



Middle Tennessee State University

# Financial Report

for the year ended June 30, 2011

**MIDDLE  
TENNESSEE**  
STATE UNIVERSITY

*Tennessee's Best*

**Middle Tennessee State University**

**FINANCIAL REPORT**  
**For the Year Ended June 30, 2011**





**Office of the President**

Middle Tennessee State University  
110 Cope Administration Building  
Murfreesboro, Tennessee 37132  
615-898-2622  
FAX: 615-898-2507



October 14, 2011

Mr. John Morgan, Chancellor  
Tennessee Board of Regents  
1415 Murfreesboro Road, Suite 350  
Nashville, TN 37217

Dear Chancellor Morgan:

Enclosed is the annual Financial Report for the fiscal year ended June 30, 2011. This report has been prepared in accordance with Generally Accepted Accounting Principles.

Sincerely,

A handwritten signature in black ink, appearing to read "Sidney A. McPhee".

Sidney A. McPhee  
President

SAM:fr

Enclosures



**Senior Vice President**

119 Cope Administration Building  
Middle Tennessee State University  
1301 East Main Street  
Murfreesboro, Tennessee 37132  
Office: 615-898-2852 • Fax: 615-898-5906



October 18, 2011

Dr. Sidney A. McPhee  
President  
Middle Tennessee State University  
Murfreesboro, TN 37132

Dear Dr. McPhee:

I am transmitting the annual Financial Report for the fiscal year ended June 30, 2011.

This report has been prepared in accordance with Generally Accepted Accounting Principles. The Financial Report has not been audited. The last audit by the State Comptroller's Office was completed as of June 30, 2010. An audit is currently in progress for fiscal year ended June 30, 2011.

Sincerely,

A handwritten signature in black ink, appearing to read "John W. Cothorn", written over a large, stylized loop that extends to the left and then across the top of the signature.

John W. Cothorn  
Senior Vice President

Enclosures





**MIDDLE TENNESSEE STATE UNIVERSITY**  
**FINANCIAL REPORT**  
for Year Ended June 30, 2011

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1011-302 – Middle Tennessee State University is an AA/EEO employer and does not discriminate on the basis of race, color, national origin, sex, disability or age in its program and activities. The following person has been designated to handle inquiries regarding the non-discrimination policies: Executive Director of Institutional Equity and Compliance, 1301 E. Main Street, CAB 220, Murfreesboro, TN 37132, 615-898-2185.



**MIDDLE TENNESSEE STATE UNIVERSITY**  
**Management's Discussion and Analysis**  
**for the Year Ended June 30, 2011**

This section of Middle Tennessee State University's annual financial report presents a discussion and analysis of the financial performance of the University during the fiscal year ended June 30, 2011, with comparative information presented for the fiscal year ended June 30, 2010. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

### **Using This Annual Report**

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

### **The Statement of Net Assets**

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

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



**Middle Tennessee State University  
Statement of Net Assets  
(In thousands of dollars)**

	2011	2010
<b>Assets</b>		
Current assets	\$ 92,766	\$ 66,568
Capital assets, net	360,963	312,113
Other assets	93,072	87,881
<b>Total Assets</b>	<b>\$ 546,801</b>	<b>\$ 466,562</b>
<b>Liabilities</b>		
Current liabilities	\$ 47,484	\$ 45,301
Noncurrent liabilities	201,886	179,419
<b>Total Liabilities</b>	<b>\$ 249,370</b>	<b>\$ 224,720</b>
<b>Net Assets</b>		
Invested in capital assets, net of debt	\$ 174,660	\$ 148,272
Restricted - expendable	5,240	19,712
Restricted - nonexpendable	815	739
Unrestricted	116,716	73,119
<b>Total Net Assets</b>	<b>\$ 297,431</b>	<b>\$ 241,842</b>

The University had the following significant changes between fiscal years on the Statement of Net Assets:

- ◆ Current assets, along with the corresponding increase in unrestricted net assets, increased as a result of permanent base budget cuts across campus. These cuts were made in anticipation of the planned funding cuts by the state starting in 2011–12. The University received stimulus funds and one-time non-recurring operating appropriations over the past couple of fiscal years which helped administration plan for the reduced funding.
- ◆ The increase in net capital assets, along with the corresponding increase in invested in capital assets (net of debt), between fiscal years is a result of additions to the University’s capitalized assets. This increase was mainly to the projects in progress category and related to the following projects: new student union building, college of education building, University housing renovations, dairy farm improvements, phase I of the parking and transportation project, an energy management system, an interoperable digital radio system, and additional campus lighting. More detailed information about the University’s capital assets is presented in the Capital Asset and Debt Administration section of this report.
- ◆ Noncurrent liabilities increased due to the issuance of commercial paper by the Tennessee State School Bond Authority (TSSBA) on behalf of the University for various capital projects. More detailed information about the University’s debt is presented in the Capital Asset and Debt Administration section of this report.

- ◆ The restricted–expendable section of Net Assets decreased as a result of reclassifying four account balances from restricted expendable – debt service to unrestricted net assets. These balances have resulted from the accumulation of debt service fees collected in prior and current fiscal years over the amount needed to pay the current year’s principal and interest payments. Since these funds will not be used to pay the annual debt requirements on these projects and there are not outside restrictions on the use of these funds, they have been reclassified appropriately as unrestricted net assets.
- ◆ The increase in unrestricted net assets resulted from the increase in current assets and the reclassification from restricted – expendable net assets as described above.

**Component Unit  
Statement of Net Assets  
(in thousands of dollars)**

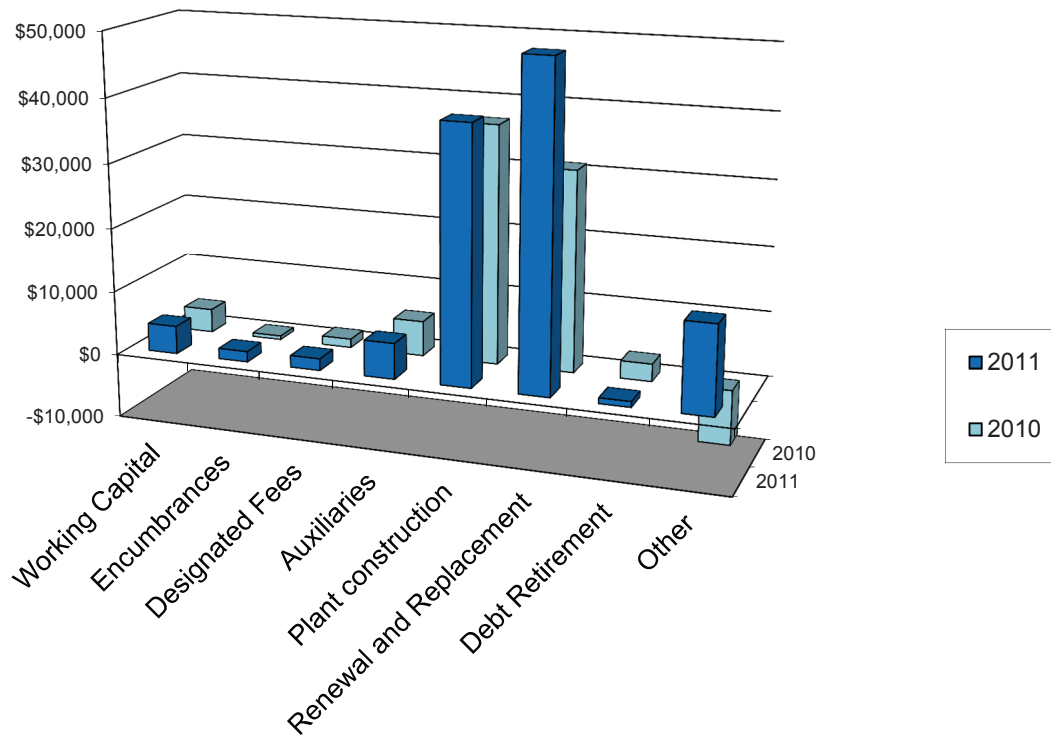
	2011	2010
<b>Assets</b>		
Current assets	\$ 1,253	\$ 1,295
Capital assets, net	18,558	19,001
Other assets	54,591	44,444
<b>Total Assets</b>	<b>\$ 74,402</b>	<b>\$ 64,740</b>
<b>Liabilities</b>		
Current liabilities	\$ 474	\$ 314
Noncurrent liabilities	-	-
<b>Total Liabilities</b>	<b>\$ 474</b>	<b>\$ 314</b>
<b>Net Assets</b>		
Invested in capital assets, net of debt	\$ 18,558	\$ 19,001
Restricted - expendable	25,151	16,795
Restricted - nonexpendable	29,818	28,757
Unrestricted	401	(127)
<b>Total Net Assets</b>	<b>\$ 73,928</b>	<b>\$ 64,426</b>

The component unit had the following significant change between fiscal years on the Statement of Net Assets:

- ◆ Other assets increased primarily due to an increase in fair market values of investments from a more favorable economic outlook and an increase in non-endowment gifts. This recent fundraising success is attributed to increases in enrollment and larger alumni bases, along with improvements in the nation’s economy. As a result, restricted-expendable net assets also increased between fiscal years.
- ◆ Unrestricted net assets increased as a result of improvements in the nation’s economy as well. As required by the accounting standards board, any endowment account where the fair market value is less than the historical dollar value of the investment must be

reclassified from restricted-nonexpendable to unrestricted net assets. With the improved market conditions, fewer account balances were reclassified as underwater this fiscal year.

### Allocations of Unrestricted Net Assets (University)



Many of the University's unrestricted net assets have been designated for specific purposes such as repairs and replacement of equipment, future debt service, quasi-endowments, capital projects, and student loans. The following graph shows the allocations (in thousands of dollars).

- ◆ Allocations for renewal and replacement increased as a result of reclassifying four account balances from restricted expendable – debt service to unrestricted net assets. These balances have resulted from the accumulation of debt service fees collected in prior and the current fiscal years over the amount needed to pay the current year's principal and interest payments. Since these funds will not be used to pay the annual debt requirements on these projects and there are not outside restrictions on the use of these funds, they have been reclassified appropriately as unrestricted net assets.
- ◆ Allocations for other unrestricted net assets increased due to actions taken to position the University for the future. Permanent base budget reductions are awaiting the University in the 2011–12 fiscal year. The University was proactive in determining which areas to cut and, therefore, created budget savings in the 2010–11 fiscal year. These funds will be used in the future for one-time nonrecurring campus projects. This process has allowed the University to create a base budget that will be in line with the reduced state funding.
- ◆ The remaining allocations remained relatively unchanged.

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

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

### Middle Tennessee State University Statement of Revenues, Expenses, and Changes in Net Assets (in thousands of dollars)

	<u>2011</u>	<u>2010</u>
<b>Operating revenues</b>		
Net tuition and fees	\$ 110,695	\$ 100,725
Auxiliaries	30,475	29,522
Grants and contracts	30,779	31,424
Other	14,685	13,420
<b>Total operating revenues</b>	<u>\$ 186,634</u>	<u>\$ 175,091</u>
Operating expenses	\$ 329,675	\$ 317,936
<b>Operating loss</b>	<u>\$(143,041)</u>	<u>\$(142,845)</u>
<b>Nonoperating revenues and expenses</b>		
State appropriations	\$ 100,986	\$ 83,893
Gifts	1,244	740
Grants and contracts	89,605	93,219
Investment income	1,095	1,151
Other revenues and expenses	(6,568)	(6,973)
<b>Total nonoperating revenues and expenses</b>	<u>\$ 186,362</u>	<u>\$ 172,030</u>
<b>Income (loss) before other revenues, expenses, gains, or losses</b>	\$ 43,321	\$ 29,185
<b>Other revenues, expenses, gains, or losses</b>		
Capital appropriations	\$ 12,031	\$ 11,454
Capital grants and gifts	237	119
Other	-	-
<b>Total revenues, expenses, gains, or losses</b>	<u>\$ 12,268</u>	<u>\$ 11,573</u>
<b>Increase (decrease) in net assets</b>	\$ 55,589	\$ 40,758
Net assets at beginning of year	241,842	201,084
<b>Net assets at end of year</b>	<u>\$ 297,431</u>	<u>\$ 241,842</u>

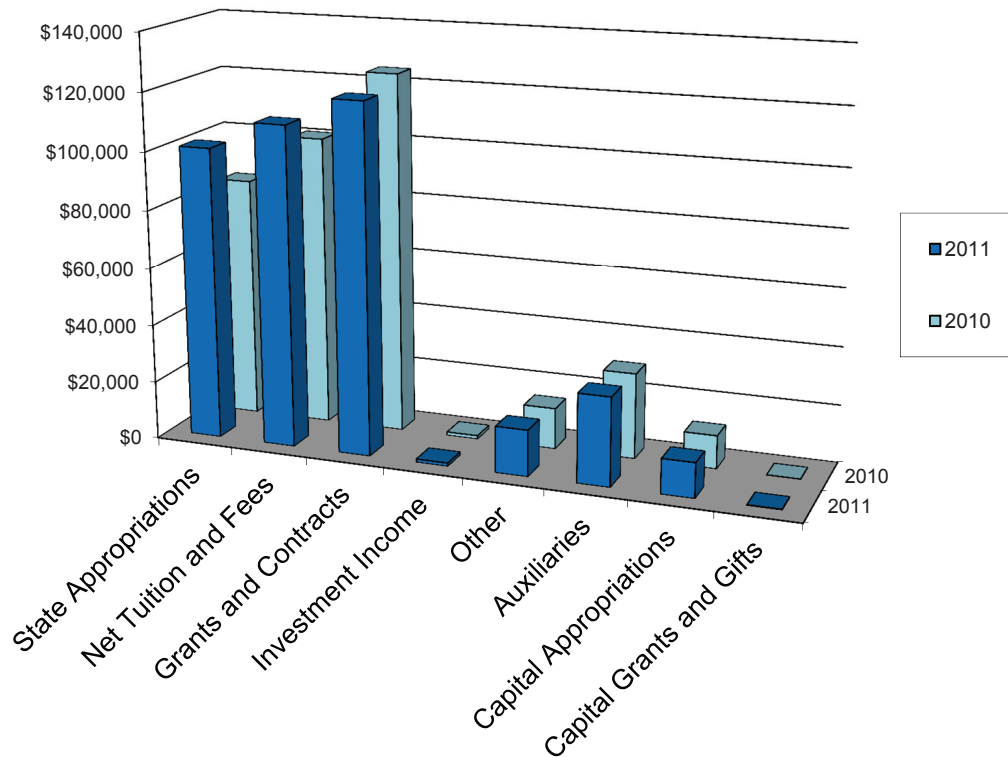
**Component Unit**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
(in thousands of dollars)

	<u>2011</u>	<u>2010</u>
<b>Operating revenues</b>		
Gifts	\$ 8,159	\$ 5,774
Endowment Income	1,256	584
Grants and contracts	17	18
Other	59	12
<b>Total operating revenues</b>	<u>\$ 9,491</u>	<u>\$ 6,388</u>
Operating expenses	<u>\$ 4,932</u>	<u>\$ 4,100</u>
<b>Operating income (loss)</b>	<u>\$ 4,559</u>	<u>\$ 2,288</u>
<b>Nonoperating revenues and expenses</b>		
Investment income	\$ 4,054	\$ 2,297
Other revenues and expenses	(6)	(7)
<b>Total nonoperating revenues and expenses</b>	<u>\$ 4,048</u>	<u>\$ 2,290</u>
<b>Income (loss) before other revenues, expenses, gains, or losses</b>	\$ 8,607	\$ 4,578
<b>Other revenues, expenses, gains, or losses</b>		
Capital grants and gifts	\$ 148	\$ -
Additions to permanent endowments	747	1,350
<b>Total revenues, expenses, gains, or losses</b>	<u>\$ 895</u>	<u>\$ 1,350</u>
<b>Increase (decrease) in net assets</b>	\$ 9,502	\$ 5,928
Net assets at beginning of year	<u>64,426</u>	<u>58,498</u>
<b>Net assets at end of year</b>	<u><u>\$ 73,928</u></u>	<u><u>\$ 64,426</u></u>

## Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the University's operating activities for the year ended June 30, 2011, and June 30, 2010 (amounts are presented in thousands of dollars).

### Revenues by Source (University)

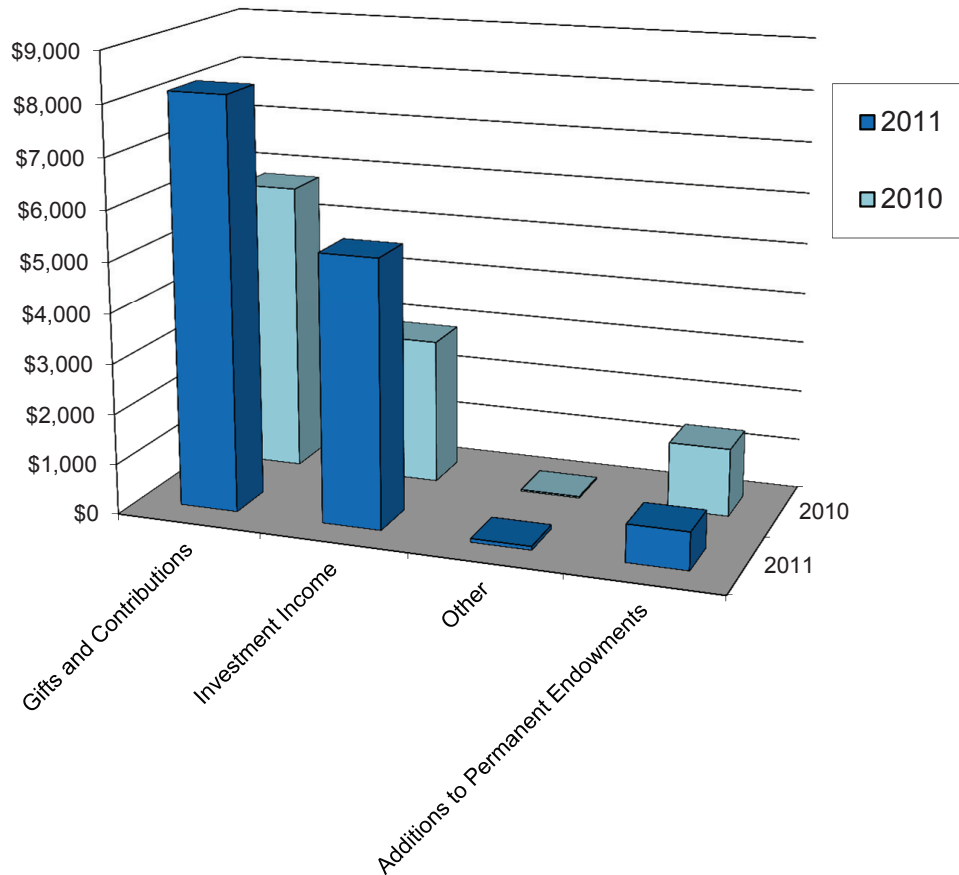


The University had the following significant changes in revenues between fiscal years:

- ◆ State appropriations increased as a result of one-time non-recurring funding provided by the State of Tennessee for the fiscal year. This funding was provided as temporary measure while schools planned for permanent reductions in base budgets starting next year.
- ◆ Tuition and fees increased due to a 5% fee increase and a 4.2% increase in enrollment.
- ◆ Non-operating grants and contracts increased as a result of an increase in the University's federal PELL award and an increase in the amount of scholarships from the Tennessee Education Lottery Scholarship (TELS) Program.



### Revenues by Source (Component Unit)



The component unit had the following significant changes in revenues between fiscal years:

- ◆ Gifts, along with additions to permanent endowments, decreased during the fiscal year as a result of current economic conditions. Also, the upgrades to the baseball facility were completed during the year, resulting in fewer contributions.
- ◆ The decrease in investment income is primarily due to unrealized losses resulting from the decrease in the fair market value of invested assets.

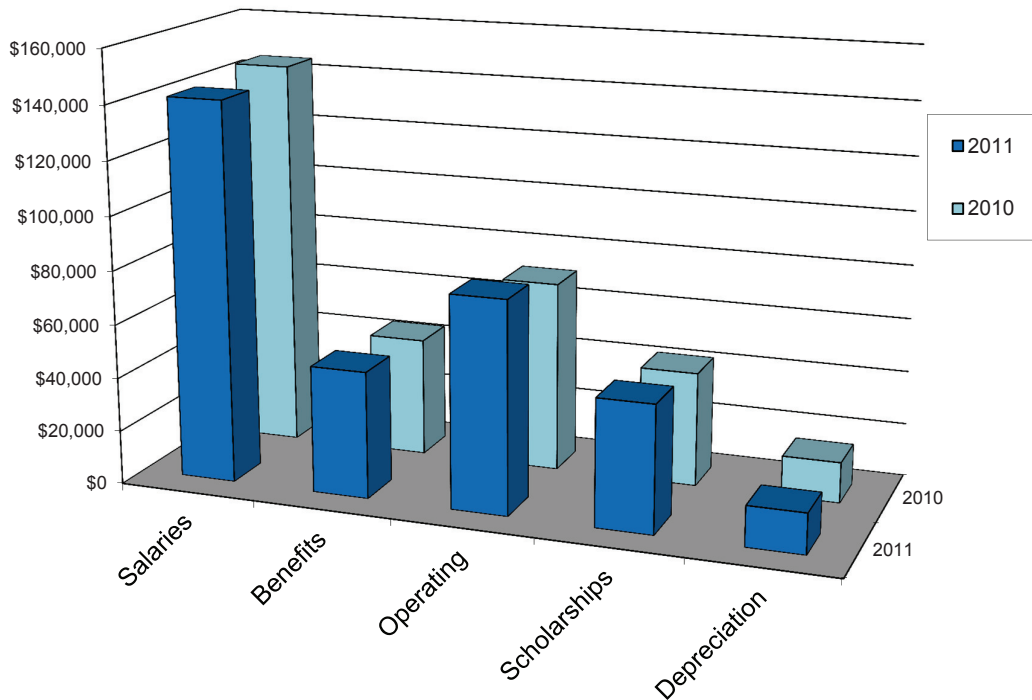
## Expenses

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

### Middle Tennessee State University Natural Classification (in thousands)

	2011	2010
Salaries	\$141,306	\$144,947
Benefits	47,230	44,315
Operating	78,885	70,921
Scholarships	47,208	42,593
Depreciation	15,045	15,160
<b>TOTAL</b>	<b>\$329,674</b>	<b>\$317,936</b>

Expenses by Natural Classification (University)



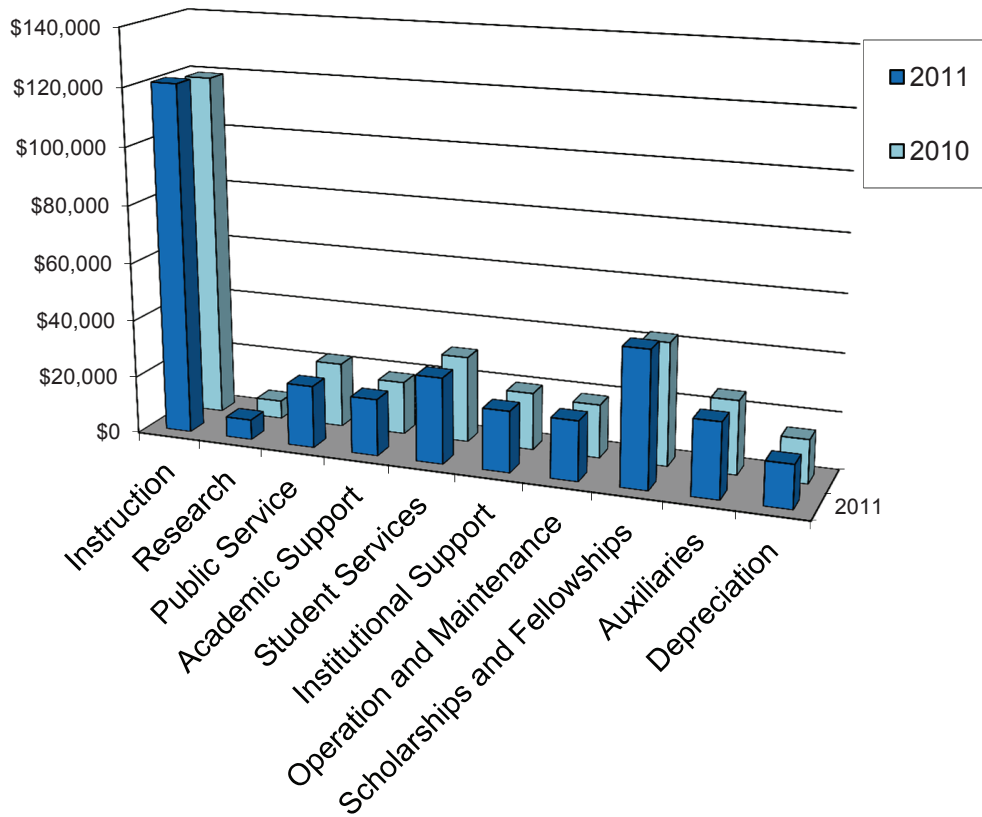
The University had the following significant changes in expenses between fiscal years:

- ◆ Salaries decreased primarily due to the University's Voluntary Buyout Program offered to employees in the prior fiscal year. Employees were offered the plan during the prior fiscal year and had to depart the University by June 30, 2010. Many of these positions remain unfilled as part of the University's permanent budget cuts.
- ◆ Employee benefits increased as a result of the State not requiring payments into the State insurance pool during the months of December 2009 and January 2010. During the current fiscal year, payments were made into the State insurance pool for all twelve months.
- ◆ Operating expenses increased as a result of more maintenance-type capital project expenses during the fiscal year. Projects incurring these type expenses related to roof replacements, desktop computer replacements, HVAC system updates, and various other non-capitalized activities. Many of these projects were funded with federal stimulus dollars received through the State.
- ◆ Scholarship expenses increased due to increased funding from the TELS program and federal scholarship award programs.

**Middle Tennessee State University  
Program Classification  
(in thousands of dollars)**

	<u>2011</u>	<u>2010</u>
Instruction	\$121,151	\$119,267
Research	6,984	6,291
Public Service	21,637	22,397
Academic Support	19,713	18,386
Student Services	29,859	29,882
Institutional Support	21,203	19,849
Operation and Maintenance	20,765	18,553
Scholarships and Fellowships	47,208	42,593
Auxiliaries	26,109	25,558
Depreciation	15,045	15,160
TOTAL	<u>\$329,674</u>	<u>\$317,936</u>

**Expenses by Program Classification (University)**



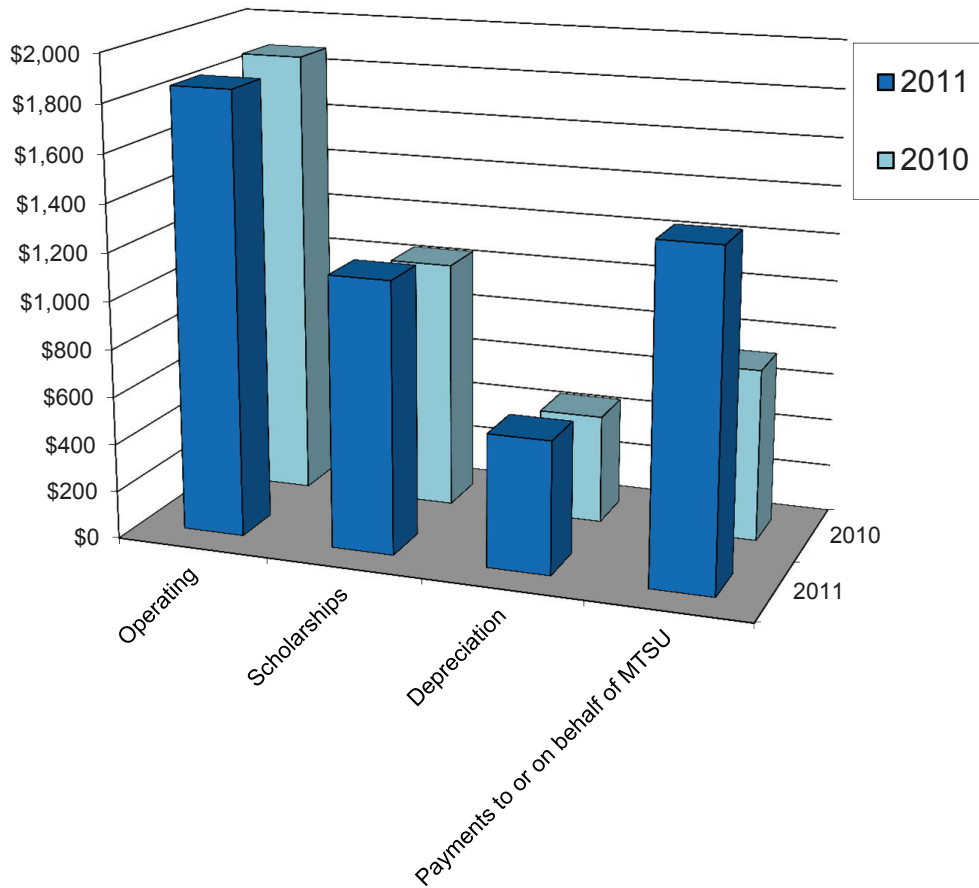
The University had the following significant changes in program expenses between fiscal years:

- ◆ Operation and maintenance of plant increased as a result of the explanation provided above for the increase in operating expenses.
- ◆ Scholarship expenses increased due to increased funding from the TELS program and federal scholarship award programs.
- ◆ Expenditures in other areas remained relatively unchanged.

**Component Unit  
Natural Classification  
(in thousands)**

	<u>2011</u>	<u>2010</u>
Operating	\$1,851	\$1,880
Scholarships	1,137	1,043
Depreciation	556	455
Payments to or on behalf of MTSU	1,388	722
<b>TOTAL</b>	<b><u>\$4,932</u></b>	<b><u>\$4,100</u></b>

**Expenses by Natural Classification (Component Unit)**



The component unit had the following significant change in expenses between fiscal years:

- ◆ Operating expenses for the component unit fluctuate from year to year based on the amount of requests received from University departments to purchase items to support University functions.
- ◆ Payments to or on behalf of MTSU decreased for the year. In 2008, funds were transferred to the University for the Baseball Stadium Upgrade Project. Contributions were made to the foundation with a designation that the funds be used for the baseball stadium project.

## Capital Asset and Debt Administration

### Capital Assets—University

Middle Tennessee State University had \$361.0 million invested in capital assets, net of accumulated depreciation of \$188.8 million at June 30, 2011; and \$312.1 million invested in capital assets, net of accumulated depreciation of \$176.2 million at June 30, 2010. Depreciation charges totaled \$15.0 million and \$15.2 million for the years ended June 30, 2011, and June 30, 2010, respectively. Details of these assets are shown below.

**Middle Tennessee State University  
Schedule of Capital Assets, Net of Depreciation  
(in thousands of dollars)**

	<u>2011</u>	<u>2010</u>
Land	\$ 12,344	\$ 11,609
Land improvements and infrastructure	17,123	18,866
Buildings	170,705	178,391
Equipment	18,854	14,739
Library holdings	8,448	8,832
Intangible assets	2,201	2,357
Projects in progress	131,288	77,319
<b>Total</b>	<b><u>\$360,963</u></b>	<b><u>\$312,113</u></b>



Highlights of the information presented on the Schedule of Capital Assets for the University are as follows:

- ◆ Buildings decreased during the year due to recording depreciation on existing buildings. There were no buildings purchased or completed during the year; however, several buildings are nearing completion in the upcoming fiscal year.
- ◆ The University's Aerospace Department purchased a 360 degree wrap-around tower simulator and radar simulators for approximately \$3 million causing the increase in the equipment category. This purchase allows the University to be one of only thirty-five schools in the nation to participate in the Federal Aviation Administration's Air Traffic – Collegiate Training Initiative (AT-CTI) program designed to prepare young men and women to attend an FAA training academy.
- ◆ Projects in progress increased for the year mainly as a result of activity on the following projects: new student union building, college of education building, University housing renovations, dairy farm improvements, phase I of the parking and transportation project, an energy management system, an interoperable digital radio system, and additional campus lighting.

The University expects to make major capital expenditures during the upcoming fiscal year for the following projects: continued renovation to the University's housing facilities, construction of a new student union facility, design and construction of a student services building, and construction of two parking garages. The above projects will be funded through the issuance of TSSBA commercial paper. In addition, the following projects will be funded from capital appropriations: completion of new academic facilities for the College of Education and Behavioral Science and updates to the University's underground electrical systems. The request for construction funding for the new science building remains a top capital priority for the University. Planning and design funding of the science building was appropriated in 2007–08 and the construction documents are now complete. Commencement of construction will require future capital appropriations from the State.

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

## Capital Assets—Component Unit

The component unit had \$18.6 million invested in capital assets, net of accumulated depreciation of \$4.9 million at June 30, 2011; and \$19.0 million invested in capital assets, net of accumulated depreciation of \$4.4 million at June 30, 2010. Depreciation charges totaled \$.6 million and \$.5 million for the years ended June 30, 2011, and June 30, 2010, respectively. Details of these assets are shown below.

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

	<u>2011</u>	<u>2010</u>
Land	\$ 2,341	\$ 2,302
Land improvements and infrastructure	724	775
Buildings	15,488	15,918
Equipment	5	6
<b>Total</b>	<b><u>\$18,558</u></b>	<b><u>\$19,001</u></b>

Categories presented on the Schedule of Capital Assets for the component unit remained relatively unchanged between fiscal years.

More detailed information about the component unit's capital assets is presented in Note 18 to the financial statements.

## Debt

The University had \$192.6 million and \$170.5 million in debt outstanding at June 30, 2011, and June 30, 2010, respectively. The table below summarizes these amounts by type of debt instrument (in thousands of dollars).

**Middle Tennessee State University  
Outstanding Debt Schedule  
(in thousands of dollars)**

	<u>2011</u>	<u>2010</u>
TSSBA bonds	\$147,158	\$132,839
TSSBA commercial paper	45,392	35,167
General Obligation commercial paper	-	2,543
<b>Total Debt</b>	<b><u>\$192,550</u></b>	<b><u>\$170,549</u></b>

TTSSBA converted commercial paper to bonds during the fiscal year for the renovations to Corlew and Cummings housing facilities project. Additional commercial paper was issued on behalf of the University for the following major projects: renovations of various University housing facilities, construction of a new Student Union facility, purchase of an air traffic control simulator, and design on new University parking garages.

The ratings on debt issued by the Tennessee State School bond Authority at June 30, 2010, were as follows: Fitch rating of AA, Moody's Investor's rating of Aa2, and Standard & Poor's rating of AA.

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

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

The University's appropriation for 2011–12 will decrease over \$26 million from appropriations received in 2010–11. This is a result of receiving non-recurring operating appropriations in the amount of \$17.6 million, along with \$5.5 million under the Maintenance of Effort (MOE) state funded program, in the 2010–11 fiscal year.

The State of Tennessee will participate in the American Recovery and Reinvestment Act (ARRA) by receiving State Fiscal Stabilization Funds (SFSF) through September 2011. The University is expected to receive \$1.8 million under this federal program for previously committed capital projects.

The Tennessee Board of Regents approved a 9.8% tuition increase at its June 2011 meeting for the University. New revenue generated from this increase will first be used to cover fixed cost increases such as utilities, scholarship increases, faculty promotion, and increased fringe benefits costs. Additional revenue will then be used for new initiatives that have been designed to position the University for the future.

We are not aware of any other factors, decisions, or conditions that are expected to have a significant impact on the financial position or results of operation during this fiscal year.

## **Requests for Information**

This financial report is designed to provide a general overview of the institution's finances for all those with an interest in the University's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Alan Thomas, Controller and Executive Director of Finance Technology and Compliance, Middle Tennessee State University, CAB 211, Murfreesboro, TN 37132.



# **BASIC FINANCIAL STATEMENTS**

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**Middle Tennessee State University**  
**Unaudited Statement of Net Assets**  
**June 30, 2011**

	<b>University</b>	<b>Component Unit</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Notes 2 and 18)	\$ 66,031,295.73	\$ 768,102.24
Accounts, notes, and grants receivable (net) (Note 4)	19,473,748.80	
Due from primary government	2,545,751.14	
Pledges receivable (net) (Note 18)		435,566.82
Inventories (at lower of cost or market)	2,467,958.53	
Prepaid expenses and deferred charges	2,225,201.47	28,501.99
Accrued interest receivable	22,252.70	20,501.38
Total current assets	92,766,208.37	1,252,672.43
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 18)	89,532,828.41	16,375,068.74
Investments (Notes 3 and 18 )	769,618.20	37,343,638.22
Accounts, notes, and grants receivable (net) (Note 4)	2,769,581.62	
Pledges receivable (net) (Note 18)		872,968.07
Capital assets (net) (Notes 5 and 18)	360,962,722.73	18,558,101.54
Total noncurrent assets	454,034,750.96	73,149,776.57
Total assets	\$546,800,959.33	\$ 74,402,449.00
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable (Note 6)	\$ 8,530,665.06	\$ 473,917.29
Accrued liabilities	15,780,883.84	
Student deposits	783,692.46	
Deferred revenue	10,814,795.68	
Compensated absences (Note 7)	1,751,609.78	
Accrued interest payable	1,232,069.31	
Long-term liabilities, current portion (Note 7)	7,757,661.14	
Deposits held in custody for others	832,077.55	
Total current liabilities	47,483,454.82	473,917.29
Noncurrent liabilities:		
Net OPEB obligation (Notes 7 and 12)	10,022,577.66	
Compensated absences (Note 7)	4,516,556.39	
Long-term liabilities (Note 7)	184,792,216.09	
Due to grantors (Note 7)	2,554,812.66	
Total noncurrent liabilities	201,886,162.80	
Total liabilities	\$249,369,617.62	\$ 473,917.29
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$174,660,555.21	\$ 18,558,101.54
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	10,900.00	26,230,254.87
Research		949,078.35
Instructional department uses		2,613,563.45
Other	804,166.32	25,245.99
Expendable:		
Scholarships and fellowships	67,022.61	11,130,372.71
Research	558,516.16	113,834.35
Instructional department uses	149,041.39	6,022,591.28
Loans	1,878,532.62	
Capital projects		3,703,621.67
Debt service	214,700.39	
Other	2,371,920.73	4,180,992.14
Unrestricted (Note 9)	116,715,986.28	400,875.36
Total net assets	\$297,431,341.71	\$ 73,928,531.71

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

**Middle Tennessee State University**  
**Unaudited Statement of Revenues, Expenses, and Changes in Net Assets**  
**for the year ended June 30, 2011**

	<b>University</b>	<b>Component Unit</b>
<b>REVENUES</b>		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$52,991,037.99)	\$ 110,694,573.41	
Gifts and contributions		\$ 8,159,346.08
Endowment Income (per spending plan)		1,256,302.45
Governmental grants and contracts	30,131,992.42	
Non-governmental grants and contracts	647,287.80	16,872.00
Sales and services of educational departments	13,645,531.78	
Auxiliary enterprises:		
Residential life (net of scholarship allowances of \$4,376,478.26. All residential life revenues are used as security for revenue bonds, see Note 10.)	9,146,229.98	
Bookstore (net of scholarship allowances of \$3,122,543.47. All bookstore revenues are used as security for revenue bonds, see Note 10)	6,519,708.09	
Food service	1,196,751.67	
Wellness facility (net of scholarship allowances of \$977,331.52. All wellness facility revenues are used as security for revenue bonds, see Note 10)	2,045,474.43	
Other auxiliaries	11,567,166.88	
Interest earned on loans to students	98,377.03	
Other operating revenues	940,971.25	58,975.33
Total operating revenues	\$ 186,634,064.74	\$ 9,491,495.86
<b>EXPENSES</b>		
Operating Expenses		
Salaries and wages	\$ 141,305,907.89	
Benefits	47,230,391.20	
Utilities, supplies, and other services	78,884,800.33	\$ 1,798,974.33
Scholarships and fellowships	47,208,327.71	1,136,654.65
Depreciation expense	15,045,113.82	555,474.44
Payments to or on behalf of MTSU		1,388,047.59
Total operating expenses	\$ 329,674,540.95	\$ 4,879,151.01
Operating income (loss)	\$(143,040,476.21)	\$ 4,612,344.85
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	\$ 100,986,209.00	
Gifts, including \$1,191,108.59 from component unit	1,244,280.59	
Grants and contracts	89,604,472.95	
Investment income (net of investment expense of \$9,594.84 for the university and \$114,931.96 for the component unit)	1,095,315.46	\$ 4,053,785.93
Interest on capital asset-related debt	(7,314,803.75)	
Bond issuance costs	1,749,848.77	
Other non-operating revenues/(expenses)	(1,003,320.41)	(58,849.88)
Net nonoperating revenues	\$ 186,362,002.61	\$ 3,994,936.05
Income before other revenues, expenses, gains, or losses	\$ 43,321,526.40	\$ 8,607,280.90
Capital appropriations	\$ 12,031,166.24	
Capital grants and gifts, including \$196,939.00 from component unit	236,939.00	\$ 148,000.00
Additions to permanent endowments		746,877.58
Total other revenues	\$ 12,268,105.24	\$ 894,877.58
Increase (decrease) in net assets	\$ 55,589,631.64	\$ 9,502,158.48
<b>NET ASSETS</b>		
Net Assets - beginning of year	\$ 241,841,710.07	\$64,426,373.23
Net Assets - end of year	\$ 297,431,341.71	\$73,928,531.71

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

**Middle Tennessee State University  
Unaudited Statement of Cash Flows  
for the year ended June 30, 2011**

	<b>University</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and fees	\$ 110,690,319.97
Grants and contracts	31,781,021.96
Sales and services of educational activities	13,279,982.08
Payments to suppliers and vendors	(75,092,217.08)
Payments to employees	(141,457,931.53)
Payments for benefits	(47,863,425.84)
Payments for scholarships and fellowships	(47,208,327.71)
Loans issued to students	(113,358.49)
Collection of loans from students	168,801.35
Interest earned on loans to students	100,531.46
Auxiliary enterprise charges:	
Residence halls	8,748,091.84
Bookstore	6,540,929.78
Food services	1,272,199.37
Wellness facility	2,045,474.43
Other auxiliaries	11,388,554.96
Other receipts (payments)	694,676.78
Net cash provided (used) by operating activities	\$ (125,024,676.67)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
State appropriations	\$ 100,867,500.00
Gifts and grants received for other than capital or endowment purposes, including \$1,191,108.59 from component unit	90,891,680.44
Federal student loan receipts	109,202,574.12
Federal student loan disbursements	(108,778,629.52)
Changes in deposits held for others	34,139.78
Net cash provided (used) by non-capital financing activities	\$ 192,217,264.82
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from capital debt	\$ 35,978,933.25
Capital - state appropriation	12,031,166.24
Capital grants and gifts received, including \$87,000.00 from component unit	127,000.00
Purchase of capital assets and construction	(64,671,681.57)
Principal paid on capital debt and lease	(13,977,966.09)
Interest paid on capital debt and lease	(7,220,605.89)
Bond issue costs paid on new debt issue	1,749,848.77
Other capital and related financing receipts (payments)	(116,760.14)
Net cash provided (used) by capital and related financing activities	\$ (36,100,065.43)

**Middle Tennessee State University  
Unaudited Statement of Cash Flows  
for the year ended June 30, 2011**

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from sales and maturities of investments	\$ 215,449.15
Income on investments	1,020,838.86
Purchase of investments	(198,836.50)
Net cash provided (used) by investing activities	<u>\$ 1,037,451.51</u>
Net increase (decrease) in cash and cash equivalents	\$ 32,129,974.23
Cash and cash equivalents - beginning of year	123,434,149.91
Cash and cash equivalents - end of year (Note 2)	<u><u>\$ 155,564,124.14</u></u>

**RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH  
PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating income/(loss)	\$ (143,040,476.21)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation expense	15,045,113.82
Other adjustments	140,709.00
Change in assets and liabilities:	
Receivables, net	145,323.01
Inventories	(31,262.77)
Prepaid/deferred items	247,282.70
Other assets	2,154.43
Accounts payable	3,193,176.03
Accrued liabilities	(1,000,073.17)
Deferred revenues	455,879.88
Deposits	(127,486.33)
Compensated absences	142,118.04
Due to grantors	(149,846.75)
Loans to students	(47,288.35)
Net cash provided (used) by operating activities	<u><u>\$ (125,024,676.67)</u></u>
Non-cash investing, capital, and financing transactions	
Gifts in-kind – capital	119,438.00
Unrealized gains/(losses) on investments	77,997.03
Gain/(loss) on disposal of capital assets	(907,149.28)
Trade-in allowance	20,589.00

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

**MIDDLE TENNESSEE STATE UNIVERSITY**  
**Notes to the Financial Statements**  
**June 30, 2011**

**1. Summary of Significant Accounting Policies**

**REPORTING ENTITY**

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

The financial statements present only that portion of the Tennessee Board of Regents' activities that is attributable to the transactions of Middle Tennessee State University.

The Middle Tennessee State University Foundation is considered a component unit of the University. Although the University does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the foundation can only be used by or for the benefit of Middle Tennessee State University, the foundation is considered a component unit of the University and is discretely presented in the University's financial statements. See Note 18 for more detailed information about the component unit and how to obtain the report.

**BASIS OF PRESENTATION**

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

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

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

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

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

#### CASH EQUIVALENTS

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

#### INVENTORIES

Inventories are valued at the lower of cost or market. Textbooks included in the inventory are recorded on a weighted average basis. All other items are maintained on an average cost or first-in, first-out basis.

#### COMPENSATED ABSENCES

Middle Tennessee State University's employees accrue annual leave at varying rates, depending upon length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are reported in the Statement of Net Assets.

#### CAPITAL ASSETS

Capital assets, which include property, plant, equipment, library holdings, and intangible assets, are reported in the Statement of Net Assets at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend the assets' useful lives are not capitalized.

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

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

#### NET ASSETS

Middle Tennessee State University's net assets are classified as follows:

**INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT.** This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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

**RESTRICTED NET ASSETS – EXPENDABLE.** Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

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

**SCHOLARSHIP DISCOUNTS AND ALLOWANCES**

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discount and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by Middle Tennessee State University and the amount that is paid by the students and/or third parties making payments on the students' 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.

**2. Cash and Cash Equivalents**

This classification includes demand deposits and petty cash on hand. At June 30, 2011, cash and cash equivalents consisted of \$53,091,295.31 in bank accounts; \$101,905.00 of petty cash on hand; \$91,189,067.54 in the State of Tennessee Local Government Investment Pool administered by the state treasurer; \$11,147,308.17 in the LGIP Deposits – Capital Projects account; and \$34,548.12 in a money market account.

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

**3. Investments**

All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

As of June 30, 2011, Middle Tennessee State University had the following investments and maturities.

Investment Type	Fair Value	Investment Maturities (in Years)				
		Less than 1	1 to 5	6 to 10	More than 10	No Maturity Date
Corporate bond funds	\$202,091.00	\$ -	\$100,131.00	\$50,970.50	\$50,989.50	\$ -
Mutual bond funds	274,504.84	-	-	-	-	274,504.84
Mutual equity funds	293,022.36	-	-	-	-	293,022.36
Total	<u>\$769,618.20</u>	<u>\$ -</u>	<u>\$100,131.00</u>	<u>\$50,970.50</u>	<u>\$50,989.50</u>	<u>\$ 567,527.20</u>

**Interest Rate Risk.** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. Middle Tennessee State 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. Middle Tennessee State 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 that are backed by the full faith and credit of the United States, repurchase agreements for United States securities, certificates of deposit in banks and savings and loan associations, banker's acceptances, commercial paper, money market mutual funds, and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the University and that endowment investments be prudently diversified. Securities are rated using Standard and Poor's, Moody's, and/or Fitch's and are presented below using the Standard and Poor's rating scale.

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

The policy requires that prime commercial paper shall be limited to that of corporations that meet the following criteria: 1) Senior long-term debt, if any, should have a minimum rating of A1 or equivalent, and short-term debt should have a minimum rating of A1 or equivalent, as provided by a majority of the rating services. If there is no long term debt rating, the short-term debt must be A1 by all rating services (minimum of two). 2) The ratings 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.

As of June 30, 2011, the University's investments were rated as follows

Investment Type	Fair Value	Credit Quality Rating			
		A	A-	AA-	Unrated
LGIP	\$102,336,375.71	\$ -	\$ -	\$ -	\$102,336,375.71
Corporate bonds	202,091.00	50,989.50	50,970.50	100,131.00	-
Mutual bond funds	274,504.84	-	-	-	274,504.84
Total	<u>\$102,812,971.55</u>	<u>\$ 50,989.50</u>	<u>\$ 50,970.50</u>	<u>\$100,131.00</u>	<u>\$102,610,880.55</u>

**Custodial Credit Risk.** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, Middle Tennessee State University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a deposit policy for custodial credit risk. At June 30, 2011, Middle Tennessee State University had \$769,618.20 of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the University's name.



#### 4. Accounts, Notes, and Grants Receivable

Accounts receivable included the following:

	<u>June 30, 2011</u>
Student accounts receivable	\$ 6,863,662.37
Grants receivable	10,209,088.06
Notes receivable	245,464.07
State appropriation receivable	353,100.00
Other receivables	<u>3,556,382.39</u>
Subtotal	\$21,227,696.89
Less allowance for doubtful accounts	<u>(1,753,948.09)</u>
Total	<u><u>\$19,473,748.80</u></u>

Federal Perkins Loan Program funds include the following:

	<u>June 30, 2011</u>
Perkins Loans receivable	\$ 3,535,788.93
Less allowance for doubtful accounts	<u>(766,207.31)</u>
Total	<u><u>\$ 2,769,581.62</u></u>

#### 5. Capital Assets

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 11,609,247.20	\$ 735,000.00	\$ -	\$ -	\$ 12,344,247.20
Improvements and infrastructure	41,362,292.72	-	-	-	41,362,292.72
Buildings	290,651,033.00	215,000.00	-	889,500.00	289,976,533.00
Equipment	44,452,868.27	7,894,664.75	-	2,469,444.88	49,878,088.14
Library holdings	18,647,839.54	1,646,743.22	-	-	20,294,582.76
Intangible assets	4,269,300.27	-	342,125.00	-	4,611,425.27
Projects in progress	77,319,083.87	54,310,801.60	(342,125.00)	-	131,287,760.47
Total	<u>\$488,311,664.87</u>	<u>\$64,802,209.57</u>	<u>\$ -</u>	<u>\$3,358,944.88</u>	<u>\$549,754,929.56</u>
<b>Less accumulated depreciation</b>					
Improvements and infrastructure	\$ 22,495,820.76	\$ 1,743,650.35	\$ -	\$ -	\$ 24,239,471.11
Buildings	112,260,411.46	7,054,953.04	-	44,378.12	119,270,986.38
Equipment	29,714,140.14	3,717,808.48	-	2,407,417.49	31,024,531.13
Library holdings	9,815,758.80	2,030,769.97	-	-	11,846,528.77
Intangible assets	1,912,757.46	497,931.98	-	-	2,410,689.44
Total accumulated depreciation	<u>\$176,198,888.62</u>	<u>\$15,045,113.82</u>	<u>\$ -</u>	<u>\$2,451,795.61</u>	<u>\$188,792,206.83</u>
Capital assets, net	<u><u>\$312,112,776.25</u></u>	<u><u>\$49,757,095.75</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 907,149.27</u></u>	<u><u>\$360,962,722.73</u></u>

## 6. Accounts Payable

Accounts payable included the following:

	<u>June 30, 2011</u>
Vendors payable	\$8,185,125.26
Unapplied student payments	292,790.58
Other payables	<u>52,749.22</u>
Total	<u><u>\$8,530,665.06</u></u>

## 7. Long-term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables					
TSSBA Debt:					
Bonds	\$132,838,813.61	\$21,463,459.45	\$ 7,144,575.92	\$147,157,697.14	\$7,757,661.14
Commercial paper	35,167,483.04	36,957,765.97	26,733,068.92	45,392,180.09	-
General Obligation Debt:					
Commercial paper	2,542,613.42	290,776.75	2,833,390.17	-	-
Subtotal	<u>\$170,548,910.07</u>	<u>\$58,712,002.17</u>	<u>\$36,711,035.01</u>	<u>\$192,549,877.23</u>	<u>\$7,757,661.14</u>
Other liabilities					
Compensated absences	\$6,126,048.13	\$ 3,279,083.59	\$ 3,136,965.55	\$ 6,268,166.17	\$1,751,609.78
Due to grantors	2,704,659.41	410,950.00	560,796.75	2,554,812.66	-
Net OPEB obligation	8,370,476.42	4,266,671.44	2,614,570.20	10,022,577.66	-
Subtotal	<u>\$ 17,201,183.96</u>	<u>\$ 7,956,705.03</u>	<u>\$ 6,312,332.50</u>	<u>\$ 18,845,556.49</u>	<u>\$1,751,609.78</u>
Total long-term liabilities	<u><u>\$187,750,094.03</u></u>	<u><u>\$66,668,707.20</u></u>	<u><u>\$43,023,367.51</u></u>	<u><u>\$211,395,433.72</u></u>	<u><u>\$9,509,270.92</u></u>

### TSSBA Debt - Bonds Payable

Bond issues with interest rates ranging from 2% to 5.5% were issued by the Tennessee State School Bond Authority. The bonds are due serially until 2038 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the University, including state appropriations (see Note 10 for further details). The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the Statement of Net Assets is shown net of assets held by the authority in the debt service reserve and net of unexpended debt proceeds. The reserve amount was \$7,288,940.36 at June 30, 2011. Unexpended debt proceeds were \$709,651.94 at June 30, 2011.

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

<b>For the Year(s) Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	7,757,661.14	7,170,533.59	14,928,194.73
2013	7,885,938.12	6,893,920.82	14,779,858.94
2014	7,998,668.47	6,545,780.08	14,544,448.55
2015	8,192,971.62	6,202,099.23	14,395,070.85
2016	8,383,267.30	5,855,691.68	14,238,958.98
2017-2021	44,676,434.31	23,161,255.19	67,837,689.50
2022-2026	40,625,972.23	12,444,736.47	53,070,708.70
2027-2031	16,405,701.92	3,939,374.73	20,345,076.65
2032-2036	4,259,166.44	1,285,843.50	5,545,009.94
2037-2038	971,915.59	171,446.60	1,143,362.19
Total	<u>\$147,157,697.14</u>	<u>\$73,670,681.89</u>	<u>\$220,828,379.03</u>

### **TSSBA Debt - Commercial Paper**

The Tennessee State School Bond Authority issues commercial paper to finance costs of various capital projects during the construction phase. When a project is placed in service, long-term, fixed-rate debt is issued by TSSBA to finance the project over its useful payback period and the commercial paper is redeemed. The amount outstanding for projects at Middle Tennessee State University was \$45,392,180.09 at June 30, 2011.

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

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

## **8. Endowments**

If a donor has not provided specific instructions to Middle Tennessee State 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.

Middle Tennessee State University chooses to spend the investment income (including changes in the value of investments) each year. Under the spending plan established by the University, all interest earnings have been authorized for expenditure. At June 30, 2011, net appreciation of \$6,363.58 is available to be spent, of which \$22.44 is included in restricted net assets expendable for scholarships and fellowships and \$6,341.14 is included in restricted net assets expendable for loans.

## 9. Unrestricted Net Assets

Unrestricted net assets include funds that have been designated or reserved for specific purposes. These purposes include the following:

	<u>June 30, 2011</u>
Working capital	\$ 4,332,183.71
Encumbrances	1,613,204.50
Designated fees	1,814,172.96
Auxiliaries	5,523,905.23
Plant construction	39,434,062.58
Renewal and replacement of equipment	49,532,534.82
Debt retirement	865,520.37
Undesignated balance	13,600,402.11
Total	<u>\$116,715,986.28</u>

## 10. Pledged Revenues

The University has pledged certain revenues and fees, including state appropriations, to repay \$147,157,697.14 in revenue bonds issued from June 1976 to September 2010. Proceeds from the bonds provided financing for the following projects: construction of a cogeneration plant, the Wood/Stegall development facility, a printing services building, and Greek Row housing; demolition at 1403 East Main Street; a chiller conversion project; dormitory and family housing upgrades; student health, wellness, and recreation facility upgrades; purchase of the Woodfin property; purchase of Steinway pianos; purchase of a new fleet of airplanes for the Aerospace Department; energy savings and performance contracts; parking and transportation projects; football stadium enhancements; baseball stadium improvements; and purchase of the Ingram Building. The bonds are payable through 2038. Annual principal and interest payments on the bonds are expected to require less than 6.6% of available revenues. The total principal and interest remaining to be paid on the bonds is \$220,828,379.03. Principal and interest paid for the current year and total available revenues were \$21,292,769.84 and \$323,206,003.44, respectively.

## 11. Pension Plans

### Defined Benefit Plan

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

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

**FUNDING POLICY.** Plan members are noncontributory. Middle Tennessee State University is required to contribute at an actuarially determined rate. The current rate is 14.91% of annual covered payroll. The contribution requirements of the University are established and may be amended by the TCRS Board of Trustees. Middle Tennessee State University's contributions to TCRS for the years ending June 30, 2011, 2010, and 2009 were \$6,714,529.05, \$5,982,087.97, and \$6,254,322.27, respectively, equal to the required contributions for each year.

## **Defined Contribution Plans**

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

**FUNDING POLICY.** Plan members are noncontributory. Middle Tennessee State University contributes an amount equal to 10% of the employee's salary up to the Social Security wage base and 11% above the Social Security wage base. Contribution requirements are established and amended by state statute. The contribution made by Middle Tennessee State University to the plans for the year ended June 30, 2011, was \$7,885,925.09 and for the year ended June 30, 2010, was \$7,188,747.29. Contributions met the requirements for each year.

## **12. Other Postemployment Benefits**

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that provides postemployment health insurance benefits to eligible Middle Tennessee State University retirees. This program includes two plans available to higher education employees – the State Plan and the Medicare Supplement Plan. Both plans are agent multiple-employer-defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Tennessee Code Annotated (TCA) 8-27-201 for the state plan and TCA 8-27-701 for the Medicare Supplement Plan. In previous fiscal years, prior to reaching the age of 65 all members had the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. However, as of January 1, 2010, the insurance plan structure was changed and as a result all members now have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the University's eligible retirees (see Note 17). The plans are reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's Web site at <http://tennessee.gov/finance/act/cafr.html>.

**FUNDING POLICY.** The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Retired employees who have not reached the age of 65 pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service are subsidized 80 percent; 25 years, 70 percent; and 20 years, 60 percent. Retired employees who are 65 years of age or older have flat rate premium subsidies based on years of service. Retirees with 30 years of service receive \$50 per month; 25 years, \$37.50; and 20 years, \$25.

Contributions for the State Employee Group Plan for the year ended June 30, 2011, were \$22,408,770.48, which consisted of \$18,341,085.41 from the University and \$4,067,685.07 from the employees.

## Annual OPEB Cost and Net OPEB Obligation

	<u>State Plan</u>
Annual Required Contribution (ARC)	\$ 3,890,000.00
Interest on the Net Postemployment Obligation (NPO)	376,671.44
Adjustment to the ARC	<u>(356,782.59)</u>
Annual OPEB Cost	3,909,888.85
Amount of Contribution	<u>(2,257,787.61)</u>
Increase/Decrease in NPO	1,652,101.24
Net OPEB Obligation - Beginning of Year	<u>8,370,476.42</u>
Net OPEB Obligation - End of Year	<u><u>\$10,022,577.66</u></u>

<u>Year-End</u>	<u>Plan</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation at Year-End</u>
6/30/2009	State Employee Group Plan	\$4,924,653.67	42.8%	\$ 5,859,034.64
6/30/2010	State Employee Group Plan	\$4,299,921.48	41.6%	\$ 8,370,476.42
6/30/2011	State Employee Group Plan	\$3,909,888.85	57.7%	\$10,022,577.66

FUNDED STATUS AND FUNDING PROGRESS. The funded status of the plan as of June 30, 2010, was as follows:

Actuarial Valuation Date	July 1, 2010
Actuarial Accrued Liability (AAL)	\$ 35,594,000.00
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 35,594,000.00
Actuarial Value of Assets as a % of the AAL	0.0%
Covered Payroll (Active Plan Members)	\$110,803,754.02
UAAL as Percentage of Covered Payroll	32.1%

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

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

In the July 1, 2010, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10 percent in fiscal year 2011, decreased to 9.5 percent in fiscal year 2012 and then reduced by decrements to an ultimate rate of 5 percent in fiscal year 2021. All rates include a 3 percent inflation assumption. The unfunded actuarial accrued

liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

### **13. Chairs of Excellence**

Middle Tennessee State University had \$23,198,031.74 on deposit at June 30, 2011, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in these financial statements.

### **14. Insurance-Related Activities**

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

Middle Tennessee State University participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to Middle Tennessee State University based on a percentage of the University's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2010, and June 30, 2009, are presented in the Tennessee Comprehensive Annual Financial Report. The CAFR is available on the state's Web site at <http://tennessee.gov/finance/act/cafr.html>. Since Middle Tennessee State 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 Middle Tennessee State 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. The amount of cash and cash equivalents designated for payment of claims held by the Risk Management Fund at June 30, 2011, was not available. At June 30, 2010, the Risk Management Fund held \$114.5 million in cash and cash equivalents designated for payment of claims.

At June 30, 2011, the scheduled coverage for Middle Tennessee State University was \$863,668,685.00 for buildings and \$308,337,796.00 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 employees of the state with the risk retained by the state. Middle Tennessee State University participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the University based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

### **15. Commitments and Contingencies**

**SICK LEAVE.** Middle Tennessee State University records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an em-



ployee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$54,351,162.99 at June 30, 2011.

**OPERATING LEASES.** Middle Tennessee State University has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real and personal property were \$468,357.24 and \$47,064.35 respectively for the year ended June 30, 2011. All operating leases are cancelable at the lessee's option.

**CONSTRUCTION IN PROGRESS.** At June 30, 2011, outstanding commitments under construction contracts totaled \$40,671,309.31 for major projects including parking and transportation improvements; concrete industry projects; life safety renovations; MT Boulevard; campus lighting; Tucker Theatre renovations; energy system modernization; underground electrical update; the College of Education building; systems replacement; dorm renovations; Livestock Center updates; mitigation plan; several buildings roof replacement; safety code corrections; improvements to the dairy farm; steam line replacement; mass communication renovations; physical plant upgrades; ADA adaptations; Todd Hall air quality upgrades; several buildings envelope repair; the conference center; the new parking garages; science facilities improvements; and the new Student Union, of which \$3,843,490.98 will be funded by future state capital outlay appropriations.

**LITIGATION.** Middle Tennessee State University is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

## 16. Natural Classifications with Functional Classifications

Middle Tennessee State University's operating expenses by functional classification for the year ended June 30, 2011, are as follows:

Functional Classification	Natural Classification					
	Salaries	Benefits	Operating	Scholarships	Depreciation	Total
Instruction	\$ 81,204,151.36	\$24,675,596.38	\$15,271,574.22	\$ -	\$ -	\$121,151,321.96
Research	3,749,188.01	988,140.59	2,246,107.48	-	-	6,983,436.08
Public Service	7,707,337.81	2,793,326.95	11,136,407.79	-	-	21,637,072.55
Academic Support	13,747,954.38	5,113,477.43	851,881.66	-	-	19,713,313.47
Student Services	13,184,466.70	4,677,593.79	11,997,105.57	-	-	29,859,166.06
Institutional Support	10,733,242.05	4,560,870.57	5,908,917.11	-	-	21,203,029.73
M & O	4,377,533.87	1,995,291.49	14,392,562.54	-	-	20,765,387.90
Scholarships and Fellowships	-	-	-	47,208,327.71	-	47,208,327.71
Auxiliaries	6,602,033.71	2,426,094.00	17,080,243.96	-	-	26,108,371.67
Depreciation	-	-	-	-	15,045,113.82	15,045,113.82
Total Expenses	\$141,305,907.89	\$47,230,391.20	\$78,884,800.33	\$47,208,327.71	\$15,045,113.82	\$329,674,540.95

## 17. On-Behalf Payments

During the year ended June 30, 2011, the State of Tennessee made payments of \$140,709.00 on behalf of Middle Tennessee State University for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a post-employment benefit healthcare plan and is discussed further in Note 12. The plan is reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's Web site at <http://tennessee.gov/finance/act/cafr.html>.

## 18. Component Unit

The Middle Tennessee State University Foundation is a legally separate, tax-exempt organization supporting Middle Tennessee State University. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The 34-member board of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although Middle



Tennessee State 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 Middle Tennessee State University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

During the year ended June 30, 2011, the Foundation made distributions of \$1,388,047.59 to or on behalf of Middle Tennessee State University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Joe Bales, Vice President for Development and University Relations, MTSU, 1301 East Main Street, Murfreesboro, TN 37132.

The Foundation is a nonprofit organization that reports under FASB standards, including FASB Statement No. 117, Financial Reporting for Not-for-Profit Organizations. As such, certain revenue recognition criteria and presentation features are different from those of GASB. With the exception of necessary presentation adjustments, no modifications have been made to the Foundation's financial information in the University's financial report for these differences.

**FAIR VALUE MEASUREMENTS.** The Foundation reports certain assets and liabilities at fair value. Fair value has been determined using quoted prices in active markets for identical assets and liabilities that are accessible at the measurement date (Level 1), inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset or liability (Level 2), or significant unobservable inputs (Level 3). The following table categorizes the recurring fair value measurements for assets and liabilities at June 30, 2011:

	<b>Total Fair Value at June 30, 2011</b>	<b>Quoted Prices Level 1</b>	<b>Significant Other Inputs: Level 2</b>	<b>Significant Unobservable Inputs: Level 3</b>
<b>Assets:</b>				
Cash equivalents	\$ 1,157,581.88	\$ 1,157,581.88		
Certificates of deposit	77,299.35		\$ 77,299.35	
U.S. Treasury	1,622,577.08	1,622,577.08		
Corporate stocks	3,438,988.16	3,438,988.16		
Bonds	1,815,996.00		1,815,996.00	
Mutual equity funds	12,805,454.42	12,805,454.42		
Mutual bond funds	3,509,916.90	3,509,916.90		
Cash surrender value of life insurance	418,781.06		418,781.06	
Real estate investment trust	2,580,574.25			\$ 2,580,574.25
Alternative investments	11,074,051.00			11,074,051.00
Pledges receivable	1,308,534.89			1,308,534.89
<b>Total Assets</b>	<b><u>\$39,809,754.99</u></b>	<b><u>\$22,534,518.44</u></b>	<b><u>\$2,312,076.41</u></b>	<b><u>\$14,963,160.14</u></b>

The following table reconciles beginning and ending balances of all assets valued using Level 3 inputs:

	<b>Beginning Balance</b>	<b>Total Gains/ Losses, Realized and Unrealized</b>	<b>Purchases, Issuances, and Settlements</b>	<b>Transfers In/ Out of Level 3</b>	<b>Ending Balance</b>
<b>Assets:</b>					
Mutual bond funds	\$ 1,989,850.00			\$(1,989,850.00)	\$ -
Real estate investment trust	2,385,285.32	\$ 274,406.89	\$ (79,117.96)	-	2,580,574.25
Alternative investments	6,004,673.00	817,587.00	4,251,791.00	-	11,074,051.00
Pledges receivable	1,266,971.59	41,563.30	-	-	1,308,534.89
<b>Total Assets</b>	<b><u>\$11,646,779.91</u></b>	<b><u>\$1,133,557.19</u></b>	<b><u>\$4,172,673.04</u></b>	<b><u>\$(1,989,850.00)</u></b>	<b><u>\$14,963,160.14</u></b>

All gains and losses, both realized and unrealized, have been reported on the Statement of Revenues, Expenses, and Changes in Net Assets as investment income. Of this total, \$4,505,777.05 is attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at June 30, 2011.

CASH AND CASH EQUIVALENTS. Cash and cash equivalents consist of demand deposit accounts, a State of Tennessee Local Government Investment Pool account administered by the state treasurer, and money market funds. Uninsured bank balances at June 30, 2011 totaled \$9,695,729.37.

INVESTMENTS. Investments are recorded on the date of contribution and are stated at market value. Unrealized gains and losses are determined by the difference between market values at the beginning and end of the year. Investment securities held at year-end were as follows:

	<u>Cost</u>	<u>Market Value</u>
U.S. Treasury	\$ 1,431,846.90	\$ 1,622,577.08
Certificates of deposit	77,212.00	77,299.35
Corporate stocks	3,001,160.92	3,438,988.16
Bonds	1,316,597.50	1,815,996.00
Mutual equity funds	8,139,126.67	12,805,454.42
Mutual bond funds	3,531,710.77	3,509,916.90
Cash surrender value of life insurance	N/A	418,781.06
Real estate investment trust	2,500,000.00	2,580,574.25
Alternative investments	7,519,169.00	11,074,051.00
Total investments	<u>\$27,516,823.76</u>	<u>\$37,343,638.22</u>

ALTERNATIVE INVESTMENTS. The Foundation has investments in offshore hedge fund-of-funds. The estimated fair value of these assets is \$11,074,051.00 at June 30, 2011.

The Foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2011. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such differences could be material. These investments are made in accordance with the Foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques. Each offshore hedge fund-of-funds owned by the Foundation has an annual independent CPA firm audit. Hedge fund values are determined by using monthly reports received directly from the hedge fund-of-funds managers, as well as from the Foundation's registered investment advisors and/or investment custodian.

PLEDGES RECEIVABLE. Pledges receivable are summarized below net of the allowance for doubtful accounts:

	<b>June 30, 2011</b>
Current pledges	\$ 435,566.82
Pledges due in one to five years	793,624.02
Pledges due after five years	79,955.55
Subtotal	1,309,146.39
Less: Discounts to net present value	(611.50)
Total pledges receivable, net	<u>\$1,308,534.89</u>

CAPITAL ASSETS. Capital assets for the year ended June 30, 2011, were as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Transfers</b>	<b>Reductions</b>	<b>Ending Balance</b>
Land	\$ 2,301,571.29	\$156,825.99	\$ -	\$117,200.00	\$ 2,341,197.28
Improvements and infrastructure	1,009,439.46	-	-	-	1,009,439.46
Buildings	20,068,664.80	436,772.38	-	370,556.78	20,134,880.40
Equipment	5,976.12	109,939.00	-	109,939.00	5,976.12
<b>Total</b>	<b>\$23,385,651.67</b>	<b>\$703,537.37</b>	<b>\$ -</b>	<b>\$597,695.78</b>	<b>\$23,491,493.26</b>
Less accumulated depreciation					
Improvements and infrastructure	234,613.72	50,471.98	-	-	285,085.70
Buildings	4,150,043.08	504,404.85	-	6,888.92	4,647,559.01
Equipment	149.40	597.61	-	-	747.01
<b>Total accumulated depreciation</b>	<b>\$ 4,384,806.20</b>	<b>\$555,474.44</b>	<b>\$ -</b>	<b>\$ 6,888.92</b>	<b>\$ 4,933,391.72</b>
<b>Capital assets, net</b>	<b>\$19,000,845.47</b>	<b>\$148,062.93</b>	<b>\$ -</b>	<b>\$590,806.86</b>	<b>\$18,558,101.54</b>

ENDOWMENTS. Middle Tennessee State University Foundation's endowment consists of approximately 550 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

INTERPRETATION OF RELEVANT LAW. The Board of Trustees of the Middle Tennessee State University Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as requiring the preservation of the fair value of the original gift, as of the gift date, of the endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, and (d) the portion of the investment return that is added to the fund's principal. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the Act.

In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. the duration and preservation of the fund,
2. the purposes of the Foundation and the endowment fund,
3. general economic conditions,
4. the possible effect of inflation or deflation,
5. the expected total return from income and the appreciation of investments,
6. other resources of the Foundation, and
7. the investment policies of the Foundation

**Composition of Endowment by Net Asset Class  
As of June 30, 2011**

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$29,818,142.66	\$ 4,674,299.68	\$(22,381.21)	\$34,470,061.13
Board-designated endowment funds		5,958,878.64	128,188.62	6,087,067.26
Total funds	<u>\$29,818,142.66</u>	<u>\$10,633,178.32</u>	<u>\$105,807.41</u>	<u>\$40,557,128.39</u>

**Changes in Endowment Net Assets  
As of June 30, 2011**

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$28,757,024.86	\$2,885,493.03	\$129,955.30	\$31,772,473.19
Net asset adjustment		1,275,615.92	(363,263.37)	912,352.55
Endowment net assets after adjustment	28,757,024.86	4,161,108.95	(233,308.07)	32,684,825.74
Investment return:				-
Investment income	54,907.65	523,439.97	3,941.51	582,289.13
Net depreciation (realized and unrealized)	-	4,382,634.25	338,834.18	4,721,468.43
Total investment return	<u>54,907.65</u>	<u>4,906,074.22</u>	<u>342,775.69</u>	<u>5,303,757.56</u>
Contributions	894,877.58	3,080,451.79		3,975,329.37
Expenditures	(59,837.00)	(323,488.90)	(1,110.36)	(384,436.26)
Appropriation of endowment assets for expenditure	-	(1,253,752.60)	(2,549.85)	(1,256,302.45)
Other changes:				-
Transfers	171,169.57	62,784.86	-	233,954.43
Endowment net assets, end of year	<u>\$29,818,142.66</u>	<u>\$10,633,178.32</u>	<u>\$105,807.41</u>	<u>\$40,557,128.39</u>

**RETURN OBJECTIVES AND RISK PARAMETERS.** The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that provide for adequate long-term purchasing power preservation, as well as current scholarship and other institutional support as appropriate. The Foundation expects its endowment funds, over time, to provide an average total rate of return of approximately 9 percent annually. Actual returns in any given year may vary from this amount.

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

SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE. The Foundation has a policy of appropriating for distribution each year 4.5% of the three-year rolling average total fair market value of the endowment. Payout policy is determined by the Foundation year-to-year, and in a year of significantly declining investment values, the board may choose to not make an annual payout to preserve the future purchasing and payout power of the endowment. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 3.5 percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return

**Middle Tennessee State University  
Required Supplementary Information  
Schedule of Funding Progress  
for the year ended June 30, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2007	\$ -	\$42,876,000.00	\$42,876,000.00	0	\$113,201,926.22	37.88%
July 1, 2009	\$ -	\$38,764,000.00	\$38,764,000.00	0	\$117,734,804.41	32.92%
July 1, 2010	\$ -	\$35,594,000.00	\$35,594,000.00	0	\$110,803,754.02	32.12%

*The amount reported here for covered payroll relates to the fiscal year in which the valuations were performed, with the exception of the July 1, 2010 actuarial valuation. The covered payroll date for the July 1, 2010 actuarial valuation is July 1, 2009.*

**Middle Tennessee State University  
Supplementary Information  
Unaudited Statement of Cash Flows - Component Unit  
for the year ended June 30, 2011**

	<b>Component Unit</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Gifts and contributions	\$ 7,865,128.00
Endowment income per spending plan	1,256,302.45
Grants and contracts	16,872.00
Payments to suppliers and vendors	(1,667,231.82)
Payments for scholarships and fellowships	(1,136,654.65)
Payments to (institution name)	(1,278,108.59)
Other receipts (payments)	58,975.33
Net cash provided (used) by operating activities	\$ 5,115,282.72
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
Private gifts for endowment purposes	\$ 999,532.36
Net cash provided (used) by non-capital financing activities	\$ 999,532.36
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from sale of capital assets	\$ 428,370.42
Purchase of capital assets and construction	(555,537.37)
Net cash provided (used) by capital and related financing activities	\$ (127,166.95)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from sales and maturities of investments	\$ 12,211,541.89
Income on investments	(666,294.51)
Purchase of investments	(14,814,014.73)
Other investing receipts (payments)	(6,352.44)
Net cash provided (used) by investing activities	\$ (3,275,119.79)
Net increase (decrease) in cash and cash equivalents	\$ 2,712,528.34
Cash and cash equivalents - beginning of year	14,430,642.64
Cash and cash equivalents - end of year (Note 18)	\$17,143,170.98
<b>RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Operating income/(loss)	\$ 4,612,344.85
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation expense	555,474.44
Change in assets and liabilities:	
Receivables, net	(294,218.08)
Prepaid/deferred items	(28,501.99)
Accounts payable	160,244.50
Other	109,939.00
Net cash provided (used) by operating activities	\$ 5,115,282.72
Non-cash investing, capital, and financing transactions	
Unrealized gains/(losses) on investments	4,508,683.51
Gain/(loss) on disposal of capital assets	(52,497.44)
Transfer of capital asset to institution	(109,939.00)

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