the foundation had the following debt investments and maturities:

		Investment Maturities (in Years)	
Investment Type	Fair Value	1 to 5	No Maturity Date
U.S. Treasury	$ 10,752.70	$10,752.70	$ -
Mutual bond funds	27,667,001.48	-	27,667,001.48
Total debt investments	27,677,754.18	$10,752.70	$27,667,001.48
Non-fixed income investments			
Corporate stocks	372,079.80		
Mutual equity funds	38,257,844.34		
Other			
Private equity	4,346,677.00		
Private real estate	194,984.00		
Natural resources	902,402.00		
Real estate	5,192,118.42		
Cash surrender value life insurance	24,658.06		
Alternative mutual fund	1,512.50		
Total investments	$76,970,030.30		

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, 2019, the foundation's investments were rated as follows:

Investment Type	Balance	Unrated
LGIP (amortized cost)	$ 3,729,889.94	$ 3,729,889.94
Mutual bond funds	27,667,001.48	27,667,001.48
Total	$31,396,891.42	$31,396,891.42

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

	Carrying Value – Endowment Pool	Carrying Value – Expendable Pool
Local Government Investment Pool	$ -	$ 3,729,889.94
Investment manager custodial accounts	-	3,808,394.46
Mutual funds	53,756,553.70	11,852,225.86
Other:		
Real estate	5,192,118.42	-
Private equity funds	4,346,677.00	-
Natural resources funds	902,402.00	-
Private real estate funds	194,984.00	-
Total	$64,392,735.12	$19,390,510.26

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 in the endowment pool at June 30, 2019, each having a fair value of $131.3292, 461,543.6940 units were owned by permanent endowments and 28,771.6093 units were owned by quasi-endowments. Of the total units in the expendable pool, each having a fair value of $119.6266, 93,180.24543 units were owned by funds related to the spending account of an endowment, and 68,911.66867 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 2019	Fair Value	Cost	Net Gains (Losses)	Fair Value Per Unit
Endowment Fund				
End of year	$64,392,735.12	$50,568,678.94	$13,824,056.18	$131.329238
Beginning of year	$60,380,849.26	$49,146,113.22	11,234,736.04	128.743373
			2,589,320.14	$ 2.585865
Expendable Fund				
End of year	$19,390,510.26	$19,034,356.82	356,153.44	$119.626635
Beginning of year	$17,053,875.48	$17,131,280.34	(77,404.86)	112.315445
			433,558.30	$ 7.311190
Total net gains			$ 3,022,878.44	

The average annual earnings per unit, exclusive of net gains, were $5.4649 and $2.7044 for the endowment and expendable pools, respectively, for the year ended June 30, 2019.

Alternative investments – The foundation had investments in three private equity funds, two natural resources funds, a private real estate fund, real estate, and an alternative mutual fund. The estimated fair value of these assets was $10,637,693.92 at June 30, 2019. The largest funds are the real estate and private equity funds, which represent 12.39% of the total portfolio of investments and 89.67% 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, 2019. 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, 2019, the alternative marketable investment fund and alternative mutual 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 at the 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, 2019:

	June 30, 2019	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. Treasury	$ 10,752.70	$ 10,752.70	$ -	$ -	$ -
Mutual bond funds	27,667,001.48	19,421.81	-	-	27,647,579.67
Total debt securities	27,677,754.18	30,174.51	-	-	27,647,579.67
Equity securities					
Corporate stock	372,079.80	325,999.80	-	46,080.00	-
Mutual equity funds	38,257,844.34	296,644.46	-	-	37,961,199.88
Real estate	5,192,118.42	-	-	5,192,118.42	-
Private equities	4,346,677.00	-	-	-	4,346,677.00
Natural resources	902,402.00	-	-	-	902,402.00
Alternative mutual fund	1,512.50	1,512.50	-	-	-
Private real estate	194,984.00	-	-	-	194,984.00
Total equity securities	49,267,618.06	624,156.76	-	5,238,198.42	43,405,262.88
Total assets at fair value	$76,945,372.24	$654,331.27	$ -	$5,238,198.42	$71,052,842.55

The table above includes all investments for the foundation with the exception of the cash surrender value life insurance of $24,658.06, 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.

The valuation method for assets and liabilities measured at the net asset value per share (or its equivalent) is presented in 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	$18,714,578.11	$ -	Monthly	5 business days
High Quality Bond Fund	$ 2,680,342.59	$ -	Weekly	5 business days
Intermediate Term Fund	$ 6,252,658.97	$ -	Weekly	5 business days
Mutual equity funds				
Multi-Strategy Equity Fund	$35,041,975.59	$ -	Monthly	5 business days
Core Equity Fund	$ 1,432,501.73	$ -	Weekly	5 business days
Strategic Solutions Equity Fund	$ 1,486,722.57	$ -	Monthly	5 business days
Private equities				
Capital Partners V	$ 2,094,620.00	$ 346,000.00	Not applicable	Not applicable
Capital Partners VI	$ 2,201,937.00	$1,015,000.00	Not applicable	Not applicable
Capital Partners VII	$ 50,120.00	$ 255,750.00	Not applicable	Not applicable
Natural resources				
Natural Resources IX	$ 873,092.00	$ 126,825.00	Not applicable	Not applicable
Natural Resources XI	$ 29,310.00	$1,862,000.00	Not applicable	Not applicable
Private real estate				
Global Absolute Alpha Company	$ 194,984.00	$1,567,755.00	Not applicable	Not applicable

The unfunded commitments listed above are due over the next several years with no set call dates. The two commitments totaling $472,825.00 terminate in May and December 2026. The third commitment of $1,015,000.00 terminates in June 2030. The two commitments totaling $2,117,750.00 terminate in March 2033. The last commitment of $1,567,755.00 is a new fund for which financial statements have not been audited. The termination date for Commonfund Real Estate Opportunity will be stated when those audited financial statements are available. 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 objective is to offer an actively managed program that will provide broad exposure to global debt markets. The portfolio will be made up of marketable securities of intermediate and longer-term maturities. The High Quality Bond Fund will consist primarily of U.S. Treasury and Agency issues, corporate and mortgage bonds, and other asset-backed securities with an objective to outperform its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index. The investment objective of the Intermediate Term Fund is to generate a higher current yield than short-term money market investments. The Multi-Strategy Equity Fund ranges from international equity to domestic and hedged equities on investment strategy. The investment objective of the Core Equity Fund is to outperform the S&P 500 Index. The Strategic Solutions Equity Fund has an investment objective to focus on equities. The private equities' investment strategies vary among many equity industries, including services, manufacturing, and consumer related. The investment objective of the Real Estate Opportunity Fund is to deliver Non-Core real estate exposure primarily through external real estate managers advising portfolio funds the investment manager believes to be high-quality managers. 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 above will be sold for an amount different from the NAV per share.

Capital Assets

Capital asset activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Transfers	Ending Balance
Land	$10,265,567.52	$ 24,900.00	$ -	$10,290,467.52
Land improvements and infrastructure	631,661.29	-	-	631,661.29
Buildings	824,629.00	70,521.54	146,208.94	1,041,359.48
Equipment	304,933.32	30,125.97	-	335,059.29
Intangible assets	261,685.25	-	-	261,685.25
Art and historical treasures	75,942.34	-	-	75,942.34
Projects in progress	146,208.94	2,151.81	(146,208.94)	2,151.81
Total	12,510,627.66	127,699.32	-	12,638,326.98
Less accumulated depreciation/amortization:				
Land improvements and infrastructure	51,921.59	35,467.88	-	87,389.47
Buildings	56,881.17	35,316.46	-	92,197.63
Equipment	29,177.89	33,350.41	-	62,528.30
Intangible assets	261,685.25	-	-	261,685.25
Total	399,665.90	104,134.75	-	503,800.65
Capital assets, net	$12,110,961.76	$ 23,564.57	$ -	$12,134,526.33

Because the Golden Eagle Golf Club and Tech Farms, LLC are not operating activities of the foundation, total depreciation of $99,214.75 is included in other nonoperating revenues and expenses in the statement of revenues, expenses, and changes in net position.

Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Real estate:	$750,000.00	$92,118.42	-	$842,118.42	$105,264.80

Notes payable – The foundation borrowed funds in fiscal year 2017 and fiscal year 2019 for the real estate building held for investment to improve space occupied by SAIC. As of June 30, 2019, the unused line of credit available to the foundation from the note was $157,881.58. 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 $105,264.80 are due each January until maturity in January 2027.

Debt service requirements to maturity for notes payable at June 30, 2019, are as follows:

Year Ending June 30	Principal	Interest	Total
2020	$105,264.80	$10,526.48	$115,791.28
2021	105,264.80	9,868.58	115,133.38
2022	105,264.80	8,552.77	113,817.57
2023	105,264.80	7,236.96	112,501.76
2024	105,264.80	5,921.15	111,185.95
2025-2027	315,794.42	9,868.56	325,662.98
Total	$842,118.42	$51,974.50	$894,092.92

The foundation's outstanding note of $842,118.42 contains a provision that in the event of default, the lender may declare all indebtedness under the note immediately due. Outstanding amounts may be declared by the lender immediately due if the foundation is unable to make payments on time or in the amount due. The foundation's outstanding note from direct borrowings is secured with collateral of assignment of leases and rents and security interest in real estate.

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 market 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; a 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, 2019

ASSETS	
Current assets:	
Cash and cash equivalents	$ 71,199.46
Accounts, notes, and grants receivable (net)	38,997.21
Total current assets	110,196.67
Noncurrent assets:	
Capital assets (net)	7,931,259.20
Total noncurrent assets	7,931,259.20
Total assets	8,041,455.87
LIABILITIES	
Current liabilities:	
Accounts payable	74,154.55
Accrued liabilities	2,418.37
Total current liabilities	76,572.92
Noncurrent liabilities:	-
Total liabilities	76,572.92
NET POSITION	
Investment in capital assets	7,931,259.20
Restricted for expendable:	
Other	33,623.75
Total net position	$7,964,882.95

Tech Farms, LLC
Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2019

Operating revenues	$ 459,687.89
Operating expenses	(604,044.63)
Operating loss	(144,356.74)
Other nonoperating revenues (expenses)	73,403.98
Net nonoperating revenues	73,403.98

Losses before other revenues, expenses, gains or losses	(70,952.76)
Decrease in net position	(70,952.76)
Net position – beginning of year	8,035,835.71
Net position – end of year	$7,964,882.95

Tech Farms, LLC
Condensed Statement of Cash Flows
For the Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to suppliers and vendors	$(408,069.09)
Payments to employees	(134,631.90)
Payments for benefits	(11,750.66)
Other receipts (payments)	554,280.45
Net cash used for operating activities	(171.20)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets and construction	(102,799.32)
Net cash used for capital and related financing activities	(102,799.32)
Net decrease in cash and cash equivalents	(102,970.52)
Cash and cash equivalents – beginning of year	174,169.98
Cash and cash equivalents – end of year	$ 71,199.46
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating loss	$(144,356.74)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Noncash operating expenses	62,338.47
Other adjustments	110,979.69
Changes in assets, liabilities, and deferrals:	
Accounts payable	(55,637.48)
Accrued liabilities	(3,032.98)
Receivables	29,537.84
Net cash used for operating activities	$ (171.20)

Because Tech Farms, LLC is not an operating activity of the foundation, payments to employees and payments for benefits are included in nonoperating revenues and expenses in the statement of revenues, expenses, and changes in net position of the foundation.

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
2019	1.172288%	$18,937,296.00	$27,127,594.00	69.81%	90.26%
2018	1.170505%	20,947,361.00	28,016,368.78	74.77%	88.88%
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 is 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

	Proportion of the Net Pension Asset	Proportionate Share of the Net Pension Asset	Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2019	1.085267%	$418,621.00	$8,044,938.00	5.20%	132.39%
2018	1.236249%	256,380.00	6,584,425.59	3.89%	131.51%
2017	1.227201%	103,386.00	3,788,707.00	2.73%	130.56%
2016	1.155489%	32,134.00	1,258,292.00	2.55%	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 is 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 Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2019	$5,043,468.46	$5,043,468.46	$ -	$26,227,087.30	19.23%
2018	5,118,977.39	5,118,977.39	-	27,127,594.35	18.87%
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%

Notes to Schedule:

Changes of assumptions: In 2017, the following assumptions were changed: decreased inflation rate from 3% to 2.5%; decreased the investment rate of return from 7.5% to 7.25%; decreased the cost-of-living adjustment from 2.5% to 2.25%; decreased salary growth graded ranges from an average of 4.25% to an average of 4%; and modified mortality assumptions.

To correspond with the reporting date, the amounts presented were determined as of June 30 of the stated fiscal year.

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

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2019	$167,252.77	$167,252.77	$ -	$10,075,443.38	1.66%
2018	311,066.24	311,066.24	-	8,044,937.88	3.87%
2017	255,800.19	255,800.19	-	6,584,425.59	3.88%
2016	146,324.06	146,324.06	-	3,788,706.68	3.86%
2015	48,695.81	48,695.81	-	1,258,292.25	3.87%

Notes to Schedule:

Changes of assumptions: In 2017, the following assumptions were changed: decreased inflation rate from 3% to 2.5%; decreased the investment rate of return from 7.5% to 7.25%; decreased the cost-of-living adjustment from 2.5% to 2.25%; decreased salary growth graded ranges from an average of 4.25% to an average of 4%; and modified mortality assumptions.

1) 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 is available.

2) To correspond with the reporting date, the amounts presented were determined as of June 30 of the stated fiscal year.

TENNESSEE TECHNOLOGICAL UNIVERSITY
Required Supplementary Information
Schedule of Tennessee Technological University's Proportionate Share of the Collective Total OPEB Liability
Closed State Employee Group OPEB Plan

	2019	2018
University's proportion of the collective total OPEB liability	1.628004%	1.347756%
University's proportionate share of the collective total OPEB liability	$22,551,736.02	$18,094,168.01
University's covered-employee payroll	$55,648,560.41	$56,177,585.07
University's proportionate share of the collective total OPEB liability as a percentage of its covered-employee payroll	40.53%	32.21%

1) There are no assets accumulating in a trust that meets the criteria in paragraph 4 of GASB Statement 75 related to this OPEB plan.

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 fiscal years until 10 years of information is available.

3) The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

TENNESSEE TECHNOLOGICAL UNIVERSITY
Required Supplementary Information
Schedule of Tennessee Technological University's Proportionate Share of the Collective Total OPEB Liability
Closed Tennessee OPEB Plan

	2019	2018
University's proportion of the collective total OPEB liability	0.0%	0.0%
University's proportionate share of the collective total OPEB liability	$ -	$ -
Primary government's proportionate share of the collective total OPEB liability	3,109,108.00	2,975,101.00
Total OPEB liability associated with the university	$ 3,109,108.00	$ 2,975,101.00
University's covered-employee payroll	$64,226,474.31	$64,202,136.90
University's proportionate share of the collective total OPEB liability as a percentage of its covered-employee payroll	0.0%	0.0%

1) There are no assets accumulating in a trust that meets the criteria in paragraph 4 of GASB Statement 75 related to this OPEB plan.

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 fiscal years until 10 years of information is available.

3) The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

TENNESSEE TECHNOLOGICAL UNIVERSITY
Supplementary Schedule of Cash Flows - Component Unit
For the Year Ended June 30, 2019

Cash flows from operating activities	
Gifts and contributions	$ 3,487,013.04
Payments to suppliers and vendors	(2,582,996.18)
Payments to employees of Tech Farms, LLC	(134,631.90)
Payments for benefits	(11,750.66)
Payments for scholarships and fellowships	(1,726,959.58)
Payments to Tennessee Technological University	(1,679,134.21)
Other receipts (payments)	1,710,661.51
Net cash used for operating activities	(937,797.98)
Cash flows from noncapital financing activities	
Private gifts for endowment purposes	1,342,223.09
Net cash provided by noncapital financing activities	1,342,223.09
Cash flows from capital and related financing activities	
Capital grants and gifts received	52,143.04
Purchase of capital assets and construction	(396,608.46)
Net cash used for capital and related financing activities	(344,465.42)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	8,897,653.36
Income on investments	4,484,192.35
Purchases of investments	(11,926,589.18)
Other investment payments	(7,479.45)
Net cash provided by investing activities	1,447,777.08
Net increase in cash and cash equivalents	1,507,736.77
Cash and cash equivalents - beginning of year	6,101,947.09
Cash and cash equivalents - end of year	$ 7,609,683.86
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (1,697,699.70)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation expense	4,920.00
Gifts in-kind	438,681.11
Other adjustments	105,153.52
Change in assets, liabilities, and deferrals:	
Receivables	16,085.41
Inventories	(1,745.76)
Prepaid items	110,713.07
Accounts payable	64,219.23
Unearned revenues	21,763.02
Other	112.12
Net cash used for operating activities	$ (937,797.98)
Noncash investing, capital, or financing transactions	
Gifts in-kind - capital	$ 152,016.97
Unrealized gains on investments	$ 3,216,619.11

Justin P. Wilson
Comptroller

Jason E. Mumpower
Deputy Comptroller

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 Lee, Governor
Members of the General Assembly
Dr. Philip 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, 2019, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated September 3, 2020. 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 opinion 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 entity's 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.

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

- The university did not properly prepare bank reconciliations.
- As noted in the prior audit, the university did not provide adequate internal controls in one specific area.

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*.

Tennessee Technological University's Response to the Finding

The university's response to the finding identified in our audit is included in the Finding and Recommendation section of this report. The university's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

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
Division of State Audit
September 3, 2020

Findings and Recommendations

1. The university did not properly prepare bank reconciliations

Condition

Tennessee Technological University did not properly prepare bank reconciliations. We tested all reconciliations for the university's operating and payroll bank accounts. Staff performed all bank reconciliations from 72 to 230 days after the end of the month. Reconciliations also contained unresolved reconciling items dating back several months.

Criteria

Best practices require that staff prepare bank reconciliations within 30 days after the end of the month. A sound system of internal controls requires prompt preparation of bank reconciliations and resolution of reconciling items.

Cause

The Associate Vice President for Business and Fiscal Affairs stated that the individual performing the reconciliations encountered difficulties when reconciling the months of May and June 2018. Another individual started assisting with the reconciliations during fiscal year 2019 and also found errors in the March and April 2018 bank reconciliations. The errors noted in these reconciliations resulted in significant delays in the completion of subsequent reconciliations. Management hired a new accountant in March 2019; however, that individual was also unable to successfully perform the reconciliations.

Effect

Not performing timely bank reconciliations could result in reporting errors in the financial statements or possibly undetected misappropriation of cash. If bank errors should occur and not be reported to the bank timely, the bank might not honor requests for corrections.

Recommendation

The Associate Vice President for Business and Fiscal Affairs should ensure that staff responsible for the preparation of bank reconciliations complete them in a timely manner and research and resolve reconciling items promptly.

Management's Comment

We concur. The bank reconciliation responsibilities assigned within the Business Office have been reviewed, and the bank reconciliation process has been transferred to an accounting position that holds a more appropriate level of expertise. Since September 2019, all bank reconciliations have been accurately and timely completed within the 30-day best practices timeframe.

2. As noted in the prior audit, the university did not provide adequate internal controls in one specific area

Finding

Tennessee Technological University did not design and monitor effective internal controls in a specific area. We found an internal control deficiency in this area related to the university's systems because management did not implement controls that were sufficient. Although management has taken steps to correct these conditions, these conditions still existed throughout fiscal year 2019.

Ineffective implementation of internal controls increases the risk of fraud, error, and data loss. Pursuant to Standard 4.40 of the U.S. Government Accountability Office's *Governmental Auditing Standards*, we omitted details from this finding because they are confidential under the provisions of 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 this condition is remedied by the prompt development and consistent implementation of internal controls in one area. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur. The TTU Business Office has reviewed all work processes related to this specific internal control deficiency and worked with staff to create a more appropriate process which was implemented in February 2020. The Associate VP for Business and Fiscal Affairs along with the Directors of Accounting and Financial Services have ensured that the new process was fully tested, effectively implemented, and routinely monitored.

Observation and Comment

While conducting the June 30, 2019, financial statement audit of TTU, the Comptroller's Office received a hotline allegation and will present any findings from its review in a future report.