AUDIT REPORT

Tennessee Board of Regents
Tennessee Technological University

For the Year Ended
June 30, 2011

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

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May 24, 2012

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217
and
Dr. Robert R. Bell, President
Tennessee Technological University
Box 5007
Cookeville, Tennessee 38505

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Tennessee Technological University, for the year ended June 30, 2011. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/jgl
11/066

State of Tennessee

Audit Highlights

Comptroller of the Treasury Division of State Audit

Financial and Compliance Audit
Tennessee Technological University
For the Year Ended June 30, 2011

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

Tennessee Technological University Did Not Have Adequate Control Over Two Areas of Information Technology Security, Resulting in the Increased Risk of Loss of Data
The auditors observed significant conditions that violated best practices for information security controls during an examination of the Information Technology system at TTU (page 9).

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, 2011

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Tennessee Board of Regents
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For the Year Ended June 30, 2011

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

Tennessee Technological University was established in 1915 by the Tennessee General Assembly as Tennessee Polytechnic Institute. In 1929, the institution was raised to the status of a four-year college and empowered to grant the bachelor's degree. The administrative structure of the university was expanded in 1949 into five schools: Arts and Sciences, Agriculture and Home Economics, Business Administration, Education, and Engineering. In 1965, the five undergraduate schools were designated as colleges. By an act of the General Assembly, effective July 1, 1965, the name of the institution was officially changed to Tennessee Technological University. In 1980, the instutution's new Schools of Nursing and the Joe L. Evins Appalachian Center for Crafts began their bachelor's degree programs.

ORGANIZATION

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

AUDIT SCOPE

The audit was limited to the period July 1, 2010, through June 30, 2011, 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, 2011. Tennessee Technological University is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

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

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

4. to recommend appropriate actions to correct any deficiencies.

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

PRIOR AUDIT FINDING

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The university filed its report with the Department of Audit on November 9, 2011. A follow-up of the prior audit finding was conducted as part of the current audit. The current audit disclosed that the university has corrected the previous audit finding concerning financial reporting.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

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

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

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 2011, 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 significant deficiency, along with the recommendation and management's response, is detailed in the Finding and Recommendation section. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance and Other Matters

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

Fairness of Financial Statement Presentation

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

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

April 4, 2012

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217
and
Dr. Robert R. Bell, President
Tennessee Technological University
Box 5007
Cookeville, Tennessee 38505

Ladies and Gentlemen:

We have audited the financial statements of Tennessee Technological University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the year ended June 30, 2011, and have issued our report thereon dated April 4, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards.

Internal Control Over Financial Reporting

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

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

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

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

- Tennessee Technological University did not have adequate control over two areas of Information Technology security, resulting in the increased risk of loss of data

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

Compliance and Other Matters

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

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

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/jgl

FINDING AND RECOMMENDATION

Tennessee Technological University did not have adequate control over two areas of Information Technology security, resulting in the increased risk of loss of data

Finding

Tennessee Technological University did not have adequate control over information security in two specific areas, resulting in an increased risk of loss of data. The auditors observed significant conditions that violated best practices for information security controls during an examination of the Information Technology system at the university.

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

Recommendation

Management should ensure that these conditions are remedied through planning that encompasses all aspects of effective Information Technology controls over the two deficient areas identified in the finding. Management should implement effective controls to ensure compliance with applicable requirements, assign staff to be responsible for ongoing monitoring of the risks, and take action if deficiencies occur. Management should also reassess controls to include the risks noted in this finding in management's documented risk assessment. The risk assessment and the mitigating controls should be adequately documented and approved by the President.

Management's Comment

We concur with the finding. A plan has been established to ensure that control over information security complies with best practices. Management's risk assessment will be revised to address risks noted in this finding and the mitigating controls related to those risks; the resulting risk assessment will be reviewed by university management, including the President.

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Independent Auditor's Report

April 4, 2012

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217
and
Dr. Robert R. Bell, President
Tennessee Technological University
Box 5007
Cookeville, Tennessee 38505

Ladies and Gentlemen:

We have audited the accompanying basic financial statements of Tennessee Technological University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the year ended June 30, 2011, 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, 2011, 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, 2011, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 20, the financial statements of Tennessee Technological University Foundation, a discretely presented component unit of Tennessee Technological University, include investments valued at $6,757,184.61 (12.6 percent of net assets of the foundation), whose fair values have been estimated by management in the absence of readily determinable fair values. Management’s estimates are based on information provided by the fund managers or the general partners.

The management’s discussion and analysis on pages 13 through 29 and the schedule of funding progress on page 61 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 62 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated April 4, 2012, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/jgl

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, 2011, with comparative information presented for the fiscal year ended June 30, 2010. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

Using This Annual Report

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

The Statement of Net Assets

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

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

Tennessee Technological University
Net Assets
(in thousands of dollars)

	2011	2010
Assets:		
Current assets	$ 34,069	$ 35,797
Capital assets, net	112,631	103,465
Other assets	55,857	35,052
Total Assets	**202,557**	**174,314**
Liabilities:		
Current liabilities	13,259	13,269
Noncurrent liabilities	51,705	44,920
Total Liabilities	**64,964**	**58,189**
Net Assets:		
Invested in capital assets, net of related debt	69,085	66,906
Restricted - nonexpendable	196	195
Restricted - expendable	5,285	4,974
Unrestricted	63,027	44,050
Total Net Assets	**$ 137,593**	**$ 116,125**

- The assets of the university increased by 16% from 2010 to 2011. The increase can be attributed to other assets, which increased 59%. The primary increase is in noncurrent cash that increased by $21,324,644 because of education and general revenues being transferred to unexpended plant to fund needs for various capital projects and auxiliary profit transfers to renewal and replacement. Major projects include funds for the expansion of university property, IT Infrastructure, Central Cooling, and various academic building upgrades. Capital assets increased 9% due to construction and upgrades to Tech Village Apartments, New Hall North Residence Hall, Athletic Performance Center, IT Infrastructure, and equipment additions. Ownership of the Regional Health Building was transferred to the university from the Tennessee Department of Health, adding the carrying value of $833,513. Current assets decreased 5% due to the State Fiscal Stabilization Funds (SFSF) receivable decreasing $789,924 as all SFSF funds were spent as of June 2011. Grants and contracts receivable also decreased $1,226,181 mostly due to four large receivables at June 30, 2010, being collected. Student receivables increased $416,471 due to a 5.2% increase in base tuition and the timing of billings due to a calendar change in the summer semester delaying the payment deadline.

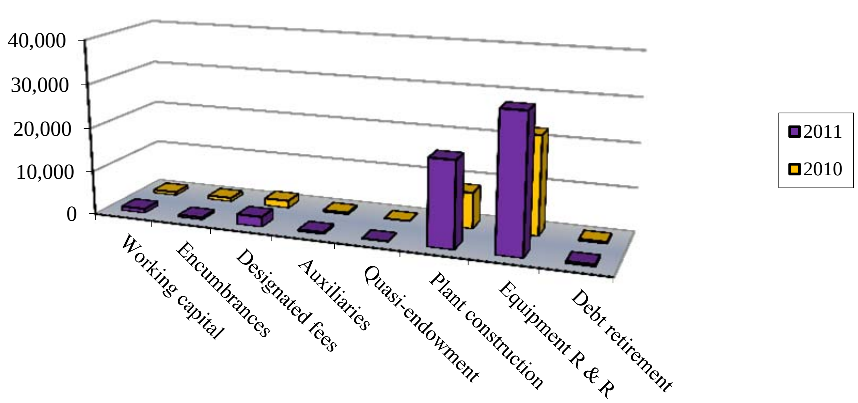
- The university's increase in liabilities from 2010 to 2011 was 11%. Noncurrent liabilities increased 15% primarily because of the increase in accrued OPEB and long-term debt related to construction projects. The OPEB liability increased $833,964 and long-term debt increased $6,986,832. Long-term debt increases are the result of renovations of Tech Village Apartments, construction of the Athletic Performance Center and the New Hall North Residence Hall. Current liabilities had no significant change.

- The increase in net assets of 18% from 2010 to 2011 included additional investments in capital projects explained above.

- Restricted nonexpendable and expendable net assets had no significant change from 2010 to 2011.

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

Unrestricted Net Assets
(in thousands)



- Funds designated for encumbrances decreased $313,199 (36%) in 2011 compared to 2010. Designated fees increased $593,517 (35%) with the biggest increase due to unspent Technology Access Fees. Funds designated for renewal and replacement of equipment and facilities increased $8,508,003 (38%) in 2011 as a result of the transfer of profits from auxiliaries and from E&G transfers. Funds designated for unexpended plant construction also increased by $11,213,027 (136%) as a result of transfers to fund capital projects. These include funds for university property expansion, Tech Village Apartments, IT Infrastructure, Library Commons, Athletic Performance Center Parking, Central Cooling, and various other academic and administrative building renovations.

Component Unit
Net Assets
(in thousands of dollars)

	2011	2010
Assets:		
Current assets	$ 810	$ 429
Capital assets, net	240	240
Other assets	52,974	44,507
Total assets	**54,024**	**45,176**
Liabilities:		
Current liabilities	94	98
Noncurrent liabilities	452	541
Total liabilities	**546**	**639**
Net assets:		
Invested in capital assets, net of unrelated debt	240	240
Restricted - nonexpendable	40,702	34,454
Restricted - expendable	12,265	9,947
Unrestricted	271	(104)
Total net assets	**$ 53,478**	**$ 44,537**

- Current assets of the component unit increased by 89% from 2010 to 2011 due to current cash increasing by $430,846. This increase is due to the inclusion of an additional unrestricted fund that added $625,537 in current assets. As a result of decreased investments in interest bearing bonds and securities, accrued interest receivable decreased $60,327. The remaining offset in current cash was due to operational needs.

- Other assets increased by 19% from 2010 to 2011. Noncurrent cash and cash equivalents increased $3,004,041 as bonds and securities matured that were not immediately reinvested and donor restricted gifts added to the investment pool. This includes additions to permanent endowments of $3,160,658. Investments also increased as a result of a realized gain of $2,343,768 and an unrealized gain of $2,898,959.

- A 15% decrease in total liabilities was related to the principal payments on long-term debt of $89,074.

- Unrestricted net assets of the foundation increased $375,476 due to the inclusion of an additional unrestricted fund that added $625,537 to unrestricted net assets. A decrease of $250,000 in unrestricted funds was due to unrestricted operational needs. Restricted nonexpendable and restricted expendable net assets increased 18% and 23%, respectively, due to additions to permanent endowments and investment returns explained above.

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

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

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

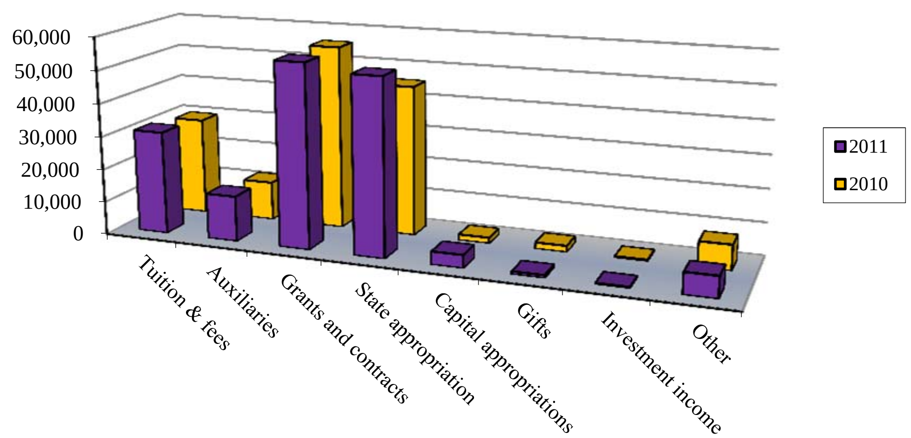
	2011	2010
Operating revenues:		
Net tuition and fees	$ 31,151	$ 29,697
Grants and contracts	14,211	13,857
Auxiliary	13,739	11,772
Other	7,777	7,406
Total operating revenues	**66,878**	**62,732**
Operating expenses	143,363	134,957
Operating loss	**(76,485)**	**(72,225)**
Nonoperating revenues and expenses:		
State appropriations	53,046	45,378
Gifts	841	745
Grants & contracts	39,749	40,489
Investment income	354	428
Interest on capital asset debt	(1,324)	(747)

Other revenues and (expenses)	(43)	194
Total nonoperating revenues and expenses	**92,623**	**86,487**
Income before other revenues, expenses, gains or losses	**16,138**	**14,262**
Other revenues, expenses, gains or losses:		
Capital appropriations	3,907	1,738
Capital grants and gifts	1,422	2,482
Additions to permanent endowments	1	-
Total other revenues, expenses, gains or losses	**5,330**	**4,220**
Increase in net assets	**21,468**	**18,482**
Net assets at beginning of year	**116,125**	**97,643**
Net assets at end of year	**$ 137,593**	**$ 116,125**

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, 2011, and June 30, 2010.

Revenues by Source
(in thousands)



- The university's total revenue increased 8% from 2010 to 2011. A significant part of that increase was due to state appropriations increasing 17% from 2010 to 2011. From 2009 to 2010, state appropriations decreased by $4,356,000 due to state budget cuts that were being temporarily covered by State Fiscal Stabilization Funds. For 2011, $8,040,900 nonrecurring appropriations replaced State Fiscal Stabilization Funds. Tuition and fees also increased approximately 5% due to a tuition increase.

- Auxiliary revenues increased 17% due mostly to a $1,803,429 increase in housing revenue due to increased occupancy from the opening of New Hall North Residence Hall and from an approximate 2.7% to 4.7% rate increase depending on the facilities.

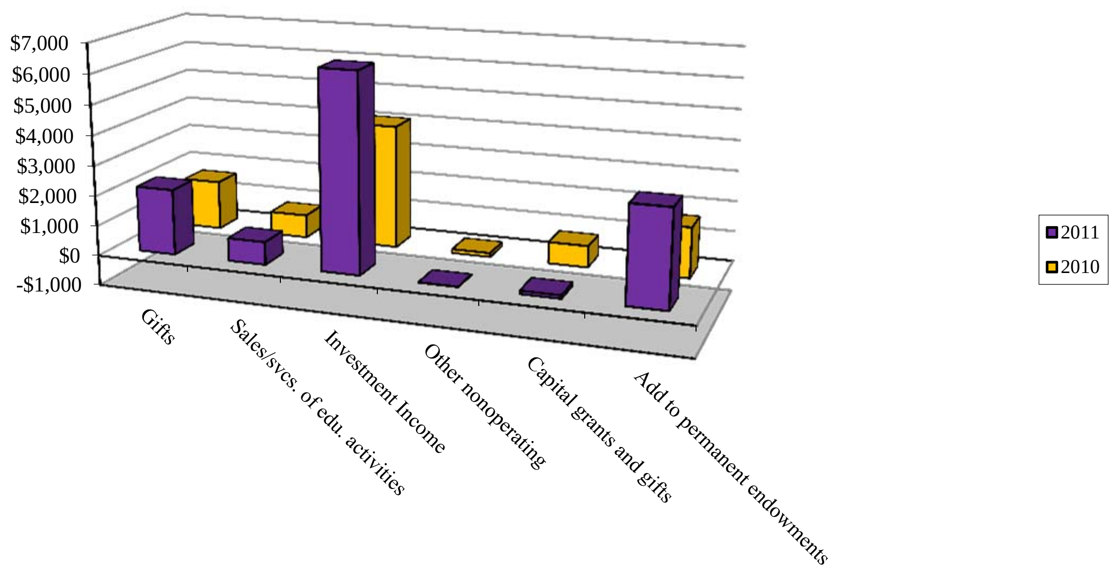
- Capital appropriations increased by approximately $2,169,000 in 2011. This increase is directly attributable to more capital maintenance projects being funded by state dollars. The central cooling project was the most significant in 2011.

- Capital gifts and grants decreased by $1,060,657 due to a reduced emphasis on third-party funded capital projects. The most significant decrease was due to transfers in 2010 to fund various academic buildings of $900,000 that was not transferred in 2011. Equipment grants for the Center for Science, Technology, Engineering, and Mathematics in 2010 were $1,276,307 while 2011 had only $205,676. In 2011 ownership of the Regional Health building was transferred to the university in the amount of $833,513.

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

	2011	2010
Operating revenues:		
Gifts	$ 2,170	$ 1,632
Sales and services of educational activities	752	765
Total operating revenues	**2,922**	**2,397**
Operating expenses	3,763	4,176
Operating loss	**(841)**	**(1,779)**
Nonoperating revenues and expenses:		
Investment income	6,522	4,077
Other revenue (expenses)	(5)	127
Total nonoperating revenues and expenses	**6,517**	**4,204**
Income before other revenues, expenses, gains or losses	**5,676**	**2,425**
Other revenues, expenses, gains or losses:		
Capital grants and gifts	104	708
Additions to permanent endowments	3,161	1,650
Total other revenues, expenses, gains or losses	**3,265**	**2,358**
Increase in net assets	**8,941**	**4,783**
Net assets at beginning of year	**44,537**	**39,754**
Net assets at end of year	**$ 53,478**	**$ 44,537**

Revenues by Source (Component Unit)
(in thousands)



- Operating revenues of the component unit increased by 22%, primarily as the result of a 33% increase in operating gifts as directed by donors. In fiscal year 2011, there were four donations that totaled $566,000 that were not donated in 2010.

- Investment income increased 60% due to a $2,343,768 realized gain on the sale of investments and a $2,898,958 unrealized gain in the endowment pool due to market conditions. Comparatively, fiscal year 2010 included a $1,556,152 realized gain and a $1,361,447 unrealized gain.

- Capital grants and gifts decreased by 85% due to a decreased emphasis on fund raising activities for capital projects in 2011. The Nursing and Health Services fund raising activities had the most significant decrease of $505,850.

- Additions to permanent endowments increased by 92%, primarily as the result of gifts from two donors totaling $2,180,000 received in fiscal year 2011 that was not given in fiscal year 2010.

Expenses

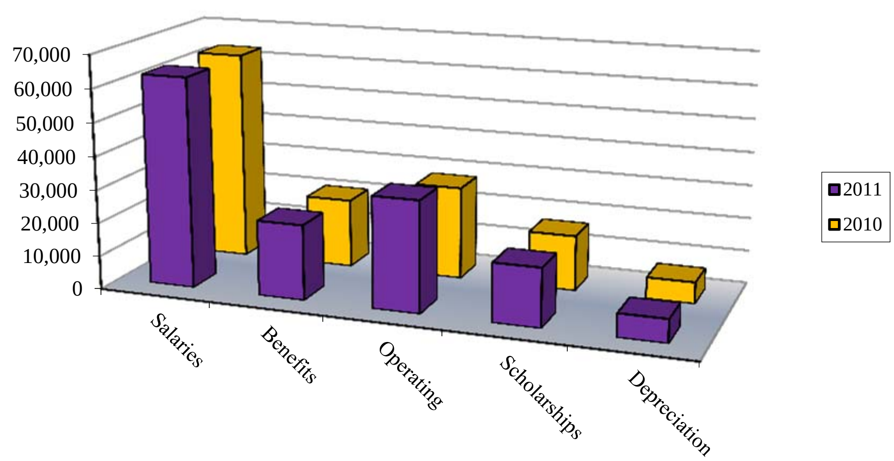
Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below.

Natural Classification

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

		2011		2010
Salaries	$	63,108	$	63,330
Benefits		22,529		20,756
Operating		33,240		27,863
Scholarships		17,513		16,597
Depreciation		6,973		6,411
Total expenses	$	143,363	$	134,957

Operating Expenses - Natural Classification
(in thousands of dollars)

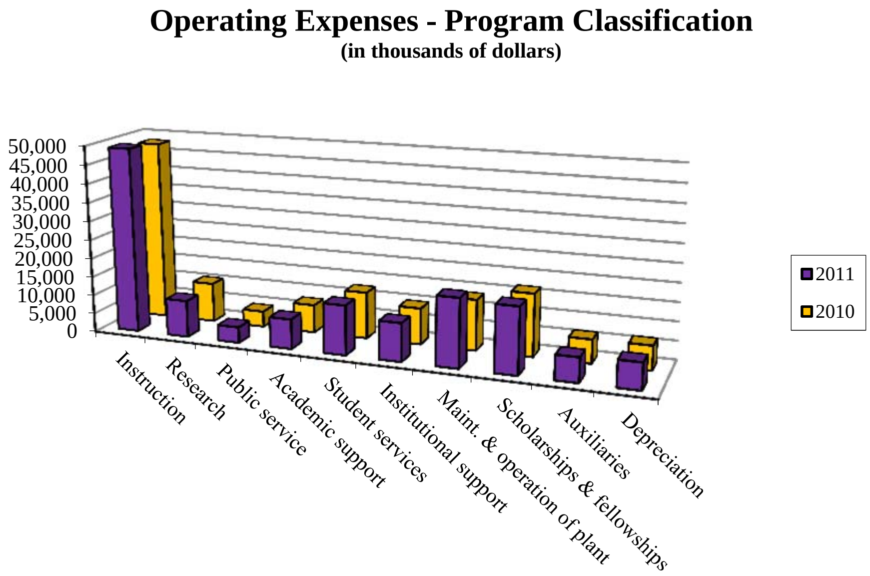


- Expenditures increased from 2010 to 2011 by 6%. The primary increase occurred in benefits and operating costs. Benefit expense increased 9%, or $1,773,000. This increase was primarily the result of the two-month group insurance holiday in 2010 that offset group health insurance costs by $1,638,900. Operating costs increased 19%, or $5,377,000, attributable to an increase in noncapital maintenance costs of $2,831,260, operating supplies of $1,466,519, temporary contract services of $432,480, and utilities of $762,510. Noncapital maintenance and supply costs are increasing as the university is in a process of performing campus-wide maintenance and renovations to enhance the campus experience. These were mostly renewal and replacement and unexpended plant projects. Utility costs have increased as new buildings (New Hall North; the Athletic Performance Center; and the Center for Science, Technology, Engineering, and Mathematics) have been added along with utility rate increases. All other changes were less than 10%.

Program Classification

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

	2011	2010
Instruction	$ 49,179	$ 47,984
Research	9,747	10,485
Public service	4,166	4,162
Academic support	7,900	7,474
Student services	13,138	12,407
Institutional support	10,137	9,654
Maintenance and operations	18,128	13,480
Scholarships and fellowships	17,513	16,597
Auxiliaries	6,482	6,304
Depreciation	6,973	6,410
Total expenses	$ 143,363	$ 134,957



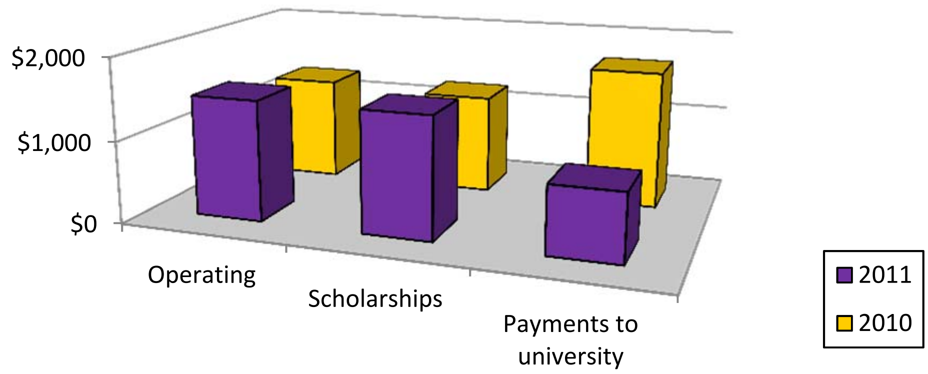
- From 2010 to 2011, the university had an overall 6% increase in expenditures. Maintenance and operation of plant had a 34% increase due to a campus-wide maintenance and renovation initiative as explained in the natural classification section above. Utilities also increased $762,510 due to rate increases and new buildings becoming operational. All other changes were less than 10%.

Natural Classification

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

	2011	2010
Operating	$ 1,471	$ 1,278
Scholarships	1,473	1,217
Payments to University	819	1,681
	$ 3,763	$ 4,176

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



- Payments to the university decreased by 51% because of a reduced amount of funding for capital projects provided by the foundation. In 2010, payments to the university included transfers of $1,118,148 for renovations of various academic buildings with only $11,675 in 2011. See Note 20 of the financial statements for the Component Unit for additional information related to payments made to the university. Operating expenses increased 15% due to a $143,623 increase in gifts-in-kind consumed and expended during the year. Scholarship payments increased 21% as increases in investment income provided more funds to be awarded.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2011, Tennessee Technological University had $112,630,598 invested in capital assets, net of accumulated depreciation of $102,763,779. Depreciation charges totaled $6,972,746 for the current fiscal year. Details of these assets are shown below.

Schedule of Capital Assets, Net of Depreciation

(in thousands of dollars)

	2011	2010
Land	$ 1,258	$ 1,258
Land improvements & infrastructure	7,596	5,758
Buildings	81,670	57,890
Equipment	7,461	7,085
Library holdings	4,259	4,379
Intangible assets	1,573	1,936
Projects in progress	8,814	25,159
Total Capital Assets, Net of Depreciation	$ 112,631	$ 103,465

The university had seven projects that increased the capital assets by $12,259,220 during fiscal year 2011. The Center for Science, Technology, Engineering, and Mathematics; New Hall North; the IT Infrastructure Project; the Athletic Performance Center; and Tech Village Apartment renovations were the largest. Ownership of the Regional Health building located on campus was transferred from the Tennessee Department of Health to the university, which added $833,513 to assets. Another $2,695,279 in equipment and library holdings was capitalized during the year.

The university plans to complete approximately $30,778,000 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	$ 265	State Appropriations
Elevator Upgrades	328	State Appropriations
Fire Alarm Upgrade	105	State Appropriations
Building Reroofs	350	Housing revenue
Tech Village West	2,510	TSSBA bonds/housing revenue
IT Infrastructure	2,000	Local reserves
Central Cooling Deficiency	1,000	Local reserves
Waterproofing	500	State Appropriations
Athletic Performance Center Parking	420	Athletic revenue
Several Building Renovations	1,680	State Appropriations & local
Several Building Renovations Phase II	2,900	State Appropriations
Property Purchases	3,760	Local reserves

Regional Health	1,240	Local reserves
Athletic Maintenance & Storage Facility	370	Athletic revenue
Fitness Center Roof Replacement	880	Fitness Center revenues
Pinkerton & M.S. Cooper Res Hall Upgrade	2,250	Housing revenue
Living Learning Village Res Hall Renovations	1,250	Housing revenue
Hooper Eblen Center Scoreboard	900	Athletic revenue
Tech Village Apt. Renovation Phase II	7,450	TSSBA bonds/housing revenue
Craft Center Guardrail	380	State Appropriations
UC South Patio & Front Step	120	State Appropriations
Foster Hall Lab	60	Local reserves
Kittrell Hall Fume Hood	60	Local reserves

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

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

	2011	2010
Land	$ 240	$ 240
Total capital assets	$ 240	$ 240

Debt

At June 30, 2011, and June 30, 2010, the university had $41,544,825 and $36,559,039 in debt outstanding, respectively. The table below summarizes these amounts by type of debt instrument.

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

	2011	2010
Debt instrument		
Bonds payable	$ 34,439	$ 13,497
Commercial paper	7,106	23,062
Total outstanding debt	$ 41,545	$ 36,559

In fiscal year 2011, the Tennessee State School Bond Authority issued, on behalf of the university, an additional $8,212,741 in commercial paper, of which $2,016,686 was related to New Hall North, $906,595 was for the Athletic Performance Center, and another $5,289,461 was for Tech Village Apartments. Bonds in the amount of $1,366,011 were retired, and commercial paper in the amount of $24,169,641 was converted to bonds. The bond ratings on the Tennessee State School Bond Authority at June 30, 2011, were as follows:

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

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

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

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

	2011	2010
Notes payable	$ 535	$ 624
Total	$ 535	$ 624

- For 2011, the foundation made principal payments of $89,074.

More detailed information about the foundation's long-term liabilities is presented in Note 20 to the financial statements.

Economic Factors That Will Affect the Future

The university's recurring state appropriation, a major source of support for academic programs, has been reduced by $15,927,100. The university developed a three-year financial plan that included a combination of cost cutting and tuition increases to manage the appropriation reduction. Management is confident that the university is on track to effectively manage the reduction in fiscal year 2011-12, when non-recurring maintenance-of-effort and federal stimulus funding expires.

The Tennessee Higher Education Commission is currently implementing a new outcomes-based funding formula for higher education to comply with state law effective January 2010. The new funding formula is based on student progression toward an academic degree; the number of degrees conferred each academic year; and a six-year graduation rate. Full implementation of the new funding model is proposed to occur over a three-to-five-year period. Although the full impact of the new funding formula is not known, it is anticipated that the new funding formula will have a positive funding impact for the university over the long term.
The university has been notified of a potential budget reduction due to federal aid reductions to the State of Tennessee in fiscal year 2013. Due to this notice, the university could potentially lose $267,200 in funding. Although the exact reductions are not known, the above number is the best estimate for planning purposes.

Improvement in the equity market in fiscal year 2011 has allowed the foundation to continue providing scholarships to students and support to the academic program of the university. However, fluctuations in the markets continue to be a concern. The foundation will continue efforts to steward and cultivate all constituents and solicit funds from individuals and companies that have had positive growth in their businesses and portfolios.

Requests for Information

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

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENTS OF NET ASSETS
JUNE 30, 2011

	Tennessee Technological University	Component Unit Tennessee Technological University Foundation
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 20)	$ 28,136,322.27	$ 711,609.88
Accounts, notes, and grants receivable (net) (Note 4)	5,334,610.94	-
Due from primary government	36,926.21	-
Inventories	288,035.25	-
Prepaid expenses and deferred charges	259,251.58	10,693.00
Accrued interest receivable	13,377.55	87,825.37
Total current assets	34,068,523.80	810,128.25
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 20)	53,000,403.02	8,451,000.88
Investments (Notes 3 and 20)	843,165.86	44,522,541.63
Accounts, notes, and grants receivable (net) (Note 4)	2,014,049.74	-
Capital assets (net) (Notes 5 and 20)	112,630,597.59	240,354.71
Total noncurrent assets	168,488,216.21	53,213,897.22
Total assets	202,556,740.01	54,024,025.47
LIABILITIES		
Current liabilities:		
Accounts payable (Note 6)	1,893,230.33	6,270.95
Accrued liabilities	5,074,123.36	5,755.56
Student deposits	275,799.43	-
Deferred revenue	3,024,509.32	-
Compensated absences (Note 7)	754,387.56	-
Accrued interest payable	265,176.55	-
Long-term liabilities, current portion (Notes 7 and 20)	1,529,368.20	82,222.20
Deposits held in custody for others	396,947.23	-
Other liabilities	44,982.08	-
Total current liabilities	13,258,524.06	94,248.71
Noncurrent liabilities:		
Net OPEB obligation (Notes 7 and 12)	5,213,264.72	-
Compensated absences (Note 7)	2,567,961.76	-
Long-term liabilities (Notes 7 and 20)	42,016,503.53	452,222.30
Due to grantors (Note 7)	1,907,586.21	-
Total noncurrent liabilities	51,705,316.22	452,222.30
Total liabilities	64,963,840.28	546,471.01
NET ASSETS		
Invested in capital assets, net of related debt	69,084,725.86	240,354.71
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	195,949.12	26,524,568.92
Research	-	464,710.56
Instructional department uses	-	2,739,956.38
Other	-	10,972,433.12
Expendable:		
Scholarships and fellowships (Note 8)	226,127.81	4,450,494.59
Research	842,601.03	121,953.25
Instructional department uses (Note 8)	530,097.18	1,310,931.29
Loans (Note 8)	558,223.00	-
Capital projects	573,657.33	48,301.40
Debt service	1,379,615.89	-
Other (Note 8)	1,174,798.80	6,333,254.65
Unrestricted (Notes 8 and 9)	63,027,103.71	270,595.59
Total net assets	$ 137,592,899.73	$ 53,477,554.46

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, 2011

	Tennessee Technological University	Component Unit Tennessee Technological University Foundation
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $34,855,369.54)	$ 31,151,266.61	$ -
Gifts and contributions	-	2,170,317.41
Governmental grants and contracts	13,695,119.55	-
Nongovernmental grants and contracts	515,491.37	-
Sales and services of educational departments	6,787,709.77	751,832.64
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $35,377.03; all residential life revenues are used as security for revenue bonds; see Note 7)	10,698,383.07	-
Bookstore	375,649.25	-
Food service (net of scholarship allowances of $443,860.93; all food service revenues are used as security for revenue bonds; see Note 7)	970,864.46	-
Wellness facility (all wellness facility revenues are used as security for revenue bonds, see Note 7)	976,741.42	-
Other auxiliaries (net of scholarship allowances of $3,633.68; all other auxiliaries revenues are used as security for revenue bonds; see Note 7)	717,521.43	-
Interest earned on loans to students	21,661.95	-
Other operating revenues	967,820.04	-
Total operating revenues	66,878,228.92	2,922,150.05
EXPENSES		
Operating expenses (Note 17):		
Salaries and wages	63,107,895.81	-
Benefits	22,528,685.04	-
Utilities, supplies, and other services	33,239,914.38	1,470,516.40
Scholarships and fellowships	17,513,496.46	1,473,153.38
Depreciation expense	6,972,746.02	-
Payments to or on behalf of Tennessee Technological University (Note 20)	-	819,847.39
Total operating expenses	143,362,737.71	3,763,517.17
Operating loss	(76,484,508.79)	(841,367.12)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	53,045,786.00	-
Gifts, including $625,763.04 from component unit	841,130.67	-
Grants and contracts	39,749,362.44	-
Investment income (net of investment expense for the component unit of $218,168.32)	354,343.50	6,521,531.79
Interest on capital asset-related debt	(1,323,709.30)	-
Bond issuance costs	(243,029.04)	-
Other nonoperating revenues (expenses)	199,555.29	(4,475.56)
Net nonoperating revenues (expenses)	92,623,439.56	6,517,056.23
Income before other revenues, expenses, gains, or losses	16,138,930.77	5,675,689.11
Capital appropriations	3,906,876.13	-
Capital grants and gifts, including $194,084.35 from the component unit	1,421,424.25	104,314.50
Additions to permanent endowments	605.00	3,160,658.13
Total other revenues	5,328,905.38	3,264,972.63
Increase in net assets	21,467,836.15	8,940,661.74
NET ASSETS		
Net assets - beginning of year	116,125,063.58	44,536,892.72
Net assets - end of year	$ 137,592,899.73	$ 53,477,554.46

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

Exhibit C

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$	30,737,713.81
Grants and contracts		15,229,934.42
Sales and services of educational activities		6,802,159.66
Payments to suppliers and vendors		(32,460,057.55)
Payments to employees		(64,259,414.41)
Payments for benefits		(21,948,120.70)
Payments for scholarships and fellowships		(17,513,496.46)
Loans issued to students		(587,762.18)
Collection of loans from students		378,821.44
Interest earned on loans to students		15,344.82
Auxiliary enterprise charges:		
Residence halls		10,839,859.86
Bookstore		375,649.25
Food services		942,037.69
Wellness facility		973,734.53
Other auxiliaries		707,174.34
Other receipts (payments)		984,770.81
Net cash used by operating activities		(68,781,650.67)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations		52,925,900.00
Gifts and grants received for other than capital or endowment purposes, including $625,763.04 from Tennessee Technological University Foundation		41,118,868.36
Private gifts for endowment purposes		605.00
Federal student loan receipts		32,266,038.00
Federal student loan disbursements		(32,264,314.00)
Changes in deposits held for others		59,277.10
Other noncapital financing receipts (payments)		203,350.10
Net cash provided by noncapital financing activities		94,309,724.56
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt		32,627,802.84
Capital appropriations		3,906,876.13
Capital grants and gifts received, including $11,675.00 from Tennessee Technological University Foundation		305,501.88
Proceeds from sale of capital assets		24,023.17
Purchases of capital assets and construction		(14,698,807.46)
Principal paid on capital debt		(25,535,652.33)
Interest paid on capital debt		(1,283,055.56)
Bond issue costs paid on new debt issue		(243,029.04)
Other capital and related financing receipts (payments)		40,806.38
Net cash used by capital and related financing activities		(4,855,533.99)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		351,690.82
Income on investments		368,348.31
Purchase of investments		(1,221.40)
Net cash provided by investing activities		718,817.73
Net increase in cash and cash equivalents		21,391,357.63
Cash and cash equivalents - beginning of year		59,745,367.66
Cash and cash equivalents - end of year	$	81,136,725.29

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(76,484,508.79)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense		6,972,746.02
Gifts in-kind		13,428.47
Other adjustments (Note 19)		122,086.00
Change in assets and liabilities:		
Receivables, net		1,503,840.20
Inventories		42,545.82
Prepaid/deferred items		(10,715.18)
Accounts payable		139,913.26
Accrued liabilities		(698,088.58)
Deferred revenue		2,807.58
Deposits		123,345.76
Compensated absences		30,477.34
Due to grantors		(341,852.95)
Loans to students and employees		(197,675.62)
Net cash used by operating activities	$	(68,781,650.67)
Noncash investing, capital, or financing transactions		
Gifts in-kind - capital	$	1,115,922.37
Unrealized gains/losses on investments	$	(15,771.92)
Loss on disposal of capital assets	$	(5,265.00)

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The university is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides 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 university and foundation's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental colleges and universities engaged in business-type activities as prescribed by the Governmental Accounting Standards Board (GASB).

Basis of Accounting

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

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

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

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

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

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

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

Net Assets

The university's net assets are classified as follows:

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

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

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

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

Scholarship Discounts and Allowances

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

NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2011, cash consisted of $7,402,265.93 in bank accounts, $7,871.90 of petty cash on hand, $67,807,835.20 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $5,918,752.26 in LGIP deposits for capital projects.

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

NOTE 3. INVESTMENTS

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

At June 30, 2011, 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	$ 823,763.64	$ -	$ 33,178.30	$ 338,685.01	$ 451,900.33	$ -
Collateralized mortgage obligations	3,041.34	-	-	3,041.34	-	-
Cash surrender value life insurance	16,360.88	-	-	-	-	16,360.88
Total	$ 843,165.86	$ -	$ 33,178.30	$ 341,726.35	$ 451,900.33	$ 16,360.88

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

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

At June 30, 2011, the university's investments were rated as follows:

		Credit Quality Rating
Investment Type	Fair Value	Unrated
LGIP	$ 73,726,587.46	$ 73,726,587.46
Collateralized mortgage obligation	3,041.34	3,041.34
Total	$ 73,729,628.80	$ 73,729,628.80

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

	Fair Value June 30, 2011
Collateralized mortgage obligation	$ 3,041.34
LGIP	351,940.06
Total	$ 354,981.40

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, 2011, each having a fair value of $1.163928, 189,474.46 units were owned by endowments, 7,521.73 units were owned by term endowments, and 107,989.63 units were owned by quasi-endowments.

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

FY 2011	Pooled Assets		Net Gains (Losses)	Fair Value Per Unit
	Fair Value	Cost		
End of year	$354,981.40	$354,799.43	$ 181.97	$1.163928
Beginning of year	$354,170.19	$353,793.77	376.42	$1.166150
				$(0.02222)
Unrealized net gains/(losses)			(194.45)	
Realized net gains/(losses)			-	
Total net gains/(losses)			$ (194.45)	

The average annual earnings per unit, exclusive of net gains, were $0.002774 for the year ended June 30, 2011.

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2011
Student accounts receivable	$ 1,162,795.64
Grants receivable	3,546,751.46
Notes receivable	101,187.23
State appropriation receivable	150,700.00
Other receivables	715,658.81
Subtotal	5,677,093.14
Less allowance for doubtful accounts	(342,482.20)
Total receivables	$ 5,334,610.94

Federal Perkins Loan Program funds included the following:

	June 30, 2011
Perkins loans receivable	$ 2,131,695.39
Less allowance for doubtful accounts	(117,645.65)
Total	$ 2,014,049.74

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 1,257,868.94	$ -	$ -	$ -	$ 1,257,868.94
Land improvements and infrastructure	12,009,352.21	-	2,437,908.13	-	14,447,260.34
Buildings	126,672,561.59	1,856,874.84	26,383,523.57	-	154,912,960.00
Equipment	21,460,675.24	1,833,815.18	-	225,531.46	23,068,958.96
Library holdings	10,100,020.36	861,463.69	-	1,116,700.23	9,844,783.82

Intangible assets	3,049,156.70	-	-	-	3,049,156.70
Projects in progress	25,158,775.77	12,476,044.15	(28,821,431.70)	-	8,813,388.22
Total	199,708,410.81	17,028,197.86	-	1,342,231.69	215,394,376.98
Less accumulated depreciation:					
Land improvements and infrastructure	6,251,425.32	599,503.84	-	-	6,850,929.16
Buildings	68,782,623.44	4,460,037.42	-	-	73,242,660.86
Equipment	14,376,125.18	1,452,119.83	-	220,266.46	15,607,978.55
Library holdings	5,720,645.61	981,877.33	-	1,116,700.23	5,585,822.71
Intangible assets	1,112,531.53	363,856.58	-	-	1,476,388.11
Total	96,243,351.08	7,857,395.00	-	1,336,966.69	102,763,779.39
Capital assets, net	$103,465,059.73	$ 9,170,802.86	$ -	$ 5,265.00	$112,630,597.59

NOTE 6. ACCOUNTS PAYABLE

Accounts payable included the following:

	June 30, 2011
Vendors payable	$ 1,776,471.27
Unapplied student payments	111,320.06
Other payables	5,439.00
Total accounts payable	$ 1,893,230.33

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 13,496,766.73	$ 22,308,696.91	$ 1,366,011.16	$ 34,439,452.48	$ 1,529,368.20
Unamortized bond premium	-	2,106,364.57	105,318.23	2,001,046.34	-
Commercial paper	23,062,272.72	8,212,741.36	24,169,641.17	7,105,372.91	-
Subtotal	36,559,039.45	32,627,802.84	25,640,970.56	43,545,871.73	1,529,368.20
Other liabilities:					
Compensated absences	3,291,871.98	1,599,513.02	1,569,035.68	3,322,349.32	754,387.56
Due to grantors	2,249,439.16	-	341,852.95	1,907,586.21	-
Net OPEB obligation	4,379,300.86	833,963.86	-	5,213,264.72	-
Subtotal	9,920,612.00	2,433,476.88	1,910,888.63	10,443,200.25	754,387.56
Total long-term liabilities	$ 46,479,651.45	$ 35,061,279.72	$ 27,551,859.19	$ 53,989,071.98	$ 2,283,755.76

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 $2,297,022.88 at June 30, 2011. Unexpended debt proceeds were $370,358.83 at June 30, 2011.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2011, are as follows:

Year Ending June 30	Principal	Interest	Total
2012	$ 1,529,368.20	$ 1,574,362.92	$ 3,103,731.12
2013	1,570,883.78	1,531,694.87	3,102,578.65
2014	1,630,365.70	1,473,546.29	3,103,911.99
2015	1,697,931.83	1,407,003.03	3,104,934.86
2016	1,769,999.95	1,336,385.51	3,106,385.46
2017 – 2021	10,116,088.25	5,455,741.06	15,571,829.31
2022 – 2026	9,861,761.66	3,101,214.66	12,962,976.32
2027 – 2031	5,917,482.71	1,094,737.20	7,012,219.91
2032	345,570.40	17,278.52	362,848.92
Total	$ 34,439,452.48	$ 16,991,964.06	$ 51,431,416.54

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 $7,105,372.91 at June 30, 2011.

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

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

NOTE 8. ENDOWMENTS

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

The university chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the university, only realized gains have been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2011, net appreciation of $200,410.45 is available to be spent, of which $11,321.43 is included in restricted net assets expendable for scholarships and fellowships, $3,193.98 is included in restricted net assets expendable for instructional departmental uses, $50,575.25 is included in restricted net assets expendable for loans, $9,838.48 is included in restricted net assets expendable for other, and $125,481.31 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, 2011
Working capital	$ 974,828.16
Encumbrances	554,947.00
Designated fees	2,311,902.85
Auxiliaries	449,507.90
Quasi-endowment	125,481.31
Plant construction	19,442,978.19
Renewal and replacement of equipment	30,787,142.52

Debt retirement	490,976.04
Undesignated	7,889,339.74
Total	$63,027,103.71

NOTE 10. PLEDGED REVENUES

The university has pledged certain revenues and fees, including state appropriations, to repay $34,439,452.48 in revenue bonds issued from April 2002 to September 2010 (see Note 7 for further detail). Proceeds from the bonds provided financing for student housing and energy performance upgrades. The bonds are payable through 2032. Annual principal and interest payments on the bonds are expected to require 2.25% of available revenues. The total principal and interest remaining to be paid on the bonds is $51,431,416.54. Principal and interest paid for the current year and total available revenues were $2,778,168.31 and $137,743,158.18, 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 14.91% of annual covered payroll. Contribution requirements for the university are established and may be amended by the TCRS' Board of Trustees. The university's contributions to TCRS for the years ended June 30, 2011, 2010, and 2009 were $3,499,531.11, $3,038,943.48, and $3,320,996.40. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans

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

Funding Policy - Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contributions made by the university to the plans were $3,094,783.15 for the year ended June 30, 2011, and $3,142,164.17 for the year ended June 30, 2010. Contributions met the requirements for each year.

NOTE 12. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible university retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-101, *Tennessee Code Annotated*. Prior to reaching age 65, retirees may participate in the State Employee Group Plan. In previous fiscal years, prior to reaching the age of 65, all members had the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. However, as of January 1, 2011, the insurance plan structure was changed and as a result, all members now have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits. Subsequent to age 65, retirees who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the university's eligible retirees; see Note 19. The plans are reported in the State of Tennessee's *Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

Special Funding Situation

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

Funding Policy

The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated,* retirees in the State Employee Group Plan pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service are subsidized 80%; retirees with 20 years of service but less than 30 years of service, 70%; and retirees with less than 20 years of service, 60%. Retirees who are 65 years of age or older have flat-rate premium subsidies based on years of service. Retirees with 30 or more years of service receive $50 per month; retirees with 20 years of service but less than 30 years of service, $37.50; and retirees with 15 years of service but less than 20 years of service, $25.

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

Annual required contribution (ARC)	$ 2,012,000.00
Interest on the net OPEB obligation	197,068.54
Adjustment to the ARC	(186,663.01)
Annual OPEB cost	2,022,405.53
Amount of contribution	(1,188,441.67)
Increase in net OPEB obligation	833,963.86
Net OPEB obligation – beginning of year	4,379,300.86
Net OPEB obligation – end of year	$ 5,213,264.72

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2011	State Employee Group Plan	$2,022,405.53	58.76%	$5,213,264.72
June 30, 2010	State Employee Group Plan	$2,224,427.03	43.65%	$4,379,300.86
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, 2010, was as follows:

State Employee Group Plan

Actuarial valuation date	July 1, 2010
Actuarial accrued liability (AAL)	$19,836,000.00

Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$19,836,000.00
Actuarial value of assets as a percentage of the AAL	0.00%
Covered payroll (active plan members)	$49,518,539.26
UAAL as percentage of covered payroll	40.06%

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, 2010, 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 10 percent in fiscal year 2011. The rate decreased to 9.5 percent in fiscal year 2012, and then reduced by decrements of 0.5 percent per year to an ultimate rate of 5 percent in fiscal year 2021. All rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

NOTE 13. INSURANCE-RELATED ACTIVITIES

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

The university participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of 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, 2011, and June 30, 2010, 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, 2011, the Risk Management Fund held $107.6 million in cash and cash equivalents designated for payment of claims.

At June 30, 2011, the scheduled coverage for the university was $584,323,120 for buildings and $107,793,910 for contents.

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

NOTE 14. COMMITMENTS AND CONTINGENCIES

Sick Leave

The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $25,854,909.55 at June 30, 2011.

Operating Leases

The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were $4,919.96 and for personal property were $236,271.67 for the year ended June 30, 2011. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2011, outstanding commitments under construction contracts totaled $3,868,207.23 for Tech Village Renovations, Central Cooling, IT Infrastructure, Crawford Hall Roof Replacement and several building upgrades, of which $486,308.60 will be funded by future state capital outlay appropriations.

Litigation

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

NOTE 15. CHAIRS OF EXCELLENCE

The university had $5,404,472.88 on deposit at June 30, 2011, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

NOTE 16. FUNDS HELD IN TRUST BY OTHERS

The university is a beneficiary under the CTC Charitable Lead Trust, Odom Family Trust, Odom 2nd Chance Trust, and the William Jenkins Estate Account. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received $117,598.35 from these funds during the year ended June 30, 2011.

NOTE 17. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses for the year ended June 30, 2011, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 32,616,580.42	$ 10,593,150.25	$ 5,969,061.24	$ -	$ -	$ 49,178,791.91
Research	5,117,147.76	1,148,168.50	3,481,556.44	-	-	9,746,872.70
Public service	1,896,590.04	668,768.26	1,600,181.86	-	-	4,165,540.16
Academic support	6,166,478.88	2,444,226.41	(710,567.23)	-	-	7,900,138.06
Student services	5,776,781.18	2,421,672.35	4,939,452.04	-	-	13,137,905.57
Institutional support	6,002,532.17	2,573,208.00	1,561,047.69	-	-	10,136,787.86
Maintenance & operation	3,326,819.29	1,813,815.02	12,987,810.49	-	-	18,128,444.80
Scholarships & fellowships	-	-	-	17,513,496.46	-	17,513,496.46
Auxiliary	2,204,966.07	865,676.25	3,411,371.85	-	-	6,482,014.17
Depreciation	-	-	-	-	6,972,746.02	6,972,746.02
Total	$ 63,107,895.81	$ 22,528,685.04	$ 33,239,914.38	$ 17,513,496.46	$ 6,972,746.02	$ 143,362,737.71

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services, and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling $2,575,902.75 were reallocated from academic support to the other functional areas and caused academic support operating expenses to appear as a negative amount in the schedule above.

NOTE 18. AFFILIATED ENTITY NOT INCLUDED

The TTU Agricultural Foundation is a private, nonprofit foundation with the university as the sole beneficiary. The TTU Agricultural Foundation is controlled by a board independent of the university. The financial records, investments, and other financial transactions are handled external to the university and these amounts are not included in the university's financial report. As reported in the foundation's most recently audited financial report, at June 30, 2010, the assets of the foundation totaled $657,691.29, liabilities were $0.00, and the net assets amounted to $657,691.29.

NOTE 19. ON-BEHALF PAYMENTS

During the year ended June 30, 2011, the State of Tennessee made payments of $122,086 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 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 27-member board of the foundation is self-perpetuating and consists of graduates and friends of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements.

During the year ended June 30, 2011, the foundation made distributions of $819,847.39 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, 2011, cash and cash equivalents consisted of $5,515,587.58 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer and $3,647,023.18 in custodial accounts of investment managers of the foundation.

The foundation also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's required risks disclosures are presented in the *State of Tennessee's Treasurer's Report.* That report is available on the state's website at http://www.tn.gov/treasury.

Investments

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

At June 30, 2011, 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	No Maturity Date
U. S. Treasury	$ 14,653.13	$ -	$ -	$ 14,653.13	$ -
Corporate stocks	20,005,237.28	-	-	-	20,005,237.28
Corporate bonds	6,044,435.75	208,884.00	5,195,444.75	640,107.00	-
Mutual bond funds	4,298,129.15	-	-	-	4,298,129.15
Mutual equity funds	2,451,470.21	-	-	-	2,451,470.21
Land	2,820,000.00	-	-	-	2,820,000.00
Other:					
Cash surrender value life insurance	20,113.67	-	-	-	20,113.67
Exchange traded funds	2,111,317.83	-	-	-	2,111,317.83
Hedge fund	6,757,184.61	-	-	-	6,757,184.61
Total	$ 44,522,541.63	$ 208,884.00	$ 5,195,444.75	$ 654,760.13	$ 38,463,452.75

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, 2011, the foundation's investments were rated as follows:

		Credit Quality Rating			
Investment Type	Fair Value	AA	A	BBB	Unrated
LGIP	$ 5,515,587.58	$ -	$ -	$ -	$ 5,515,587.58
Corporate bonds	6,044,435.75	556,220.00	1,566,494.49	343,272.00	3,578,449.26
Mutual bond funds	4,298,129.15	-	-	-	4,298,129.15
Total	$ 15,858,152.48	$ 556,220.00	$ 1,566,494.49	$ 343,272.00	$ 13,392,165.99

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

	Fair Value June 30, 2011
LGIP	$ 5,515,587.58
Investment manager custodial accounts	3,638,863.16
Corporate stocks	19,651,352.46
Corporate bonds	6,044,435.75
Mutual funds	6,686,997.56
Land and other real estate	2,620,000.00
Other:	
Exchange traded funds	2,111,317.83
Hedge funds	6,757,184.61
Total	$ 53,025,738.95

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, 2011, each having a fair value of $112.129444, 410,653.9179 units were owned by endowments, 13,018.6695 units were owned by quasi-endowments, and 49,224.9611 units were owned by non-endowment operations accounts.

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

FY 2011	Pooled Assets		Net Gains (Losses)	Fair Value Per Unit
	Fair Value	Cost		
End of year	$53,025,738.95	$48,670,054.42	$4,355,684.53	$112.129444
Beginning of year	$44,442,893.85	$42,960,066.01	1,482,827.84	103.101319
				$ 9.028125
Unrealized net gains/(losses)			2,872,856.69	
Realized net gains			-	
Total net gains/(losses)			$2,872,856.69	

The average annual earnings per unit, exclusive of net gains, were $8.146852 for the year ended June 30, 2011.

Alternative Investments

The foundation has investments in two hedge funds. The estimated fair value of these assets is $6,757,184.61 at June 30, 2011.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2011. Because these investments are not readily marketable, the estimated value is subject to uncertainty, and therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques.

The larger of the two funds accounting for 74% of the fair value of the hedge fund portfolio includes investments that the fair values are estimated using an industry-recognized pricing service. The second fund's investments representing 26% of the fair value of the hedge fund portfolio fair values are estimated using various valuation techniques. At June 30, 2011, the second fund's investments were valued at the net asset values as determined by the portfolio managers. The fund is issued audited financial statements on a calendar year basis. Using those audited fair values as a beginning point, valuations are adjusted for net capital activity and marketplace considerations to ascertain the reasonableness of estimated fair values provided by the portfolio managers.

Capital Assets

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 240,354.71	$ -	$ -	$ -	$ 240,354.71

Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Notes	$ 623,518.55	$ -	$ 89,074.05	$ 534,444.50	$ 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 $534,444.50 at June 30, 2011.

Debt service requirements to maturity for notes payable at June 30, 2011, are as follows:

Year Ending June 30	Principal
2012	$ 82,222.20
2013	82,222.20
2014	82,222.20
2015	82,222.20
2016	82,222.20
2017 – 2018	123,333.50
	$ 534,444.50

Endowments

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

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

Related Parties

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

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
July 1, 2010	State Employee Group Plan	$ 0.00	$19,836,000	$19,836,000	0.0%	49,518,539	40.06%
July 1, 2009	State Employee Group Plan	$ 0.00	$22,170,000	$22,170,000	0.0%	46,307,220	47.88%
July 1, 2007	State Employee Group Plan	$ 0.00	24,665,000	$24,665,000	0.0%	51,026,207	48.34%

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

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
SUPPLEMENTARY SCHEDULE OF CASH FLOWS - COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$	1,942,221.46
Sales and services of educational activities		751,832.64
Payments to suppliers and vendors		(1,282,502.89)
Payments for scholarships and fellowships		(1,473,153.38)
Payments to Tennessee Technological University		(637,438.04)
Net cash used by operating activities		(699,040.21)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes		2,960,658.13
Other non-capital financial receipts (payments)		1,280.00
Net cash provided by noncapital financing activities		2,961,938.13
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts received		78,214.50
Purchases of capital assets and construction		(156,309.35)
Principal paid on capital debt		(89,074.05)
Net cash used by capital and related financing activities		(167,168.90)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		20,541,206.42
Income on investments		1,339,131.84
Purchases of investments		(20,541,179.84)
Net cash provided by investing activities		1,339,158.42
Net increase in cash and cash equivalents		3,434,887.44
Cash and cash equivalents - beginning of year		5,727,723.32
Cash and cash equivalents - end of year	$	9,162,610.76

Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(841,367.12)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Gifts in-kind		182,409.35
Other adjustments		(20,113.67)
Changes in assets and liabilities:		
Receivables, net		300.00
Prepaid/deferred items		(10,693.00)
Accounts payable		(9,575.77)
Net cash used by operating activities	$	(699,040.21)
Noncash investing, capital, or financing transactions		
Gifts in-kind - capital	$	26,100.00
Unrealized gains on investments	$	2,898,958.92
Addition to permanent endowment-land held for sale	$	200,000.00