Tennessee Board of Regents
Tennessee Technological University

For the Year Ended
June 30, 2002

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

March 27, 2003

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. Robert R. Bell, President
Tennessee Technological University
Box 5007
Cookeville, Tennessee 38505

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Tennessee Technological University, for the year ended June 30, 2002. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

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

Sincerely,

John G. Morgan

John G. Morgan
Comptroller of the Treasury

JGM/mb
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State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit
Tennessee Technological University
For the Year Ended June 30, 2002

AUDIT OBJECTIVES

The objectives of the audit were to consider the university's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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Audit Report
Tennessee Board of Regents
Tennessee Technological University
For the Year Ended June 30, 2002

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Tennessee Board of Regents
Tennessee Technological University
For the Year Ended June 30, 2002

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Tennessee Technological University. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

Tennessee Technological University was established as Tennessee Polytechnic Institute on September 14, 1916, by the General Assembly. In 1927, the institution was raised to the status of a four-year college and empowered to grant the bachelor's degree. The administrative structure of the university was expanded in 1949 into five schools: Arts and Sciences, Agriculture and Home Economics, Business Administration, Education, and Engineering. In 1965, the five undergraduate schools were designated as colleges. By an act of the General Assembly, effective July 1, 1965, the name of the institution was officially changed to Tennessee Technological University.

ORGANIZATION

The governance of Tennessee Technological University is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the university is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 2001, through June 30, 2002, and was conducted 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. Financial statements are presented for the year ended June 30, 2002. Tennessee Technological University is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the university's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 2002, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by 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. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the university's financial statements.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

November 20, 2002

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of Tennessee Technological University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the year ended June 30, 2002, and have issued our report thereon dated November 20, 2002. 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. As discussed in Note 11, the university implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The university also implemented GASB Statement 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement 38, *Certain Financial Statement Note Disclosures*.

<u>Compliance</u>

As part of obtaining reasonable assurance about whether the university's financial statements are free of material misstatement, we performed tests of the university's compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the university's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting, which we have reported to the university's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA,
Director

AAH/mb

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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Independent Auditor's Report

November 20, 2002

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying statement of net assets of Tennessee Technological University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 2002, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the university's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Tennessee Technological University, as of June 30, 2002, and the revenues, expenses, and changes in net assets and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Honorable John G. Morgan
November 20, 2002
Page Two

As discussed in Note 11, the university implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The university also implemented GASB Statement 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement 38, *Certain Financial Statement Note Disclosures*.

The management's discussion and analysis on pages 8 through 18 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2002, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA,
Director

AAH/mb

TENNESSEE TECHNOLOGICAL UNIVERSITY
Management's Discussion and Analysis

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, 2002. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

Since this is a transition year for the new financial reporting format required by the Governmental Accounting Standards Board's Statements No. 34, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments" and No. 35, "Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities," only one year of information is presented in the financial statements and this discussion. Comparative information will be presented in future years.

Using This Annual Report

This report consists of three basic financial statements. The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows provide information on Tennessee Technological University as a whole and present a long-term view of the university's finances.

The Statement of Net Assets

The Statement of Net Assets presents the financial position of the university at the end of the fiscal year and includes all assets and liabilities of the university. The difference between total assets and total liabilities—net assets—is an indicator of the current financial condition of the university. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the university's equity in property, plant, and equipment owned by the university. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are 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 assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

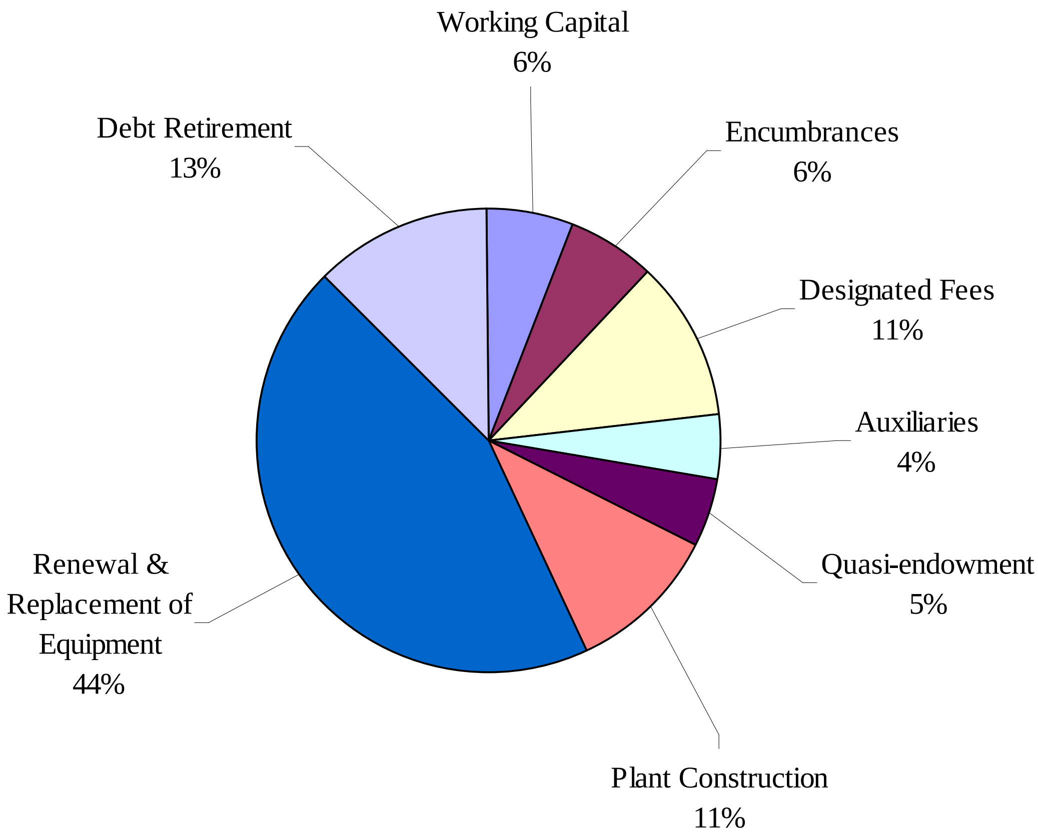
Statement of Net Assets
(in thousands of dollars)

	2002
Assets:	
Current assets	$33,537
Capital assets, net	38,815
Other assets	16,704
Total assets	**89,056**
Liabilities:	
Current liabilities	32,874
Noncurrent liabilities	7,728
Total liabilities	**40,602**
Net assets:	
Invested in capital assets, net of related debt	34,634
Restricted – nonexpendable	776
Restricted – expendable	2,823
Unrestricted	10,221
Total net assets	**$48,454**

- Material assets of the university included capital assets, investments, cash and cash equivalents, and receivables. Material liabilities of the university consisted of deposits held in custody for others, bonds and commercial paper payable, and accounts payable. Deposits held in custody for others represented 58% of all liabilities.

Many of the university's unrestricted net assets have been designated or reserved for specific purposes such as renewal and replacement of equipment, future debt service, quasi-endowments, and plant construction. The following graph shows the allocations:

Unrestricted Net Assets



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

The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the university, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to generally accepted accounting principles.

Statement of Revenues, Expenses, and Changes in Net Assets

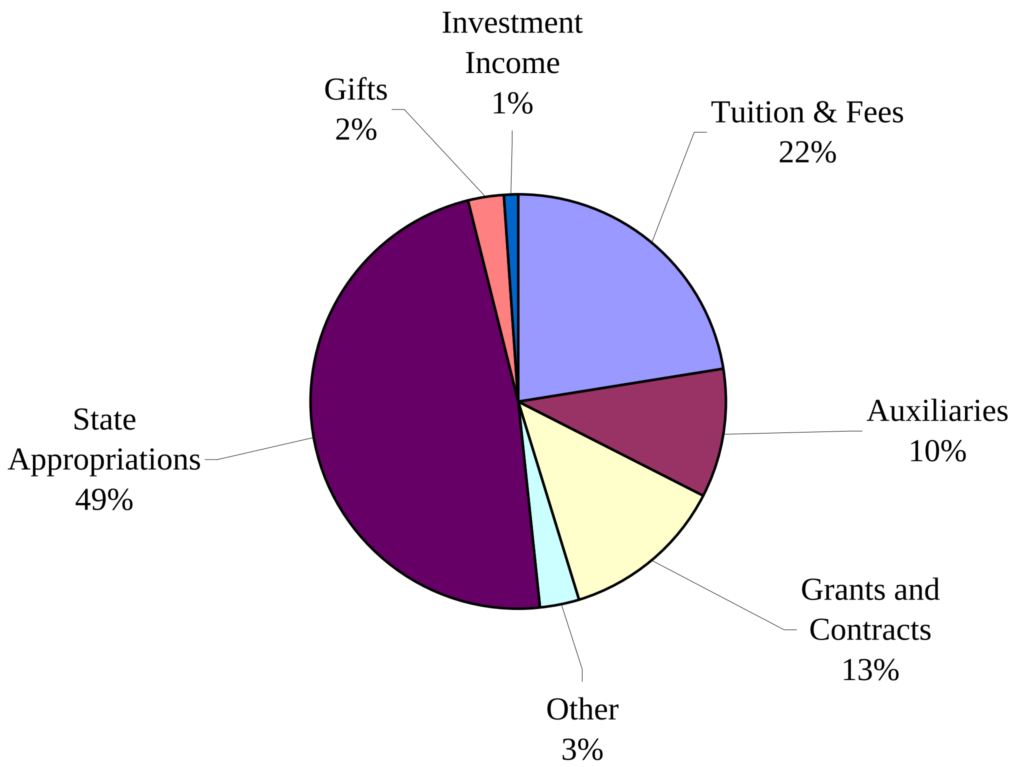
(in thousands of dollars)

	2002
Operating revenues:	
Net tuition and fees	$ 20,925
Grants and contracts	11,805
Auxiliary	9,371
Other	2,551
Total operating revenues	**44,652**
Operating expenses	93,745
Operating loss	**(49,093)**
Nonoperating revenues (expenses):	
State appropriations	44,790
Gifts	1,960
Investment income	1,146
Other revenues and expenses	274
Net nonoperating revenues	**48,170**
Loss before other revenues, expenses, gains, or losses	**(923)**
Other revenues, expenses, gains, or losses:	
Capital appropriations	661
Capital grants and gifts	578
Additions to permanent endowments	32
Total other revenues, expenses, gains, or losses	**1,271**
Increase in net assets	**348**
Net assets at beginning of year, as originally reported	147,148
Cumulative effect of changes in accounting principle	(99,042)
Net assets at beginning of year, as restated	**48,106**
Net assets at end of year	**$ 48,454**

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the university's operating activities for the year ended June 30, 2002.

Revenues by Source



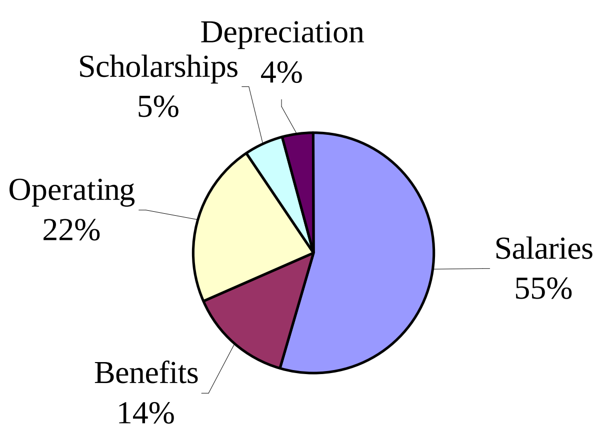
- State appropriations, tuition and fees, and grants and contracts generated 84% of the university's revenue.

Expenses

Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below.

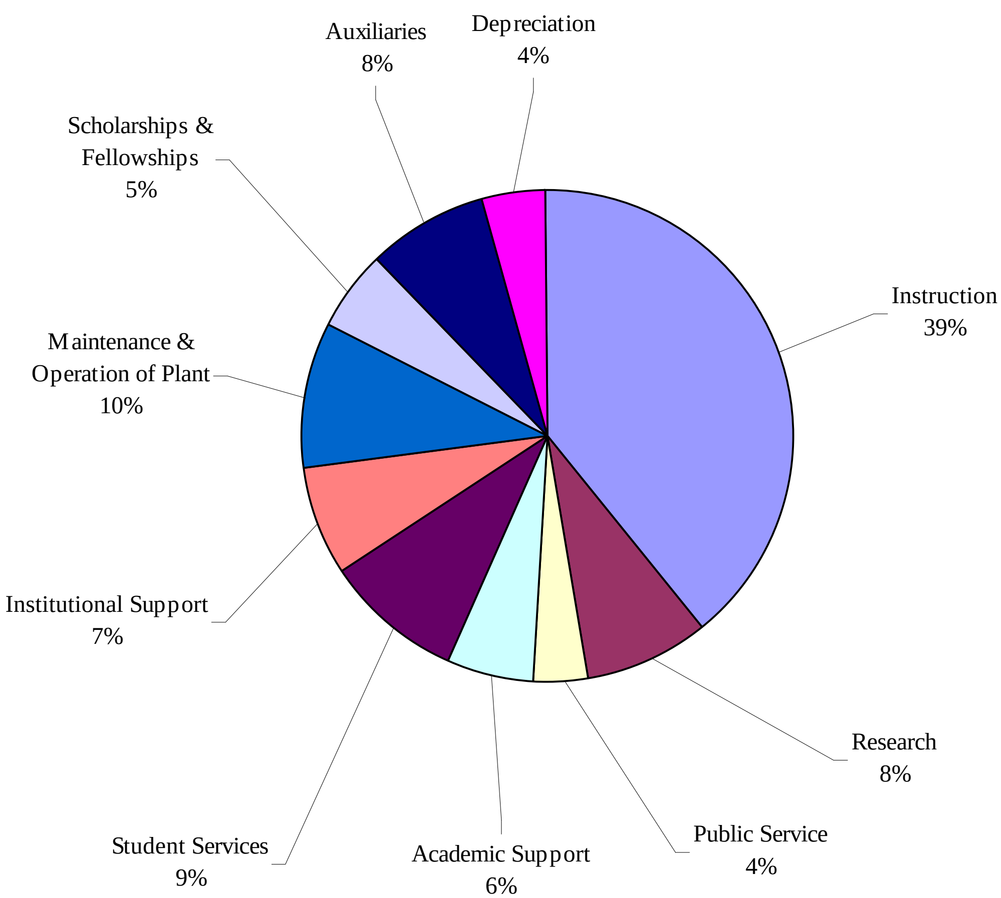
Functional Classification	Natural Classification					
	Salaries	Benefits	Operating	Scholarship	Depreciation	Total
Instruction	$25,763,696.78	$6,021,440.29	$4,954,147.59	$ 0.00	$ 0.00	$36,739,284.66
Research	4,252,662.46	706,780.32	2,644,924.47	0.00	0.00	7,604,367.25
Public service	1,585,981.38	449,630.46	1,252,119.53	0.00	0.00	3,287,731.37
Academic support	4,800,897.17	1,250,350.79	(881,050.08)	0.00	0.00	5,170,197.88
Student services	3,962,231.46	1,157,614.48	3,510,199.34	0.00	0.00	8,630,045.28
Institutional support	5,084,439.87	1,425,969.76	262,198.79	0.00	0.00	6,772,608.42
M&O	3,039,478.20	1,060,046.96	5,035,397.74	0.00	0.00	9,134,922.90
Scholarships and fellowships	0.00	0.00	0.00	5,077,986.93	0.00	5,077,986.93
Auxiliary	2,675,596.88	789,705.69	3,973,185.05	0.00	0.00	7,438,487.62
Depreciation	0.00	0.00	0.00	0.00	3,889,273.37	3,889,273.37
Total expenses	$51,164,984.20	$12,861,538.75	$20,751,122.43	$5,077,986.93	$3,889,273.37	$93,744,905.68

Operating Expenses - Natural Classification



- Salaries and benefits represented 69% using the natural classification of expenses. This includes expenses for faculty, administrators, clerical and support staff, and students. Operating expenses totaled 22% with the remainder being made up of scholarships and depreciation.

Operating Expenses - Functional Classification



- The primary instructional costs are found in the functions of instruction, research, public service, and academic support and represent 57% of all functional costs.

The Statement of Cash Flows

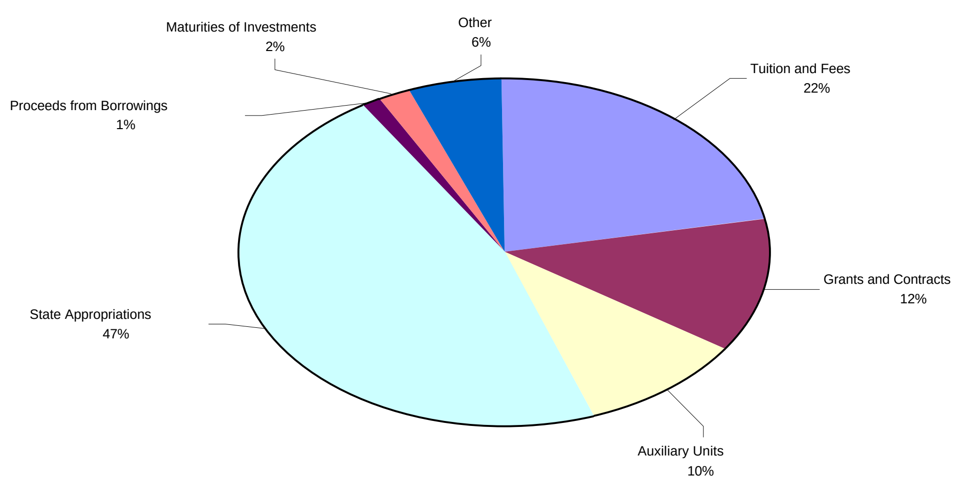
The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the university's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

Statement of Cash Flows
(in thousands of dollars)

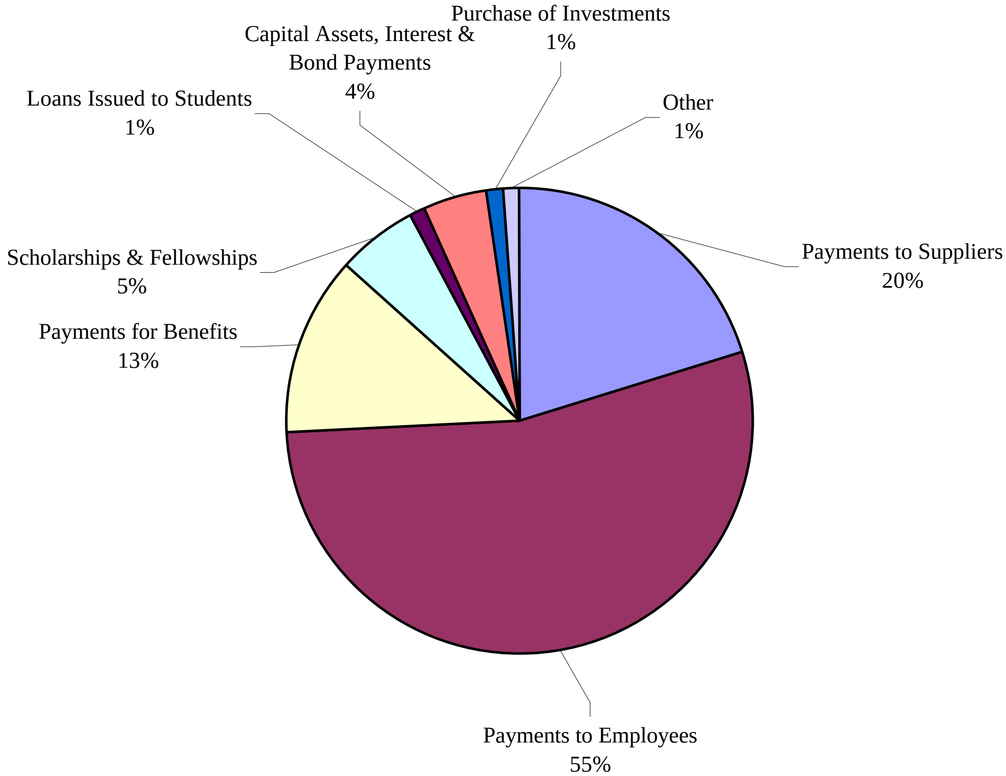
	2002
Cash provided (used) by:	
Operating activities	$(42,225)
Noncapital financing activities	43,824
Capital and related financing activities	(2,177)
Investing activities	1,701
Net increase in cash	**1,123**
Cash, beginning of year	**21,042**
Cash, end of year	**$ 22,165**

- Material sources of cash include state appropriations, tuition and fees, and grants and contracts. Material uses of cash are payments to employees (including benefits), payments to suppliers, and scholarships and fellowships. The cash flow of the university is highly dependent on two major sources—tuition and fees and state appropriations. The graphic illustrations that follow detail the major sources and uses of cash.

Sources of Funds



Uses of Funds



- The net increase in cash and cash equivalents amounted to $1,122,631.24 for the 2001-02 fiscal year resulting in improved liquidity for the university. For informational purposes, the following liquidity ratios are being provided:

Current Ratio	1.020
Quick Ratio	1.003

As a rule of thumb, an adequate current ratio is 2:1; the university's is 1.02:1. Although not an adequate ratio, approximately 90% of current assets are cash and investments that can be readily converted to cash to pay current liabilities.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2002, Tennessee Technological University had $38,815,296.12 invested in capital assets, net of accumulated depreciation of $75,051,310.72. Depreciation charges totaled $3,889,273.37 for the current fiscal year. Details of these assets are shown below.

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

	2002
Land	$ 1,316
Land improvements & infrastructure	1,886
Buildings	25,160
Equipment	4,638
Library holdings	4,805
Projects in progress	1,010
Total	$38,815

The university had one major capital addition in 2001-02 involving the installation of an elevator in Kittrell Hall. This project was funded with state appropriations. Construction of a new residence hall is the only construction in progress at June 30, 2002, and will be funded with commercial paper.

In 2002-03, the university plans to complete the residence hall project. This construction is currently funded with commercial paper that will be converted to Tennessee State School Bond Authority (TSSBA) bonds upon completion. More detailed information about the university's capital assets is presented in Note 6 to the financial statements.

Debt

At June 30, 2002, the university had $4,122,192.80 in debt outstanding. The table below summarizes the amounts by type of debt instrument.

Debt Instrument	**Amount (in thousands of dollars)**
Bonds payable	$3,112
Commercial paper	1,010
Total outstanding debt	$4,122

The university acquired $1,010,346.90 in new debt during the year. Debt of $602,017.30 was retired during the year, including final payments on three bond issues. The Tennessee State

School Bond Authority bond rating is AA- as issued by Standard & Poor's. More detailed information about the university's long-term liabilities is presented in Note 7 to the financial statements.

Economic Factors That Will Affect the Future

The university's 2002-03 budget will be improved by a small increase in state appropriations along with a 7.5% fee increase. The Tennessee Board of Regents also approved an engineering fee that will have a very positive impact on the College of Engineering. Future differential fees will also improve the university's situation.

Exhibit A

TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENT OF NET ASSETS
JUNE 30, 2002

ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 3)	$	14,420,618.37
Short-term investments (Note 4)		14,911,452.89
Accounts, notes, and grants receivable (net) (Note 5)		3,526,111.99
Inventories (at lower of cost or market)		369,298.96
Prepaid expenses and deferred charges		206,537.33
Accrued interest receivable		103,211.61
Total current assets		33,537,231.15
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 3)		7,477,839.13
Investments (Note 4)		5,649,233.36
Accounts, notes, and grants receivable (net) (Note 5)		2,888,158.89
LGIP deposit - capital projects (Note 2)		266,703.13
Deposits with trustees (Note 4)		421,484.64
Capital assets (net) (Note 6)		38,815,296.12
Total noncurrent assets		55,518,715.27
Total assets		89,055,946.42
LIABILITIES		
Current liabilities:		
Accounts payable		3,436,691.99
Accrued liabilities		1,923,410.26
Student deposits		117,924.72
Deferred revenue		1,761,528.84
Compensated absences (Note 7)		1,362,293.37
Accrued interest payable		25,595.14
Long-term liabilities, current portion (Note 7)		619,273.03
Deposits held in custody for others		23,612,655.87
Other liabilities		14,528.09
Total current liabilities		32,873,901.31
Noncurrent liabilities:		
Compensated absences (Note 7)		1,332,634.86
Long-term liabilities (Note 7)		3,502,919.77
Due to grantors (Note 7)		2,892,198.15
Total noncurrent liabilities		7,727,752.78
Total liabilities		40,601,654.09
NET ASSETS		
Invested in capital assets, net of related debt		34,634,478.02
Restricted for:		
Nonexpendable:		
Scholarships and fellowships		775,939.22
Expendable:		
Scholarships and fellowships		145,623.57
Research		574,378.14
Instructional department uses		318,449.42
Loans		766,049.53
Debt service		335,971.65
Other		682,920.96
Unrestricted (Note 8)		10,220,481.82
Total net assets	$	48,454,292.33

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

Exhibit B

TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002

REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $6,754,495.74)	$	20,925,163.48
Governmental grants and contracts		11,133,929.44
Nongovernmental grants and contracts		671,127.01
Sales and services of educational departments		1,884,982.04
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $10,442.06; all residential life revenues are used as security for revenue bonds; see Note 7)		4,554,807.74
Bookstore		256,256.94
Food service (net of scholarship allowances of $225,062.93)		3,097,583.88
Wellness facility (net of scholarship allowances of $7,743.96; all wellness facility revenues are used as security for revenue bonds; see Note 7)		747,493.84
Other auxiliaries (net of scholarship allowances of $885.64)		714,559.75
Interest earned on loans to students		36,641.18
Other operating revenues		629,593.50
Total operating revenues		44,652,138.80
EXPENSES		
Operating expenses (Note 17):		
Salaries and wages		51,164,984.20
Benefits		12,861,538.75
Utilities, supplies, and other services		20,751,122.43
Scholarships and fellowships		5,077,986.93
Depreciation expense		3,889,273.37
Total operating expenses		93,744,905.68
Operating loss		(49,092,766.88)
NONOPERATING REVENUES (EXPENSES)		
State appropriations		44,790,300.00
Gifts		1,959,926.54
Investment income		1,146,132.56
Interest on capital asset-related debt		(174,217.16)
Other nonoperating revenues (expenses)		448,297.64
Net nonoperating revenues		48,170,439.58
Loss before other revenues, expenses, gains, or losses		(922,327.30)
Capital appropriations		660,557.61
Capital grants and gifts		578,316.24
Additions to permanent endowments		31,720.00
Total other revenues		1,270,593.85
Increase in net assets		348,266.55

TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002

NET ASSETS		
Net assets - beginning of year, as originally reported		147,147,742.82
Cumulative effects of changes in accounting principle (Note 11)		
Adoption of capitalization criteria for buildings and additions		(20,845,272.19)
Adoption of depreciation for capital assets		(75,971,130.73)
Deferred revenue recognition		599,101.10
Other		(2,824,415.22)
Net assets - beginning of year, as restated		48,106,025.78
Net assets - end of year	$	48,454,292.33

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

Exhibit C

TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$	21,124,996.01
Grants and contracts		11,654,673.64
Sales and services of educational activities		1,820,228.34
Payments to suppliers and vendors		(19,102,562.88)
Payments to employees		(50,312,333.98)
Payments for benefits		(11,902,964.60)
Payments for scholarships and fellowships		(5,077,986.93)
Loans issued to students and employees		(1,178,819.51)
Collection of loans from students and employees		719,865.30
Interest earned on loans to students		37,355.10
Auxiliary enterprise charges:		
Residence halls		4,558,161.74
Bookstore		259,311.44
Food services		3,108,193.31
Wellness facility		772,679.84
Other auxiliaries		686,538.05
Other receipts (payments)		607,792.54
Net cash used by operating activities		(42,224,872.59)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations		44,327,700.00
Gifts and grants received for other than capital or endowment purposes		572,236.90
Private gifts for endowment purposes		31,720.00
Federal student loan receipts		11,506,311.00
Federal student loan disbursements		(11,494,913.00)
Changes in deposits held for others		(1,056,152.94)
Other noncapital financing receipts (payments)		(62,935.88)
Net cash provided by noncapital financing activities		43,823,966.08
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt		1,010,346.90
Capital - state appropriations		660,557.61
Capital grants and gifts received		34,586.00
Purchases of capital assets and construction		(3,200,917.16)
Principal paid on capital debt and lease		(602,017.30)
Interest paid on capital debt and lease		(186,517.26)
Deposit with trustee		111,203.20
Other capital and related financing receipts (payments)		(4,474.85)
Net cash used by capital and related financing activities		(2,177,232.86)

TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002

CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		1,710,628.35
Income on investments		990,143.18
Purchases of investments		(1,000,000.92)
Net cash provided by investing activities		1,700,770.61
Net increase in cash and cash equivalents		1,122,631.24
Cash and cash equivalents - beginning of year		21,042,529.39
Cash and cash equivalents - end of year		$ 22,165,160.63
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(49,092,766.88)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense		3,889,273.37
Gifts in-kind		1,387,988.96
Other adjustments		599,101.10
Change in assets and liabilities:		
Receivables, net		(402,642.95)
Inventories		(257.84)
Prepaid/deferred items		(91,688.73)
Accounts payable		2,511,697.04
Accrued liabilities		109,475.68
Deferred revenue		(1,186,254.17)
Deposits		(4,320.28)
Compensated absences		252,627.31
Due to grantors		67,782.93
Loans to students and employees		(264,888.13)
Net cash used by operating activities	$	(42,224,872.59)
Noncash transactions		
Gifts-in-kind equipment	$	84,483.09
Gifts-in-kind operating	$	1,387,988.96

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Blended Component Unit - The Tennessee Technological University Dormitory Corporation (TTUDC) was chartered as a general welfare, nonprofit corporation whose purpose is to borrow the necessary funds to finance the construction of, and to maintain and operate, student apartment and dormitory housing for the university. Although it is legally separate from the university, in the university's financial statements the corporation is reported as if it were part of the university. Because of the nature and significance of its relationship with the university, the exclusion of the corporation from the university's reporting entity would render the university's financial statements incomplete. The assets and liabilities of the corporation are included on the university's statement of net assets. Revenues and expenses of the corporation are also included in the university's financial statements. Upon dissolution of the corporation, all the corporation's assets remaining after payment of all its liabilities are to be transferred to the university without further consideration. A separate audit report is issued on the corporation's operations and can be obtained at the following address: Tennessee Technological University, Box 5037, Cookeville, Tennessee 38505.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This was followed in November 1999 by GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The financial presentation required by those statements provides a comprehensive, entity-wide perspective of the university's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

Significant accounting changes made in order to comply with the new requirements include (1) adoption of depreciation on capital assets and (2) reporting summer school revenues and expenses between fiscal years rather than in one fiscal year.

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 eligibility requirements imposed by the provider have been met. All significant interfund transactions have been eliminated.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The university has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The university has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

Amounts reported as operating revenues include (1) tuition and fees, net of waivers and discounts; (2) federal, state, local, and private grants and contracts; (3) sales and services of auxiliary enterprises; and (4) other sources of revenue. Operating expenses for the university include (1) salaries and wages; (2) employee benefits; (3) scholarships and fellowships; (4) depreciation; and (5) utilities, supplies, and other services.

All other activity is nonoperating in nature and includes (1) state appropriations for operations; (2) investment income; (3) bond issuance costs; (4) interest on capital asset-related debt; and (5) gifts.

When both restricted and unrestricted resources are available for use, generally it is the university's policy to use the restricted resources first.

LGIP Deposit – 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 Local Government Investment Pool (LGIP) account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents 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 Tennessee Board of Regents releases any remaining funds.

Inventories

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

Compensated Absences

The university's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are reported in the statement of net assets.

Capital Assets

Capital assets, which include property, plant, equipment, and library holdings, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation. 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, $50,000 for additions and improvements to land, buildings, or infrastructure, and $5,000 for equipment.

These assets, with the exception of land, are depreciated using the straight-line method over the estimated useful lives, which range from 5 to 40 years.

Foundations

The university is the sole beneficiary of the following private, nonprofit foundations: Tennessee Tech Athletic Foundation, Inc.; Tennessee Technological University

College of Business Administration Foundation; Tennessee Technological University Development Council; Tennessee Tech Engineering Development Foundation, Inc.; Tennessee Tech Education Foundation; Tennessee Technological University Friends of the Library Foundation; and Tennessee Technological University School of Nursing Foundation. Boards independent of the university control these foundations. The university handles the financial records, investments, and other financial transactions, and the assets and liabilities of these foundations are included on the university's statement of net assets.

Net Assets

The university's net assets are classified as follows:

Invested in capital assets, net of related debt – This represents the university's total investment in capital assets, net of outstanding debt obligations 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 invested in capital assets, net of related debt.

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

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

Unrestricted net assets – Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments 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 discretion of the university 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, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. 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.

Comparative Data

Comparative financial statements are not presented as the university implemented GASB Statements 34, 35, 37, and 38, and comparative statements are not required. Certain amounts presented in prior years' data have been reclassified to be consistent with the current year's presentation.

NOTE 2. CASH AND CASH EQUIVALENTS

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2002, cash and cash equivalents consisted of $4,025,381.75 in bank accounts, $26,868.00 of petty cash on hand, $14,170,714.67 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $3,675,493.08 in money market accounts.

For purposes of the statement of cash flows, the university considers the LGIP deposit - capital projects to be a part of cash and cash equivalents.

NOTE 3. DEPOSITS

The university's deposits are in financial institutions that participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2002, the carrying amount of the university's deposits was $4,025,381.75, and the bank balance including accrued interest was $6,126,144.89. The bank balance was insured.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 115%, 100%, or 90% of the uninsured deposits at financial institutions participating in the collateral pool. The pledge level is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

The university also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report.* That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 4. INVESTMENTS

The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. The foundations are authorized to invest funds in accordance with their boards of directors' policies.

All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

The university's/foundations' investments are categorized below to indicate the level of risk assumed by the university/foundations at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the university/foundations or their agents in the university's/foundations' name.

	Fair Value
Category 1:	
U.S. government securities	$ 7,907,425.32
Collaterized mortgage obligations	483,862.19
Corporate bonds	1,050,257.50
Corporate stocks	11,097,063.13
Investments not susceptible to credit risk categorization:	
Mutual funds - university	22,078.11
Mutual funds - TTUDC	421,484.64
On deposit with trustees	(421,484.64)
Total investments on the statement of net assets	$20,560,686.25

Investments of endowment and similar funds are composed of the following:

	Carrying Value
U.S. government securities	$ 77,047.40
Collateralized mortgage obligations	483,862.19
Local Government Investment Pool	755,314.01
	$1,316,223.60

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, 2002, each having a fair value of $0.862210, 726,216.25 units were owned by endowments, 4,954.87 units were owned by term endowments, and 795,398.20 units were owned by quasi-endowments.

The following tabulation summarizes changes in relationships between cost and fair values of the pooled assets:

	Pooled Assets		Net Gains	Fair Value
	Fair Value	Cost	(Losses)	Per Unit
End of year	$1,316,223.60	$1,296,014.47	$20,209.13	$0.8622100
Beginning of year	$1,389,185.28	$1,383,651.98	5,533.30	0.8588793
Unrealized net gains			14,675.83	$0.0033307
Realized net gains			-	
Total net gains			$14,675.83	

The average annual earnings per unit, exclusive of net gains, were $0.038022 for the year.

NOTE 5. RECEIVABLES

Receivables at June 30, 2002, included the following:

Student accounts receivable	$ 486,892.43
Grants receivable	2,211,720.82
Notes receivable	108,448.72
Other receivables	900,024.97
Subtotal	3,707,086.94
Less allowance for doubtful accounts	(176,488.95)
Total receivables	$3,530,597.99

Federal Perkins Loan Program funds at June 30, 2002, included the following:

Perkins loans receivable	$3,013,827.26
Less allowance for doubtful accounts	(130,154.37)
Total	$2,883,672.89

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$1,272,819.24	$43,675.00	$ -	$ -	$1,316,494.24
Land improvements and infrastructure	5,933,055.19	199,342.93	5,870.80	-	6,138,268.92
Buildings	81,408,492.15	224,536.74	-	2,003,886.33	79,629,142.56
Equipment	16,154,454.01	1,003,602.22	-	1,930,500.56	15,227,555.67
Library holdings	9,485,622.07	1,059,176.48	-	-	10,544,798.55
Projects in progress	5,870.80	1,010,346.90	5,870.80	-	1,010,346.90
Total	114,260,313.46	3,540,680.27	-	3,934,386.89	113,866,606.84
Less accum. depreciation:					
Land improvements and infrastructure	4,070,905.04	182,161.11	-	-	4,253,066.15
Buildings	54,813,522.31	1,659,342.95	-	2,003,886.33	54,468,978.93
Equipment	11,452,403.13	995,890.50	-	1,859,245.93	10,589,047.70
Library holdings	4,688,339.13	1,051,878.81	-	-	5,740,217.94
Total accum. depreciation	75,025,169.61	3,889,273.37	-	3,863,132.26	75,051,310.72
Capital assets, net	$39,235,143.85	$1,348,593.10	$ -	$ 71,254.63	$38,815,296.12

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2002, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Bonds	$3,713,863.20	$ -	$602,017.30	$3,111,845.90	$619,273.03
Commercial paper	-	1,010,346.90	-	1,010,346.90	-
Subtotal	3,713,863.20	1,010,346.90	602,017.30	4,122,192.80	619,273.03
Other liabilities:					
Compensated absences	2,442,300.92	1,781,667.97	1,529,040.66	2,694,928.23	1,362,293.37
Due to grantors	-	2,892,198.15	-	2,892,198.15	-

Subtotal	2,442,300.92	4,673,866.12	1,529,040.66	5,587,126.38	1,362,293.37
Total long-term liabilities	$6,156,164.12	$5,684,213.02	$2,131,057.96	$9,709,319.18	$1,981,566.40

Bonds Payable

Bond issues, with interest rates ranging from 4.5% to 5.0% for revenue bonds ($551,000.00) and 3.0% to 5.0% for Tennessee State School Bond Authority bonds ($2,560,845.90), are due serially to 2011 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. The bonded indebtedness with the Tennessee State School Bond Authority reported on the statement of net assets is shown net of assets held by the authority in the debt service reserve. The reserve amount was $13,062.40 at June 30, 2002.

Debt service requirements to maturity for bonds payable at June 30, 2002, are as follows:

Year Ending June 30	Principal	Interest	Total
2003	$ 619,273.03	$148,676.72	$ 767,949.75
2004	596,140.39	117,133.89	713,274.28
2005	420,246.60	87,654.55	507,901.15
2006	234,011.80	65,950.19	299,961.99
2007	243,707.71	55,620.20	299,327.91
2008-2012	998,466.37	111,178.07	1,109,644.44
	$3,111,845.90	$586,213.62	$3,698,059.52

Commercial paper

The Tennessee State School Bond Authority also authorized the issuance of commercial paper to finance the costs of various capital projects. The amount issued for projects at the university was $1,010,346.90 at June 30, 2002.

For the commercial paper program, the Tennessee State School Bond Authority maintains an interest rate reserve fund. The university contributes amounts to the reserve fund based on the amounts drawn. The principal of the reserve will be contributed to pay off notes or credited back to the university when the notes are converted to bonds. The interest earned on the reserve is used to pay interest due during the month.

NOTE 8. UNRESTRICTED NET ASSETS

Unrestricted net assets include funds that have been designated or reserved for specific purposes. These purposes include the following:

	Amount
Working capital	$ 675,955.09
Encumbrances	662,819.84
Designated fees	1,218,352.22
Auxiliaries	467,929.00
Quasi-endowment	509,617.16
Plant construction	1,148,417.97
Renewal and replacement of equipment	4,838,151.42
Debt retirement	1,438,006.22
Total	$10,959,248.92

NOTE 9. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

Plan Description - The university contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 6.19% of annual covered payroll. Contribution requirements for the university are established and may be amended by the TCRS' Board of Trustees. The university's contributions to TCRS for the years ended June 30, 2002, 2001, and 2000, were $1,363,572.91, $1,319,702.32, and $1,162,329.90. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The university contributes to three defined contribution plans: Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated.* State statutes are amended by the Tennessee General Assembly.

Funding Policy - 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. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans was $2,292,588.77 for the year ended June 30, 2002, and $2,075,218.98 for the year ended June 30, 2001. Contributions met the requirements for each year.

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible university retirees. This benefit is provided and administered by the State of Tennessee. The university assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 11. CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2002, the university implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. As a result of this implementation, the university was required to make changes in certain accounting principles, specifically the (1) adoption of capitalization criteria of $100,000 and $50,000 for buildings and additions, respectively; (2) adoption of depreciation on capital assets; (3) recording of certain summer semester revenues between fiscal years rather than in the fiscal year in which the semester was predominantly conducted; and (4) reclassification of the U.S. government grants refundable amount as a liability. The cumulative effects of these changes on net assets are shown below:

Adoption of capitalization criteria for buildings and additions	$(20,845,272.19)
Adoption of depreciation on capital assets	$(75,971,130.73)
Deferred revenue recognition	$ 599,101.10
Reclassification of U.S. government grants refundable	$ (2,824,415.22)

NOTE 12. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above $5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. Designations for casualty losses in the amount of $5 million for deductibles and $1.356 million for incurred losses at June 30, 2002, were established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 2002, the scheduled coverage for the university was $213,730,100 for buildings and $98,074,100 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The university participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the university participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

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 that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 13. COMMITMENTS AND CONTINGENCIES

Sick Leave - The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $21,001,451.08 at June 30, 2002.

Operating Leases - The university has entered into various operating leases for equipment. Such leases will probably continue to be required. Expenses under operating leases were $288,330.08 for the year ended June 30, 2002. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2002, outstanding commitments under construction contracts totaled $8,642,140.26 for resident hall replacement, none of which will be funded by future state capital outlay appropriations.

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

NOTE 14. AFFILIATED ENTITY NOT INCLUDED

The Agricultural Foundation is a private, nonprofit foundation with the university as the sole beneficiary. The foundation is controlled by a board independent of the university. The financial records, investments, and other financial transactions are not handled by the university, and these amounts are not included in the university's financial statements. As reported in the foundation's most recently audited financial report, at June 30, 2001, the foundation's assets totaled $637,102.26, and the fund balance amounted to $637,102.26.

NOTE 15. CHAIRS OF EXCELLENCE

The university had $4,642,360.06 on deposit at June 30, 2002, with the State Treasurer for the university's Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

NOTE 16. FUNDS HELD IN TRUST BY OTHERS

The university is a beneficiary under the CTC Charitable Lead Trust. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received $22,032.86 from these funds during the year ended June 30, 2002.

NOTE 17. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses by functional classification for the year ended June 30, 2002, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Operating	Scholarships	Depreciation	Total
Instruction	$25,763,696.78	$6,021,440.29	$4,954,147.59	$ -	$ -	$36,739,284.66
Research	4,252,662.46	706,780.32	2,644,924.47	-	-	7,604,367.25
Public service	1,585,981.38	449,630.46	1,252,119.53	-	-	3,287,731.37
Academic support	4,800,897.17	1,250,350.79	(881,050.08)	-	-	5,170,197.88
Student services	3,962,231.46	1,157,614.48	3,510,199.34	-	-	8,630,045.28
Institutional support	5,084,439.87	1,425,969.76	262,198.79	-	-	6,772,608.42
Operation & maint.	3,039,478.20	1,060,046.96	5,035,397.74	-	-	9,134,922.90
Scholar. & fellow.	-	-	-	5,077,986.93	-	5,077,986.93
Auxiliary	2,675,596.88	789,705.69	3,973,185.05	-	-	7,438,487.62
Depreciation	-	-	-	-	3,889,273.37	3,889,273.37
Total	$51,164,984.20	$12,861,538.75	$20,751,122.43	$5,077,986.93	$3,889,273.37	$93,744,905.68

NOTE 18. SEGMENT INFORMATION

The Tennessee Technological University Dormitory Corporation (TTUDC), on behalf of the university, issued revenue bonds to finance the construction of, and to maintain and operate, student apartments and dormitory housing. Investors in those bonds rely solely on the revenue generated by the individual activities for repayment. Descriptive information for the university's segments is shown below:

TTUDC Revenue Bonds of 1966

The TTUDC revenue bonds of 1966 were issued to build the Cooper, Dunn, Browning, and Evins residence halls and 150 married student apartments.

TTUDC Revenue Bonds of 1967

The TTUDC revenue bonds of 1967 were issued to build the Jobe and Murphy residence halls.

Condensed financial information for each of the university's segments follows:

Condensed Statement of Net Assets	**TTUDC Bonds of 1966**	**TTUDC Bonds of 1967**
Assets:		
Current assets	$ -	$ -
Noncurrent assets	251,487.50	169,997.14
Capital assets (net)	332,925.23	251,598.93
Total assets	584,412.73	421,596.07
Liabilities:		
Current liabilities	166,221.00	153,807.00
Noncurrent liabilities	-	236,000.00
Total liabilities	166,221.00	389,807.00
Net assets:		
Invested in capital assets, net of related debt	167,926.23	(134,401.07)
Restricted – expendable for debt service	194,300.00	160,000.00
Unrestricted	55,966.50	6,190.14
Total net assets	$ 418,191.73	$ 31,789.07

Condensed Statement of Revenues, Expenses, and Changes in Net Assets	**TTUDC Bonds of 1966**	**TTUDC Bonds of 1967**
Operating revenues	$ 1,417,362.46	$ 529,405.32
Operating expenses	1,145,128.95	415,702.94
Depreciation expense	91,571.59	41,933.15
Net operating income	180,661.92	71,769.23

Nonoperating revenues (expenses):		
Investment income	4,606.35	4,198.02
Interest on capital asset-related debt	(10,144.00)	(28,159.00)
Other nonoperating revenues (expenses)	(207,583.98)	(202,229.02)
Transfer to (from) reserve	(189,827.02)	60,778.83
Change in net assets	(222,286.73)	(93,641.94)
Net assets, beginning of year	3,895,555.85	1,509,225.10
Cumulative effect of change in accounting principle:		
Depreciation	(3,255,077.39)	(1,383,794.09)
Net assets, beginning of year, as restated	640,478.46	125,431.01
Net assets, end of year	$ 418,191.73	$ 31,789.07

Condensed Statement of Cash Flows	**TTUDC Bonds of 1966**	**TTUDC Bonds of 1967**
Net cash flows provided (used) by:		
Operating activities	$ 272,233.51	$ 113,702.38
Noncapital financing activities	(189,827.02)	60,778.83
Capital and related financing activities	(87,012.84)	(178,679.23)
Investing activities	4,606.35	4,198.02
Net increase (decrease) in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	$ -	$ -