

# AUDIT REPORT

Tennessee Board of Regents  
Tennessee Technological University

For the Year Ended  
June 30, 2013



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY

Department of Audit  
Division of State Audit



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STATE OF TENNESSEE  
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August 26, 2014

The Honorable Bill Haslam, Governor  
Members of the General Assembly  
The Honorable John G. Morgan, Chancellor  
Dr. Philip B. Oldham, President

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, 2013. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

Consideration of the internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Findings and Recommendations section of this report. The university's 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, CPA  
Director

**Audit Report**  
**Tennessee Board of Regents**  
**Tennessee Technological University**  
**For the Year Ended June 30, 2013**

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State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Tennessee Board of Regents**  
**Tennessee Technological University**  
For the Year Ended June 30, 2013

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## Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

## Audit Findings

**As noted in the prior audit finding, the university did not provide adequate internal controls in one specific area\***

For the second consecutive year, the university did not design and monitor internal controls in specific areas (page 46).

**The university did not have accessible written policies and procedures regarding financial aid verification, resulting in an increased risk that the university could disburse funds to students who were not properly verified**

For at least a portion of the fiscal year under audit, the university did not have written policies and procedures as required by the *Code of Federal Regulations* Title 34, Part 668, Section 53. In addition, for the remainder of the fiscal year under audit, the policies and procedures manual was not readily available to those staff who might need to access the manual (page 46).

\* This finding is repeated from the prior audit.



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## **Independent Auditor's Report**

The Honorable Bill Haslam, Governor  
Members of the General Assembly  
The Honorable John G. Morgan, Chancellor  
Dr. Philip B. Oldham, President

### **Report on the Financial Statements**

We have audited the accompanying 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, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements, based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Tennessee Technological University, and its discretely presented component unit as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

As discussed in Note 1, the financial statements of Tennessee Technological University, an institution of the 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, 2013, and the changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the university implemented GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, during the year ended June 30, 2013. Our opinion is not modified with respect to this matter.

As discussed in Note 21, the financial statements of Tennessee Technological University Foundation, a discretely presented component unit of Tennessee Technological University, include investments valued at \$7,332,822.71 (12.29 percent of net position of the foundation), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 15 and the schedule of funding progress on page 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of

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

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the university's basic financial statements. The schedule of cash flows – component unit on page 43 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of cash flows – component unit is the responsibility of the university's management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of cash flows – component unit is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2014, on our consideration of the university's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the university's internal control over financial reporting and compliance.



Deborah V. Loveless, CPA  
Director  
June 27, 2014

**Tennessee Board of Regents**  
**TENNESSEE TECHNOLOGICAL UNIVERSITY**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2013**

## **Introduction**

This section of Tennessee Technological University's annual financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2013, with comparative information presented for the fiscal year ended June 30, 2012. 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.

The university has one discretely presented component unit, the Tennessee Technological University Foundation. More detailed information about the foundation is presented in Note 21 to the financial statements. This discussion and analysis focuses on the university and does not include the foundation.

## **Overview of the Financial Statements**

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The financial statements are presented on a consolidated basis to focus on the university as a whole. The full scope of the university's activities is considered to be a single business-type activity, and accordingly, is reported within a single column in the basic financial statements.

The university's financial report includes the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. Notes to the financial statements are also presented to provide additional information that is essential to a full understanding of the financial statements.

## **The Statement of Net Position**

The statement of net position is a point in time financial statement. The statement of net position presents the financial position of the university at the end of the fiscal year. To aid the reader in determining the university's ability to meet immediate and future obligations, the statement includes all assets, liabilities, deferred outflows/inflows, and net position of the university and segregates the assets and liabilities into current and noncurrent components. Current assets are those that are available to satisfy current liabilities, inclusive of assets that will be converted to cash within one year. Current liabilities are those that will be paid within one year. The statement of net position is prepared under the accrual basis of accounting; assets and liabilities are recognized when goods or services are provided or received despite when cash is actually exchanged.

From the data presented, readers of the statement are able to determine the assets available to continue the operations of the university. They are also able to determine how much the university owes vendors, lenders, and others. Net position represents the difference between the university's assets and liabilities, along with the difference between deferred outflows and deferred inflows of resources, and is one indicator of the university's current financial condition.

The statement of net position also indicates the availability of net position for expenditure by the university. Net position is divided into three major categories. The first category, net investment in capital assets, represents the university's total investment in property, plant, and equipment, net of outstanding debt obligations related to these capital assets. To the extent debt or deferred inflows of resources have been incurred but not yet expended for capital assets, such amounts are not included. The next category is restricted net position, which is sub-divided into two categories, nonexpendable and expendable. Nonexpendable restricted net position includes endowment and similar resources whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity. Expendable restricted net position is available for expenditure by the university but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the resources. The final category is unrestricted net position. Unrestricted net position is available to the university for any lawful purpose of the university.

The following table summarizes the university's assets, liabilities, deferred outflows of resources, and net position at June 30, 2013, and June 30, 2012.

**Summary of Net Position**  
(in thousands of dollars)

	<u>2013</u>	<u>2012</u>
Assets:		
Current assets	\$ 43,140	\$ 37,908
Capital assets, net	121,755	113,822
Other assets	67,677	62,090
<b>Total Assets</b>	<b>232,572</b>	<b>213,820</b>
Deferred Outflows of Resources:		
Deferred amount on debt refunding	76	-
<b>Total Deferred Outflows</b>	<b>76</b>	<b>-</b>
Liabilities:		
Current liabilities	18,786	15,632
Noncurrent liabilities	57,214	53,490
<b>Total Liabilities</b>	<b>76,000</b>	<b>69,122</b>
Net Position:		
Net investment in capital assets	73,878	68,954
Restricted – nonexpendable	176	176

Restricted – expendable	3,923	4,454
Unrestricted	78,671	71,114
<b>Total Net Position</b>	<b>\$156,648</b>	<b>\$144,698</b>

- Assets of the university increased 8.8% from 2012 to 2013. Current assets increased 13.8%, capital assets increased 7.0%, and other assets increased 9.0%.
- Current assets increased \$5,232,084, primarily due to cash increasing \$4,805,229 and accounts receivables increasing \$582,351.
- An increase in current liabilities of \$3,153,005 as well as an increase of \$994,165 long-term liabilities for OPEB and compensated absences was the primary reason for the increase in current cash. State appropriations increased by \$1,220,504 and long-term unearned revenue increased by \$160,000, contributing to increased current cash.
- Capital assets increased 7.0% for a total of \$7,932,973. Construction upgrades to Tech Village Student Apartments, residential halls, academic buildings, and other land improvements accounted for \$12,016,690. Software projects were \$394,557. Equipment purchases and library holding investments were \$1,884,463. The value of capital assets was reduced by current year depreciation expense and equipment disposals.
- In August 2012, the state issued \$3,190,699 in revenue bonds to advance refund \$3,632,639 of outstanding revenue bonds. This refunding resulted in a deferred loss of \$82,706 to be amortized over 12 years. The unamortized balance at June 30, 2013, was \$75,814. For further detail on the deferred loss on debt refunding, see Note 7 of the financial statements.
- The primary increase in other assets is noncurrent cash. Current funds in the amount of \$9,534,711 were transferred to plant funds for various maintenance and capital projects. Auxiliary profits of \$5,831,715 were designated for renewal and replacement reserves.
- Total liabilities increased 10.0% with current liabilities increasing 20.2% and noncurrent liabilities increasing 6.9%.
- Current liabilities increased 20.2%, primarily due to a \$2,183,884 increase in accounts payable, \$564,835 increase in accrued liabilities, and \$287,064 increase in current portion of long-term debt. Accounts payable increased \$624,716 due to major maintenance and repair projects entered into by the university. Professional services contracts contributed an additional \$198,535 increase due to accruals for services performed. Other increases in accounts payable and accrued liabilities were primarily the result of timing of payments between fiscal years.
- Noncurrent liabilities increased 6.9%, primarily as the result of current year increases in other post employment benefits (OPEB) actuarial cost of \$729,612, compensated absence accrual of \$264,553, and unearned revenue of \$160,000. The university incurred

additional long-term debt of \$2,797,687 for renovations to student housing apartments. See Note 7 to the financial statements for additional information on university debt.

- The increase in net position of 8.3% from 2012 to 2013 was due to a \$12,427,689 excess of total revenues over expense. This amount is decreased by the prior period adjustment of \$477,850 that is explained in Note 17 to the financial statements.
- Restricted expendable net position decreased 11.9%, primarily due to a \$477,850 reduction of assets held by plant funds for the STEM Center construction as explained in Note 17 to the financial statements. Net investments in capital assets increased \$4,924,035.57 (7.1%) as discussed in the capital asset and debt administration section of this Management's Discussion and Analysis.

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

The statement of revenues, expenses, and changes in net position presents the results of operations for the fiscal year. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received. The statement indicates whether the university's financial condition has improved or deteriorated during the fiscal year. The statement presents the revenues received by the university, both operating and nonoperating, and the expenses paid by the university, operating and nonoperating, and any other revenues, expenses, gains, or losses received or spent by the university.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the university. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the university. Nonoperating revenues are revenues received for which goods and services are not provided directly to the payor. Although Tennessee Technological University is dependent upon state appropriations and gifts to fund educational and general operations, under GASB standards these funding sources are reported as nonoperating revenues, as is investment income. As a result, the university has historically reported an excess of operating expenses over operating revenues, resulting in an operating loss. Therefore, the "increase in net position" is more indicative of overall financial results for the year.

A summary of the university's revenues, expenses, and changes in net position for the year ended June 30, 2013, and June 30, 2012, follows.

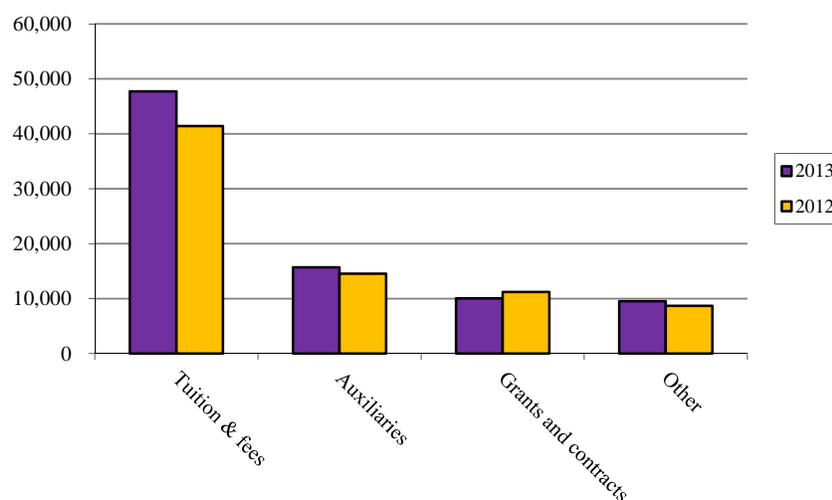
**Summary of Revenues, Expenses, and Changes in Net Position  
(in thousands of dollars)**

	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 82,975	\$ 75,820
Operating expenses	153,204	151,231
Operating loss	(70,229)	(75,411)
Nonoperating revenues and expenses	79,416	79,064
Income before other revenues, expenses, gains or losses	9,187	3,653
Other revenues, expenses, gains or losses	3,241	2,861
Increase in net position	12,428	6,514
Net position at beginning of year	144,698	137,593
Prior period adjustment	(478)	591
Net position at end of year	\$156,648	\$144,698

Operating Revenues

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

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



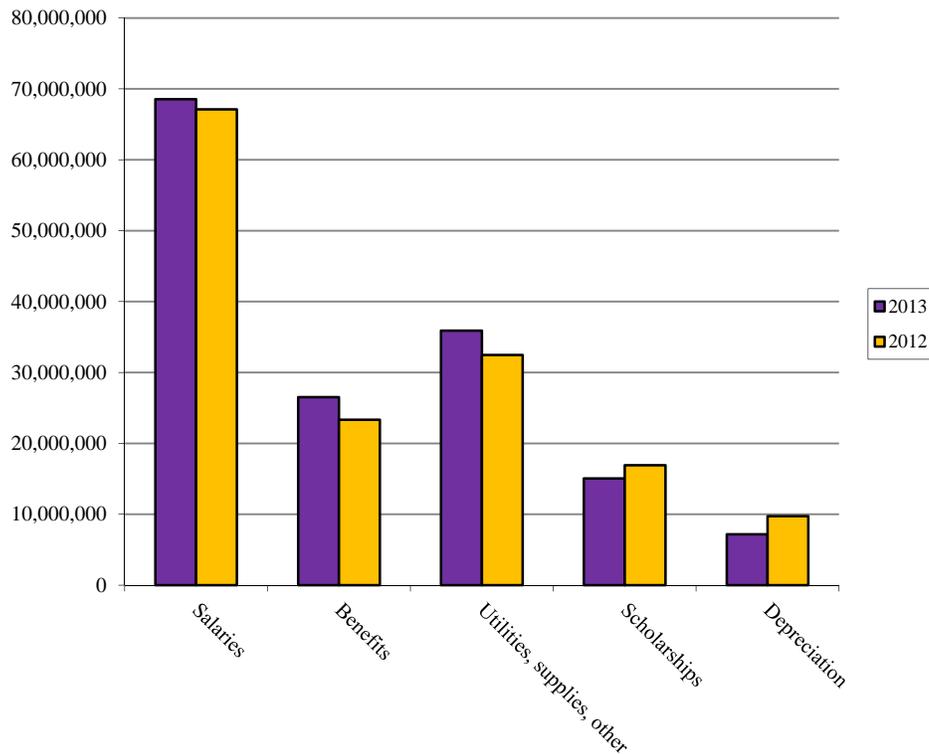
## Comparison of FY 2013 to FY 2012

- Operating revenues of the university increased 9.4%. Net tuition and fees increased 15.2%, auxiliary revenues increased 8.1%, grants and contracts decreased 10.3%, and other increased 9.7%.
- Tuition and fees net of the scholarship allowance increased \$6,289,722 due to a tuition increase of approximately 4% and an enrollment increase in FTE of approximately 0.4%. In-state tuition increased \$3,273,551 (5.7%) from the above changes and out-of-state tuition increased \$3,564,768 (46.3%), primarily from an increase in international students. Revenues from academic course fees dedicated to specific high-cost programs increased by \$802,988 (56.9%).
- Auxiliary revenues increased \$1,170,501 due to rate increases and increased revenues from camps, events, and clinics. Housing rate increases and operations of newly renovated student apartments increased housing revenues by \$542,353. Dining rate increases and modifications to end-of-year accruals for food services and bookstore increased revenue \$468,806. An increase in student and general membership rates for the campus fitness center added \$200,222 in revenue.
- Grants and contracts have decreased 10.3% due to a reduced level of federal and state funded research projects.
- Other revenues increased \$845,871. A majority of the increase resulted from an increase in the athletic student activity fee that generated \$551,681 in revenue.

## Operating Expenses

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

**Operating Expenses  
(in thousands of dollars)**



Comparison of FY 2013 to FY 2012

- Operating expenditures increased \$1,973,510 (1.30%) from 2012 to 2013.
- Salaries and wages increased 2.2% as the result of a cost of living adjustment, compensation plan adjustments, and faculty promotions. These additions were offset by a reduction in salaries due to contracting custodial services with an outside vendor.
- Benefits increased \$1,458,847. Rate increases for both employee health insurance and state retirement benefits account for the increase in this classification.
- Utilities, supplies, and other services increased \$3,438,373 (10.6%). Contracting custodial services, increasing computer software maintenance costs, increasing property and liability insurance costs, and professional consulting contracts were the primary drivers of this increase.
- Depreciation is \$2,563,950 (26.3%) less in FY 2013 compared to FY 2012 because of a change in the estimated life of library periodicals in 2012 that reduced current year depreciation by \$2,872,326.

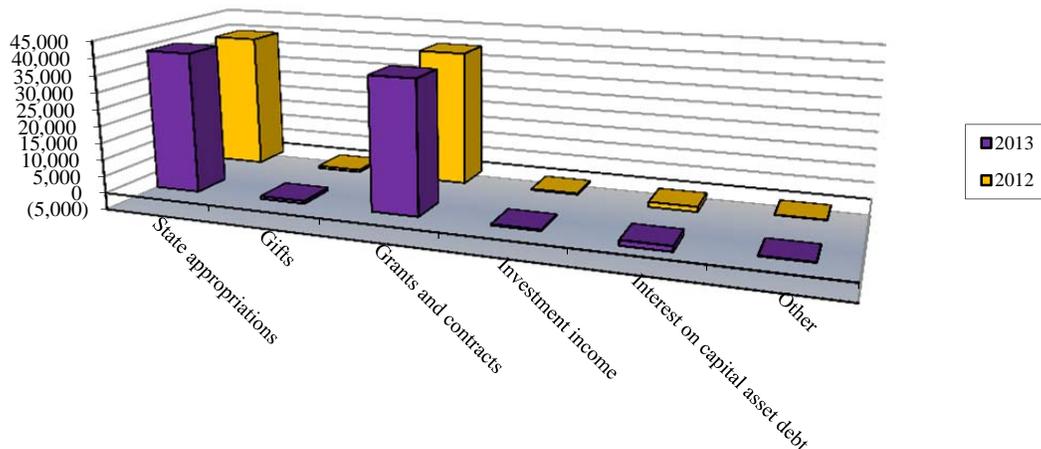
## Nonoperating Revenues and Expenses

Certain revenue sources that the university relies on to provide funding for operations, including state noncapital appropriations, certain gifts and grants, and investment income, are defined by the GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the university's nonoperating revenues and expenses for the last two fiscal years:

### **Nonoperating Revenues and Expenses (in thousands of dollars)**

	<u>2013</u>	<u>2012</u>
State appropriations	\$41,140	\$39,920
Gifts	790	694
Grants and contracts	38,663	39,566
Investment income	301	294
Interest on capital asset debt	(1,542)	(1,478)
Other	64	68
<b>Total</b>	<b>\$79,416</b>	<b>\$79,064</b>

### **Nonoperating Revenues and Expenses (in thousands of dollars)**



### Comparison of FY 2013 to FY 2012

Nonoperating revenues and expenses increased in total by less than 1%. State appropriations increased \$1,220,504 (3.1%) due to funding received under the new funding formula as well as state covered benefits and across-the-board salary increases approved and funded by the state.

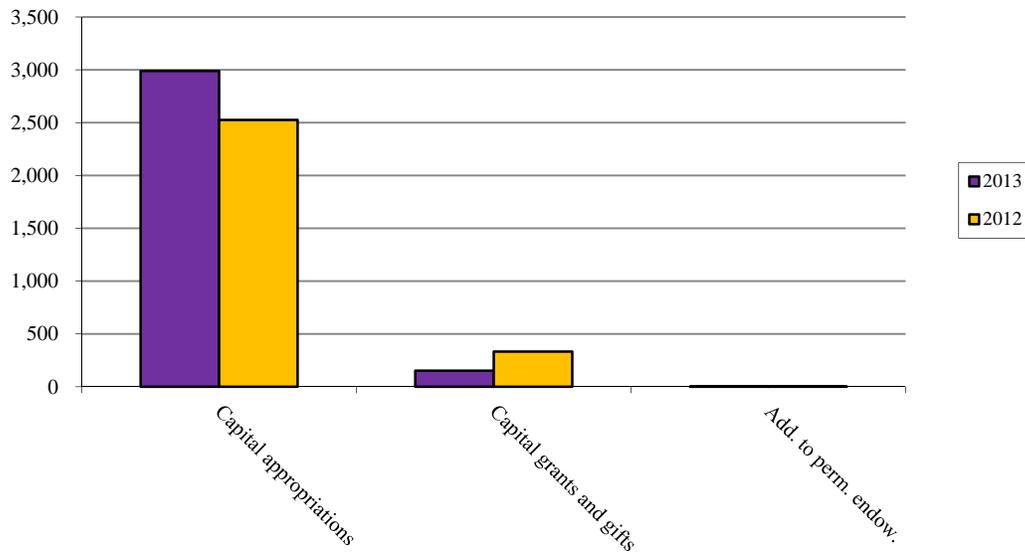
## Other Revenues

This category is composed of state appropriations for capital purposes, capital grants and gifts, and additions to permanent endowments. These amounts were as follows for the last two fiscal years:

### **Other Revenues (in thousands of dollars)**

	<u>2013</u>	<u>2012</u>
Capital appropriations	\$3,087	\$2,526
Capital grants and gifts	153	334
Additions to permanent endowments	1	1
<b>Total</b>	<b>\$3,241</b>	<b>\$2,861</b>

### **Other Revenues (in thousands of dollars)**



## Comparison of FY 2013 to FY 2012

Other revenues increased 13.3% during 2013. Capital appropriations to address deferred maintenance on the campus increased by \$561,246 in 2013 over 2012. Capital grants and gifts decreased \$181,937 primarily from a reduction of in-kind gifts of equipment.

## Capital Assets and Debt Administration

### Capital Assets

Tennessee Technological University had \$121,754,971 invested in capital assets, net of accumulated depreciation of \$110,606,511 at June 30, 2013; and \$113,821,999 invested in capital assets, net of accumulated depreciation of \$104,924,401 at June 30, 2012. Depreciation charges totaled \$7,170,011 and \$9,733,961 for the years ended June 30, 2013, and June 30, 2012, respectively.

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

	<u>2013</u>	<u>2012</u>
Land	\$ 2,027	\$ 2,027
Land improvements & infrastructure	10,964	10,598
Buildings	87,773	87,677
Equipment	7,665	7,770
Library holdings	1,298	1,366
Intangible assets	1,483	1,671
Projects in progress	10,545	2,713
<b>Total Capital Assets, Net of Depreciation</b>	<b>\$121,755</b>	<b>\$113,822</b>

The university is involved in various renovation projects on campus that increased the capital assets by \$12,016,690 during fiscal year 2013. The Tech Village apartment renovations, residential hall renovations, and academic building renovation were the largest projects. Another \$2,279,019 in equipment, library holdings, and software were capitalized during the year.

At June 30, 2013, outstanding commitments under construction contracts totaled \$6,230,363 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund \$381,552 of these costs.

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

### Debt

The university had \$47,952,902 and \$44,868,151 in debt outstanding at June 30, 2013, and June 30, 2012, respectively. The table below summarizes these amounts by type of debt instrument.

**Schedule of Debt Outstanding**  
**(in thousands of dollars)**

	<u>2013</u>	<u>2012</u>
Bonds payable	\$38,082	\$33,280
Unamortized bond premium	3,421	1,896
Commercial paper	6,450	9,692
Total outstanding debt	\$47,953	\$44,868

The TSSBA issued bonds with interest rates ranging from 0.35% to 5.00% due serially until 2032 on behalf of Tennessee Technological University. The university is responsible for the debt service of these bonds. The current portion of the \$47,952,902 outstanding at June 30, 2013, is \$1,857,947.

In fiscal year 2013, commercial paper for the Tech Village Phase 1 renovation and the Athletic Performance Center projects were bonded, increasing bonds payable by \$7,018,251 and adding a \$1,739,116 unamortized bond premium. Commercial paper of \$4,958,020 was added related to the Tech Village Phase 2 renovation project.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2013, were as follows:

Fitch	AA+
Moody's Investor Service	Aa1
Standard & Poor's	AA

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

### **Economic Factors That Will Affect the Future**

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. Although the full impact of the new funding formula is not known, the university's strategic planning is centered on student success measures that align with the new outcomes funding model. It is anticipated that the funding formula will have a positive funding impact for the university over the long term.

**Tennessee Board of Regents**  
**TENNESSEE TECHNOLOGICAL UNIVERSITY**  
**Statement of Net Position**  
**June 30, 2013**

	University	Component Unit
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Notes 2 and 21)	\$ 35,317,825.16	\$ 784,067.32
Short-term investments (Note 3)	5,451.74	-
Accounts, notes, and grants receivable (net) (Note 4)	7,108,799.65	-
Inventories (at lower of cost or market)	264,602.08	-
Prepaid expenses	430,074.89	37,782.33
Accrued interest receivable	13,572.32	109,767.71
<b>Total current assets</b>	<b>43,140,325.84</b>	<b>931,617.36</b>
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 21)	65,771,345.73	10,453,491.67
Investments (Notes 3 and 21)	426,775.51	48,411,078.53
Accounts, notes, and grants receivable (net) (Note 4)	1,478,337.81	4,000.00
Capital assets (net) (Notes 5 and 21)	121,754,971.49	316,579.81
<b>Total noncurrent assets</b>	<b>189,431,430.54</b>	<b>59,185,150.01</b>
<b>Total assets</b>	<b>232,571,756.38</b>	<b>60,116,767.37</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred amount on debt refunding (Note 7)	75,814.18	-
<b>Total deferred outflows of resources</b>	<b>75,814.18</b>	<b>-</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable (Note 6)	4,045,245.18	78,276.01
Accrued liabilities	7,241,704.90	-
Due to grantors (Note 7)	28,556.09	-
Student deposits	485,082.12	-
Unearned revenue (Note 7)	3,552,822.80	-
Compensated absences (Note 7)	642,377.29	-
Accrued interest payable	306,900.76	-
Long-term liabilities, current portion (Notes 7 and 21)	1,857,947.69	82,222.20
Deposits held in custody for others	553,561.47	-
Other liabilities	71,494.40	-
<b>Total current liabilities</b>	<b>18,785,692.70</b>	<b>160,498.21</b>
Noncurrent liabilities:		
Net OPEB obligation (Note 11)	6,543,017.46	-
Unearned revenue (Note 7)	160,000.00	-
Compensated absences (Note 7)	3,004,951.76	-
Long-term liabilities (Notes 7 and 21)	46,094,954.41	294,629.75
Due to grantors (Note 7)	1,411,382.88	-
<b>Total noncurrent liabilities</b>	<b>57,214,306.51</b>	<b>294,629.75</b>
<b>Total liabilities</b>	<b>75,999,999.21</b>	<b>455,127.96</b>
<b>NET POSITION</b>		
Net investment in capital assets	73,877,883.57	316,579.81
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	176,246.37	28,797,194.00
Research	-	512,790.53
Instructional department uses	-	2,821,532.72
Other	-	10,053,016.53
Expendable:		
Scholarships and fellowships (Note 8)	258,341.20	5,424,862.39
Research	1,367,655.02	170,888.71
Instructional department uses (Note 8)	512,999.48	1,263,164.05
Loans (Note 8)	459,968.31	-
Capital projects	191,635.82	26,984.28
Debt service	28,767.00	-
Other (Note 8)	1,102,985.34	9,819,981.10
Unrestricted (Note 8)	78,671,089.24	454,645.29
<b>Total net position</b>	<b>\$ 156,647,571.35</b>	<b>\$ 59,661,639.41</b>

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

**Tennessee Board of Regents**  
**TENNESSEE TECHNOLOGICAL UNIVERSITY**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Year Ended June 30, 2013**

	University	Component Unit
<b>REVENUES</b>		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$35,684,513.61)	\$ 47,708,612.17	\$ -
Gifts and contributions	-	2,070,011.27
Governmental grants and contracts	9,703,802.88	-
Nongovernmental grants and contracts	340,317.84	-
Sales and services of educational activities	1,272,121.89	-
Sales and services of other activities	8,219,525.23	-
Auxiliary enterprises:		
Residential life (net of scholarship allowances of \$30,623.89; all residential life revenues are used as security for revenue bonds; see Note 9)	11,374,268.03	-
Bookstore (all bookstore revenues are used as security for revenue bonds; see Note 9)	614,323.75	-
Food service (all food service revenue are used as security for revenue bonds; see Note 9)	1,886,978.99	-
Wellness facility (all wellness facility revenues are used as security for revenue bonds, see Note 9)	1,152,566.38	-
Other auxiliaries (all other auxiliaries revenues are used as security for revenue bonds; see Note 9)	662,758.67	-
Interest earned on loans to students	25,011.69	-
Other operating revenues	14,758.38	905,514.65
<b>Total operating revenues</b>	<b>82,975,045.90</b>	<b>2,975,525.92</b>
<b>EXPENSES</b>		
Operating expenses (Note 16):		
Salaries and wages	68,554,929.04	-
Benefits	26,519,938.61	-
Utilities, supplies, and other services	35,910,041.65	1,645,565.15
Scholarships and fellowships	15,049,234.85	1,517,018.35
Depreciation expense	7,170,011.04	26,168.53
Payments to or on behalf of Tennessee Technological University (Note 21)	-	725,102.61
<b>Total operating expenses</b>	<b>153,204,155.19</b>	<b>3,913,854.64</b>
<b>Operating loss</b>	<b>(70,229,109.29)</b>	<b>(938,328.72)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	41,139,921.50	-
Gifts, including \$649,485.88 from component unit	790,075.95	-
Grants and contracts	38,662,883.50	-
Investment income (net of investment expense for the component unit of \$215,083.61)	300,532.02	6,389,768.24
Interest on capital asset-related debt	(1,541,785.87)	-
Bond issuance costs	(32,721.29)	-
Other nonoperating revenues (expenses)	97,221.86	(2,911.11)
<b>Net nonoperating revenues (expenses)</b>	<b>79,416,127.67</b>	<b>6,386,857.13</b>
<b>Income before other revenues, expenses, gains, or losses</b>	<b>9,187,018.38</b>	<b>5,448,528.41</b>
Capital appropriations	3,086,771.86	-
Capital grants and gifts, including \$75,616.73 from the component unit	153,449.02	10,440.00
Additions to permanent endowments	450.00	906,331.88
<b>Total other revenues</b>	<b>3,240,670.88</b>	<b>916,771.88</b>
<b>Increase in net assets</b>	<b>12,427,689.26</b>	<b>6,365,300.29</b>
<b>NET POSITION</b>		
Net position - beginning of year	144,697,732.09	52,766,152.11
Prior period adjustment (Notes 17 and 21)	(477,850.00)	530,187.01
<b>Net assets - end of year</b>	<b>\$ 156,647,571.35</b>	<b>\$ 59,661,639.41</b>

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, 2013**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and fees	\$47,347,727.17
Grants and contracts	9,877,730.71
Sales and services of educational activities	1,308,751.29
Sales and services of other activities	8,171,948.98
Payments to suppliers and vendors	(33,829,951.44)
Payments to employees	(68,068,011.26)
Payments for benefits	(25,093,881.54)
Payments for scholarships and fellowships	(15,060,016.84)
Loans issued to students	(226,070.80)
Collection of loans from students	295,561.68
Interest earned on loans to students	14,958.93
Auxiliary enterprise charges:	
Residence halls	11,329,887.62
Bookstore	603,246.06
Food services	1,549,759.20
Wellness facility	1,168,324.98
Other auxiliaries	669,705.72
Other receipts (payments)	14,675.05
<b>Net cash used by operating activities</b>	<b>(59,925,654.49)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State appropriations	41,173,600.00
Gifts and grants received for other than capital or endowment purposes, including \$649,485.88 from Tennessee Technological University Foundation	39,406,524.91
Private gifts for endowment purposes	450.00
Federal student loan receipts	35,307,338.00
Federal student loan disbursements	(35,706,290.75)
Changes in deposits held for others	59,512.28
Other noncapital financing receipts (payments)	175,261.95
<b>Net cash provided by noncapital financing activities</b>	<b>80,416,396.39</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from capital debt	16,906,086.91
Capital appropriations	3,086,771.86
Capital grants and gifts received, including \$17,000.00 from Tennessee Technological University Foundation	94,832.29
Proceeds from sale of capital assets	23,368.91
Purchases of capital assets and construction	(14,227,776.67)
Principal paid on capital debt	(13,607,646.53)
Interest paid on capital debt	(1,794,881.73)
Bond issue costs paid on new debt issue	(32,721.29)
Other capital and related financing receipts (payments)	(36,468.23)
<b>Net cash used by capital and related financing activities</b>	<b>(9,588,434.48)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from sales and maturities of investments	138,573.79
Income on investments	324,780.93
Purchase of investments	(423.14)
<b>Net cash provided by investing activities</b>	<b>462,931.58</b>
Net increase in cash and cash equivalents	11,365,239.00
Cash and cash equivalents - beginning of year	90,201,781.89
Prior period adjustment (Note 17)	(477,850.00)
<b>Cash and cash equivalents - end of year</b>	<b>\$101,089,170.89</b>

**Tennessee Board of Regents**  
**TENNESSEE TECHNOLOGICAL UNIVERSITY**  
**Statement of Cash Flows (continued)**  
**For the Year Ended June 30, 2013**

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<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	\$ (70,229,109.29)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	7,170,011.04
Gifts in-kind	12,190.00
Other adjustments (Note 19)	116,221.50
Change in assets and liabilities:	
Receivables, net	536,982.93
Inventories	26,623.73
Prepaid items	(21,539.19)
Accounts payable	1,251,271.40
Accrued liabilities	1,331,007.36
Unearned revenues	(58,411.49)
Deposits	86,935.00
Compensated absences	393,503.97
Due to grantors	(198,864.18)
Loans to students and employees	(342,477.27)
<b>Net cash used by operating activities</b>	<b>\$ (59,925,654.49)</b>
<b>Noncash investing, capital, or financing transactions</b>	
Gifts in-kind - capital	\$ 58,616.73
Unrealized losses on investments	\$ (19,779.67)
Loss on disposal of capital assets	\$ (88,453.88)

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, 2013**

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**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 its donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements. See Note 21 for more detailed information about the component unit and how to obtain the report.

**Basis of Presentation**

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

**Basis of Accounting**

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

The university has classified its revenues and expenses as either operating or nonoperating according to the following criteria: Operating revenues and expenses are those that have the characteristics of exchange transactions. Operating revenues include (1) tuition and fees, net of scholarship discounts and allowances; (2) certain federal, state, local, and private grants and contracts; (3) sales and services of auxiliary enterprises; and (4) interest on institutional loans.

## Notes to the Financial Statements (Continued)

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Operating expenses include (1) salaries and wages; (2) employee benefits; (3) utilities, supplies, and other services; (4) scholarships and fellowships; and (5) depreciation.

Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other activities that are defined as nonoperating by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement 34, such as state appropriations and investment income.

When both restricted and unrestricted resources are available for use, it is the university's policy to determine which to use first, depending upon existing facts and circumstances.

### **Inventories**

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

### **Compensated Absences**

The university's employees accrue annual and sick leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time.

The amount of the liabilities for annual leave and compensatory time and their related benefits are reported in the statement of net position. There is no liability for unpaid accumulated sick leave since the university's policy is to pay this only if the employee 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 position 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 Position**

The university's net position is classified as follows:

Net investment in capital assets – This represents the university's total investment in capital assets, net of accumulated depreciation and net of outstanding debt obligations and deferred outflows/inflows of resources related to those capital assets. To the extent debt has been

## Notes to the Financial Statements (Continued)

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incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

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

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

Unrestricted net position – Unrestricted net position represents resources derived from student tuition and fees; state appropriations; sales and services of educational departments and other activities; and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the university and may be used at the university's discretion to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

### **Scholarship Discounts and Allowances**

Student tuition and fee revenues, as well as certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the university and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the university's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the university has recorded a scholarship discount and allowance.

### **Accounting Change**

The university implemented GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, during the year ended June 30, 2013. The effect on the university was the renaming of the residual of all other elements in the statement of financial position as net position, rather than net assets.

### **Early Implementation of Accounting Pronouncement**

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities; it also recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012.

## Notes to the Financial Statements (Continued)

However, the university has elected to implement the provisions of this statement for fiscal year 2013.

### Note 2. Cash

This classification includes demand deposits and petty cash on hand. At June 30, 2013, cash consisted of \$9,176,151.91 in bank accounts, \$7,721.90 of petty cash on hand, \$81,440,247.51 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, \$10,275,049.57 in LGIP deposits for capital projects, and \$190,000.00 in escrow.

The university has deposits in the LGIP, which is administered by the State Treasurer. The LGIP is part of the State Pooled Investment Fund. The fund's required risk 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](http://www.treasury.tn.gov).

LGIP deposits for capital projects – Payments related to the university's capital projects are made by the State of Tennessee's Department of Finance and Administration. The university's estimated local share of the cost of each project is held in a separate LGIP account. As expenses are incurred, the Tennessee Board of Regents withdraws funds from the LGIP account and transfers them to the Department of Finance and Administration. The funds in the account are not available to the university for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

### Note 3. Investments

All investments permitted to be reported at fair value under GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment 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 20, 2013, the university had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)				No Maturity Date
		Less than 1	1 to 5	6 to 10	More than 10	
U. S. agencies	\$413,830.50	\$5,451.74	\$35,216.45	\$161,304.71	\$211,857.60	\$ -
Collateralized mortgage obligation	1,649.34	-	1,649.34	-	-	-
Cash surrender value life insurance	16,747.41	-	-	-	-	16,747.41
<b>Total investments</b>	<b>\$432,227.25</b>	<b>\$5,451.74</b>	<b>\$36,865.79</b>	<b>\$161,304.71</b>	<b>\$211,857.60</b>	<b>\$16,747.41</b>

### 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

## Notes to the Financial Statements (Continued)

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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 by Standard and Poor's, Moody's Investors Service, and/or Fitch Ratings and are presented below using the Standard and Poor's rating scale.

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

The policy requires that prime commercial paper 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, 2013, the university's investments were rated as follows:

## Notes to the Financial Statements (Continued)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u> <u>Unrated</u>
LGIP	\$91,715,297.08	\$91,715,297.08
Collateralized mortgage obligation	1,649.34	1,649.34
<b>Total</b>	<b>\$91,716,946.42</b>	<b>\$91,716,946.42</b>

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

<u>Investments</u>	<u>Fair Value</u> <u>June 30, 2013</u>
Collateralized mortgage obligation	\$ 1,649.34
Local Government Investment Pool	333,934.28
<b>Total</b>	<b>\$335,583.62</b>

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, 2013, each having a fair value of \$1.17470, 169,749.81 units were owned by endowments, 7,629.70 units were owned by term endowments, and 108,352.34 units were owned by quasi-endowments.

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

<u>FY 2013</u>	<u>Pooled Assets</u>		<u>Net Gains</u> <u>(Losses)</u>	<u>Fair</u> <u>Value</u> <u>Per Unit</u>
	<u>Fair Value</u>	<u>Cost</u>		
End of year	\$335,583.62	\$335,515.89	\$ 67.73	\$1.174470
Beginning of year	\$334,964.22	\$334,848.86	115.36	1.175996
Change in unit value				<u>\$(0.001526)</u>
Unrealized net gains/(losses)			(47.63)	
Realized net gains/(losses)			-	
Total net gains/(losses)			<u>\$(47.63)</u>	

The average annual earnings per unit, exclusive of net gains, were \$0.001825 for the year ended June 30, 2013.

## Notes to the Financial Statements (Continued)

### Note 4. Receivables

Receivables included the following:

	<u>June 30, 2013</u>
Student accounts receivable	\$ 1,341,322.36
Grants receivable	3,601,728.32
Notes receivable	93,221.62
Other receivables	2,666,833.12
<hr/>	
Subtotal	7,703,105.42
Less allowance for doubtful accounts	(594,305.77)
<hr/>	
Total receivables	<u>\$7,108,799.65</u>

Federal Perkins Loan Program funds included the following:

	<u>June 30, 2013</u>
Perkins loans receivable	\$1,569,249.71
Less allowance for doubtful accounts	(90,911.90)
<hr/>	
Total	<u>\$1,478,337.81</u>

### Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 2,027,101.10	\$ -	\$ -	\$ -	\$ 2,027,101.10
Land improvements and infrastructure	18,237,497.76	319,020.53	897,637.03	-	19,454,155.32
Buildings	164,813,812.60	-	4,121,406.07	-	168,935,218.67
Equipment	24,397,805.03	1,654,287.45	-	1,230,050.07	24,822,042.41
Library holdings	3,118,194.70	230,175.33	-	346,304.74	3,002,065.29
Intangible assets	3,438,440.79	137,796.85	-	-	3,576,237.64
Projects in progress	2,713,548.31	12,850,157.27	(5,019,042.10)	-	10,544,662.48
<hr/>					
Total	218,746,400.29	15,191,437.43	-	1,576,354.81	232,361,482.91

## Notes to the Financial Statements (Continued)

Less accumulated depreciation /amortization					
Land improvements and infrastructure	7,639,944.87	849,848.60	-	-	8,489,793.47
Buildings	77,136,432.22	4,026,072.96	-	-	81,162,505.18
Equipment	16,628,204.19	1,670,686.93	-	1,141,596.19	17,157,294.93
Library holdings	1,752,534.20	297,605.48	-	346,304.74	1,703,834.94
Intangible assets	1,767,285.83	325,797.07	-	-	2,093,082.90
<b>Total</b>	<b>104,924,401.31</b>	<b>7,170,011.04</b>	<b>-</b>	<b>1,487,900.93</b>	<b>110,606,511.42</b>
Capital assets, net	\$113,821,998.98	\$8,021,426.39	\$	- \$ 88,453.88	\$121,754,971.49

### Note 6. Accounts Payable

Accounts payable included the following:

	<u>June 30, 2013</u>
Vendors payable	\$3,751,039.70
Unapplied student payments	287,165.48
Other payables	7,040.00
<b>Total accounts payables</b>	<b>\$4,045,245.18</b>

### Note 7. Long-term Liabilities

Long-term liabilities activity of the year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
TSSBA debt:					
Bonds	\$33,280,443.11	\$10,208,950.00	\$ 5,407,646.56	\$38,081,746.55	\$1,857,947.69
Unamortized bond premium	1,895,728.11	1,739,116.70	213,689.26	3,421,155.55	-
Commercial paper	9,691,979.76	4,958,020.21	8,199,999.97	6,450,000.00	-
<b>Subtotal</b>	<b>44,868,150.98</b>	<b>16,906,086.91</b>	<b>13,821,335.79</b>	<b>47,952,902.10</b>	<b>1,857,947.69</b>
Other liabilities:					
Compensated absences	3,253,825.08	2,032,228.24	1,638,724.27	3,647,329.05	642,377.29
Due to grantors	1,638,803.15	28,556.09	227,420.27	1,439,938.97	28,556.09
Unearned revenue	3,771,234.29	3,712,822.80	3,771,234.29	3,712,822.80	3,552,822.80

## Notes to the Financial Statements (Continued)

Subtotal	8,663,862.52	5,773,607.13	5,637,378.83	8,800,090.82	4,223,756.18
Total long-term liabilities	\$53,532,013.50	\$22,679,694.04	\$19,458,714.62	\$56,752,992.92	\$6,081,703.87

### TSSBA Debt – Bonds

Bonds, with interest rates ranging from 0.35% to 5.00%, 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 9 for further details. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the statement of net position is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was \$2,297,022.88 at June 30, 2013.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2013, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,857,947.69	\$ 1,765,194.43	\$ 3,623,142.12
2015	1,921,722.56	1,702,378.44	3,624,101.00
2016	2,006,494.22	1,618,989.98	3,625,484.20
2017	2,098,573.92	1,528,401.88	3,626,975.80
2018	2,194,970.91	1,437,387.27	3,632,358.18
2019 – 2023	12,289,135.70	5,588,121.52	17,877,257.22
2024 – 2028	11,184,573.41	2,937,861.32	14,122,434.73
2029 – 2032	4,528,328.14	610,567.88	5,138,896.02
<b>Total</b>	<b>\$38,081,746.55</b>	<b>\$17,188,902.72</b>	<b>\$ 55,270,649.27</b>

### TSSBA Debt – Commercial Paper

The Tennessee State School Bond Authority (TSSBA) issues commercial paper to finance the costs of various capital projects during the construction phase. When projects are placed in service, TSSBA issues long-term, fixed-rate debt to finance the project over its useful payback period and redeems the commercial paper. The amount issued for projects at the university was \$6,450,000.00 at June 30, 2013.

For the commercial paper program, TSSBA 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](http://www.comptroller.tn.gov/tssba/cafr.asp).

## Notes to the Financial Statements (Continued)

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### Refunding of Debt

On August 1, 2012, the state issued \$3,190,699.00 in revenue bonds with an average interest rate of 4.55% to advance refund \$3,632,639.06 of outstanding 2004B Series bonds with an average interest rate of 4.43%. The net proceeds of \$3,715,345.44 (after payment of \$10,071.02 in underwriter's fees and issuance costs) were deposited with an escrow agent to provide for all future debt service payments on the 2004B Series bonds. As a result, the 2004B Series bonds are considered to be defeased, and the liability for those bonds has been removed from the university's long-term liabilities.

Although the advance refunding resulted in the recognition of a deferred loss of \$82,706.38 to be amortized over the next 12 years, the university in effect reduced its aggregate debt service payments by \$631,151.80 over the next 12 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$516,902.10.

### 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, 2013, net appreciation of \$187,883.93 is available to be spent, of which \$6,181.80 is included in restricted net position expendable for scholarships and fellowships, \$5,296.59 is included in restricted net position expendable for instructional departmental uses, \$40,591.35 is included in restricted net position expendable for loans, \$10,034.83 is included in restricted net position expendable for other, and \$125,779.36 is included in unrestricted net position.

### Note 9. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay \$38,081,746.55 in revenue bonds issued from March 2004 to August 2012 (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 2.46% of available revenues. The total principal and interest remaining to be paid on the bonds is \$55,270,649.27. Principal and interest paid for the current year and total available revenues were \$3,522,175.85 and \$147,131,445.32, respectively. The

## Notes to the Financial Statements (Continued)

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amount of principal and interest paid for the current year does not include debt of \$3,632,639.06 defeased through a bond refunding in the current year.

### Note 10. Pension Plans

#### 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.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report is available on the state's website at [www.treasury.tn.gov/tcrs](http://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 15.03% 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, 2013; June 30, 2012; and June 30, 2011, were \$3,817,723.28, \$3,667,032.54, and \$3,499,531.11, respectively. Contributions met the requirements for each year.

#### 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, ING Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company. These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy – Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contributions made by the university to the plans were \$3,444,874.54 for the year ended June 30, 2013, and \$3,330,426.26 for the year ended June 30, 2012. Contributions met the requirements for each year.

## Notes to the Financial Statements (Continued)

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### Note 11. Other Postemployment Benefits

Health care 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 plan for health care 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 19. The plans are reported in the *Tennessee Comprehensive Annual Financial Report (CAFR)*. The CAFR is available on the state’s website at [www.tn.gov/finance/act/cafr.shtml](http://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 who 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. The plan’s claims liabilities are periodically computed using actuarial and statistical techniques to establish premium rates. The plan’s administrative costs 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, adjusted for years of service, as active employees. 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)	\$1,988,000.00
Interest on the net OPEB obligation	232,536.21
Adjustment to the ARC	(246,832.76)
Annual OPEB cost	1,973,703.45

## Notes to the Financial Statements (Continued)

Amount of contribution	(1,244,091.13)
Increase in net OPEB obligation	729,612.32
Net OPEB obligation – beginning of year	5,813,405.14
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Net OPEB obligation – end of year	\$6,543,017.46

<u>Year-end</u>	<u>Plan</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation at Year-end</u>
June 30, 2013	State Employee Group Plan	\$1,973,703.45	63.03%	\$6,543,017.46
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

### 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	-
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Unfunded actuarial accrued liability (UAAL)	\$17,870,000.00
Actuarial value of assets as a percentage of the AAL	0.0%
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

## Notes to the Financial Statements (Continued)

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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 health care cost trend rate of 9.25% initially. The rate decreased 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, which also represents the projected salary increase. 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 12. 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, 2013, is presented in the *Tennessee Comprehensive Annual Financial Report (CAFR)*. The CAFR is available on the state's website at [www.tn.gov/finance/act/cafr.shtml](http://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

## **Notes to the Financial Statements (Continued)**

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\$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, 2013, the Risk Management Fund held \$108.5 million in cash designated for payment of claims.

At June 30, 2013, the scheduled coverage for the university was \$627,315,700.00 for buildings and \$113,880,900.00 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 13. Commitments and Contingencies**

#### **Sick Leave**

The university records the cost of sick leave when paid. The dollar amount of unused sick leave was \$27,110,819.37 at June 30, 2013.

#### **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 \$19,799.18 and expenses for personal property were \$356,681.86 for the year ended June 30, 2013. All operating leases are cancelable at the lessee's option.

#### **Construction in Progress**

At June 30, 2013, outstanding commitments under construction contracts totaled \$6,230,363.23 for Tech Village Renovations, Residence Hall Renovations, and Academic Building Renovation of which \$381,552.10 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.

## Notes to the Financial Statements (Continued)

### Note 14. Chairs of Excellence

The university had \$5,729,409.42 on deposit at June 30, 2013, 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 15. Funds Held in Trust by Others

The university is a beneficiary under 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 \$6,825.00 from these funds during the year ended June 30, 2013.

### Note 16. Natural Classification With Functional Classifications

The university's operating expenses for the year ended June 30, 2013, are as follows:

<u>Functional Classification</u>	<u>Natural Classification</u>					
	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$35,933,916.87	\$12,909,369.62	\$ 7,754,740.03	\$ -	\$ -	\$ 56,598,026.52
Research	4,448,235.48	1,569,434.62	2,226,093.77	-	-	8,243,763.87
Public service	2,420,210.64	803,689.73	1,939,196.94	-	-	5,163,097.31
Academic support	7,383,017.90	3,142,139.25	(5,203.96)	-	-	10,519,953.19
Student services	7,127,998.84	3,115,466.71	5,898,273.97	-	-	16,141,739.52
Institutional support	6,809,097.83	2,994,152.48	2,689,173.77	-	-	12,492,424.08
Maintenance & operation	2,385,849.45	1,258,465.91	11,692,171.99	-	-	15,336,487.35
Scholarships & fellowships	-	-	-	15,049,234.85	-	15,049,234.85
Auxiliary	2,046,602.03	727,220.29	3,715,595.14	-	-	6,489,417.46
Depreciation	-	-	-	-	7,170,011.04	7,170,011.04
Total	\$68,554,929.04	\$26,519,938.61	\$35,910,041.65	\$15,049,234.85	\$7,170,011.04	\$153,204,155.19

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 \$3,892,747.05 were reallocated from academic support to the other functional areas and caused academic support operating expenses to appear as a negative amount in the schedule above.

## Notes to the Financial Statements (Continued)

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### **Note 17. Prior Period Adjustment**

Tennessee Technological University Foundation provided a capital gift in fiscal year 2009 to the university for the construction of a Science, Technology, Engineering, and Mathematics (STEM) building. Upon completion of the building, funds held by the university but not used to cover construction costs were returned to the foundation. The amount returned in fiscal year 2013 to the foundation resulted in a decrease in cash and restricted, expendable net position restricted for capital of \$477,850.00.

### **Note 18. Affiliated Entity Not Included**

The TTU Agricultural Foundation is a private, nonprofit foundation with the university as the primary 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, 2012, the assets of the foundation totaled \$653,736.93, liabilities were \$0.00, and the fund balance amounted to \$653,736.93.

### **Note 19. On-behalf Payments**

During the year ended June 30, 2013, the State of Tennessee made payments of \$116,221.50 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit health care plan and is discussed further in Note 11. 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](http://www.tn.gov/finance/act/cafr.shtml).

### **Note 20. Subsequent Events**

Subsequent to June 30, 2013, the Tennessee State School Board Authority (TSSBA) issued \$3.2 million in commercial paper on behalf of the university. In addition, on November 21, 2013, TSSBA issued \$6.45 million in bonds (which includes a premium of roughly \$700,000) on behalf of the university.

### **Note 21. Component Unit**

The Tennessee Technological University Foundation is a legally separate, tax-exempt organization supporting Tennessee Technological University. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the university in support of its programs. The 24-member board of the foundation is self-perpetuating and consists of graduates and friends of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon,

## Notes to the Financial Statements (Continued)

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, 2013, the foundation made distributions of \$725,102.61 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, 2013, cash and cash equivalents consisted of \$8,064,271.79 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$3,173,287.20 in custodial accounts of investment managers of the foundation. The LGIP is part of the Pooled Investment Fund. The fund's required risks disclosures are presented in the *State of Tennessee's Treasurer's Report*. That report is available on the state's website at [www.treasury.tn.gov](http://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, 2013, the foundation had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>No Maturity Date</u>
U.S. Treasury	\$ 14,578.00	\$ -	\$ -	\$14,578.00	\$ -
Corporate stock	23,943,057.35	-	-	-	23,943,057.35
Corporate bonds	4,429,714.92	1,026,470.00	3,403,244.92	-	-
Mutual bond funds	4,476,962.75	-	-	-	4,476,962.75
Mutual equity funds	5,044,489.77	-	-	-	5,044,489.77
Land	200,000.00	-	-	-	200,000.00
Other:					
Cash surrender value					
life insurance	14,940.03	-	-	-	14,940.03
Exchange traded funds	2,954,513.00	-	-	-	2,954,513.00
Private equity	209,242.00	-	-	-	209,242.00
Natural resources	27,767.00	-	-	-	27,767.00
Hedge fund	7,095,813.71	-	-	-	7,095,813.71
<b>Total investments</b>	<b>\$48,411,078.53</b>	<b>\$1,026,470.00</b>	<b>\$3,403,244.92</b>	<b>\$14,578.00</b>	<b>\$43,966,785.61</b>

## Notes to the Financial Statements (Continued)

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 Investor Service, and/or Fitch Ratings 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, 2013, the foundation’s investments were rated as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>		
		<u>A</u>	<u>BBB</u>	<u>Unrated</u>
LGIP	\$ 8,064,271.79	\$ -	\$ -	\$ 8,064,271.79
Corporate bonds	4,429,714.92	2,418,434.92	2,011,280.00	-
Mutual bond funds	4,476,962.75	-	-	4,476,962.75
<b>Total</b>	<b>\$16,970,949.46</b>	<b>\$2,418,434.92</b>	<b>\$2,011,280.00</b>	<b>\$12,541,234.54</b>

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.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the foundation’s investment in a single issuer. The foundation places no limit on the amount it may invest in any one issuer.

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

<u>Investments</u>	<u>Fair Value</u> <u>June 30, 2013</u>
LGIP	\$ 8,064,271.79
Investment manager custodial accounts	3,105,445.53
Corporate stocks	23,581,603.62
Corporate bonds	4,429,714.92
Mutual funds	9,452,603.71
Other:	
Private equity funds	209,242.00
Natural resources fund	27,767.00
Exchange traded funds	2,954,513.00
Hedge funds	7,095,813.71
<b>Total</b>	<b>\$58,920,975.28</b>

## Notes to the Financial Statements (Continued)

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, 2013, each having a fair value of \$110.033151, 450,156.2802 units were owned by endowments, 13,083.2610 units were owned by quasi-endowments, and 72,244.3108 units were owned by non-endowment operating accounts.

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

<u>FY 2013</u>	<u>Pooled Assets</u>		Net Gains	Fair
	<u>Fair Value</u>	<u>Cost</u>	<u>(Losses)</u>	<u>Value</u>
				<u>Per Unit</u>
End of year	\$58,920,975.28	\$55,495,689.35	\$3,425,285.93	\$110.033151
Beginning of year	\$52,225,208.86	\$50,592,243.01	1,632,965.85	107.224215
			<u>1,792,320.08</u>	<u>\$ 2.808936</u>
Unrealized net gains/(losses)			1,792,320.08	
Realized net gains/(losses)			<u>-</u>	
Total net gains/(losses)			<u>\$1,792,320.08</u>	

The average annual earnings per unit, exclusive of net gains, were \$8.449807 for the year ended June 30, 2013.

### Alternative Investments

The foundation has investments in two hedge funds, a private equity fund, and a natural resources fund. The estimated fair value of these assets is \$7,332,822.71 at June 30, 2013. The two largest funds are hedge fund portfolios representing 96.8% of portfolio assets.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2013. 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. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques.

The largest of the four funds accounting for 71.1% of the fair value of the fund portfolio includes investments that the fair values are estimated using an industry-recognized pricing service. The second largest fund's investments represents 25.7% of the fair value of the fund portfolio and the two remaining private equity and natural resources funds represent 3.2% of the fund portfolio fair values are estimated using various valuation techniques. At June 30, 2013, the three smaller funds' investments were valued at the net asset values as determined by the portfolio managers. The funds are 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.

## Notes to the Financial Statements (Continued)

### Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$240,354.71	\$ -	\$ -	\$ -	\$240,354.71
Intangible assets	261,685.25	-	-	-	261,685.25
Projects in progress	-	50,056.62	-	-	50,056.62
<b>Total</b>	<b>502,039.96</b>	<b>50,056.62</b>	<b>-</b>	<b>-</b>	<b>552,096.58</b>
Less accumulated amortization:	209,348.24	26,168.53	-	-	235,516.77
<b>Capital assets, net</b>	<b>\$292,691.72</b>	<b>\$23,888.09</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$316,579.81</b>

### Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
Notes	\$459,074.15	\$ -	\$82,222.20	\$376,851.95	\$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 \$376,851.95 at June 30, 2013.

Debt service requirements to maturity for notes payable at June 30, 2013, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>
2014	\$ 82,222.20
2015	82,222.20
2016	82,222.20
2017	82,222.20
2018	47,963.15
<b>Total</b>	<b>\$376,851.95</b>

### 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

## **Notes to the Financial Statements (Continued)**

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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 designed by the donor has been authorized for expenditure. The remaining amount, if any, becomes part of the permanent endowment.

### **Funds Held in Trust by Others**

The foundation is beneficiary under the CTC Charitable Lead Trust, the Odom Family Trust, and Odom 2<sup>nd</sup> Chance Trust. The underlying assets are not considered assets of the foundation and are not included in the foundation's financial statements. The foundation received \$110,282.86 from these funds during the fiscal year ended June 30, 2013.

### **Prior-period Adjustments**

In fiscal year 2009, funds were transferred to the university to construct a Center for the STEM building. The funds included a loan authorized by Wendell J. Long and Frances C. Long through the William Benton and Fanalou Whitson Carlen Memorial Scholarship Endowment Fund. Upon completion of the construction and additional fund raising for the project, \$477,850.00 was returned to the foundation to repay the endowment because it was not used for construction. This resulted in an increase of \$477,850.00 in cash and nonexpendable net position restricted for scholarships.

In fiscal year 2006, the foundation purchased and implemented Raiser's Edge Software at a cost of \$261,685.25. The software was not capitalized at the time of the purchase. Accumulated amortization as of June 30, 2012, of \$209,348.24 resulted in a prior period adjustment of \$52,337.01 increasing capital assets net of accumulated depreciation and net investment in capital assets. Current year amortization is \$26,168.53

### **Subsequent Events**

On February 6, 2014, the Tennessee Technological Foundation borrowed funds of \$750,000 to purchase a building. Payments are due through December 5, 2018.

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

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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	\$ -	\$17,870,000	\$17,870,000	0%	\$48,082,261	37.17%
July 1, 2010	State Employee Group Plan	\$ -	\$19,836,000	\$19,836,000	0%	\$49,518,539	40.06%
July 1, 2009	State Employee Group Plan	\$ -	\$22,170,000	\$22,170,000	0%	\$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, 2013**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Gifts and contributions	\$ 2,022,056.97
Payments to suppliers and vendors	(1,399,711.52)
Payments for scholarships and fellowships	(1,517,018.35)
Payments to Tennessee Technological University	(666,485.88)
Loans issued to students	(4,000.00)
Other receipts (payments)	741,503.89
<b>Net cash used by operating activities</b>	<b>(823,654.89)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Private gifts for endowment purposes	931,331.88
Other non-capital financial receipts (payments)	1,200.00
<b>Net cash provided by noncapital financing activities</b>	<b>932,531.88</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital grants and gifts received	6,500.00
Purchases of capital assets and construction	(103,626.73)
Principal paid on capital debt	(82,222.20)
Other capital and related financing receipts (payments)	(4,111.11)
<b>Net cash used by capital and related financing activities</b>	<b>(183,460.04)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from sales and maturities of investments	13,996,074.61
Income on investments	4,482,917.66
Purchases of investments	(19,791,407.85)
<b>Net cash used by investing activities</b>	<b>(1,312,415.58)</b>
Net decrease in cash and cash equivalents	(1,386,998.63)
Cash and cash equivalents - beginning of year	12,146,707.62
Prior period adjustment (Note 21)	477,850.00
<b>Cash and cash equivalents - end of year</b>	<b>\$ 11,237,558.99</b>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	\$ (938,328.72)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	26,168.53
Gifts in-kind	58,616.73
Other adjustments	(2,267.04)
Changes in assets and liabilities:	
Prepaid items	(37,782.33)
Accounts payable	73,937.94
Loans to students	(4,000.00)
<b>Net cash used by operating activities</b>	<b>\$ (823,654.89)</b>
<b>Noncash investing, capital, or financing transactions</b>	
Gifts in-kind - capital	\$ 3,940.00
Unrealized gains on investments	\$ 1,876,461.55



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
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DIVISION OF STATE AUDIT  
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**Independent Auditor's Report on Internal Control Over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance with  
*Government Auditing Standards***

The Honorable Bill Haslam, Governor  
Members of the General Assembly  
The Honorable John G. Morgan, Chancellor  
Dr. Philip B. Oldham, President

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, 2013, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated June 27, 2014. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the university's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the university's internal control. Accordingly, we do not express an opinion on the effectiveness of the university's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or

significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies that we consider to be material weaknesses. We did identify a certain deficiency in internal control, as described below, that we consider to be a significant deficiency:

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

This deficiency is described in the Findings and Recommendations section of this report.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the university's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We did, however, note certain immaterial instances of noncompliance that we have included in the Findings and Recommendations section of this report.

### **Tennessee Technological University's Responses to Findings**

The university's responses to the findings identified in our audit are included in the Findings and Recommendations section of this report. The university's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on them.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Deborah V. Loveless, CPA

Director

June 27, 2014

## Findings and Recommendations

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

#### Finding

For the second consecutive year, the university did not design and monitor internal controls in specific areas. We determined that management corrected one of the conditions noted in the prior-year finding, but we observed another condition that continued to be in violation of university policy and/or industry-accepted best practices. Inconsistent implementation of internal controls increases the risk of fraud or error.

The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the university with detailed information regarding the specific conditions we identified, as well as our recommendations for improvement.

#### Recommendation

Management should ensure that these conditions are remedied by the prompt development and consistent implementation of internal controls in one area. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

#### Management's Comment

We concur with the finding and recommendation. Corrective actions have been identified and are being implemented to remedy the deficiencies identified by State Audit.

### 2. The university did not have accessible written policies and procedures regarding financial aid verification, resulting in an increased risk that the university could disburse funds to students who were not properly verified

#### Finding

According to the *Code of Federal Regulations* (CFR) Title 34, Part 668, Section 53, an institution “must establish and use written policies and procedures” for verifying certain information on an applicant’s Free Application for Federal Student Aid. For at least a portion of the fiscal year under audit, Tennessee Technological University (TTU) was not in compliance with this regulation. In addition, for the remainder of the fiscal year under audit, the policies and procedures manual was not readily available to those staff who might need to access the manual.

In early May 2013, we asked for and received TTU's *Financial Aid Office Policies and Procedures* manual. The manual received did not contain the required policies, was incomplete in sections, and contained references to a different school. The Director of Financial Aid stated that the manual was a work in progress, as the original manual had recently been lost. The original TTU *Financial Aid Office Policies and Procedures* manual had been maintained only on the director's computer and had not been backed up. When the hard drive of that computer crashed around the middle of April 2013, the manual was destroyed. The manual the auditor received was a draft version of the original manual that was in the process of being re-created, using the manual from another school as a reference.

On July 10, 2013, we received an update of the draft *TTU Financial Aid Office Policies and Procedures* manual. This version did contain written policies and procedures regarding financial aid verification as required by 34 CFR 668.53. Although the newer manual is more complete than the manual the auditor originally obtained, it is still incomplete in several parts. For instance, a section entitled "Standard Student Budgets" was completely blank. Also, a section that indicated that it would describe the Business Office's role in disbursing funds simply stated: "The Business Office receives disbursement roster(s) from the Financial Aid Office and performs the following processes." The next phrase in the manual is the heading for the next section of the manual.

In addition, as the director's computer was only accessible to him, the manual was not available to other members of the Financial Aid Office. If a staff member needed to access the manual, he or she would have to wait until the director was available to discuss the issue. The inaccessibility of the manual to other members of the Financial Aid Office is a violation of best practices.

As a result of these problems, the Financial Aid Office was not in compliance with the *Code of Federal Regulations* for a minimum of three months. In addition, with the policies and procedures manual only accessible to the director, staff may not be able to handle issues timely or make informed decisions.

### **Recommendation**

The Director of Financial Aid should complete and finalize the new policies and procedures manual. The manual should be made easily accessible to those whose duties require them to access such policies and procedures. Also, the director should work with Information Technology Services to initiate comprehensive, automatic backup procedures for vital documents such as policies and procedures manuals.

### **Management's Comment**

We concur with the finding and recommendation.

The current Policies and Procedures manual has been updated with all required regulatory language and detail. In its current state, the manual is both in printed and electronic form. The printed version is located in the director's office which is accessible by all staff members.

The electronic version is stored on the director's hard drive which is backed up on a daily basis by TTU IT staff, and as of August 1, 2013, it is also stored on a shared drive that is accessible by all financial aid staff and also backed up on a daily basis.