# AUDIT REPORT

**Tennessee Board of Regents**
**Tennessee Technological University**

**For the Year Ended**
**June 30, 2012**

## STATE OF TENNESSEE

**COMPTROLLER OF THE TREASURY**

**Department of Audit**

**Division of State Audit**

Tennessee Comptroller of the Treasury

*Deborah V. Loveless, CPA, CGFM*
Director

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Assistant Director

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

*James Falbe, CISA*
In-Charge Auditor

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Staff Auditors

*Gerry Boaz, CPA, CGFM*
Technical Manager

*Amy Brack*
Editor

*Amanda Adams*
Assistant Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-1402
(615) 401-7897

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STATE OF TENNESSEE
**COMPTROLLER OF THE TREASURY**
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

October 30, 2013

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. Philip B. Oldham, 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, 2012. 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 findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

DVL/jlp
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State of Tennessee

# Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit
**Tennessee Technological University**
For the Year Ended June 30, 2012

## 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 FINDINGS

**Tennessee Technological University did not routinely compare commission receipts with the food services contract to ensure compliance, resulting in the university not recording revenues of approximately $825,000 over the course of four years**
Based on our review of the university's contract with its food services vendor, commission calculations were not made in accordance with the terms of the contract. As a result, the university did not receive approximately $825,000 in commissions earned.

**The university did not provide adequate access controls over the Banner computer system, which increased the risk of fraud or error**
Management of the university's Information Technology Services (ITS) group did not design and monitor adequate internal controls over access to its Banner computer system.

## 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, 2012

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# Tennessee Board of Regents
# Tennessee Technological University
# For the Year Ended June 30, 2012

## 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 bachelor's degrees. 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 School 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, 2011, through June 30, 2012, 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, 2012. 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.

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

## PRIOR AUDIT 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 November 7, 2012. A follow-up of the prior audit finding was conducted as part of the current audit. The current audit disclosed that the university has corrected the previous audit finding concerning lack of adequate control over two areas of Information Technology security.

## 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 controls 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, 2012, 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. Significant deficiencies, along with recommendations and management's responses, are detailed in the Findings and Recommendations section. Consideration of internal control over financial reporting disclosed no material weaknesses.

### 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.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

## Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

August 16, 2013

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. Philip B. Oldham, 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, 2012, and have issued our report thereon dated August 16, 2013. 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**

Management of the university is responsible for establishing and maintaining effective 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

- Tennessee Technological University did not routinely compare commission receipts with the food services contract to ensure compliance, resulting in the university not recording revenues of approximately $825,000 over the course of four years.
- The university did not provide adequate access controls over the Banner computer system, which increased the risk of fraud or error.

These deficiencies are described in the Findings and Recommendations section of this report.

August 16, 2013
Page Three

**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.

We noted certain matters that we reported to the management of Tennessee Technological University in a separate letter.

Tennessee Technological University's responses to the findings identified in our audit are included in the Findings and Recommendations section of this report. We did not audit the university's responses and, accordingly, we express no opinion on them.

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,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

DVL/jlp

## Findings and Recommendations

### 1. **Tennessee Technological University did not routinely compare commission receipts with the food services contract to ensure compliance, resulting in the university not recording revenues of approximately $825,000 over the course of four years**

#### Finding

Tennessee Technological University (TTU) contracts with a vendor (referred to as the "Contractor" in the contract) to provide food services to the campus' students, faculty, and visitors. The contract gives the vendor the right to collect funds from those who use the services and gives TTU the right to collect a commission on the funds collected. The fiscal year ended June 30, 2012, was the fourth year of the contract.

When we reviewed the contract and the commissions calculated by the vendor, we noticed that the calculations were not made in accordance with the terms of the contract. The commissions each year should be the greatest of the following:

- the amount listed as the guaranteed commission for that contract year;
- the prior year's commission amount paid by the Contractor; or
- the amount listed as the guaranteed commission for that contract year plus the applicable additional percentage times the amount that actual gross sales exceeds the gross sales base listed for that contract year.

The guaranteed commission, the applicable additional percentage, and the gross sales base were listed by year in the contract. As the years into the contract progressed, all three figures increased.

For each of the four years of the contract to date, the calculation that would result in the greatest amount would be the third option listed above. However, the vendor was calculating the commissions based on a progressive percentage of the gross sales base. As a result of this departure from the contract's terms, the vendor did not remit $825,900.75 that the university earned during the first four years of the contract.

We discussed this issue with the Vice President for Business and Planning and the Director of Auxiliaries. The current contract is, at a minimum, the second contract that the university has had with this vendor. We did not review the prior contract; however, according to the Director of Auxiliaries, the vendor calculated the commissions in accordance with the prior contract.

Although the Director did prepare her own calculations of the commissions expected each month and at the end of the fiscal year from the vendor, she did not have a copy of the contract and used the calculation instructions from the prior contract. She did not compare her calculations or the vendor's calculations with the terms of the current contract. As she was using the same flawed methodology to prepare the calculations, she was expecting the commission revenues to be the amounts ultimately sent by the vendor. She did not notice the discrepancy between the calculations and the contract.

As a result of the lack of complete and effective monitoring for compliance with the contract, TTU did not promptly realize that the vendor was not remitting the full commission owed to the university. Revenues for the fiscal year ended June 30, 2012, were understated by $235,203.74. Revenues for the previous three fiscal years were understated by $590,697.01. An audit adjustment was made to increase beginning net assets and to recognize the understated revenue for the year ended June 30, 2012. The audit adjustment also established an accounts receivable of $825,900.75 for the uncollected commissions.

## Recommendation

The Vice President for Business and Planning should develop a policy to ensure that copies of all new contracts are distributed to those persons responsible for monitoring compliance with the contract and that those persons are monitoring compliance with the contract on a regular basis. The Director of Auxiliaries should ensure TTU staff performs commission recalculations, reconciliations, and other forms of monitoring in accordance with the contract. Any calculations or reconciliations should be reviewed by a person independent of the process. TTU staff should also review all revenue-generating contracts to ensure those who monitor for compliance have current contract information. TTU should also pursue collection of underpayments from the vendor.

## Management's Comment

We concur with the finding and recommendation. Procedures have been put into place to provide contract monitors with the most recent contracts available. Commissions in addition to the guarantee will be calculated using a software program, RevenueVision. The Director of Auxiliaries will ensure that commission recalculations, reconciliations, and other forms of monitoring are performed in accordance with the contract. A summary of commission payments received from auxiliary vendors is provided to the Vice President for Planning and Finance on a monthly basis. This notification includes monthly payments toward the minimum guarantee and will include detailed calculations of additional amounts due at year-end, once final sales numbers are available. The Vice President is also notified when these additional payments are received. Arrangements have been made with the vendor to collect the additional commissions that are due.

## 2. **<u>The university did not provide adequate access controls over the Banner computer system, which increased the risk of fraud or error</u>**

### Finding

Management of the university's Information Technology Services (ITS) group did not design and monitor adequate internal controls over access to its Banner computer system. We observed two conditions that were in violation of university policy and/or industry-accepted best practices. The lack of proper access controls across the university's computing environment increases the risk of unauthorized system activity, including fraud or error.

The wording of this finding does not identify specific vulnerabilities that could allow someone to exploit the university's systems. Disclosing those vulnerabilities could present a potential security risk by providing readers with information that might be confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated.* We provided the university with detailed information regarding the two conditions we identified, as well as our recommendations for improvement.

### Recommendation

The Chief Information Officer (CIO) should ensure that these two conditions are remedied by the prompt development and implementation of effective access controls. In addition, the CIO should ensure that risks associated with this finding are adequately identified and assessed in the university's documented risk assessment. The CIO should implement effective controls to ensure compliance with applicable requirements, assign staff to be responsible for ongoing monitoring of the risks and mitigating controls, and take action if deficiencies occur.

### Management's Comment

We concur with the finding and recommendation. A corrective action plan has been developed and is being implemented that will remedy the conditions identified by State Audit. The risks associated with this finding have been identified and addressed in Information Technology's documented risk assessment, which includes controls that mitigate the risks and identifies the staff responsible for those controls.

STATE OF TENNESSEE
**COMPTROLLER OF THE TREASURY**
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

## Independent Auditor's Report

August 16, 2013

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. Philip B. Oldham, 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, 2012, 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, 2012, 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, 2012, 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 22, the financial statements of Tennessee Technological University Foundation, a discretely presented component unit of Tennessee Technological University, include investments valued at $6,310,124.35 (12% 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 32 and the schedule of funding progress on page 67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of

America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The accompanying financial information on page 68 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of the university's management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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 August 16, 2013, 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,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

DVL/jlp

# 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, 2012, with comparative information presented for the fiscal year ended June 30, 2011. 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 Technological University**
**Net Assets**
**(in thousands of dollars)**

| | 2012 | 2011 |
|---|---|---|
| **Assets:** | | |
| Current assets | $ 37,908 | $ 34,069 |
| Capital assets, net | 113,822 | 112,631 |
| Other assets | 62,090 | 55,857 |
| **Total Assets** | **213,820** | **202,557** |
| **Liabilities:** | | |
| Current liabilities | 15,632 | 13,259 |
| Noncurrent liabilities | 53,490 | 51,705 |
| **Total Liabilities** | **69,122** | **64,964** |
| **Net Assets:** | | |
| Invested in capital assets, net of unrelated debt | 68,954 | 69,085 |
| Restricted – nonexpendable | 176 | 196 |
| Restricted – expendable | 4,454 | 5,285 |
| Unrestricted | 71,114 | 63,027 |
| **Total Net Assets** | **$ 144,698** | **$ 137,593** |

- The assets of the university increased by 6% from 2011 to 2012. Current assets increased 11%, other assets increased 11%, and capital assets that make up the majority of the dollar volume increased 1%.

- Current assets increased $3,839,718 mostly due to cash increasing $2,376,274. Cash in the amount of $1,609,752, to cover the current portion of long-term debt, was transferred from noncurrent assets. Receivables also increased $825,901 due to a prior period adjustment for commissions from the university's food services provider and $443,175 at June 30 due to a new Regent's Online Degree Program marketing contract. The remainder is due to an increase in prepaid expenses for the year.

- The primary increase in other assets is in noncurrent cash. Current funds in the amount of $6,688,782 were designated for various capital projects. Auxiliary profits were designated for renewal and replacement reserves. Major projects include various academic building upgrades, residential halls and Living Learning Village renovations, and other small renovation projects.

- Capital assets increased 1%. Property acquisitions of $2,750,907, construction and upgrades to Tech Village Apartments, building upgrades to Henderson and T. J. Farr, Athletic Performance Center, IT Infrastructure, and residential hall upgrades totaled $4,824,250. Current equipment additions were $1,948,709.

- The university's increase in liabilities from 2011 to 2012 was 6%. Current liabilities increased 18%, while noncurrent liabilities increased 3%.

- The increase in current liabilities is primarily due to timing of payroll deposits in fiscal year 2012 compared to fiscal year 2011.

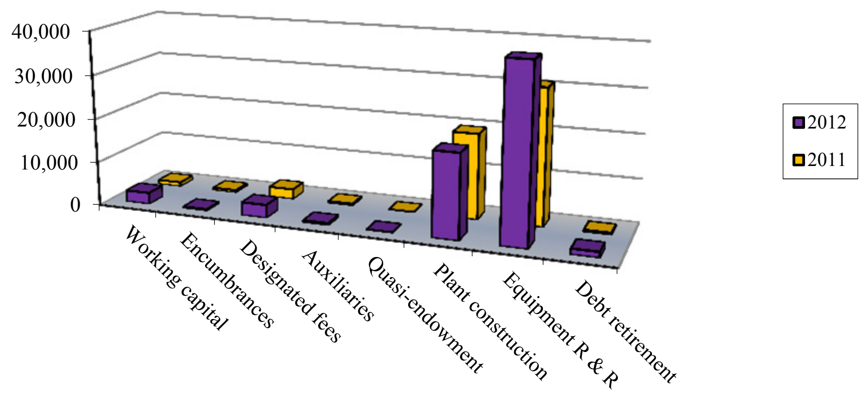
- Noncurrent liabilities include increases in accrued OPEB and long-term debt related to construction projects. Long-term liabilities related to OPEB increased $600,140. The university incurred additional long-term debt of $1,322,279.25 to renovate on-campus student housing.

- The increase in net assets of 5% from 2011 to 2012 was due to a $5,103,786.02 excess of total revenues over expenses.

- Restricted expendable net assets decreased 16%, and unrestricted net assets increased 13%. This change is primarily due to reclassification of $1,290,794 designated for retirement of indebtedness in excess of the current debt service requirement and an adjustment of $825,901 for commission fees from the university's food service provider.

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:

## Unrestricted Net Assets
**(in thousands of dollars)**




- Funds designated for working capital increased $1,648,221 (169%) in 2012 compared to 2011 to cover increases in accounts receivables, prepaid expenses, and inventory. Funds designated for encumbrances decreased $201,863 (36%). Designated fees increased $676,182 (29%) with the biggest increase due to unspent Technology Access Fees and Student Activity Fees. Funds designated for renewal and replacement of equipment and facilities increased $8,649,684 (28%) in 2012 as a result of the transfer of profits from auxiliaries and from E&G transfers. Transfers include funds for renovations to student housing and various other academic and administrative building renovations. Funds designated for debt retirement in excess of current debt service requirements increased $799,817.

### Component Unit
### Net Assets
**(in thousands of dollars)**

| | 2012 | 2011 |
|---|---|---|
| **Assets:** | | |
| Current assets | $ 748 | $ 810 |
| Capital assets, net | 240 | 240 |
| Other assets | 52,240 | 52,974 |
| **Total Assets** | **53,228** | **54,024** |

| | | |
|---|---|---|
| **Liabilities:** | | |
| Current liabilities | 85 | 94 |
| Noncurrent liabilities | 377 | 452 |
| **Total Liabilities** | **462** | **546** |
| | | |
| **Net Assets:** | | |
| Invested in capital assets, net of unrelated debt | 240 | 240 |
| Restricted – nonexpendable | 38,084 | 40,702 |
| Restricted – expendable | 14,220 | 12,265 |
| Unrestricted | 222 | 271 |
| **Total Net Assets** | **$ 52,766** | **$ 53,478** |

- Current assets of the component unit decreased by 8% from 2011 to 2012. Current cash decreased by $68,046 as a result of increased operating cost.

- Other assets decreased by 1%, or $733,382, from 2011 to 2012 due to the net change in noncurrent cash and investments. Noncurrent cash increased for items not reinvested, and investments decreased due to market conditions.

- A 15% decrease in total liabilities was related to the principal payments on long-term debt of $75,370.

- A reclassification of some nonexpendable endowments to expendable quasi-endowments resulted in net assets change of $1,271,464 in these two categories. Additional permanent endowment gifts of $940,109 increased restricted nonexpendable and additional restricted expendable gifts of $2,033,745 increased restricted expendable assets. The addition of gift funds as noted above were offset by a $2,703,165 unrealized loss in fair market value of investments, resulting in no material change in total assets of the foundation during the fiscal year.

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

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

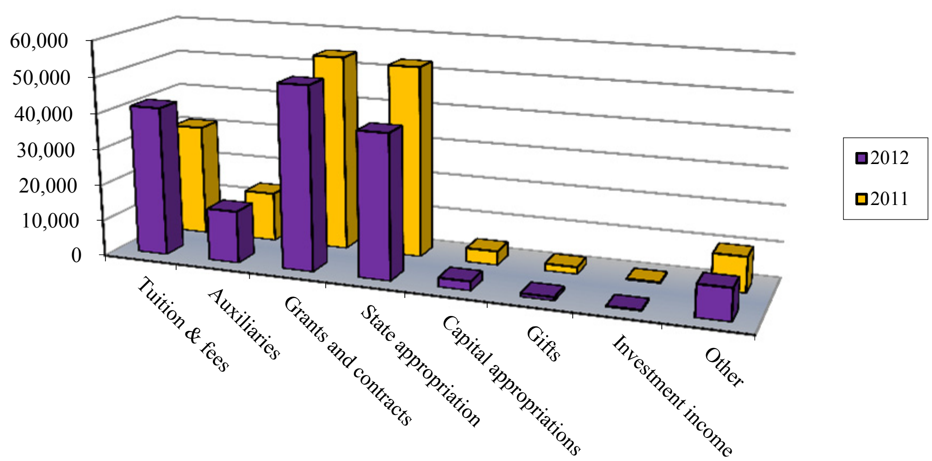
**Tennessee Technological University**
**Changes in Net Assets**
**(in thousands of dollars)**

| | 2012 | 2011 |
|---|---|---|
| **Operating revenues:** | | |
| Net tuition and fees | $ 41,419 | $ 31,151 |
| Grants and contracts | 11,195 | 14,211 |
| Auxiliary | 14,520 | 13,739 |
| Other | 8,686 | 7,777 |
| **Total operating revenues** | **75,820** | **66,878** |
| Operating expense | 151,231 | 143,363 |
| **Operating loss** | **(75,411)** | **(76,485)** |
| **Nonoperating revenues and expenses:** | | |
| State appropriations | 39,920 | 53,046 |
| Gifts | 694 | 841 |
| Grants & contracts | 39,566 | 39,749 |
| Investment income | 294 | 354 |
| Interest on capital asset debt | (1,478) | (1,324) |
| Other revenues and (expenses) | 68 | (43) |
| **Total nonoperating revenues and expenses** | **79,064** | **92,623** |
| **Income before other revenues, expenses, gains or losses** | **3,653** | **16,138** |
| **Other revenues, expenses, gains or losses:** | | |
| Capital appropriations | 2,526 | 3,907 |
| Capital grants and gifts | 334 | 1,422 |
| Additions to permanent endowments | 1 | 1 |
| **Total other revenues, expenses, gains or losses** | **2,861** | **5,330** |
| **Increase in net assets** | **6,514** | **21,468** |
| **Net assets at beginning of year** | **137,593** | **116,125** |
| **Prior period adjustment** | 591 | - |
| **Net assets at end of year** | **$ 144,698** | **$ 137,593** |

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, 2012, and June 30, 2011.

**Revenues by Source**
**(in thousands of dollars)**




- The university's total revenues decreased 4% from 2011 to 2012. A decrease of 25%, or \$13,126,369, in state appropriations made up the majority of the revenue decrease from 2011 to 2012. During 2011, nonrecurring Maintenance of Effort funds in the amount of \$10,559,400 were available to support university operations. These funds were not re-appropriated for fiscal year 2012. Additionally, nonrecurring appropriations of \$2,417,100 designated in fiscal year 2011 as a 3% employee bonus were no longer available for fiscal year 2012. In fiscal year 2012, the state imposed an additional reduction in state appropriations of 2% (\$825,900) to the university's state appropriations. Phase-in of the new outcomes formula was offset by the phase-out of the enrollment based hold-harmless, resulting in an additional \$601,200 reduction in state appropriations in fiscal year 2012. The university received $623,600 in nonrecurring state appropriations to assist with the transition to the new formula.

- Tuition and fees net of the scholarship allowance increased $10,267,623.48 (approximately 33%) due to a tuition increase of approximately 9% and an enrollment increase of approximately 1.8%. Out-of-state tuition increased $2,438,994 (46%) due to a significant increase in international students. In-state tuition increased $6,115,426 (12%), and revenues from student activity fees increased $950,208 due to an increase in the fee for health services and the student success fee applied to an increasing enrollment. The student success fee supports the implementation and continuation of the student living and learning villages.

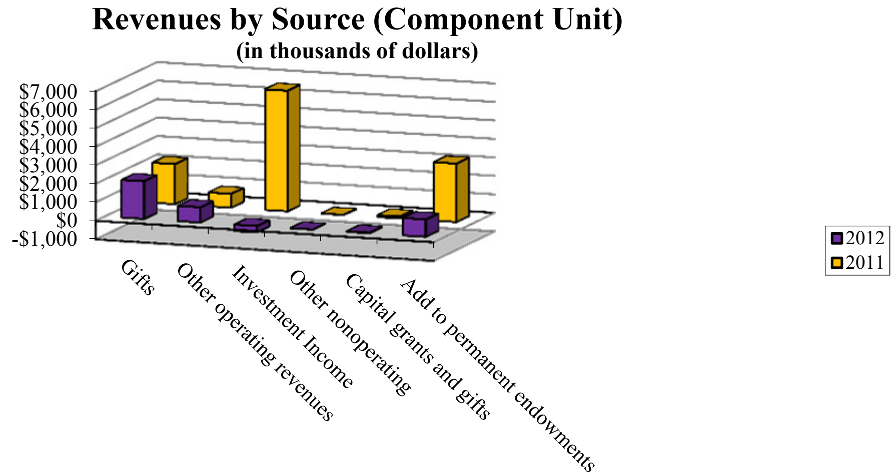
- Auxiliary revenues increased approximately 6% due to rate increases in housing and food services as well as increasing enrollments.

- Capital appropriations decreased by $1,381,350 in 2012. This decrease is directly attributable to fewer capital maintenance projects being funded by state dollars. The buildings upgrade project was the most significant in 2012.

- Capital gifts and grants decreased by $1,086,038 due to a reduced emphasis on third-party funded capital projects. Ownership of a state-owned regional health building (Southwest Hall) was transferred to the university in 2011 in the amount of $833,513. No similar transfer occurred in fiscal year 2012. Equipment grants for the Center for Science, Technology, Engineering, and Mathematics in 2011 in the amount of $205,676 were not available in 2012.

### Component Unit
### Changes in Net Assets
(in thousands of dollars)

| | 2012 | 2011 |
|---|---|---|
| **Operating revenues:** | | |
| Gifts | $ 2,034 | $ 2,170 |
| Other operating revenues | 823 | 752 |
| **Total operating revenues** | **2,857** | **2,922** |
| Operating expenses | 4,200 | 3,763 |
| **Operating loss** | **(1,343)** | **(841)** |
| **Nonoperating revenues and expenses:** | | |
| Investment income | (344) | 6,522 |
| Other revenue (expenses) | 4 | (5) |
| **Total nonoperating revenues and expenses** | **(340)** | **6,517** |
| **Income (loss) before other revenues, Expenses, gains or losses** | **(1,683)** | **5,676** |
| **Other revenues, expenses, gains or losses:** | | |
| Capital grants and gifts | 31 | 104 |
| Additions to permanent endowments | 940 | 3,161 |
| **Total other revenues, expenses, gains or losses** | **971** | **3,265** |
| **Increase (decrease) in net assets** | **(712)** | **8,941** |
| **Net assets at beginning of year** | **53,478** | **44,537** |
| **Net assets at end of year** | **$ 52,766** | **$ 53,478** |




- Operating revenues of the component unit decreased by 2%, primarily as the result of a 6%, or $136,572, decrease in donor-provided operating gifts offset by a 9%, or $71,414, increase in other operating revenues. Both are normal fluctuations in revenues.

- Investment income decreased 105%, or $6,865,049. Due to market conditions, fiscal year 2012 investment income is composed of a $2,703,165 unrealized loss, while fiscal year 2011 had a $2,898,958 unrealized gain in the endowment pool. Fiscal year 2012 has an $896,663 realized gain compared to fiscal year 2011, which included a $2,343,768 realized gain. The remaining change is the difference in dividend, interest income, and investment expense in 2012 compared to 2011.

- Capital grants and gifts decreased by 70% due to a decreased emphasis on fund-raising activities for capital projects in 2012. The Nursing and Health Services building and Athletic Performance Center fund-raising activities concluded in 2011, causing a decrease of $61,540.

- Additions to permanent endowments decreased by 70%, primarily as the result of gifts from two donors totaling $2,180,000 received in fiscal year 2011. Comparatively, similar gifts received in fiscal year 2012 were $940,100.

Expenses

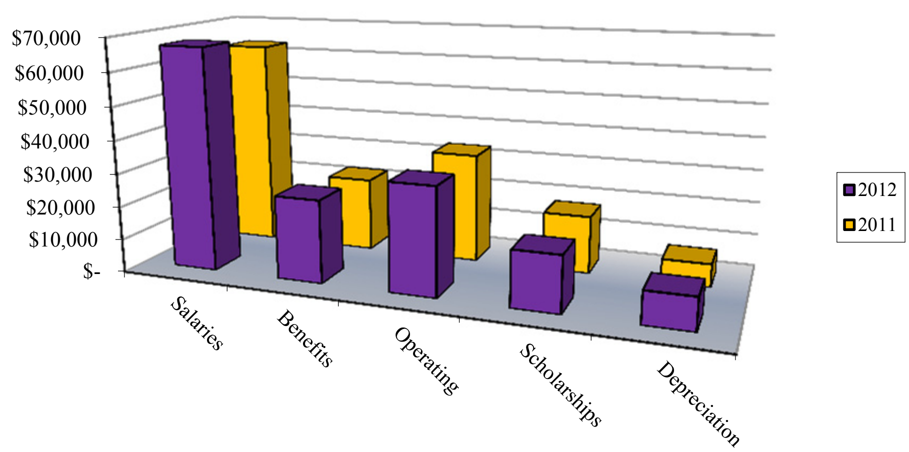
Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below.

*Natural Classification*

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

| | 2012 | 2011 |
|---|---|---|
| Salaries | $ 67,113 | $ 63,108 |
| Benefits | 25,061 | 22,529 |
| Operating | 32,472 | 33,240 |
| Scholarships | 16,851 | 17,513 |
| Depreciation | 9,734 | 6,973 |
| Total expenses | $ 151,231 | $ 143,363 |

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




- Expenses increased from 2011 to 2012 by 5%. The primary increase occurred in salaries and depreciation expense. Salaries increased 6%, or $4,004,941. This increase was primarily the result of a 3% cost-of-living adjustment; compensation plan increases and promotions; and a one-time bonus. Corresponding benefits increased $2,532,407. Depreciation expense increased 40%, or $2,761,215, attributable to library periodicals being fully depreciated in 2012 after a change in the estimated useful life. All other changes were less than 6%.

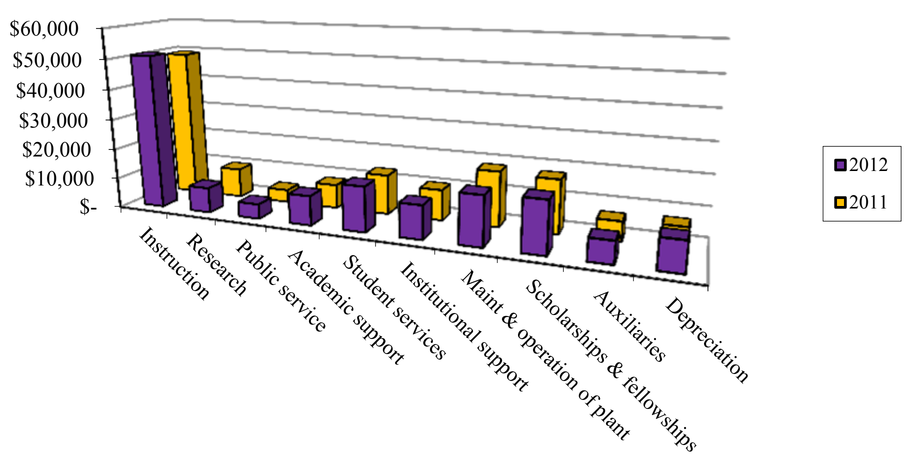
*Program Classification*

**Tennessee Technological University**
**Program Classification of Operating Expenses**

**(in thousands of dollars)**

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Instruction | $ | 52,065 | $ | 49,179 |
| Research | | 8,699 | | 9,747 |
| Public service | | 4,860 | | 4,166 |
| Academic support | | 9,714 | | 7,900 |
| Student services | | 14,924 | | 13,138 |
| Institutional support | | 11,048 | | 10,137 |
| Maintenance and operation | | 16,181 | | 18,128 |
| Scholarships and fellowships | | 16,851 | | 17,513 |
| Auxiliaries | | 7,155 | | 6,482 |
| Depreciation | | 9,734 | | 6,973 |
| Total expenses | $ | 151,231 | $ | 143,363 |

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




- From 2011 to 2012, the university had an overall 5% increase in expenses.

- Instruction was the largest increase for a total of 37% of the change, due to an increase in benefits related to an adjustment to scholarship allowances. This increase was also the result of a 3% cost-of-living adjustment; compensation plan increases and promotions; and a one-time bonus.

- The depreciation expense increase accounted for 35% of the total change as explained in the natural classification section.

- Maintenance and operation of plant accounted for a decrease of 25% in the total change, due to fewer noncapital maintenance projects in 2012. More projects were capitalized as major renovations are occurring across campus.

- Academic support accounted for 23% of the total change, with 47% of the change related to the salary and benefit increases previously described. The remainder is related to various operating increases, with the largest increase being $677,108 due to the change in estimated useful life of periodicals, as explained in Note 5 to the financial statements. All periodicals are now expensed when purchased.

- Student services accounted for 23% of the total change, with 57% of the change related to the salary increases. Operating increases make up the balance of increases, with Intercollegiate Athletics having 53% of the increase ($377,273) funded by an offsetting increase in athletics-specific revenues. The remaining increase in operating expenses can be attributed to an increase in student-activity-related expenses, including an increase in the Student Organization Life Opportunity (SOLO) Fund expenses. The SOLO Fund was implemented in fiscal year 2011; however, full funding was not available to expend until fiscal year 2012.

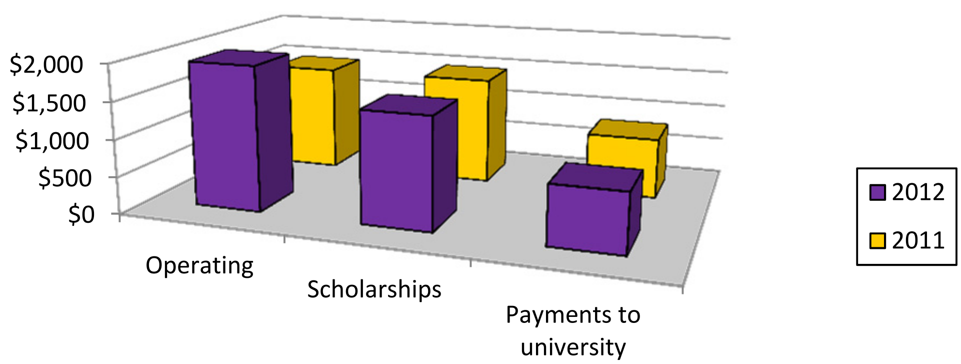
- Research had an 11% decrease from the prior year in expenses that resulted from a decrease in the volume of research grant activity. This accounted for a negative 13% of the total change in current-year expenditures.

*Natural Classification*

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

| | 2012 | 2011 |
|---|---|---|
| Operating | $ 1,919 | $ 1,471 |
| Scholarships | 1,495 | 1,473 |
| Payments to university | 786 | 819 |
| | $ 4,200 | $ 3,763 |

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




- Payments to the university decreased by 4%. See Note 22 of the financial statements for the component unit for additional information related to payments made to the university. Operating expenses increased 30%, partially due to recognition of a $225,592 increase in gifts in-kind consumed and expended during the year. Additional increases were due to a $55,155 increase in expenses recorded for non-cash sponsorships related to athletic events. Scholarships increased 1% due to normal operating fluctuations.

## Capital Assets and Debt Administration

*Capital Assets*

At June 30, 2012, Tennessee Technological University had $113,821,999 invested in capital assets, net of accumulated depreciation of $104,924,401. Depreciation charges totaled $9,733,961 for the current fiscal year. Details of these assets are shown below.

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

| | 2012 | 2011 |
|---|---|---|
| Land | $ 2,027 | $ 1,258 |
| Land improvements & infrastructure | 10,598 | 7,596 |
| Buildings | 87,677 | 81,670 |
| Equipment | 7,770 | 7,461 |
| Library holdings | 1,366 | 4,259 |
| Intangible assets | 1,671 | 1,573 |
| Projects in progress | 2,713 | 8,814 |
| Total Capital Assets, Net of Depreciation | $ 113,822 | $ 112,631 |

The university had 12 projects that increased the capital assets by $8,537,702 during fiscal year 2012. The Tech Village Apartment renovations, several buildings' upgrades, and property purchase were the largest. Another $2,437,403 in equipment, library holdings, and software were capitalized during the year.

The university plans to complete approximately $25,320,000 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 | 1,610 | State appropriations |
| Several Building Reroofs | 1,800 | State appropriations/auxiliary revenue |
| IT Infrastructure | 800 | Local reserves |
| Athletic Performance Center Parking | 560 | Athletic revenue |
| Several Building Renovations Phase II | 5,610 | State appropriations & local reserves |
| Southwest Hall Renovation | 2,050 | Local reserves |
| Intramural Sports and Activities Building | 100 | Fitness Center revenues |

| | | |
|---|---|---|
| Athletic Maint. & Storage Facility | 370 | Athletic revenue |
| Pinkerton & M.S. Cooper Res Hall Upgrade | 2,580 | Housing revenue |
| Living Learning Village Res Hall Renovations | 900 | Housing revenue |
| Hooper Eblen Center Scoreboard | 900 | Athletic revenue |
| Tech Village Apt. Renovation Phase II | 5,200 | TSSBA bonds/housing revenue |
| Craft Center Guardrail | 270 | State appropriations |
| Storm Sewer Replacement | 350 | Local reserves |
| UC South Patio & Front Step | 120 | State appropriations |
| Parking and Paving | 250 | Local reserves |
| Peachtree Street Improvements | 560 | Local reserves |
| Foundation Hall Renovations | 100 | Local reserves |
| Stadium Stairs | 440 | Local reserves |
| Various Small Campus Renovations and Improvements | 500 | Local reserves |

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)**

| | 2012 | 2011 |
|---|---|---|
| Land | $ 240 | $ 240 |
| Total capital assets | $ 240 | $ 240 |

*Debt*

At June 30, 2012, and June 30, 2011, the university had $44,868,151 and $43,545,872 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)**

| **Debt Instrument** | 2012 | 2011 |
|---|---|---|
| Bonds payable | $ 33,280 | $ 34,439 |
| Unamortized bond premium | 1,896 | 2,001 |
| Commercial paper | 9,692 | 7,106 |
| Total outstanding debt | $ 44,868 | $ 43,546 |

In fiscal year 2012, the Tennessee State School Bond Authority issued, on behalf of the university, an additional $2,586,607 in commercial paper for renovations to Tech Village Apartments. Bonds in the amount of $1,529,368 were retired. The unamortized premium in outstanding debt at June 30, 2012, is $1,895,728. The bond ratings on the Tennessee State School Bond Authority at June 30, 2012, were as follows:

| | |
|---|---|
| Fitch | AA+; Stable Outlook |
| Moody's Investor Service | Aa1; Stable Outlook |
| Standard & Poor's | AA; Positive Outlook |

Commercial paper ratings are as follows:

| | |
|---|---|
| Moody's Investor Service | P-1 |
| Standard & Poor's | A-1+ |

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 note payable for $740,000. The monthly payments began in February 2009. The balance at June 30, 2012, is $459,074.

**Schedule of Notes Payable**

**(in thousands of dollars)**

| | 2012 | 2011 |
|---|---|---|
| Notes Payable | $ 459 | $ 535 |
| Total Notes Payable | $ 459 | $ 535 |

- For 2012, 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 $15,927,100. These monies are no longer available at June 30, 2012. 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 that the university is on track to effectively manage the reduction in fiscal year 2012-13.

The Tennessee Higher Education Commission has implemented 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 three- to-five-year period. Although the full impact of the new funding formula is not known, it is anticipated that the new funding formula will have a positive funding impact for the university over the long term.

Although volatile, the equity markets in fiscal year 2012 have 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 to solicit funds from individuals and companies that have had positive growth in their businesses and portfolios.

## 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, 2012**

| | Tennessee Technological University | Component Unit Tennessee Technological University Foundation |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents (Notes 2 and 22) | $ 30,512,595.95 | $ 643,563.98 |
| Short-term investments (Note 3) | 1,133.97 | - |
| Accounts, notes, and grants receivable (net) (Note 4) | 6,526,448.33 | 25,000.00 |
| Due from primary government | 149,900.00 | - |
| Inventories | 291,225.81 | - |
| Prepaid expenses and deferred charges | 423,230.09 | - |
| Accrued interest receivable | 3,707.88 | 79,378.68 |
| Total current assets | 37,908,242.03 | 747,942.66 |
| Noncurrent assets: | | |
| Cash and cash equivalents (Notes 2 and 22) | 59,689,185.94 | 11,503,143.64 |
| Investments (Notes 3 and 22) | 588,848.52 | 40,737,016.70 |
| Accounts, notes, and grants receivable (net) (Note 4) | 1,812,018.68 | - |
| Capital assets (net) (Notes 5 and 22) | 113,821,998.98 | 240,354.71 |
| Total noncurrent assets | 175,912,052.12 | 52,480,515.05 |
| Total assets | 213,820,294.15 | 53,228,457.71 |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable (Note 6) | 1,861,361.12 | 3,231.45 |
| Accrued liabilities | 6,676,869.31 | - |
| Student deposits | 398,177.91 | - |
| Deferred revenue | 3,771,234.29 | - |
| Compensated absences (Note 7) | 513,426.38 | - |
| Accrued interest payable | 256,646.53 | - |
| Long-term liabilities, current portion (Notes 7 and 22) | 1,570,883.78 | 82,222.20 |
| Deposits held in custody for others | 522,503.80 | - |
| Other liabilities | 61,584.75 | - |
| Total current liabilities | 15,632,687.87 | 85,453.65 |
| Noncurrent liabilities: | | |
| Net OPEB obligation (Note 12) | 5,813,405.14 | - |
| Compensated absences (Note 7) | 2,740,398.70 | - |
| Long-term liabilities (Notes 7 and 22) | 43,297,267.20 | 376,851.95 |
| Due to grantors (Note 7) | 1,638,803.15 | - |
| Total noncurrent liabilities | 53,489,874.19 | 376,851.95 |
| Total liabilities | 69,122,562.06 | 462,305.60 |
| **NET ASSETS** | | |
| Invested in capital assets, net of related debt | 68,953,848.00 | 240,354.71 |
| Restricted for: | | |
| Nonexpendable: | | |
| Scholarships and fellowships | 175,779.33 | 25,667,080.59 |
| Research | - | 465,632.40 |
| Instructional department uses | - | 2,642,238.10 |
| Other | - | 9,308,687.42 |
| Expendable: | | |
| Scholarships and fellowships (Note 8) | 342,500.05 | 4,519,584.89 |
| Research | 1,245,608.47 | 124,555.42 |
| Instructional department uses (Note 8) | 490,167.89 | 1,206,198.81 |
| Loans (Note 8) | 504,421.67 | - |
| Capital projects | 559,007.33 | 7,821.89 |
| Debt service | 43,461.39 | - |
| Other (Note 8) | 1,269,255.24 | 8,361,495.32 |
| Unrestricted (Notes 8 and 9) | 71,113,682.72 | 222,502.56 |
| Total net assets | $ 144,697,732.09 | $ 52,766,152.11 |

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, 2012**

| | Tennessee Technological University | Component Unit Tennessee Technological University Foundation |
|---|---|---|
| **REVENUES** | | |
| Operating revenues: | | |
| Student tuition and fees (net of scholarship allowances of $34,340,667.87) | $ 41,418,890.09 | $ - |
| Gifts and contributions | - | 2,033,745.67 |
| Governmental grants and contracts | 10,780,633.71 | - |
| Nongovernmental grants and contracts | 414,058.08 | - |
| Sales and services of educational activities | 1,100,962.98 | - |
| Sales and services of other activities | 7,507,617.71 | - |
| Auxiliary enterprises: | | |
| Residential life (net of scholarship allowances of $23,637.60; all residential life revenues are used as security for revenue bonds; see Note 7) | 10,831,915.25 | - |
| Bookstore (all bookstore revenues are used as security for revenue bonds; see Note 7) | 326,772.63 | - |
| Food service (all food service revenue are used as security for revenue bonds; see Note 7) | 1,705,723.84 | - |
| Wellness facility (all wellness facility revenues are used as security for revenue bonds, see Note 7) | 952,344.79 | - |
| Other auxiliaries (all other auxiliaries revenues are used as security for revenue bonds; see Note 7) | 703,638.51 | - |
| Interest earned on loans to students | 23,047.66 | - |
| Other operating revenues | 53,917.51 | 823,246.44 |
| Total operating revenues | 75,819,522.76 | 2,856,992.11 |
| **EXPENSES** | | |
| Operating expenses (Note 17): | | |
| Salaries and wages | 67,112,836.52 | - |
| Benefits | 25,061,092.01 | - |
| Utilities, supplies, and other services | 32,471,669.03 | 1,918,671.83 |
| Scholarships and fellowships | 16,851,086.76 | 1,494,652.65 |
| Depreciation expense | 9,733,960.67 | - |
| Payments to or on behalf of Tennessee Technological University (Note 22) | - | 786,491.80 |
| Total operating expenses | 151,230,644.99 | 4,199,816.28 |
| Operating loss | (75,411,122.23) | (1,342,824.17) |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| State appropriations | 39,919,417.44 | - |
| Gifts, including $557,080.00 from component unit | 693,812.13 | - |
| Grants and contracts | 39,565,882.57 | - |
| Investment income (net of investment expense for the component unit of $232,739.22) | 294,438.43 | (343,516.82) |
| Interest on capital asset-related debt | (1,477,673.37) | - |
| Other nonoperating revenues (expenses) | 68,117.91 | 4,101.23 |
| Net nonoperating revenues (expenses) | 79,063,995.11 | (339,415.59) |
| Income (loss) before other revenues, expenses, gains, or losses | 3,652,872.88 | (1,682,239.76) |
| Capital appropriations | 2,525,526.29 | - |
| Capital grants and gifts, including $229,411.80 from the component unit | 335,386.18 | 30,728.00 |
| Additions to permanent endowments | 350.00 | 940,109.41 |
| Total other revenues | 2,861,262.47 | 970,837.41 |
| Increase (decrease) in net assets | 6,514,135.35 | (711,402.35) |
| **NET ASSETS** | | |
| Net assets - beginning of year | 137,592,899.73 | 53,477,554.46 |
| Prior period adjustment (Note 18) | 590,697.01 | - |
| Net assets - end of year | $ 144,697,732.09 | $ 52,766,152.11 |

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, 2012**

| | | |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Tuition and fees | $ | 42,290,417.45 |
| Grants and contracts | | 10,959,177.47 |
| Sales and services of educational activities | | 1,077,016.01 |
| Sales and services of other activities | | 7,497,329.72 |
| Payments to suppliers and vendors | | (31,646,637.10) |
| Payments to employees | | (66,025,858.47) |
| Payments for benefits | | (23,706,040.75) |
| Payments for scholarships and fellowships | | (16,851,073.67) |
| Loans issued to students | | (489,961.04) |
| Collection of loans from students | | 356,711.63 |
| Interest earned on loans to students | | 20,593.80 |
| Auxiliary enterprise charges: | | |
| Residence halls | | 10,864,231.83 |
| Bookstore | | 326,772.63 |
| Food services | | 1,480,945.72 |
| Wellness facility | | 947,129.40 |
| Other auxiliaries | | 720,513.88 |
| Other receipts (payments) | | 53,917.51 |
| Net cash used by operating activities | | (62,124,813.98) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| State appropriations | | 39,790,591.60 |
| Gifts and grants received for other than capital or endowment purposes, including $557,080.00 from Tennessee Technological University Foundation | | 39,712,048.89 |
| Private gifts for endowment purposes | | 350.00 |
| Federal student loan receipts | | 35,817,270.00 |
| Federal student loan disbursements | | (36,103,013.00) |
| Changes in deposits held for others | | 134,824.91 |
| Other noncapital financing receipts (payments) | | 148,877.61 |
| Net cash provided by noncapital financing activities | | 79,500,950.01 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Proceeds from capital debt | | 2,956,965.68 |
| Capital appropriations | | 2,525,526.29 |
| Capital grants and gifts received, including $25,053.00 from Tennessee Technological University Foundation | | 93,027.38 |
| Purchases of capital assets and construction | | (11,311,177.45) |
| Principal paid on capital debt | | (1,529,368.20) |
| Interest paid on capital debt | | (1,591,521.62) |
| Other capital and related financing receipts (payments) | | (11,771.44) |
| Net cash used by capital and related financing activities | | (8,868,319.36) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sales and maturities of investments | | 239,566.48 |
| Income on investments | | 317,673.45 |
| Net cash provided by investing activities | | 557,239.93 |
| Net increase in cash and cash equivalents | | 9,065,056.60 |
| Cash and cash equivalents - beginning of year | | 81,136,725.29 |
| Cash and cash equivalents - end of year | $ | 90,201,781.89 |

**TENNESSEE BOARD OF REGENTS**
**TENNESSEE TECHNOLOGICAL UNIVERSITY**
**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED JUNE 30, 2012**

| | | |
|---|---|---|
| **Reconciliation of operating loss to net cash used by operating activities:** | | |
| Operating loss | $ | (75,411,122.23) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | |
| Depreciation expense | | 9,733,960.67 |
| Gifts in-kind | | 209,681.96 |
| Other adjustments (Note 20) | | 129,625.84 |
| Change in assets and liabilities: | | |
| Receivables, net | | 317,461.76 |
| Inventories | | (3,190.56) |
| Prepaid/deferred items | | (152,207.07) |
| Accounts payable | | 541,746.38 |
| Accrued liabilities | | 2,175,337.75 |
| Deferred revenue | | 746,724.97 |
| Deposits | | 119,310.00 |
| Compensated absences | | (68,524.24) |
| Due to grantors | | (268,783.06) |
| Loans to students and employees | | (194,836.15) |
| Net cash used by operating activities | $ | (62,124,813.98) |
| | | |
| **Noncash investing, capital, or financing transactions** | | |
| Gifts in-kind - capital | $ | 242,358.80 |
| Unrealized losses on investments | $ | (13,828.34) |
| Loss on disposal of capital assets | $ | (49,713.46) |

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, 2012

## 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 22 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.

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.

Revenue sources that were classified as Sales and Services of Educational Departments in previous financial statements have been reclassified as either Sales and Services of Other Activities or Sales and Services of Educational Activities in the current year. The university considers sales and services of educational activities to be those revenues that are generated from sales and services related to the conduct of instruction, research, and public service or the provision of instructional and laboratory experience for students. Sales and services of other activities are those revenues that are generated from sales and services other than those related to the conduct of instruction, research, and public service or the provision of instructional and laboratory experience for students. Examples of revenue classified as sales and services of other activities include revenue generated from student athletic fees, ticket sales to athletic events, and rental income.

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 and sick leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of the liabilities for annual leave and compensatory time and their related benefits are reported in the statement of net assets. There is no liability for unpaid accumulated sick leave since the university's policy is to pay this only if the employee dies or is absent because of illness, injury, or related family death.

### Capital Assets

Capital assets, which include property, plant, equipment, library holdings, 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/amortization. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

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

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 that 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, other activities, and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the university, and may be used at the discretion of the university to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

### Scholarship Discounts and Allowances

Student tuition and fee revenues, as well as certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net 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, 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, 2012, cash consisted of $7,621,116.73 in bank accounts, $7,721.90 of petty cash on hand, $76,073,315.03 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $6,499,628.23 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.

The LGIP is part of the State 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 www.treasury.tn.gov.

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

At June 30, 2012, the university had the following investments and maturities:

| | | Investment Maturities (in Years) | | | | |
|---|---|---|---|---|---|---|
| Investment Type | Fair Value | Less than 1 | 1 to 5 | 6 to 10 | More than 10 | No Maturity Date |
| U.S. agencies | $ 571,195.86 | $ 1,133.97 | $ 67,447.99 | $ 203,501.00 | $ 299,112.90 | $ - |
| Collateralized mortgage obligations | 2,214.30 | - | 2,214.30 | - | - | - |
| Cash surrender value life insurance | 16,572.33 | - | - | - | - | 16,572.33 |
| Total | $ 589,982.49 | $ 1,133.97 | $ 69,662.29 | $ 203,501.00 | $ 299,112.90 | $ 16,572.33 |

### 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. 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 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 be expected to move into the channel of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

The policy requires that prime commercial paper 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, 2012, the university's investments were rated as follows:

| | | Credit Quality Rating |
|---|---|---|
| Investment Type | Fair Value | Unrated |
| LGIP | $ 82,572,943.26 | $ 82,572,943.26 |
| Collateralized mortgage obligation | 2,214.30 | 2,214.30 |
| Total | $ 82,575,157.56 | $ 82,575,157.56 |

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

| | Fair Value June 30, 2012 |
|---|---|
| Collateralized mortgage obligation | $ 2,214.30 |
| LGIP | 332,749.92 |
| Total | $ 334,964.22 |

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, 2012, each having a fair value of $1.175996, 169,397.61 units were owned by endowments, 7,260.00 units were owned by term endowments, and 108,176.78 units were owned by quasi-endowments.

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

| FY 2012 | Pooled Assets | | Net Gains | Fair Value |
|---|---|---|---|---|
| | Fair Value | Cost | (Losses) | Per Unit |
| End of year | $334,964.22 | $334,848.86 | $115.36 | $1.175996 |
| Beginning of year | $354,981.40 | $354,799.43 | 181.97 | 1.163928 |
| | | | | $0.012068 |
| Unrealized net gains/(losses) | | | (66.61) | |
| Realized net gains/(losses) | | | - | |
| Total net gains/(losses) | | | $(66.61) | |

The average annual earnings per unit, exclusive of net gains/(losses), were $0.001832 for the year ended June 30, 2012.

## NOTE 4. RECEIVABLES

Receivables included the following:

| | June 30, 2012 |
|---|---|
| Student accounts receivable | $ 1,201,365.87 |
| Grants receivable | 3,421,305.87 |
| Notes receivable | 93,082.40 |
| Other receivables | 2,193,202.48 |
| Subtotal | 6,908,956.62 |
| Less allowance for doubtful accounts | (382,508.29) |
| Total receivables | $ 6,526,448.33 |

Federal Perkins Loan Program funds included the following:

| | June 30, 2012 |
|---|---|
| Perkins loans receivable | $ 1,920,163.32 |
| Less allowance for doubtful accounts | (108,144.64) |
| Total | $ 1,812,018.68 |

## NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

| | Beginning Balance | Additions | Transfers | Reductions | Ending Balance |
|---|---|---|---|---|---|
| Land | $ 1,257,868.94 | $ 769,232.16 | $ - | $ - | $ 2,027,101.10 |
| Land improvements and infrastructure | 14,447,260.34 | 214,866.92 | 3,575,370.50 | - | 18,237,497.76 |
| Buildings | 154,912,960.00 | 2,262,494.61 | 7,638,357.99 | - | 164,813,812.60 |
| Equipment | 23,068,958.96 | 1,948,708.84 | - | 619,862.77 | 24,397,805.03 |
| Library holdings | 9,844,783.82 | 276,630.32 | - | 7,003,219.44 | 3,118,194.70 |
| Intangible assets | 3,049,156.70 | 389,284.09 | - | - | 3,438,440.79 |
| Projects in progress | 8,813,388.22 | 5,113,888.58 | (11,213,728.49) | - | 2,713,548.31 |
| Total | 215,394,376.98 | 10,975,105.52 | - | 7,623,082.21 | 218,746,400.29 |

| | | | | | |
|---|---|---|---|---|---|
| Less accumulated depreciation: | | | | | |
| Land improvements and infrastructure | 6,850,929.16 | 789,015.71 | - | - | 7,639,944.87 |
| Buildings | 73,242,660.86 | 3,893,771.36 | - | - | 77,136,432.22 |
| Equipment | 15,607,978.55 | 1,590,344.95 | - | 570,119.31 | 16,628,204.19 |
| Library holdings | 5,585,822.71 | 3,169,930.93 | - | 7,003,219.44 | 1,752,534.20 |
| Intangible assets | 1,476,388.11 | 290,897.72 | - | - | 1,767,285.83 |
| Total | 102,763,779.39 | 9,733,960.67 | - | 7,573,338.75 | 104,924,401.31 |
| Capital assets, net | $112,630,597.59 | $ 1,241,144.85 | $ - | $ 49,743.46 | $ 113,821,998.98 |

The decrease in library holdings is due to a change in accounting estimate. During fiscal year 2012, it was determined that periodicals are more appropriately expensed. The estimated useful life of periodicals was decreased from 10 years to 0 years, resulting in a current-year adjustment of $5,944,042.96.

## NOTE 6. ACCOUNTS PAYABLE

Accounts payable included the following:

| | June 30, 2012 |
|---|---|
| Vendors payable | $ 1,546,119.91 |
| Unapplied student payments | 309,892.21 |
| Other payables | 5,349.00 |
| Total accounts payable | $ 1,861,361.12 |

## NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2012, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| TSSBA debt: | | | | | |
| Bonds | $34,439,452.48 | $ 370,358.83 | $ 1,529,368.20 | $ 33,280,443.11 | $ 1,570,883.78 |
| Unamortized bond premium/discount | 2,001,046.34 | - | 105,318.23 | 1,895,728.11 | - |
| Commercial paper | 7,105,372.91 | 2,586,606.85 | - | 9,691,979.76 | - |
| Subtotal | 43,545,871.73 | 2,956,965.68 | 1,634,686.43 | 44,868,150.98 | 1,570,883.78 |
| Other liabilities: | | | | | |
| Compensated absences | 3,322,349.32 | 1,522,188.98 | 1,590,713.22 | 3,253,825.08 | 513,426.38 |
| Due to grantors | 1,907,586.21 | - | 268,783.06 | 1,638,803.15 | - |
| Subtotal | 5,229,935.53 | 1,522,188.98 | 1,859,496.28 | 4,892,628.23 | 513,426.38 |
| Total long-term liabilities | $ 48,775,807.26 | $ 4,479,154.66 | $ 3,494,182.71 | $ 49,760,779.21 | $ 2,084,310.16 |

### TSSBA Debt - Bonds

Bonds, with interest rates ranging from 3.0% 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 $2,297,022.88 at June 30, 2012. There were no unexpended debt proceeds at June 30, 2012.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2012, are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2013 | $ 1,570,883.78 | $ 1,531,694.87 | $ 3,102,578.65 |
| 2014 | 1,630,365.70 | 1,473,546.29 | 3,103,911.99 |
| 2015 | 1,697,931.83 | 1,407,003.03 | 3,104,934.86 |
| 2016 | 1,769,999.95 | 1,336,385.51 | 3,106,385.46 |
| 2017 | 1,848,668.51 | 1,259,279.25 | 3,107,947.76 |
| 2018 – 2022 | 10,572,230.36 | 5,005,069.23 | 15,577,299.59 |
| 2023 – 2027 | 9,379,464.84 | 2,674,518.38 | 12,053,983.22 |
| 2028 – 2032 | 4,810,898.14 | 730,104.58 | 5,541,002.72 |
| Total | $ 33,280,443.11 | $ 15,417,601.14 | $ 48,698,044.25 |

**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 $9,691,979.76 at June 30, 2012.

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 www.comptroller.tn.gov/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, 2012, net appreciation of $193,867.26 is available to be spent, of which $6,529.48 is included in restricted net assets expendable for scholarships and fellowships, $6,430.36 is included in restricted net assets expendable for instructional departmental uses, $45,611.13 is included in restricted net assets expendable for loans, $9,666.49 is included in restricted net assets expendable for other, and $125,629.80 is included in unrestricted net assets.

## 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:

| | June 30, 2012 |
|---|---|
| Working capital | $ 2,623,049.29 |
| Encumbrances | 353,083.74 |
| Designated fees | 2,988,084.55 |
| Auxiliaries | 487,788.67 |
| Quasi-endowment | 125,629.80 |
| Plant construction | 19,068,912.06 |
| Renewal and replacement of equipment | 39,436,826.98 |
| Debt retirement | 1,290,793.93 |
| Undesignated | 4,739,513.70 |
| Total | $71,113,682.72 |

## NOTE 10. PLEDGED REVENUES

The university has pledged certain revenues and fees, including state appropriations, to repay $33,280,443.11 in revenue bonds issued from April 2002 to September 2010 (see Note 7 for further detail). Proceeds from the bonds provided financing for student housing and energy performance upgrades. The bonds are payable through 2032. Annual principal and interest payments on the bonds are expected to require 2.27% of available revenues. The total principal and interest remaining to be paid on the bonds is $48,698,044.25. Principal and interest paid for the current year and total available revenues were $2,991,640.06 and $136,662,062.52, respectively.

## NOTE 11. PENSION PLANS

### A. Defined Benefit Plans

**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.

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 www.treasury.tn.gov/tcrs.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 14.91% 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, 2012, 2011, and 2010 were $3,667,032.54, $3,499,531.11, and $3,038,943.48, respectively. Contributions met the requirements for each year.

### B. Defined Contribution Plans

**Optional Retirement Plans**

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 TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated.* State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contributions made by the university to the plans were $3,330,426.26 for the year ended June 30, 2012, and $3,094,783.15 for the year ended June 30, 2011. 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*. Prior to reaching age 65, all members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the university's eligible retirees; see

Note 20. The plans are reported in the State of Tennessee's *Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

**Special Funding Situation**

The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan, which covers the retirees of other governmental entities, including 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 are subsidized 80%; retirees with 20 years of service but less than 30 years of service, 70%; and retirees with less than 20 years of service, 60%. Retirees in the Medicare Supplement Plan have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; retirees with 20 years of service but less than 30 years of service, $37.50; and retirees with 15 years of service but less than 20 years of service, $25.

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

| | |
|---|---|
| Annual required contribution (ARC) | $ 1,966,000.00 |
| Interest on the net OPEB obligation | 208,530.59 |
| Adjustment to the ARC | (221,351.25) |
| Annual OPEB cost | 1,953,179.34 |
| Amount of contribution | (1,353,038.92) |
| Increase in net OPEB obligation | 600,140.42 |
| Net OPEB obligation – beginning of year | 5,213,264.72 |
| Net OPEB obligation – end of year | $ 5,813,405.14 |

| Year-end | Plan | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation at Year-end |
|---|---|---|---|---|
| June 30, 2012 | State Employee Group Plan | $1,953,179.34 | 69.27% | $5,813,405.14 |
| June 30, 2011 | State Employee Group Plan | $2,022,405.53 | 58.76% | $5,213,264.72 |
| June 30, 2010 | State Employee Group Plan | $2,224,427.03 | 43.65% | $4,379,300.86 |

**Funded Status and Funding Progress**

The funded status of the university's portion of the State Employee Group Plan as of July 1, 2011, was as follows:

State Employee Group Plan

| | |
|---|---|
| Actuarial valuation date | July 1, 2011 |
| Actuarial accrued liability (AAL) | $17,870,000.00 |
| Actuarial value of plan assets | - |
| Unfunded actuarial accrued liability (UAAL) | $17,870,000.00 |
| Actuarial value of assets as a percentage of the AAL | 0.00% |
| Covered payroll (active plan members) | $48,082,260.98 |
| UAAL as percentage of covered payroll | 37.17% |

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

**Actuarial Methods and Assumptions**

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

In the July 1, 2011, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.25% in fiscal year 2012. The rate decreases to 8.75% in fiscal year 2013, and then reduces by decrements to an ultimate rate of 5% in fiscal year 2021. All rates include a 2.5% 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 associated with casualty losses for general liability, automobile liability, professional medical 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, builder's risk (for construction projects starting prior to July 1, 2012), and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012; thus, builder's risk is no longer covered by the Risk Management Fund. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of $10 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the $10 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The university participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2012, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. 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, 2012, the Risk Management Fund held $97.2 million in cash and cash equivalents designated for payment of claims.

At June 30, 2012, the scheduled coverage for the university was $610,259,000 for buildings and $113,173,900 for contents.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The university participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on estimates of the ultimate cost of claims, 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. The dollar amount of unused sick leave was $25,277,939.26 at June 30, 2012.

### 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 $35,398.96 and for personal property were $322,075.52 for the year ended June 30, 2012. All operating leases are cancelable at the lessee's option.

### Construction in Progress

At June 30, 2012, outstanding commitments under construction contracts totaled $9,273,629.56 for Tech Village renovations, several building renovations, athletic performance center parking, and the Craft Center guardrail replacement, of which $1,339,694.50 will be funded by future state capital outlay appropriations.

**Litigation**

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

## NOTE 15. CHAIRS OF EXCELLENCE

The university had $5,488,914.26 on deposit at June 30, 2012, 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 $116,418.36 from these funds during the year ended June 30, 2012.

## NOTE 17. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses for the year ended June 30, 2012, are as follows:

| | Natural Classification | | | | | |
|---|---|---|---|---|---|---|
| Functional Classification | Salaries | Benefits | Other Operating | Scholarships | Depreciation | Total |
| Instruction | $ 33,897,020.66 | $ 11,981,173.96 | $ 6,186,690.76 | $ - | $ - | $ 52,064,885.38 |
| Research | 4,652,477.98 | 1,464,126.27 | 2,582,162.46 | - | - | 8,698,766.71 |
| Public service | 2,331,958.84 | 774,610.16 | 1,753,600.51 | - | - | 4,860,169.51 |
| Academic support | 6,807,789.00 | 2,667,103.14 | 238,757.79 | - | - | 9,713,649.93 |
| Student services | 6,510,925.55 | 2,761,985.41 | 5,650,855.07 | - | - | 14,923,766.03 |
| Institutional support | 6,489,388.90 | 2,803,059.58 | 1,755,883.18 | - | - | 11,048,331.66 |
| Maintenance & operation | 3,824,547.62 | 1,717,550.01 | 10,639,134.50 | - | - | 16,181,232.13 |
| Scholarships & fellowships | - | - | - | 16,851,086.76 | - | 16,851,086.76 |
| Auxiliary | 2,598,727.97 | 891,483.48 | 3,664,584.76 | - | - | 7,154,796.21 |
| Depreciation | - | - | - | - | 9,733,960.67 | 9,733,960.67 |
| Total | $ 67,112,836.52 | $ 25,061,092.01 | $ 32,471,669.03 | $ 16,851,086.76 | $ 9,733,960.67 | $ 151,230,644.99 |

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services, and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling $2,846,237.03 were reallocated from academic support to the other functional areas.

## NOTE 18. PRIOR-YEAR RESTATEMENT

For the year ended June 30, 2012, it came to the attention of the university that commissions were being paid incorrectly by the contracted food service vendor. This resulted in an increase in other receivables and unrestricted net assets of $590,697.01.

## NOTE 19. AFFILIATED ENTITY NOT INCLUDED

The TTU Agricultural Foundation is a private, nonprofit foundation with the university as the sole beneficiary. The TTU Agricultural Foundation is controlled by a board independent of the university. The financial records, investments, and other financial transactions are handled external to the university, and these amounts are not included in the university's financial report. As reported in the foundation's most recently audited financial report, at June 30, 2011, the assets of the foundation totaled $699,052.95, liabilities were $0.00, and the net assets amounted to $699,052.95.

## NOTE 20. ON-BEHALF PAYMENTS

During the year ended June 30, 2012, the State of Tennessee made payments of $129,625.84 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 12. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

## NOTE 21. TARGETED BUYOUT PROGRAM

The university implemented a Targeted Buyout Plan in fiscal year 2012 as a strategy to assist the university in addressing budgetary constraints due to several years of state appropriation reductions and potential budget reductions in the forthcoming fiscal years. As a cost-cutting measure, the university contracted custodial services effective May 1, 2012. A buyout plan was offered to all custodial workers. The buyout plan was categorized for those having less than 5 years of service, 5 years to less than 15 years of service, and 15 years of service and greater.

For those participants with less than 5 years of service, the buyout plan included a base severance payment of $3,200 and a service payment equal to their completed years of university service as of the separation date times 10% of the base yearly rate of pay in effect on January 1, 2012. These benefits were paid May 31, 2012. This portion of the plan was involuntary.

For those participants with 5 years to less than 15 years of service, the buyout plan included a base severance payment of $3,200 and a service payment equal to their completed years of university service as of the separation date times the base monthly rate of pay in effect on January 1, 2012, not to exceed 12 months' pay. These benefits were paid May 31, 2012. This portion of the plan was involuntary.

For those participants with greater than 15 years of service, the buyout plan included a base severance payment of $3,200, a service payment equivalent to one year's salary, and an amount equal to the next longevity payment if the participant had not already received a 2012 longevity payment. These benefits were paid May 31, 2012. This portion of the plan was voluntary.

The university had 52 employees to participate in the buyout plan with all 52 terminating by June 30, 2012. Each participant in each category is eligible for tuition assistance for two years after the separation date limited to $6,400 per year and up to $12,800 per participant. The assistance is for schools, institutions, and entities, including but not limited to technology centers, community colleges, and state universities in Tennessee governed by the Tennessee Board of Regents and the University of Tennessee's Board of Trustees.

As of June 30, 2012, expenses for payout of accrued annual leave, base severance, service payment, benefits, and assistance for the targeted buyout plan were $992,792.20. There were no accrued expenses for the buyout pan at June 30, 2012.

## NOTE 22. COMPONENT UNIT

The Tennessee Technological University Foundation is a legally separate, tax-exempt organization supporting Tennessee Technological University. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the university in support of its programs. The 25-member board of the foundation is self-perpetuating and consists of graduates and friends of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements.

During the year ended June 30, 2012, the foundation made distributions of $786,491.80 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Tennessee Technological University, Office of the Vice President for Planning and Finance, P.O. Box 5037, Cookeville, TN 38505.

**Cash and Cash Equivalents**

In addition to demand deposits and petty cash on hand, this classification includes instruments that are readily convertible to known amounts of cash and that have original maturities of three months or less. At June 30, 2012, cash and cash equivalents consisted of $7,708,010.19 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer and $4,438,697.43 in custodial accounts of investment managers of the foundation.

The LGIP is part of the state's 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 www.treasury.tn.gov.

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

At June 30, 2012, the foundation had the following investments and maturities:

| Investment Type | Fair Value | Investment Maturities (in Years) Less than 1 | 1 to 5 | 6 to 10 | No Maturity Date |
|---|---|---|---|---|---|
| U.S. Treasury | $ 15,753.13 | $ - | $ - | $ 15,753.13 | $ - |
| Corporate stocks | 16,189,136.05 | - | - | - | 16,189,136.05 |
| Corporate bonds | 5,423,525.00 | 719,125.00 | 4,396,252.00 | 308,148.00 | - |
| Mutual bond funds | 4,588,080.45 | - | - | - | 4,588,080.45 |
| Mutual equity funds | 4,117,809.93 | - | - | - | 4,117,809.93 |
| Land | 200,000.00 | - | - | - | 200,000.00 |
| Other: | | | | | |
| Cash surrender value life Insurance | 12,672.99 | - | - | - | 12,672.99 |
| Exchange traded funds | 3,879,914.80 | - | - | - | 3,879,914.80 |
| Hedge fund | 6,310,124.35 | - | - | - | 6,310,124.35 |
| Total | $ 40,737,016.70 | $ 719,125.00 | $ 4,396,252.00 | $ 323,901.13 | $ 35,297,738.57 |

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, 2012, the foundation's investments were rated as follows:

| Investment Type | Fair Value | Credit Quality Rating AA | BBB | Unrated |
|---|---|---|---|---|
| LGIP | $ 7,708,010.19 | $ - | $ - | $ 7,708,010.19 |
| Corporate bonds | 5,423,525.00 | 3,193,516.00 | 1,164,029.00 | 1,065,980.00 |
| Mutual fund bonds | 4,588,080.45 | - | - | 4,588,080.45 |
| Total | $ 17,719,615.64 | $ 3,193,516.00 | $ 1,164,029.00 | $ 13,362,070.64 |

Custodial credit risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The foundation does not have a policy for custodial credit risk.

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

| | Fair Value June 30, 2012 |
|---|---|
| LGIP | $ 7,708,010.19 |
| Investment manager custodial accounts | 4,398,980.93 |
| Corporate stocks | 15,860,727.77 |
| Corporate bonds | 5,423,525.00 |
| Mutual funds | 8,643,925.82 |
| Other: | |
| Exchange traded funds | 3,879,914.80 |
| Hedge funds | 6,310,124.35 |
| Total | $ 52,225,208.86 |

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, 2012, each having a fair value of $107.224215, 416,643.6380 units were owned by endowments, 12,823.9100 units were owned by quasi-endowments, and 57,597.8847 units were owned by non-endowment operations accounts.

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

| FY 2012 | Pooled Assets | | Net Gains | Fair Value |
|---|---|---|---|---|
| | Fair Value | Cost | (Losses) | Per Unit |
| End of year | $52,225,208.86 | $50,592,243.01 | $1,632,965.85 | $107.224215 |
| Beginning of year | $53,025,738.95 | $48,670,054.42 | $4,355,684.53 | $112.129444 |
| | | | | $ (4.905229) |
| Unrealized net gains/(losses) | | | (2,722,718.68) | |
| Realized net gains/(losses) | | | - | |
| Total net gains/(losses) | | | $(2,722,718.68) | |

The average annual earnings per unit, exclusive of net gains/(losses), were $4.841413 for the year ended June 30, 2012.

### Alternative Investments

The foundation has investments in two hedge funds. The estimated fair value of these assets is $6,310,124.35 at June 30, 2012.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2012. Because these investments are not readily marketable, the estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques.

The larger of the two funds accounting for 74% of the fair value of the hedge fund portfolio includes investments that the fair values are estimated using an industry-recognized pricing service. The second fund's investments represent 26% of the fair value of the hedge fund portfolio, and fair values are estimated using various valuation techniques. At June 30, 2012, the second fund's investments were valued at the net asset values determined by the portfolio managers. The fund is issued audited financial statements on a calendar year basis. Using those audited fair values as a beginning point, valuations are adjusted for net capital activity and marketplace considerations to ascertain the reasonableness of estimated fair values provided by the portfolio managers.

### Capital Assets

The foundation's capital assets consist entirely of land.

### Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2012, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Payables: | | | | | |
| Notes | $534,444.50 | $ - | $ 75,370.35 | $ 459,074.15 | $ 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 through January 2018. The balance owed by the foundation was $459,074.15 at June 30, 2012.

Debt service requirements to maturity for notes payable at June 30, 2012, are as follows:

| Year Ending June 30 | Principal |
|---|---|
| 2013 | $ 82,222.20 |
| 2014 | 82,222.20 |
| 2015 | 82,222.20 |
| 2016 | 82,222.20 |
| 2017 | 82,222.20 |
| 2018 | 47,963.15 |
| | $ 459,074.15 |

**Endowments**

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

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

**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 5% of the borrowed amount. The funds will be returned to the endowment as monies for the Science, Technology, Engineering, and Mathematics building 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, 2011 | State Employee Group Plan | $0.00 | $17,870,000 | $17,870,000 | 0.00% | $48,082,261 | 37.17% |
| July 1, 2010 | State Employee Group Plan | $0.00 | $19,836,000 | $19,836,000 | 0.00% | $49,518,539 | 40.06% |
| July 1, 2009 | State Employee Group Plan | $0.00 | $22,170,000 | $22,170,000 | 0.00% | $46,307,220 | 47.88% |

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

**TENNESSEE BOARD OF REGENTS**
**TENNESSEE TECHNOLOGICAL UNIVERSITY**
**SUPPLEMENTARY SCHEDULE OF CASH FLOWS - COMPONENT UNIT**
**FOR THE YEAR ENDED JUNE 30, 2012**

| | | |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Gifts and contributions | $ | 1,583,023.93 |
| Payments to suppliers and vendors | | (1,477,855.91) |
| Payments for scholarships and fellowships | | (1,494,652.65) |
| Payments to Tennessee Technological University | | (582,133.00) |
| Other receipts (payments) | | 823,246.44 |
| Net cash used by operating activities | | (1,148,371.19) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| Private gifts for endowment purposes | | 940,109.41 |
| Other non-capital financial receipts (payments) | | 9,034.56 |
| Net cash provided by noncapital financing activities | | 949,143.97 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Capital grants and gifts received | | 18,700.00 |
| Purchases of capital assets and construction | | (192,330.80) |
| Principal paid on capital debt | | (75,370.35) |
| Other capital and related financing receipts (payments) | | (10,688.89) |
| Net cash used by capital and related financing activities | | (259,690.04) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sales and maturities of investments | | 17,607,522.07 |
| Income on investments | | 2,368,095.20 |
| Purchases of investments | | (16,532,603.15) |
| Net cash provided by investing activities | | 3,443,014.12 |
| Net increase in cash and cash equivalents | | 2,984,096.86 |
| Cash and cash equivalents - beginning of year | | 9,162,610.76 |
| Cash and cash equivalents - end of year | $ | 12,146,707.62 |
| **Reconciliation of operating loss to net cash used by operating activities:** | | |
| Operating loss | $ | (1,342,824.17) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | |
| Gifts in-kind | | 204,358.80 |
| Other adjustments | | (17,559.32) |
| Changes in assets and liabilities: | | |
| Prepaid/deferred items | | 10,693.00 |
| Accounts payable | | (3,039.50) |
| Net cash used by operating activities | $ | (1,148,371.19) |
| **Noncash investing, capital, or financing transactions** | | |
| Gifts in-kind - capital | $ | 12,028.00 |
| Unrealized losses on investments | $ | (2,703,165.33) |