AUDIT REPORT

Tennessee Board of Regents
Tennessee Technological University

For the Year Ended
June 30, 2004

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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Tiffany Cherry, CFE
David Cook
Ben Johnson, CPA
Jimmy Ligon
Staff Auditors

Gerry Boaz, CPA
Technical Analyst

Amy Brack
Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 401-7897

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

John G. Morgan
Comptroller

July 7, 2005

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
Cookville, 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, 2004. 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/cj
04/108

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, 2004

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 grant agreements; 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 Report
Tennessee Board of Regents
Tennessee Technological University
For the Year Ended June 30, 2004

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Tennessee Technological University
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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, 2003, through June 30, 2004, 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, 2004. 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 opinions on the financial statements;

2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;

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.

OBSERVATIONS AND COMMENTS

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, promulgated by the American Institute of Certified Public Accountants, requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, and not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.

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, 2004, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions 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.

<u>Compliance</u>

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

<u>Fairness of Financial Statement Presentation</u>

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
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765

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*

April 6, 2005

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, and its discretely presented component unit as of and for the year ended June 30, 2004, and have issued our report thereon dated April 6, 2005. 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. During the year ended June 30, 2004, the university implemented GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*.

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 opinions on the financial statements and not to provide an opinion 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 reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We did, however, note certain less significant instances of noncompliance, 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., CPA
Director

AAH/cj

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

April 6, 2005

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

Dear Mr. Morgan:

We have audited the accompanying basic financial statements of Tennessee Technological University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the university's management. Our responsibility is to express opinions on these financial statements, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 opinions. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of many agencies, commissions, and component units of the State of Tennessee; managing the state's debt; and making loans to the state's colleges and universities from debt proceeds. Some of the boards of which the Comptroller of the Treasury serves as a member per state statutes include the State Building Commission and the Tennessee Higher Education Commission.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tennessee Board of Regents, Tennessee Technological University, and its discretely presented component unit as of June 30, 2004, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2004, the university implemented GASB Statement 39, *Determining Whether Certain Organizations Are Component Units.*

The management's discussion and analysis on pages 9 through 23 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 47 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2005, 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 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* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/cj

TENNESSEE TECHNOLOGICAL UNIVERSITY

Management's Discussion and Analysis
For the Year Ended June 30, 2004

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, 2004, with comparative information presented for the fiscal year ended June 30, 2003. 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.

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 university for any lawful purpose of the university.

Statements of Net Assets

(in thousands of dollars)

	2004	2003
Assets:		
Current assets	$ 12,484	$ 13,433
Capital assets, net	46,027	44,114
Other assets	12,481	14,546
Total assets	**70,992**	**72,093**
Liabilities:		
Current liabilities	8,976	10,059
Noncurrent liabities	16,595	14,794
Total liabilities	**25,571**	**24,853**
Net assets:		
Invested in capital assets, net of related debt	33,757	33,679
Restricted - nonexpendable	719	721
Restricted - expendable	2,692	2,811
Unrestricted	8,253	10,029
Total net assets	**$ 45,421**	**$ 47,240**

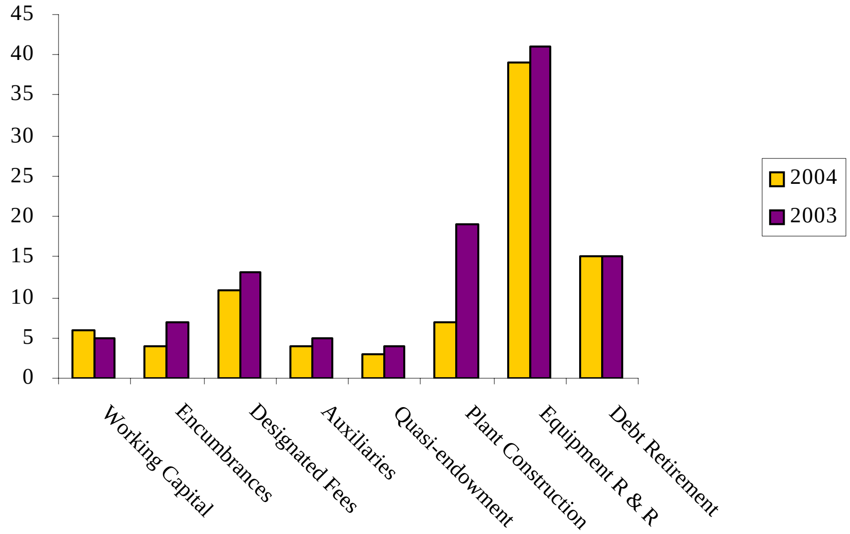
- Total assets of the university decreased by $1,101,000. The decrease can be attributed primarily to changes in noncurrent investments and cash of $1,715,000. Of this amount, $145,000 resulted from a drop in fair market values, current cash decreased by $1,159,000 while capital assets increased by $1,914,000.

- In keeping with the university's mission, the consumption of assets provided for the continuation of high-quality instruction in the university's undergraduate, masters, specialist, and doctoral degree-granting programs. Assets were also used to continue the mission of research, scholarly activities, and public service, with emphasis on community and economic development.

- The total liabilities for the university increased by $718,000. An analysis revealed that the noncurrent liability for bonds and commercial paper payable for residence hall construction increased by $1,836,000. A decrease of $1,205,000 in the current liabilities for accounts payable was primarily due to benefits liabilities and deductions. The decrease in net assets is mainly attributed to unrestricted net assets of $1,776,000. All other fluctuations in net assets were minor.

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

Unrestricted Net Assets
(in hundred thousands)



- Unrestricted net assets decreased by $1,776,000. The primary decreases were $256,000 in renewal and replacement of equipment and $1,212,000 in plant construction. Other areas had minor changes.

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.

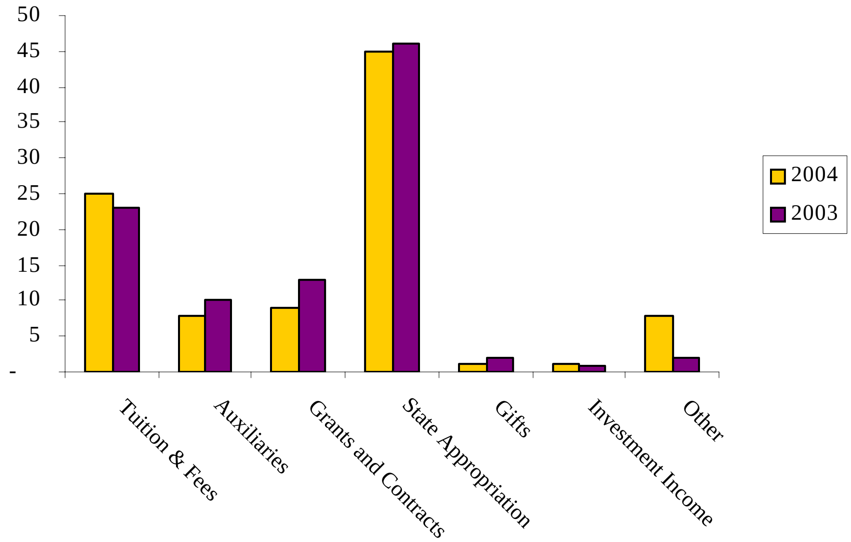
Statements of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

	2004	2003
Operating revenues:		
Net tuition and fees	$ 25,313	$ 22,908
Grants and contracts	8,647	13,199
Auxiliary	8,093	10,327
Other	4,071	2,392
Total operating revenues	**46,124**	**48,826**
Operating expenses	100,395	100,635
Operating loss	**(54,271)**	**(51,809)**
Nonoperating revenues and expenses:		
State appropriations	44,729	45,813
Gifts	708	2,445
Investment income	441	787
Other revenues and expenses	5,156	(501)
Total nonoperating revenues and expenses	**51,034**	**48,544**
Loss before other revenues, expenses, gains or losses	**(3,237)**	**(3,265)**
Other revenues, expenses, gains, or losses:		
Capital appropriations	339	592
Capital grants and gifts	1,061	1,443
Additions to permanent endowments	18	16
Total other revenues, expenses, gains, or losses	**1,418**	**2,051**
Decrease in net assets	**(1,819)**	**(1,214)**
Net assets at beginning of year	**47,240**	**48,454**
Net assets at end of year	**$ 45,421**	**$ 47,240**

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 years ended June 30, 2004, and June 30, 2003.

Revenues by Source
(in millions)



- The university's revenues decreased by $559,000, which can be primarily attributed to decreases in state appropriations of $1,084,000, auxiliary enterprises of $2,233,000, and gifts of $1,737,000. Capital items decreased by $633,000 due to lessened foundation support for the nursing project. A 14% fee increase resulted in increased tuition and fees of $2,405,000. The university also increased sales and services of educational activities by $1,429,000 while grants and contracts increased by $1,389,000 during the year. All other sources of revenue experienced slight changes.

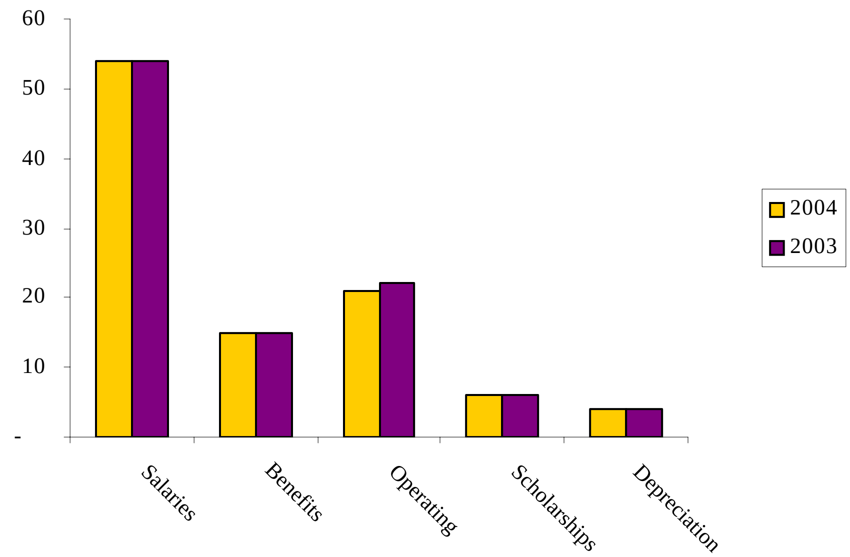
Expenses

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

Operating Expenses - Natural Classification
(in thousands of dollars)

	2004	2003
Salaries	$ 53,790	$ 53,930
Benefits	15,153	14,742
Operating	21,353	22,207
Scholarships	6,007	5,836
Depreciation	4,092	3,920
Total	$ 100,395	$ 100,635

Operating Expenses - Natural Classification
(in millions)

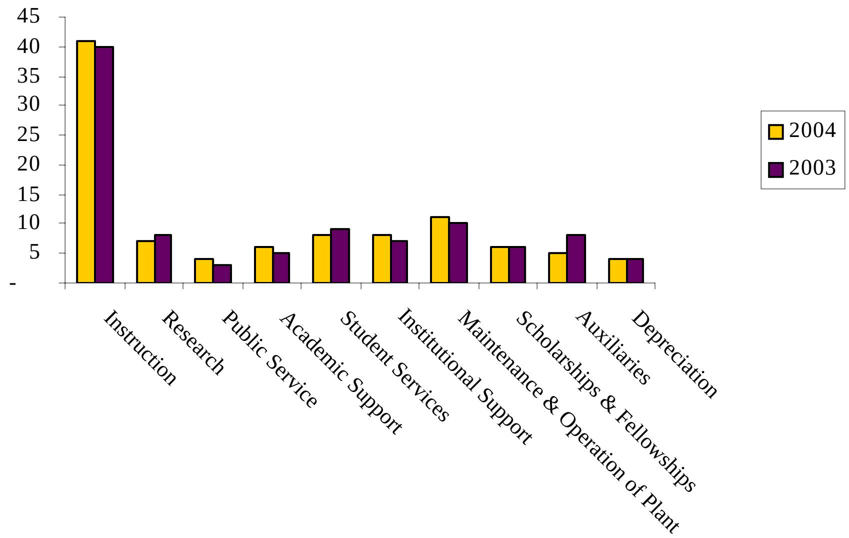


- There were no major changes in spending levels this year.

Operating Expenses – Program Classification
(in thousands of dollars)

	2004	2003
Instruction	$ 40,741	$ 39,800
Research	6,818	7,759
Public service	4,041	3,635
Academic support	5,738	5,594
Student services	8,378	8,814
Institutional support	7,968	7,278
Maintenance and operation	11,159	10,143
Scholarships and fellowships	6,007	5,836
Auxiliaries	5,453	7,856
Depreciation	4,092	3,920
Total	$ 100,395	$ 100,635

Operating Expenses - Program Classification
(in millions)



- Auxiliaries experienced the largest decrease in expenses due to the contracting of dining services. All other categories had minor increases and decreases.

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.

Statements of Cash Flows

(in thousands of dollars)

	2004	2003
Cash provided (used) by:		
Operating activities	$ (51,332)	$ (45,524)
Noncapital financing activities	51,174	47,306
Capital and related financing activities	(3,257)	(1,042)
Investing activities	1,032	2,985
Net increase (decrease) in cash	**(2,383)**	**3,725**
Cash, beginning of year	**17,496**	**13,771**
Cash, end of year	**$ 15,113**	**$ 17,496**

- Increases in cash were the result of material increases in tuition and fees, proceeds from noncapital grants and contracts, and sales and services of educational activities.
- Decreases were primarily the result of purchases of capital assets, construction of a new residence hall, payments to suppliers and vendors, federal student loan disbursements, payments to employees (including benefits), and principal paid on capital debt.
- The cash flow of the university is highly dependent on two major sources—tuition and fees and state appropriations.
- The net decrease in cash and cash equivalents amounted to $2,383,000 at June 30, 2004. For informational purposes, the following liquidity ratios are being provided:

	2004	2003
Current ratio	1.391	1.335
Quick ratio	1.328	1.278

The university's liquidity improved slightly as of June 30, 2004. As a rule of thumb, an adequate current ratio is 2:1; the university's is 1.391:1. Although not an adequate ratio, approximately 90% of current assets are cash and investments that can readily be converted to cash to pay current liabilities. The 2003 ratios have been restated to reflect foundation current assets and liabilities not being included with the university's.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2004, Tennessee Technological University had $46,027,000 invested in capital assets, net of accumulated depreciation of $77,345,000. At June 30, 2003, the university had $44,114,000 invested in capital assets net of accumulated depreciation of $78,721,000. Depreciation charges totaled $4,092,000 for the year ended June 30, 2004, and $3,919,000 for the year ended June 30, 2003. Details of these assets are shown below.

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

	2004	2003
Land	$ 1,258	$ 1,258
Land improvements & infrastructure	1,554	1,712
Buildings	31,871	23,722
Equipment	4,574	4,522
Library holdings	4,698	4,839
Projects in progress	2,072	8,061
Total capital assets, net of depreciation	$ 46,027	$ 44,114

The university had three projects in progress that increased capital assets during the year, and a new residence hall was completed in the spring of 2004. These were the primary factors in this increase and were financed through the Tennessee State School Bond Authority and private donations. An elevator for the Joe L. Evins Appalachian Center for Crafts was also installed and funded with state appropriations.

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

The university plans to spend approximately $8,680,000 for capital expenditures during the next fiscal year. The following details the projects, amounts, and funding sources:

Project	Amount (in thousands of dollars)		Source of Funding
New Residence Hall	$	157	TN State School Bond Authority
Third Chiller Addition	$	750	State appropriations
Chartwells - Dining Services Renovations	$	3,000	Vendor funding, private gifts
Prescott Hall - Mechanical Upgrade	$	1,200	State appropriations
Fire Alarm Replacement	$	1,220	State appropriations
ADA Modifications	$	121	State appropriations
UC Roof Replacement Completion	$	90	State appropriations
Bruner Electrical Upgrade	$	1,640	State appropriations
Nursing & Health Services Building	$	500	Private donations, federal grant

Debt

At June 30, 2004, the university had $12,270,000 in debt outstanding. At June 30, 2003, the university had $10,434,000 in debt outstanding. The table below summarizes these amounts by type of debt instrument.

Debt Instrument	**Amount** **(in thousands of dollars)** 2004	2003
Bonds payable	$ 12,270	$ 7,939
Commercial paper	-	2,495
Total outstanding debt	$ 12,270	$ 10,434

The university acquired $5,217,000 in new bond debt for the new residence hall. Debt totaling $728,000 was retired during the year, and the reserve increased by $157,000. The Tennessee

State School Bond Authority's bond ratings are AA as issued by Fitch and Standard & Poor's and Aa3 as issued by Moody's Investor's Service.

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 2004-05 budget will be improved slightly due to a 7% increase in fees that offsets a $429,000 or 1.07% decrease in state appropriations.

TENNESSEE TECHNOLOGICAL UNIVERSITY FOUNDATION

The Statement of Net Assets

The Statement of Net Assets presents the financial position of the foundation at the end of the fiscal year and includes all assets and liabilities of the foundation. The difference between total assets and total liabilities—net assets—is an indicator of the current financial condition of the foundation. 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, provides the foundation's equity in property, plant, and equipment owned by the foundation. 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 foundation, 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 foundation for any lawful purpose of the foundation.

Statements of Net Assets

(in thousands of dollars)

	2004	2003
Assets:		
Current assets	$ 543	$ 968
Capital assets, net	342	291
Other assets	31,965	24,939
Total assets	**32,850**	**26,198**
Net assets:		
Invested in capital assets	342	291
Restricted - nonexpendable	25,866	20,214

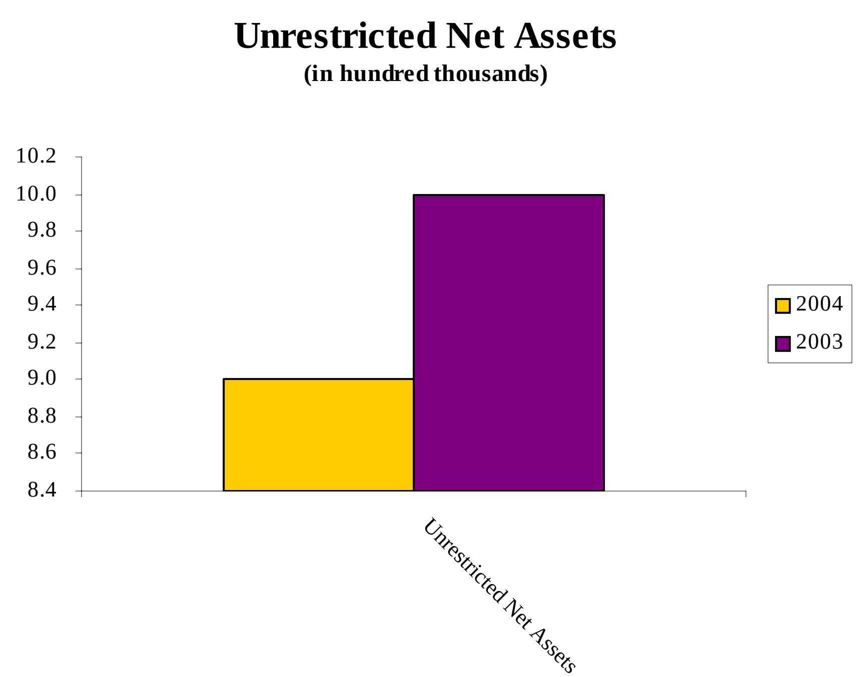
Restricted - expendable	5,742	4,691
Unrestricted	900	1,002
Total net assets	**$ 32,850**	**$ 26,198**

- Total assets of the foundation increased by $6,653,000. The increase was due primarily to the additions of investments of $3,498,000 and an increase of $3,511,000 of cash and cash equivalents as a result of increases in investment income and additions to permanent endowments.

- Current assets decreased during the year by $425,000 due to a reclassification of unrestricted to restricted categories.

- In keeping with the foundation's mission, the consumption of assets provided assistance to the university's annual and capital purposes. Assets were also used to award students, faculty, staff, alumni, and friends of the university.

The foundation's unrestricted net assets have not been designated or reserved for specific purposes. Funds are available for use as priorities arise during the year.



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 foundation, as well as the nonoperating revenues and expenses.

Statements of Revenues, Expenses, and Changes in Net Assets

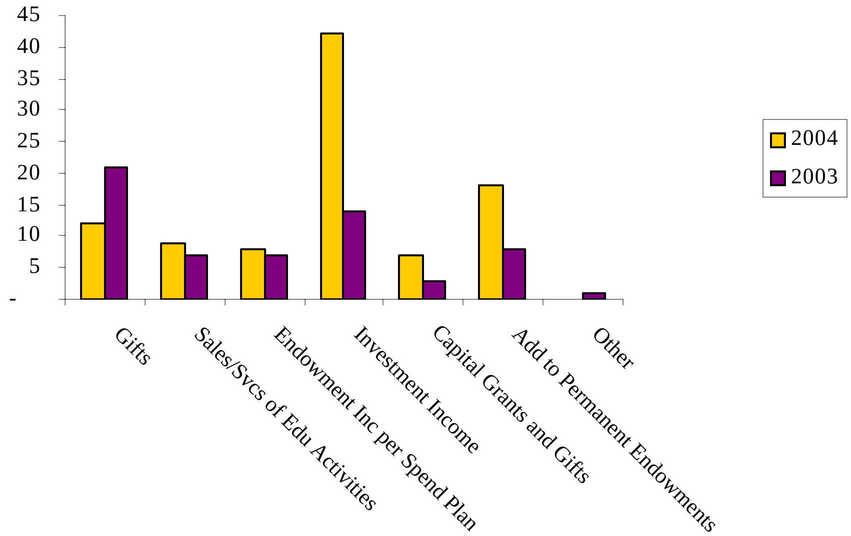
(in thousands of dollars)

	2004	2003
Operating revenues:		
Gifts	$ 1,225	$ 2,125
Sales and services of educational activities	912	785
Endowment income	857	777
Other	26	66
Total operating revenues	**3,020**	**3,753**
Operating expenses	3,141	3,569
Operating income (loss)	**(121)**	**184**
Nonoperating revenues and expenses:		
Investment income	4,241	1,405
Total nonoperating revenues and expenses	**4,241**	**1,405**
Income before other revenues, expenses, gains, or losses	**4,120**	**1,589**
Other revenues, expenses, gains, or losses:		
Capital grants and gifts	712	313
Additions to permanent endowments	1,820	872
Total other revenues, expenses, gains, or losses	**2,532**	**1,185**
Increase in net assets	**6,652**	**2,774**
Net assets at beginning of year	**26,198**	**23,424**
Net assets at end of year	**$ 32,850**	**$ 26,198**

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the foundation's operating activities for the years ended June 30, 2004, and June 30, 2003.

Revenues by Source
(in millions)



- The foundation's operating revenues decreased by $733,000, which can be primarily attributed to a decrease in operating gifts of $900,000. Additions to permanent endowments increased by $948,000. Capital gifts increased by $399,000. Other revenue decreased $40,000 due to fewer transfers to the foundation. Sales and services of educational activities increased by $127,000 from project income. Total gifts changed by $448,000 with the direction of the gift being the main difference in classification. Nonoperating revenue increased by $2,836,000 due to an upturn in the financial markets.

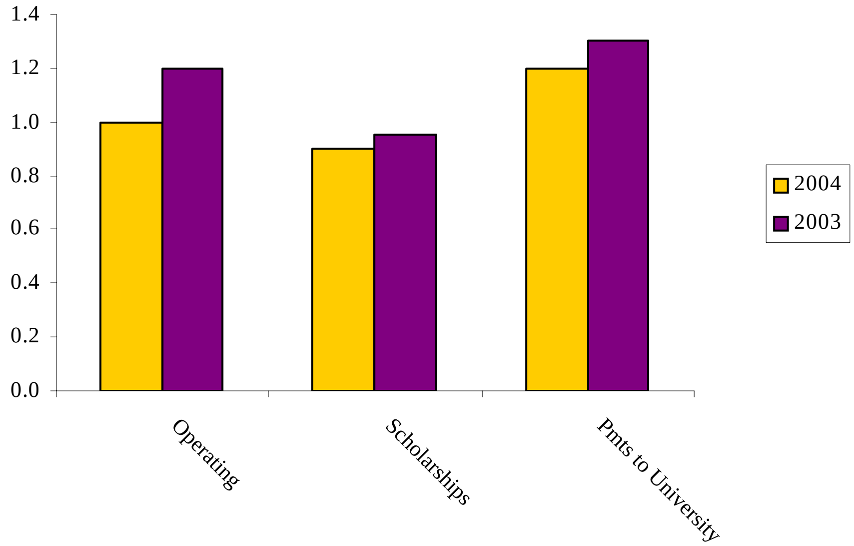
Expenses

The natural classification method for displaying operating expenses is shown below.

Operating Expenses - Natural Classification
(in thousands of dollars)

	2004	2003
Operating	$ 1,080	$ 1,220
Scholarships	939	955
Payments to university	1,122	1,394
	$ 3,141	$ 3,569

Operating Expenses - Natural Classification
(in millions)



- The major decreases during the year were due to decreased gift operating revenue, leaving less funds for expenditure. Transfers to the university for the new Nursing Building were $340,000 less than in 2003.

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 foundation's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

Statements of Cash Flows
(in thousands of dollars)

	2004	2003
Cash provided (used) by:		
Operating activities	$ (53)	$ 250
Noncapital financing activities	1,820	872
Capital and related financing activities	535	3
Investing activities	794	(3,362)
Net increase (decrease) in cash	**3,096**	**(2,237)**
Cash, beginning of year	**6,156**	**8,393**
Cash, end of year	**$ 9,252**	**$ 6,156**

- Increases in cash were the result of material increases in investment income, additions to permanent endowments, elevated spending plan, project income, and gifts for the Nursing Building.

- Decreases were primarily the result of payments of scholarships, payments for the purchase of investments, purchase of land, payments to suppliers and vendors, and payments to the university.

- The cash flow of the foundation is highly dependent on two major sources—gifts and investment income.

Capital Assets

At June 30, 2004, the foundation had $342,000 invested in capital assets. At June 30, 2003, the foundation had $291,000 invested in capital assets. Details of these assets are shown below.

Schedule of Capital Assets
(in thousands of dollars)

	2004	2003
Land	$ 342	$ 291

- The foundation purchased land valued at $51,000 in fiscal year 2004.

More detailed information about the foundation's capital assets is presented in Note 19 to the financial statements.

Economic Factors That Will Affect the Future

The university's development office is now staffed where every college has a development officer assigned to represent each unit. The additional personnel should allow for an increase in fundraising for all of the foundation's units.

Requests for Information

This financial report is designed to provide a general overview of the university's finances for all those with an interest in the university's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Linda Maxwell, Associate Vice President for Business & Fiscal Affairs, Tennessee Technological University, P.O. Box 5037, Cookeville, Tennessee 38505.

Exhibit A

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENTS OF NET ASSETS
JUNE 30, 2004

	University	Component Unit - TTU Foundation
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2, 3, and 19)	$ 8,361,297.44	$ 486,766.06
Short-term investments (Note 4)	85,928.93	-
Accounts, notes, and grants receivable (net) (Note 5)	3,422,706.27	-
Inventories (at lower of cost or market)	290,719.42	-
Prepaid expenses and deferred charges	273,542.01	-
Accrued interest receivable	49,300.15	56,686.05
Total current assets	12,483,494.22	543,452.11
Noncurrent assets:		
Cash and cash equivalents (Notes 2, 3, and 19)	6,752,343.19	8,765,535.90
Investments (Notes 4 and 19)	2,975,779.47	23,169,141.48
Accounts, notes, and grants receivable (net) (Note 5)	2,753,067.71	-
Capital assets (net) (Notes 6 and 19)	46,027,265.50	342,064.28
Other assets	-	30,300.00
Total noncurrent assets	58,508,455.87	32,307,041.66
Total assets	70,991,950.09	32,850,493.77
LIABILITIES		
Current liabilities:		
Accounts payable	2,572,440.34	-
Accrued liabilities	2,124,456.14	-
Student deposits	125,613.66	-
Deferred revenue	2,293,751.46	-
Compensated absences (Note 7)	821,635.81	-
Accrued interest payable	99,780.63	-
Long-term liabilities, current portion (Note 7)	670,834.75	-
Deposits held in custody for others	246,694.94	-
Other liabilities	21,185.10	-
Total current liabilities	8,976,392.83	-
Noncurrent liabilities:		
Compensated absences (Note 7)	1,997,409.69	-
Long-term liabilities (Note 7)	11,599,490.63	-
Due to grantors (Note 7)	2,997,514.88	-
Total noncurrent liabilities	16,594,415.20	-
Total liabilities	25,570,808.03	-
NET ASSETS		
Invested in capital assets, net of related debt	33,756,940.12	342,064.28
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	719,469.67	17,763,662.81
Research	-	350,331.42
Instructional department uses	-	2,135,499.05
Other	-	5,616,703.77
Expendable:		
Scholarships and fellowships (Note 8)	243,786.79	3,026,797.15
Research	196,929.58	17,479.04
Instructional department uses (Note 8)	358,904.85	516,446.80
Loans (Note 8)	783,019.65	-
Capital projects	-	282,670.46
Debt service	21,259.59	-
Other (Note 8)	1,087,546.05	1,898,519.09
Unrestricted (Notes 8 and 9)	8,253,285.76	900,319.90
Total net assets	$ 45,421,142.06	$ 32,850,493.77

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

Exhibit B

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004

	University	Component Unit - TTU Foundation
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $9,359,388.19)	$ 25,312,942.31	$ -
Gifts and contributions	-	1,224,686.89
Endowment income	-	856,927.57
Governmental grants and contracts	8,115,958.82	-
Nongovernmental grants and contracts	530,454.50	-
Sales and services of educational departments	3,062,857.55	912,137.11
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $13,572.84; all residential life revenues are used as security for revenue bonds; see Note 7)	5,709,406.65	-
Bookstore	279,971.24	-
Food service (net of scholarship allowances of $267,905.79)	618,603.10	-
Wellness facility (net of scholarship allowances of $5,583.04; all wellness facility revenues are used as security for revenue bonds; see Note 7)	773,599.18	-
Other auxiliaries	711,734.59	-
Interest earned on loans to students	43,598.91	-
Other operating revenues	964,754.12	26,413.67
Total operating revenues	46,123,880.97	3,020,165.24
EXPENSES		
Operating expenses (Note 16):		
Salaries and wages	53,789,709.36	-
Benefits	15,152,980.67	-
Utilities, supplies, and other services	21,352,619.52	1,079,856.68
Scholarships and fellowships	6,007,460.01	939,607.76
Depreciation expense	4,092,194.64	-
Payments to or on behalf of Tennessee Technological University (Note 19)	-	1,121,901.87
Total operating expenses	100,394,964.20	3,141,366.31
Operating loss	(54,271,083.23)	(121,201.07)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	44,729,244.28	-
Gifts, including $293,288.57 from component unit	707,839.05	-
Grants and contracts	5,943,024.00	-
Investment income (net of investment expense of $171,459.99 for the component unit)	441,011.25	4,241,301.56
Interest on capital asset-related debt	(450,310.11)	-
Bond issuance costs	(66,842.05)	-
Other nonoperating revenues (expenses)	(270,237.78)	-
Net nonoperating revenues	51,033,728.64	4,241,301.56
Income (loss) before other revenues, expenses, gains, or losses	(3,237,354.59)	4,120,100.49
Capital appropriations	339,288.14	-
Capital grants and gifts, including $828,613.30 from component unit	1,060,600.10	712,337.02
Additions to permanent endowments	18,320.07	1,820,210.53
Total other revenues	1,418,208.31	2,532,547.55
Increase (decrease) in net assets	(1,819,146.28)	6,652,648.04
NET ASSETS		
Net assets - beginning of year	47,240,288.34	26,197,845.73
Net assets - end of year	$ 45,421,142.06	$ 32,850,493.77

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

Exhibit C

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$	25,753,924.65
Grants and contracts		8,248,495.45
Sales and services of educational activities		3,196,559.88
Payments to suppliers and vendors		(20,982,340.52)
Payments to employees		(54,576,353.49)
Payments for benefits		(15,902,688.36)
Payments for scholarships and fellowships		(6,007,460.01)
Loans issued to students and employees		(745,325.20)
Collection of loans from students and employees		710,554.93
Interest earned on loans to students		35,169.85
Auxiliary enterprise charges:		
Residence halls		5,709,708.34
Bookstore		279,971.21
Food services		495,187.65
Wellness facility		776,917.59
Other auxiliaries		698,438.75
Other receipts (payments)		977,046.48
Net cash used by operating activities		(51,332,192.80)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations		44,663,600.00
Gifts and grants received for other than capital or endowment purposes, including $293,288.57 from Tennessee Technological University Foundation		6,534,151.53
Private gifts for endowment purposes		18,320.07
Federal student loan receipts		14,934,725.00
Federal student loan disbursements		(14,957,532.00)
Changes in deposits held for others		34,328.70
Other noncapital financing receipts (payments)		(53,195.52)
Net cash provided by noncapital financing activities		51,174,397.78
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt		5,216,694.33
Capital appropriations		339,288.14
Capital grants and gifts received, including $760,000.00 from Tennessee Technological University Foundation		945,486.80
Purchases of capital assets and construction		(5,897,648.87)
Principal paid on capital debt		(3,223,551.56)
Interest paid on capital debt		(417,982.40)
Bond issue costs paid on new debt issue		(66,842.05)
Deposit with trustee		(157,161.99)
Other capital and related financing receipts (payments)		4,637.12
Net cash used by capital and related financing activities		(3,257,080.48)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		1,443,104.46
Income on investments		588,727.30
Purchases of investments		(999,787.54)
Net cash provided by investing activities		1,032,044.22
Net decrease in cash and cash equivalents		(2,382,831.28)
Cash and cash equivalents - beginning of year (Note 18)		17,496,471.91
Cash and cash equivalents - end of year	$	15,113,640.63

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(54,271,083.23)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense		4,092,194.64
Gifts in-kind		105,201.51
Change in assets and liabilities:		
Receivables, net		(129,327.88)
Inventories		48,410.04
Prepaid/deferred items		(48,679.76)
Accounts payable		(1,413,167.89)
Accrued liabilities		(18,124.82)
Deferred revenue		141,423.24
Deposits		(8,135.08)
Compensated absences		(58,889.36)
Due to grantors		49,059.19
Loans to students and employees		178,926.60
Net cash used by operating activities	$	(51,332,192.80)
Noncash transactions		
Gifts in-kind	$	105,201.51
Gifts in-kind - capital	$	115,113.30
Unrealized gains/losses on investments	$	(144,732.60)
Loss on disposal of capital assets	$	(217,042.26)

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

Tennessee Board of Regents
Tennessee Technological University
Notes to the Financial Statements
June 30, 2004

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* and in May 2002 by GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*. The financial statement presentation required by those statements provides a comprehensive, entity-wide perspective of the university's, including component units', assets; liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

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.

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, 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.

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.

Net Assets

The university's net assets are classified as follows:

<u>Invested in capital assets, net of related debt</u> – 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.

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

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

NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2004, cash consisted of $2,279,259.30 in bank accounts, $25,753.00 of petty cash on hand, $12,597,752.12 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $210,876.21 in LGIP deposits for capital projects.

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 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.

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, 2004, the carrying amount of the university's deposits was $2,279,259.30, and the bank balance was $4,144,815.58. 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.

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

	June 30, 2004
Category 1:	
U.S. government securities	$2,959,668.89
Collateralized mortgage obligations	16,110.58
Investments not susceptible to credit risk categorization:	
Mutual funds	85,928.93
Total	$3,061,708.40

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

	Carrying Value June 30, 2004
U.S. government securities	$ 55,456.46
Collateralized mortgage obligations	16,110.58
Local Government Investment Pool	983,904.15
	$1,055,471.19

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, 2004, each having a fair value of $1.014024, 703,177.37 units were owned by permanent endowments, 5,647.08 units were owned by term endowments, and 332,049.27 units were owned by quasi-endowments.

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

FY 2004	Pooled Assets		Net Gains	Fair Value
	Fair Value	Cost	(Losses)	Per Unit
End of year	$1,055,471.19	$1,051,465.67	$4,005.52	$1.014024
Beginning of year	$1,125,463.51	$1,122,248.72	3,214.79	0.749797
				$0.264227
Unrealized net gains			790.73	
Realized net gains			-	
Total net gains			$790.73	

The average annual earnings per unit, exclusive of net gains, were $0.041631 for the year.

NOTE 5. RECEIVABLES

Receivables included the following:

	June 30, 2004
Student accounts receivable	$ 530,332.29
Grants receivable	2,232,695.12
Notes receivable	145,034.04
State appropriation receivable	218,200.00
Other receivables	505,087.27
Subtotal	3,631,348.72
Less allowance for doubtful accounts	(205,075.70)
Total receivables	$ 3,426,273.02

Federal Perkins Loan Program funds included the following:

	June 30, 2004
Perkins loans receivable	$2,869,773.78
Less allowance for doubtful accounts	(120,272.82)
Total	$2,749,500.96

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$1,257,868.94	$ -	$ -	$ -	$ 1,257,868.94
Land improvements and infrastructure	6,138,368.92	-	-	-	6,138,368.92
Buildings	79,865,425.04	2,236,175.43	7,855,496.37	2,776,025.06	87,181,071.78
Equipment	15,875,521.23	1,213,266.96	-	1,874,978.79	15,213,809.40
Library holdings	11,636,990.11	906,841.34	-	1,034,798.90	11,509,032.55
Projects in progress	8,061,054.85	1,866,486.92	(7,855,496.37)	-	2,072,045.40
Total	122,835,229.09	6,222,770.65	-	5,685,802.75	123,372,196.99
Less accum. depreciation:					
Land improvements and infrastructure	4,426,896.92	156,997.89	-	-	4,583,894.81
Buildings	56,143,594.49	1,892,837.20	-	2,726,559.81	55,309,871.88
Equipment	11,353,169.93	994,118.00	-	1,707,401.78	10,639,886.15
Library holdings	6,797,836.00	1,048,241.55	-	1,034,798.90	6,811,278.65
Total accum. depreciation	78,721,497.34	4,092,194.64	-	5,468,760.49	77,344,931.49
Capital assets, net	$44,113,731.75	$2,130,576.01	$ -	$ 217,042.26	$ 46,027,265.50

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Bonds	$ 7,938,848.23	$ 5,216,694.33	$ 885,217.18	$12,270,325.38	$ 670,834.75
Commercial paper	2,495,496.37	-	2,495,496.37	-	-
Subtotal	10,434,344.60	5,216,694.33	3,380,713.55	12,270,325.38	670,834.75
Other liabilities:					
Compensated absences	2,877,934.86	1,557,928.08	1,616,817.44	2,819,045.50	821,635.81
Due to grantors	2,948,455.69	49,059.19	-	2,997,514.88	-
Subtotal	5,826,390.55	1,606,987.27	1,616,817.44	5,816,560.38	821,635.81
Total long-term liabilities	$16,260,735.15	$ 6,823,681.60	$4,997,530.99	$18,086,885.76	$ 1,492,470.56

Bonds Payable

Bond issues, with an interest rate of 5.0% for revenue bonds and interest rates ranging from 2.0% to 5.25% for Tennessee State School Bond Authority bonds, are due serially to 2032 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 and unexpended debt proceeds. The reserve amount was $170,224.39 at June 30, 2004. Unexpended debt proceeds were $157,161.99 at June 30, 2004.

Debt service requirements to maturity for bonds payable at June 30, 2004, are as follows:

Year Ending June 30	Principal	Interest	Total
2005	$ 670,834.75	$ 608,315.42	$ 1,279,150.17
2006	514, 080.05	557,130.99	1,071,211.04
2007	532,958.31	537,618.63	1,070,576.94
2008	553,168.52	517,746.64	1,070,915.16
2009	574,812.64	496,585.58	1,071,398.22
2010-2014	2,238,714.22	2,140,422.44	4,379,136.66
2015-2019	2,205,366.90	1,650,878.28	3,856,245.18
2020-2024	2,799,939.97	1,058,077.56	3,858,017.53
2025-2029	1,351,337.96	498,978.75	1,850,316.71
2030-2032	829,112.06	110,853.55	939,965.61
	$12,270,325.38	$ 8,176,607.84	$20,446,933.22

NOTE 8. ENDOWMENTS

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

The university chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the university, only realized gains are distributed. Percentage amounts retained are based on donor requirements and have been authorized for expenditure. At June 30, 2004, net appreciation of $48,486.07 is available to be spent. A portion of this amount is included in expendable restricted net assets as follows: scholarships and fellowships - $23,532.60; instructional department uses - $10,784.34; loans - $1,511.54; and other - $2,269.32. The remainder of $10,388.27 is included in unrestricted net assets.

NOTE 9. UNRESTRICTED NET ASSETS

Unrestricted net assets include funds that have been designated or reserved for specific purposes. The unrestricted net assets are composed of the following:

	June 30, 2004
Working capital	$ 616,820.58
Encumbrances	348,241.31
Designated fees	1,098,237.89
Auxiliaries	419,019.42
Quasi-endowment	302,843.89
Plant construction	746,607.04
Renewal and replacement of equipment	3,880,957.41
Debt retirement	1,537,997.20
Unreserved/undesignated	(697,438.98)
Total	$ 8,253,285.76

NOTE 10. 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 7.3% 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, 2004, 2003, and 2002 were $1,557,443.97 $1,605,458.25, and $1,363,572.91. 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 $2,612,035.12 for the year ended June 30, 2004, and $2,542,652.36 for the year ended June 30, 2003. Contributions met the requirements for each year.

NOTE 11. 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 12. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The Risk Management Fund is also responsible for claims for damages to state owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from $25,000 per occurrence, depending on the type of coverage, to an aggregate of $7.5 million.

The university participates in the Risk Management 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 Risk Management 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 Risk Management Fund. At June 30, 2004, the Risk Management Fund held $101.1 million in cash designated for payment of claims.

During the year ended June 30, 2003, the state incurred 13 property claims which exceeded the per occurrence deductible. The gross amount of claims for the period was approximately $7.2 million, of which the state's property insurance carrier will ultimately assume approximately $2.2 million.

At June 30, 2004, the scheduled coverage for the university was $221,215,400 for buildings and $91,226,900 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 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 $22,506,843.69 at June 30, 2004.

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 $272,981.04 for the year ended June 30, 2004. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2004, outstanding commitments under construction contracts totaled $721,300.00 for residence hall replacement, nursing building construction, ADA and fire code compliance, mechanical system upgrades, and roofing, of which $144,630.00 will be funded by future state capital outlay appropriations.

NOTE 14. CHAIRS OF EXCELLENCE

The university had $4,871,160.85 on deposit at June 30, 2004, 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 15. FUNDS HELD IN TRUST BY OTHERS

The university is a beneficiary under the CTC Charitable Lead Trust and the Odom Family Trust. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received $80,282.86 from these funds during the year ended June 30, 2004.

NOTE 16. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses by functional classification for the year ended June 30, 2004, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$27,641,647.83	$7,107,206.81	$5,991,647.58	$ -	$ -	$ 40,740,502.22
Research	4,133,153.41	825,746.30	1,858,779.11	-	-	6,817,678.82
Public service	2,093,185.58	562,310.30	1,385,548.50	-	-	4,041,044.38
Academic support	5,387,263.26	1,628,020.04	(1,276,807.90)	-	-	5,738,475.40
Student services	4,062,899.80	1,332,089.88	2,983,430.50	-	-	8,378,420.18
Institutional support	5,360,313.32	1,708,348.43	899,175.97	-	-	7,967,837.72
Operation & maint.	3,181,450.13	1,393,213.24	6,583,985.92	-	-	11,158,649.29
Scholar. & fellow.	-	-	-	6,007,460.01	-	6,007,460.01
Auxiliary	1,929,796.03	596,045.67	2,926,859.84	-	-	5,452,701.54
Depreciation	-	-	-	-	4,092,194.64	4,092,194.64
Total	$53,789,709.36	$15,152,980.67	$21,352,619.52	$6,007,460.01	$ 4,092,194.64	$100,394,964.20

NOTE 17. 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 segment is shown below:

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 the university's segment follows:

Condensed Statement of Net Assets	**June 30, 2004**
Assets:	
Current assets	$ -
Noncurrent assets	85,928.93
Capital assets (net)	167,732.77
Total assets	253,661.70
Liabilities:	
Current liabilities	80,789.00
Noncurrent liabilities	-
Total liabilities	80,789.00
Net assets:	
Invested in capital assets, net of related debt	87,732.77
Restricted – expendable for debt service	85,139.93
Unrestricted	-
Total net assets	$ 172,872.70

Condensed Statement of Revenues, Expenses, and Changes in Net Assets	**FY 2004**
Operating revenues	$ 646,312.23
Operating expenses	509,062.23
Depreciation expense	41,933.15
Net operating income	95,316.85
Nonoperating revenues (expenses):	
Investment income	1,442.33
Interest on capital asset-related debt	(10,341.00)
Other nonoperating revenues (expenses)	(2,487.87)
Transfer (to) from reserve	(54,171.81)
Change in net assets	29,758.50
Net assets, beginning of year	143,114.20
Net assets, end of year	$ 172,872.70

Condensed Statement of Cash Flows	**FY 2004**
Net cash flows provided (used) by:	
Operating activities	$ 137,250.00
Noncapital financing activities	(54,171.81)
Capital and related financing activities	(84,520.52)
Investing activities	1,442.33
Net increase (decrease) in cash	-
Cash, beginning of year	-
Cash, end of year	$ -

NOTE 18. PRIOR-YEAR RESTATEMENT

In prior years, changes in cash related to foundation transactions were included with the university's and reflected on the statement of cash flows. The following fiscal year 2003 amount was restated to reflect the separation of cash and cash equivalents between the university and the foundation.

Statement of Cash Flows	Original Amount	Restated Amount
Cash and cash equivalents – end of year	$23,652,955.12	$17,496,471.91

NOTE 19. 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 23-member board of the foundation is self-perpetuating and consists of graduates and friends of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements.

During the year ended June 30, 2004, the foundation made distributions of $1,121,901.87 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 Business and Fiscal Affairs, P.O. Box 5037, Cookeville, Tennessee 38505.

Cash and cash equivalents - In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2004, cash and cash equivalents consisted of $3,634,114.97 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $5,618,186.99 in custodial accounts of investment managers for the foundation.

Deposits - The foundation 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.

Investments - The foundation is authorized to invest funds in accordance with its board 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 foundation's investments are categorized below to indicate the level of risk assumed by the foundation at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the foundation or its agent in the foundation's name.

	June 30, 2004
Category 1:	
U.S. government securities	$ 2,556,117.52
Corporate bonds	1,704,272.73
Corporate stocks	18,887,830.31
Investments not susceptible to credit risk categorization:	
Mutual funds	20,920.92
Total	$23,169,141.48

Capital assets - Captital assest activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$291,064.28	$ 51,000.00	$ -	$ -	$ 342,064.28

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
SUPPLEMENTARY INFORMATION
STATEMENT OF CASH FLOWS - COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$	1,180,726.22
Endowment income per spending plan		856,927.57
Sales and services of educational activities		912,137.11
Payments to suppliers and vendors		(1,036,000.51)
Payments for scholarships and fellowships		(939,607.76)
Payments to Tennessee Technological University		(1,053,288.57)
Other receipts (payments)		26,413.67
Net cash used by operating activities		(52,692.27)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gifts and grants received for other than capital and endowment purposes		1,820,210.53
Net cash provided by noncapital financing activities		1,820,210.53
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts received		585,447.42
Purchases of capital assets and construction		(51,000.00)
Net cash provided by capital and related financing activities		534,447.42
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		13,481,115.12
Income on investments		432,599.91
Purchases of investments		(13,119,861.96)
Net cash provided by investing activities		793,853.07
Net increase in cash and cash equivalents		3,095,818.75
Cash and cash equivalents - beginning of year		6,156,483.21
Cash and cash equivalents - end of year (Note 19)	$	9,252,301.96
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$	(121,201.07)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Gifts in-kind		68,613.30
Change in assets and liabilities:		
Receivables, net		15.00
Accounts payable		(119.50)
Net cash used by operating activities	$	(52,692.27)
Noncash transactions		
Gifts in-kind	$	43,960.67
Gifts in-kind - capital	$	126,889.60
Unrealized gains/losses on investments	$	864,365.56