

AUDIT REPORT

Tennessee Board of Regents
Tennessee Technological University

For the Year Ended
June 30, 2010



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



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**STATE OF TENNESSEE
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DIVISION OF STATE AUDIT**

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June 28, 2011

The Honorable Bill Haslam, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
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, 2010. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/dj
10/066

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, 2010

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.

INTERNAL CONTROL FINDING

As Noted in the Prior Audit, the University Did Not Ensure That Amounts Were Properly Reported in Its Financial Statements and the Accompanying Notes to the Financial Statements*

Our audit found that Tennessee Technological University's procedures for financial statement preparation should be improved to ensure the accuracy of the financial statements. This deficiency contributed to numerous reporting errors in the financial statements and the notes to the financial statements of the university (page 8).

The deficiency described above was considered a material weakness. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the university's financial statements will not be prevented or detected and corrected on a timely basis.

* This finding is repeated from the prior audit.

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Tennessee Technological University
For the Year Ended June 30, 2010

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**Tennessee Board of Regents
Tennessee Technological University
For the Year Ended June 30, 2010**

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 in 1915 by the Tennessee General Assembly as Tennessee Polytechnic Institute. In 1929, 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. In 1980, the institution’s new Schools of Nursing and the Joe L. Evins Appalachian Center for Crafts began their bachelor’s degree programs.

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 Executive 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, 2009, through June 30, 2010, 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 generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 2010. 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 as a basis for designing 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.

PRIOR AUDIT FINDING

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The university filed its report with the Department of Audit on September 23, 2010. A follow-up of the prior audit finding was conducted as part of the current audit.

The prior audit report contained a finding concerning financial reporting. This finding has not been resolved and is repeated in this report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the institution. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the institution is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the institution.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the institution. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic.

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, 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, 2010, we considered internal control over financial reporting as a basis for designing 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 generally accepted government auditing standards. A material weakness, along with the recommendation and management's response, is detailed in the Finding and Recommendation section of the report.

Compliance and Other Matters

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under generally accepted government auditing standards.

Fairness of Financial Statement Presentation

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



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**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 18, 2011

The Honorable Bill Haslam, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217

and

Dr. Robert R. Bell, President
Tennessee Technological University
Box 5007
Cookeville, Tennessee 38505

Ladies and Gentlemen:

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, 2010, and have issued our report thereon dated April 18, 2011. 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 generally accepted government auditing standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the university's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the university's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the university's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency to be a material weakness:

As noted in the prior audit, the university did not ensure that amounts were properly reported in its financial statements and the accompanying notes to the financial statements.

This deficiency is described in the Finding and Recommendation section of this report.

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 its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under generally accepted government auditing standards.

The university's response to the finding identified in our audit is included in the Finding and Recommendation section of this report. We did not audit the university's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the Tennessee Board of Regents, 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,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA
Director

AAH/dj

FINDING AND RECOMMENDATION

As noted in the prior audit, the university did not ensure that amounts were properly reported in its financial statements and the accompanying notes to the financial statements

Finding

As noted in the prior audit, the university did not ensure that amounts reported in its financial statements and the accompanying notes to the financial statements were free of misstatement. Our audit found that Tennessee Technological University's procedures for financial statement preparation should be improved to ensure the accuracy of the financial statements. This deficiency contributed to reporting errors in the financial statements for the foundation and the notes to the financial statements for the university. The Associate Vice President for Business and Fiscal Affairs is responsible for financial reporting for the university. The Director of Accounting and the Associate Vice President prepare portions of the financial statements, and the Manager of Payroll and Benefits, the Director of Accounting, and the Associate Vice President prepare portions of the notes to the financial statements. The Associate Vice President reviews the portions he does not prepare, and the Vice President of Business and Fiscal Affairs reviews the entire reporting package.

Although management concurred with the finding in the prior year and added a financial statement preparation checklist to ensure the correctness of the financial statements and notes, this checklist did not include proper analytical procedures to adequately analyze amounts to detect unusual or unreasonable amounts. While the errors noted in the prior year were not repeated, other errors were noted during our audit.

We found an error on the Statement of Net Assets for the foundation. The Director of Accounting transposed the foundation's nonexpendable net assets restricted for research amount and nonexpendable net assets restricted for instructional department uses. As a result, net assets restricted for research were overstated by \$2,099,735.67; net assets restricted for instructional department uses were understated by the same amount. According to the Associate Vice President for Business and Fiscal Affairs, the error occurred because the amounts on the financial statements were transferred to a template (an excel spreadsheet) furnished by the Tennessee Board of Regents. The net asset categories on this template were in a different order than the university's internal template (spreadsheet). The different order was not noticed by university staff, and the two amounts were transposed. The error was discovered by university personnel; however, the discovery occurred after the report had been given to the Tennessee Board of Regents, and no further changes could be made. The audit report contains corrected amounts.

We also noted an error in the notes to the financial statements for the university. In the Commitments and Contingencies (Sick Leave) Note, the total amount of sick leave was reported as \$31,490,688.15 for the fiscal year ended June 30, 2010; it should have been stated as \$25,677,697.37 for a difference of \$5,812,990.78. Two former full-time employees who now serve in an adjunct capacity were erroneously included in the calculation of the June 30, 2010, sick leave balance. Adjunct employees are not eligible to accrue leave; however, these two employees were initially miscoded within the information system. In addition, this error in

coding caused these two employees' sick leave balance in hours to be multiplied by their monthly salary, instead of an hourly salary, to arrive at the amount of the liability. Management was unable to determine why this happened and was unable to recreate the discrepancy. The note was corrected for this report.

Management has identified within the university's risk assessment the risk of inaccurate/untimely financial reporting and the risk of financials issued with material misstatements. For this, management's intention is to monitor through supervisory controls, such as reviews. According to the Associate Vice President for Business and Fiscal Affairs, there were two main causes for the errors reported above. First, the Director of Accounting did not compare the 2010 financial statements to the 2009 financial statements when they were prepared; therefore, the error on the foundation's statement of net assets was not detected. Second, even though the Associate Vice President for Business and Fiscal Affairs did initially question the sick leave liability reported in the note, he was assured by the Manager of Payroll and Benefits that the note was correct as an information system report written by the staff at the Tennessee Board of Regents Central Office was used to compile the data. However, if an employee were not coded correctly in the information system, the report would compile the information incorrectly. The Manager of Payroll and Benefits and the Director of Human Resources did not adequately analyze the data compiled to look for anything unusual or unreasonable.

These reporting errors resulted in significant misstatements in the university and foundation's unaudited financial statements and the accompanying notes. With an improved review process, the Vice President or Associate Vice President for Business and Fiscal Affairs could have detected and corrected these errors before the financial statements were completed.

Recommendation

The President and Vice President for Business and Fiscal Affairs should ensure that all staff carefully and thoughtfully review the financial statements and related notes. The Associate Vice President should ensure that analytical procedures have been performed on the financial statements, comparing current-year amounts with prior-year amounts to ensure that the amounts reported in the financial statements are accurate at year-end.

Management should continue to evaluate risks and include them in documented risk assessment activities. Management should ensure that staffs who are responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exceptions in a timely manner are continually evaluating those controls. Management should ensure that staffs that are responsible for ongoing monitoring for compliance with all requirements are indeed monitoring and taking prompt action when exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

Management's Comment

We concur with the finding that the university did not ensure that amounts were properly reported in its unaudited financial statements and the accompanying unaudited notes to the financial statements.

Error 1:

On the Statement of Net Assets, the foundation's nonexpendable net assets restricted for research and nonexpendable net assets restricted for instruction were transposed. This occurred at the point of transferring the foundation's data to templates for submission to the Tennessee Board of Regents. Reviews and analytics were performed on the worksheets before the transfer to the Tennessee Board of Regents' templates. The MD&A was correct due to fund balance categories being condensed and showing as one total for restricted nonexpendable. It should be noted that this error was of a clerical nature and did not result in a misstatement of the total restricted net assets held by the foundation as shown in the unaudited financial statements.

Proposed Action:

In the future, Tennessee Tech University's review and analytical process will include additional proofreading to avoid clerical errors during the transfer of data for both the university and foundation financial statements. This will occur both before and after transfer to the Tennessee Board of Regents' template.

Error 2:

The note for Commitments and Contingencies (Sick Leave) was reported as \$31,490,688.15 when it should have been stated as \$25,677,697.37. This number was used by the Payroll and Benefits Manager because of the reliance upon a prewritten report that picked up the wrong rates in two instances.

Proposed Action:

The Payroll and Benefits Manager will analyze this report going forward for significant changes, variances, and pay rates that are outside the norm. Significant changes or abnormalities will be further reviewed for correctness. Staff members have been instructed that all major variances between prior year and current year data must be investigated and documented as to the underlying reason for the variance. This analysis will be provided to the Associate Vice President for Business and Fiscal Affairs as supporting documentation of the disclosed amount.



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Independent Auditor's Report

April 18, 2011

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217
and

Dr. Robert R. Bell, President
Tennessee Technological University
Box 5007
Cookeville, Tennessee 38505

Ladies and Gentlemen:

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, 2010, 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 generally accepted government auditing standards. 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.

As discussed in Note 1, the financial statements of Tennessee Technological University, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only Tennessee Technological University. They do not purport to, and do not, present fairly the financial position of the Tennessee Board of Regents, as of June 30, 2010, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Tennessee Technological University, and its discretely presented component unit as of June 30, 2010, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 19, the financial statements of Tennessee Technological University Foundation, a discretely presented component unit of Tennessee Technological University, include investments valued at \$4,640,836.86 (10.4 percent of net assets of the foundation), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

The management's discussion and analysis on pages 14 through 31 and the schedule of funding progress on page 62 are not a required part of the basic financial statements but are 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.

April 18, 2011
Page Three

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 63 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 generally accepted government auditing standards, we have also issued our report dated April 18, 2011, 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 generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA
Director

AAH/dj

**Tennessee Board of Regents
Tennessee Technological University
Management's Discussion and Analysis**

This section of Tennessee Technological University's report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2010, with comparative information presented for the fiscal year ended June 30, 2009. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and the accompanying 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.

**Tennessee Board of Regents
Tennessee Technological University
Management's Discussion and Analysis (Cont.)**

**Tennessee Technological University
Net Assets
(in thousands of dollars)**

	2010	2009
Assets:		
Current assets	\$ 35,797	\$ 27,765
Capital assets, net	103,465	85,719
Other assets	35,052	31,580
Total assets	174,314	145,064
Liabilities:		
Current liabilities	13,269	18,203
Noncurrent liabilities	44,920	29,218
Total liabilities	58,189	47,421
Net assets:		
Invested in capital assets, net of related debt	66,906	63,685
Restricted - nonexpendable	195	195
Restricted - expendable	4,974	8,823
Unrestricted	44,050	24,940
Total net assets	\$ 116,125	\$ 97,643

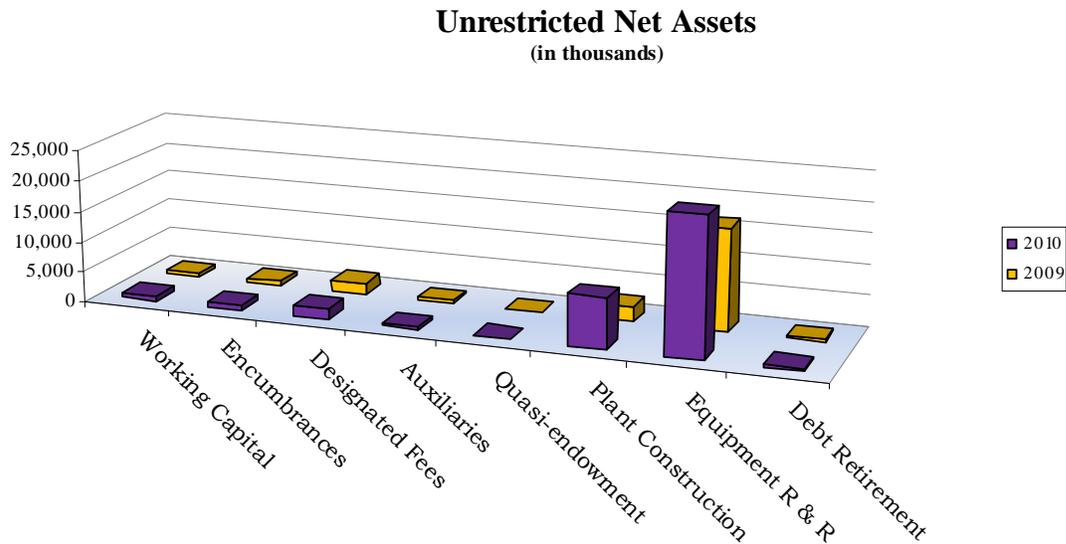
- The assets of the university increased by 20% from 2009 to 2010. The increase can be attributed to investments in capital assets, which increased 21%. Primary items include construction of New Hall North and the Science, Technology, Engineering, and Mathematics (STEM) building. Projects just started include construction of the Conditioning & Strength Center and renovations to Tech Village. Current assets increased by 29%, which includes an increase in cash of 46%. This infusion of cash is due mainly to a slight increase in unrestricted revenues of \$1,102,280 and a decrease in unrestricted expenditures of \$4,920,990. The State Fiscal Stabilization Funds accounted for in restricted funds covered \$5,299,050 in salaries and benefits that would normally be accounted for as unrestricted. Current accounts, notes, and grants receivables also decreased by another \$1,719,200 to increase the cash flow. Other assets increased 11%, which includes an increase in noncurrent cash of 14% due to auxiliary transfers to renewal and replacement for future projects.
- The university's increase in liabilities from 2009 to 2010 was 23%. Noncurrent liabilities increased 54% primarily because of the increase in accrued OPEB and long-term debt related to construction projects. Long-term debt increased \$15,602,790 as a result of construction on New Hall North, Conditioning & Strength Center, and renovations to

**Tennessee Board of Regents
Tennessee Technological University
Management's Discussion and Analysis (Cont.)**

Tech Village. Current liabilities decreased by 27% primarily as a result of a \$3,150,828 decrease in the State Fiscal Stabilization Funds due to the primary government and a decrease in payroll accruals related to the FY 2009 voluntary buyout plan.

- The increase in net assets of 19% from 2009 to 2010 included additional investments in capital projects.
- Restricted nonexpendable net assets had no significant change from 2009 to 2010.
- Restricted expendable net assets decreased 44% from 2009 to 2010 primarily due to restricted gift funds in the amount of \$2,791,600 being expended for the STEM Center.

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



**Tennessee Board of Regents
Tennessee Technological University
Management's Discussion and Analysis (Cont.)**

- Funds designated for encumbrances increased \$173,000 (25%) in 2010 compared to 2009. Funds designated for renewal and replacement of equipment and repair of housing facilities increased by 35% in 2010 as a result of the transfer of profits from auxiliaries. Reserves designated for unexpended plant construction also increased by \$5,849,000 (246%) as a result of transfers to fund capital projects. These include the IT Infrastructure and Central Cooling projects funded by Maintenance of Effort, increase in reserves for the purchase of the Prescott Property, Parking and Paving, Library Dining Services and Learning Commons, and various other academic building renovations.

Component Unit Net Assets		
(in thousands of dollars)		
	2010	2009
Assets:		
Current assets	\$ 429	\$ 552
Capital assets, net	240	147
Other assets	44,507	39,831
Total assets	45,176	40,530
Liabilities:		
Current liabilities	98	159
Noncurrent liabilities	541	617
Total liabilities	639	776
Net assets:		
Invested in capital assets, net of related debt	240	147
Restricted - nonexpendable	34,454	30,931
Restricted - expendable	9,947	8,404
Unrestricted	(104)	272
Total net assets	\$ 44,537	\$ 39,754

**Tennessee Board of Regents
Tennessee Technological University
Management's Discussion and Analysis (Cont.)**

- Current assets of the component unit decreased by 22% from 2009 to 2010 due to the maturity of short-term investments and a decrease in accrued interest receivable. Short-term investments of \$204,490 matured and were partially reinvested in long-term investments with the remainder increasing current cash by \$157,384. Interest-bearing bonds and securities decreased approximately \$3,000,000 reflective of the investment strategy. As a result, accrued interest receivable decreased \$60,860.
- Capital assets increased \$93,000 due to a gift of a tract of land.
- Other assets increased by 12% from 2009 to 2010. Noncurrent cash and cash equivalents decreased \$1,235,328 as more funds were allocated into investments as the market condition improved from 2009. Investments increased as a result of a realized gain of \$1,556,152 and an unrealized gain of \$1,361,447.
- An 18% decrease in total liabilities was related to a reduction in athletic camp accruals in 2009 and the principal payments on long-term debt.
- Unrestricted net assets of the foundation declined by \$376,470 in 2010, creating a negative fund balance of \$104,000. In 2008, the foundation entered into an interest-free loan in the amount of \$740,000 in anticipation of the loan amount being repaid from future gifts designated for construction of the STEM building or from unrestricted gifts. Although unrestricted gifts and gifts designated for STEM are sufficient to service the current portion of the outstanding long-term debt, the outstanding balance of the long-term liability creates a negative unrestricted fund balance.

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 non-operating revenues according to accounting principles generally accepted in the United States of America.

**Tennessee Board of Regents
Tennessee Technological University
Management's Discussion and Analysis (Cont.)**

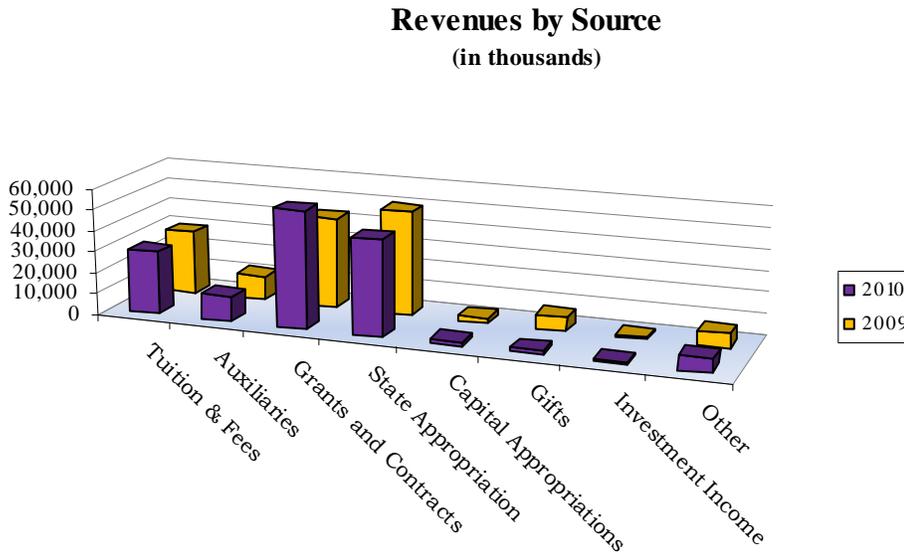
**Tennessee Technological University
Changes in Net Assets
(in thousands of dollars)**

	2010	2009
Operating revenues:		
Net tuition and fees	\$ 29,697	\$ 30,286
Grants and contracts	13,857	11,996
Auxiliary	11,772	11,676
Other	7,406	7,078
Total operating revenues	62,732	61,036
Operating expenses	134,957	139,877
Operating loss	(72,225)	(78,841)
Nonoperating revenues and expenses:		
State appropriations	45,378	49,734
Gifts	745	676
Grants & contracts	40,489	29,590
Investment income	428	923
Interest on capital asset debt	(747)	(677)
Other revenues	194	329
Total nonoperating revenues and expenses	86,487	80,575
Income before other revenues, expenses, gains or losses	14,262	1,734
Other revenues, expenses, gains or losses:		
Capital appropriations	1,738	2,428
Capital grants and gifts	2,482	7,457
Additions to permanent endowments	-	1
Total other revenues, expenses, gains or losses	4,220	9,886
Increase in net assets	18,482	11,620
Net assets at beginning of year	97,643	86,023
Net assets at end of year	\$ 116,125	\$ 97,643

**Tennessee Board of Regents
Tennessee Technological University
Management's Discussion and Analysis (Cont.)**

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, 2010, and June 30, 2009.

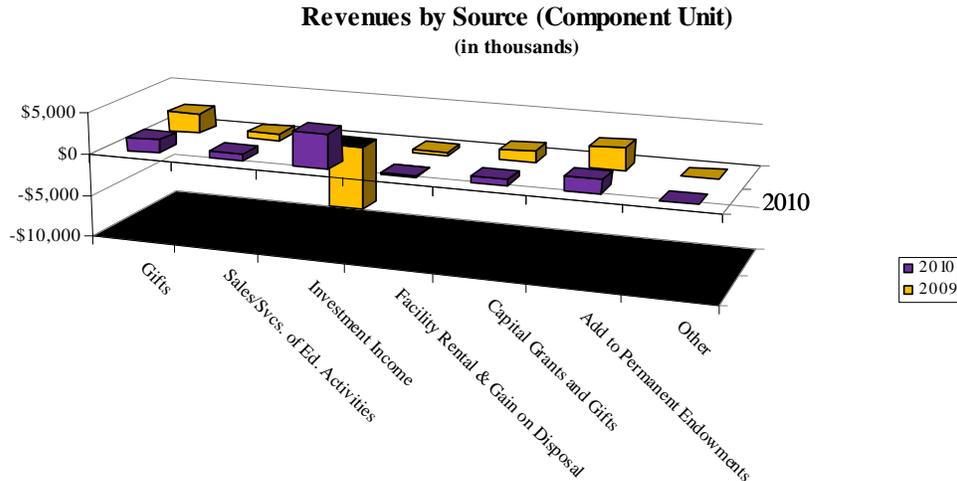


- The university's total revenue had no significant change from 2009 to 2010; however, non-operating grants and contracts increased by 37% due to an increase of \$4,883,660 in State Fiscal Stabilization Fund revenues, \$4,204,270 in Pell Grants and SEOG funds, and \$1,810,900 in Lottery funds. State appropriations decreased by \$4,356,000.
- Capital appropriations decreased by approximately \$690,120 in 2010. This decrease is directly attributable to fewer capital maintenance projects being funded by state dollars.
- Capital gifts decreased by \$4,623,260 due to a reduced emphasis on third-party funded capital projects. Construction of the Center for Science, Technology, Engineering & Mathematics was started in fiscal year 2009 that resulted in a \$5,125,000 transfer of gift funds in fiscal year 2009.

**Tennessee Board of Regents
Tennessee Technological University
Management's Discussion and Analysis (Cont.)**

Component Unit Changes in Net Assets (in thousands of dollars)	2010	2009
Operating revenues:		
Gifts	\$ 1,632	\$ 2,431
Sales and services of educational activities	765	796
Other	-	29
Total operating revenues	2,397	3,256
Operating expenses	4,176	9,058
Operating loss	(1,779)	(5,802)
Nonoperating revenues and expenses:		
Investment income	4,077	(7,642)
Disposal of capital assets	127	278
Total nonoperating revenues and expenses	4,204	(7,364)
Income (loss) before other revenues, expenses, gains or losses	2,425	(13,166)
Other revenues, expenses, gains or losses:		
Capital grants and gifts	708	1,360
Additions to permanent endowments	1,650	2,657
Total other revenues, expenses, gains or losses	2,358	4,017
Increase (decrease) in net assets	4,783	(9,149)
Net assets at beginning of year	39,754	48,903
Net assets at end of year	\$ 44,537	\$ 39,754

**Tennessee Board of Regents
Tennessee Technological University
Management's Discussion and Analysis (Cont.)**



- Operating revenues of the component unit decreased by 26%, primarily as the result of a 33% decrease in operating gifts as directed by donors. In fiscal year 2009, there was a single donation of \$1,000,000 that was not replicated in 2010.
- Investment income increased 153% due to an approximate \$1.6 million realized gain on the sale of investments and a \$1.4 million unrealized gain in the endowment pool. There was a \$7.2 million realized loss and a \$1.6 million unrealized loss in fiscal year 2009.
- Capital grants and gifts decreased by 48% due to a decreased emphasis on fund raising activities for capital projects in 2010. The Conditioning & Strength Center and the Center for Science, Technology, Engineering and Mathematics fund raising activities had the most significant decrease of \$685,960.
- Additions to permanent endowments decreased by 38%, primarily as the result of a large estate gift in excess of \$2 million received in fiscal year 2009 that was not replicated in fiscal year 2010.

**Tennessee Board of Regents
Tennessee Technological University
Management's Discussion and Analysis (Cont.)**

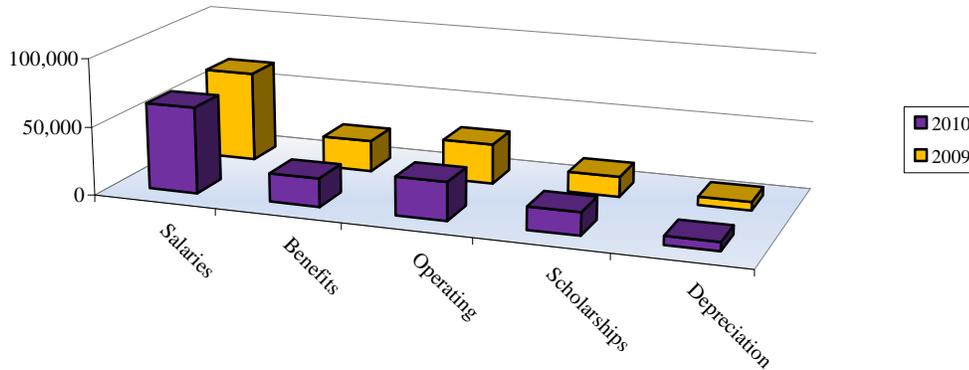
Expenses

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

Natural Classification
**Tennessee Technological University
Operating Expenses - Natural Classification
(in thousands of dollars)**

	2010	2009
Salaries	\$ 63,330	\$ 66,314
Benefits	20,756	23,065
Operating	27,863	29,551
Scholarships	16,597	14,739
Depreciation	6,411	6,208
Total expenses	\$ 134,957	\$ 139,877

**Operating Expenses - Natural Classification
(in thousands of dollars)**



**Tennessee Board of Regents
Tennessee Technological University
Management's Discussion and Analysis (Cont.)**

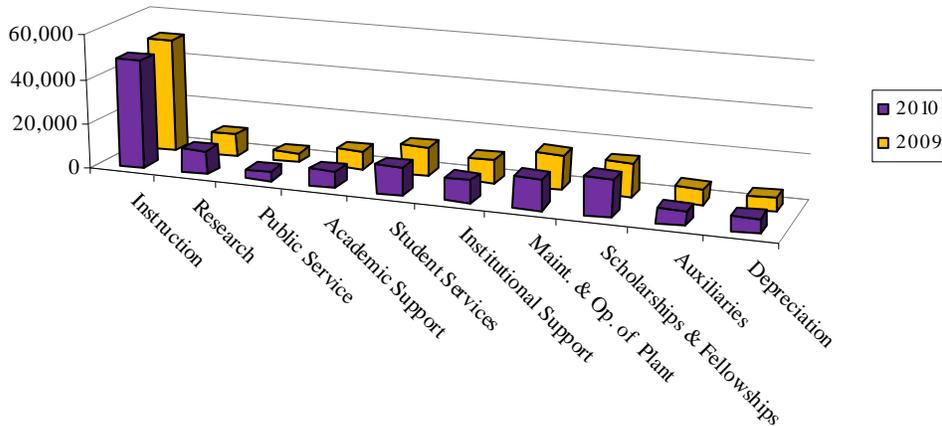
- Expenditures decreased from 2009 to 2010 by 4%. The primary decrease occurred in salaries, benefits, and operating. Operating costs decreased by 6% due to budget cuts. Salaries decreased \$2,119,400 and benefits decreased \$190,000 due to the FY 2009 buyout plan. Benefit expense in total decreased 10% or \$2,309,000. This decrease was a result of the two-month group insurance holiday that offset the FY 2010 health insurance increase and resulted in a \$1,638,900 decrease in total group insurance cost. All other changes were less than 10% except for scholarships and fellowships, which increased 13% due to more than a \$6 million increase in Pell and Lottery.

Program Classification
Tennessee Technological University
Program Classification of Operating Expenses
(in thousands of dollars)

	<u>2010</u>	<u>2009</u>
Instruction	\$ 47,984	\$ 50,872
Research	10,485	10,177
Public service	4,162	4,395
Academic support	7,474	8,153
Student services	12,407	12,876
Institutional support	9,654	10,337
Maintenance and operations	13,480	15,498
Scholarships and fellowships	16,597	14,739
Auxiliaries	6,304	6,622
Depreciation	6,410	6,208
Total expenses	<u>\$ 134,957</u>	<u>\$ 139,877</u>

**Tennessee Board of Regents
Tennessee Technological University
Management's Discussion and Analysis (Cont.)**

Operating Expenses - Program Classification
(in thousands)



- From 2009 to 2010, the university overall had a 4% decrease in expenditures. This reflects the university's cost cutting efforts to manage within a significantly reduced state appropriation base. Functional area decreases range from 3.64% to 13.02%. The largest decrease was in maintenance and operation of plant. This decrease is the result of a decreased level of small project maintenance in renewals and replacement and unexpended plant by \$1,057,400. A decrease of \$728,650 in salary and benefit costs was due to the buyout and benefit holiday. Utility costs also decreased by \$319,000. All other changes were less than 10% except for scholarships and fellowships, which increased 13% due to more than a \$6 million increase in Pell and Lottery.

Natural Classification

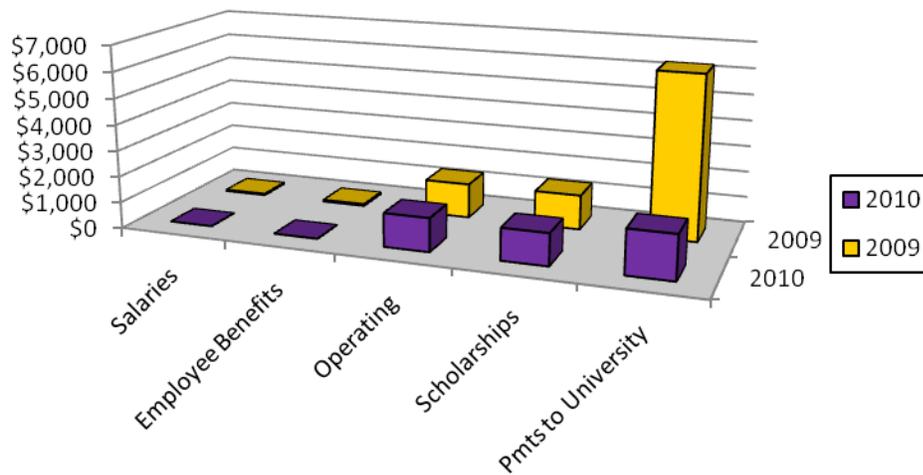
Component Unit

Operating Expenses - Natural Classification
(in thousands of dollars)

	2010	2009
Salaries	\$ -	\$ 56
Employee benefits	-	73
Operating	1,278	1,326
Scholarships	1,217	1,325
Payments to university	1,681	6,278
Total expenses	\$ <u>4,176</u>	\$ <u>9,058</u>

**Tennessee Board of Regents
Tennessee Technological University
Management's Discussion and Analysis (Cont.)**

**Operating Expenses - Natural Classification
(Component Unit)**
(in thousands of dollars)



- In 2010, there was no salary and benefits expense. Athletic camp workers in 2009 were reclassified from contract labor to employees. After the reclassification, no athletic camps were handled by the foundation. Payments to the university decreased by 73% because of a reduced amount of funding for capital projects provided by the foundation. In 2009, payments to the university included a transfer of \$5,125,000 for construction of the Center for Science, Technology, Engineering, and Mathematics building. See Note 19 of the financial statements for the Component Unit for additional information related to payments made to the university.

**Tennessee Board of Regents
Tennessee Technological University
Management's Discussion and Analysis (Cont.)**

Capital Assets and Debt Administration

Capital Assets

At June 30, 2010, Tennessee Technological University had \$103,465,060 invested in capital assets, net of accumulated depreciation of \$96,243,350. Depreciation charges totaled \$6,410,500 for the current fiscal year. Details of these assets are shown below.

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

	2010	2009
Land	\$ 1,258	\$ 1,258
Land improvements & infrastructure	5,758	6,243
Buildings	57,890	54,195
Equipment	7,085	5,953
Library holdings	4,379	4,548
Intangible assets	1,936	2,260
Projects in progress	25,159	11,262
Total Capital Assets, Net of Depreciation	\$ 103,465	\$ 85,719

The university had eight projects in progress that increased the capital assets by \$20,779,850 during FY 2010. The Science, Technology, Engineering and Mathematics building; New Hall North; IT Infrastructure Project; Conditioning & Strength Center; and Tech Village West renovations were the largest. Another \$3,380,340 in equipment and library holdings was capitalized during the year.

The university plans to complete approximately \$25,451,000 in capital expenditures during the next fiscal year. The following details the project, amount, and funding source:

Project	Amount (in thousands of dollars)	Source of Funding
ADA Modifications	\$ 250	State Appropriations
Fire Alarm Upgrade	107	State Appropriations
Elevator Upgrades	350	State Appropriations
Crawford Hall Reroof	240	Housing Revenue
STEM Center	78	Private Donations TSSBA Bonds and
Conditioning & Strength Center	1,400	Private

**Tennessee Board of Regents
Tennessee Technological University
Management's Discussion and Analysis (Cont.)**

Tech Village West	5,700	TSSBA Bonds/Housing Revenue
New Residence Halls	1,424	TSSBA Bonds
IT Infrastructure	7,022	ARRA and Maintenance of Effort
Central Cooling Deficiency	3,000	State Appropriations/ARRA/Maintenance of Effort
Foster Hall Ventilation	1,700	State Appropriations
TJ Farr Classrooms	260	Maintenance of Effort
Johnson Hall Classrooms	210	Maintenance of Effort
Prescott Hall Rm Update	320	Maintenance of Effort
Foster Hall Lab	60	Maintenance of Effort
Pennebaker Hall 310	60	Maintenance of Effort
Kittrell Hall Fume Hood	60	Maintenance of Effort
Craft Center Guardrail	600	State Appropriations
UC South Patio & Front Step	600	State Appropriations
Pennebaker Hall 128	250	State Appropriations and Maintenance of Effort
Building Reroof	660	State Appropriations
Henderson Hall Update	1,100	Maintenance of Effort

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

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

	<u>2010</u>	<u>2009</u>
Land	\$ <u>240</u>	\$ <u>147</u>
Total	\$ <u><u>240</u></u>	\$ <u><u>147</u></u>

- During fiscal year 2010, a donation of land totaling \$93,000 was given to the foundation.

**Tennessee Board of Regents
Tennessee Technological University
Management's Discussion and Analysis (Cont.)**

Debt

At June 30, 2010, and June 30, 2009, the university had \$36,559,000 and \$22,034,000 in debt outstanding, respectively. The table below summarizes these amounts by type of debt instrument.

**Tennessee Technological University
Schedule of Debt Outstanding**
(in thousands of dollars)

	2010	2009
Debt instrument		
Bonds payable	\$ 13,497	\$ 14,575
Commercial paper	23,062	7,459
Total outstanding debt	\$ 36,559	\$ 22,034

In fiscal year 2010, the Tennessee State School Bond Authority issued, on behalf of the university, an additional \$15,602,792 in commercial paper, of which \$14,693,475 was related to the New Hall North project and another \$909,317 was for Tech Village West and Conditioning & Strength Center. Bonds in the amount of \$1,089,392 were retired. The bond ratings on the Tennessee State School Bond Authority at June 30, 2010, were as follows:

Fitch	AA
Moody's Investor Service	Aa2
Standard & Poor's	AA

More detailed information about the university's long-term liabilities is presented in Note 7 to the financial statements.

In 2008, the foundation acquired a ten-year, interest-free notes payable for \$740,000. The monthly payments began in February 2009.

**Tennessee Board of Regents
Tennessee Technological University
Management's Discussion and Analysis (Cont.)**

**Component Unit
Schedule of Notes Payable
(in thousands of dollars)**

	2010	2009
Notes payable	\$ 624	\$ 699
Total	\$ 624	\$ 699

- For 2010, the foundation made principal payments of \$75,370.

Economic Factors That Will Affect the Future

The university's recurring state appropriation, a major source of support for academic programs, has been reduced by \$14,500,000. The university developed a three-year financial plan that included a combination of cost cutting and tuition increases to manage the appropriation reduction. Management is confident the university is on track to effectively manage the reduction in fiscal year 2011-12 when non-recurring maintenance-of-effort and federal stimulus funding expires.

The Tennessee Higher Education Commission is currently implementing a new outcomes-based funding formula for higher education to comply with state law effective January 2010. The new funding formula is based on student progression toward an academic degree; the number of degrees conferred each academic year; and a six-year graduation rate. Full implementation of the new funding model is proposed to occur over a 3-to-5-year period. It is anticipated that the new funding formula will have a positive funding impact for the university.

Improvement in the equity market in fiscal year 2010 has allowed the foundation to continue providing scholarships to students and support to the academic program of the university. However, fluctuations in the markets continue to be a concern. The foundation will continue efforts to steward and cultivate all constituents and solicit for funds from individuals and companies that have had positive growth in their businesses and portfolios.

**Tennessee Board of Regents
Tennessee Technological University
Management's Discussion and Analysis (Cont.)**

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 Dr. Claire Stinson, Vice President for Planning and Finance, Tennessee Technological University, P.O. Box 5037, Cookeville, TN 38505.

**TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENTS OF NET ASSETS
JUNE 30, 2010**

	Tennessee Technological University	Component Unit Tennessee Technological University Foundation
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 19)	\$ 28,069,608.48	\$ 280,763.54
Short-term investments (Note 3)	10,812.76	-
Accounts, notes, and grants receivable (net) (Note 4)	6,228,155.80	300.00
Due from primary government	826,850.34	-
Inventories	330,581.07	-
Prepaid expenses and deferred charges	319,704.19	-
Accrued interest receivable	11,308.45	148,152.51
Total current assets	<u>35,797,021.09</u>	<u>429,216.05</u>
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 19)	31,675,759.18	5,446,959.78
Investments (Notes 3 and 19)	1,182,233.56	39,059,727.45
Accounts, notes, and grants receivable (net) (Note 4)	2,193,812.57	-
Capital assets (net) (Notes 5 and 19)	103,465,059.73	240,354.71
Total noncurrent assets	<u>138,516,865.04</u>	<u>44,747,041.94</u>
Total assets	<u>174,313,886.13</u>	<u>45,176,257.99</u>
LIABILITIES		
Current liabilities:		
Accounts payable (Note 6)	1,413,097.98	15,846.72
Accrued liabilities	6,611,333.43	-
Student deposits	148,801.22	-
Deferred revenue	3,021,701.74	-
Compensated absences (Note 7)	743,075.38	-
Accrued interest payable	119,204.58	-
Long-term liabilities, current portion (Notes 7 and 19)	817,101.51	82,222.20
Deposits held in custody for others	357,982.68	-
Other liabilities	37,049.47	-
Total current liabilities	<u>13,269,347.99</u>	<u>98,068.92</u>
Noncurrent liabilities:		
Net OPEB obligation (Notes 7 and 12)	4,379,300.86	-
Compensated absences (Note 7)	2,548,796.60	-
Long-term liabilities (Notes 7 and 19)	35,741,937.94	541,296.35
Due to grantors (Note 7)	2,249,439.16	-
Total noncurrent liabilities	<u>44,919,474.56</u>	<u>541,296.35</u>
Total liabilities	<u>58,188,822.55</u>	<u>639,365.27</u>
NET ASSETS		
Invested in capital assets, net of related debt	66,906,020.28	240,354.71
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	195,418.38	23,013,454.56
Research	-	400,528.74
Instructional department uses	-	2,500,264.41
Other	-	8,539,696.74
Expendable:		
Scholarships and fellowships (Note 8)	137,746.71	3,908,487.48
Research	384,245.59	102,209.10
Instructional department uses (Note 8)	439,475.04	1,275,618.13
Loans (Note 8)	636,626.17	-
Capital projects	616,211.37	295,683.55
Debt service	1,571,310.46	-
Other (Note 8)	1,188,196.42	4,365,476.02
Unrestricted (Notes 8 and 9)	44,049,813.16	(104,880.72)
Total net assets	<u>\$ 116,125,063.58</u>	<u>\$ 44,536,892.72</u>

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

**TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010**

	Tennessee Technological University	Component Unit Tennessee Technological University Foundation
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$30,746,496.14)	\$ 29,697,174.33	\$ -
Gifts and contributions	-	1,631,706.84
Governmental grants and contracts	13,600,477.53	-
Nongovernmental grants and contracts	256,067.36	-
Sales and services of educational departments	6,526,572.52	764,847.23
Auxiliary enterprises:		
Residential life (net of scholarship allowances of \$31,275.73; all residential life revenues are used as security for revenue bonds; see Note 7)	8,894,953.63	-
Bookstore	363,587.15	-
Food service (net of scholarship allowances of \$407,747.19; all food service revenues are used as security for revenue bonds; see Note 7)	831,565.35	-
Wellness facility (net of scholarship allowances of \$1,795.37; all wellness facility revenues are used as security for revenue bonds; see Note 7)	969,151.41	-
Other auxiliaries (net of scholarship allowances of \$4,295.89; all other auxiliaries revenues are used as security for revenue bonds; see Note 7)	713,177.67	-
Interest earned on loans to students	29,098.79	-
Other operating revenues	850,042.69	-
Total operating revenues	62,731,868.43	2,396,554.07
EXPENSES		
Operating expenses (Note 17):		
Salaries and wages	63,329,627.31	-
Benefits	20,756,417.59	-
Utilities, supplies, and other services	27,863,260.76	1,277,420.63
Scholarships and fellowships	16,597,409.91	1,217,028.03
Depreciation expense	6,410,519.75	-
Payments to or on behalf of Tennessee Technological University (Note 19)	-	1,681,669.83
Total operating expenses	134,957,235.32	4,176,118.49
Operating loss	(72,225,366.89)	(1,779,564.42)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	45,378,210.50	-
Gifts, including \$533,777.56 from component unit	745,531.51	-
Grants and contracts	40,488,883.85	-
Investment income (loss) (net of investment expense for the component unit of \$149,802.77)	427,722.10	4,077,027.96
Interest on capital asset-related debt	(747,421.56)	-
Other nonoperating revenues (expenses)	194,298.43	126,935.26
Net nonoperating revenues (expenses)	86,487,224.83	4,203,963.22
Income before other revenues, expenses, gains, or losses	14,261,857.94	2,424,398.80
Capital appropriations	1,737,880.19	-
Capital grants and gifts, including \$1,147,892.27 from component unit	2,482,081.36	708,175.00
Additions to permanent endowments	145.00	1,650,009.39
Total other revenues	4,220,106.55	2,358,184.39
Increase in net assets	18,481,964.49	4,782,583.19
NET ASSETS		
Net assets - beginning of year	97,643,099.09	39,754,309.53
Net assets - end of year	\$ 116,125,063.58	\$ 44,536,892.72

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

**TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010**

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	\$ 30,436,367.79
Grants and contracts	13,573,766.40
Sales and services of educational activities	6,536,823.84
Payments to suppliers and vendors	(27,613,701.73)
Payments to employees	(65,225,106.56)
Payments for benefits	(19,549,733.09)
Payments for scholarships and fellowships	(16,597,409.91)
Loans issued to students	(644,657.97)
Collection of loans from students	379,481.29
Interest earned on loans to students	23,556.36
Auxiliary enterprise charges:	
Residence halls	8,902,535.30
Bookstore	363,587.15
Food services	871,857.09
Wellness facility	975,968.67
Other auxiliaries	717,266.48
Other receipts (payments)	<u>852,653.94</u>
Net cash used by operating activities	<u>(65,996,744.95)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	45,309,000.00
Gifts and grants received for other than capital or endowment purposes, including \$533,777.56 from Tennessee Technological University Foundation	38,889,931.72
Private gifts for endowment purposes	145.00
Federal student loan receipts	31,030,020.60
Federal student loan disbursements	(31,030,180.72)
Changes in deposits held for others	29,391.89
Other noncapital financing receipts (payments)	<u>220,988.65</u>
Net cash provided by noncapital financing activities	<u>84,449,297.14</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	15,614,170.74
Capital appropriations	1,737,880.19
Capital grants and gifts received, including \$1,118,148.47 from Tennessee Technological University Foundation	2,452,337.56
Purchases of capital assets and construction	(24,462,851.56)
Principal paid on capital debt	(1,089,392.49)
Interest paid on capital debt	(748,594.13)
Other capital and related financing receipts (payments)	<u>(78,902.38)</u>
Net cash used by capital and related financing activities	<u>(6,575,352.07)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	490,382.56
Income on investments	403,029.32
Purchase of investments	<u>(5,076.00)</u>
Net cash provided by investing activities	<u>888,335.88</u>
Net increase in cash and cash equivalents	12,765,536.00
Cash and cash equivalents - beginning of year	<u>46,979,831.66</u>
Cash and cash equivalents - end of year	<u>\$ 59,745,367.66</u>

**TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010**

Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (72,225,366.89)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	6,410,519.75
Gifts in-kind	29,456.95
Other adjustments (Note 18)	115,110.50
Change in assets and liabilities:	
Receivables, net	92,338.13
Inventories	(23,162.63)
Prepaid/deferred items	(118,750.77)
Accounts payable	265,228.05
Accrued liabilities	(823,404.59)
Deferred revenue	668,289.34
Deposits	(1,473.20)
Compensated absences	14,709.45
Due to grantors	(298,170.22)
Loans to students and employees	(102,068.82)
Net cash used by operating activities	<u>\$ (65,996,744.95)</u>
Noncash investing, capital, or financing transactions	
Gifts in-kind - capital	\$ 29,743.80
Unrealized gains/losses on investments	\$ 30,192.40
Loss on disposal of capital assets	\$ (3,667.10)

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, 2010**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

The Tennessee Technological University Foundation is considered a component unit of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by 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. See Note 19 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

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

Basis of Accounting

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

Tennessee Board of Regents
Tennessee Technological University
Notes to the Financial Statements (Cont.)
June 30, 2010

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) certain 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) utilities, supplies, and other services; (4) scholarships and fellowships; and (5) depreciation.

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; (5) certain grants and contracts; and (6) gifts and nonexchange transactions.

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

Cash Equivalents

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

Inventories

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

Compensated Absences

The university's employees accrue annual 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.

Tennessee Board of Regents
Tennessee Technological University
Notes to the Financial Statements (Cont.)
June 30, 2010

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, and intangible assets, 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. The capitalization threshold for intangible assets is set at \$100,000.

These assets, with the exception of land, are depreciated/amortized 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:

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

**Tennessee Board of Regents
Tennessee Technological University
Notes to the Financial Statements (Cont.)
June 30, 2010**

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, 2010, cash consisted of \$7,567,901.25 in bank accounts, \$13,017.00 of petty cash on hand, \$51,087,776.00 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and \$1,076,673.41 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 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. INVESTMENTS

All investments permitted to be reported at fair value under GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment*

**Tennessee Board of Regents
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Notes to the Financial Statements (Cont.)
June 30, 2010**

Pools, are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

At June 30, 2010, the university had the following investments and maturities.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 to 5	6 to 10	More than 10
U.S. agencies	\$ 1,189,225.24	\$ 10,812.76	\$ 50,114.91	\$ 484,472.64	\$ 643,824.93
Collateralized mortgage obligations	3,821.08	-	-	3,821.08	-
Total	<u>\$ 1,193,046.32</u>	<u>\$ 10,812.76</u>	<u>\$ 50,114.91</u>	<u>\$ 488,293.72</u>	<u>\$ 643,824.93</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. The university does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; banker's acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool (LGIP). The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. Securities are rated using Standard and Poor's, Moody's, and/or Fitch and are presented below using the Standard and Poor's rating scale.

Tennessee Board of Regents policy restricts investments in banker's acceptances and commercial paper. The policy requires that prime banker's acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA

**Tennessee Board of Regents
Tennessee Technological University
Notes to the Financial Statements (Cont.)
June 30, 2010**

long-term debt rating by a majority of the ratings services that have rated the issuer. Prime banker's acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible, the original maturity must not be more than 270 days, and it must 1) arise out of the current shipment of goods between countries or with the United States, or 2) arise out of storage within the United States of goods under contract of sale or expected to move into the channel or trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

The policy requires that prime commercial paper shall be limited to that of corporations that meet the following criteria: 1) Senior long-term debt, if any, should have a minimum rating of A1 or equivalent, and short-term debt should have a minimum rating of A1 or equivalent, as provided by a majority of the rating services that rate the issuer. If there is no long-term debt rating, the short-term debt rating must be A1 by all rating services (minimum of two). 2) The rating should be based on the merits of the issuer or guarantee by a nonbank. 3) A financial review should be made to ascertain the issuer's financial strength to cover the debt. 4) Commercial paper of a banking institution should not be purchased. Prime commercial paper shall not have a maturity that exceeds 270 days.

At June 30, 2010, the university's investments were rated as follows:

<u>Investment Type</u>	<u>Credit Quality Rating</u>	
	<u>Fair Value</u>	<u>Unrated</u>
LGIP	\$ 52,164,449.41	\$ 52,164,449.41
Collateralized mortgage obligations	<u>3,821.08</u>	
Total	<u>\$ 52,168,270.49</u>	<u>\$ 52,168,270.49</u>

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

	<u>Fair Value June 30, 2010</u>
U.S. agencies	\$ 3,604.25
Collateralized mortgage obligation	3,821.08
LGIP	<u>346,744.86</u>
Total	<u>\$ 354,170.19</u>

**Tennessee Board of Regents
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Notes to the Financial Statements (Cont.)
June 30, 2010**

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, 2010, each having a fair value of \$1.166150, 188,579.31 units were owned by endowments, 7,486.81 units were owned by term endowments, and 107,642.80 units were owned by quasi-endowments.

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

<u>FY 2010</u>	<u>Pooled Assets</u>		Net Gains	Fair Value
	<u>Fair Value</u>	<u>Cost</u>	<u>(Losses)</u>	<u>Per Unit</u>
End of year	\$ 354,170.19	\$ 353,793.77	\$ 376.42	\$ 1.166150
Beginning of year	\$ 353,678.23	\$ 352,877.76	<u>800.47</u>	<u>\$ 1.171320</u>
				<u>\$ (0.005170)</u>
Unrealized net gains/(losses)			(424.05)	
Realized net gains/(losses)			<u>-</u>	
Total net gains/(losses)			<u>\$ (424.05)</u>	

The average annual earnings per unit, exclusive of net gains/(losses), were \$0.005289 for the year ended June 30, 2010.

NOTE 4. RECEIVABLES

Receivables included the following:

	<u>June 30, 2010</u>
Student accounts receivable	\$ 746,324.37
Grants receivable	4,772,932.11
Notes receivable	106,806.59
State appropriation receivable	152,900.00
Other receivables	<u>705,876.44</u>
Subtotal	6,484,839.51

**Tennessee Board of Regents
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Notes to the Financial Statements (Cont.)
June 30, 2010**

Less allowance for doubtful accounts (256,683.71)

Total receivables \$ 6,228,155.80

Federal Perkins Loan Program funds included the following:

June 30, 2010

Perkins loans receivable \$ 2,304,693.72

Less allowance for doubtful accounts (110,881.15)

Total \$ 2,193,812.57

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 1,257,868.94	\$ -	\$ -	\$ -	\$ 1,257,868.94
Land improvements and infrastructure	12,009,352.21	-	-	-	12,009,352.21
Buildings	119,789,853.54	3,097,305.46	3,785,402.59	-	126,672,561.59
Equipment	19,429,715.43	2,509,964.62	-	479,004.81	21,460,675.24
Library holdings	11,355,683.23	839,249.12	-	2,094,911.99	10,100,020.36
Intangible assets	3,018,031.68	31,125.02	-	-	3,049,156.70
Projects in progress	<u>11,261,633.14</u>	<u>17,682,545.22</u>	<u>(3,785,402.59)</u>	-	<u>25,158,775.77</u>
Total	<u>178,122,138.17</u>	<u>24,160,189.44</u>	-	<u>2,573,916.80</u>	<u>199,708,410.81</u>
Less accumulated depreciation:					
Land improvements and infrastructure	5,766,356.56	485,068.76	-	-	6,251,425.32
Buildings	65,594,506.99	3,188,116.45	-	-	68,782,623.44
Equipment	13,476,493.12	1,374,969.78	-	475,337.72	14,376,125.18
Library holdings	6,808,156.56	1,007,401.04	-	2,094,911.99	5,720,645.61

**Tennessee Board of Regents
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Notes to the Financial Statements (Cont.)
June 30, 2010**

Intangible assets	<u>757,567.81</u>	<u>354,963.72</u>	-	-	<u>1,112,531.53</u>
Total	<u>92,403,081.04</u>	<u>6,410,519.75</u>	-	<u>2,570,249.71</u>	<u>96,243,351.08</u>
Capital assets, net	<u>\$ 85,719,057.13</u>	<u>\$ 17,749,669.69</u>	<u>\$ -</u>	<u>\$ 3,667.09</u>	<u>\$103,465,059.73</u>

NOTE 6. ACCOUNTS PAYABLE

Accounts payable included the following:

	<u>June 30, 2010</u>
Vendors payable	\$ 1,139,299.95
Unapplied student payments	268,851.03
Other payables	<u>4,947.00</u>
Total accounts payable	<u>\$ 1,413,097.98</u>

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
TSSBA debt:					
Bonds	\$ 14,574,780.65	\$ 11,378.57	\$ 1,089,392.49	\$ 13,496,766.73	\$ 817,101.51
Commercial paper	<u>7,459,480.55</u>	<u>15,602,792.17</u>	-	<u>23,062,272.72</u>	-
Subtotal	<u>22,034,261.20</u>	<u>15,614,170.74</u>	<u>1,089,392.49</u>	<u>36,559,039.45</u>	<u>817,101.51</u>
Other liabilities:					
Compensated absences	3,277,162.53	1,514,802.30	1,500,092.85	3,291,871.98	743,075.38
Due to grantors	2,547,609.38	-	298,170.22	2,249,439.16	-
Net OPEB obligation	<u>3,125,762.00</u>	<u>1,253,538.86</u>	-	<u>4,379,300.86</u>	-
Subtotal	<u>8,950,533.91</u>	<u>2,768,341.16</u>	<u>1,798,263.07</u>	<u>9,920,612.00</u>	<u>743,075.38</u>
Total long-term liabilities	<u>\$ 30,984,795.11</u>	<u>\$ 18,382,511.90</u>	<u>\$ 2,887,655.56</u>	<u>\$ 46,479,651.45</u>	<u>\$ 1,560,176.89</u>

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Notes to the Financial Statements (Cont.)
June 30, 2010**

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 2.0% to 5.0%, were issued by the Tennessee State School Bond Authority (TSSBA). The 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; see Note 10 for further details. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities 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 \$509,477.62 at June 30, 2010. There were no unexpended debt proceeds at June 30, 2010.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2010, are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 817,101.51	\$ 649,862.96	\$ 1,466,964.47
2012	643,983.30	615,222.92	1,259,206.22
2013	667,791.18	590,262.57	1,258,053.75
2014	700,180.30	559,206.77	1,259,387.07
2015	730,539.03	529,870.93	1,260,409.96
2016 – 2020	4,220,516.65	2,116,416.75	6,336,933.40
2021 – 2025	3,628,145.26	1,026,917.82	4,655,063.08
2026 – 2030	1,414,447.10	387,841.72	1,802,288.82
2031 - 2032	<u>674,062.40</u>	<u>50,981.64</u>	<u>725,044.04</u>
Total	<u>\$ 13,496,766.73</u>	<u>\$ 6,526,584.08</u>	<u>\$ 20,023,350.81</u>

TSSBA Debt - Commercial Paper

The Tennessee State School Bond Authority issues commercial paper to finance the costs of various capital projects during their construction phase. When projects are placed in service, long-term, fixed-rate debt is issued by TSSBA to finance the project over its useful payback period and the commercial paper is redeemed. The amount issued for projects at the university was \$23,062,272.72 at June 30, 2010.

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Notes to the Financial Statements (Cont.)
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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.

More detailed information regarding the bonds and commercial paper can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report is available on the state's website at <http://www.comptroller1.state.tn.us/TSSBA/cafr.asp>.

NOTE 8. ENDOWMENTS

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

The university chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the university, only realized gains have been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2010, net appreciation of \$215,281.21 is available to be spent, of which \$13,718.18 is included in restricted net assets expendable for scholarships and fellowships, \$6,554.90 is included in restricted net assets expendable for instructional departmental uses, \$60,060.63 is included in restricted net assets expendable for loans, \$9,721.08 is included in restricted net assets expendable for other, and \$125,226.42 is included in unrestricted net assets.

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Notes to the Financial Statements (Cont.)
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NOTE 9. UNRESTRICTED NET ASSETS

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

	<u>June 30, 2010</u>
Working capital	\$ 774,317.69
Encumbrances	868,145.95
Designated fees	1,718,385.73
Auxiliaries	471,619.59
Quasi-endowment	125,226.42
Plant construction	8,229,951.09
Renewal and replacement of equipment	22,456,359.21
Debt retirement	455,747.66
Undesignated	<u>8,950,059.82</u>
 Total	 <u>\$ 44,049,813.16</u>

NOTE 10. PLEDGED REVENUES

The university has pledged certain revenues and fees, including state appropriations, to repay \$13,496,766.73 in revenue bonds issued from June 1976 to April 2009. Proceeds from the bonds provided financing for student housing, student wellness, energy performance, and administrative systems. The bonds are payable through 2032. Annual principal and interest payments on the bonds are expected to require 2% of available revenues. The total principal and interest remaining to be paid on the bonds is \$20,023,350.81. Principal and interest paid for the current year and total available revenues were \$1,777,901.12 and \$91,108,347.61, respectively.

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NOTE 11. PENSION PLANS

A. Defined Benefit Plans

1. 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 is available on the state's website at <http://www.state.tn.us/treasury/tcrs/index.html>.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 13.02% 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, 2010, 2009, and 2008 were \$3,038,943.48, \$3,320,996.40, and \$3,371,880.21. 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), ING 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,

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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 \$3,142,164.17 for the year ended June 30, 2010, and \$3,143,786.60 for the year ended June 30, 2009. Contributions met the requirements for each year.

NOTE 12. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible university retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-101, *Tennessee Code Annotated*, for the State Employee Group Insurance Plan and Section 8-27-701, *Tennessee Code Annotated*, for the Medicare Supplement Plan. Prior to reaching age 65, retirees may participate in the State Employee Group Plan. Members of this plan have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. The POS and HMO options will no longer be available to members after January 1, 2011. Subsequent to age 65, retirees who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the university's eligible retirees; see Note 18. The plans are reported in the state of Tennessee's *Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>.

Special Funding Situation

The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including

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Notes to the Financial Statements (Cont.)
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Tennessee Technological University. The state is the sole contributor for the university retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy

The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, retirees in the State Employee Group Plan pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 20 years but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium.

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

Annual required contribution (ARC)	\$ 2,217,000.00
Interest on the net OPEB obligation	140,659.29
Adjustment to the ARC	<u>(133,232.26)</u>
Annual OPEB cost	2,224,427.03
Amount of contribution	<u>970,888.17</u>
Increase (decrease) in net OPEB obligation	1,253,538.86
Net OPEB obligation – beginning of year	<u>3,125,762.00</u>
Net OPEB obligation – end of year	<u><u>\$ 4,379,300.86</u></u>

**Tennessee Board of Regents
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Notes to the Financial Statements (Cont.)
June 30, 2010**

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2010	State Employee Group Plan	\$ 2,224,427.03	43.65%	\$ 4,379,300.86
June 30, 2009	State Employee Group Plan	\$ 2,637,000.00	42.36%	\$ 3,125,762.00
June 30, 2008	State Employee Group Plan	\$ 2,603,000.00	38.31%	\$ 1,605,718.18

Funded Status and Funding Progress

The funded status of the university's portion of the State Employee Group Plan as of July 1, 2009, was as follows:

State Employee Group Plan

Actuarial valuation date	July 1, 2009
Actuarial accrued liability (AAL)	\$ 22,170,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$ 22,170,000.00
Actuarial value of assets as a percentage of the AAL	0.00%
Covered payroll (active plan members)	\$ 46,307,220.04
UAAL as percentage of covered payroll	47.88%

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

**Tennessee Board of Regents
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Notes to the Financial Statements (Cont.)
June 30, 2010**

Actuarial Methods and Assumptions

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

In the July 1, 2009, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6 percent initially, increased to 10 percent in the second year and then reduced by decrements to an ultimate rate of 5 percent in fiscal year 2021. All rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

NOTE 13. 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 amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years. 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 \$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

**Tennessee Board of Regents
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Notes to the Financial Statements (Cont.)
June 30, 2010**

fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2010, and June 30, 2009, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>. 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, 2010, the Risk Management Fund held \$114.5 million in cash and cash equivalents designated for payment of claims.

At June 30, 2010, the scheduled coverage for the university was \$553,384,900 for buildings and \$105,350,700 for contents.

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

NOTE 14. 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 \$25,677,697.37 at June 30, 2010.

**Tennessee Board of Regents
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Notes to the Financial Statements (Cont.)
June 30, 2010**

Operating Leases

The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were \$145,884.79 and for personal property were \$314,490.93 for the year ended June 30, 2010. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2010, outstanding commitments under construction contracts totaled \$5,567,153.34 for New Hall North, Central Cooling, Tech Village Renovation, and the Conditioning and Strength Center of which \$2,226,331.25 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 15. CHAIRS OF EXCELLENCE

The university had \$4,881,902.46 on deposit at June 30, 2010, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

NOTE 16. FUNDS HELD IN TRUST BY OTHERS

The university is a beneficiary under the CTC Charitable Lead Trust, Odom Family Trust, Odom 2nd Chance Trust, and the William Jenkins Estate Account. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received \$115,718.40 from these funds during the year ended June 30, 2010.

**Tennessee Board of Regents
Tennessee Technological University
Notes to the Financial Statements (Cont.)
June 30, 2010**

NOTE 17. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses by functional classification for the year ended June 30, 2010, are as follows:

<u>Functional Classification</u>	<u>Natural Classification</u>					
	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 32,717,539.29	\$ 9,662,668.28	\$ 5,604,017.32	\$ -	\$ -	\$ 47,984,224.89
Research	5,533,756.92	1,359,569.20	3,591,368.34	-	-	10,484,694.46
Public service	1,844,979.22	591,846.15	1,725,149.13	-	-	4,161,974.50
Academic support	6,162,248.25	2,206,961.76	(895,373.30)	-	-	7,473,836.71
Student services	5,566,194.49	2,027,371.26	4,813,888.61	-	-	12,407,454.36
Institutional Support	5,861,122.98	2,352,562.21	1,440,338.29	-	-	9,654,023.48
Operation & Maintenance	3,516,003.36	1,717,476.65	8,246,066.57	-	-	13,479,546.58
Scholarships & Fellowships	-	-	-	16,597,409.91	-	16,597,409.91
Auxiliary	2,127,782.80	837,962.08	3,337,805.80	-	-	6,303,550.68
Depreciation	-	-	-	-	6,410,519.75	6,410,519.75
Total	<u>\$ 63,329,627.31</u>	<u>\$ 20,756,417.59</u>	<u>\$ 27,863,260.76</u>	<u>\$ 16,597,409.91</u>	<u>\$ 6,410,519.75</u>	<u>\$ 134,957,235.32</u>

NOTE 18. ON-BEHALF PAYMENTS

During the year ended June 30, 2010, the State of Tennessee made payments of \$115,110.50 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 12. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>.

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 24-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,

**Tennessee Board of Regents
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Notes to the Financial Statements (Cont.)
June 30, 2010**

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, 2010, the foundation made distributions of \$1,681,669.83 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Tennessee Technological University, Office of the Vice President for Planning and Finance, P.O. Box 5037, Cookeville, TN 38505.

Cash and Cash Equivalents

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2010, cash and cash equivalents consisted of \$3,403,010.54 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$2,324,712.78 in custodial accounts of investment managers of the foundation.

Deposits

The foundation 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 required risks disclosures are presented in the *State of Tennessee's Treasurer's Report*. That report is available on the state's website at <http://www.tn.gov/treasury> or by calling (615) 741-2956.

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.

**Tennessee Board of Regents
Tennessee Technological University
Notes to the Financial Statements (Cont.)
June 30, 2010**

At June 30, 2010, the foundation had the following investments and maturities.

Investment Maturities (in Years)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>	<u>No Maturity Date</u>
U.S. Treasury	\$ 14,989.00	\$ -	\$ -	\$ -	\$ 14,989.00	\$ -
U.S. agencies	902,595.42	2,017.50	-	45,109.95	855,467.97	-
Corporate stocks	17,784,322.94	-	-	-	-	17,784,322.94
Corporate bonds	11,166,608.76	-	7,689,708.26	3,476,900.50	-	-
Mutual bond funds	23,082.43	-	-	-	-	23,082.43
Mutual equity funds	1,167,974.84	-	-	-	-	1,167,974.84
Land	2,620,000.00	-	-	-	-	2,620,000.00
Other:						
Exchange traded funds	739,317.20	-	-	-	-	739,317.20
Hedge funds	4,640,836.86	-	-	-	-	4,640,836.86
Total	<u>\$ 39,059,727.45</u>	<u>\$ 2,017.50</u>	<u>\$ 7,689,708.26</u>	<u>\$ 3,522,010.45</u>	<u>\$ 870,456.97</u>	<u>\$ 26,975,534.27</u>

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. The foundation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Securities are rated using Standard and Poor's, Moody's, and/or Fitch and are presented below using the Standard and Poor's rating scale. The foundation has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations.

At June 30, 2010, the foundation's investments were rated as follows:

Credit Quality Rating

<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>CCC</u>	<u>Unrated</u>
LGIP	\$ 3,403,010.54	\$ -	\$ -	\$ -	\$ -	\$ -	\$3,403,010.54
U.S. agencies	259,625.42	2,017.50	-	-	-	-	257,607.92
Corporate bonds	11,166,608.76	-	830,974.40	6,768,140.86	1,499,314.00	312,555.00	1,755,624.50
Mutual bond funds	23,082.43	-	-	-	-	-	23,082.43
Total	<u>\$ 14,852,327.15</u>	<u>\$ 2,017.50</u>	<u>\$ 830,974.40</u>	<u>\$ 6,768,140.86</u>	<u>\$ 1,499,314.00</u>	<u>\$ 312,555.00</u>	<u>\$5,439,325.39</u>

**Tennessee Board of Regents
Tennessee Technological University
Notes to the Financial Statements (Cont.)
June 30, 2010**

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

	<u>Fair Value June 30, 2010</u>
U.S. agencies	\$ 902,595.42
LGIP	3,403,010.54
Investment manager custodial accounts	2,274,007.76
Corporate stocks	17,558,348.01
Corporate bonds	11,166,608.76
Mutual funds	1,138,169.30
Land and other real estate	2,620,000.00
Other:	
Exchange traded funds	739,317.20
Hedge funds	<u>4,640,836.86</u>
Total	<u>\$ 44,442,893.85</u>

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, 2010, each having a fair value of \$103.1013185, 375,205.9228 units were owned by endowments, 44,215.0200 units were owned by term endowments, and 11,639.4405 units were owned by quasi-endowments.

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

<u>FY 2010</u>	<u>Pooled Assets</u>		<u>Net Gains (Losses)</u>	<u>Fair Value Per Unit</u>
	<u>Fair Value</u>	<u>Cost</u>		
End of year	\$ 44,442,893.85	\$ 42,960,066.01	\$ 1,482,827.84	\$ 103.101319
Beginning of year	\$ 39,876,019.08	\$ 39,729,864.28	<u>146,154.80</u>	<u>99.323766</u>
				<u>\$ 3.777553</u>
Unrealized net gains/(losses)			1,336,673.04	
Realized net gains/(losses)			<u>-</u>	
Total net gains/(losses)			<u>\$ 1,336,673.04</u>	

**Tennessee Board of Regents
Tennessee Technological University
Notes to the Financial Statements (Cont.)
June 30, 2010**

The average annual earnings per unit, exclusive of net gains, were \$6.593227 for the year ended June 30, 2010.

Alternative Investments

The foundation has investments in hedge funds. The estimated fair value of these assets is \$4,640,836.86 at June 30, 2010.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2010. Because these investments are not readily marketable, the estimated value is subject to uncertainty, and therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using an industry-recognized pricing service.

Capital Assets

Capital asset activity for the year ended June 30, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 147,354.71	\$ 93,000.00	\$ -	\$ -	\$ 240,354.71

Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables: Notes	\$ 698,888.90	\$ -	\$ 75,370.35	\$ 623,518.55	\$ 82,222.20

Notes payable - The foundation borrowed funds to gift funds to the university for the STEM Center. The note is interest-free, with payments of \$6,851.85 due monthly

**Tennessee Board of Regents
Tennessee Technological University
Notes to the Financial Statements (Cont.)
June 30, 2010**

through January 2018. The balance owed by the foundation was \$623,518.55 at June 30, 2010.

Debt service requirements to maturity for notes payable at June 30, 2010, are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>
2011	\$ 82,222.20
2012	82,222.20
2013	82,222.20
2014	82,222.20
2015	82,222.20
2016 – 2018	<u>212,407.55</u>
	<u>\$ 623,518.55</u>

Endowments

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

The foundation chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, a percentage (as defined by the foundation) of the book value of the endowment or a percentage of the actual earnings as designated by the donor has been authorized for expenditure. The remaining amount, if any, becomes part of the permanent endowment.

**Tennessee Board of Regents
Tennessee Technological University
Notes to the Financial Statements (Cont.)
June 30, 2010**

Related Parties

Wendell J. Long and Frances C. Long loaned the foundation \$500,000 from the William Benton and Fanalou Whitson Carlen Memorial Scholarship endowment to fund the new Center for Science, Technology, Engineering, and Mathematics building. The funds were transferred to the university to meet the state's minimum funding requirement to begin construction. During the period of this loan, the Tennessee Technological University Foundation agrees to annually fund the William Benton and Fanalou Whitson Carlen Memorial Scholarship in an amount equal to five (5) percent of the borrowed amount. The funds will be returned to the endowment as monies for the STEM Center are generated through additional donations.

**Tennessee Board of Regents
Tennessee Technological University
Required Supplementary Information
OPEB Schedule of Funding Progress
Unaudited**

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2009	State Employee Group Plan	\$ 0.00	\$22,170,000.00	\$22,170,000.00	0.0%	\$46,307,220.04	47.9%
July 1, 2007	State Employee Group Plan	\$ 0.00	\$24,665,000.00	\$24,665,000.00	0.0%	\$51,026,207.35	48.3%

**TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
SUPPLEMENTARY SCHEDULE OF CASH FLOWS - COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2010**

CASH FLOWS FROM OPERATING ACTIVITIES

Gifts and contributions	\$ 1,565,954.65
Sales and services of educational activities	764,847.23
Payments to suppliers and vendors	(1,256,415.63)
Payments for scholarships and fellowships	(1,217,028.03)
Payments to Tennessee Technological University	(1,651,926.03)
Net cash used by operating activities	<u>(1,794,567.81)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Private gifts for endowment purposes	<u>1,650,009.39</u>
Net cash provided by noncapital financing activities	<u>1,650,009.39</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital grants and gifts received	609,775.00
Purchases of capital assets and construction	(24,343.80)
Principal paid on capital debt	(75,370.35)
Other capital and related financing receipts (payments)	(6,577.78)
Net cash provided by capital and related financing activities	<u>503,483.07</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	15,943,134.82
Gain on investments	1,220,288.45
Purchases of investments	(18,733,805.52)
Other investing receipts (payments)	133,513.04
Net cash used by investing activities	<u>(1,436,869.21)</u>
Net decrease in cash and cash equivalents	(1,077,944.56)
Cash and cash equivalents - beginning of year	<u>6,805,667.88</u>
Cash and cash equivalents - end of year	<u>\$ 5,727,723.32</u>

Reconciliation of operating loss to net cash used by operating activities:

Operating loss	\$ (1,779,564.42)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Gifts in-kind	29,743.80
Changes in assets and liabilities:	
Receivables, net	16,648.37
Accounts payable	(61,395.56)
Net cash used by operating activities	<u>\$ (1,794,567.81)</u>

Noncash investing, capital, or financing transactions

Gifts in-kind - capital	\$ 98,400.00
Unrealized losses on investments	\$ 1,361,447.33
Capital assets transferred to TTU	\$ 29,743.80