AUDIT REPORT

Tennessee Board of Regents
Tennessee Technological University

For the Year Ended
June 30, 2007

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

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STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

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John G. Morgan
Comptroller

August 14, 2008

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

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Tennessee Technological University, for the year ended June 30, 2007. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/ajm
07/114

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit
Tennessee Technological University
For the Year Ended June 30, 2007

AUDIT OBJECTIVES

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

AUDIT FINDINGS

INTERNAL CONTROL FINDINGS

The Associate Vice President for Business and Fiscal Affairs Has Not Assessed and Mitigated the Risks of Fraud or Error in Financial Reporting Resulting From Improperly Approved Journal Vouchers
The Associate Vice President for Business and Fiscal Affairs of the university has not established policies and procedures that require supervisors to approve journal vouchers (page 9).

As Noted in the Prior Audit, University Management Has Not Adequately Addressed the Risk of Fraud, Waste, and Abuse Associated With Procurement Cards and Actually Weakened Existing Controls by Allowing Undocumented Exceptions to the Procurement Card Policies*
As noted in the prior audit, management of Tennessee Technological University did not formally document management's decision to allow exceptions to the university's *ProCard User's Manual*, which serves as the policies for university staff who are assigned procurement cards (page 10).

Compliance Findings

Management Has Not Assessed and Mitigated the Risks Associated With Its Failure to Ensure That Faculty and Staff Charged Academic Salaries to Federal Grants in Compliance With OMB Circular A-21, Resulting in $9,434 of Federal Questioned Costs and the Potential Loss of Future Federal Funding
University management has not ensured that faculty and staff working on federal research and development (R&D) grants, contracts, or cooperative agreements properly charged their academic salaries and hours worked to the federal programs in compliance with OMB Circular A-21, "Cost Principles for Educational Institutions" (page 12).

Management Has Not Assessed and Mitigated the Risks of Federal Questioned Costs Associated With Its Failure to Produce and Maintain Documentation to Support Academic Salaries Charged to Federal Grants as Required in OMB Circular A-21
University management has not coordinated the efforts of the various departments to ensure that time and effort reports were generated when academic salaries were charged to federal Research and Development (R&D) programs (page 15).

As Noted in the Prior Audit, TTU Management Has Not Assessed and Mitigated the Risks Associated With Its Failure to Adequately Reconcile the University's Direct Loan Records With the Loan Origination Center's Records as Required by Federal Regulations*
For the second year, the Tennessee Technological University's Director of Financial Aid did not properly reconcile the university's direct loan records with the federal Loan Origination Center's records (page 19).

* This finding is repeated from the prior audit.

Opinions on the Financial Statements

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Tennessee Technological University
For the Year Ended June 30, 2007

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INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

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

ORGANIZATION

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

AUDIT SCOPE

The audit was limited to the period July 1, 2006, through June 30, 2007, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the year ended June 30, 2007, and for comparative purposes, the year ended June 30, 2006. Tennessee Technological University is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the university's internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements;

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

3. to determine the fairness of the presentation of the financial statements; and

4. to recommend appropriate actions to correct any deficiencies.

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

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The university filed its report with the Department of Audit on June 4, 2008. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the university has corrected the previous audit finding concerning restricted accounts receivable.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning procurement cards and the Direct Loan Program. These findings have not been resolved and are repeated in this report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

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

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

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 2007, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing opinions on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Significant deficiencies, along with recommendations and management's responses, are detailed in the findings and recommendations section. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Immaterial instances of noncompliance, along with recommendations and management's responses, are included in the findings and recommendations section.

Fairness of Financial Statement Presentation

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

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

December 6, 2007

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

Dear Mr. Morgan:

We have audited the financial statements of Tennessee Technological University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the year ended June 30, 2007, and have issued our report thereon dated December 6, 2007. 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.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

The following significant deficiencies were noted:

- The Associate Vice President for Business and Fiscal Affairs has not assessed and mitigated the risks of fraud or error in financial reporting resulting from improperly approved journal vouchers

- As noted in the prior audit, university management has not adequately addressed the risk of fraud, waste, and abuse associated with procurement cards and actually weakened existing controls by allowing undocumented exceptions to the procurement card policies

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

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

Compliance and Other Matters

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

We did, however, note certain immaterial instances of noncompliance that we have included in the Findings and Recommendations section of this report. We also noted certain other less significant instances of noncompliance, which we have reported to the university's management in a separate letter.

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

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/cj

1. <u>The Associate Vice President for Business and Fiscal Affairs has not assessed and mitigated the risks of fraud or error in financial reporting resulting from improperly approved journal vouchers</u>

Finding

The Associate Vice President for Business and Fiscal Affairs of the university has not established policies and procedures that require supervisors to approve journal vouchers. Fiscal management and staff use journal vouchers to document manual accounting entries into the university's accounting system and are a critical part of the financial statement preparation process.

During our review of the journal voucher process, we noted that the Grant Accounting staff did not obtain the supervisor's approval when journal vouchers were prepared and processed. When the Grant Accounting Manager was not available to approve or was the individual who prepared the journal voucher, the journal vouchers were approved by lower level staff. When we discussed the approval process with the Grant Accounting Manager, she stated that about two-thirds of all journal vouchers were approved by lower level staff in this manner. Based on our specific testwork, we found that for 19 of 29 journal vouchers tested (66%), the Grant Accounting Manager had prepared the journal vouchers and her staff had signed as the approver. In fact, the lower level staff improperly approved journal vouchers totaling $21,672,242 which had been prepared by their direct supervisor.

Based on our discussion in October 2007 with the Grant Accounting Manager, she stated that she was aware that the approval issue was a problem and was in the process of implementing new procedures to correct this issue. Because the university had changed accounting systems effective July 1, 2007, she wanted to combine the changes necessary to correct this problem with the changes necessary for the system implementation. We were unable to determine the effectiveness of the revised procedures by the end of our fieldwork. However, we will continue to review journal vouchers in future audits.

We also reviewed the journal voucher approval process in other departments and noted similar issues. We found that for 14 of 85 general and investment journal vouchers tested totaling $22,059,696 (16%), management had no evidence that the appropriate supervisor approved the journal vouchers. The only signature on these journal vouchers was that of the preparer. Of the 14 journal vouchers, 11 were prepared by the Financial Management Analyst; however, we found no evidence of a supervisory approval of the journal vouchers.

Supervising management should review and approve journal vouchers to ensure the entries recorded into the accounting system are appropriate, and to provide oversight for the financial statement preparation process. Without the appropriate level of review and approval, staff may incorrectly prepare the journal voucher, increasing the university's risk of material misstatements to the account balance or to the financial statements due to fraud or error.

Recommendation

The Vice President for Business and Fiscal Affairs should establish policies and procedures that will only allow journal vouchers to be entered into the accounting system with the proper level of approval. These procedures should require that all journal vouchers be approved by the preparer's supervisor or other higher level review. The Vice President for Business and Fiscal Affairs should assign specific staff the responsibility for monitoring the process for preparing, reviewing, and approving journal vouchers to mitigate the risks of improper journal vouchers and the potential of material misstatement or fraud associated with improper journal vouchers.

In addition, the Vice President for Business and Fiscal Affairs should ensure that other risks of improper accountability, noncompliance, fraud, waste, or abuse are adequately identified and assessed in their documented risk assessment. TTU's management should implement effective controls to ensure compliance with applicable requirements and should 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. Procedures have been developed and implemented that require supervisory review and approval of manual journal vouchers. Journal vouchers will no longer be approved with a single signature or approved at a lower level. Before entering journal vouchers into the system, they will be audited for appropriate signatures. System-generated journal vouchers do not need signature paper approval; they are approved at the point of grant activation.

The formal risk assessments for the Financial Management areas of the university are currently scheduled to be completed in October 2008. However, the Vice President for Business and Fiscal Affairs and her staff are very cognizant of the risks involved with journal vouchers and remain committed to the internal controls necessary to minimize those risks.

2. As noted in the prior audit, university management has not adequately addressed the risk of fraud, waste, and abuse associated with procurement cards and actually weakened existing controls by allowing undocumented exceptions to the procurement card policies

Finding

As noted in the prior audit, management of Tennessee Technological University did not formally document management's decision to allow exceptions to the university's *ProCard User's Manual*, which serves as the policies for university staff who are assigned procurement cards. During the prior year audit, we learned about three relatively common exceptions to these policies. However, management's approval of these exceptions and the exceptions themselves were not documented in any way.

During our current audit, we selected 195 procurement card transactions for testwork. Of these transactions, cardholders did not comply with the published *Procard User's Manual* in 137 (70%) of the purchase transactions. However, we found that each of these instances of noncompliance was allowable under the exceptions as described by the Director of Accounting.

We completed prior year fieldwork in July 2007 and reported our results to management. In January 2008, in response to the prior year finding, TTU management concurred with the finding and stated that they were currently updating the *Procard User's Manual* to reflect the current business practices. Management also stated that they would clearly document approved exceptions in the future. Because the prior audit ended in July 2007, management has not had time to fully implement correction action. Therefore, we were not able to review the revised *Procard User's Manual* to date as management was still in the process of updating the Guide at the end of our fieldwork in December 2007.

Without clear written policies including management's approved exceptions to the policy, the university's risk of fraud, waste, and abuse related to use of the procurement cards is increased and the university is vulnerable to employees who may violate the policy, intentionally or unintentionally.

Recommendation

The Vice President for Business and Fiscal Affairs should continue to revise the procurement card policies and include approved exceptions as necessary. The Vice President for Business and Fiscal Affairs should ensure that any departures based on the approved exceptions from the written policies are clearly documented. Those staff who have procurement cards should be adequately trained according to these revised policies.

In addition, the Vice President for Business and Fiscal Affairs should ensure that other risks of improper accountability, noncompliance, fraud, waste, or abuse are adequately identified and assessed in the documented risk assessment. TTU's management should implement effective controls to ensure compliance with applicable requirements and should 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. The *Procard User's Manual* has been updated, and all common exceptions have been addressed in the updated Procard Manual. Continual training and monitoring of the Procard is conducted with each new cardholder, and communications and training are conducted in person and via email for updates to the Procard procedures. Monitoring procedures have been developed to randomly check the validity of Procard changes.

The formal risk assessments for the Financial Management of the university are currently scheduled to be completed in October 2008. However, the Vice President for Business and Fiscal Affairs and her staff are very cognizant of the risk involved with procurement cards and remain committed to the internal controls necessary to minimize those risks.

3. Management has not assessed and mitigated the risks associated with its failure to ensure that faculty and staff charged academic salaries to federal grants in compliance with OMB Circular A-21, resulting in $9,434 of federal questioned costs and the potential loss of future federal funding

Finding

University management has not ensured that faculty and staff working on federal research and development (R&D) grants, contracts, or cooperative agreements properly charged their academic salaries and hours worked to the federal programs in compliance with OMB Circular A-21, "Cost Principles for Educational Institutions." We found that the university paid certain R&D faculty and staff at a higher salary rate while working on the federal R&D programs than it would have paid them for working in similar non-federal positions. We also found that faculty charged more work hours than allowed under Circular A-21. These discrepancies occurred when faculty worked beyond their normal nine-month academic year.

Our testwork consisted of discussions with the Grant Accounting Office management and staff and the Human Resource Services personnel to gain an understanding of the process related to R&D faculty salaries and charging these academic salaries to the applicable federal programs. We also selected sample transactions for detailed review. Based on our discussions, we determined the university process is as follows:

The university employs faculty through employment contracts for an academic year. The academic year is defined by Tennessee Technological University Human Resource Services Policies and Procedures as "nine months preceding spring commencement." If faculty also choose to work more than nine months and work during the summer months, the university's Human Resource Services Policies and Procedures requires faculty to prepare "Extra Pay and Summer Pay Time Sheets" which are maintained as the permanent payroll record for faculty receiving summer pay. These time sheets document the pay rate and number of hours worked by the employee. The Interim Director of Human Resource Services signs the Extra Pay and Summer Pay Time Sheet to indicate her approval. The payroll section of Human Resource Services then enters this information into the payroll system for the calculation of the next payroll. In addition to the Extra Pay and Summer Pay Time Sheets, the federal program project director is required by the university's Accounting Policies and Procedures to sign a requisition which indicates that the instructional salaries are allotted to the proper federal R&D account and that funds are available. The approver then forwards this requisition to the Grant Accounting

Office staff who maintain documentation as evidence to support academic salaries charged to federal R&D programs.

We selected a sample of 25 academic salary transactions for the period ended June 30, 2007, for our detailed review. The 25 sample transactions we selected represented 50 individual faculty academic payroll expenses. We found 6 sample transactions representing 11 individual faculty academic payroll expenses that were not allowable charges to the federal programs. Although the sample included transactions from the entire fiscal year, the 6 sample transactions included payroll periods during the summer months.

Faculty Working on Federal Programs Were Paid Higher Salary Rates Than Faculty Working in Non-federal Positions

Specifically, in 3 out of the 11 individual academic payroll expenses, we found that the university paid faculty and charged the federal R&D grants for salary rates which were higher than salary rates established for non-federal work. The difference between what these employees were paid for the work on the federal program compared to their non-federal pay rates resulted in $904 of actual federal questioned costs.

OMB Circular A-21, Section J, 10.a., states that salary costs must conform to the university's established policies. Also, the Tennessee Technological University *Accounting Policies and Procedures*, 12.4.3, states that the rate of pay of salaries and wages "on grant projects shall not exceed the rate of pay paid on non-grant projects for comparable work performed."

Faculty Charged More Payroll Hours for Federal R&D Grants Than Allowed by Circular A-21 or by TTU's Internal Policy

The university's *Human Resource Services Policies and Procedures* states that for faculty who serve under sponsored contracts for research between academic years, compensation "shall not exceed the rate equivalent to one-ninth per month of the preceding academic year salary." According to discussions with the Interim Director of Human Resource Services, nine-month salaries are based on 162.5 hours per month for a total of 1,462.5 hours per academic year. As a result, faculty who charge more than 162.5 hours to a federal program for any one month would exceed the maximum allowable hours based on their yearly salary.

In addition, OMB Circular A-21, Section J, 10.d.(2)(a), states that salary rates for faculty members charged during the summer months may not exceed the proportionate share of their salary during the academic year.

Our testwork revealed that for the remaining 8 of the 11 individual academic payroll expenses tested, faculty members charged more than 162.5 hours for the summer months, which was more than allowed under Circular A-21. We identified total excess hours for all faculty members tested of 165.46 hours, which resulted in $8,530 of actual federal questioned costs.

When we discussed these issues with the Interim Director of Human Resource Services, she agreed that this was a problem. She stated that the current payroll manager, who is relatively new in her position, had not been properly instructed to review the pay rates prior to processing the requisition. Her predecessor, upon her separation, had removed the position-specific job manual, and as a result, the current payroll manager received only verbal instructions for her job from the interim director. The interim director stated she was aware of the missing manual and was aware of the need to update and replace the manual for all Human Resource Services employees; however, as of November 2007, the interim director had not replaced the manual. In addition, the interim director also explained that she only compared the total dollar amount charged on the time sheet to the dollar amount on the requisition, and as a result, she did not note that faculty were paid higher salary rates for the federal programs. The interim director also stated that she was not aware of the requirements in OMB Circular A-21, Section J, 10.d.(2)(a).

The total actual federal questioned costs for the deficiencies related to academic salaries was $9,434 out of a total of $413,392 of academic salaries tested. The total population of academic salaries was $859,588. We believe likely questioned costs exceed $10,000 for these conditions.

A lack of adequate controls to either ensure that federal academic salary rates are not greater than non-federal rates or that the hours charged to the federal R&D programs are not in excess of the allowable maximum hours could lead potentially to further federal questioned costs and possibly threaten the likelihood of future federal awards.

Recommendation

The Interim Director of Human Resource Services should promptly familiarize herself and staff with all federal requirements and immediately replace the missing manuals and tools staff need to perform their jobs. The Interim Director should train staff as needed to ensure these instances of noncompliance are corrected. The Interim Director of Human Resource Services should specifically ensure that the academic salary rate for federal work is not higher than rates for similar non-federal work, and that the salaries are not charged in excess of the maximum allowable. The Interim Director of Human Resource Services should also ensure that employees working outside the academic year follow the policies and procedures established by the Department of Human Resource Services. The Vice President for Business and Fiscal Affairs should monitor the roles and responsibilities of the Interim Director of Human Resource Services to ensure compliance with all federal regulations and university policies and procedures.

The Vice President of Business and Fiscal Affairs should ensure that the risks noted in this finding are adequately identified and assessed in management's documented risk-assessment activities. The Vice President of Business and Fiscal Affairs should identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions timely. The Vice President of Business and Fiscal Affairs should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur.

Management's Comment

We concur with the finding. Policies are currently being developed to ensure that Principal Investigators (PI) are properly trained on the applicable regulations governing funding received from external sources. The Office of Research will provide training for all PIs before activating new awards. The Business Office will not establish budget accounts until the Office of Research has provided written notification that the PI has completed the training and the PI has certified that they understand and will comply with all applicable federal regulations for their project funding source. Principal Investigators are responsible for the administration of their grant, including extra pay/summer pay. They are the most knowledgeable about total hours worked, funding restrictions, and rates that can be charged to the grant(s). The Principal Investigator and project bookkeeper will certify that all the charges made against external funding sources are in compliance with the grant contract and all applicable federal, state, or local regulations. The Extra Pay/Summer Pay Time Sheet will be modified to include certification by the PI that the employees' total hours worked during the time period do not exceed any hour restrictions on grant(s) involved. A copy of the missing manual is now available in Human Resources. Effective immediately, Human Resources will check the hourly rates on all extra pay requests to ensure compliance with federal guidelines as to pay rates and compliance with the 162.5 hours maximum per month during the summer.

The formal risk assessments for the Financial Management areas of the university are currently scheduled to be completed in October 2008. However, the Vice President for Business and Fiscal Affairs and her staff are very cognizant of the risks involved with grants and human resources and remain committed to the internal controls necessary to minimize those risks.

4. Management has not assessed and mitigated the risks of federal questioned costs associated with its failure to produce and maintain documentation to support academic salaries charged to federal grants as required in OMB Circular A-21

Finding

University management has not coordinated the efforts of the various departments to ensure that time and effort reports were generated when academic salaries were charged to federal Research and Development (R&D) programs. As a result, the process for time and effort reporting in place during the audit period did not include provisions for the reallocation of charges to federal R&D programs associated with delayed grant approval or correction of errors.

OMB Circular A-21, "Cost Principles for Educational Institutions," allows university staff to document the salary charges for employees to the federal R&D programs in several ways. However, Circular A-21 specifically requires that the university staff, regardless of selected method of documentation used, include an after-the-fact confirmation or other such method of determining that salary costs charged to the federal program represent actual costs.

In order to comply with Circular A-21, the Department of Information Technology Services developed a program within the payroll system to generate Time Effort Reports when payroll expenses are charged directly to a federal R&D program. These Time Effort Reports itemize the dollar amount charged to each federal program. Staff from the Grant Accounting Office retrieve these reports from the Department of Human Resource Services and distribute the reports to the grant clerks in the applicable departments. The employee for whom the report was generated or another individual with firsthand knowledge of the federal project signs the Time Effort Report confirming that the dollar amount on the report represents "a reasonable estimate of effort on noted projects during this pay period." The grant clerks then submit the signed reports to the Grant Accounting Office to serve as the support for payroll expenses for federal R&D programs.

Due to a lack of coordination between the Department of Human Resource Services and the Grant Accounting Office, management has not established the process to address situations in which the payroll expenses must be charged to the federal R&D program subsequent to the end of the pay period. The reasons to charge payroll expenses to a federal R&D program subsequent to the end of the pay period vary, but may include delayed grant approval from the federal grantor or correction of errors.

Typically, when the university receives federal approval before the start date of the federal grant period, accounting staff are able to charge the salaries of employees working on the federal program directly to the applicable grant, and the payroll system automatically generates the Time Effort Reports for each employee. However, if the federal grantor delays its approval, at no fault of the university, the university staff cannot establish the proper grant accounting records, and faculty and staff working in departments seeking federal grants must charge their payroll costs to the applicable departmental budget. Ultimately, when the federal grant is approved, university staff must reallocate payroll charges which have already been paid from the departmental budget to the federal grant by manual journal voucher accounting entries. However, when university staff are forced to manually reallocate salaries, they bypass the payroll system and the automatic generation of the Time Effort Reports associated with any salaries that were charged to the federal grants.

We performed testwork to determine if the university maintained adequate after-the-fact time and efforts report to support academic salaries charged to federal R&D programs. We selected a sample of 25 academic salary transactions which represented 50 individual payroll expenses. Based on our testwork, we found that for 14 out of 25 academic salary transactions charged to federal R&D programs tested (56%), the Grant Accounting Office initially could not provide us with the required time and effort reports. These 14 problems represented 19 individual academic payroll expenses.

For 10 of the 14 academic salary transactions (representing 14 individual academic payroll expenses), university staff prepared journal entries to reallocate payroll expenses to the federal R&D programs. As a result, the payroll system did not generate Time Effort Reports, nor did university staff perform alternative procedures to support these payroll expenses.

For the other four academic salary transactions (representing five individual academic payroll expenses), the payroll system had generated Time Effort Reports; however, as of early November 2007, the employees had not signed and returned four Time Effort Reports to Grant Accounting. The fifth Time Effort Report had been submitted to Grant Accounting but had been signed inappropriately by a person without firsthand knowledge of the project. Section J, 10.c.(2)(c), of OMB Circular A-21, requires that the ". . . reports will be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed." In addition, OMB Circular A-21, Section J, 10.b.(2)(b), requires an after-the-fact confirmation, in order to establish the allowability of cost for payroll distribution.

According to the Grant Accounting Manager, personnel within that office were recently transitioned into different functions due to the departure of the former manager. Also, the transition to the Banner information system caused the timely recovery of Time Effort Reports to be a low priority. She stated that the payroll system was programmed to generate a Time Effort Report when charges to the federal grant were processed through the normal payroll process. The Grant Accounting Manager also noted that the majority of these instances involved payroll charges that were initially charged to a non-federal account and then reallocated subsequently to the federal grant outside the payroll process.

After we discussed these deficiencies and the potential questioned costs with the appropriate university personnel, the Manager of Grant Accounting obtained alternative confirmations of payroll expenses in the form of memoranda from the employees. We received these memoranda on November 15, 2007. Also on that date, the remaining outstanding Time Effort Reports were obtained fully signed, including the inappropriately signed Time Effort Report that was resubmitted for the employee's signature. The number of days between this date and the end of the applicable payroll periods ranged between 48 to 473 days. As the Grant Accounting Office eventually obtained these confirmations, we will not question the related costs.

The failure to obtain and maintain required documentation increases the risk that academic salaries charged to federal R&D programs are not representative of actual work performed, which can lead to potential federal questioned costs and reduce the likelihood of receiving future federal awards.

Recommendation

The Manager of Grant Accounting in conjunction with the Interim Director of Human Resource Services should ensure that Time Effort Reports or subsequently adopted alternative, after-the-fact confirmations are generated that are compliant with OMB Circular A-21. The Manager of Grant Accounting should also ensure signatures are obtained timely for all academic salaries charged to federal R&D programs. The Vice President of Business and Fiscal Affairs should facilitate the efforts of these two departments and ensure that the process is revised as necessary to include a method of confirming all academic salaries charged to federal R&D programs.

The Vice President of Business and Fiscal Affairs should ensure that the risks noted in this finding are adequately identified and assessed in management's documented risk-assessment activities. The Vice President of Business and Fiscal Affairs should identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions timely. The Vice President of Business and Fiscal Affairs should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur.

Management's Comment

We concur with the finding. The Office of Research is developing a Percentage Effort Report that is based on proposed as supported by the grant budget. The Percentage Effort Report will be distributed by the Office of Research to the Principal Investigators each semester for verification and/or adjustment as to actual effort expended between grant activities and other activities. The Percentage Effort Report will be signed by the employee or the Principal Investigator (as a person with first-hand knowledge of the effort expended on grant and other activities) certifying the correctness of charges against the grant budget. The Percentage Effort Report will be returned to Grant Accounting for comparison of actual time and effort to proposed time and effort. Grant Accounting will process adjustments to grant expenditures to reflect actual grant-related costs. Grant Accounting is currently reviewing procedures to follow up with any documents not returned by employees in a timely manner and will immediately implement changes necessary to ensure compliance with time and effort requirements.

Grant Accounting will continue to distribute monthly Time Effort Reports that reflect salary paid on federal projects for Project Investigators' review. As of July 1, 2007, Human Resources is processing all reallocations through the Banner HR system. Grant Accounting is working with Human Resources and Information Technology to include reallocated salary on this report to make the information more comprehensive and useful to the Project Investigators and project bookkeepers as they monitor compliance with externally funded grants/contracts.

The formal risk assessments for the Financial Management areas of the university are currently scheduled to be completed in October 2008. However, the Vice President for Business and Fiscal Affairs and her staff are very cognizant of the risks involved with grants and human resources and remain committed to the internal controls necessary to minimize those risks.

5. **<u>As noted in the prior audit, TTU management has not assessed and mitigated the risks associated with its failure to adequately reconcile the university's Direct Loan records with the Loan Origination Center's records as required by federal regulations</u>**

Finding

For the second year, the Tennessee Technological University's Director of Financial Aid did not properly reconcile the university's direct loan records with the federal Loan Origination Center's records. According to Part 5 of the OMB *Circular A-133 Compliance Supplement*,

> Each month, the COD [Common Origination and Disbursement] provides institutions with a School Account Statement (SAS) data file which consists of a Cash Summary, Cash Detail, and (optional at the request of the school) Loan Detail records. The school is required to reconcile these files to the institution's financial records.

In addition, the U.S. Department of Education's *Direct Loan School Guide*, Chapter 9, states,

> The school is required to reconcile the information on the DLSAS [Direct Loan School Account Statement] report to its internal records on a monthly basis.
>
> The first step in monthly reconciliation is to compare the ending cash balance, cash receipts, excess cash, and disbursement totals from the DLSAS cash summary to each corresponding total in the school's Direct Loan System and business office system.
>
> If the school's internal systems match all the totals on the DLSAS cash summary, the reconciliation has been successfully completed. If the cash balances do not match, the school must continue with the reconciliation process.

Based on our interviews with the Director of Financial Aid, we found that during the audit period, the Director did not fully perform these reconciliations. After reviewing each of the monthly reconciliations within the audit period, we determined that the Director of Financial Aid reconciled the cash receipts per the business office system to the DLSAS summary but did not reconcile the ending cash balance, excess cash, and disbursement totals.

In response to the prior-year finding, TTU management did concur with the finding. Management also stated that the Director of Financial Aid created an all-inclusive reconciliation that reconciled the various components of the DLSAS summary instead of only the cash receipts. We were able to review the reconciliations for July, August, and September of 2007, and we determined that, subsequent to our audit period, the Director of Financial Aid did reconcile the ending cash balance, excess cash, and disbursement totals as well as the cash receipts.

Without adequate reconciliations, the university could lose its ability to offer Direct Loan funds because of errors recorded in the school's or Loan Origination Center's records. Performing monthly reconciliations and retaining all supporting documentation allow financial aid staff to continue to monitor and address outstanding loan issues every month and allow the staff to complete the year-end loan closeout much more efficiently.

Recommendation

The Director of Financial Aid in conjunction with the Executive Director of Enrollment Management should determine who will be responsible for preparing the reconciliations. If they determine that a member of the Financial Aid staff should prepare the reconciliation, the Director of Financial Aid should ensure that the staff member prepares the reconciliation as outlined in the *Direct Loan School Guide,* Chapter 9, which includes reconciling all cash items included on the Cash Summary Direct Loan School Account Statement report to the university's records. If any items on this report do not agree, financial aid staff should then investigate the differences by reconciling the Cash Detail records. If the Director of Financial Aid continues to prepare the reconciliation, the Executive Director of Enrollment Management should ensure that the staff member prepares the reconciliation outlined in the *Direct Loan School Guide,* Chapter 9.

The Director of Financial Aid in conjunction with the Executive Director of Enrollment Management should ensure that risks such as these noted in this finding are adequately identified and assessed in management's documented risk assessment activities. The Director of Financial Aid should identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions timely. The Director of Financial Aid should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur.

Management's Comment

We concur with the finding. As stated in the response to the 2005-06 audit, an all inclusive reconciliation process was presented to State Auditors and was deemed appropriate for meeting this new interpretation of the Federal Regulations governing monthly reconciliations of the Direct Loan program in July 2007. That process is ongoing on a monthly basis.

In addition to a more inclusive reconciliation process, which includes a review of all data included on the monthly SAS reports, a risk assessment was completed by the Office of Financial Aid in fall 2007 to monitor this and other areas of that concern that may present themselves in the future. A monitoring plan was also developed at that time that includes identifying who is responsible for monitoring compliance and taking action on exceptions.

STATE OF TENNESSEE
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Independent Auditor's Report

December 6, 2007

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

Dear Mr. Morgan:

We have audited the accompanying basic financial statements of Tennessee Technological University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2007, and June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the university's management. Our responsibility is to express opinions on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of many agencies, commissions, and component units of the State of Tennessee; managing the state's debt; and making loans to the state's colleges and universities from debt proceeds. Some of the boards of which the Comptroller of the Treasury serves as a member per state statutes include the State Building Commission and the Tennessee Higher Education Commission.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tennessee Board of Regents, Tennessee Technological University, and its discretely presented component unit as of June 30, 2007, and June 30, 2006, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 24 through 47 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 78 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2007, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/cj

Tennessee Board of Regents
Tennessee Technological University
Management's Discussion and Analysis
June 30, 2007, and June 30, 2006

This section of Tennessee Technological University's report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2007, with comparative information presented for the fiscal years ended June 30, 2006, and June 30, 2005. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

Using This Annual Report

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

The Statement of Net Assets

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

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the university's equity in property, plant, and equipment owned by the university. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the university but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the university for any lawful purpose of the university.

University's Net Assets
(in thousands of dollars)

	2007	2006	2005
Assets:			
Current assets	$ 15,019	$ 12,599	$ 13,590
Capital assets, net	64,054	53,760	47,349
Other assets	18,495	17,563	12,143
Total assets	**$ 97,568**	**$ 83,922**	**$ 73,082**
Liabilities:			
Current liabilities	$ 9,618	$ 10,129	$ 9,418
Noncurrent liabilities	20,279	20,954	16,207
Total liabilities	**$ 29,897**	**$ 31,083**	**$ 25,625**
Net assets:			
Invested in capital assets, net of related debt	$ 48,198	$ 37,155	$ 35,032
Restricted – nonexpendable	192	236	620
Restricted – expendable	6,191	5,987	3,959
Unrestricted	13,090	9,461	7,846
Total net assets	**$ 67,671**	**$ 52,839**	**$ 47,457**

- The assets of the university increased by 16% from 2006 to 2007. The increase can be attributed primarily to investments in capital assets, which increased 19%. The greatest increase was seen in construction in progress of the Nursing and Health Services Building.

- Total assets of the university increased by 15% from 2005 to 2006. The increase can be attributed primarily to additional investments in capital assets, which increased by 14%, with the greatest increase being land improvements and infrastructure. In addition, other assets increased by 45%, mainly caused by the 46% increase in noncurrent cash attributed to an increase in noncurrent liabilities and LGIP for capital projects, and the 102% increase in noncurrent investments due to more long-term investments being purchased. All other increases and decreases were minor.

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

- The university's decrease in liabilities from 2006 to 2007 was 4%. This slight decrease was primarily accounts payable which decreased 19% due to summer school liability being paid in June.

- The university's total liabilities increased by 21% from 2005 to 2006. Noncurrent liabilities increased by 29% primarily as a result of bonds and commercial paper payable financing of administrative software and emergency generators. An increase of 8% in the current liabilities is attributable to increased payables related to various capital projects including a new ERP system (Banner), a new Science, Technology, Engineering and Mathematics building (STEM), and a Residential Housing Fire Safety project.

- The increase in net assets of 28% from 2006 to 2007 included additional investments in capital projects. Cost containment efforts taken by the university resulted in a 38% increase in unrestricted net assets. The debt for the Banner system was reduced which resulted in a decrease of 21% in the expendable debt service fund. Profits transferred from auxiliary funds resulted in a 29% increase in Renewal and Replacement unrestricted net assets. All other fluctuations in net assets were minor.

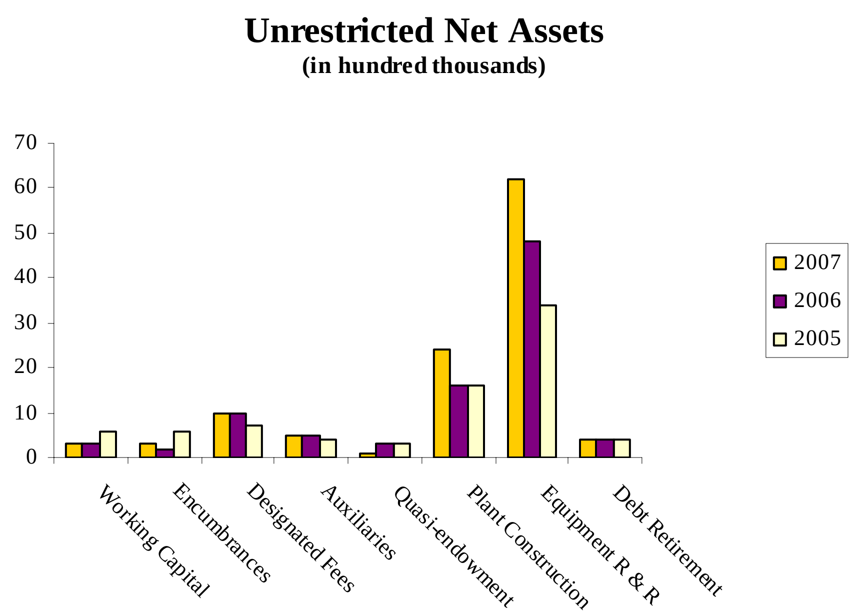
- The increase in net assets of 11% from 2005 to 2006 includes additional investment in capital projects. Cost containment measures taken by the university resulted in a 21% increase in unrestricted net assets. Funds accumulated to service debt were expended during 2006 to reduce outstanding debt for the ERP system resulting in a 19% reduction in expendable debt service funds. Increases in restricted expendable for capital assets can be attributed to increased funding for the Nursing and Health Services building. All other fluctuations in net assets were minor.

- Restricted, nonexpendable net assets decreased in 2005, 2006, and 2007 as a result of endowments being moved to the foundation.

- Restricted expendable net assets increased a minor 3% from 2006 to 2007, primarily from scholarships.

- The restricted expendable net assets rose from 2005 to 2006 due to increases in debt service for Banner.

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



- Funds designated for renewal and replacement of equipment increased by 29% in 2007 compared to 2006. Funds designated for new plant construction increased by 45% in 2007 compared to 2006.

- Funds designated for renewal and replacement of equipment increased by 39% in 2006 compared to 2005 primarily due to the Fire Alarm Upgrade project in progress. Funds designated for new plant construction increased by 6% in 2006 compared to 2005 primarily due to the STEM Center project.

- Designated fees increased by 4% and by 37% for 2007 and 2006, respectively. The university can use these funds only for the specific purposes approved by the Tennessee Board of Regents.

- Undesignated funds increased by 442% and by 245% in 2007 and 2006, respectively, primarily from cost containment efforts implemented by the university.

- Funds designated for encumbrances increased by 52% as a result of instruction, research, and student affairs having more encumbrances in 2007. Funds designated for working capital decreased by 3% in FY2007 as a result of an increase in accrued benefits for faculty salaries.

- Funds designated for encumbrances decreased by 65% in 2006 as a result of fewer computer equipment encumbrances. Funds designated for working capital decreased by 48% in 2006 as a result of a decrease in student accounts receivable and receivables related to auxiliary enterprise activities.

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

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

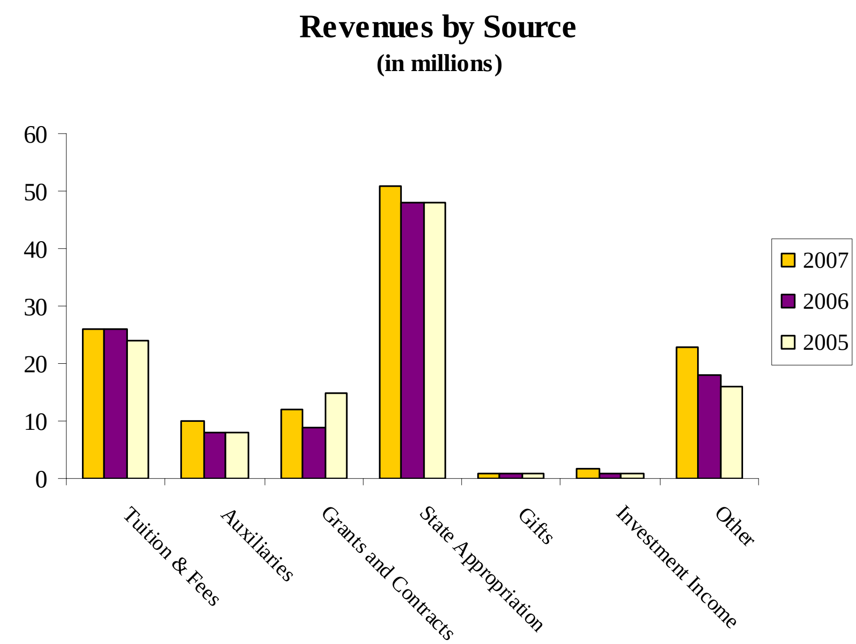
University's Changes in Net Assets
(in thousands of dollars)

	2007	2006	2005
Operating revenues:			
Net tuition and fees	$ 26,223	$ 26,170	$ 24,230
Grants and contracts	11,929	9,251	8,238
Auxiliary	9,806	9,020	8,539
Other	4,452	4,441	3,794
Total operating revenues	**$ 52,410**	**$ 48,882**	**$ 44,801**
Operating expenses	121,387	114,983	108,214
Operating loss	**$ (68,977)**	**$ (66,101)**	**$ (63,413)**

Nonoperating revenues and expenses:			
State appropriations	$ 51,042	$ 48,503	$ 47,869
Gifts	836	695	749
Investment income	1,596	1,059	755
Other nonoperating revenues and (expenses)	18,216	13,649	12,399
Total nonoperating revenues and expenses	**$ 71,690**	**$ 63,906**	**$ 61,772**
Income (loss) before other revenues, expenses, gains or losses	**$ 2,713**	**$ (2,195)**	**$ (1,641)**
Other revenues, expenses, gains or losses:			
Capital appropriations	$ 10,158	$ 6,952	$ 2,477
Capital grants and gifts	1,944	532	1,183
Additions to permanent endowments	17	93	17
Total other revenues, expenses, gains or losses	**$ 12,119**	**$ 7,577**	**$ 3,677**
Increase (decrease) in net assets	**$ 14,832**	**$ 5,382**	**$ 2,036**
Net assets at beginning of year	**$ 52,839**	**$ 47,457**	**$ 45,421**
Net Assets at end of year	**$ 67,671**	**$ 52,839**	**$ 47,457**

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the university's operating activities for the years ended June 30, 2007; June 30, 2006; and June 30, 2005.



- The university's revenue increased by 13% from 2006 to 2007. This increase can be attributed to a 28% increase in grants and contracts, a 5% increase in state appropriations, and an increase of 46% in capital appropriations. All other sources experienced slight changes.

- During fiscal year 2006, revenues increased by 9%. State capital appropriations increased by $4,475,000 to support new capital construction and major maintenance projects on campus. A 9.7% fee increase netted an 8% increase in tuition and fees revenues in fiscal year 2006 compared to fiscal year 2005. The university also increased sales and services of educational activities by 24%, accounting for a significant portion of the increase in other operating revenues, and grants and contracts by 12% in fiscal year 2006 compared to fiscal year 2005. The capital campaign to raise funding for the new nursing building was substantially completed during fiscal year 2005 resulting in a 7% decrease in private gifts designated for capital projects during fiscal year 2006. Capital grants and gifts decreased by 55% due primarily to the funding of the nursing building switching from the foundation to state capital appropriations. All other sources of revenue experienced slight changes.

Expenses

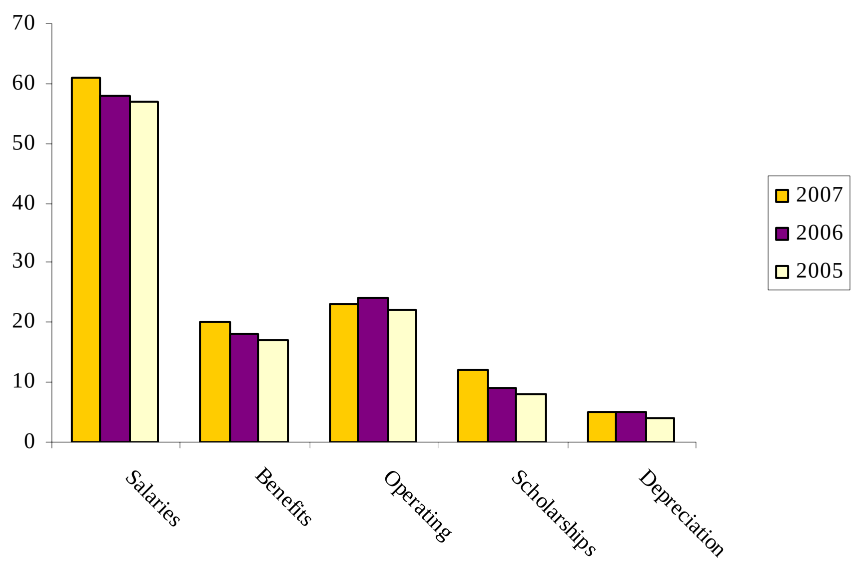
Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below.

Natural Classification

University's Operating Expenses - Natural Classification
(in thousands of dollars)

	2007	2006	2005
Salaries	$ 61,291	$ 58,477	$ 57,141
Benefits	20,172	18,036	17,227
Operating	23,259	24,443	21,529
Scholarships	11,730	9,400	8,263
Depreciation	4,935	4,627	4,054
	$ 121,387	$ 114,983	$ 108,214

Operating Expenses - Natural Classification
(in millions)



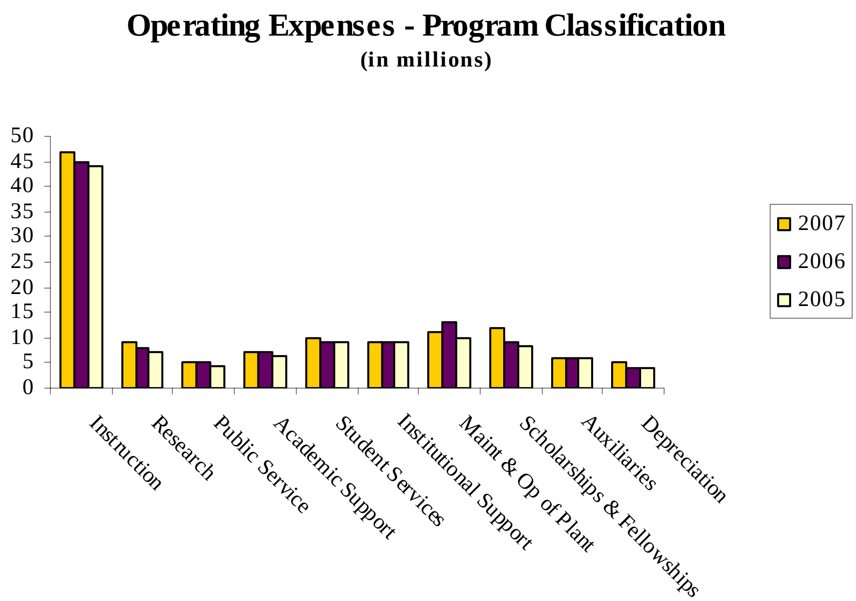
- Expenditures increased from 2007 to 2006 by 6%. Salaries increased by 4%, and benefits rose by 12% due to insurance and retirement increases. Scholarships increased by 25% due to increases in lottery scholarships and tuition. Only minor changes occurred in other areas.

- The university expenses increased from 2005 to 2006 by 6%. Operating expenses, scholarships, and depreciation all increased by 14%. Scholarship increases were a result of fee increases and an increased number of students receiving awards. Utilities expenses were the primary driver of increased operating expenses. Depreciation expense increased due to the addition of additional capital assets and completed projects being transferred from projects in progress. All other increases were minor.

Program Classification

Program Classification of Operating Expenses
(in thousands of dollars)

	2007	2006	2005
Instruction	$ 47,181	$ 44,831	$ 44,045
Research	9,351	7,732	7,330
Public service	4,815	4,952	4,213
Academic support	6,758	6,658	6,392
Student services	10,169	9,474	9,191
Institutional support	9,387	8,908	8,744
Maintenance & operations	11,054	12,542	10,190
Scholarships & fellowships	11,731	9,401	8,263
Auxiliaries	6,006	5,858	5,792
Depreciation	4,935	4,627	4,054
Total expenses	$ 121,387	$ 114,983	$ 108,214



- From 2006 to 2007, the university had an overall 6% increase in expenditures. A 21% increase in research is the result of increased activities in individual and project research. A 24% increase for scholarships and fellowships was due to increases in lottery scholarships and tuition. All other changes were minor.

- From 2005 to 2006, the university had an overall 6% increase in expenses. Maintenance and operation of plant had a 23% increase in expenses due to utility inflation. Public service increased by 18% due to increased expenses in community services. Scholarships and depreciation had increases of 14%. Scholarship increases were a result of fee increases and an increased number of students receiving awards. Depreciation expense increased due to the addition of additional capital assets and completed projects being transferred from projects in progress. All other changes were minor.

The Statement of Cash Flows

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

University's Cash Flows
(in thousands of dollars)

	2007	2006	2005
Cash provided (used) by:			
Operating activities	$ (66,394)	$ (60,499)	$ (59,696)
Noncapital financing activities	71,153	63,636	61,671
Capital and related financing activities	(4,753)	441	(2,462)
Investing activities	2,760	(1,156)	1,683
Net increase (decrease) in cash	**$ 2,766**	**$ 2,422**	**$ 1,196**
Cash, beginning of year	18,731	16,309	15,113
Cash, end of year	**$ 21,497**	**$ 18,731**	**$ 16,309**

- Increases in cash were the result of proceeds from noncapital grants and contracts, sales and services of educational activities, auxiliary enterprises, and state appropriations.

- Decreases were primarily the result of purchases of capital assets, payments to suppliers and vendors, federal student loan disbursements, payments to employees (including benefits), payments on capital debt, and purchase of investments.

- The cash flow of the university is highly dependent on two major sources—tuition and fees and state appropriations.

- The net increase in cash and cash equivalents amounted to $2,766,000, $2,422,000, and $1,196,000 at June 30, 2007, 2006, and 2005, respectively.

- For informational purposes, the following liquidity ratios are being provided:

	2007	2006	2005
Current Ratio	1.562	1.208	1.443
Quick Ratio	1.507	1.158	1.381

The university's liquidity improved slightly as of June 30, 2007. As a rule of thumb, an adequate current ratio is 2:1; the university's is 1.562:1. Although not an adequate ratio, approximately 59% of current assets are cash and investments that can readily be converted to cash to pay current liabilities.

The university's liquidity decreased slightly as of June 30, 2006. As a rule of thumb, an adequate current ratio is 2:1; the university's is 1.208:1. Although not an adequate ratio, approximately 66% of current assets are cash and investments that can readily be converted to cash to pay current liabilities.

The university's liquidity improved slightly as of June 30, 2005. As a rule of thumb, an adequate current ratio is 2:1; the university's is 1.443:1. Although not an adequate ratio, approximately 68% of current assets were cash and investments that can readily be converted to cash to pay current liabilities.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2007, Tennessee Technological University had $64,053,000 invested in capital assets, net of accumulated depreciation of $85,044,000. Depreciation charges totaled $4,934,000 for the 2007 fiscal year. At June 30, 2006, Tennessee Technological University had $53,760,000 invested in capital assets, net of accumulated depreciation of $82,694,000. Depreciation charges totaled $4,627,000 for the 2006 fiscal year. At June 30, 2005, the University had $47,349,000 invested in capital assets, net of accumulated depreciation of $79,798,000. Depreciation charges totaled $4,054,000 for the 2005 fiscal year. Details of these assets are shown below.

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

	2007	2006	2005
Land	$ 1,258	$ 1,258	$ 1,258
Land improvements & infrastructure	6,690	6,365	1,407
Buildings	31,285	29,941	30,013
Equipment	7,667	4,937	4,793
Library holdings	4,698	4,766	4,688
Projects in progress	12,455	6,493	5,190
Total capital assets, net of depreciation	$ 64,053	$53,760	$ 47,349

The university had nine projects in progress that increased the capital assets by $12,191,300 during fiscal year 2007. The Nursing and Health Services Building, Housing Fire Safety Upgrade, Football Turf, and Fire Alarm Upgrade were the largest. Another $3,497,000 in equipment and library holdings were capitalized during the year.

For fiscal year 2006, the university had ten projects that increased capital assets $8,650,600. The Emergency Generators, Housing Fire Safety Upgrade, Nursing and Health Services Building, Bruner Electrical Upgrade and Banner ERP projects were the largest. Another $2,406,700 in equipment and library holdings was capitalized during the year.

The university had five projects in progress that increased capital assets $3,121,900 in fiscal year 2005. The Fire Alarm System Upgrade, Nursing & Health Services Building, Mechanical System Upgrade, and Banner ERP projects were the largest of the projects in progress. Another $2,291,500 in equipment and library holdings was capitalized during the year.

The university plans to complete approximately $22,505,000 in capital expenditures during the next fiscal year. The following details the projects, amounts, and funding source:

Project	Amount (in thousands of dollars)	Source of Funding
ADA Modifications	$ 150	State Appropriations
Nursing & Health Services Building	11,004	Federal Grant, State Appropriations, Private
Fire Alarm Upgrade	980	State Appropriations
Central Cooling Deficiency-Phase IV	1,868	State Appropriations
STEM Building	100	Private Donations
Johnson Hall Renovations	1	Private Donations
Bryan Fine Arts Auditorium Lights	474	State Appropriations
Hyder-Burks Acoustics	677	State Appropriations
Craft Center Reroof-Gallery/Admin	186	State Appropriations

Waterproofing Patio & Masonry	751	State Appropriations
Turf Replacement	61	Foundation
Housing Fire Safety Upgrade	1,445	Housing Revenue, Local Funds
Eblen Center Basketball Offices	942	Foundation
Roaden Center Crawlspace	360	State Appropriations
Health & PE Electrical	2,310	State Appropriations
Elevator Upgrades	500	State Appropriations
Banner ERP	696	Local Funds

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

Debt

At June 30, 2007, June 30, 2006, and June 30, 2005, the university had $15,855,000, $16,605,000 and $12,317,000 in debt outstanding respectively. The table below summarizes these amounts by type of debt instrument.

	Amount (in thousands of dollars)		
Debt Instrument	2007	2006	2005
Bonds payable	$ 11,317	$ 12,067	$ 11,651
Commercial paper	4,538	4,538	666
Total outstanding debt	$ 15,855	$ 16,605	$ 12,317

No additional debt was acquired in 2007. There was some refunding activity to the current debt in 2007.

In fiscal year 2006, the university acquired an additional $4,909,800 in commercial paper of which $4,538,100 was related to the Emergency Generators project and $371,700 was related to the Banner ERP project. Total commercial paper for the Banner ERP Project was refinanced with five-year bonds. Another $720,500 of debt was retired.

In fiscal year 2005, the university acquired $665,800 in commercial paper related to the Banner ERP project. New debt acquired from bond refunding was $864,340. Debt of $1,483,800 was retired.

More detailed information about the university's long-term liabilities is presented in Note 6 to the financial statements.

Economic Factors That Will Affect the Future of the University

The university's 2007-08 budget will be improved slightly due to a 6.0% increase in fees along with a slight improvement in state appropriations.

TENNESSEE TECHNOLOGICAL UNIVERSITY FOUNDATION

The Statement of Net Assets

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

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the foundation's equity in property, plant, and equipment owned by the foundation. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the foundation, but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the foundation for any lawful purpose of the foundation.

Component Unit's Net Assets
(in thousands of dollars)

	2007	2006	2005
Assets:			
Current assets	$ 2,485	$ 893	$ 978
Capital assets, net	349	349	342
Other assets	50,047	43,813	38,073
Total assets	**$ 52,881**	**$ 45,055**	**$ 39,393**
Net Assets:			
Invested in capital assets	$ 349	$ 349	$ 342
Restricted - nonexpendable	36,181	31,215	30,091
Restricted - expendable	15,419	12,641	8,040
Unrestricted	932	850	920
Total net assets	**$ 52,881**	**$ 45,055**	**$ 39,393**

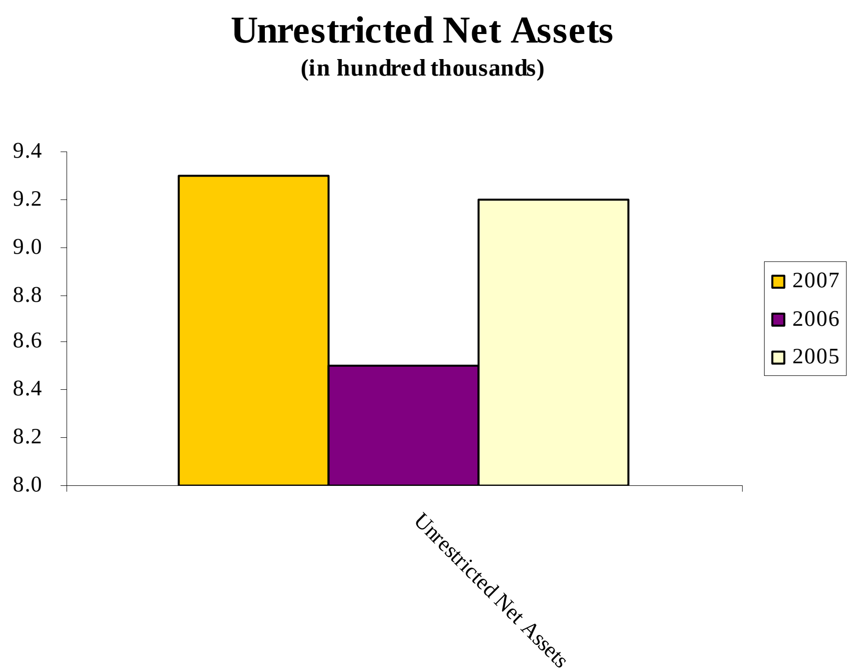
- Current assets increased by 178% from 2006 to 2007 due to the maturity of long-term investment to be classified as short-term investments of $1,440,000 and the partial sale of land on a note receivable of $141,000.

- Total assets increased by 17% from 2006 to 2007. Long and short-term investments increased by 16% primarily due to an increase in stock market prices. Noncurrent cash and cash equivalents increased by 38% due to the sale of stocks. Other assets decreased by 99% because of the sale of the donated land.

- Total assets increased by 14% from 2005 to 2006. Investments increased by 10%, restricted cash and cash equivalents increased by 19%, and a gift of land valued at $1,300,000 significantly increased noncurrent assets. The increase in restricted, expendable assets resulted from an increase in gifts for capital projects. Major gifts include land of $1,300,000 and other restricted capital gifts totaling $1,913,600.

- In keeping with the foundation's mission, the consumption of assets provided assistance to the university's operating and capital purposes. Assets were also used for student scholarships, outstanding faculty and staff awards, and programs to enhance the relationships of alumni and friends of the university.

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



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

The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the foundation, as well as the nonoperating revenues and expenses.

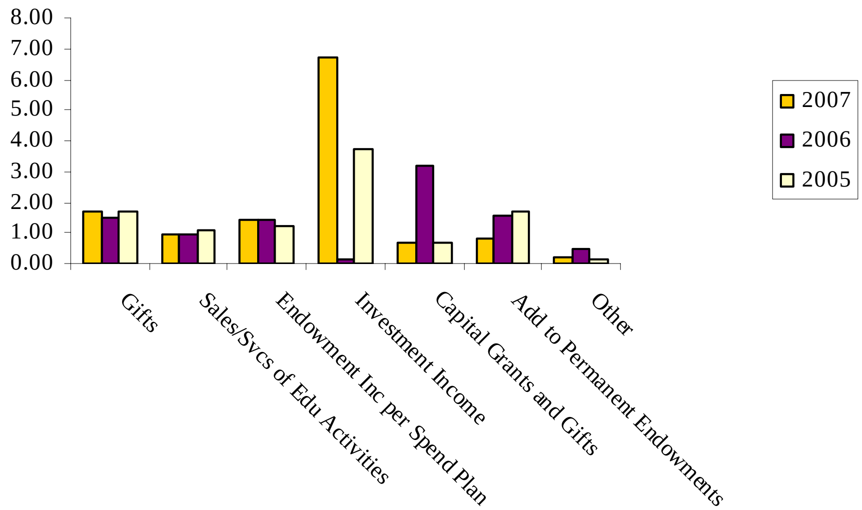
Component Unit's Changes in Net Assets
(in thousands of dollars)

	2007	2006	2005
Operating revenues:			
Gifts	$ 1,710	$ 1,649	$1,692
Sales and services of educational activities	976	934	1,066
Endowment income	1,396	1,455	1,248
Other	219	445	126
Total operating revenues	**$ 4,301**	**$ 4,483**	**$4,132**
Operating expenses	4,190	3,143	3,685
Operating income (loss)	**$ 111**	**$ 1,340**	**$ 447**
Nonoperating revenues and expenses:			
Investment income	$ 6,178	$ 138	$ 3,716
Loss on disposal of capital assets	-	(419)	-
Total nonoperating revenues and expenses	**$ 6,178**	**$ (281)**	**$ 3,716**
Income (Loss) before other revenues, expenses, gains or losses	**$ 6,289**	**$ 1,059**	**$ 4,163**
Other revenues, expenses, gains or losses:			
Capital grants and gifts	$ 693	$ 3,214	$ 704
Additions to permanent endowments	844	1,389	1,676
Total other revenues, expenses, gains or losses	**$ 1,537**	**$ 4,603**	**$ 2,380**
Increase (decrease) in net assets	**$ 7,826**	**$ 5,662**	**$ 6,543**
Net assets at beginning of year	**$ 45,055**	**$ 39,393**	**$ 32,850**
Net assets at end of year	**$ 52,881**	**$ 45,055**	**$ 39,393**

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the foundation's operating activities for the years ended June 30, 2007; June 30, 2006; and June 30, 2005.

Revenues by Source
(in millions)



- Operating revenue decreased 4% primarily as the result of the return of funds to the TTU Agricultural Foundation in 2006 that decreased the spending plan by 4%, and the decrease by 50% in funds transferred from the university to the foundation for endowments. Operating gifts increased by 4% in 2007 from 2006 as directed by the donors. Other revenue decreased by 67% primarily due to a large, one-time capital donation in 2006 and reduced gifts to permanent endowments in 2007 compared to 2006. Investment income increased approximately $6,000,000 due to increases in fair market value and gains on sales.

- Operating revenue increased by 8% in 2006 over 2005. Operating gifts decreased by 3%. Sales and services of educational activities decreased by 12% due to less project income. Operating expenses decreased by 15%. With the increase of permanent endowments and interest rate hikes during the year, the endowment income per the spending plan increased by 17%. Nonoperating revenues decreased 108% due to the return of capital assets to the TTU Agricultural Foundation and the decrease in fair market value of investments held. Total other revenue increased by 93% mainly due to successful fund raising efforts for capital projects. The end result was an increase in net assets for the year of 14%.

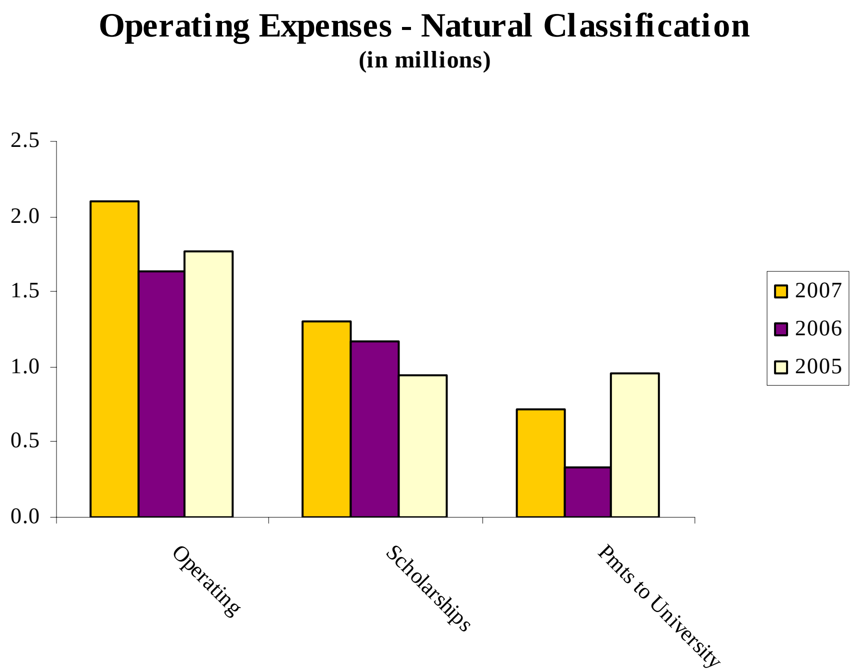
Expenses

The Natural Classification method for displaying operating expenses is shown below.

Natural Classification

Operating Expenses - Natural Classification
(in thousands of dollars)

	2007	2006	2005
Operating	$ 2,151	$ 1,641	$ 1,777
Scholarships	1,311	1,173	947
Payments to university	728	329	961
	$ 4,190	$ 3,143	$ 3,685



- In 2007, Operating Expenses increased by 33% over 2006. Expenses for supplies and services increased by 31% mostly due to the payments for Capital Projects by the foundation. Scholarships increased by 12% as the foundation funded more scholarships. Payments to the university increased by 121% mainly due to provide funds for capital projects.

- Total operating expenses decreased by 15% during 2006. Transfers to the university for capital projects decreased 66% accounting for the primary difference. Scholarship expenses increased 23%, due to an increase in the spending plan. Operating expenses decreased by 8% during the year.

- In 2005, operating revenue, investment income and a spending plan increase allowed for an increase in operating expenses of 17%. Transfers to the university in 2005 were down 32% for the new Nursing Building.

The Statement of Cash Flows

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

Component Unit's Cash Flows
(in thousands of dollars)

	2007	2006	2005
Cash provided (used) by:			
Operating activities	$ 286	$ 1,377	$ 698
Noncapital financing activities	844	970	1,676
Capital and related financing activities	518	1,870	451
Investing activities	2,084	(2,700)	(3,092)
Net increase (decrease) in cash	**$ 3,732**	**$ 1,517**	**$ (267)**
Cash, beginning of year	10,502	8,985	9,252
Cash, end of year	**$ 14,234**	**$ 10,502**	**$ 8,985**

- For 2007, increases in cash were the result of material funding in project income, operating gifts, spending plan, investment income, sale and maturity of investments, additions to permanent endowments, transfers from the university, and gifts for capital projects.

- For 2006, increases in cash were the result of material funding in project income, operating gifts, elevated spending plan, investment income, sale and maturities of investments, additions to permanent endowments, transfers from the university, and gifts for capital projects.

- For 2005, increases in cash were the result of material funding in project income, operating gifts, elevated spending plan, investment income, sale and maturities of investments, additions to permanent endowments, transfers from the university, and gifts for new capital projects.

- For 2007, decreases were primarily the result of payments of scholarships, purchase of investments, payments to suppliers and vendors, and payments to the university.

- For 2006, decreases were primarily the result of payments of scholarships, purchase of investments, payments to suppliers and vendors, payments to the university, and the return of capital assets to the TTU Agricultural Foundation.

- For 2005, decreases were primarily the result of payments of scholarships, purchase of investments, payments to suppliers and vendors, and payments to the university.

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

Capital Assets and Debt Administration

Capital Assets

At June 30, 2007, and at June 30, 2006, Tennessee Technological University Foundation had $349,000 invested in capital assets, made up entirely of land. At June 30, 2005, the foundation had $342,000 invested in capital assets. Details of these assets are shown below and in Note 16.

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

	2007	2006	2005
Land	$ 349	$ 349	$ 342
Total Capital Assets, net of depreciation	$ 349	$ 349	$ 342

- During 2007, there were no changes in Capital Assets for the foundation.

- During 2006, the foundation purchased land valued at $7,000.

- During 2005, there were no changes in Capital Assets for the foundation.

Economic Factors That Will Affect the Future of the Foundation

Fundraising for the new STEM Center remains a fundraising priority. The university has filled the Associate Vice President for Development position and will be recruiting for additional fundraisers that will fully staff this division in 2007-08.

The performance of the foundation’s near cash investments is expected to level off as interest rates have become more stable over the past several months.

Requests for Information

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

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENTS OF NET ASSETS
JUNE 30, 2007, AND JUNE 30, 2006

	Tennessee Technological University		Component Unit Tennessee Technological University Foundation	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2 and 16)	$ 8,888,449.36	$ 8,390,837.07	$ 815,607.91	$ 801,128.81
Short-term investments (Notes 3 and 16)	6,113.82	-	1,439,757.16	-
Accounts, notes, and grants receivable (net) (Note 4)	5,548,140.00	3,613,692.76	140,877.50	-
Inventories (at lower of cost or market)	359,095.78	299,531.25	-	-
Prepaid expenses and deferred charges	166,484.63	226,905.77	-	-
Accrued interest receivable	50,968.98	68,202.65	89,144.52	92,227.92
Total current assets	15,019,252.57	12,599,169.50	2,485,387.09	893,356.73
Noncurrent assets:				
Cash and cash equivalents (Notes 2 and 16)	12,608,236.89	10,340,242.30	13,418,514.55	9,700,507.81
Investments (Notes 3 and 16)	3,178,263.32	4,327,560.19	36,622,244.30	32,797,266.93
Accounts, notes, and grants receivable (net) (Note 4)	2,708,539.77	2,895,902.79	1,500.00	1,500.00
Capital assets (net) (Notes 5 and 16)	64,053,496.61	53,760,111.46	348,864.28	348,864.28
Other assets	-	-	4,800.00	1,313,300.00
Total noncurrent assets	82,548,536.59	71,323,816.74	50,395,923.13	44,161,439.02
Total assets	97,567,789.16	83,922,986.24	52,881,310.22	45,054,795.75
LIABILITIES				
Current liabilities:				
Accounts payable	2,785,184.14	3,461,498.94	-	-
Accrued liabilities	2,582,611.66	2,389,740.38	-	-
Student deposits	147,379.91	131,605.46	-	-
Deferred revenue	2,135,065.18	2,098,920.33	-	-
Compensated absences (Note 6)	738,182.32	904,992.00	-	-
Accrued interest payable	109,024.22	104,540.33	-	-
Long-term liabilities, current portion (Note 6)	756,024.02	733,056.81	-	-
Deposits held in custody for others	334,846.83	282,239.66	-	-
Other liabilities	29,861.56	22,657.05	-	-
Total current liabilities	9,618,179.84	10,129,250.96	-	-
Noncurrent liabilities:				
Compensated absences (Note 6)	2,363,867.82	2,136,882.89	-	-
Long-term liabilities (Note 6)	15,098,991.98	15,872,033.80	-	-
Due to grantors (Note 6)	2,815,788.64	2,945,444.50	-	-
Total noncurrent liabilities	20,278,648.44	20,954,361.19	-	-
Total liabilities	29,896,828.28	31,083,612.15	-	-
NET ASSETS				
Invested in capital assets, net of related debt	48,198,480.61	37,155,020.85	348,864.28	348,864.28
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	190,621.77	235,872.50	24,298,778.33	21,242,418.89
Research	-	-	436,921.30	388,690.64
Instructional department uses	-	-	3,044,021.57	2,684,086.58
Other	-	-	8,401,575.75	6,900,255.66
Expendable:				
Scholarships and fellowships (Note 7)	492,233.34	281,224.09	4,182,876.67	3,804,190.77
Research	288,556.75	193,791.66	132,666.47	17,957.51
Instructional department uses (Note 7)	500,745.19	423,049.59	780,486.96	929,863.32
Loans (Note 7)	737,844.12	769,233.79	-	-
Capital projects	2,387,235.18	2,206,049.14	5,949,209.71	4,128,783.08
Debt service	736,521.10	938,027.41	-	-
Other (Note 7)	1,048,240.76	1,175,806.55	4,374,097.63	3,760,249.50
Unrestricted (Notes 7 and 8)	13,090,482.06	9,461,298.51	931,811.55	849,435.52
Total net assets	$ 67,670,960.88	$ 52,839,374.09	$ 52,881,310.22	$ 45,054,795.75

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

Exhibit B

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Tennessee Technological University		Component Unit Tennessee Technological University Foundation	
	Year Ended June 30, 2007	Year Ended June 30, 2006	Year Ended June 30, 2007	Year Ended June 30, 2006
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $18,822,119.05 for the year ended June 30, 2007, and $15,564,515.92 for the year ended June 30, 2006)	$ 26,222,508.42	$ 26,170,468.79	$ -	$ -
Gifts and contributions	-	-	1,709,708.23	1,648,754.76
Endowment income	-	-	1,396,738.09	1,454,966.86
Governmental grants and contracts	11,464,696.18	8,771,675.97	-	-
Nongovernmental grants and contracts	465,183.71	479,301.94	-	-
Sales and services of educational departments	3,760,142.59	3,702,507.38	975,812.10	934,250.10
Auxiliary enterprises:				
Residential life (net of scholarship allowances of $30,063.83 for the year ended June 30, 2007, and $46,004.73 for the year ended June 30, 2006; all residential life revenues are used as security for revenue bonds; see Note 6)	7,256,031.54	6,629,283.28	-	-
Bookstore	300,696.08	250,000.00	-	-
Food service (net of scholarship allowances of $344,357.12 for the year ended June 30, 2007, and $366,494.66 for the ended June 30, 2006; all food service revenues are used as security for revenue bonds; see Note 6)	538,063.61	458,366.67	-	-
Wellness facility (net of scholarship allowances of $3,640.07 for the year ended June 30, 2007, and $3,740.02 for the year ended June 30, 2006; all wellness facility revenues are used as security for revenue bonds; see Note 6)	894,180.88	904,533.88	-	-
Other auxiliaries	817,342.60	777,920.88	-	-
Interest earned on loans to students	33,904.69	31,200.73	-	-
Other operating revenues	657,786.29	706,841.79	218,799.90	445,494.42
Total operating revenues	52,410,536.59	48,882,101.31	4,301,058.32	4,483,466.14
EXPENSES				
Operating expenses (Note 15):				
Salaries and wages	61,291,466.94	58,476,605.34	-	-
Benefits	20,171,706.38	18,035,833.69	-	-
Utilities, supplies, and other services	23,258,608.22	24,443,354.70	2,151,638.56	1,641,648.44
Scholarships and fellowships	11,730,870.97	9,400,581.41	1,310,804.71	1,172,828.41
Depreciation expense	4,934,596.70	4,627,003.36	-	-
Payments to or on behalf of Tennessee Technological University (Note 16)	-	-	727,935.55	329,019.38
Total operating expenses	121,387,249.21	114,983,378.50	4,190,378.82	3,143,496.23
Operating income (loss)	(68,976,712.62)	(66,101,277.19)	110,679.50	1,339,969.91
NONOPERATING REVENUES (EXPENSES)				
State appropriations	51,041,600.00	48,502,920.00	-	-
Gifts, including $346,808.38 from component unit for the year ended June 30, 2007, and $291,312.18 for the year ended June 30, 2006	835,904.71	695,137.46	-	-
Grants and contracts	19,541,265.95	14,714,735.45	-	-
Investment income (net of investment expense for the component unit of $251,476.49 for the year ended June 30, 2007, and $219,125.60 for the year ended June 30, 2006)	1,596,490.79	1,059,255.84	6,178,162.42	138,491.15
Interest on capital asset-related debt	(646,713.18)	(669,947.49)	-	-
Bond issuance costs	(7,365.06)	(9,749.04)	-	-
Other nonoperating revenues (expenses)	(671,388.13)	(386,794.10)	-	(419,454.44)
Net nonoperating revenues	71,689,795.08	63,905,558.12	6,178,162.42	(280,963.29)
Income (loss) before other revenues, expenses, gains, or losses	2,713,082.46	(2,195,719.07)	6,288,841.92	1,059,006.62

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Tennessee Technological University		Component Unit Tennessee Technological University Foundation	
	Year Ended June 30, 2007	Year Ended June 30, 2006	Year Ended June 30, 2007	Year Ended June 30, 2006
Capital appropriations	10,157,596.80	6,951,805.18	-	-
Capital grants and gifts, including $381,127.17 from component unit for the year ended June 30, 2007, and $37,707.20 for the year ended June 30, 2006	1,943,899.24	532,212.71	693,461.83	3,213,632.43
Additions to permanent endowments	17,008.29	93,392.48	844,210.72	1,389,048.46
Total other revenues	12,118,504.33	7,577,410.37	1,537,672.55	4,602,680.89
Increase in net assets	14,831,586.79	5,381,691.30	7,826,514.47	5,661,687.51
NET ASSETS				
Net assets - beginning of year	52,839,374.09	47,457,682.79	45,054,795.75	39,393,108.24
Net assets - end of year	$ 67,670,960.88	$ 52,839,374.09	$ 52,881,310.22	$ 45,054,795.75

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

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 26,133,298.44	$ 26,358,833.52
Grants and contracts	10,130,233.72	8,965,465.28
Sales and services of educational activities	3,833,181.76	3,650,382.49
Payments to suppliers and vendors	(22,859,737.06)	(23,484,579.71)
Payments to employees	(62,233,838.74)	(58,302,382.31)
Payments for benefits	(19,947,517.45)	(17,926,034.38)
Payments for scholarships and fellowships	(11,730,870.97)	(9,400,581.41)
Loans issued to students and employees	(741,275.86)	(967,746.52)
Collection of loans from students and employees	624,468.66	746,365.93
Interest earned on loans to students	24,566.21	26,720.07
Auxiliary enterprise charges:		
Residence halls	7,263,121.09	6,648,899.83
Bookstore	281,912.83	249,999.96
Food services	477,083.95	549,331.17
Wellness facility	888,036.43	900,949.65
Other auxiliaries	811,764.81	787,490.20
Other receipts (payments)	651,299.64	697,375.11
Net cash used by operating activities	(66,394,272.54)	(60,499,511.12)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	51,047,100.00	48,504,720.00
Gifts and grants received for other than capital or endowment purposes, including $346,808.38 from Tennessee Technological University Foundation for the year ended June 30, 2007, and $291,312.18 for the year ended June 30, 2006	20,267,955.68	15,394,099.17
Private gifts for endowment purposes	17,008.29	93,392.48
Federal student loan receipts	17,902,406.00	18,148,009.00
Federal student loan disbursements	(17,918,231.00)	(18,179,503.00)
Changes in deposits held for others	47,717.70	33,454.82
Other noncapital financing receipts (payments)	(211,434.84)	(357,815.16)
Net cash provided by noncapital financing activities	71,152,521.83	63,636,357.31
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	3,723,442.30	5,744,329.14
Capital appropriations	10,157,596.80	6,951,805.18
Capital grants and gifts received, including $381,127.17 from Tennessee Technological University Foundation for the year ended June 30, 2007, and $37,707.20 for the year ended June 30, 2006	1,751,490.30	494,871.67
Purchases of capital assets and construction	(15,266,816.41)	(10,611,691.45)
Principal paid on capital debt	(4,473,516.91)	(1,455,900.80)
Interest paid on capital debt	(642,229.29)	(655,539.45)
Bond issue costs paid on new debt issue	(7,365.06)	(9,749.04)
Other capital and related financing receipts (payments)	4,815.93	(17,316.41)
Net cash provided (used) by capital and related financing activities	(4,752,582.34)	440,808.84
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,146,719.31	656,332.66
Income on investments	1,613,220.62	1,187,905.03
Purchases of investments	-	(3,000,000.00)
Net cash provided (used) by investing activities	2,759,939.93	(1,155,762.31)

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
Net increase in cash and cash equivalents	2,765,606.88	2,421,892.72
Cash and cash equivalents - beginning of year	18,731,079.37	16,309,186.65
Cash and cash equivalents - end of year	$ 21,496,686.25	$ 18,731,079.37
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (68,976,712.62)	$ (66,101,277.19)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	4,934,596.70	4,627,003.36
Gifts in-kind	18,866.53	44,537.35
Change in assets and liabilities:		
Receivables, net	(1,888,608.40)	134,772.56
Inventories	(59,564.53)	5,870.10
Prepaid/deferred items	21,754.52	65,081.18
Accounts payable	(878,565.11)	569,434.52
Accrued liabilities	192,693.09	94,746.62
Deferred revenue	83,636.48	(38,489.81)
Deposits	13,576.10	980.48
Compensated absences	60,175.25	106,331.00
Due to grantors	(129,655.86)	(70,733.08)
Loans to students and employees	213,535.31	62,231.79
Net cash used by operating activities	$ (66,394,272.54)	$ (60,499,511.12)
Noncash transactions		
Gifts in-kind	$ 18,866.53	$ 37,341.04
Gifts in-kind - capital	$ 175,115.94	$ 44,537.35
Unrealized gains/losses on investments	$ 3,536.26	$ (153,652.61)
Loss on disposal of capital assets	$ (460,884.41)	$ (19,317.70)
Trade-in allowance	$ 33,452.74	$ 8,681.12
Bad debt expense	$ (54,473.80)	$ (92,468.68)
Loan fund cancellations and write-offs	$ (346,721.66)	$ (291,637.11)

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

The Tennessee Technological University Foundation is considered a component unit of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements. See Note 16 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

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

Basis of Accounting

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

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

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

All other activity is nonoperating in nature and includes (1) state appropriations for operations; (2) investment income; (3) bond issuance costs; (4) interest on capital asset-related debt; (5) certain grants and contracts; and (6) gifts and nonexchange transactions.

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

Cash Equivalents

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

Inventories

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

Compensated Absences

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

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, and software, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

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

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

Net Assets

The university's net assets are classified as follows:

Invested in capital assets, net of related debt - This represents the university's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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

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

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

Scholarship Discounts and Allowances

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

NOTE 2. CASH

At June 30, 2007, cash consisted of $2,964,762.78 in bank accounts, $25,505.10 of petty cash on hand, $14,334,683.62 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $4,171,734.75 in LGIP deposits for capital projects. At June 30, 2006, cash consisted of $3,923,226.80 in bank accounts, $26,265.00 of petty cash on hand, $11,808,558.25 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $2,973,029.32 in LGIP deposits for capital projects.

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

NOTE 3. INVESTMENTS

All investments permitted to be reported at fair value under GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools,* are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

At June 30, 2007, the university had the following investments and maturities.

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. Government Securities	$3,177,889.90	$6,113.82	$167,568.31	$283,828.09	$2,720,379.68
Collateralized mortgage obligations	6,487.24	-	-	6,487.24	-
Total	$3,184,377.14	$6,113.82	$167,568.31	$290,315.33	$2,720,379.68

At June 30, 2006, the university had the following investments and maturities.

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. Government Securities	$4,320,076.26	$ -	$288,961.06	$138,005.18	$3,893,110.02
Collateralized mortgage obligations	7,483.93	-	-	-	7,483.93
Total	$4,327,560.19	$ -	$288,961.06	$138,005.18	$3,900,593.95

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

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool (LGIP). The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. Securities are rated using Standard and Poor's, Moody's, and/or Fitch and are presented below using the Standard and Poor's rating scale. Tennessee Board of Regents policy restricts investments in banker's acceptances that 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. The policy further requires that commercial paper must be issued by corporations with 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 must be rated A1 by all rating services (minimum of two). Commercial paper of a banking institution must not be purchased.

At June 30, 2007, the university's investments were rated as follows:

		Credit Quality Rating
Investment Type	Fair Value	Unrated
LGIP	$18,506,418.37	$18,506,418.37
Collateralized mortgage obligations	6,487.24	6,487.24
Total	$18,512,905.61	$18,512,905.61

At June 30, 2006, the university's investments were rated as follows:

		Credit Quality Rating
Investment Type	Fair Value	Unrated
LGIP	$14,781,587.57	$14,781,587.57
Collateralized mortgage obligations	7,483.93	7,483.93
Total	$14,789,071.50	$14,789,071.50

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

	Carrying Value June 30, 2007	Carrying Value June 30, 2006
U.S. Government Securities	$ 23,726.25	$ 29,354.50
Collaterialized mortgage obligations	6,487.24	7,483.93
Local Government Investment Pool	313,113.56	507,192.23
	$343,327.05	$544,030.66

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, 2007, each having a fair value of $1.195770, 180,516.08 units were owned by endowments, 7,069.95 units were owned by term endowments, and 99,531.83 units were owned by quasi-endowments. Of the total units at June 30, 2006, each having a fair value of $1.121151, 225,984.42 units were owned by endowments, 6,485.28 units were owned by term endowments, and 252,773.31 units were owned by quasi-endowments.

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

FY 2007

	Pooled Assets		Net Gains	Fair Value
	Fair Value	Cost	(Losses)	Per Unit
End of year	$343,327.05	$342,282.30	$ 1,044.75	$1.195770
Beginning of year	$544,030.66	$542,677.62	1,353.04	1.121151
				$0.074619
Unrealized net gains/(losses)			(308.29)	
Realized net gains/(losses)			-	
Total net gains/(losses)			$ (308.29)	

The average annual earnings per unit, exclusive of net losses, were $0.065791 for the year ended June 30, 2007.

FY 2006

	Pooled Assets		Net Gains	Fair Value
	Fair Value	Cost	(Losses)	Per Unit
End of year	$544,030.66	$542,677.62	$1,353.04	$1.121151
Beginning of year	$918,395.23	$915,462.33	2,932.90	1.008922
				$0.112229
Unrealized net gains/(losses)			(1,579.86)	
Realized net gains/(losses)			-	
Total net gains/(losses)			$(1,579.86)	

The average annual earnings per unit, exclusive of net losses, were $0.03853 for the year ended June 30, 2006.

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2007	June 30, 2006
Student accounts receivable	$ 477,207.25	$ 414,907.44
Grants receivable	4,292,032.78	2,463,069.32
Notes receivable	108,292.17	129,791.30
State appropriation receivable	202,500.00	208,000.00
Other receivables	651,935.17	586,604.47

Subtotal	5,731,967.37	3,802,372.53
Less allowance for doubtful accounts	(183,827.37)	(188,679.77)
Total receivables	$ 5,548,140.00	$3,613,692.76

Federal Perkins Loan Program funds included the following:

	June 30, 2007	June 30, 2006
Perkins loans receivable	$2,810,188.38	$3,004,585.84
Less allowance for doubtful accounts	(101,648.61)	(108,683.05)
Total	$2,708,539.77	$2,895,902.79

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 1,257,868.94	$ -	$ -	$ -	$ 1,257,868.94
Land improvements and infrastructure	11,505,925.31	1,153,528.39	28,707.75	1,199,502.05	11,488,659.40
Buildings	89,161,439.13	1,660,771.05	1,926,042.28	-	92,748,252.46
Equipment	16,424,129.21	1,549,468.06	-	779,065.05	17,194,532.22
Library holdings	11,611,633.44	979,707.42	-	1,066,195.17	11,525,145.69
Software	-	968,415.51	1,459,673.96	-	2,428,089.47
Projects in progress	6,492,644.29	9,376,975.83	(3,414,423.99)	-	12,455,196.13
Total	136,453,640.32	15,688,866.26	-	3,044,762.27	149,097,744.31

Less accum. depreciation:					
Land improvements and infrastructure	5,141,152.45	416,869.30	-	759,701.40	4,798,320.35
Buildings	59,219,767.53	2,242,979.83	-	-	61,462,747.36
Equipment	11,486,595.43	1,105,584.37	-	757,981.29	11,834,198.51
Library holdings	6,846,013.45	1,047,758.72	-	1,066,195.17	6,827,577.00
Software	-	121,404.48	-	-	121,404.48
Total accum. depreciation	82,693,528.86	4,934,596.70	-	2,583,877.86	85,044,247.70
Capital assets, net	$53,760,111.46	$10,754,269.56	$ -	$460,884.41	$64,053,496.61

Capital asset activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 1,257,868.94	$ -	$ -	$ -	$ 1,257,868.94
Land improvements and infrastructure	6,138,368.92	5,367,556.39	-	-	11,505,925.31
Buildings	87,181,071.78	43,192.54	1,937,174.81	-	89,161,439.13
Equipment	15,835,497.77	1,277,457.60	-	688,826.16	16,424,129.21
Library holdings	11,544,665.75	1,129,210.35	-	1,062,242.66	11,611,633.44
Projects in progress	5,189,987.70	3,239,831.40	(1,937,174.81)	-	6,492,644.29
Total	127,147,460.86	11,057,248.28	-	1,751,068.82	136,453,640.32
Less accum. depreciation:					
Land improvements and infrastructure	4,731,700.15	409,452.30	-	-	5,141,152.45
Buildings	57,167,879.39	2,051,888.14	-	-	59,219,767.53
Equipment	11,042,383.76	1,113,720.13	-	669,508.46	11,486,595.43
Library holdings	6,856,313.32	1,051,942.79	-	1,062,242.66	6,846,013.45
Total accum. depreciation	79,798,276.62	4,627,003.36	-	1,731,751.12	82,693,528.86
Capital assets, net	$ 47,349,184.24	$ 6,430,244.92	$ -	$ 19,317.70	$ 53,760,111.46

NOTE 6. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$12,067,023.32	$3,723,442.30	$4,473,516.91	$11,316,948.71	$ 756,024.02
Commercial paper	4,538,067.29	-	-	4,538,067.29	-
Subtotal	16,605,090.61	3,723,442.30	4,473,516.91	15,855,016.00	756,024.02
Other liabilities:					
Compensated absences	3,041,874.89	1,667,997.10	1,607,821.85	3,102,050.14	738,182.32
Due to grantors	2,945,444.50	-	129,655.86	2,815,788.64	-
Subtotal	5,987,319.39	1,667,997.10	1,737,477.71	5,917,838.78	738,182.32
Total long-term liabilities	$22,592,410.00	$5,391,439.40	$ 6,210,994.62	$21,772,854.78	$ 1,494,206.34

Long-term liabilities activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$11,650,862.27	$ 834,582.00	$ 418,420.95	$12,067,023.32	$ 733,056.81
Commercial paper	665,800.00	4,909,747.14	1,037,479.85	4,538,067.29	-
Subtotal	12,316,662.27	5,744,329.14	1,455,900.80	16,605,090.61	733,056.81
Other liabilities:					
Compensated absences	2,935,543.89	1,707,827.23	1,601,496.23	3,041,874.89	904,992.00
Due to grantors	3,016,177.58	-	70,733.08	2,945,444.50	-
Subtotal	5,951,721.47	1,707,827.23	1,672,229.31	5,987,319.39	904,992.00
Total long-term liabilities	$18,268,383.74	$7,452,156.37	$3,128,130.11	$22,592,410.00	$1,638,048.81

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 2.25% 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. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the statement of net assets is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was $13,062.40 at June 30, 2007, and $13,062.40 at June 30, 2006.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2007, are as follows:

Year Ending June 30	Principal	Interest	Total
2008	$ 756,024.02	$ 512,439.11	$1,268,463.13
2009	788,279.46	484,247.01	1,272,526.47
2010	818,888.09	455,376.58	1,274,264.67
2011	533,332.51	421,512.34	954,844.85
2012	348,897.27	397,695.74	746,593.01
2013-2017	1,992,273.88	1,739,454.80	3,731,728.68
2018-2022	2,548,175.74	1,224,772.62	3,772,948.36
2023-2027	1,965,763.14	630,830.21	2,596,593.35
2028-2032	1,565,314.60	242,721.00	1,808,035.60
	$11,316,948.71	$6,109,049.41	$ 17,425,998.12

TSSBA Debt - Commercial Paper

The Tennessee State School Bond Authority issues commercial paper to finance the costs of various capital projects during their construction phase. When projects are placed in service, long-term, fixed-rate debt is issued by TSSBA to finance the project over its useful payback period and the commercial paper is redeemed. The amount issued for projects at the university was $4,538,067.29 at June 30, 2007, and $4,538,067.29 at June 30, 2006.

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

More detailed information regarding the bonds and commercial paper can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report may be obtained by writing to the Director of Bond Finance, Suite 1600, James K. Polk Building, Nashville, Tennessee 37243-0273, or by calling (615) 401-7872.

NOTE 7. 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, 2007, net appreciation of $245,505.15 is available to be spent, of which $18,464.52 is included in restricted net assets expendable for scholarships and fellowships, $74,632.60 is included in restricted net assets expendable for loans, $19,363.18 is included in restricted net assets expendable for instructional departmental uses, $13,729.02 is included in restricted net assets expendable for other, and $119,315.83 is included in unrestricted net assets. At June 30, 2006, net appreciation of $24,973.26 is available to be spent, of which $5,457.33 is included in restricted net assets expendable for scholarships and fellowships, $6,264.45 is included in restricted net assets expendable for instructional department uses, $1,456.37 is included in restricted net assets expendable for loans, $2,339.43 is included in restricted net assets expendable for other, and $9,455.68 is included in unrestricted net assets.

NOTE 8. UNRESTRICTED NET ASSETS

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

	June 30, 2007	June 30, 2006
Working capital	$ 324,268.38	$ 335,719.10
Encumbrances	325,533.26	214,105.74
Designated fees	1,045,407.95	1,007,178.67
Auxiliaries	509,291.42	471,888.42
Quasi-endowment	119,315.83	274,807.32
Plant construction	2,394,497.04	1,656,847.98
Renewal and replacement of equipment	6,193,305.98	4,791,218.35
Debt retirement	396,620.18	380,864.49
Undesignated	1,782,242.02	328,668.44
Total	$13,090,482.06	$9,461,298.51

NOTE 9. PENSION PLANS

A. Defined Benefit Plans

1. Tennessee Consolidated Retirement System

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

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

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 13.66% 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, 2007, 2006, and 2005 were $3,361,727.03, $2,394,517.74, and $2,368,211.39. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

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

Funding Policy - Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans was $3,037,096.34 for the year ended June 30, 2007, and $2,855,872.21 for the year ended June 30, 2006. Contributions met the requirements for each year.

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS

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

NOTE 11. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The Risk Management Fund is also responsible for claims for damages to state-owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from $25,000 per occurrence, depending on the type of coverage, to an aggregate of $5 million.

The university participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2007, and June 30, 2006, are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee

Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140. Since the university participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated,* Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated,* Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2007, the Risk Management Fund held $116.7 million in cash and cash equivalents designated for payment of claims. At June 30, 2006, the Risk Management fund held $133.2 million in cash and cash equivalents designated for payment of claims.

At June 30, 2007, the scheduled coverage for the university was $757,341,900.00 for buildings and $97,880,500.00 for contents. At June 30, 2006, the scheduled coverage for the university was $234,298,900.00 for buildings and $94,817,300.00 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 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 12. COMMITMENTS AND CONTINGENCIES

Sick Leave - The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $24,149,101.26 at June 30, 2007, and $24,763,445.22 at June 30, 2006.

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 personal property were $292,126.82 for the year ended June 30, 2007. The comparative amount for the year ended June 30, 2006, was

$307,445.43. There were no expenses for operating leases for real property in either fiscal year. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2007, outstanding commitments under construction contracts totaled $11,358,240.00 for Nursing and Health Services Building and Housing Fire Safety Upgrade projects, of which $5,969,000.00 will be funded by future state capital outlay appropriations.

Contract - In December 2004, the Tennessee Board of Regents system entered into a contract with SungardSCT for the purchase of a comprehensive enterprise resource planning system. The contract includes a multi-year phase-in of administrative software for financial, human resource, and student systems. The university's outstanding liability for this contract was $1,643,529.00 at June 30, 2007, and $2,037,046.86 at June 30, 2006.

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

NOTE 13. CHAIRS OF EXCELLENCE

The university had $5,588,163.59 on deposit at June 30, 2007, and $5,030,106.76 on deposit at June 30, 2006, with the State Treasurer for the university's Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

NOTE 14. FUNDS HELD IN TRUST BY OTHERS

The university is a beneficiary under the CTC Charitable Lead, Odom Family, and Odom Tennessee Tech Charitable Lead, and William Jenkins Estate trusts. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received $120,178.07 from these funds during the year ended June 30, 2007, and $118,909.53 during the year ended June 30, 2006.

NOTE 15. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses by functional classification for the year ended June 30, 2007, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$32,045,560.59	$9,527,852.02	$5,607,692.25	$ -	$ -	$ 47,181,104.86
Research	4,998,092.15	1,155,423.53	3,197,932.57	-	-	9,351,448.25
Public service	2,225,962.83	688,070.35	1,900,562.92	-	-	4,814,596.10
Academic support	5,703,567.28	2,085,859.32	(1,031,418.62)	-	-	6,758,007.98
Student services	4,764,125.91	1,678,448.37	3,726,235.48	-	-	10,168,809.76
Institutional support	5,942,573.56	2,315,642.32	1,129,311.51	-	-	9,387,527.39
Operation & maintenance	3,508,559.26	1,884,389.15	5,661,368.95	-	-	11,054,317.36
Scholar. & fellow.	-	-	-	11,730,870.97	-	11,730,870.97
Auxiliary	2,103,025.36	836,021.32	3,066,923.16	-	-	6,005,969.84
Depreciation	-	-	-	-	4,934,596.70	4,934,596.70
Total	$61,291,466.94	$20,171,706.38	$23,258,608.22	$11,730,870.97	$4,934,596.70	$121,387,249.21

The university's operating expenses by functional classification for the year ended June 30, 2006, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$30,780,788.63	$ 8,563,969.48	$ 5,486,547.44	$ -	$ -	$ 44,831,305.55
Research	4,305,463.76	948,519.48	2,477,674.83	-	-	7,731,658.07
Public service	2,160,079.23	614,889.08	2,176,913.06	-	-	4,951,881.37
Academic support	5,639,840.87	1,848,865.08	(831,180.90)	-	-	6,657,525.05
Student services	4,438,815.68	1,492,516.68	3,543,222.09	-	-	9,474,554.45
Institutional support	5,698,570.74	2,140,284.86	1,069,491.78	-	-	8,908,347.38
Operation & maintenance	3,395,514.18	1,707,683.33	7,438,973.77	-	-	12,542,171.28
Scholar. & fellow.	-	-	-	9,400,581.41	-	9,400,581.41
Auxiliary	2,057,532.25	719,105.70	3,081,712.63	-	-	5,858,350.58
Depreciation	-	-	-	-	4,627,003.36	4,627,003.36
Total	$58,476,605.34	$18,035,833.69	$24,443,354.70	$9,400,581.41	$4,627,003.36	$114,983,378.50

NOTE 16. 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 27-member board of the foundation is self-perpetuating and consists of graduates and friends of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements.

During the year ended June 30, 2007, the foundation made distributions of $727,935.55 to or on behalf of the university for both restricted and unrestricted purposes. During the year ended June 30, 2006, the foundation made distributions of $329,019.38 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Tennessee Technological University, Office of the Vice President for Business and Fiscal Affairs, P.O. Box 5037, Cookeville, TN 38505.

Cash and cash equivalents - In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2007, cash and cash equivalents consisted of $8,029,245.73 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $6,204,876.73 in custodial accounts of the investment managers of the foundation. At June 30, 2006, cash and cash equivalents consisted of $6,251,817.64 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $4,249,818.98 in custodial accounts of the investment managers of the foundation.

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

Investments - The foundation is authorized to invest funds in accordance with its board of directors' policies. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

At June 30, 2007, the foundation had the following investments and maturities.

		Investment Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10	No Maturity Date
U.S. Treasury	$ 78,012.00	$ -	$ -	$ 64,690.00	$ 13,322.00	$ -
U.S. agencies	3,180,799.19	1,141,162.16	1,500,311.30	240,840.00	298,485.73	-
Corporate stocks	26,098,442.89	-	-	-	-	26,098,442.89
Corporate bonds	3,408,257.25	298,595.00	1,219,358.00	1,864,150.00	26,154.25	-
Mutual funds	14,627.45	-	-	-	-	14,627.45
Other:						
Hedge fund	5,281,862.68	-	-	-	-	5,281,862.68
Total	$38,062,001.46	$1,439,757.16	$2,719,669.30	$2,169,680.00	$337,961.98	$31,394,933.02

At June 30, 2006, the foundation had the following investments and maturities.

		Investment Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10	No Maturity Date
U.S. Treasury	$ 95,752.95	$ -	$ -	$ 12,457.13	$ 83,295.82	$ -
U.S. agencies	2,745,475.40	-	2,205,230.30	236,137.49	304,107.61	-
Corporate stocks	25,050,532.63	-	-	-	-	25,050,532.63
Corporate bonds	2,652,542.14	-	867,935.00	1,651,978.89	132,628.25	-
Mutual funds	16,514.59	-	-	-	-	16,514.59
Other:						
Hedge fund	2,236,449.22	-	-	-	-	2,236,449.22
Total	$32,797,266.93	$ -	$3,073,165.30	$1,900,573.51	$520,031.68	$27,303,496.44

Alternative Investment – The foundation has an investment in the Silver Capital Fund (Offshore) Ltd. (the “Fund”) hedge fund. The estimated fair value of this investment was $5,281,862.68 at June 30, 2007, and $2,236,449.22 at June 30, 2006.

The Fund was formed under the laws of the Cayman Islands on April 30, 2004, with operations commencing on June 1, 2004, for the purpose of trading and investing in securities. The Fund invests only in publicly tradable securities listed on a national securities exchange or reported on the NASDAQ national market. The Fund received an unqualified opinion on its June 30, 2007, audited financial statements. The foundation believes that the reported amounts for this alternative investment are a reasonable estimate of fair value at each year end. The fair value for the Fund is estimated monthly by BISYS Hedge Fund Services Limited based on the month end closing price listed for each individual investment within the fund.

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

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

At June 30, 2007, the foundation's investments were rated as follows:

		Credit Quality Rating				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
LGIP	$8,029,245.73	$ -	$ -	$ -	$ -	$8,029,245.73
U.S. agencies	3,180,799.19	3,180,799.19	-	-	-	-
Corporate bonds	3,408,257.25	-	1,644,111.00	1,198,582.00	229,354.25	336,210.00
Mutual funds	14,627.45	-	-	-	-	14,627.45
Total	$14,632,929.62	$3,180,799.19	$1,644,111.00	$1,198,582.00	$229,354.25	$8,380,083.18

At June 30, 2006, the foundation's investments were rated as follows:

		Credit Quality Rating				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
LGIP	$ 6,251,817.64	$ -	$ -	$ -	$ -	$6,251,817.64
U.S. agencies	2,745,475.40	2,745,475.40	-	-	-	-
Corporate bonds	2,652,542.14	-	663,842.83	1,347,616.06	225,511.25	415,572.00
Mutual funds	16,514.59	-	-	-	-	16,514.59
Total	$11,666,349.77	$2,745,475.40	$663,842.83	$1,347,616.06	$225,511.25	$6,683,904.23

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

	Carrying Value June 30, 2007	Carrying Value June 30, 2006
U.S. Treasury	$ 64,690.00	$ 69,953.92
U.S. agencies	3,180,799.19	2,745,475.40
Local Government Investment Pool	8,029,245.73	6,251,817.64
Investment manager custodial accounts	6,189,929.70	4,248,520.96
Corporate stocks	25,565,555.84	24,531,671.19
Corporate bonds	3,408,257.25	2,652,542.14
Hedge funds	5,281,862.68	2,236,449.22
	$51,720,340.39	$42,736,430.47

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, 2007, each having a fair value of $113.661527, 401,328.6684 units were owned by endowments, 48,899.5628 units were owned by operation accounts, and 4,810.0010 units were owned by quasi-endowments. Of the total units at June 30, 2006, each having a fair value of $105.244911, 352,656.035632 units were owned by endowments, 48,890.90565 units were owned by operation accounts, and 4,519.537618 units were owned by quasi-endowments.

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

FY 2007

	Pooled Assets		Net Gains	Fair Value
	Fair Value	Cost	(Losses)	Per Unit
End of year	$51,720,340.39	$46,531,807.55	$5,188,532.84	$113.661527
Beginning of year	$42,736,430.47	$41,295,130.24	1,441,300.23	105.244911
				$ 8.416616
Unrealized net gains/(losses)			3,747,232.61	
Realized net gains/(losses)			-	
Total net gains/(losses)			$3,747,232.61	

The average annual earnings per unit, exclusive of net gains/(losses), were $8.393953 for the year ended June 30, 2007.

FY 2006

	Pooled Assets		Net Gains	Fair Value
	Fair Value	Cost	(Losses)	Per Unit
End of year	$42,736,430.47	$41,295,130.24	$1,441,300.23	$105.244911
Beginning of year	$38,430,544.39	$35,233,421.98	3,197,122.41	109.649628
				$ (4.404717)
Unrealized net gains/(losses)			(1,755,822.18)	
Realized net gains/(losses)			-	
Total net gains/(losses)			$(1,755,822.18)	

The average annual earnings per unit, exclusive of net gains/(losses), were $8.090680 for the year ended June 30, 2006.

Capital assets - Capital asset activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$348,864.28	$ -	$ -	$ -	$348,864.28

Capital asset activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$342,064.28	$6,800.00	$ -	$ -	$348,864.28

Endowments - If a donor has not provided specific instructions to the foundation, the foundation's policies and procedures permit it 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 the foundation'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 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 an endowment, or a percentage of the actual earnings as designated by the donor, has been authorized for expenditure. The remaining amount, if any, becomes part of the permanent endowment.

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULES OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 1,526,347.06	$ 1,534,709.99
Endowment income per spending plan	1,396,738.09	1,454,966.86
Sales and services of educational activities	975,812.10	934,250.10
Payments to suppliers and vendors	(1,968,277.39)	(1,527,603.67)
Payments for scholarships and fellowships	(1,310,804.71)	(1,172,828.41)
Payments to Tennessee Technological University	(552,819.61)	(291,678.34)
Other receipts (payments)	218,799.90	445,494.42
Net cash provided (used) by operating activities	285,795.44	1,377,310.95
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	844,210.72	1,389,048.46
Other noncapital financing receipts (payments)	-	(419,454.44)
Net cash provided by noncapital financing activities	844,210.72	969,594.02
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts received	693,461.83	1,913,632.43
Purchases of capital assets and construction	(175,115.94)	(44,141.04)
Net cash provided by capital and related financing activities	518,345.89	1,869,491.39
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	28,184,254.03	19,503,152.76
Income on investments	365,340.54	142,288.95
Purchases of investments	(26,465,460.78)	(22,345,632.03)
Net cash used by investing activities	2,084,133.79	(2,700,190.32)
Net increase (decrease) in cash and cash equivalents	3,732,485.84	1,516,206.04
Cash and cash equivalents - beginning of year	10,501,636.62	8,985,430.58
Cash and cash equivalents - end of year	$ 14,234,122.46	$ 10,501,636.62
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	$ 110,679.50	$ 1,339,969.91
Adjustments to reconcile operating income to net cash provided by operating activities:		
Gifts in-kind	175,115.94	37,341.04
Change in assets and liabilities:		
Receivables, net	-	-
Net cash provided (used) by operating activities	$ 285,795.44	$ 1,377,310.95
Noncash transactions		
Gifts in-kind	$ 183,361.17	$ 114,044.77
Gifts in-kind - capital	$ -	$ 1,300,000.00
Unrealized gains/losses on investments	$ 3,739,928.77	$ (1,770,527.25)
Fixed Assets transferred to TTU in payment to TTU	$ 175,115.94	$ -