AUDIT REPORT

Tennessee Board of Regents
Tennessee Technological University

For the Year Ended
June 30, 2014

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

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February 10, 2015

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

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Tennessee Technological University, for the year ended June 30, 2014. You will note from the independent auditor’s report that unmodified opinions were given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

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Audit Report
Tennessee Board of Regents
Tennessee Technological University
For the Year Ended June 30, 2014

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For the Year Ended June 30, 2014

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

The audit report contains no findings.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Tennessee Technological University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Tennessee Technological University and its discretely presented component unit as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of Tennessee Technological University, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only Tennessee Technological University. They do not purport to, and do not, present fairly the financial position of the Tennessee Board of Regents, as of June 30, 2014, and the changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 19, the financial statements of Tennessee Technological University Foundation, a discretely presented component unit of Tennessee Technological University, include investments valued at $8,542,898.03 (12.6 percent of net position of the foundation), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 15 and the schedule of funding progress on page 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the university's basic financial statements. The schedule of cash flows – component unit on page 44 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2014, on our consideration of the university's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the university's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
December 4, 2014

Tennessee Board of Regents
TENNESSEE TECHNOLOGICAL UNIVERSITY
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Introduction

This section of Tennessee Technological University's annual financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2014, with comparative information presented for the fiscal year ended June 30, 2013. 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 notes. The financial statements, notes, and this discussion are the responsibility of management.

The university has one discretely presented component unit, the Tennessee Technological University Foundation. More detailed information about the foundation is presented in Note 19 to the financial statements. This discussion and analysis focuses on the university and does not include the foundation.

Overview of the Financial Statements

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

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

The Statement of Net Position

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

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

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

The following table summarizes the university's assets, liabilities, deferred outflows of resources, and net position at June 30, 2014, and June 30, 2013.

Summary of Net Position
(in thousands of dollars)

	2014	2013
Assets:		
Current assets	$ 47,404	$ 43,140
Capital assets, net	131,018	121,755
Other assets	71,061	67,677
Total Assets	249,483	232,572
Deferred Outflows of Resources:		
Deferred amount on debt refunding	69	76
Total Deferred Outflows	69	76
Liabilities:		
Current liabilities	18,187	18,786
Noncurrent liabilities	59,576	57,214
Total Liabilities	77,763	76,000

Net Position:		
Net investment in capital assets	80,982	73,878
Restricted - nonexpendable	177	176
Restricted - expendable	3,779	3,923
Unrestricted	86,851	78,671
Total Net Position	$171,789	$156,648

- Assets of the university increased 7.3% from 2013 to 2014. Current assets increased 9.9%, capital assets increased 7.6%, and other assets increased 5.0%.

- Current assets increased $4,263,497, primarily due to cash increasing $4,638,061 and accounts receivables decreasing $887,195. Prepaid expenses increased $400,358, due to licenses for new technology investments.

- The increase in current cash is the result of excess revenues over expenditures and transfers in unrestricted education and general of $3,901,954. See the discussion below for the statement of revenues, expenses and changes in net position. Current cash in auxiliary funds increased another $881,849 due to profits and reductions in accounts receivables of $881,870, due to collections of the prior-year contracted dining services and contracted bookstore commissions' recorded in 2013.

- Capital assets increased $9,262,768 (7.6%). Construction upgrades to Tech Village student apartments, residential halls, academic buildings, land purchases, and other improvements, accounted for $14,770,050 in new assets. New software projects were $127,612. Equipment purchases and library holding investments were $2,246,508. The value of capital assets was reduced by current-year depreciation expense and equipment and library holding disposals. See Note 5 to the financial statements.

- The primary increase in other assets is an increase in noncurrent cash of $3,708,473. Unrestricted educational and general (E&G) funds in the amount of $9,682,730 were transferred to plant funds for various maintenance and capital projects. Auxiliary profits of $7,004,790 were designated for renewal and replacement reserves. These transfers less current-year plant expenditures resulted in the noncurrent cash increase.

- Noncurrent liabilities increased 4.1%, primarily as the result of a $1,902,850 increase in long-term debt for student housing. The university also incurred additional liability increases in other postemployment benefits actuarial cost of $359,742 and compensated absences of $319,967. See Note 7 to the financial statements for additional information on university debt.

- The increase in net position of 9.7% from 2013 to 2014 was due to a $15,141,490 excess of total revenues over expense.

- Net investments in capital assets increased $7,104,425 (9.6 %) as discussed in the capital asset and debt administration section of this management's discussion and analysis.

- Unrestricted net position increased $8,180,228 (10.4%) as result of excess revenues over expenditures in unrestricted E&G of $3,901,954, unrestricted E&G transfers in the amount of $9,682,730 to plant funds for various maintenance and capital projects, and auxiliary profits of $7,004,790 being designated for renewal and replacement reserves. These transfers less current-year plant expenditures resulted in the net increase.

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

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

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

A summary of the university's revenues, expenses, and changes in net position for the year ended June 30, 2014, and June 30, 2013, follows.

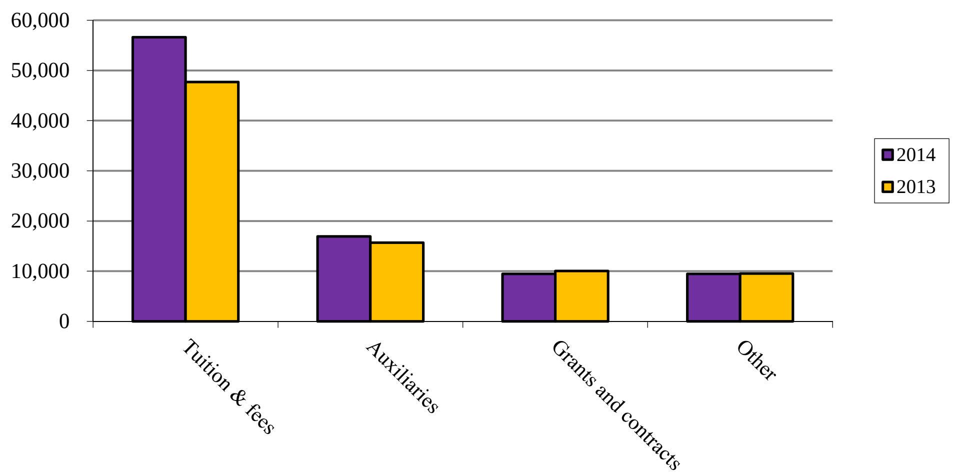
Summary of Revenues, Expenses and Changes in Net Position
(in thousands of dollars)

	2014	2013
Operating revenues	$ 92,500	$ 82,975
Operating expenses	162,804	153,204
Operating loss	(70,304)	(70,229)
Nonoperating revenues and expenses	81,859	79,416
Income before other revenues, expenses, gains, or losses	11,555	9,187
Other revenues, expenses, gains, or losses	3,586	3,241
Increase in net position	15,141	12,428
Net position at beginning of year	156,648	144,698
Prior period adjustment	-	(478)
Net position at end of year	$171,789	$156,648

Operating Revenues

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

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

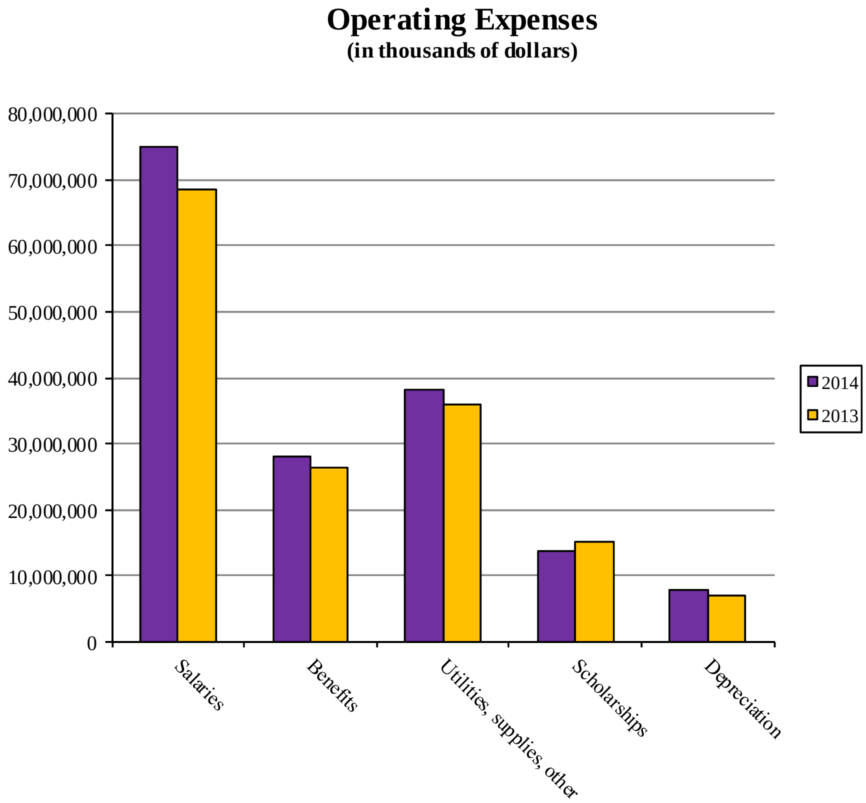


Comparison of FY 2014 to FY 2013

- Operating revenues of the university increased 11.5%. Net tuition and fees increased 18.7%, auxiliary revenues increased 7.9%, grants and contracts decreased 5.7%, and other decreased .6%.
- Tuition and fees net of the scholarship allowance increased $8,905,944 due to a tuition increase of approximately 6% and an enrollment increase in full-time equivalent of approximately 2.7%. In-state tuition increased $5,856,007 (9.6%). Out-of-state tuition increased $4,753,515 (42.2%), primarily from an increase in international student enrollment. Revenues from academic course fees dedicated to specific high-cost programs increased by $211,946 (9.6%). The remaining difference is primarily due to the scholarship allowance increasing.
- Auxiliary revenues increased $1,242,755 due to rate increases and increased revenues from clinics. Campus housing rate increases of 0.6% to 11.4% and operations of newly renovated student apartments increased housing revenues by $863,621. Contracted dining services had an increase in commissions of $66,801, mostly due to the increase in the guaranteed commission amount. Fitness center revenue increased $291,699, mainly as a result of taking responsibility of the cheer clinic in 2014.
- Grants and contracts have decreased 5.7% due to a reduced level of federally funded research projects.

Operating Expenses

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



Comparison of FY 2014 to FY 2013

- Operating expenditures increased $9,599,732 (6.3%) from 2013 to 2014.
- Salaries increased $6,267,191 (9.1%) as the result of a cost-of-living adjustment (COLA), compensation plan adjustments, faculty promotions, and an increase in filled positions.
- The COLA was approximately $740,000. Compensation plan adjustments and faculty promotions were approximately another $540,000. The remainder was due to an increase in the number of strategically placed positions, adjuncts, and student salaries.
- Filled faculty positions increased 9% from fall 2012 to fall 2013, accounting for an increase of $3,268,766. Summer school and adjuncts increased $496,932.
- Administrative salaries increased $949,466 due to the appointment of new strategic senior level positions along with the COLA.

- Professional support salaries increased $1,358,127 due to the COLA, increased graduate assistantships, and appointment of several new positions to align emphasis on Information Technology Services and advisement and retention efforts. There were also new dean and administrative appointments in Graduate Studies, Engineering, Education, Institutional Research, and Grounds.

- Benefits increased $1,696,619 (6.4%). Most of the increase is due to the increase in salaries above. Employee health insurance also increased by approximately 5%.

- Utilities, supplies, and other services increased $2,310,360 (6.5%). Travel cost increased $337,625, due mostly to an increase in football, basketball, and Chapter 606 funding of student trips. Maintenance for buildings, grounds, and computer software increased $1,060,750 due to a large increase in project spending across campus. Several new electronic upgrade initiatives have increased the software maintenance along with inflation changes. Professional consulting and legal increased $688,508 for services related to strategic planning, campus master plan, budget modeling, information technology initiatives, and legal suits. Housing rentals went up $120,273 due to overflow needs in student housing. The remainder is an increase in various supply costs across campus.

- Scholarship expense decreased $1,266,705 (8.4%) due to an increase in the amount of student financial aid that is classified as discount allowance against revenue.

- Depreciation increased $683,003 (9.5%) in FY 2014 compared to FY 2013 due to major current-year additions to assets. See Note 5 of the financial statements.

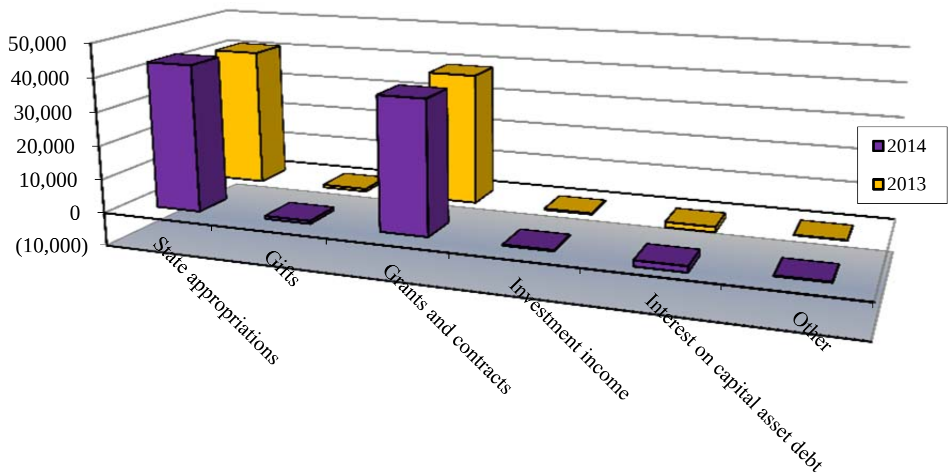
<u>Nonoperating Revenues and Expenses</u>

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

Nonoperating Revenues and Expenses
(in thousands of dollars)

	2014	2013
State appropriations	$43,447	$41,140
Gifts	856	790
Grants and contracts	38,854	38,663
Investment income	259	301
Interest on capital asset debt	(1,696)	(1,542)
Other	139	64
Total	$81,859	$79,416

Nonoperating Revenues and Expenses
(in thousands of dollars)



Comparison of FY 2014 to FY 2013

Nonoperating revenues and expenses increased by $2,443,819 (3.1%). State appropriations increased $2,307,162 (5.6%) due to funding received under the new funding formula, as well as state-covered benefits and across-the-board salary increases approved and funded by the state. Interest on capital debt also increased 10% due to additional bonded construction projects related to student housing. Other changes were immaterial.

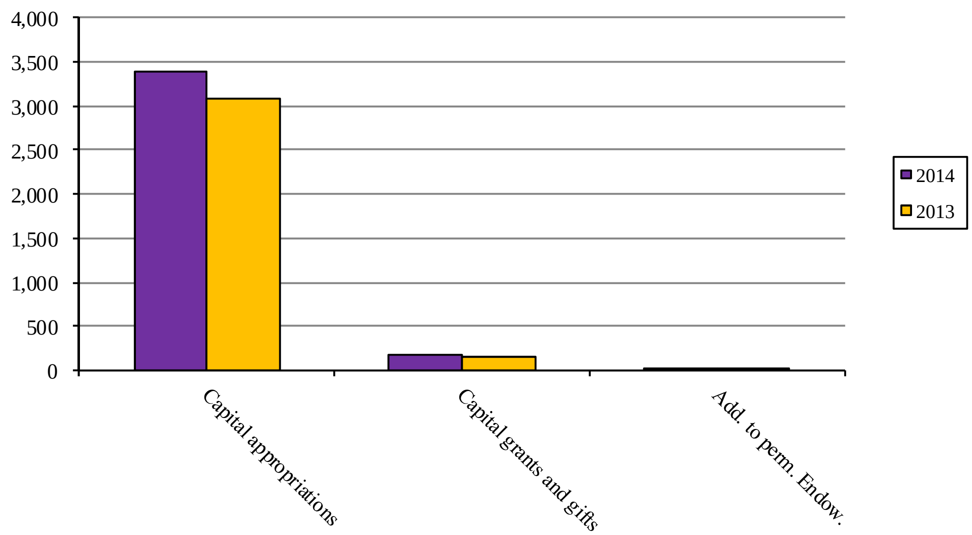
Other Revenues

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

Other Revenues
(in thousands of dollars)

	2014	2013
Capital appropriations	$3,401	$3,087
Capital grants and gifts	184	153
Additions to permanent endowments	1	1
Total	$3,586	$3,241

Other Revenues
(in thousands of dollars)



Comparison of FY 2014 to FY 2013

Other revenues increased $442,716 (14.1%) during 2014. Capital appropriations to address deferred maintenance on the campus increased by $412,039. Capital grants and gifts increased $30,578 due to gift-in-kind assets.

Capital Assets and Debt Administration

Capital Assets

Tennessee Technological University had $131,017,740 invested in capital assets, net of accumulated depreciation of $117,478,509 at June 30, 2014; and $121,754,971 invested in capital assets, net of accumulated depreciation of $110,606,511 at June 30, 2013. Depreciation charges totaled $7,853,015 and $7,170,011 for the years ended June 30, 2014, and June 30, 2013, respectively.

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

	2014	2013
Land	$ 3,224	$ 2,027
Land improvements & infrastructure	10,467	10,964
Buildings	97,670	87,773
Equipment	7,882	7,665

Library holdings	1,248	1,298
Intangible assets	1,459	1,483
Art & historical collections	26	-
Projects in progress	9,042	10,545
Total Capital Assets, Net of Depreciation	$131,018	$121,755

The university is involved in various renovation projects on campus that increased the capital assets by $13,201,936 during fiscal year 2014. The Tech Village apartment renovations and residential hall renovations were the largest projects. Land acquisitions and improvements were $1,568,115. Another $2,374,120 in equipment, library holdings, and software were capitalized during the year.

At June 30, 2014, outstanding commitments under construction contracts totaled $5,535,318 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $2,111,403 of these costs.

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

Debt

The university had $50,104,353 and $47,952,902 in debt outstanding at June 30, 2014, and June 30, 2013, respectively. The table below summarizes these amounts by type of debt instrument.

Schedule of Debt Outstanding
(in thousands of dollars)

	2014	2013
Bonds payable	$41,999	$38,082
Unamortized bond premium	3,888	3,421
Revolving credit/commercial paper	4,217	6,450
Total outstanding debt	$50,104	$47,953

The Tennessee State School Bond Authority (TSSBA) issued bonds with interest rates ranging from 2% to 5% due serially until 2033 on behalf of Tennessee Technological University. The university is responsible for the debt service of these bonds. The current portion of the $50,104,353 outstanding at June 30, 2014, is $2,106,549.

In fiscal year 2014, commercial paper for the Tech Village Phase 2 project was bonded, increasing bonds payable $5,774,979 and adding $704,036 unamortized bond premium. Revolving credit facility debt of $4,217,541 was added related to the Tech Village Phase 3 and residential hall renovation projects.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2014, were as follows:

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

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

Economic Factors That Will Affect the Future

The Tennessee Higher Education Commission has implemented an outcomes-based funding formula for higher education to comply with state law effective January 2010. The funding formula is based on student progression toward an academic degree, the number of degrees conferred each academic year, and a six-year graduation rate. Although the full impact of the new funding formula is not known, the university’s strategic planning process is centered on student success measures that align with the new outcomes funding model. It is anticipated that the funding formula will have a positive funding impact for the university over the long term. Another factor that has significant impact on revenue is the growth in international students over the past few years. Out-of-state tuition is approximately 18% of mandatory fees, compared to 11% in fiscal year 2012. This produces some dependency on world events.

Tennessee Board of Regents
TENNESSEE TECHNOLOGICAL UNIVERSITY
Statement of Net Position
June 30, 2014

	University	Component Unit
Assets		
Current assets:		
Cash and cash equivalents (Notes 2 and 19)	$ 39,955,886.27	$ 844,773.98
Accounts, notes, and grants receivable (net) (Note 4)	6,221,605.03	-
Due from primary government	22,600.00	-
Inventories (at lower of cost or market)	358,182.93	-
Prepaid expenses	830,432.77	81,089.93
Accrued interest receivable	15,116.00	90,648.64
Total current assets	47,403,823.00	1,016,512.55
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 19)	69,479,818.62	14,968,200.45
Investments (Notes 3 and 19)	319,322.84	51,705,752.07
Accounts, notes, and grants receivable (net) (Note 4)	1,261,937.64	4,000.00
Capital assets (net) (Notes 5 and 19)	131,017,739.62	1,124,354.25
Total noncurrent assets	202,078,818.72	67,802,306.77
Total assets	249,482,641.72	68,818,819.32
Deferred Outflows of Resources		
Deferred amount on debt refunding	68,921.98	-
Total deferred outflows of resources	68,921.98	-
Liabilities		
Current liabilities:		
Accounts payable (Note 6)	3,224,052.48	88,893.61
Accrued liabilities	6,499,103.52	-
Student deposits	600,518.22	-
Unearned revenue (Note 7)	4,253,194.19	-
Compensated absences (Note 7)	579,704.76	-
Accrued interest payable	366,556.53	9,750.24
Long-term liabilities, current portion (Notes 7 and 19)	2,106,548.63	161,774.28
Deposits held in custody for others	475,553.59	-
Other liabilities	81,656.60	-
Total current liabilities	18,186,888.52	260,418.13
Noncurrent liabilities:		
Net OPEB obligation (Note 11)	6,902,759.84	-
Unearned revenue (Note 7)	140,000.00	-
Compensated absences (Note 7)	3,324,918.73	-
Long-term liabilities (Notes 7 and 19)	47,997,804.28	882,855.47
Due to grantors (Note 7)	1,210,131.11	-
Total noncurrent liabilities	59,575,613.96	882,855.47
Total liabilities	77,762,502.48	1,143,273.60
Net Position		
Net investment in capital assets	80,982,308.69	374,354.25
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	176,785.07	31,686,456.27
Research	-	564,679.56
Instructional department uses	-	3,058,893.80
Other	-	11,027,362.13
Expendable:		
Scholarships and fellowships (Note 8)	206,436.59	6,247,540.39
Research	1,532,872.96	276,044.32
Instructional department uses (Note 8)	523,329.85	1,777,611.58
Loans (Note 8)	417,787.62	-
Capital projects	191,452.43	1,170,066.23
Other (Note 8)	906,770.34	10,910,751.41
Unrestricted (Note 8)	86,851,317.67	581,785.78
Total net position	$ 171,789,061.22	$ 67,675,545.72

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

Tennessee Board of Regents
TENNESSEE TECHNOLOGICAL UNIVERSITY
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2014

	University	Component Unit
Revenues		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $37,938,890.33)	$ 56,614,556.35	$ -
Gifts and contributions	-	1,994,425.03
Governmental grants and contracts	9,087,713.03	-
Nongovernmental grants and contracts	387,341.08	-
Sales and services of educational activities	1,421,722.17	-
Sales and services of other activities	8,027,149.20	-
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $31,744.78; all residential life revenues are used as security for revenue bonds; see Note 9)	12,237,889.42	-
Bookstore (all bookstore revenues are used as security for revenue bonds; see Note 9)	564,401.30	-
Food service (all food service revenues are used as security for revenue bonds; see Note 9)	1,953,780.25	-
Wellness facility (net of scholarship allowances of $3,696.41; all wellness facility revenues are used as security for revenue bonds; see Note 9)	1,444,265.42	-
Other auxiliaries	733,314.42	-
Interest earned on loans to students	23,720.39	-
Other operating revenues	3,703.29	727,715.19
Total operating revenues	92,499,556.32	2,722,140.22
Expenses		
Operating expenses (Note 16):		
Salaries and wages	74,822,120.15	-
Benefits	28,216,558.00	-
Utilities, supplies, and other services	38,129,665.06	1,860,915.06
Scholarships and fellowships	13,782,529.92	1,574,231.50
Depreciation expense	7,853,014.50	33,759.02
Payments to or on behalf of Tennessee Technological University (Note 19)	-	767,913.63
Total operating expenses	162,803,887.63	4,236,819.21
Operating loss	(70,304,331.31)	(1,514,678.99)
Nonoperating Revenues (Expenses)		
State appropriations	43,447,084.00	-
Gifts, including $623,731.45 from component unit	855,859.18	-
Grants and contracts	38,854,409.63	-
Investment income (net of investment expense for the component unit of $269,788.26)	259,608.95	7,258,944.13
Interest on capital asset-related debt	(1,696,435.45)	(9,750.24)
Bond issuance costs	(28,051.33)	-
Other nonoperating revenues (expenses)	167,472.03	(4,619.89)
Net nonoperating revenues (expenses)	81,859,947.01	7,244,574.00
Income before other revenues, expenses, gains, or losses	11,555,615.70	5,729,895.01
Capital appropriations	3,401,297.65	-
Capital grants and gifts, including $144,182.18 from the component unit	184,026.52	1,186,576.00
Additions to permanent endowments	550.00	1,097,435.30
Total other revenues	3,585,874.17	2,284,011.30
Increase in net position	15,141,489.87	8,013,906.31
Net position - beginning of year	156,647,571.35	59,661,639.41
Net position - end of year	$ 171,789,061.22	$ 67,675,545.72

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

TENNESSEE TECHNOLOGICAL UNIVERSITY
Statement of Cash Flows
For the Year Ended June 30, 2014

Cash Flows From Operating Activities	
Tuition and fees	$ 56,972,820.23
Grants and contracts	9,711,590.93
Sales and services of educational activities	1,427,516.64
Sales and services of other activities	7,996,043.45
Payments to suppliers and vendors	(38,564,731.04)
Payments to employees	(75,364,866.52)
Payments for benefits	(27,643,193.72)
Payments for scholarships and fellowships	(13,788,728.57)
Loans issued to students	(446,820.04)
Collection of loans from students	344,545.06
Interest earned on loans to students	17,705.66
Auxiliary enterprise charges:	
Residence halls	12,278,312.15
Bookstore	613,404.32
Food services	2,669,139.42
Wellness facility	1,447,212.94
Other auxiliaries	725,530.69
Other receipts (payments)	3,786.62
Net cash used by operating activities	(61,600,731.78)
Cash Flows From Noncapital Financing Activities	
State appropriations	43,295,800.00
Gifts and grants received for other than capital or endowment purposes, including $623,731.45 from Tennessee Technological University Foundation	39,608,828.73
Private gifts for endowment purposes	550.00
Federal student loan receipts	35,876,790.75
Federal student loan disbursements	(36,019,347.00)
Changes in deposits held for others	(127,124.33)
Other noncapital financing receipts (payments)	193,156.72
Net cash provided by noncapital financing activities	82,828,654.87
Cash Flows From Capital and Related Financing Activities	
Proceeds from capital debt	10,696,555.63
Capital appropriations	3,401,297.65
Capital grants and gifts received	39,844.34
Proceeds from sale of capital assets	14,659.50
Purchases of capital assets and construction	(17,211,865.02)
Principal paid on capital debt	(8,307,947.69)
Interest paid on capital debt	(1,867,044.61)
Bond issue costs paid on new debt issue	(28,051.33)
Other capital and related financing receipts	8,590.33
Net cash used by capital and related financing activities	(13,253,961.20)
Cash Flows From Investing Activities	
Proceeds from sales and maturities of investments	103,459.22
Income on investments	269,112.89
Net cash provided by investing activities	372,572.11
Net increase in cash and cash equivalents	8,346,534.00
Cash and cash equivalents - beginning of year	101,089,170.89
Cash and cash equivalents - end of year	$ 109,435,704.89

Tennessee Board of Regents
TENNESSEE TECHNOLOGICAL UNIVERSITY
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2014

Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	$ (70,304,331.31)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	7,853,014.50
Gifts in-kind	120,524.00
Other adjustments (Note 18)	128,684.00
Change in assets and liabilities:	
Receivables, net	1,430,669.18
Inventories	(93,580.85)
Prepaid items	(429,124.88)
Accounts payable	(553,485.84)
Accrued liabilities	(378,110.04)
Unearned revenues	680,371.39
Deposits	114,813.68
Compensated absences	257,294.44
Due to grantors	(229,807.86)
Loans to students and employees	(197,662.19)
Net cash used by operating activities	$ (61,600,731.78)

Noncash investing, capital, or financing transactions	
Gifts in-kind - capital	$ 144,182.18
Unrealized losses on investments	$ (9,583.12)
Loss on disposal of capital assets	$ (28,387.68)

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 its donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements. See Note 19 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

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

Basis of Accounting

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

The university has classified its revenues and expenses as either operating or nonoperating according to the following criteria: Operating revenues and expenses are those that have the characteristics of exchange transactions. Operating revenues include (1) tuition and fees, net of scholarship discounts and allowances; (2) certain federal, state, local, and private grants and contracts; (3) sales and services of auxiliary enterprises; and (4) interest on institutional loans. Operating expenses include (1) salaries and wages; (2) employee benefits; (3) utilities, supplies, and other services; (4) scholarships and fellowships; and (5) depreciation.

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

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

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 other items are maintained on an average cost or first-in, first-out basis.

Compensated Absences

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

The amount of the liabilities for annual leave and compensatory time and their related benefits are reported in the statement of net position. There is no liability for unpaid accumulated sick leave since the university's policy is to pay this only if the employee dies or is absent because of illness, injury, or related family death.

Capital Assets

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

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

The capitalization threshold for intangible assets is set at $100,000. The capitalization threshold for art, historical treasures/collections, and similar assets is set at $5,000.

These assets, with the exception of works of art and historical treasures/collections deemed inexhaustible and land, are depreciated/amortized using the straight-line method over the estimated useful lives, which range from 5 to 40 years.

Net Position

The university's net position is classified as follows:

Net investment in capital assets – This represents the university's total investment in capital assets, net of accumulated depreciation and net of outstanding debt obligations and deferred outflows of resources 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 net investment in capital assets.

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

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

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

Scholarship Discounts and Allowances

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

Note 2. Cash

This classification includes demand deposits and petty cash on hand. At June 30, 2014, cash consisted of $8,150,138.53 in bank accounts, $7,730.95 of petty cash on hand, $93,476,345.70 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, and $7,801,489.71 in LGIP deposits for capital projects.

The LGIP is part of the State Pooled Investment Fund. The fund's required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

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

Note 3. Investments

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

At June 30, 2014, 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	$301,356.81	$ -	$ 138,409.18	$429.42	$ 162,518.21	$ -
Collateralized mortgage obligation	1,080.69	-	1,080.69	-	-	-
Cash surrender value life insurance	16,885.34	-	-	-	-	16,885.34
Total investments	$ 319,322.84	$ -	$139,489.87	$429.42	$ 162,518.21	$ 16,885.34

Interest Rate Risk

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

Credit Risk

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

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

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

At June 30, 2014, the university's investments were rated as follows:

Investment Type	Fair Value	Credit Quality Rating Unrated
LGIP	$101,277,835.41	$101,277,835.41
Collateralized mortgage obligation	1,080.69	1,080.69
Total	$101,278,916.10	$101,278,916.10

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

Investments	Fair Value June 30, 2014
Collateralized mortgage obligation	$ 1,080.69
Local Government Investment Pool	335,147.79
Total	$336,228.48

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, 2014, each having a fair value of $ $1.173239, 170,449.73 units were owned by permanent endowments, 7,643.52 units were owned by term endowments, and 108,488.27 units were owned by quasi-endowments.

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

FY 2014	Pooled Assets			
	Fair Value	Cost	Net Gains (Losses)	Fair Value Per Unit
End of year	$336,228.48	$336,217.06	$ 11.42	$ 1.173239
Beginning of year	$335,583.62	$335,515.89	67.73	1.174470
Change in unit value				$(0.001231)
Unrealized net gains/(losses)			(56.31)	
Realized net gains/(losses)			-	
Total net gains/(losses)			$(56.31)	

The average annual earnings per unit, exclusive of net gains/(losses), were $0.001177 for the year ended June 30, 2014.

Note 4. Receivables

Receivables at June 30, 2014, included the following:

Student accounts receivable	$1,613,162.93
Grants receivable	3,095,889.44
Notes receivable	112,333.08
Auxiliary enterprise receivables	700,869.41
Other receivables	1,246,456.07
Subtotal	6,768,710.93
Less allowance for doubtful accounts	(547,105.90)
Total receivables	$6,221,605.03

Federal Perkins Loan Program funds at June 30, 2014, included the following:

Perkins loans receivable	$1,376,645.53
Less allowance for doubtful accounts	(114,707.89)
Total	$1,261,937.64

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 2,027,101.10	$ 1,196,673.85	$ -	$ -	$ 3,223,774.95
Land improvements and infrastructure	19,454,155.32	371,440.91	-	-	19,825,596.23
Buildings	168,935,218.67	-	14,492,018.94	-	183,427,237.61
Equipment	24,822,042.41	1,967,566.95	-	783,194.72	26,006,414.64
Library holdings	3,002,065.29	278,941.22	-	252,220.44	3,028,786.07
Intangible assets	3,576,237.64	-	340,654.67	-	3,916,892.31
Art and historical collections	-	26,010.45	-	-	26,010.45
Projects in progress	10,544,662.48	13,329,547.38	(14,832,673.61)	-	9,041,536.25
Total	232,361,482.91	17,170,180.76	-	1,035,415.16	248,496,248.51
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	8,489,793.47	868,420.64	-	-	9,358,214.11
Buildings	81,162,505.18	4,595,126.54	-	-	85,757,631.72

Equipment	17,157,294.93	1,721,946.64	-	754,807.04	18,124,434.53
Library holdings	1,703,834.94	302,878.61	-	226,209.99	1,780,503.56
Intangible assets	2,093,082.90	364,642.07	-	-	2,457,724.97
Total	110,606,511.42	7,853,014.50	-	981,017.03	117,478,508.89
Capital assets, net	$121,754,971.49	$ 9,317,166.26	$ -	$ 54,398.13	$131,017,739.62

During fiscal year 2014, the university reduced library holdings by $26,010.45 and reclassified these items as capitalized art and historical collections.

Note 6. Accounts Payable

Accounts payable at June 30, 2014, included the following:

Vendors payable	$2,966,627.04
Unapplied student payments	253,149.44
Other payables	4,276.00
Total accounts payable	$3,224,052.48

Note 7. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$38,081,746.55	$ 5,774,978.73	$ 1,857,947.69	$ 41,998,777.59	$2,106,548.63
Unamortized bond premium/discount	3,421,155.55	704,036.10	237,157.13	3,888,034.52	-
Commercial paper	6,450,000.00	-	6,450,000.00	-	-
Revolving credit facility	-	4,217,540.80	-	4,217,540.80	-
Subtotal	47,952,902.10	10,696,555.63	8,545,104.82	50,104,352.91	2,106,548.63
Other liabilities:					
Compensated absences	3,647,329.05	2,082,972.00	1,825,677.56	3,904,623.49	579,704.76
Due to grantors	1,439,938.97	-	229,807.86	1,210,131.11	-
Unearned revenue	3,712,822.80	4,219,776.78	3,539,405.39	4,393,194.19	4,253,194.19
Subtotal	8,800,090.82	6,302,748.78	5,594,890.81	9,507,948.79	4,832,898.95

Total long-term liabilities	$56,752,992.92	$16,999,304.41	$14,139,995.63	$59,612,301.70	$ 6,939,447.58

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 2% to 5%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to November 2033 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations; see Note 9 for further details. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the statement of net position is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was $2,297,022.88 at June 30, 2014.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2014, are as follows:

Year Ending June 30	Principal	Interest	Total
2015	$ 2,106,548.63	$ 1,972,208.12	$ 4,078,756.75
2016	2,195,054.15	1,885,085.80	4,080,139.95
2017	2,291,919.63	1,789,711.92	4,081,631.55
2018	2,395,221.83	1,691,792.10	4,087,013.93
2019	2,503,788.84	1,584,779.40	4,088,568.24
2020 – 2024	13,583,276.11	6,073,909.13	19,657,185.24
2025 – 2029	12,683,424.17	3,184,034.58	15,867,458.75
2030 – 2034	4,239,544.23	560,323.34	4,799,867.57
Total	$41,998,777.59	$18,741,844.39	$ 60,740,621.98

TSSBA Debt – Revolving Credit Facility

The Tennessee State School Bond Authority (TSSBA) receives loans from the revolving credit facility to finance the costs of various capital projects during the construction phase. When projects are placed in service, TSSBA issues long-term, fixed-rate debt to finance the project over its useful payback period and repays the revolving credit facility debt. The amount issued for projects at the university was $4,217,540.80 at June 30, 2014.

Prior to March 20, 2014, TSSBA issued short-term debt in the form of commercial paper. Since March 20, 2014, TSSBA has used the revolving credit facility.

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

Note 8. Endowments

If a donor has not provided specific instructions to the university, state law permits the university to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the university is required to consider 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 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, 2014, net appreciation of $189,119.85 is available to be spent, of which $8,301.38 is included in restricted net position expendable for scholarships and fellowships, $6,616.80 is included in restricted net position expendable for instructional departmental uses, $38,251.61 is included in restricted net position expendable for loans, $10,067.32 is included in restricted net position expendable for other, and $125,882.74 is included in unrestricted net position.

Note 9. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $41,998,777.59 in revenue bonds issued from June 2005 to November 2013 (see Note 7 for further detail). Proceeds from the bonds provided financing for student housing and energy upgrades. The bonds are payable through 2033. Annual principal and interest payments on the bonds are expected to require 2.53% of available revenues. The total principal and interest remaining to be paid on the bonds is $60,740,621.98. Principal and interest paid for the current year and total available revenues were $3,784,445.60 and $161,337,653.64, respectively.

Note 10. Pension Plans

Defined Benefit Plans

Tennessee Consolidated Retirement System

Plan description – The State of Tennessee provides a pension plan that covers state and higher education employees. That plan is a part of the Public Employee Retirement Plan, an agent 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 the Public Employee Retirement Plan. That report is available on the state's website at www.treasury.tn.gov/tcrs.

Funding policy – Plan members are noncontributory. The university is required to contribute at an actuarially determined rate. The current rate is 15.03% of annual covered payroll. Contribution requirements for the university are established and may be amended by the TCRS' Board of Trustees.

Annual pension cost – For the year ended June 30, 2014, the university's contributions equaled the annual pension cost of $4,271,544.46.

Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2014	$4,271,544.46	100%	$0
June 30, 2013	$3,817,723.28	100%	$0
June 30, 2012	$3,667,032.54	100%	$0

Additional information – Information about the funded status of the plan as of the most recent valuation date, information about the actuarial methods and assumptions used in the valuations, and required supplementary information is available in the *Tennessee Comprehensive Annual Financial Report*. A copy of that report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Defined Contribution Plans

Optional Retirement Plans

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

Funding policy – Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contributions made by the university to the plans were $3,667,921.24 for the year ended June 30, 2014, and $3,444,874.54 for the year ended June 30, 2013. Contributions met the requirements for each year.

Note 11. 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*, for the State Employee Group Plan and Section 8-27-701, *Tennessee Code Annotated*, for the Medicare Supplement Plan. Prior to reaching age 65, all members have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare Supplement Plan for the university's eligible retirees; see Note 18. The plans are reported in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Special Funding Situation

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

Funding Policy

The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. The plan's claims liabilities are periodically computed using actuarial and statistical techniques to establish premium rates. The plan's administrative costs are allocated to plan participants. Retirees in the State Employee Group Plan pay the same base premium, adjusted for years of service, as active employees. Retirees with 30 years of service are subsidized 80%; retirees with 20 years of service but less than 30 years of service, 70%; and retirees with less than 20 years of service, 60%. Retirees in the Medicare Supplement Plan have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; retirees with 20 years of service but less than 30 years of service, $37.50; and retirees with 15 years of service but less than 20 years of service, $25.

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

Annual required contribution (ARC)	$1,656,000.00
Interest on the net OPEB obligation	261,720.70
Adjustment to the ARC	(254,979.05)
Annual OPEB cost	1,662,741.65
Amount of contribution	(1,302,999.27)
Increase in net OPEB obligation	359,742.38
Net OPEB obligation – beginning of year	6,543,017.46
Net OPEB obligation – end of year	$6,902,759.84

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2014	State Employee Group Plan	$1,662,741.65	78.36%	$6,902,759.84
June 30, 2013	State Employee Group Plan	$1,973,703.45	63.03%	$6,543,017.46
June 30, 2012	State Employee Group Plan	$1,953,179.34	69.27%	$5,813,405.14

Funded Status and Funding Progress

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

State Employee Group Plan

Actuarial valuation date	July 1, 2013
Actuarial accrued liability (AAL)	$15,220,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$15,220,000.00
Actuarial value of assets as a percentage of the AAL	0.0%
Covered payroll (active plan members)	$53,779,701.96
UAAL as percentage of covered payroll	28.30%

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, 2013, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.5% initially. The rate decreased to 7.0% in fiscal year 2015 and then reduces by decrements to an ultimate rate of 4.19% in fiscal year 2044. All rates include a 2.5% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3.0%.

Note 12. Insurance-related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, builder's risk (for construction projects starting prior to July 1, 2012), and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012; thus, builder's risk is no longer covered by the Risk Management Fund. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of $10 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the $10 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The university participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2014, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. 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, 2014, the Risk Management Fund held $116.3 million in cash designated for payment of claims.

At June 30, 2014, the scheduled coverage for the university was $619,389,000.00 for buildings and $114,497,600.00 for contents.

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

Note 13. Commitments and Contingencies

Sick Leave

The university records the cost of sick leave when paid. The dollar amount of unused sick leave was $28,822,843.60 at June 30, 2014.

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 $114,165.61 and expenses for personal property were $326,224.13 for the year ended June 30, 2014. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2014, outstanding commitments under construction contracts totaled $5,535,318.45 for steam plant conversion, residence hall renovations, and Tech Village renovations, of which $2,111,402.65 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 14. Chairs of Excellence

The university had $6,353,132.24 on deposit at June 30, 2014, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

Note 15. Funds Held in Trust by Others

The university is a beneficiary under the William Jenkins Estate Account. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received $4,693.12 from these funds during the year ended June 30, 2014.

Note 16. Natural Classification With Functional Classifications

The university's operating expenses for the year ended June 30, 2014, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 39,670,085.97	$14,346,209.83	$ 8,495,865.08	$ -	$ -	$ 62,512,160.88
Research	4,476,939.57	1,425,182.89	2,369,481.25		-	8,271,603.71
Public service	2,234,776.54	787,874.08	1,872,270.94	-	-	4,894,921.56
Academic support	8,377,096.38	3,272,426.68	(1,497,356.86)	-	-	10,152,166.20
Student services	7,427,890.39	3,025,248.37	6,717,198.65	-	-	17,170,337.41
Institutional support	7,895,292.94	3,273,428.57	3,031,689.84	-	-	14,200,411.35
Maintenance & operation	2,568,513.83	1,374,426.42	13,092,336.62	-	-	17,035,276.87
Scholarships & fellowships	-	-	-	13,782,529.92	-	13,782,529.92
Auxiliary	2,171,524.53	711,761.16	4,048,179.54	-	-	6,931,465.23

Depreciation	-	-	-	-	7,853,014.50	7,853,014.50
Total	$74,822,120.15	$28,216,558.00	$38,129,665.06	$ 13,782,529.92	$ 7,853,014.50	$ 162,803,887.63

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 $5,148,873.31 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 17. Affiliated Entities Not Included

The Tennessee Technological University Agricultural Foundation is a private, nonprofit foundation with the university as the primary beneficiary. The 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, 2013, the assets of the foundation totaled $681,981.18, and the net position amounted to $681,981.18.

The Bryan Symphony Orchestra Association at Tennessee Technological University, Inc. (BSOA) is a nonprofit 501(c)(3) organization controlled by a board independent of the university. The mission of the BSOA is to provide an orchestra of the highest artistic standards, to provide educational experiences for a diverse audience, and to serve as a leader and a continuing force in the Upper Cumberland region. BSOA provides support to the Bryan Symphony Orchestra jointly with Tennessee Technological University. The financial records and transactions are handled external to the university. These amounts are not included in the university's financial report.

The Friends of the Appalachian Center for Crafts of Tennessee (FACCT) is a nonprofit 501(c)(3) that promotes and supports educational art and craft outreach activities. FACCT is controlled by a board independent of the university. FACCT provides non-monetary support to the Tennessee Technological University Craft Center through marketing and other promotional activities. The financial records and transactions are handled external to the university. These amounts are not included in the university's financial report.

Note 18. On-behalf Payments

During the year ended June 30, 2014, the State of Tennessee made payments of $128,684.00 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 11. The plan is reported in the *Tennessee Comprehensive Annual Financial Report.* That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Note 19. 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 22-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, 2014, the foundation made distributions of $767,913.63 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Tennessee Technological University, Office of the Vice President for Planning and Finance, P.O. Box 5037, Cookeville, TN 38505.

Cash and Cash Equivalents

In addition to demand deposits and petty cash on hand, this classification includes instruments that are readily convertible to known amounts of cash and that have original maturities of three months or less. At June 30, 2014, cash and cash equivalents consisted of $4,376,291.27 in the Local Government Investment Pool administered by the State Treasurer and $11,436,683.16 in custodial accounts of investment managers of the foundation.

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, 2014, 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	$ 13,975.00	$ -	$ -	$13,975.00	$ -
Corporate stock	27,112,931.19	-	-	-	27,112,931.19
Corporate bonds	3,327,609.12	1,574,941.12	1,752,668.00	-	-

Mutual bond funds	4,585,431.16	-	-	-	4,585,431.16
Mutual equity funds	4,689,098.03	-	-	-	4,689,098.03
Land	154,000.00	-	-	-	154,000.00
Other:					
Cash surrender value life insurance	17,386.54	-	-	-	17,386.54
Exchange traded funds	3,262,423.00	-	-	-	3,262,423.00
Private equity	538,054.00	-	-	-	538,054.00
Natural resources	176,180.00	-	-	-	176,180.00
Hedge fund	7,828,664.03	-	-	-	7,828,664.03
Total investments	$51,705,752.07	$1,574,941.12	$1,752,668.00	$13,975.00	$48,364,167.95

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. The 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. The foundation has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations. Securities are rated using Standard and Poor's, Moody's Investors Service, and/or Fitch Ratings and are presented below using the Standard and Poor's rating scale.

At June 30, 2014, the foundation's investments were rated as follows:

		Credit Quality Rating		
Investment Type	Fair Value	A	BBB	Unrated
LGIP	$ 4,376,291.27	$ -	$ -	$4,376,291.27
Corporate bonds	3,327,609.12	1,490,697.00	1,836,912.12	-
Mutual bond funds	4,585,431.16	-	-	4,585,431.16
Total	$12,289,331.55	$1,490,697.00	$1,836,912.12	$8,961,722.43

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

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

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

Investments	Fair Value June 30, 2014
Local Government Investment Pool	$ 4,376,291.27
Investment manager custodial accounts	11,264,276.56
Corporate stocks	26,804,967.59
Corporate bonds	3,327,609.12
Mutual funds	9,195,365.28
Other:	
Private equity funds	538,054.00
Natural resources fund	176,180.00
Exchange traded funds	3,262,423.00
Hedge funds	7,828,664.03
Total	$66,773,830.85

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, 2014, each having a fair value of $115.945985, 478,241.0710 units were owned by permanent endowments, 13,466.2293 units were owned by quasi-endowments, and 84,197.3401 units were owned by non-endowment operating accounts.

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

FY 2014	Pooled Assets			
	Fair Value	Cost	Net Gains (Losses)	Fair Value Per Unit
End of year	$66,773,830.85	$61,433,767.93	$5,340,062.92	$115.945985
Beginning of year	$58,920,975.28	$55,495,689.35	3,425,285.93	110.033151
Change in unit value				$5.912834
Unrealized net gains/(losses)			1,914,776.99	
Realized net gains/(losses)			-	
Total net gains/(losses)			$1,914,776.99	

The average annual earnings per unit, exclusive of net gains/(losses), were $9.267576 for the year ended June 30, 2014.

Alternative Investments

The foundation had investments in two hedge funds, a private equity fund, and a natural resources fund. The estimated fair value of these assets was $8,542,898.03 at June 30, 2014. The largest two funds are hedge fund portfolios representing 91.6% of portfolio assets.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2014. 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 largest of the four funds, accounting for 68% of the fair value of the fund portfolio, includes investments for which the fair values are estimated using an industry-recognized pricing service. The second largest fund's investments represent 23.6% of the fair value of the fund portfolio. The two remaining private equity and natural resources funds represent 8.4% of the fund portfolio fair values. These three funds' fair values are estimated using various valuation techniques. At June 30, 2014, the three smaller funds' investments were valued at the net asset values as determined by the portfolio managers. The funds are issued audited financial statements on a calendar-year basis. Using those audited fair values as a beginning point, valuations are adjusted for net capital activity and marketplace considerations to ascertain the reasonableness of estimated fair values provided by the portfolio managers.

Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 240,354.71	$ 399,697.28	$ -	$236,799.50	$ 403,252.49
Buildings	-	728,692.30	-	-	728,692.30
Intangible assets	261,685.25	-	-	-	261,685.25
Projects in progress	50,056.62	31,312.67	-	81,369.29	-
Total	552,096.58	1,159,702.25	-	318,168.79	1,393,630.04
Less accumulated depreciation/amortization					
Buildings	-	7,590.54	-	-	7,590.54
Intangible assets	235,516.77	26,168.48	-	-	261,685.25
Total	235,516.77	33,759.02	-	-	269,275.79
Capital assets, net	$ 316,579.81	$1,125,943.23	$ -	$318,168.79	$ 1,124,354.25

Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Notes	$376,851.95	$750,000.00	$82,222.20	$1,044,629.75	$161,774.28

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 was $294,629.75 at June 30, 2014.

The foundation borrowed funds to purchase the alumni building. The note bears an annually adjusted interest rate of the lowest prime rate as published in the Wall Street Journal. The rate was 3.25% at June 30, 2014. A minimum annual debt service of $100,000 is due through 2017. The remaining balloon payment is due in December 2018. The balance owed was $750,000 at June 30, 2014.

Debt service requirements to maturity for notes payable at June 30, 2014, are as follows:

Year Ending June 30	Principal	Interest	Total
2015	$ 161,774.28	$20,447.92	$ 182,222.20
2016	159,450.25	22,771.95	182,222.20
2017	162,018.12	20,204.08	182,222.20
2018	130,524.57	17,438.58	147,963.15
2019	430,862.53	14,634.37	445,496.90
Total	$1,044,629.75	$95,496.90	$1,140,126.65

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.

Funds Held in Trust by Others

The foundation is beneficiary under the CTC Charitable Lead Trust, the Odom Family Trust, and Odom 2nd Chance Trust. The underlying assets are not considered assets of the foundation and are not included in the foundation's financial statements. The foundation received $94,426.27 from these funds during the fiscal year ended June 30, 2014.

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

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, 2013	State Employee Group Plan	$ -	$15,220,000.00	$15,220,000.00	0%	$53,779,701.96	28.30%
July 1, 2011	State Employee Group Plan	$ -	$17,870,000.00	$17,870,000.00	0%	$48,082,261.00	37.17%
July 1, 2010	State Employee Group Plan	$ -	$19,836,000.00	$19,836,000.00	0%	$49,518,539.00	40.06%

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, 2014

Cash Flows From Operating Activities	
Gifts and contributions	$ 1,946,501.87
Payments to suppliers and vendors	(1,698,182.56)
Payments for scholarships and fellowships	(1,574,231.50)
Payments to Tennessee Technological University	(623,731.45)
Other receipts (payments)	562,708.69
Net cash used by operating activities	(1,386,934.95)
Cash Flows From Noncapital Financing Activities	
Private gifts for endowment purposes	1,097,435.30
Other non-capital financial receipts (payments)	900.00
Net cash provided by noncapital financing activities	1,098,335.30
Cash Flows From Capital and Related Financing Activities	
Proceeds from capital debt	750,000.00
Capital grants and gifts received	1,013,520.00
Proceeds from sale of capital assets	219,043.20
Purchases of capital assets and construction	(1,018,873.19)
Principal paid on capital debt	(82,222.20)
Other capital and related financing receipts (payments)	(3,288.89)
Net cash provided by capital and related financing activities	878,178.92
Cash Flows From Investing Activities	
Proceeds from sales and maturities of investments	17,113,459.19
Income on investments	5,403,082.24
Purchases of investments	(18,530,705.26)
Net cash provided by investing activities	3,985,836.17
Net increase in cash and cash equivalents	4,575,415.44
Cash and cash equivalents - beginning of year	11,237,558.99
Cash and cash equivalents - end of year	$ 15,812,974.43
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	$ (1,514,678.99)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	33,759.02
Gifts in-kind	144,182.18
Other adjustments	(2,446.51)
Changes in assets and liabilities:	
Prepaid items	(43,307.60)
Accounts payable	(4,443.05)
Net cash used by operating activities	$ (1,386,934.95)
Noncash investing, capital, or financing transactions	
Gifts in-kind - capital	$ 173,056.00
Unrealized gainson investments	$ 1,874,980.96
Loss on disposal of capital assets	$ (2,231.00)

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

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

We have audited the financial statements of Tennessee Technological University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated December 4, 2014. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of This Report

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

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
December 4, 2014