

Middle Tennessee State University

FINANCIAL REPORT

For the Year Ended June 30, 2002



Office of the President

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



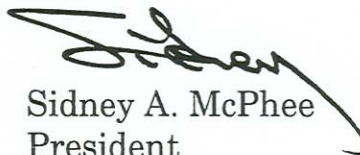
September 13, 2002

Dr. Charles Manning, Chancellor
The State University and Community
College System of Tennessee
1415 Murfreesboro Road, Suite 350
Nashville, TN 37217

Dear Chancellor Manning:

Enclosed is the annual Financial Report for the fiscal year ended June 30, 2002. This report has been prepared in accordance with Generally Accepted Accounting Principles.

Respectfully submitted,



Sidney A. McPhee
President



**Vice President
Business and Finance**
Cope Administration Building 211
Murfreesboro, Tennessee 37132
615-898-2852



September 13, 2002

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, 2002.

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, 2001. An audit is currently in progress for fiscal year ended June 30, 2002.

Respectfully submitted,

A handwritten signature in black ink that reads "Duane Stucky".

Duane Stucky
Vice President for
Business and Finance



MIDDLE TENNESSEE STATE UNIVERSITY FINANCIAL REPORT

For the Year Ended June 30, 2002

TABLE OF CONTENTS

Management's Discussion and Analysis	6
Unaudited Statement of Net Assets	16
Unaudited Schedule of Revenues, Expenses, and Changes in Net Assets	17
Unaudited Statement of Cash Flows	18
Notes to the Financial Statements	20

A Tennessee Board of Regents University

MTSU is an equal opportunity, non-racially identifiable, educational institution that does not discriminate against individuals with disabilities. BF015-0902

MIDDLE TENNESSEE STATE UNIVERSITY
Management's Discussion and Analysis
For the Year Ended June 30, 2002

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, 2002. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with the financial statements and footnotes. The financial statements, footnotes, and this discussion are the responsibility of management.

Since this is a transition year for the new financial reporting format required by the Governmental Accounting Standards Board's Statements No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, only one year of information is presented in the financial statements and this discussion. Comparative information will be presented in future years.

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 by the university. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the university but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution.

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

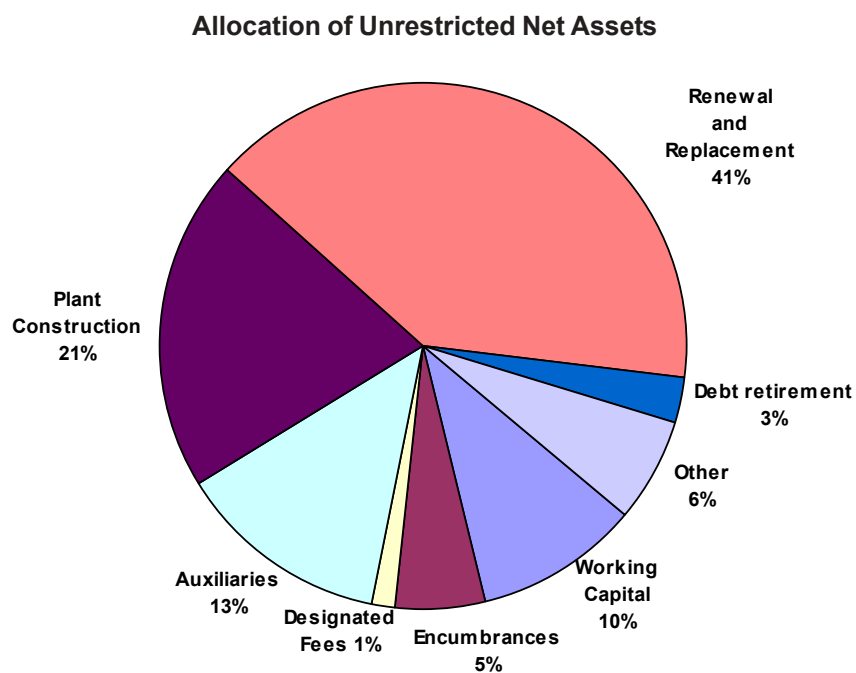
	2002
Assets	
Current asset	\$ 82,655
Capital asset	165,702
Other assets	<u>27,340</u>
Total Assets	<u>\$275,697</u>
Liabilities:	
Current liabilities	\$ 69,340
Noncurrent liabilities	<u>80,177</u>
Total Liabilities	<u>\$149,517</u>
Net Assets:	
Invested in capital assets, net of debt	\$ 87,837
Restricted - expendable	6,871
Restricted - nonexpendable	626
Unrestricted	<u>30,846</u>
Total Net Asset	<u><u>\$126,180</u></u>

Some highlights of material assets and liabilities included on the Statement of Net Assets are as follows:

- The capital assets category for the university includes the following specific items: land, improvements and infrastructure, buildings, equipment, library holdings, and projects in progress. These are all shown net of accumulated depreciation. Current year additions for capital assets totaled \$11,514,296.
- Current liabilities consisted primarily of deposits held in custody for others in the amount of \$46,816,269. This category represents funds being held for use by the MTSU Foundation and other outside agencies. The university does not make any decisions on how these funds are invested or spent. These decisions remain with the agencies' representatives or boards of directors.

- Noncurrent liabilities consisted of \$75,474,018 in long-term liabilities. Of this amount, \$73,606,884 is bonds payable and \$1,867,134 represents outstanding commercial paper. The Tennessee State School Bond Authority administers all financing activities of the university. Additions to debt instruments for the year totaled \$8,492,506. Another portion of noncurrent liabilities was composed of a liability for compensated absences in the amount of \$2,119,003. This amount represents annual and compensatory leave accrued by university personnel but not expected to be taken over the next fiscal year.

Many of the university's unrestricted net assets have been designated or reserved for specific purposes such as working capital, encumbrances, designated fees, auxiliaries, plant construction, renewal and replacement of equipment, and debt retirement. The following graph shows the allocations:



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

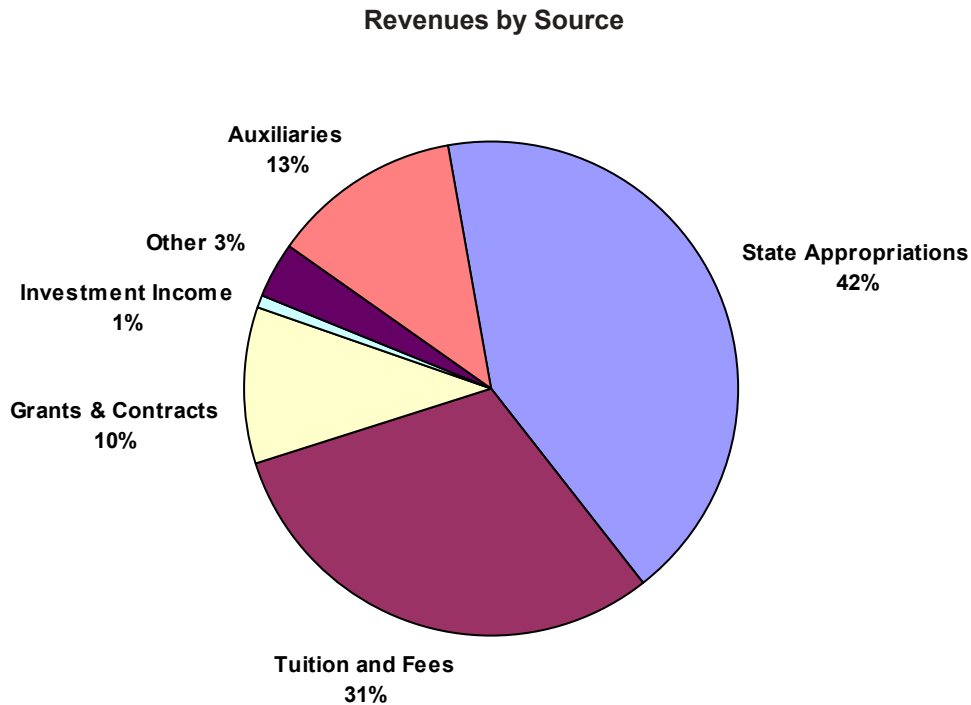
The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the university, as well as the non-operating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered non-operating revenues according to generally accepted accounting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

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

	2002
Operating revenues:	
Net tuition and fees	\$ 57,385
Auxiliaries	23,627
Grants and contracts	18,783
Other	4,975
Total operating revenues	<u>\$104,770</u>
Operating expenses	\$188,710
Operating loss	<u>\$ (83,940)</u>
Nonoperating revenues and expenses:	
State appropriations	\$ 79,049
Gifts	901
Investment income	1,623
Other revenues and expenses	(3,112)
Total nonoperating revenues and expenses	<u>\$ 78,461</u>
Income (loss) before other revenues, expenses, gains, or losses	\$ (5,479)
Other revenues, expenses, gains, or losses:	
Capital appropriations	\$ 3,642
Capital grants and gifts	3,469
Total revenues, expenses, gains, or losses	<u>\$ 7,111</u>
Increase (decrease) in net assets	<u>\$ 1,632</u>
Net assets at beginning of year, as originally reported	\$258,152
Cumulative effect of changes in accounting principle	(131,675)
Net assets at beginning of period, restated	<u>\$126,477</u>
Prior period adjustment	\$ (1,929)
Net assets at end of year	<u><u>\$126,180</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, 2002.



- Revenues are mainly composed of state appropriations (42%) and tuition and fees (31%). State appropriations are considered nonoperating revenues because they are provided by the Legislature to the university without the Legislature receiving any goods and services for those revenues. Whereas, tuition and fees are considered operating revenues due to the direct benefit received by students of the university.
- Auxiliary enterprise revenues make up 13% of total revenues of the university. University auxiliary units consist of a university bookstore, food service and vending, housing operations, parking services, health services, student recreation center, postal services, and telecommunications.

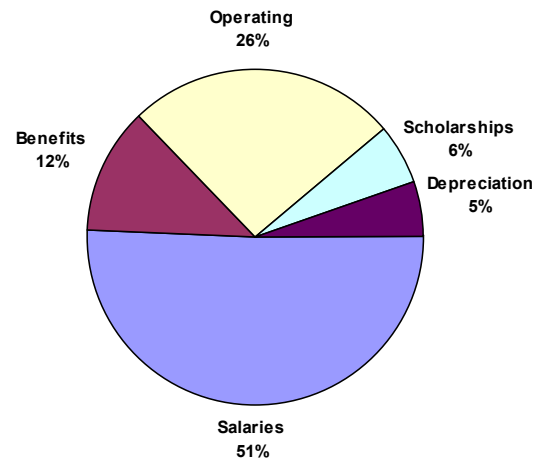
Expenses

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

Natural Classification (in thousands)

	2002
Salaries	\$ 95,356
Benefits	23,191
Operating	49,197
Scholarships	10,871
Depreciation	10,095
TOTAL	<u><u>\$188,710</u></u>

Expenses by Natural Classification

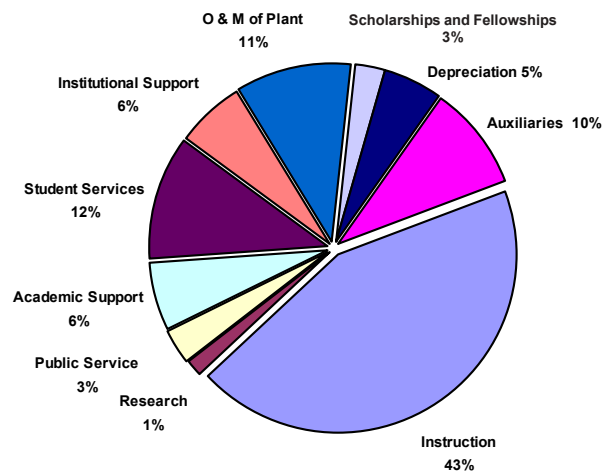


- Salaries account for 51% of total expenses for the university. These include faculty, administrative, clerical and support, and student wages.
- Operating expenses, which represent 26% of the total expenses, include such items as travel, operating supplies, and utilities.

Program Classification (in thousands)

	2002
Instruction	\$ 81,947
Research	2,695
Public Service	6,150
Academic Support	11,236
Student Services	21,849
Institutional Support	11,983
Operation and Maintenance	19,962
Scholarships and Fellowships	4,846
Auxiliaries	17,947
Depreciation	10,095
TOTAL	<u><u>\$188,710</u></u>

Expenses by Program Classification



- The Instruction program classification represents 43% of total university expenses for the year. This classification includes expenses incurred by all of the university's academic colleges.
- Operation and maintenance of plant expenses compose 11% of total expenses. These expenses are incurred all across the university in the upkeep, operation, and renovations of all plant buildings and equipment.

The Statement of Cash Flows

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

Statement of Cash Flows (thousands of dollars)

	2002
Cash provided (used) by:	
Operating activities	\$ (70,155)
Noncapital financing activities	77,653
Investing activities	1,666
Capital and related financing activities	<u>(5,868)</u>
Net increase (decrease) in cash	\$ 3,296
Cash, beginning of year	<u>55,605</u>
Cash, end of year	<u><u>\$ 58,901</u></u>

- In the operating activities section of the statement of cash flows, tuition and fees represent the largest source of cash for the university in the amount of \$58,937,540. The two largest uses of cash for the university are payments to employees totaling \$92,551,989 and payments to suppliers and vendors for \$49,689,906.
- In the noncapital financing activities section of the statement, state appropriations represent the largest source of cash in the amount of \$78,250,300.
- In the capital and related financing activities section of the statement, proceeds from the issuance of capital debt amounted to \$13,035,264. This represents bonds and commercial paper issued by the Tennessee State School Bond Authority on behalf of the university. Funds in this category were used for the purchase and construction of capital assets on the university's campus.
- The university's cash position for the year increased by \$3,296,045.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2002, Middle Tennessee State University had \$165,701,662 invested in capital assets, net of accumulated depreciation of \$105,985,606. Depreciation charges totaled \$10,094,641 for the current fiscal year. Details of these assets are shown below.

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

	2002
Land	\$ 4,449
Land improvements and infrastructure	14,142
Buildings	128,187
Equipment	9,182
Library holdings	7,851
Projects in progress	1,891
Total	<u>\$165,702</u>

The university was able to purchase two properties, including buildings on each property, during the fiscal year: Belle Aire and St. Marks properties. Both of these properties were purchased with the use of commercial paper and bonds issued by the Tennessee State School Bond Authority (TSSBA) in the amount of \$3,000,000, along with \$500,000 in local funds, for a total project budget for both properties of \$3,500,000. A construction project to renovate several dorms on campus was substantially complete by the end of the fiscal year with the remaining work to be completed in the upcoming fiscal year. Bonds issued by TSSBA in the amount of \$7,000,000, along with \$1,500,000 in local funds, are funding this project. A chiller conversion project was completed during the year with \$865,000 in bonds used for funding the project.

Several projects were being planned in the late part of the fiscal year in which will be substantially completed in the upcoming fiscal year. A Development Facility will be constructed to house our fundraising activities in the amount of \$1,275,000. Funding for this project will be a combination of bonds issued by TSSBA and local plant construction funds. Private gifts have been received or pledged for the construction of a new Honors College building on the campus, with a total budget of \$4,150,000. The Smith Hall Complex renovation project is another housing renovation that is projected to start in the upcoming fiscal year, funded by bonds issued by TSSBA with a total project budget of \$11,570,000. More detailed information about the university's capital assets is presented in Note 7 to the financial statements.

Debt

At June 30, 2002, the university had \$77,864,088 in debt outstanding. The table below summarizes these amounts by type of debt instrument (in thousands of dollars).

TSSBA Bonds	\$75,997
TSSBA Commercial Paper	1,867
Total Debt	<u>\$77,864</u>

Tennessee State School Bond Authority issued new bonds on behalf of the university for the following four projects during the year: construction of a new Development facility, renovations for Housing, the chillers conversion project, and for the purchase of the St. Marks property. TSSBA earned an "AA" bond rating for the fiscal year. More detailed information about the university's long-term liabilities is presented in Note 9 to the financial statements.

Economic Factors That Will Affect the Future

The university is not aware of any currently known facts, decision, or conditions that are expected to have a significant effect on financial position or results of operations in the future. State funding for the upcoming fiscal year is increasing by \$4,843,200 for the university. Across the board fee increases have been approved by the Tennessee Board of Regents, which increased student fees by 7.5%.

BASIC FINANCIAL STATEMENTS

Middle Tennessee State University
Unaudited Statement of Net Assets
June 30, 2002

ASSETS

Current assets:

Cash and cash equivalents	\$ 35,038,192.63
Short-term investments	18,004,475.08
Accounts, notes, and grants receivable (net)	9,529,796.75
Inventories (at lower of cost or market)	2,702,891.96
Prepaid expenses and deferred charges	389,720.78
Accrued interest receivable	80,236.19
Other assets	16,909,912.45
Total current assets	82,655,225.84

Noncurrent assets:

Cash and cash equivalents	17,921,932.03
Investments	657,880.41
Accounts, notes, and grants receivable	2,777,376.26
LGIP Deposits - Capital Projects	5,941,172.82
Deposit with Trustees	41,642.80
Capital assets (net)	165,701,661.87
Total noncurrent assets	193,041,666.19
Total assets	\$ 275,696,892.03

LIABILITIES

Current liabilities:

Accounts payable	\$ 2,017,414.28
Accrued liabilities	11,104,457.94
Student deposits	892,632.81
Deferred revenue	3,651,554.27
Compensated absences	1,668,834.24
Accrued interest payable	698,974.42
Long-term liabilities, current portion	2,390,069.35
Deposits held in custody for others	46,816,269.02
Other liabilities	99,651.53
Total current liabilities	69,339,857.86

Noncurrent liabilities:

Compensated absences	2,119,002.75
Long-term liabilities	75,474,018.42
Due to grantors	2,583,710.94
Total noncurrent liabilities	80,176,732.11
Total liabilities	\$ 149,516,589.97

NET ASSETS

Invested in capital assets, net of related debt	\$ 87,837,574.10
Restricted for:	
Nonexpendable:	
Scholarships and fellowships	10,900.00
Other	614,899.93
Expendable:	
Scholarships and fellowships	59,177.92
Research	139,235.99
Instructional department uses	87,514.73
Loans	1,640,845.51
Capital projects	3,256,320.62
Debt service	908,158.61
Other	779,390.67
Unrestricted	30,846,283.98
Total net assets	\$ 126,180,302.06

See notes to financial statements.

Middle Tennessee State University
Unaudited Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2002

REVENUES

Operating revenues:	
Student tuition and fees (net of scholarship allowances of \$11,966,041.32)	\$ 57,385,162.99
Governmental grants and contracts	18,090,920.19
Non-governmental grants and contracts	691,605.20
Sales and services of educational departments	4,572,127.19
Auxiliary enterprises:	
Residential life (all residential life revenues are used as security for revenue bonds, see Note 9)	10,635,144.14
Bookstore	8,187,911.61
Food service	475,246.47
Wellness facility (all wellness facility revenues are used as security for revenue bonds, see Note 9)	1,256,838.37
Other auxiliaries	3,072,368.11
Interest earned on loans to students	101,509.15
Other operating revenues	301,023.75
Total operating revenues	<u>\$ 104,769,857.17</u>

EXPENSES

Operating Expenses	
Salaries and wages	\$ 95,356,489.53
Benefits	23,191,166.09
Utilities, supplies, and other services	49,196,528.07
Scholarships and fellowships	10,871,191.29
Depreciation expense	10,094,640.50
Total operating expenses	<u>188,710,015.48</u>
Operating loss	<u>\$ (83,940,158.31)</u>

NONOPERATING REVENUES (EXPENSES)

State appropriations	\$ 79,049,100.00
Gifts	901,142.70
Investment income (net of investment expense of \$ 527,095.16)	1,623,221.14
Interest on capital asset-related debt	(3,926,514.41)
Other non-operating revenues	814,275.35
Net nonoperating revenues	<u>78,461,224.78</u>
Income before other revenues, expenses, gains or losses	<u>(5,478,933.53)</u>
Capital appropriations	3,642,168.62
Capital grants and gifts	3,469,196.77
Total other revenues	<u>7,111,365.39</u>
Increase in net assets	<u>\$ 1,632,431.86</u>

NET ASSETS

Net Assets - beginning of year, as originally reported	\$ 258,152,160.84
Cumulative effect of changes in accounting principle	
Adoption of capitalization criteria for buildings and additions	(2,234,914.27)
Adoption of depreciation for capital assets	(127,466,383.88)
Deferred revenue recognition	799,665.81
Other	(2,773,144.37)
Net Assets - beginning of year, as restated	<u>\$ 126,477,384.13</u>
Prior period adjustment	(1,929,513.93)
Net Assets - end of year	<u>\$ 126,180,302.06</u>

See notes to financial statements.

**Middle Tennessee State University
Unaudited Statement of Cash Flows
For the Year Ended June 30, 2002**

Cash flows from operating activities:

Tuition and fees	\$ 58,937,540.43
Grants and contracts	18,206,771.92
Sales and services of educational activities	4,557,156.04
Payments to suppliers and vendors	(49,689,905.98)
Payments to employees	(92,551,989.45)
Payments for benefits	(22,459,781.06)
Payments for scholarships and fellowships	(10,871,191.29)
Interest earned on loans to students	101,302.16
Auxiliary enterprise charges:	
Residence halls	10,675,289.34
Bookstore	7,795,352.44
Food services	504,418.88
Wellness facility	1,256,838.37
Other auxiliaries	3,081,994.42
Other receipts	301,023.75
	<hr/>
Net cash flows used by operating activities	\$ (70,155,180.03)

Cash flows from non-capital financing activities:

State appropriations	\$ 78,250,300.00
Gifts and grants received for other than capital or endowment purposes	868,287.86
Federal student loan receipts	136,707.54
Federal student loan disbursements	(154,773.86)
Changes in deposits held for others	(1,447,191.02)
	<hr/>
Net cash flows provided by non-capital financing activities	\$ 77,653,330.52

Cash flows from capital and related financing activities:

Proceeds from capital debt	\$ 13,035,264.76
Capital - state appropriation	3,642,168.62
Capital grants and gifts received	3,463,296.77
Purchase of capital assets and construction	(11,508,395.79)
Principal paid on capital debt and lease	(9,760,455.47)
Interest paid on capital debt and lease	(3,828,777.91)
Deposit with trustee	(1,735,100.84)
Other capital and related financing receipts	823,817.22
	<hr/>
Net cash flows used by capital and related financing activities	\$ (5,868,182.64)

See notes to financial statements.

Cash flows from investing activities:

Proceeds from sales and maturities of investments	\$	66,449.43
Income on investments		1,691,127.32
Purchase of investments		(91,500.00)
		<hr/>
Net cash provided by investing activities	\$	1,666,076.75
		<hr/>
Net increase in cash and cash equivalents		3,296,044.60
Cash and cash equivalents - July 1, 2001		55,605,252.88
Cash and cash equivalents - June 30, 2002	\$	<u>58,901,297.48</u>

Reconciliation of operating loss to net cash used by operating activities:

Operating loss	\$	(83,940,158.31)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense		10,094,640.50
Change in assets and liabilities:		
Receivables, net		(735,107.07)
Inventories		(305,103.10)
Prepaid/deferred items		(84,483.82)
Other assets		(206.99)
Accounts payable		(718,575.69)
Accrued liabilities		3,222,612.53
Deferred revenues		1,767,634.38
Deposits		152,901.82
Compensated absences		338,105.56
Due to grantors		52,560.16
Net cash used by operating activities	\$	<u>(70,155,180.03)</u>

See notes to financial statements.

MIDDLE TENNESSEE STATE UNIVERSITY
Notes to the Financial Statements
June 30, 2002

1. Summary of Significant Accounting Policies

REPORTING ENTITY

The institution 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*.

BASIS OF PRESENTATION

The financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This was followed in November 1999 by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the institution's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows and replaces the fund-group perspective previously required.

Significant accounting changes made in order to comply with the new requirements include (1) adoption of depreciation on capital assets and 2) reporting summer school revenues and expenses between fiscal years rather than in one fiscal year.

BASIS OF ACCOUNTING

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

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

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

LGIP DEPOSIT - CAPITAL PROJECTS

Payments related to the institution's capital projects are made by the State of Tennessee's Department of Finance and Administration. The institution'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 institution for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

INVENTORIES

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

COMPENSATED ABSENCES

The institution'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 is reported in the Statement of Net Assets.

CAPITAL ASSETS

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

A capitalization threshold of \$100,000 is used for buildings, \$50,000 for additions and improvements to land, buildings, or infrastructure, and \$5,000 for equipment.

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

MIDDLE TENNESSEE STATE UNIVERSITY FOUNDATION

The institution is the sole beneficiary of the Middle Tennessee State University Foundation. A board independent of the institution controls this private, nonprofit foundation. The institution handles the financial records, investments, and other financial transactions, and the assets and liabilities of the foundation are included on the institution's Statement of Net Assets.

NET ASSETS

The institution's net assets are classified as follows:

INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT: This represents the institution'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 – EXPENDABLE: Restricted expendable net assets include resources in which the institution is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

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.

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 institution, and may be used at the discretion of the institution to meet current expenses for any purpose. These resources also include auxiliary enterprises, which 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 the institution and the amount that is paid by the student 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 institution's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the institution has recorded a scholarship discount and allowance.

COMPARATIVE DATA

The financial statements contained herein are not comparative, as the institution is implementing GASB Statements 34, 35, 37, and 38, and is not required to do so. As such, certain amounts presented in prior years' data have been reclassified in order to be consistent with the current year's presentation.

2. **Independent Audit**

The financial statements for the year ended June 30, 2002 are unaudited. The most recent audit covered the year ended June 30, 2001, for which an audit report has been issued. The institution received an unqualified opinion in the audit report for the year ended June 30, 2001. There is an audit in progress for the year ended June 30, 2002.

3. **Cash and Cash Equivalents**

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2002, cash and cash equivalents consist of \$4,503,094.94 in bank accounts, \$117,093.00 of petty cash on hand, \$45,896,560.71 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$2,443,376.01 in a money market account.

4. **Deposits**

The institution's bank accounts are in financial institutions that participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2002, the carrying amount of the institution's deposits was \$6,946,470.95, and the bank balance was \$8,900,879.49. The bank balance was insured.

In accordance with the laws of the State of Tennessee, commercial banks have pledged securities as collateral for institution funds on deposit. The required collateral accepted as security for deposits shall be collateral whose market value is equal to either one hundred fifteen percent (115%), one hundred percent (100%), or ninety percent (90%) of the uninsured deposits. The pledge level is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

The institution also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The Pooled Investment Fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*.

5. Investments

The institution 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 which 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 institution and that endowment investments be prudently diversified. The Middle Tennessee State University Foundation is authorized to invest funds in accordance with its board of directors' policies.

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

Investments of the Middle Tennessee State University Foundation are categorized below to give an indication of the level of risk assumed by the foundation at year-end. Category 1 consists of investments that are insured or registered or for which the securities are held by the foundation or its agent in the foundation's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's/counterparties' trust department or agent in the foundation's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the foundation's name.

	Category			Fair Value
	1	2	3	
U.S. Government Securities	\$ -	\$ 296,852.43	\$ -	\$ 296,852.43
Corporate Stocks	-	8,919,352.04	-	8,919,352.04
Corporate Bonds	-	1,275,199.10	-	1,275,199.10
Totals	\$ -	\$10,491,403.57	\$ -	\$ 10,491,403.57
Mutual Funds				\$ 8,170,951.92
Total Investments per Statement of Net Assets				<u>\$ 18,662,355.49</u>

All category 2 investments belong to the Middle Tennessee State University Foundation. The Foundation's Finance Committee makes all investment decisions of the Foundation.

Investments of endowment and similar funds owned by the University are composed of the following:

	Carrying Value	
	FY 2001-02	FY 2000-01
Mutual Funds	\$ 657,880.41	\$ 653,194.02

Assets of endowment funds are pooled on a market value basis, with each individual fund subscribing to or disposing of units on the basis of the value per unit market value at the beginning of the calendar quarter within which the transaction takes place. The 130,008.658 units at June 30, 2002, each having a market value of \$5.06, were owned by endowment funds.

The following tabulation summarizes changes in relationships between cost and market values of the pooled assets:

	Pooled Assets		Net Gains (Losses)	Market Value Per Unit
	Market	Cost		
End of year	\$ 657,880.41	\$ 738,196.77	\$ (80,316.36)	\$ 5.06
Beginning of year	653,194.02	710,641.16	(57,447.14)	4.94
				<u>\$ 0.12</u>
Unrealized net gains			\$ (22,869.22)	
Realized net gains			3,605.47	
Total net gains			<u>\$ (19,263.75)</u>	

The average annual earnings per unit, exclusive of net gains, were \$.12 for the year.

Investments of endowment and similar funds owned by the Foundation are composed of the following:

	Carrying Value	
	FY 2001-02	FY 2000-01
Mutual Funds	\$ 41,187.72	\$ 45,710.10

Assets of endowment funds are pooled on a market value basis, with each individual fund subscribing to or disposing of units on the basis of the value per unit market value at the beginning of the calendar quarter within which the transaction takes place. The 4,029.743 units at June 30, 2002, each having a market value of \$10.22, were owned by endowment funds.

The following tabulation summarizes changes in relationships between cost and market values of the pooled assets:

	Pooled Assets		Net Gains (Losses)	Market Value Per Unit
	Market	Cost		
End of year	\$ 41,187.72	\$ 48,608.60	\$ (7,420.99)	\$ 10.22
Beginning of year	45,710.13	48,608.60	(2,898.47)	11.34
				\$ (1.12)
Unrealized net gains			\$ (4,522.41)	
Realized net gains			-	
Total net gains			\$ (4,522.41)	

There were no average annual earnings per unit, exclusive of net gains, for the year.

6. Accounts, Notes, and Grants Receivable

Student accounts receivable	\$ 3,055,031.66
Grants receivable	3,506,642.43
Notes receivable	563,983.37
Pledges receivable	1,247,000.00
Other receivables	<u>2,526,831.64</u>
Subtotal	\$ 10,899,489.10
Less allowance for doubtful accounts	<u>1,369,692.35</u>
Total	<u>\$ 9,529,796.75</u>

Pledges receivable are promises of private donations that are reported as accounts receivable and revenue.

Federal Perkins Loan Program funds include the following at June 30, 2002:

Perkins loans receivable	\$ 3,699,809.23
Less allowance for doubtful account	<u>922,432.97</u>
Total	<u>\$ 2,777,376.26</u>

7. Capital Assets

Capital asset activity for the year ended June 30, 2002, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	\$ 3,787,039.61	\$ 662,184.90	\$ -	\$ -	\$ 4,449,224.51
Improvements and infrastructure	24,685,136.68	-	1,615,906.08	(980,442.24)	25,320,600.52
Buildings	191,505,679.92	3,162,450.00	2,613,816.38	(906,728.38)	196,375,217.92
Equipment	28,844,033.34	2,258,977.00	-	(2,142,896.87)	28,960,113.47
Library holdings	13,995,011.59	2,065,839.33	-	(1,370,134.59)	14,690,716.33
Projects in progress	2,756,272.60	3,364,844.56	(4,229,722.46)	-	1,891,394.70
Total	\$ 265,573,173.74	\$ 11,514,295.79	\$ -	\$ (5,400,202.08)	\$ 271,687,267.45

Less accumulated depreciation:

Improvements and infrastructure	\$ 9,942,385.80	\$ 1,236,134.19	\$ -	\$ -	\$ 11,178,519.99
Buildings	63,531,264.09	4,826,912.54	-	(169,188.47)	68,188,988.16
Equipment	17,366,706.42	2,425,508.67	-	(13,633.57)	19,778,581.52
Library holdings	6,603,565.40	1,606,085.10	-	(1,370,134.59)	6,839,515.91
Total accumulated depreciation	\$ 97,443,921.71	\$ 10,094,640.50	\$ -	\$ (1,552,956.63)	\$ 105,985,605.58
Capital assets, net	\$ 168,129,252.03	\$ 1,419,655.29	\$ -	\$ (3,847,245.45)	\$ 165,701,661.87

8. Capital Leases

The University has no equipment or real property capital lease agreements.

9. Long-term Liabilities

Long-term liability activity for the year ended June 30, 2002, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables					
Bonds	\$ 69,547,416.50	\$ 8,375,141.28	\$ (1,925,603.96)	\$ 75,996,953.82	\$ 2,390,069.35
Commercial Paper	5,034,110.81	117,365.18	(3,284,342.04)	1,867,133.95	-
Subtotal	\$ 74,581,527.31	\$ 8,492,506.46	\$ (5,209,946.00)	\$ 77,864,087.77	\$ 2,390,069.35
Other Liabilities					
Compensated					
Absences	\$ 3,449,731.43	\$ 2,215,500.38	\$ (1,877,394.82)	\$ 3,787,836.99	\$ 1,668,834.24
Subtotal	\$ 3,449,731.43	\$ 2,215,500.38	\$ (1,877,394.82)	\$ 3,787,836.99	\$ 1,668,834.24
Total long-term liabilities	\$ 78,031,258.74	\$ 10,708,006.84	\$ (7,087,340.82)	\$ 81,651,924.76	\$ 4,058,903.59

Bonds Payable

Bond issues, with interest rates ranging from 3.65% to 7.75% for Tennessee State School Bond Authority bonds, are due serially to 2030 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations. The bonded indebtedness with the Tennessee State School Bond Authority reported on the statement of net assets is shown net of assets held by the authority in the debt service reserve and net of unexpended loan proceeds. The reserve amount was \$907,739.11 at June 30, 2002, and \$1,120,203.57 at June 30, 2001.

Debt service requirements to maturity for all bonds payable at June 30, 2002, are as follows:

For the Year(s) Ending June 30	Principal	Interest	Total
2003	\$ 2,390,069.35	\$ 4,147,169.60	\$ 6,537,238.95
2004	2,522,927.44	4,016,615.75	6,539,543.19
2005	2,418,430.01	3,896,899.10	6,315,329.11
2006	2,446,690.06	3,780,741.54	6,227,431.60
2007	2,570,342.09	3,662,031.22	6,232,373.31
2008 - 2012	14,273,675.17	16,355,451.29	30,629,126.46
2013 - 2017	16,092,655.88	12,519,409.18	28,612,065.06
2018 - 2022	15,933,627.41	8,167,176.61	24,100,804.02
2023 - 2028	15,793,240.34	4,110,074.98	19,903,315.32
2029 - 2030	1,555,296.07	132,466.06	1,687,762.13
Total	\$ 75,996,953.82	\$ 60,788,035.33	\$ 136,784,989.15

Commercial Paper

The Tennessee State School Bond Authority authorized the issuance of Commercial Paper to finance costs of various capital projects. At June 30, 2002, \$1,867,133.95 had been issued for projects at Middle Tennessee State University.

For the commercial paper program, the Tennessee State School Bond Authority maintains an interest rate reserve fund. The institution 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.

10. Pension Plans

Defined Benefit Plan

Plan Description - The institution contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEPP), 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 SETHEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or by calling (615) 741-8202, extension 139.

Funding Policy - Plan members are noncontributory. The institution is required to contribute at an actuarially determined rate. The current rate is 6.19% of annual covered payroll. The contribution requirements of the institution are established and may be amended by the TCRS Board of Trustees. The institution's contributions to TCRS for the years ending June 30, 2002, 2001, and 2000 were \$2,165,347.75, \$2,107,764.38 and \$1,845,660.41, respectively, equal to the required contributions for each year.

Defined Contribution Plans

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

Funding Policy – Plan members are noncontributory. The institution contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the institution to the plans for the year ended June 30, 2002, was \$4,977,476.97 and for the year ended June 30, 2001, was \$4,551,987.92. Contributions met the requirements for each year.

11. Other Post-Employment Benefits

The State of Tennessee administers a group health insurance program that provides post-employment health insurance benefits to eligible institution retirees. This benefit is provided by and administered by the State of Tennessee. The institution assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

12. Chairs of Excellence

The institution had \$20,277,808.31 on deposit at June 30, 2002, 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.

13. Insurance-Related Activities

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$5 million has been established in the state's general fund to provide for any property losses not covered by commercial insurance.

At June 30, 2002, the scheduled coverage was \$345,598,800 for buildings and \$153,539,100 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The institution participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the institution based on a percentage of the institution'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. The institution is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated* 9-8-101 et seq. Liability for the negligence of the institution 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* 50-6-101 et seq. Claims are paid through the State's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The institution 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 institution 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.

14. Commitments and Contingencies

Sick Leave - The institution records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$34,315,469.73 at June 30, 2002.

Operating Leases - The institution 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 \$178,581.94 and \$78,591.98, respectively for the year ended June 30, 2002. Comparative amounts for the year ended June 30, 2001, were \$190,735.88 and \$123,673.03, respectively. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2002, outstanding commitments under construction contracts totaled \$4,670,337.77, all of which will be funded by future state capital outlay appropriations. Major projects include Development Facility, Todd Renovation, Housing Study Renovations, Several Building Roof Replacement, Keathley University Center, Honors College, and Life Safety Renovations.

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

The US Department of Education has completed a review on the fiscal years 1993-94 through 1996-97. The review examined federally funded awards granted during those years. As a result of the review the institution is subject to the repayment of certain awards in the amount of \$794,005.41 plus 5% interest compounded annually, totaling \$917,033.95, over five years beginning July 1, 2002.

15. Natural Classifications with Functional Classifications

The institution's operating expenses by functional classification for the year ended June 30, 2002, are as follows:

Functional Classification	Natural Classification					
	Salaries	Benefits	Operating	Scholarships	Depreciation	Total
Instruction	\$ 56,447,943.96	\$ 12,889,064.42	\$ 10,325,841.47	\$ 2,283,815.40	\$ -	\$ 81,946,665.25
Research	1,708,018.97	321,200.78	620,192.06	45,859.40	-	2,695,271.21
Public Service	2,733,048.65	688,237.86	2,471,583.39	257,161.53	-	6,150,031.43
Academic Support	8,637,282.59	2,269,994.48	240,842.90	87,553.41	-	11,235,673.38
Student Services	8,477,153.35	2,239,676.82	7,887,583.36	3,244,343.43	-	21,848,756.96
Institutional						
Support	7,769,151.83	2,100,682.88	2,030,172.34	83,279.91	-	11,983,286.96
M & O	4,801,871.60	1,514,211.64	13,636,385.11	10,000.00	-	19,962,468.35
Scholarships and						
Fellowships	-	-	7,714.72	4,838,595.95	-	4,846,310.67
Auxiliaries	4,782,018.58	1,168,097.21	11,976,212.72	20,582.26	-	17,946,910.77
Depreciation	-	-	-	-	10,094,640.50	10,094,640.50
Total Expenses	\$ 95,356,489.53	\$ 23,191,166.09	\$ 49,196,528.07	\$ 10,871,191.29	\$ 10,094,640.50	\$ 188,710,015.48

16. Prior Period Adjustment

The prior period adjustment in Investment in Plant relates to the following items:
 1) capitalization of stadium turf replacement not previously recorded in the amount of \$492,014.86, 2) removal of glass repair totaling \$84,270.00 previously capitalized, 3) removal of old telephone system in the amount of \$2,109,944.10 not removed when new system was installed, and 4) removal of electronic media databases previously capitalized as library holdings for \$227,314.69.

17. Cumulative Effect of Change in Accounting Principle

The institution implemented GASB Statement No. 34 *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* and GASB Statement No. 35 *Basic Financial Statements - and Management’s Discussion and Analysis - for Public Colleges and Universities*. As a result of this implementation, the institution was required to make changes in certain accounting principles, specifically 1) the adoption of capitalization criteria of \$100,000 and \$50,000 for buildings and additions, respectively; 2) adoption of depreciation on capital assets; and 3) recording of certain summer semester revenues between fiscal years rather than in the fiscal year in which the semester was predominantly conducted. The cumulative effects of these changes on net assets are noted below:

Adoption of capitalization criteria for building and additions	\$ (2,234,914.27)
Adoption of depreciation for capital assets	(127,466,383.88)
Deferred revenue recognition	799,665.81
Loan fund reclassification	(2,503,034.37)
Livestock write-off	<u>(270,110.00)</u>
Total	<u>\$ (131,674,776.71)</u>

18. Unrestricted Net Assets

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

	<u>FY 2002</u>
Working capital	\$ 2,322,924.00
Encumbrances	1,649,730.86
Designated fees	438,769.97
Auxiliaries	4,004,895.82
Quasi-endowment	155,100.00
Plant construction	6,346,886.34
Renewal and replacement of equipment	12,477,731.47
Debt retirement	<u>837,408.27</u>
Total	<u>\$ 28,233,446.73</u>