AUDIT REPORT

Tennessee Board of Regents
Tennessee Technological University

For the Year Ended
June 30, 2009

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

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August 26, 2010

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, 2009. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/ cd
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State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit

Tennessee Technological University

For the Year Ended June 30, 2009

AUDIT OBJECTIVES

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

INTERNAL CONTROL FINDING

The University Did Not Ensure That Amounts Were Properly Reported in Its Financial Statements and the Accompanying Notes to the Financial Statements

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

The significant deficiency described above was considered a material weakness. 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 university's internal control.

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, 2009

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Tennessee Technological University
For the Year Ended June 30, 2009

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 1929, the institution was raised to the status of a four-year college and empowered to grant the bachelor's degree. The administrative structure of the university was expanded in 1949 into five schools: Arts and Sciences, Agriculture and Home Economics, Business Administration, Education, and Engineering. In 1965, the five undergraduate schools were designated as colleges. By an act of the General Assembly, effective July 1, 1965, the name of the institution was officially changed to Tennessee Technological University. In 1980, the institution's new Schools of Nursing and the Joe L. Evins Appalachian Center for Crafts began their bachelor degree programs.

ORGANIZATION

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

AUDIT SCOPE

The audit was limited to the period July 1, 2008, through June 30, 2009, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 2009. Tennessee Technological University is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

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

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

4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT 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 August 7, 2009. A follow-up of the prior audit findings was conducted as part of the current audit.

The current audit disclosed that the university has corrected previous audit findings concerning controls over bank reconciliation processes for the university's and foundation's bank accounts and information system controls for the operating system and database supporting the Banner information system.

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, 2009, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing opinions on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. A material weakness, along with the recommendation and management's response, is detailed in the Finding and Recommendation section of this report.

Compliance and Other Matters

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

Fairness of Financial Statement Presentation

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

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

July 6, 2010

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:

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, 2009, and have issued our report thereon dated July 6, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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 a significant deficiency.

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 deficiency was noted:

> The university did not ensure that amounts were properly reported in its financial statements and the accompanying notes to the financial statements

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

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 or material weaknesses. However, we consider the significant deficiency described above to be 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 generally accepted government auditing standards.

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

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

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/cd

FINDING AND RECOMMENDATION

The university did not ensure that amounts were properly reported in its financial statements and the accompanying notes to the financial statements

Finding

Our audit found that Tennessee Technological University's procedures for financial statement preparation should be improved to ensure the accuracy of the financial statements. This weakness contributed to numerous reporting errors in the financial statements and the notes to the financial statements of the university. The Associate Vice President for Business and Fiscal Affairs is responsible for financial reporting for the university. The Manager of Payroll and Benefits and the Director of Auxiliaries prepare portions of the notes to the financial statements which are then reviewed by the Associate Vice President for Business and Fiscal Affairs.

Errors in the University's Financial Statements

We found an error on the Statement of Net Assets. Cash reported as current cash should include the amount that is needed to fund current liabilities. The Associate Vice President for Business and Fiscal Affairs did not take into consideration $97,700.09 of current liabilities for the retirement of indebtedness. As a result, current cash was understated and noncurrent cash was overstated by this amount. The audit report contains corrected amounts.

On the Statement of Cash Flows for the university, one line item was duplicated in the noncash transaction portion. Capital gifts-in-kind from the TTU Foundation worth $122,440.70 was reported twice, once as a gift-in-kind capital item and again as a capital gift transferred to the university. The statement of cash flows was corrected.

Errors in the University's Notes to the Financial Statements

We noted several errors in the notes to the financial statements for the university. These are enumerated below.

In the Pledged Revenues Note, the total amount of principal and interest paid on debt during fiscal year 2009 was reported as $1,785,836.00, which was actually the total debt service requirement for 2010. This amount should have been reported as $1,420,792.15, a difference of $365,043.85. The note was corrected.

We noted two errors in the Pension Plans Note. The university's contributions to the Tennessee Consolidated Retirement System (TCRS) and contributions to the defined contribution plans were reported as $3,534,942.57 and $3,423,888.16, respectively. These amounts should have been $3,320,996.40 for contributions to TCRS and $3,143,786.60 for defined contribution plans, differences of $213,946.17 and $280,101.56, respectively. University staff believe that the incorrect amounts came from preliminary reports and could not support the reported amounts; however, the staff agreed with the amounts we suggested. The note was corrected.

In the Insurance-related Activities Note, the scheduled coverage for the university was reported as $767,059,700.00 for buildings and $104,201,700.00 for contents. The amounts should have been reported as $751,600,200.00 for buildings and $103,701,700.00 for contents, differences of $15,459,500 and $500,000, respectively. During the fiscal year, two buildings were demolished; however, the reported coverage still included the amounts related to these two buildings. The note was adjusted accordingly.

In the Accounts Receivable Note, the amount reported for grants receivable was understated by $33,485.85, while the amount reported for other receivables was overstated by the same amount. An account that was recorded properly in the accounting system was not classified correctly when the information was compiled for the notes. The note was corrected.

Conclusion

Management has identified within the university's risk assessment the risk of inaccurate/untimely financial reporting and the risk of financials issued with material misstatements. For this, management's intention is to monitor through supervisory controls, such as reviews. However, the Associate Vice President for Business and Fiscal Affairs and his staff did not detect the reporting errors noted above during their review and stated that the lack of time in which to review the completed financial report contributed to these errors remaining undetected.

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

Recommendation

The President and Vice President for Business and Fiscal Affairs should ensure that all staff carefully and thoughtfully review the financial statements and related notes. The Associate Vice President for Business and Fiscal Affairs should ensure that the amounts reported in the financial ledgers are accurate, that all notes are accurate at year-end and in agreement with the respective amounts in the financial statements, and that all financial reporting is done in accordance with generally accepted accounting principles.

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

Management's Comment

Management concurs with the finding. These items have been added to a financial statement preparation checklist to ensure correctness. The Director of Accounting and the Associate Vice President for Business and Fiscal Affairs will ensure the review is completed.

STATE OF TENNESSEE
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Independent Auditor's Report

July 6, 2010

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:

We have audited the accompanying basic financial statements of Tennessee Technological University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the university's management. Our responsibility is to express opinions on these financial statements, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of Tennessee Technological University, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only Tennessee Technological University. They do not purport to, and do not, present fairly the financial position of the Tennessee Board of Regents, as of June 30, 2009, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Tennessee Technological University, and its discretely presented component unit as of June 30, 2009, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 14 through 31 and the schedule of funding progress on page 64 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 65 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated July 6, 2010, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/cd

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

This section of Tennessee Technological University's report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2009, with comparative information presented for the fiscal year ended June 30, 2008. 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.

Net Assets
(in thousands of dollars)

	2009	2008
Assets:		
Current assets	$ 27,765	$ 22,065
Capital assets, net	85,719	74,370
Other assets	31,580	24,548
Total assets	**$ 145,064**	**$ 120,983**
Liabilities:		
Current liabilities	$ 18,203	$ 13,633
Noncurrent liabilities	29,218	21,327
Total liabilities	**$ 47,421**	**$ 34,960**
Net Assets:		
Invested in capital assets, net of related debt	$ 63,685	$ 59,171
Restricted – nonexpendable	195	194
Restricted – expendable	8,823	7,822
Unrestricted	24,940	18,836
Total net assets	**$ 97,643**	**$ 86,023**

- The assets of the university increased by 20% from 2008 to 2009. The increase can be attributed to investments in capital assets, which increased 15%. Primary items include major renovations to the basketball offices, construction on the STEM Center, and a new residence hall. Current assets increased by 26%, which includes an increase in cash of 27%. This increase is due primarily from an increase in accrued liabilities, largely payroll items including OPEB and State Fiscal Stabilization Funds. Other assets increased 29% due to an increase in cash transferred to the plant funds to cover projects.

- The university's increase in liabilities from 2008 to 2009 was 36%. The increase in current liabilities was primarily accrued liabilities, which increased 32% due to accrued payroll items related to the voluntary buyout plan. Based on guidance provided by the Tennessee Recovery Act Management Office, the total allotment of FY 2008-09 State Fiscal Stabilization Funds (SFSF) ($3,590,800) were drawn down and receipted as of June 30, 2009. It was subsequently determined that institutions would not lose the availability of funds not drawn down at June 30, 2009, and SFSF of $3,150,828.14 were returned on July 13, 2009, and are included on the Statement of Net Assets as due to primary government. Funds not returned on July 13, 2009, represent SFSF disbursements made prior to June 30, 2009, for which the university requested reimbursement. Noncurrent liabilities increased 37%, primarily because of the increase of accrued OPEB.

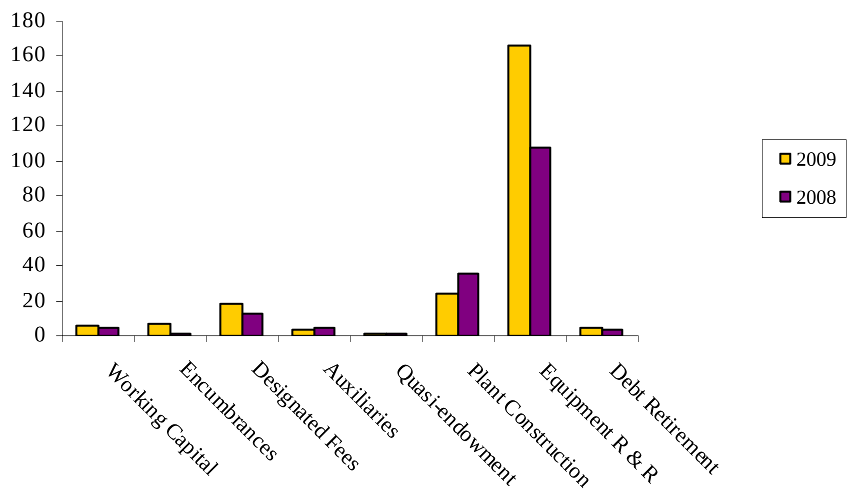
- The increase in net assets of 14% from 2008 to 2009 included additional investments in capital projects. Profits transferred from auxiliary funds resulted in a 53% increase in renewal and replacement unrestricted net assets. All other fluctuations in net assets were minor.

- Restricted nonexpendable net assets had no significant change from 2008 to 2009.

- Restricted expendable net assets had no significant change from 2008 to 2009.

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

Unrestricted Net Assets
(in hundred thousands)



- Funds designated for encumbrances increased $560,500 (416%) in 2009 compared to 2008. These funds were held in reserve until the end of the year to cover any unanticipated reduction in state appropriations. Funds designated for renewal and replacement of equipment and repair of housing facilities increased by 53% in 2009 compared to 2008. Housing renewals and replacements increased in 2009 because less funds were transferred out to fund unexpended plant projects funded by housing. The transfers out to unexpended decreased by $840,972 in 2009 compared to 2008.

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

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

Changes in Net Assets
(in thousands of dollars)

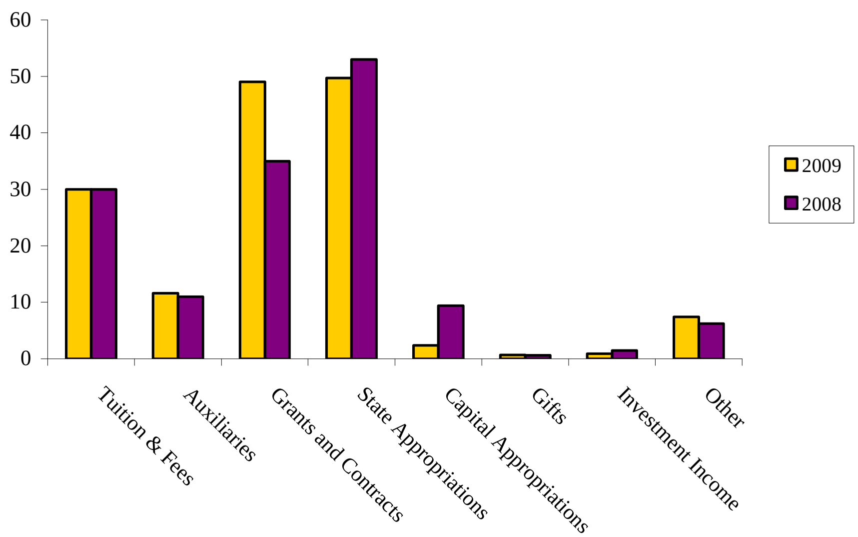
	2009	2008
Operating Revenues:		
Net tuition and fees	$ 30,286	$ 29,525
Grants and contracts	11,996	11,295
Auxiliary	11,676	10,867
Other	7,078	6,224
Total operating revenues	**$ 61,036**	**$ 57,911**
Operating expenses	139,877	132,258
Operating loss	**$ (78,841)**	**$ (74,347)**
Nonoperating revenues and expenses:		
State appropriations	$ 49,734	$ 53,443
Gifts	676	575
Grants & contracts	29,590	23,726
Investment income	923	1,533
Interest on capital asset debt	(677)	(644)
Other revenues and (expenses)	329	(64)
Total nonoperating revenues and expenses	**$ 80,575**	**$ 78,569**
Income before other revenues, expenses, gains, or losses	**$ 1,734**	**$ 4,222**
Other revenues, expenses, gains, or losses:		
Capital appropriations	$ 2,428	$ 9,366
Capital grants and gifts	7,457	4,762
Additions to permanent endowments	1	2
Total other revenues, expenses, gains, or losses	**$ 9,886**	**$ 14,130**

Increase in net assets	**$**	**11,620**	**$**	**18,352**
Net assets at beginning of year	**$**	**86,023**	**$**	**67,671**
Net assets at end of year	**$**	**97,643**	**$**	**86,023**

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, 2009, and June 30, 2008.

Revenues by Source
(in millions)



- The university's total revenue had no significant change from 2008 to 2009; however, non-operating grants and contracts increased by 25% due to an increase of State Fiscal Stabilization Fund revenues of $2,309,400, an increase in Pell Grants and SEOG of $1,607,000, and an increase in Lottery Funds of $1,947,300. A reduction of $3,709,200 in state appropriations was offset by a similar infusion of $3,590,400 of State Fiscal Stabilization Funds, of which $2,309,400 is recognized as income.

- The major change in other revenues and expenses is due to bonds being issued at a premium net of related issue costs.

- Capital appropriations decreased by approximately $6,938,000 in 2009. This decrease is directly attributable to fewer capital and maintenance projects being funded by state dollars.

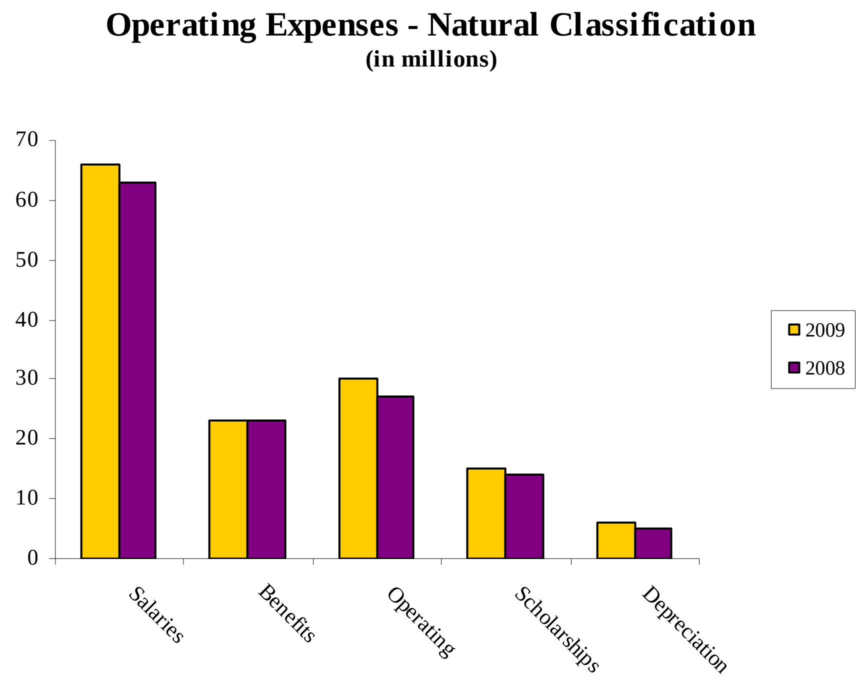
Expenses

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

Natural Classification

Operating Expenses – Natural Classification
(in thousands of dollars)

	2009	2008
Salaries	$ 66,314	$ 63,444
Benefits	23,065	22,923
Operating	29,551	27,141
Scholarships	14,739	13,537
Depreciation	6,208	5,213
	$ 139,877	$ 132,258



- Expenditures increased from 2008 to 2009 by 6%. Operating costs increased by 9%. The primary increase occurred in utilities, which increased by 22%. Depreciation increased by 19% due to the addition of the Nursing Building. All other increases were minor.

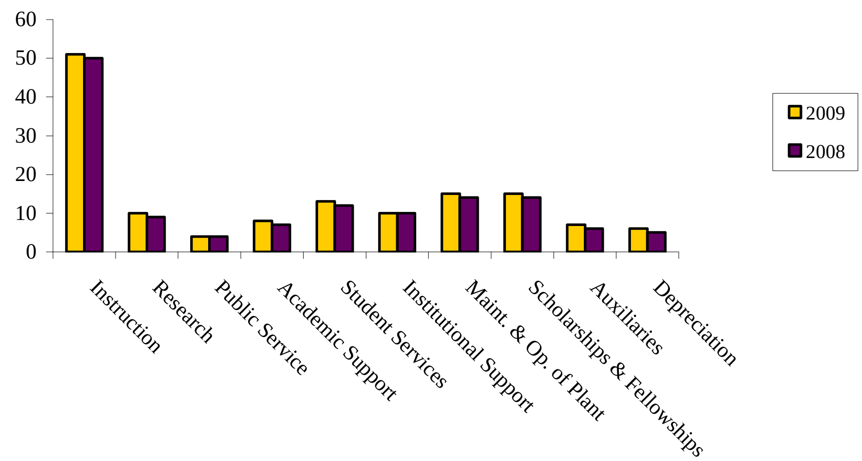
Program Classification

Program Classification of Operating Expenses
(in thousands of dollars)

	2009	2008
Instruction	$ 50,872	$ 50,341
Research	10,177	9,283
Public service	4,395	3,835
Academic support	8,153	7,448
Student services	12,876	11,901
Institutional support	10,337	9,968
Maintenance & operations	15,498	14,302
Scholarships & fellowships	14,739	13,537
Auxiliaries	6,622	6,430

Depreciation	6,208	5,213
Total expenses	$ 139,877	$ 132,258

Operating Expenses - Program Classification
(in millions)



- From 2008 to 2009, the university had an overall 6% increase in expenditures. The primary increase of 15% was in public service. This change related to increased participation in cheer clinics, craft center workshops, extended programs, and regional development. All other increases were less than 10% except for depreciation, which increased 19% due to the new Nursing building. Maintenance of plant increased by $1,196,000 (8%), of which utilities costs represented $795,000 of the total increase.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2009, Tennessee Technological University had $85,719,000 invested in capital assets, net of accumulated depreciation of $92,403,000. Depreciation charges totaled $6,208,000 for the current fiscal year. Details of these assets are shown below.

Schedule of Capital Assets, Net of Depreciation

(in thousands of dollars)

	2009	2008
Land	$ 1,258	$ 1,258
Land improvements & infrastructure	6,243	6,693
Buildings	54,195	31,906
Equipment	5,953	5,423
Library holdings	4,548	4,630
Software	2,260	2,394
Projects in progress	11,262	22,065
Total capital assets, net of depreciation	$ 85,719	$ 74,369

The university had eight projects in progress that increased the capital assets by $14,575,544 during FY 2009. The new basketball offices, STEM Center, Performance Contract Order, and the new residence hall were the largest. Another $2,999,681 in equipment and library holdings were capitalized during the year.

The university plans to complete approximately $20,979,000 in capital expenditures during the next fiscal year. The following details the project, amount, and funding source:

Project	Amount (in thousands of dollars)	Source of Funding
ADA Modifications	$ 100	State Appropriations
Nursing & Health Services Building	53	Private
Fire Alarm Upgrade	36	State Appropriations
Central Cooling Deficiency-Phase IV	500	State Appropriations
STEM Center	3,059	Private Donations
Housing Fire Safety Upgrade	178	Housing Revenue
Elevator Upgrades	685	State Appropriations
Roaden Center Crawlspace	10	State Appropriations
JH Renovation 401	198	Private Donations
Foster Hall Ventilation	1,200	State Appropriations
Conditioning & Strength Center	1,700	TSSBA Bonds and Private
Tech Village West-Phase 1	2,500	TSSBA Bonds
Crawford Hall Reroof	260	State Appropriations
New Residence Halls	10,500	TSSBA Bonds

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

Debt

At June 30, 2009, and June 30, 2008, the university had $22,034,000 and $15,198,000 in debt outstanding, respectively. The table below summarizes these amounts by type of debt instrument.

	Amount (in thousands of dollars)	
Debt Instrument	2009	2008
Bonds payable	$ 14,575	$ 10,561
Commercial paper	7,459	4,637
Total outstanding debt	$ 22,034	$ 15,198

In fiscal year 2009, the Tennessee State School Bond Authority issued, on behalf of the university, an additional $7,885,400 in commercial paper, of which $1,018,660 was related to the Performance Contract Order 2 P918 and $6,866,740 was related to the New Residence Hall P917. Commercial paper debt of $5,063,326 and bonds of $848,648 were retired. The TSSBA's revenue bond ratings were Aa2 from Moody's, AA from S & P, and AA from Fitch's at June 30, 2009.

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

Economic Factors That Will Affect the Future of the University

The university's state appropriation, a major source of support for academic programs, is designated to be reduced $7,600,000, or approximately 17%, by fiscal year 2011-12. Maintenance-of-effort funding from the state and federal stimulus recovery funds of approximately $25 million is available for two years and will provide resources as the university implements its plan to meet the anticipated state appropriation reduction.

Although not a significant portion of the university's budget, the decline in returns on market investments experienced during FY 2009 by both the university and the foundation will reduce the discretionary funds available to support academic programs.

The Tennessee Board of Regents voted in December 2008 to move to a tuition calculation model that charges all students based on the number of credit hours taken each semester. This model will be phased in over a number of years and is not expected to impact student enrollments.

Utility costs continue to be a concern for the university. The university is currently in the final phase of a two-phase energy conservation project that is expected to provide an overall seven-year payback.

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.

Net Assets
(in thousands of dollars)

	2009	2008
Assets:		
Current assets	$ 552	$ 1,191
Capital assets, net	147	400
Other assets	39,831	48,052
Total assets	**$ 40,530**	**$ 49,643**

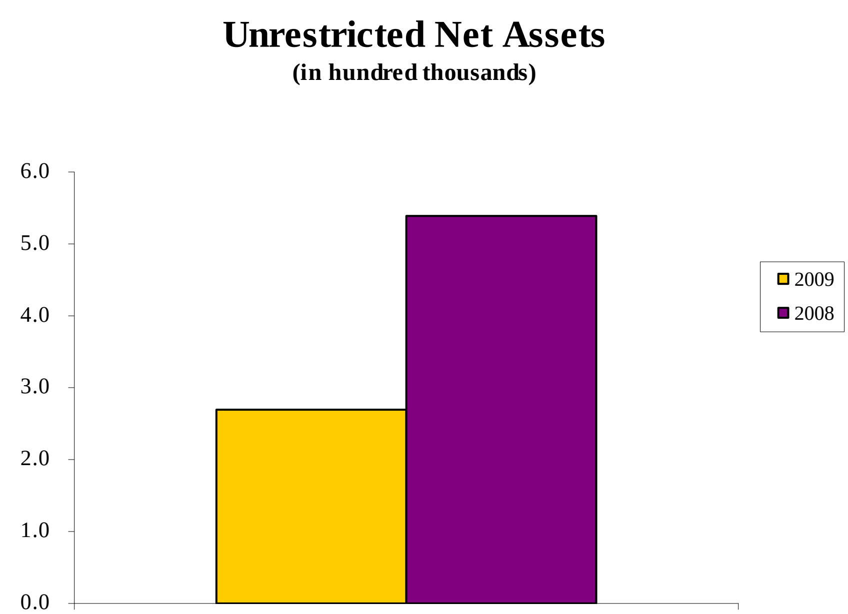
Liabilities:				
Current liabilities	$	159	$	34
Noncurrent liabilities		617		706
Total liabilities	**$**	**776**	**$**	**740**
Net Assets:				
Invested in capital assets, net of unrelated debt	$	147	$	400
Restricted – nonexpendable		30,931		35,020
Restricted – expendable		8,404		12,946
Unrestricted		272		537
Total net assets	**$**	**39,754**	**$**	**48,903**

- Current assets decreased by 54% from 2008 to 2009 due to the maturity of short-term investments and decrease in current cash. Cash decreased due to the transfer of $48,500 to support the principal payment and administrative fee for a loan from Caney Fork Electric (USDA pass-through loan). A reduction of $164,100 is due to losses on investments allocated to unrestricted cash. The remainder of the decrease is due to operating commitments that exceeded supporting revenues by $300,000 and were funded from existing resources. Short-term investments of $306,470 matured and were reinvested in long-term investments or used to fund operating activities.

- Total assets decreased by 18% from 2008 to 2009. Noncurrent cash and cash equivalents decreased by 52% due to realized losses from the sale of investments.

- Total liabilities increased 5% because of an accounts payable for athletic camps. See the Commitments and Contingencies section of the Component Unit Note 20 to the financial statements for additional information.

- Unrestricted net assets of the foundation declined by $265,000 in FY 2009. Ongoing contract obligations, program services support, and operating expenditures exceeded current-year revenues by $281,500.



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.

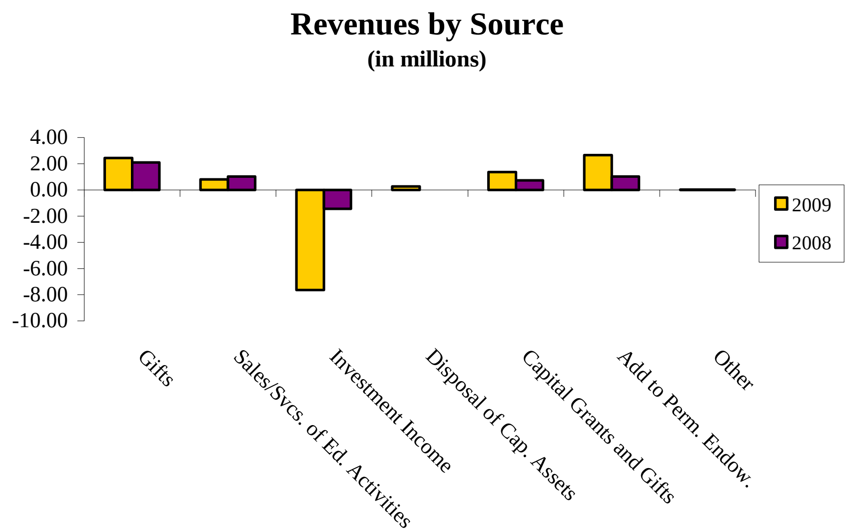
Changes in Net Assets
(in thousands of dollars)

	2009	2008
Operating revenues:		
Gifts	$ 2,431	$ 2,090
Sales and services of educational activities	796	1,019
Other	29	25
Total operating revenues	**$ 3,256**	**$ 3,134**

Operating expenses		9,058		7,433
Operating loss	**$**	**(5,802)**	**$**	**(4,299)**
Nonoperating revenues and expenses:				
Investment income	$	(7,642)	$	(1,436)
Disposal of capital assets		278		-
Total nonoperating revenues and expenses	**$**	**(7,364)**	**$**	**(1,436)**
Income (loss) before other revenues, expenses, gains, or losses	**$**	**(13,166)**	**$**	**(5,735)**
Other revenues, expenses, gains, or losses:				
Capital grants and gifts	$	1,360	$	726
Additions to permanent endowments		2,657		1,031
Total other revenues, expenses, gains, or losses	**$**	**4,017**	**$**	**1,757**
Increase (decrease) in net assets	**$**	**(9,149)**	**$**	**(3,978)**
Net assets at beginning of year	**$**	**48,903**	**$**	**52,881**
Net assets at end of year	**$**	**39,754**	**$**	**48,903**

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, 2009, and June 30, 2008.



- Operating revenue increased 4%, primarily as the result of a 16% increase in operating gifts as directed by donors. Other revenue for capital grants and gifts increased by 87% due to donor-directed gifts for university building projects. Permanent endowments increased by 157%, primarily as the result of a large estate gift in excess of $2 million received in 2009. Investment income decreased 432% due to an approximate $6 million loss in realized gains and losses for the sale of investments in the pooled account. During 2009, the foundation sold land held as an investment that resulted in a gain of $278,000.

Expenses

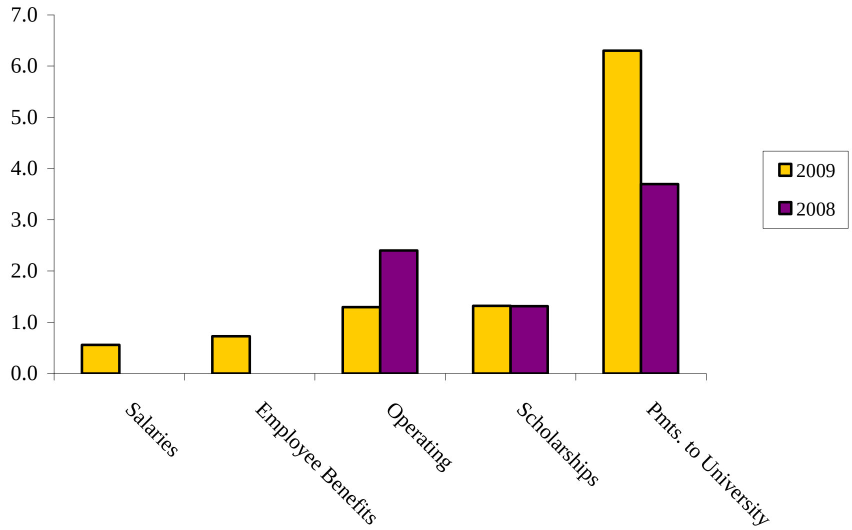
The Natural Classification method for displaying operating expenses is shown below.

Natural Classification

Operating Expenses - Natural Classification
(in thousands of dollars)

	2009	2008
Salaries	$ 56	$ -
Employee benefits	73	-
Operating	1,326	2,432
Scholarships	1,325	1,315
Payments to university	6,278	3,686
	$ 9,058	$ 7,433

Operating Expenses - Natural Classification
(in millions)



- In 2009, salaries and employee benefits increased by 100% over 2008 due to the reclassification of athletic camp workers from contract labor to employees. Payments to the university increased by 70% mainly to provide funds for capital projects. Construction of the STEM Center created a transfer of funds to the university of $5,125,000. See Note 20 of the financial statements for the Component Unit for additional information related to payments made to the university.

- Operating expenses were less in FY 2009, primarily as a result of a reduction in non-capital gift-in-kind contributions of $606,900 and a reduction in small renovation projects in the amount of $64,900.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2009, Tennessee Technological University Foundation had $147,000 invested in capital assets, made up entirely of land. Details of these assets are shown below.

Schedule of Capital Assets
(in thousands of dollars)

	2009	2008
Land	$ 147	$ 400
Total capital assets	$ 147	$ 400

- During 2009, the foundation sold land totaling $253,000.

Notes Payable

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

Schedule of Notes Payable
(in thousands of dollars)

	2009	2008
Notes Payable	$ 699	$ 740
Total notes payable	$ 699	$ 740

- For 2009, the foundation made principal payments of $41,000 on the loan.

Economic Factors That Will Affect the Future of the Foundation

The instability of the equity market and the interest rates in the bond market during the current fiscal year has not had an impact upon the foundation's ability to continue providing scholarships to students and support to the academic programs of the university in the upcoming fiscal year.

However, future years could be negatively impacted as resource availability is determined by the foundation's spending policy and its ability to raise funds.

The foundation's fundraising outlook for 2009-10 is optimistic. The foundation will continue efforts to steward and cultivate all constituents and solicit for funds from individuals and companies that have had positive growth in their businesses and portfolios this year.

The Office of University Development is again fully staffed with five full-time major gift fundraisers, one planned giving officer, two annual programs professionals, and three support staff. Preparation for the centennial campaign will be completed early this fiscal year, and the plans for cultivation and solicitation of nucleus gifts toward the campaign will begin.

Requests for Information

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

Exhibit A

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENTS OF NET ASSETS
JUNE 30, 2009

	Tennessee Technological University	Component Unit Tennessee Technological University Foundation
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 20)	$ 19,353,875.06	$ 123,379.40
Short-term investments (Note 20)	-	204,491.25
Accounts, notes, and grants receivable (net) (Note 4)	7,947,372.25	15,448.37
Inventories	307,418.44	-
Prepaid expenses and deferred charges	140,576.23	-
Accrued interest receivable	15,792.82	209,012.60
Total current assets	27,765,034.80	552,331.62
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 20)	27,625,956.60	6,682,288.48
Investments (Notes 3 and 20)	1,628,516.38	33,146,965.90
Accounts, notes, and grants receivable (net) (Note 4)	2,325,416.58	1,500.00
Capital assets (net) (Notes 5 and 20)	85,719,057.13	147,354.71
Total noncurrent assets	117,298,946.69	39,978,109.09
Total assets	145,063,981.49	40,530,440.71
LIABILITIES		
Current liabilities:		
Accounts payable (Note 6)	1,491,407.04	77,242.28
Accrued liabilities	8,676,440.66	-
Due to primary government	3,150,828.14	-
Student deposits	147,099.91	-
Deferred revenue	2,493,020.71	-
Compensated absences (Note 7)	677,385.67	-
Accrued interest payable	120,377.15	-
Long-term liabilities, current portion (Notes 7 and 20)	1,089,392.49	82,222.20
Deposits held in custody for others	319,102.41	-
Other liabilities	37,811.27	-
Total current liabilities	18,202,865.45	159,464.48
Noncurrent liabilities:		
Net OPEB obligation (Notes 7 and 12)	3,125,762.00	-
Compensated absences (Note 7)	2,599,776.86	-
Long-term liabilities (Notes 7 and 20)	20,944,868.71	616,666.70
Due to grantors (Note 7)	2,547,609.38	-
Total noncurrent liabilities	29,218,016.95	616,666.70
Total liabilities	47,420,882.40	776,131.18
NET ASSETS		
Invested in capital assets, net of related debt	63,684,795.93	147,354.71
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	195,462.30	20,405,837.22
Research	-	361,947.69
Instructional department uses	-	2,370,354.09
Other	-	7,792,750.54
Expendable:		
Scholarships and fellowships (Note 8)	381,411.29	3,456,724.28
Research	293,535.38	83,375.49
Instructional department uses (Note 8)	518,646.98	856,952.53
Loans (Note 8)	682,220.46	-
Capital projects	4,009,699.80	157,178.76
Debt service	1,662,596.13	-
Other (Note 8)	1,274,658.14	3,850,241.62
Unrestricted (Notes 8 and 9)	24,940,072.68	271,592.60
Total net assets	$ 97,643,099.09	$ 39,754,309.53

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

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

	Tennessee Technological University	Component Unit Tennessee Technological University Foundation
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $25,128,427.55)	$ 30,285,737.07	$ -
Gifts and contributions	-	2,430,634.18
Governmental grants and contracts	11,656,496.47	-
Nongovernmental grants and contracts	339,554.73	-
Sales and services of educational departments	6,176,030.17	796,451.35
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $25,792.35; all residential life revenues are used as security for revenue bonds; see Note 7)	8,585,327.09	-
Bookstore	344,401.53	-
Food service (net of scholarship allowances of $414,252.26; all food service revenues are used as security for revenue bonds; see Note 7)	1,006,473.69	-
Wellness facility (all wellness facility revenues are used as security for revenue bonds; see Note 7)	968,526.31	-
Other auxiliaries	771,237.17	-
Interest earned on loans to students	(2,387.83)	-
Other operating revenues	904,849.47	28,867.00
Total operating revenues	61,036,245.87	3,255,952.53
EXPENSES		
Operating expenses (Note 17):		
Salaries and wages	66,314,508.18	56,435.22
Benefits	23,064,704.18	73,072.28
Utilities, supplies, and other services	29,551,544.12	1,325,840.55
Scholarships and fellowships	14,738,935.37	1,324,908.50
Depreciation expense	6,208,281.48	-
Payments to or on behalf of Tennessee Technological University (Note 20)	-	6,278,304.82
Total operating expenses	139,877,973.33	9,058,561.37
Operating loss	(78,841,727.46)	(5,802,608.84)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	49,734,210.50	-
Gifts, including $507,154.90 from component unit	676,398.14	-
Grants and contracts	29,590,058.38	-
Investment income (loss) (net of investment expense for the component unit of $157,958.53)	923,395.58	(7,641,972.90)
Interest on capital asset-related debt	(677,241.66)	-
Bond issuance premium (costs)	200,161.02	-
Other nonoperating revenues (expenses)	128,403.67	278,645.46
Net nonoperating revenues (expenses)	80,575,385.63	(7,363,327.44)
Income (loss) before other revenues, expenses, gains, or losses	1,733,658.17	(13,165,936.28)
Capital appropriations	2,428,002.56	-
Capital grants and gifts, including $5,771,149.92 from component unit	7,456,685.59	1,359,894.51
Additions to permanent endowments	1,185.00	2,657,558.27
Total other revenues	9,885,873.15	4,017,452.78
Increase (decrease) in net assets	11,619,531.32	(9,148,483.50)
NET ASSETS		
Net assets - beginning of year	86,023,567.77	48,902,793.03
Net assets - end of year	$ 97,643,099.09	$ 39,754,309.53

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

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 30,258,279.26
Grants and contracts	12,189,183.00
Sales and services of educational activities	6,252,730.64
Payments to suppliers and vendors	(28,974,050.83)
Payments to employees	(64,429,378.12)
Payments for benefits	(21,330,453.81)
Payments for scholarships and fellowships	(14,738,935.37)
Loans issued to students	(658,217.13)
Collection of loans from students	427,160.99
Interest earned on loans to students	22,227.91
Auxiliary enterprise charges:	
Residence halls	8,552,348.76
Bookstore	367,268.19
Food services	948,435.45
Wellness facility	971,577.56
Other auxiliaries	762,833.92
Other receipts (payments)	801,824.20
Net cash used by operating activities	(68,577,165.38)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	49,644,300.00
Gifts and grants received for other than capital or endowment purposes, including $507,154.90 from Tennessee Technological University Foundation	31,694,397.23
Private gifts for endowment purposes	1,185.00
Federal student loan receipts	27,685,623.31
Federal student loan disbursements	(27,686,300.25)
Changes in deposits held for others	(28,206.16)
Other noncapital financing receipts (payments)	164,766.41
Net cash provided by noncapital financing activities	81,475,765.54
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	12,747,910.79
Capital appropriations	2,428,002.56
Capital grants and gifts received, including $5,648,709.22 from Tennessee Technological University Foundation	7,334,244.89
Purchases of capital assets and construction	(18,559,689.11)
Principal paid on capital debt	(5,911,975.08)
Interest paid on capital debt	(649,222.52)
Bond issue costs/premium on new debt issue	200,161.02
Other capital and related financing receipts (payments)	(22,807.05)
Net cash used by capital and related financing activities	(2,433,374.50)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	569,584.57
Income on investments	886,008.96
Net cash provided by investing activities	1,455,593.53
Net increase in cash and cash equivalents	11,920,819.19
Cash and cash equivalents - beginning of year	35,059,012.47
Cash and cash equivalents - end of year	$ 46,979,831.66

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(78,841,727.46)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense		6,208,281.48
Gifts in-kind		3,275.04
Other adjustments (Note 18)		115,110.50
Change in assets and liabilities:		
Receivables, net		683,997.70
Inventories		35,823.32
Prepaid/deferred items		(10,093.81)
Accounts payable		89,275.84
Accrued liabilities		3,608,796.81
Deferred revenue		(13,096.00)
Deposits		6,117.44
Compensated absences		(69,509.83)
Due to grantors		(168,688.84)
Loans to students and employees		(224,727.57)
Net cash used by operating activities	$	(68,577,165.38)
Noncash investing, capital, and financing activities		
Gifts in-kind - capital	$	122,440.70
Unrealized gains/losses on investments	$	(41,395.94)
Loss on disposal of capital assets	$	(17,837.55)

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

Tennessee Board of Regents
Tennessee Technological University
Notes to the Financial Statements
June 30, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

The Tennessee Technological University Foundation is considered a component unit of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements. See Note 20 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. All items are maintained on an average cost or first-in, first-out basis.

Compensated Absences

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

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:

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

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

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

<u>Unrestricted net assets</u> - 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, 2009, cash consisted of $4,525,712.91 in bank accounts, $12,927.00 of petty cash on hand, $38,431,491.95 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $4,009,699.80 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.

The LGIP is part of the State Pooled Investment Fund. The fund's required risk disclosures are presented in the *State of Tennessee's Treasurer's Report*. That report is available on the state's website at http://www.tn.gov/treasury or by calling (615) 741-2956.

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, 2009, the university had the following investments and maturities.

		Investment Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10	No Maturity Date
U.S. agencies	$ 1,623,924.79	$ -	$ 93,376.31	$ 540,137.95	$ 990,410.53	$ -
Collateralized mortgage obligations	4,591.59	-	-	4,591.59	-	-
Total	$ 1,628,516.38	$ -	$ 93,376.31	$ 544,729.54	$ 990,410.53	$ -

Interest Rate Risk

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; banker's acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool (LGIP). The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. Securities are rated using Standard and Poor's, Moody's, and/or Fitch and are presented below using the Standard and Poor's rating scale. Tennessee Board of Regents policy restricts investments in banker's acceptances and commercial paper. The policy requires that prime banker's acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA 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, 2009, the university's investments were rated as follows:

		Credit Quality Rating
Investment Type	Fair Value	Unrated
LGIP	$ 42,441,191.75	$ 42,441,191.75
Collateralized mortgage obligation	4,591.59	4,591.59
Total	$ 42,445,783.34	$ 42,445,783.34

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

	Carrying Value June 30, 2009
U.S. agencies	$ 9,848.04
Collateralized mortgage obligation	4,591.59
LGIP	339,238.60
Total	$ 353,678.23

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, 2009 (each having a fair value of $1.171320), 187,532.65 units were owned by endowments, 7,410.89 units were owned by term endowments, and 107,004.77 units were owned by quasi-endowments.

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

FY 2009	Pooled Assets		Net Gains	Fair Value
	Fair Value	Cost	(Losses)	Per Unit
End of year	$353,678.23	$352,877.76	$800.47	$1.171320
Beginning of year	$350,555.85	$349,695.78	860.07	1.179822
				$(0.008502)
Unrealized net losses			(59.60)	
Realized net gains			-	
Total net losses			$(59.60)	

The average annual earnings per unit, exclusive of net gains/losses, were $0.023219 for the year ended June 30, 2009.

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2009
Student accounts receivable	$ 594,987.29
Grants receivable	6,497,375.29
Notes receivable	94,358.27
State appropriation receivable	198,800.00
Other receivables	758,866.83
Subtotal	8,144,387.68
Less allowance for doubtful accounts	(197,015.43)
Total receivables	$ 7,947,372.25

Federal Perkins Loan Program funds included the following:

	June 30, 2009
Perkins loans receivable	$ 2,453,527.77
Less allowance for doubtful accounts	(128,111.19)
Total	$ 2,325,416.58

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 1,257,868.94	$ -	$ -	$ -	$ 1,257,868.94
Land improvements and infrastructure	11,974,655.03	34,697.18	-	-	12,009,352.21
Buildings	94,445,709.77	3,417,590.54	21,926,553.23	-	119,789,853.54
Equipment	17,870,935.70	1,834,677.14	-	275,897.41	19,429,715.43
Library holdings	11,433,024.06	944,207.16	-	1,021,547.99	11,355,683.23
Software	2,797,234.14	220,797.54	-	-	3,018,031.68
Projects in progress	22,064,929.88	11,123,256.49	(21,926,553.23)	-	11,261,633.14
Total	161,844,357.52	17,575,226.05	-	1,297,445.40	178,122,138.17
Less accumulated depreciation:					
Land improvements and infrastructure	5,281,287.77	485,068.79	-	-	5,766,356.56
Buildings	62,539,254.27	3,055,252.72	-	-	65,594,506.99
Equipment	12,447,279.15	1,287,273.83	-	258,059.86	13,476,493.12
Library holdings	6,803,515.46	1,026,189.09	-	1,021,547.99	6,808,156.56
Software	403,070.76	354,497.05	-	-	757,567.81
Total accumulated depreciation	87,474,407.41	6,208,281.48	-	1,279,607.85	92,403,081.04
Capital assets, net	$74,369,950.11	$11,366,944.57	$ -	$ 17,837.55	$85,719,057.13

NOTE 6. ACCOUNTS PAYABLE

Accounts payable included the following:

	June 30, 2009
Vendors payable	$ 936,815.32
Payables from LGIP deposits for capital projects	550,042.72
Other payables	4,549.00
Total accounts payable	$ 1,491,407.04

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 10,560,924.68	$ 4,862,504.55	$ 848,648.58	$ 14,574,780.65	$ 1,089,392.49
Commercial paper	4,637,400.81	7,885,406.24	5,063,326.50	7,459,480.55	-
Subtotal	15,198,325.49	12,747,910.79	5,911,975.08	22,034,261.20	1,089,392.49
Other liabilities:					
Compensated absences	3,346,672.36	1,507,338.48	1,576,848.31	3,277,162.53	677,385.67
Due to grantors	2,716,298.22	-	168,688.84	2,547,609.38	-
Net OPEB obligation	1,605,718.18	1,520,043.82	-	3,125,762.00	-
Subtotal	7,668,688.76	3,027,382.30	1,745,537.15	8,950,533.91	677,385.67
Total long-term liabilities	$ 22,867,014.25	$ 15,775,293.09	$ 7,657,512.23	$ 30,984,795.11	$ 1,766,778.16

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 2.0% to 5.0%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2032 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations; see Note 10 for further details. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the statement of net assets is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was $509,477.62 at June 30, 2009. Unexpended debt proceeds were $10,740.79 at June 30, 2009.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2009, are as follows:

Year Ending June 30	Principal	Interest	Total
2010	$ 1,089,392.49	$ 696,443.91	$ 1,785,836.40
2011	817,101.51	649,862.96	1,466,964.47
2012	643,983.30	615,222.92	1,259,206.22
2013	667,791.18	590,262.57	1,258,053.75
2014	700,180.30	559,206.77	1,259,387.07
2015 – 2019	4,023,082.08	2,301,999.92	6,325,082.00
2020 – 2024	4,302,364.49	1,254,661.32	5,557,025.81
2025 – 2029	1,344,563.90	455,069.90	1,799,633.80
2030 – 2032	986,321.40	100,297.72	1,086,619.12
Total	$ 14,574,780.65	$ 7,223,027.99	$ 21,797,808.64

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 $7,459,480.55 at June 30, 2009.

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

More detailed information regarding the bonds and commercial paper can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report is available on the state's website at http://tn.gov/comptroller/bf/tssbacafr.htm.

NOTE 8. ENDOWMENTS

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

The university chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the university, only realized gains have been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2009, net appreciation of $228,430.96 is available to be spent, of which $16,626.11 is included in restricted net assets expendable for scholarships and fellowships, $10,779.36 is included in restricted net assets expendable for instructional departmental uses, $61,487.80 is included in restricted net assets expendable for loans, $14,806.59 is included in restricted net assets expendable for other, and $124,731.10 is included in unrestricted net assets.

NOTE 9. UNRESTRICTED NET ASSETS

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

	June 30, 2009
Working capital	$ 603,928.13
Encumbrances	695,186.00
Designated fees	1,807,377.46
Auxiliaries	448,311.63
Quasi-endowment	124,731.10
Plant construction	2,380,657.70
Renewal and replacement of equipment	16,590,121.20
Debt retirement	455,747.66
Undesignated	1,834,011.80
Total	$24,940,072.68

NOTE 10. PLEDGED REVENUES

The university has pledged certain revenues and fees, including state appropriations, to repay $14,574,780.65 in revenue bonds issued from June 1976 to April 2009. Proceeds from the bonds provided financing for student housing, energy performance and administrative systems. The bonds are payable through 2032. Annual principal and interest payments on the bonds are expected to require 1.1% of available revenues. The total principal and interest remaining to be paid on the bonds is $21,797,808.64. Principal and interest paid for the current year and total available revenues were $1,420,792.15 and $121,311,788.00, respectively.

NOTE 11. PENSION PLANS

A. Defined Benefit Plans

Tennessee Consolidated Retirement System

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report is available on the state's website at http://www.state.tn.us/treasury/tcrs/index.html.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 13.02% of annual covered payroll. Contribution requirements for the university are established and may be amended by the TCRS' Board of Trustees. The university's contributions to TCRS for the years ended June 30, 2009, 2008, and 2007 were $3,320,996.40, $3,371,880.21, and $3,361,727.03. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The university contributes to three defined contribution plans: Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA-CREF), ING Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, 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 $3,143,786.60 for the year ended June 30, 2009, and $3,131,638.37 for the year ended June 30, 2008. Contributions met the requirements for each year.

NOTE 12. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible university retirees. This program includes two plans—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-201, *Tennessee Code Annotated*, for the State Employee Group Plan and Section 8-27-701, *Tennessee Code Annotated*, for the Medicare Supplement Plan. Prior to reaching age 65, retirees may participate in the State Employee Group Plan. Members of this plan have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, retirees who are also in the state's retirement system may participate in the Medicare Supplement Plan that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the university's eligible retirees; see Note 18. The plans are reported in the *Tennessee Comprehensive Annual Financial Report.* That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html, or by calling (615) 741-2140.

Special Funding Situation

The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including Tennessee Technological University. The state is the sole contributor for the university retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy

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

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

Annual required contribution (ARC)	$ 2,635,000.00
Interest on the net OPEB obligation	72,000.00
Adjustment to the ARC	(70,000.00)
Annual OPEB cost	2,637,000.00
Amount of contribution	1,116,956.00
Increase (decrease) in net OPEB obligation	1,520,044.00
Net OPEB obligation – beginning of year	1,605,718.00
Net OPEB obligation – end of year	$ 3,125,762.00

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2009	State Employee Group Plan	$2,637,000.00	42.36%	$3,125,762.00

Funded Status and Funding Progress

The funded status of the university's portion of the State Employee Group Plan as of July 1, 2007, was as follows:

State Employee Group Plan	
Actuarial valuation date	July 1, 2007
Actuarial accrued liability (AAL)	$24,665,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$24,665,000.00
Actuarial value of assets as a percentage of the AAL	0.00%
Covered payroll (active plan members)	$51,026,207.35
UAAL as percentage of covered payroll	48.34%

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

Actuarial Methods and Assumptions

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

In the July 1, 2007, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7 percent initially, increased to 11 percent in the second year and then reduced by decrements to an ultimate rate of 5 percent after 12 years. Both rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

NOTE 13. INSURANCE-RELATED ACTIVITIES

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

The university participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of 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, 2009, and June 30, 2008, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html. Since the university participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2009, the Risk Management Fund held $127.0 million in cash and cash equivalents designated for payment of claims.

At June 30, 2009, the scheduled coverage for the university was $751,600,200.00 for buildings and $103,701,700.00 for contents.

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

NOTE 14. COMMITMENTS AND CONTINGENCIES

Sick Leave

The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $26,513,316.30 at June 30, 2009.

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 $31,115.75 for the year ended June 30, 2009. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2009, outstanding commitments under construction contracts totaled $18,345,350.00 for New Hall North, STEM Center, and elevator upgrades of which $321,700.00 will be funded by future state capital outlay appropriations.

Litigation

The university is involved in one lawsuit which is not expected to have a material effect on the accompanying financial statements.

NOTE 15. CHAIRS OF EXCELLENCE

The university had $4,517,298.85 on deposit at June 30, 2009, 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 16. FUNDS HELD IN TRUST BY OTHERS

The university is a beneficiary under the CTC Charitable Lead Trust, Odom Family Trust, Odom 2nd Chance Trust, and the William Jenkins Estate Account. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received $119,784.49 from these funds during the year ended June 30, 2009.

NOTE 17. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses by functional classification for the year ended June 30, 2009, are as follows:

Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
			Natural Classification			
Instruction	$ 33,969,161.00	$ 10,754,389.38	$ 6,148,772.30	$ -	$ -	$ 50,872,322.68
Research	5,241,428.98	1,324,088.45	3,611,913.54	-	-	10,177,430.97
Public service	1,824,460.89	533,095.93	2,037,386.22	-	-	4,394,943.04
Academic support	6,739,006.33	2,614,100.41	(1,200,429.10)	-	-	8,152,677.64
Student services	5,519,480.51	2,174,979.40	5,181,863.62	-	-	12,876,323.53
Institutional support	6,451,310.27	2,615,192.48	1,270,044.91	-	-	10,336,547.66
Operation & maintenance	4,302,088.45	2,102,252.99	9,093,809.73	-	-	15,498,151.17
Scholarships & fellowships	-	-	-	14,738,935.37	-	14,738,935.37
Auxiliary	2,267,571.75	946,605.14	3,408,182.90	-	-	6,622,359.79
Depreciation	-	-	-	-	6,208,281.48	6,208,281.48
Total	$ 66,314,508.18	$ 23,064,704.18	$ 29,551,544.12	$ 14,738,935.37	$ 6,208,281.48	$ 139,877,973.33

NOTE 18. ON-BEHALF PAYMENTS

During the year ended June 30, 2009, the State of Tennessee made payments of $115,110.50 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 12. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

NOTE 19. VOLUNTARY BUYOUT PROGRAM

The university implemented a Voluntary Buyout Plan in fiscal year 2009 as a strategy in addressing budgetary constraints due to state appropriation reversions and potential budget reductions in the forthcoming fiscal year. Fifty-eight employees participated in the Voluntary Buyout Plan with all terminating by June 30, 2009.

Severence pay was payable the month following the employee separation date in July 2009. Severence pay included:

- Base severance payment equal to three times the employee's monthly rate of pay in effect on March 30, 2009.

- Service payment of $500 for each full or partial year of university service as of June 30, 2009, or the separation date.
- Amount equivalent to the employee's next longevity payment based on his/her years of creditable state service.
- Amount equivalent to six months of the university's portion of the monthly health insurance premium.

Severance benefits included:

- Tuition assistance of $10,800 over two years at technology centers, community colleges, and state universities in Tennessee.

As of June 30, 2009, expenses for payout of accrued annual leave, compensatory time, or worked holidays for the Voluntary Buyout Program were $249,895.45. Accrued expenses for severance pay were $2,025,366.88 at June 30, 2009.

NOTE 20. COMPONENT UNIT

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

During the year ended June 30, 2009, the foundation made distributions of $6,278,304.82 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Tennessee Technological University, Office of the Vice President for Planning and Finance, P.O. Box 5037, Cookeville, TN 38505.

Cash and Cash Equivalents

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2009, cash and cash equivalents consisted of $2,931,124.71 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer and $3,874,543.17 in custodial accounts of the investment managers of the foundation.

Deposits

As described above, the foundation has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's required risks disclosures are presented in the *Tennessee Comprehensive Annual Financial Report.* The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

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, 2009, 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	$ 14,343.75	$ -	$ -	$ -	$ 14,343.75	$ -
U.S. agencies	1,955,068.56	-	935,774.56	53,982.70	965,311.30	-
Corporate stocks	10,222,985.69	-	-	-	-	10,222,985.69
Corporate bonds	12,377,965.14	204,491.25	7,890,959.38	4,264,366.26	18,148.25	-
Mutual bond funds	6,375.36	-	-	-	-	6,375.36
Land	2,620,000.00	-	-	-	-	2,620,000.00
Other:						
Exchange traded funds	1,968,604.20	-	-	-	-	1,968,604.20
Hedge fund	4,186,114.45	-	-	-	-	4,186,114.45
Total	$ 33,351,457.15	$ 204,491.25	$ 8,826,733.94	$ 4,318,348.96	$ 997,803.30	$ 19,004,079.70

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, 2009, the foundation's investments were rated as follows:

		Credit Quality Rating					
Investment Type	Fair Value	AAA	AA	A	BBB	BB	Unrated
LGIP	$ 2,931,124.71	$ -	$ -	$ -	$ -	$ -	$ 2,931,124.71
U.S. agencies	1,288,290.22	935,774.56	-	-	-	-	352,515.66
Corporate bonds	12,377,965.14	-	260,098.80	8,685,356.34	1,723,613.50	18,148.25	1,690,748.25
Mutual bond funds	6,375.36	-	-	-	-	-	6,375.36
Total	$ 16,603,755.43	$ 935,774.56	$ 260,098.80	$ 8,685,356.34	$ 1,723,613.50	$ 18,148.25	$ 4,980,763.98

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

	Carrying Value June 30, 2009
U.S. agencies	$ 1,955,068.56
LGIP	2,931,124.71
Investment manager custodial accounts	3,852,347.41
Corporate stocks	9,984,794.61
Corporate bonds	12,377,965.14
Land and other real estate	2,620,000.00

Other:	
Exchange traded funds	1,968,604.20
Hedge funds	4,186,114.45
Total	$ 39,876,019.08

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, 2009 (each having a fair value of $99.323766), 348,344.41664 units were owned by endowments, 39,176.57520 units were owned by operations accounts, and 13,954.10815 units were owned by quasi-endowments.

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

FY 2009	Pooled Assets		Net Gains	Fair Value
	Fair Value	Cost	(Losses)	Per Unit
End of year	$39,876,019.08	$39,729,864.28	$146,154.80	$99.323766
Beginning of year	$48,813,654.63	$47,100,303.05	1,713,351.58	101.895175
				$(2.571409)
Unrealized net losses			(1,567,196.78)	
Realized net gains			-	
Total net gains/(losses)			$(1,567,196.78)	

The average annual earnings per unit, exclusive of net losses, were $(14.900296) for the year ended June 30, 2009.

Alternative Investments

The foundation has investments in hedge funds. The estimated fair value of these assets is $4,186,114.45 at June 30, 2009.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2009. The value of the investments is obtained from a statement where the prime broker has performed a valuation of all the securities in the portfolio. All investments held in the portfolio are publicly traded and daily pricing can be determined. An independent audit is conducted at year-end, with the auditors performing their own valuation of the securities in the portfolio. The independent auditor compares its pricing to that of the prime broker for differences. These investments are made in accordance with the foundation's investment policy. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using industry-recognized pricing service.

Capital Assets

Capital asset activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 399,664.28	$ -	$ -	$ 252,309.57	$ 147,354.71

Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Notes	$ 740,000.00	$ -	$ 41,111.10	$ 698,888.90	$ 82,222.20

Notes payable - The foundation borrowed funds to gift funds to the university for the STEM Center. The note is interest-free, with payments of $6,851.85 due monthly through January 2018. The balance owed by the foundation was $698,888.90 at June 30, 2009.

Debt service requirements to maturity for notes payable at June 30, 2009, are as follows:

Year Ending June 30	Principal
2010	$ 82,222.00
2011	82,222.00
2012	82,222.00
2013	82,222.00

2014	82,222.00
2015 – 2018	287,778.90
	$ 698,888.90

Endowments

The Tennessee Technological University Foundation's endowment consists of 481 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law - The Board of Trustees of the Tennessee Technological University Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as the preservation of the historical dollar value of the gifts increased or decreased by realized gains and losses and decreased by the transfers required by the spending plan even though its application may cause the value of the fund to fall beneath its historic dollar value. As a result of this interpretation, the Tennessee Technological University Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment; (2) the original value of subsequent gifts to the permanent endowment; (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund; and (4) earnings that exceed the amount required to be transferred as part of the spending plan. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the foundation and the endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the foundation; and (7) the investment policies of the foundation.

Return objectives and risk parameters - The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that attain a favorable absolute return for the entire fund, consistent with preservation of capital with some emphasis on long-term growth and reasonable current income, to provide funds necessary to meet the annual obligations of the foundation and to build its investment fund so as to provide future income for the foundation purposes. The foundation expects its endowment funds, over time, to provide an average rate of return of approximately 8 percent annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives - To satisfy its long-term rate-of-return objectives, the foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk restraints.

Spending policy and how the investment objectives relate - The foundation has a policy of appropriating for distribution each year a percentage (as definied by the foundation) of the book value for the endowment or a percentage of the actual earnings as described by the donor has been authorized for expenditure. The remaining amount, if any, becomes part of the permanent endowment. Accordingly, over the long-term, the foundation expects the current spending policy to allow its endowment to grow at an average of 3 percent annually. This is consistent with the foundation’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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

Commitments and Contingencies

The Tennessee Technological University Foundation received a determination letter from the Internal Revenue Service stating that certain athletic camp workers were incorrectly reported as independent contractors who should have been classified as employees. This ruling covered calendar years 2005, 2006, 2007, and 2008. The foundation proactively reviewed all camp workers for these four years. All reporting requirements, including corrected 1099s, W-2s, 941, and transmittal forms were completed and taxes paid for the years in question. While there is a possibility of penalty and interest being assessed, this assessment, if any, will not have a material effect on the accompanying financial statements.

Related Parties

Wendell J. Long and Frances C. Long loaned the foundation $500,000.00 from the William Benton and Fanalou Whitson Carlen Memorial Scholarship endowment to fund the new Center for Science, Technology, Engineering, and Mathematics building. The funds were transferred to the university to meet the state's minimum funding requirements to begin construction. During the period of this loan, the Tennessee Technological University Foundation agrees to annually fund the William Benton and Fanalou Whitson Carlen Memorial Scholarship in an amount equal to five percent of the borrowed amount. The funds will be returned to the endowment as monies for the STEM Center are generated through additional donations.

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

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

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
SUPPLEMENTARY SCHEDULE OF CASH FLOWS - COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$	2,323,080.32
Sales and services of educational activities		796,451.35
Payments to suppliers and vendors		(1,156,492.78)
Payments to employees		(56,435.22)
Payments for benefits		(73,072.28)
Payments for scholarships and fellowships		(1,324,908.50)
Payments to Tennessee Technological University		(6,155,864.12)
Other receipts (payments)		28,867.00
Net cash used by operating activities		(5,618,374.23)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes		2,657,558.27
Net cash provided by noncapital financing activities		2,657,558.27
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts received		1,281,224.51
Proceeds from sale of capital assets		450,480.00
Purchases of capital assets and construction		(43,770.70)
Principal paid on capital debt		(41,111.10)
Other capital and related financing receipts (payments)		(2,400.00)
Net cash provided by capital and related financing activities		1,644,422.71
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		13,695,851.85
Gain on investments		1,067,928.51
Purchases of investments		(21,173,882.20)
Other investing receipts (payments)		82,875.03
Net cash used by investing activities		(6,327,226.81)
Net decrease in cash and cash equivalents		(7,643,620.06)
Cash and cash equivalents - beginning of year		14,449,287.94
Cash and cash equivalents - end of year	$	6,805,667.88

Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(5,802,608.84)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Gifts in-kind		122,440.70
Changes in assets and liabilities:		
Receivables, net		(15,448.37)
Accounts payable		77,242.28
Net cash used by operating activities	$	(5,618,374.23)
Noncash investing, capital, and financing activities		
Gifts in-kind - capital	$	78,670.00
Unrealized losses on investments	$	(1,575,255.78)
Gain on disposal of capital assets	$	198,170.43
Capital assets transferred to TTU	$	(122,440.70)