

Middle Tennessee State University

FINANCIAL REPORT

For the Year Ended June 30, 2004



Office of the President

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



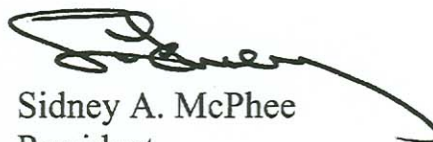
September 18, 2004

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, 2004.
This report has been prepared in accordance with Generally Accepted Accounting
Principles.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Sidney A. McPhee", with a long, sweeping flourish extending to the right.

Sidney A. McPhee
President



Vice President for Business and Finance

Middle Tennessee State University
211 Cope Administration Building
Murfreesboro, Tennessee 37132
615-898-2852
FAX: 615-898-5906



September 18, 2004

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, 2004.

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, 2003. An audit is currently in progress for fiscal year ended June 30, 2004.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "John W. Cothorn".

John W. Cothorn
Vice President for
Business and Finance



MIDDLE TENNESSEE STATE UNIVERSITY

FINANCIAL REPORT

For the Year Ended June 30, 2004

TABLE OF CONTENTS

Management's Discussion and Analysis	6
Unaudited Statement of Net Assets	20
Unaudited Statement of Revenues, Expenses, and Changes in Net Assets	21
Unaudited Statement of Cash Flows	22
Notes to the Financial Statements	24

A Tennessee Board of Regents University

MTSU is an equal opportunity, non-racially identifiable, educational institution that does not discriminate against individuals with disabilities. BF011-0804

MIDDLE TENNESSEE STATE UNIVERSITY
Management's Discussion and Analysis
For the Year Ended June 30, 2004

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, 2004, with comparative information presented for the fiscal year ended June 30, 2003. 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 is Invested in Capital Assets, Net of Debt. It 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 subcategories, 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)**

	University		Component Unit	
	2004	2003	2004	2003
Assets				
Current assets	\$ 41,078	\$ 39,652	\$ 929	\$ 1,458
Capital assets, net	177,341	170,627	21,915	20,735
Other assets	36,109	25,848	34,111	31,463
Total Assets	\$ 254,528	\$ 236,127	\$ 56,955	\$ 53,656
Liabilities				
Current liabilities	\$ 25,191	\$ 24,070	\$ 53	\$ 138
Noncurrent liabilities	90,338	84,878	-	-
Total Liabilities	\$ 115,529	\$ 108,948	\$ 53	\$ 138
Net Assets				
Invested in capital assets, net of debt	\$ 90,781	\$ 89,235	\$ 21,915	\$ 20,735
Restricted - expendable	7,358	5,585	11,198	11,990
Restricted - nonexpendable	738	716	23,296	20,196
Unrestricted	40,122	31,643	493	597
Total Net Assets	\$ 138,999	\$ 127,179	\$ 56,902	\$ 53,518

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

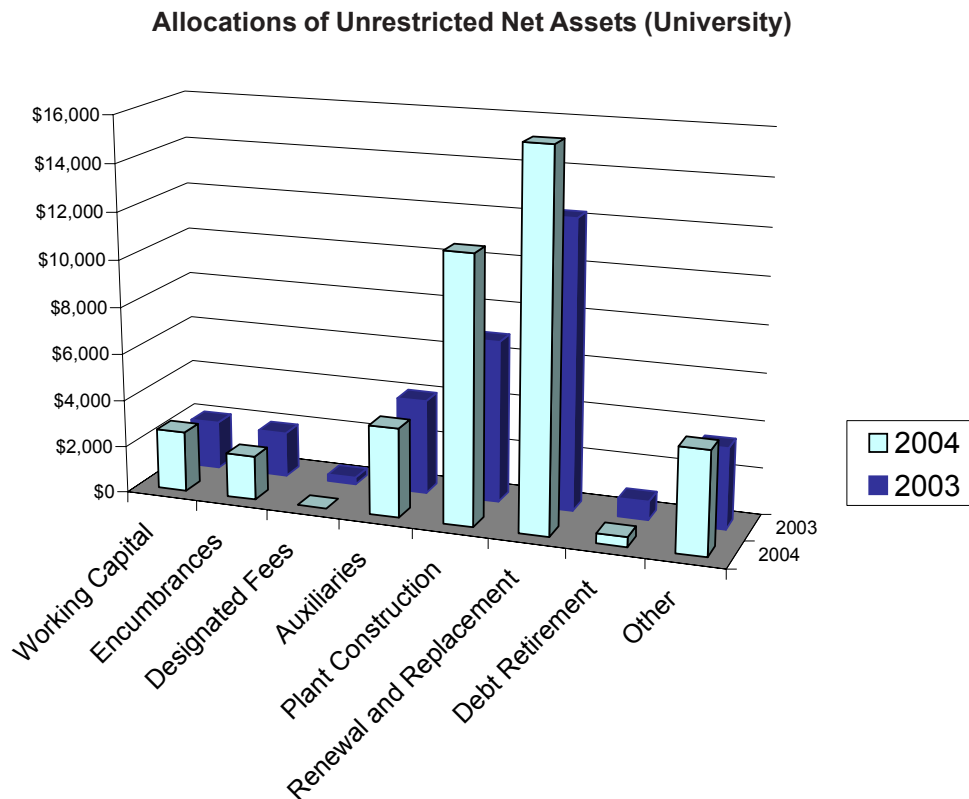
- ◆ Net capital assets increased due to the purchase of the remaining flight training airplanes for the Aerospace Department, renovation of the University's housing facilities, and renovation of the Todd Building.
- ◆ The increase in other assets is mainly attributable to an increase in noncurrent cash and cash equivalents. This was due to an enrollment increase of 3.22% in Fall 2003 and an across-the-board fee increase of 14% for 2003–04.
- ◆ Noncurrent liabilities increased due to the issuance of bonds and commercial paper by the Tennessee State School Bond Authority (TSSBA) for various capital projects. More detailed information about the University's capital assets is presented in the Capital Asset and Debt Administration section of this report.

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

- ◆ The increase in capital assets is the result of the continued construction of the Rose and Emmett Kennon Sports Hall of Fame, which is shown as Projects in Progress in the notes.
- ◆ The Other Assets category increased due to the execution of contracts with a donor, which resulted in the recording of accounts receivables.

- ◆ Restricted – nonexpendable net assets increased due to the favorable market performance. Nonexpendable investments increased approximately \$2.5 million.

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



- ◆ Plant construction increased due to private giving dollars received this year for an addition to the Cason-Kennedy Nursing Building, which construction is slated to begin as early as the 2005–06 fiscal year. In addition, more funds have been set aside for future year projects which include a university-wide replacement of PCs for all staff and the purchase of a new Enterprise Resource Planning (ERP) system to replace the current administrative systems.
- ◆ Renewal and replacement increased due to (1) more funds set aside by the campus auxiliary units for future projects; (2) less funds needed for the retirement of debt on the student Recreation Center due to a refunding of the bonds by TSSBA, thus allowing more funds to be set aside for a Student Health, Wellness, and Recreation Facility upgrade project; (3) proceeds received from the sale of existing airplanes in the flight training program; and (4) less funds needed to cover impoundments imposed by the State in previous years.

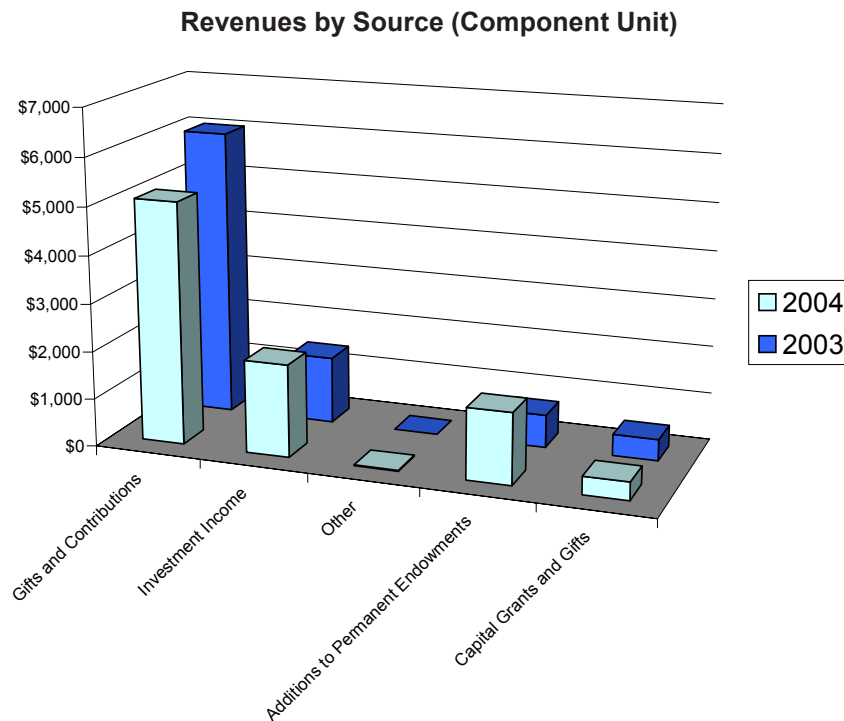
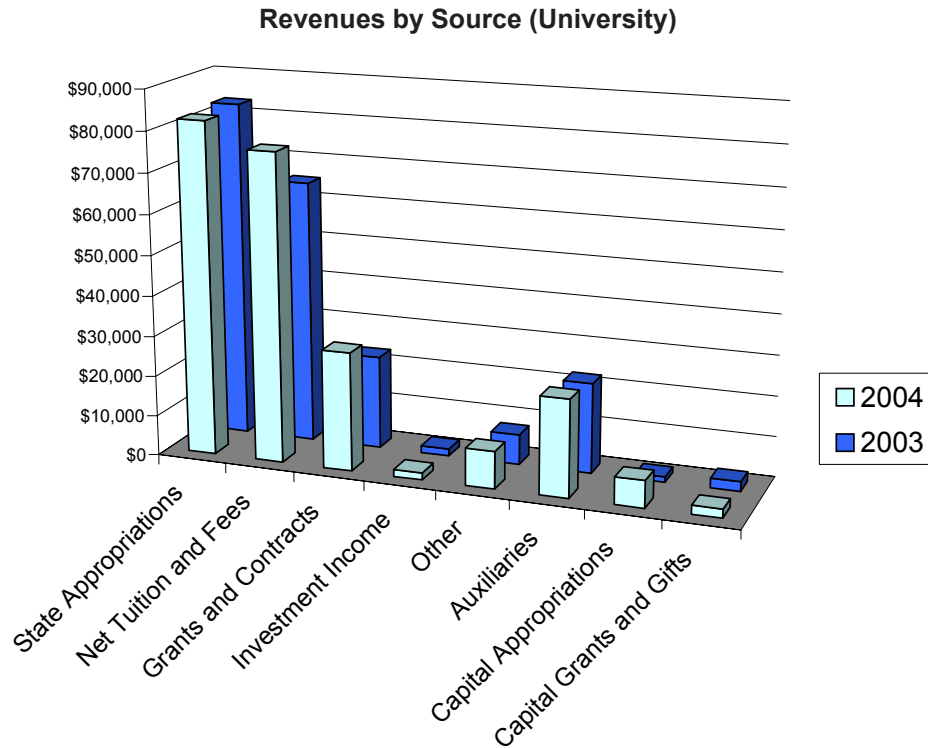
The Statement of Revenues, Expenses, and Changes in Net Assets

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 generally accepted accounting principles.

	University		Component Unit	
	2004	2003	2004	2003
Operating revenues				
Net tuition and fees	\$ 76,220	\$ 65,044	\$ -	\$ -
Gifts	-	-	5,077	6,024
Auxiliaries	24,042	22,298	-	-
Grants and contracts	14,894	23,042	20	-
Other	8,185	5,956	-	-
Total operating revenues	\$ 123,341	\$ 116,340	\$ 5,097	\$ 6,024
Operating expenses	\$ 215,315	\$ 201,150	\$ 5,616	\$ 4,537
Operating loss	\$ (91,974)	\$ (84,810)	\$ (519)	\$ 1,487
Nonoperating revenues and expenses				
State appropriations	\$ 82,359	\$ 83,208	\$ -	\$ -
Gifts	664	929	-	-
Grants and contracts	14,431	-	-	-
Investment income	1,732	1,716	1,942	1,399
Other revenues and expenses	(4,113)	(3,597)	(2)	(1)
Total nonoperating revenues and expenses	\$ 95,073	\$ 82,256	\$ 1,940	\$ 1,398
Income (loss) before other revenues, expenses, gains, or losses	\$ 3,099	\$ (2,554)	\$ 1,421	\$ 2,885
Other revenues, expenses, gains, or losses				
Capital appropriations	\$ 6,703	\$ 1,372	\$ -	\$ -
Capital grants and gifts	2,163	2,385	381	450
Additions to permanent endowments	-	-	1,494	689
Other	(145)	(52)	-	-
Total other revenues, expenses, gains, or losses	\$ 8,721	\$ 3,705	\$ 1,875	\$ 1,139
Increase (decrease) in net assets	\$ 11,820	\$ 1,151	\$ 3,296	\$ 4,024
Net assets at beginning of period, restated	127,179	126,180	53,518	49,477
Prior period adjustment	-	(152)	88	17
Net assets at end of year	\$ 138,999	\$ 127,179	\$ 56,902	\$ 53,518

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, 2004, and the year ended June 30, 2003 (in thousands of dollars).



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

- ◆ The increase in tuition and fees is attributable to an across-the-board fee increase of 14% for the 2003–04 year and a student enrollment increase of approximately 3% from Fall 2002 to Fall 2003.
- ◆ Grants and contracts increased primarily due to a change in recognition of funds received from the Tennessee Student Assistance Corporation (TSAC). In 2003–04, these funds are recognized as revenues by the University with the associated scholarship expense. Previously, these funds were not shown on the University's statements and only flowed through the University's accounting system. The amount for 2003–04 was over \$3 million. Other significant funding increases occurred in the following programs: Pell, Geir Consent Degree and Desegregation programs, Governor's School, Chairs of Excellence, and many private grants and contracts.
- ◆ Capital appropriations increased primarily due to the use of funds previously appropriated by the State for the Todd Building renovation.
- ◆ State appropriations and tuition and fees make up 68% of the University's revenue.

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

- ◆ The decrease in gifts and contributions is due to a decrease in the amount of pledges for the year of almost \$1.9 million. This decrease is the result of a review of all outstanding pledges but was partially offset by increases in cash contributions, gifts-in-kind, and stock gifts for the current year.
- ◆ The increase in investment income is the result of favorable market performance. During the year, realized gains on investments totaled approximately \$384,000.
- ◆ The increase in additions to permanent endowments is due to an increase in cash contributions of approximately \$937,000 for the year.

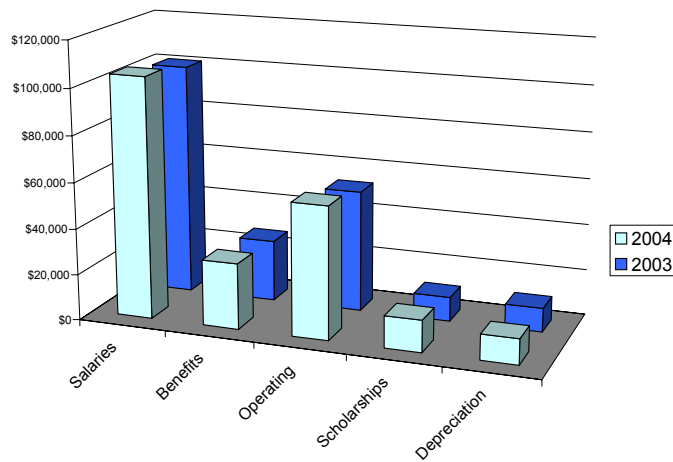
Expenses

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

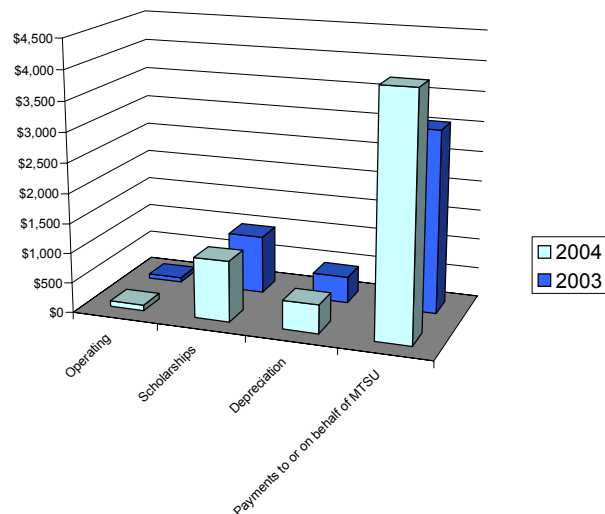
Natural Classification (in thousands)

	University		Component Unit	
	2004	2003	2004	2003
Salaries	\$ 104,590	\$ 100,949	\$ -	\$ -
Benefits	28,538	26,690	-	-
Operating	57,337	52,657	1,596	1,481
Scholarships	13,826	10,437	1,016	971
Depreciation	11,024	10,417	480	439
Payments to or on behalf of MTSU	-	-	2,524	1,646
TOTAL	\$ 215,315	\$ 201,150	\$ 5,616	\$ 4,537

Expenses by Natural Classification (University)



Expenses by Natural Classification (Component Unit)



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

- ◆ The increase in salary expenses is primarily due to implementation of the second half of the 2% across-the-board pay raise, 3% salary equity adjustment for faculty, and 2% salary equity adjustment for administrative and classified personnel, all implemented January 2003. Other factors contributing to this increase are faculty promotions, new faculty positions, and new graduate assistant positions.
- ◆ Employee benefit expenses increased due to increases in the state's group insurance premiums in January 2003 and January 2004 and the addition of benefits for new positions.

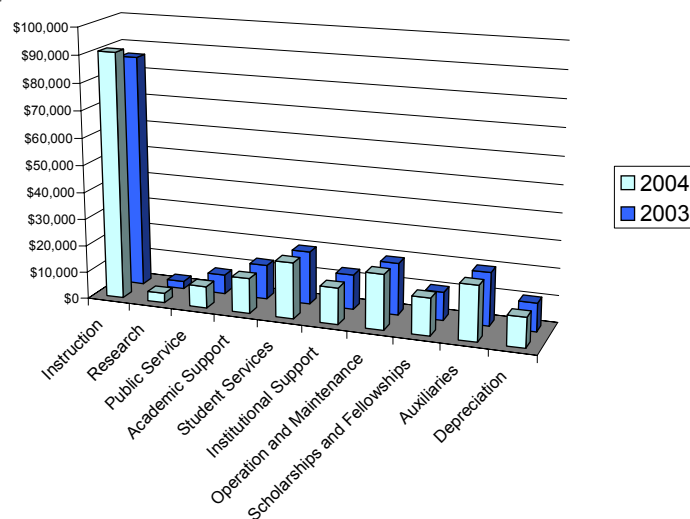
The component unit had the following significant change in expenses between fiscal years:

- ◆ Payments to or on behalf of MTSU increased due to more requests from University faculty to purchase items to support University functions. As the University's budget has decreased, the requests for funds from the Foundation have increased.

**Program Classification
(in thousands of dollars)**

	University	
	2004	2003
Instruction	\$ 90,974	\$ 86,133
Research	3,556	2,782
Public Service	8,022	7,161
Academic Support	12,989	12,766
Student Services	20,773	19,688
Institutional Support	13,438	12,973
Operation and Maintenance	20,381	19,169
Scholarships and Fellowships	13,837	10,437
Auxiliaries	20,321	19,624
Depreciation	11,024	10,417
TOTAL	\$ 215,315	\$ 201,150

Expenses by Program Classification (University)



- ◆ The Instruction function increased as a result of faculty salary increases in January 2003, faculty promotions, new faculty positions, new graduate assistantship positions, more funds available from the technology access fee (TAF), and the approval of a business course fee. Funds received from the business course fee must be used by the Jennings A. Jones College of Business, and most of the new funds are spent within the Instruction function.
- ◆ The increase in the Scholarships and Fellowships function is the result of a change in recognition of funds received from TSAC. In 2003–04, these funds were recognized as revenues by the University with the associated scholarship expense. Previously, these funds were not shown on the University's statements and only flowed through the University's accounting system. The amount for 2003–04 was over \$3 million.

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 (in thousands of dollars)

	University		Component Unit	
	2004	2003	2004	2003
Cash provided (used) by:				
Operating activities	\$ (80,108)	\$ (72,668)	\$ 1,382	\$ (1,160)
Noncapital financing activities	98,051	85,149	1,583	653
Capital and related financing activities	(8,310)	(11,659)	(2,287)	(469)
Investing activities	1,708	1,684	(761)	(704)
Net increase (decrease) in cash	\$ 11,341	\$ 2,506	\$ (83)	\$ (1,680)
Cash, beginning of year	50,279	47,773	9,448	11,128
Cash, end of year	\$ 61,620	\$ 50,279	\$ 9,365	\$ 9,448

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

- ◆ Cash used by operating activities increased due to salary and benefit increases and more scholarships provided for students. Major uses of cash were for payments to suppliers and vendors, payments to employees, and payments for scholarships and fellowships.
- ◆ Cash provided by noncapital financing activities increased due to the reclassification of Pell and SEOG federal financial assistance funds from operating activities to noncapital financing activities.

- ◆ Cash used by capital and related financing activities decreased due to the funding of more of the University's capital projects from capital state appropriations and fewer projects funded from local University funds.
- ◆ The University's cash position for the year increased by \$11,340,982.

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

- ◆ Cash provided by operating activities was largely due to increases in cash donations received from contributors.
- ◆ Cash provided by noncapital financing activities increased due to the effort to move excess funds held in the temporarily restricted accounts to the endowment accounts.
- ◆ Cash used by capital and related financing activities increased due to the construction of the Rose and Emmett Kennon Sports Hall of Fame, the Tennessee Miller Coliseum Warm-up Ring, and the Horse Science addition.
- ◆ The component unit's cash position for the year decreased by \$83,278.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2004, Middle Tennessee State University had \$177,341,129 invested in capital assets, net of accumulated depreciation of \$121,767,539. Depreciation charges totaled \$11,023,830 for the current fiscal year. Details of these assets are shown below.

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

	<u>University</u>		<u>Component Unit</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	\$ 4,980	\$ 4,527	\$ 2,213	\$ 3,615
Land improvements and infrastructure	13,112	13,195	95	100
Buildings	124,940	124,449	17,982	16,608
Equipment	14,721	12,438	41	30
Library holdings	8,945	8,323	-	-
Projects in progress	10,643	7,695	1,584	382
TOTAL	\$ 177,341	\$ 170,627	\$ 21,915	\$ 20,735

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

- ◆ Equipment increased due to the purchase of items costing more than \$5,000 by campus departments. The majority of this increase is attributable to the acquisition of the remaining flight training airplanes for the Aerospace Department.
- ◆ Projects in progress increased significantly due to current renovations of University housing facilities and the Todd Building. Three projects were completed during the year and transferred out of projects in progress: Paul W. Martin Sr. Honors Building, parking lot expansions, and the airplane classroom.
- ◆ All other categories either increased or decreased due to the additions of capital assets and the recording of depreciation.

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

- ◆ The decrease in land is attributable to the reclassification of the Foundation House from the land category to the buildings category. The capital asset had been classified incorrectly in previous years.
- ◆ Building increased as a result of the above reclassification along with the completion of the Horse Science addition.
- ◆ Projects in progress increased due to continued construction of the Rose and Emmett Kennon Sports Hall of Fame and the Tennessee Miller Coliseum Warm-up Ring.

The University expects to make major capital expenditures during fiscal year 2004–05 for the following projects: continued renovation of the Todd Building funded from capital state appropriations; continued renovation to the University's housing facilities that will be funded from the issuance of TSSBA bonds; and a Student Health, Wellness, and Recreation Facility upgrade to be funded from University auxiliary reserve balances and the issuance of TSSBA bonds.

Debt

At June 30, 2004, the University had \$86,559,889.43 in debt outstanding. The table below summarizes these amounts by type of debt instrument (in thousands of dollars).

Outstanding Debt Schedule (in thousands of dollars)

	<u>2004</u>	<u>2003</u>
TSSBA Bonds	\$ 81,331	\$ 75,490
TSSBA Commercial Paper	5,229	5,902
Total Debt	\$ 86,560	\$ 81,392

The Tennessee State School Bond Authority (TSSBA) issued new bonds on behalf of the University for the following four projects during the year: Steinway piano purchases for the Robert W. McLean School of Music; the Aerospace Department's flight training airplanes; the project for energy savings and performance contracting; and the student health, wellness, and recreation facility upgrade. TSSBA also refunded the original bonds issued on the student Recreation Center in order to obtain a lower rate of interest. Commercial paper was issued for several ongoing capital projects during the year.

TSSBA currently is rated as AA- by Standard & Poor's. 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 state has approved a 3% across-the-board salary increase for all state employees effective July 1, 2004. Funding will be provided by the state for 1% of this increase through increased state appropriations, with the remaining 2% to be funded from University resources.

The Tennessee Board of Regents approved, at their June board meeting, a 7% fee increase for 2004–05.

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

Requests for Information

This financial report is designed to provide a general overview 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, Business Office Controller, CAB 105, Middle Tennessee State University, 1301 East Main Street, Murfreesboro, TN 37132.

BASIC FINANCIAL STATEMENTS

Middle Tennessee State University
Unaudited Statement of Net Assets
June 30, 2004, with comparative figures at June 30, 2003

	<u>University</u>		<u>Component Unit</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 3, 4, 17, and 18)	\$ 29,608,620.54	\$ 27,921,960.68	\$ 539,109.59	\$ 754,628.01
Accounts, notes, and grants receivable (net) (Notes 6 and 17)	8,528,005.74	8,488,036.81		
Pledges receivable (net) (Note 18)			380,170.51	685,731.05
Inventories (at lower of cost or market)	2,484,672.66	2,476,787.57		
Prepaid expenses and deferred charges	417,413.39	730,102.34		
Accrued interest receivable	39,566.42	35,520.33	9,764.36	17,285.98
Total current assets	41,078,278.75	39,652,407.73	929,044.46	1,457,645.04
Noncurrent assets:				
Cash and cash equivalents (Notes 3, 4, and 18)	32,011,615.78	22,357,293.61	8,825,615.79	8,693,375.08
Investments (Notes 5 and 18)	716,066.91	697,319.67	23,177,229.87	20,107,679.91
Accounts, notes, and grants receivable (net) (Notes 6 and 18)	3,381,410.72	2,793,178.07	1,967,673.45	832,207.89
Pledges receivable (net) (Note 18)			140,648.18	1,830,256.61
Capital assets (net) (Notes 7 and 18)	177,341,128.89	170,627,178.98	21,914,575.17	20,735,166.96
Total noncurrent assets	213,450,222.30	196,474,970.33	56,025,742.46	52,198,686.45
Total assets	\$ 254,528,501.05	\$ 236,127,378.06	\$ 56,954,786.92	\$ 53,656,331.49
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 1,835,454.26	\$ 1,844,509.73	\$ 53,272.86	\$ 138,101.66
Accrued liabilities	12,936,676.21	12,259,146.06		
Student deposits	907,383.44	949,351.30		
Deferred revenue	4,554,664.58	3,925,801.95		
Compensated absences (Note 8)	1,093,023.14	1,051,274.65		
Accrued interest payable	707,451.88	681,890.06		
Long-term liabilities, current portion (Note 8)	2,208,716.72	2,522,927.44		
Deposits held in custody for others	642,349.43	639,908.11		
Other liabilities	305,889.74	195,022.37		
Total current liabilities	25,191,609.40	24,069,831.67	53,272.86	138,101.66
Noncurrent liabilities:				
Compensated absences (Note 8)	3,052,933.65	3,003,574.85		
Long-term liabilities (Note 8)	84,351,172.71	78,869,414.51		
Due to grantors (Note 8)	2,933,577.40	3,005,097.53		
Total noncurrent liabilities	90,337,683.76	84,878,086.89	-	-
Total liabilities	\$ 115,529,293.16	\$ 108,947,918.56	\$ 53,272.86	\$ 138,101.66
NET ASSETS				
Invested in capital assets, net of related debt	\$ 90,781,239.46	\$ 89,234,837.03	\$ 21,914,575.17	\$ 20,735,166.96
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	10,900.00	10,900.00	21,741,298.56	18,669,433.57
Research			740,940.64	744,121.86
Other	727,061.61	704,747.30	813,699.10	782,159.99
Expendable:				
Scholarships and fellowships	143,892.28	98,655.30	885,379.37	1,851,496.65
Research	79,087.22	271,768.66	3,038.49	3,038.49
Instructional department uses	83,963.03	68,541.09	5,770,380.57	5,258,272.12
Loans	1,728,243.26	1,686,827.12		
Capital projects	1,931,294.70	1,390,919.24	3,315,258.11	4,532,224.68
Debt service	2,311,238.19	1,360,799.66		
Other	1,080,498.63	708,074.28	1,223,828.08	344,749.33
Unrestricted (Note 10)	40,121,789.51	31,643,389.82	493,115.97	597,566.18
Total net assets	\$ 138,999,207.89	\$ 127,179,459.50	\$ 56,901,514.06	\$ 53,518,229.83

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, 2004, with comparative figures at June 30, 2003

	University		Component Unit	
	2004	2003	2004	2003
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$14,440,618.35 for the year ended June 30, 2004, and \$12,391,421.11 for the year ended June 30, 2003)	\$ 76,219,797.24	\$ 65,043,588.14		
Gifts and contributions			\$ 5,076,915.87	\$ 6,023,666.02
Governmental grants and contracts	14,025,250.06	22,414,057.25		
Nongovernmental grants and contracts	869,011.58	627,451.29	19,599.02	
Sales and services of educational departments	6,987,364.42	5,245,450.63		
Auxiliary enterprises:				
Residential life (net of scholarship allowances of \$1,583,844.04 for the year ended June 30, 2004, and \$1,703,820.40 for the year ended June 30, 2003: all residential life revenues are used as security for revenue bonds, see Note 8)	9,549,714.11	8,883,196.20		
Bookstore (net of scholarship allowances of \$1,390,735.54 for the year ended June 30, 2004, and \$1,394,034.88 for the year ended June 30, 2003: all bookstore revenues are used as security for revenue bonds, see Note 8)	7,344,697.62	7,083,866.49		
Food service	560,304.82	530,126.77		
Wellness facility (net of scholarship allowances of \$301,178.40 for the year ended June 30, 2004, and \$ -0- for the year ended June 30, 2003: all wellness facilities revenues are used as security for revenue bonds, see Note 8)	1,585,841.93	1,810,471.86		
Other auxiliaries	5,000,931.74	3,990,830.05		
Interest earned on loans to students	83,013.48	99,081.07		
Other operating revenues	1,115,041.68	611,770.18		
Total operating revenues	<u>\$ 123,340,968.68</u>	<u>\$ 116,339,889.93</u>	<u>\$ 5,096,514.89</u>	<u>\$ 6,023,666.02</u>
EXPENSES				
Operating Expenses				
Salaries and wages	\$ 104,590,058.79	\$ 100,948,724.09		
Benefits	28,537,541.14	26,689,905.88		
Utilities, supplies, and other services	57,336,706.49	52,657,097.29	\$ 1,596,079.99	\$ 1,480,775.36
Scholarships and fellowships	13,826,489.17	10,437,455.35	1,016,401.09	971,575.23
Depreciation expense	11,023,830.06	10,416,727.14	479,725.01	438,860.13
Payments to or on behalf of Middle Tennessee State University			2,523,883.30	1,645,871.66
Total operating expenses	<u>215,314,625.65</u>	<u>201,149,909.75</u>	<u>5,616,089.39</u>	<u>4,537,082.38</u>
Operating income (loss)	<u>\$ (91,973,656.97)</u>	<u>\$ (84,810,019.82)</u>	<u>\$ (519,574.50)</u>	<u>\$ 1,486,583.64</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	\$ 82,359,300.00	\$ 83,208,100.00		
Gifts, including \$663,797.84 from component unit in FY 2004 and \$929,155.27 from component unit in FY 2003	663,797.84	929,155.27		
Grants and contracts	14,431,290.00			
Investment income (net of investment expense of \$6,089.47 for the University and \$107,006.37 for the component unit for FY 2004 and \$73,728.87 for the University and \$11,676.99 for the component unit for FY 2003)	1,732,132.39	1,715,902.70	\$ 1,942,198.83	\$ 1,399,406.19
Interest on capital asset-related debt	(3,868,967.60)	(4,165,982.47)		
Bond issuance costs	(643,544.71)			
Other nonoperating revenues/(expenses)	397,835.55	569,383.04	(1,589.08)	(1,393.77)
Net nonoperating revenues	<u>95,071,843.47</u>	<u>82,256,558.54</u>	<u>1,940,609.75</u>	<u>1,398,012.42</u>
Income before other revenues, expenses, gains, or losses	<u>3,098,186.50</u>	<u>(2,553,461.28)</u>	<u>1,421,035.25</u>	<u>2,884,596.06</u>
Capital appropriations	6,703,137.55	1,371,984.95		
Capital grants and gifts, including \$1,860,085.46 from the component unit in FY 2004 and \$716,716.39 from the component unit in FY 2003	2,163,390.74	2,385,156.27	380,859.88	449,837.39
Additions to permanent endowments			1,493,591.24	688,932.41
Other capital	(144,966.40)	(52,188.69)		
Total other revenues	<u>8,721,561.89</u>	<u>3,704,952.53</u>	<u>1,874,451.12</u>	<u>1,138,769.80</u>
Increase in net assets	<u>\$ 11,819,748.39</u>	<u>\$ 1,151,491.25</u>	<u>\$ 3,295,486.37</u>	<u>\$ 4,023,365.86</u>
NET ASSETS				
Net Assets -beginning of year	\$ 127,179,459.50	\$ 126,180,302.06	\$ 53,518,229.83	\$ 49,477,257.97
Prior period adjustment (Note 18)		(152,333.81)	87,797.86	17,606.00
Net Assets - end of year	<u>\$ 138,999,207.89</u>	<u>\$ 127,179,459.50</u>	<u>\$ 56,901,514.06</u>	<u>\$ 53,518,229.83</u>

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, 2004, with comparative figures at June 30, 2003

	<u>University</u>		<u>Component Unit</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees	\$ 76,554,245.71	\$ 65,201,861.09		
Gifts and contributions			\$ 6,291,051.40	\$ 2,399,771.24
Grants and contracts	14,700,777.34	22,673,635.27	19,599.02	
Sales and services of educational activities	6,768,574.00	5,255,817.62		
Payments to suppliers and vendors	(57,214,859.07)	(52,612,370.12)	(1,439,288.01)	(1,404,711.09)
Payments to employees	(104,246,821.55)	(101,228,414.24)		
Payments for benefits	(28,002,601.24)	(24,917,519.83)		
Payments for scholarships and fellowships	(13,826,489.17)	(10,437,455.35)	(1,015,493.55)	(971,575.23)
Payments to (Middle Tennessee State University)			(2,474,233.30)	(1,183,609.63)
Loans issued to students and employees	(288,142.76)	(261,746.75)		
Collection of loans from students and employees	292,905.30	338,483.29		
Interest earned on loans to students	86,393.83	102,971.77		
Auxiliary enterprise charges:				
Residence halls	9,341,052.39	8,873,249.48		
Bookstore	7,451,597.11	7,450,550.97		
Food services	582,998.64	489,587.63		
Wellness facility	1,585,841.93	1,810,471.86		
Other auxiliaries	4,991,237.31	3,980,982.17		
Other receipts	1,115,041.68	611,770.18		
Net cash flows provided (used) by operating activities	<u>\$ (80,108,248.55)</u>	<u>\$ (72,668,124.96)</u>	<u>\$ 1,381,635.56</u>	<u>\$ (1,160,124.71)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
State appropriations	\$ 82,336,500.00	\$ 83,580,400.00		
Gifts and grants received for other than capital or endowment purposes, including \$663,797.84 from Middle Tennessee State University Foundation for FY 2004 and \$929,155.27 for FY 2003	15,506,687.57	858,345.67		
Private gifts for endowment purposes			\$ 1,582,740.20	\$ 652,970.12
Federal student loan receipts	58,990,249.28	49,697,262.36		
Federal student loan disbursements	(59,056,911.27)	(49,623,102.27)		
Changes in deposits held for others	(123,272.61)	66,737.10		
Other non-capital financing receipts (payments)	397,835.55	569,383.04		
Net cash flows provided by non-capital financing activities	<u>\$ 98,051,088.52</u>	<u>\$ 85,149,025.90</u>	<u>\$ 1,582,740.20</u>	<u>\$ 652,970.12</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from capital debt	\$ 8,204,074.93	\$ 6,431,620.90		
Capital - state appropriation	6,703,137.55	1,371,984.95		
Capital grants and gifts received, including \$1,810,435.46 from Middle Tennessee State University Foundation for FY 2004 and \$254,454.36 for FY 2003	2,113,740.74	202,944.36	\$ (223,408.63)	\$ 4,990,455.72
Proceeds from sale of capital assets		(52,188.69)		
Purchase of capital assets and construction	(17,833,096.37)	(12,519,718.92)	(2,063,884.29)	(5,459,134.33)
Principal paid on capital debt and lease	(3,036,527.45)	(2,903,366.72)		
Interest paid on capital debt and lease	(3,817,822.89)	(4,190,230.17)		
Bond issue costs paid on new debt issue	(643,544.71)			
Net cash flows used by capital and related financing activities	<u>\$ (8,310,038.20)</u>	<u>\$ (11,658,954.29)</u>	<u>\$ (2,287,292.92)</u>	<u>\$ (468,678.61)</u>

Middle Tennessee State University
Unaudited Statement of Cash Flows
for the year ended June 30, 2004, with comparative figures at June 30, 2003

	<u>University</u>		<u>Component Unit</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	\$ 5,000.00	\$ 12,000.00	\$ 9,346,579.33	\$ 3,702,942.16
Income on investments	1,708,180.26	1,723,960.76	373,217.20	618,932.24
Purchase of investments	(5,000.00)	(52,000.00)	(10,479,555.56)	(5,025,687.95)
Other investing receipts (payments)			(601.52)	(300.76)
Net cash provided (used) by investing activities	<u>\$ 1,708,180.26</u>	<u>\$ 1,683,960.76</u>	<u>\$ (760,360.55)</u>	<u>\$ (704,114.31)</u>
Net increase (decrease) in cash and cash equivalents	11,340,982.03	2,505,907.41	(83,277.71)	(1,679,947.51)
Cash and cash equivalents - beginning of year	<u>50,279,254.29</u>	<u>47,773,346.88</u>	<u>9,448,003.09</u>	<u>11,127,950.60</u>
Cash and cash equivalents - end of year (Note 3)	<u>\$ 61,620,236.32</u>	<u>\$ 50,279,254.29</u>	<u>\$ 9,364,725.38</u>	<u>\$ 9,448,003.09</u>
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (91,973,656.97)	\$ (84,810,019.82)	\$ (519,574.50)	\$ 1,486,583.64
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:				
Depreciation expense	11,023,830.06	10,416,727.14	479,725.01	438,860.13
Change in assets and liabilities:				
Receivables, net	(839,374.44)	(344,455.19)	1,381,987.66	(3,573,016.21)
Inventories	(7,885.09)	226,104.39		
Prepaid/deferred items	312,688.95	(298,738.76)		
Other assets	3,380.35	3,890.70		
Accounts payable	8,234.57	731,162.78	(10,152.61)	25,235.82
Accrued liabilities	651,947.26	1,161,851.46		
Deferred revenues	628,862.63	274,247.68		
Deposits	(41,967.86)	56,718.49		
Compensated absences	91,107.29	267,012.51		
Due to grantors	(71,520.13)	(371,260.64)		
Loans to students and employees	(4,762.54)	(76,736.54)		
Other	110,867.37	95,370.84	49,650.00	462,211.91
Net cash provided (used) by operating activities	<u>\$ (80,108,248.55)</u>	<u>\$ (72,668,124.96)</u>	<u>\$ 1,381,635.56</u>	<u>\$ (1,160,124.71)</u>
Non-cash transactions				
Gifts in-kind	\$ 45,400.00		\$ 167,852.13	\$ 50,828.45
Gifts in-kind - capital		\$ 2,182,211.91		
Pledges			(1,995,168.97)	588,625.68
Unrealized gains/losses on investments	17,750.09	11,917.25	916,844.64	1,287,110.37

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

MIDDLE TENNESSEE STATE UNIVERSITY

Notes to the Financial Statements

June 30, 2004

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 accounting principles generally accepted in the United States of America 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* and in May 2002 by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The financial statement presentation required by GASB No. 34, No. 35, and No. 39 provides a comprehensive, entity-wide perspective of the institution's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

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.

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 are 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 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.

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

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 – 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 institution is legally or contractually obligated to spend resources 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 institution and may be used at the discretion of the institution 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 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.

2. **Independent Audit**

The financial statements for the year ended June 30, 2004, are unaudited. The most recent audit covered the year ended June 30, 2003, for which an audit report has been issued. The institution received an unqualified opinion in the audit report for the year ended June 30, 2003. There is an audit in progress for the year ended June 30, 2004.

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, 2004, cash and cash equivalents consists of \$42,746,162.94 in bank accounts, \$115,240.00 of petty cash on hand, \$16,304,835.87 in the State of Tennessee Local Government Investment Pool

administered by the State Treasurer, \$2,443,002.81 in the LGIP Deposits – Capital Projects account, and \$10,994.70 in a money market account.

LGIP Deposits – 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 expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the institution for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

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, 2004, the carrying amount of the institution's deposits was \$42,757,157.64 and the bank balance was \$44,589,352.38. 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*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor, William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37242-0298, or by calling (615) 741-2140.

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.

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.

Mutual Funds	\$716,066.91
Total Investments per Statement of Net Assets	<u>\$716,066.91</u>

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

	Carrying Value	
	<u>FY 2003-04</u>	<u>FY 2002-03</u>
Mutual Funds	\$716,066.91	\$697,319.67

Assets of endowment funds are pooled on a fair 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 131,097.766 units at June 30, 2004, each having a market value of \$5.46, were owned by quasi-endowments.

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

	<u>Pooled Assets</u>		<u>Net Gains (Losses)</u>	<u>Market Value Per Unit</u>
	Market	Cost		
End of year	\$716,066.91	\$748,185.22	\$(32,118.31)	\$5.46
Beginning of year	697,319.67	747,188.07	(49,868.40)	5.22
				<u>\$0.24</u>
Unrealized net gains			\$17,750.09	
Realized net gains			<u>4,564.22</u>	
Total net gains			<u>\$22,314.31</u>	

The average annual earnings per unit, exclusive of net gains, were \$.07 for the year.

6. Accounts, Notes, and Grants Receivable

Accounts receivable included the following at June 30, 2004:

Student accounts receivable	\$3,860,066.83
Grants receivable	3,961,947.44
Notes receivable	464,403.79
State appropriation receivable	449,300.00
Other receivables	<u>1,917,417.21</u>
Subtotal	\$10,653,135.27
Less allowance for doubtful accounts	<u>(1,707,527.72)</u>
Total	<u>\$8,945,607.55</u>

Federal Perkins Loan Program funds include the following at June 30, 2004:

Perkins loans receivable	\$3,769,717.18
Less allowance for doubtful accounts	<u>(805,908.27)</u>
Total	<u>\$2,963,808.91</u>

7. Capital Assets

Capital asset activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	\$ 4,527,224.51	\$ 453,381.00	\$ -	\$ -	\$ 4,980,605.51
Improvements and infrastructure	25,518,526.32	-	1,141,301.80	-	\$ 26,659,828.12
Buildings	197,490,414.98	105,769.00	5,340,439.88	-	\$202,936,623.86
Equipment	33,640,466.28	5,466,548.43	-	1,558,448.75	\$ 37,548,565.96
Library holdings	15,620,926.23	2,427,285.94	-	1,708,492.52	\$ 16,339,719.65
Projects in progress	7,695,304.11	9,464,575.15	(6,481,741.68)	34,813.15	\$ 10,643,324.43
Total	\$ 284,492,862.43	\$ 17,917,559.52	\$ -	\$ 3,301,754.42	\$299,108,667.53
Less accumulated depreciation:					
Improvements and infrastructure	\$ 12,323,648.23	\$ 1,224,554.42	\$ -	\$ -	\$ 13,548,202.65
Buildings	73,040,997.81	4,956,016.20	-	-	\$ 77,997,014.01
Equipment	21,202,979.82	3,038,438.21	-	1,413,482.35	\$ 22,827,935.68
Library holdings	7,298,057.59	1,804,821.23	-	1,708,492.52	\$ 7,394,386.30
Total accumulated depreciation	\$113,865,683.45	\$ 11,023,830.06	\$ -	\$ 3,121,974.87	\$ 121,767,538.64
Capital assets, net	\$170,627,178.98	\$ 6,893,729.46	\$ -	\$ 179,779.55	\$ 177,341,128.89

8. Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables					
Bonds	\$ 75,489,882.28	\$ 8,363,960.94	\$ 2,522,927.45	\$ 81,330,915.77	\$ 2,208,716.72
Commercial Paper	5,902,459.67	3,316,947.59	3,990,433.60	5,228,973.66	-
Subtotal	\$ 81,392,341.95	\$ 11,680,908.53	\$ 6,513,361.05	\$ 86,559,889.43	\$ 2,208,716.72
Other Liabilities					
Compensated					
Absences	\$ 4,054,849.50	\$ 2,222,946.15	\$ 2,131,838.86	\$ 4,145,956.79	\$ 1,093,023.14
Due to Grantors	3,005,097.53	1,094,882.02	1,166,402.15	2,933,577.40	-
Subtotal	\$ 7,059,947.03	\$ 3,317,828.17	\$ 3,298,241.01	\$ 7,079,534.19	\$ 1,093,023.14
Total Long-term Liabilities	\$ 88,452,288.98	\$ 14,998,736.70	\$ 9,811,602.06	\$ 93,639,423.62	\$ 3,301,739.86

Bonds Payable

Bond issues, with interest rates ranging from 1.30% to 7.75% for Tennessee State School Bond Authority bonds, are due serially to 2033 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations. 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 \$923,913.41 at June 30, 2004, and \$907,739.11 at June 30, 2003.

Unexpended debt proceeds were \$626,070.40 at June 30, 2004.

Debt service requirements to maturity for all bonds payable at June 30, 2004, are as follows:

For the Year(s) Ending June 30	Principal	Interest	Total
2005	\$ 2,208,716.72	\$ 4,132,876.45	\$ 6,341,593.17
2006	2,617,232.36	3,950,480.84	6,567,713.20
2007	3,045,064.64	3,838,271.65	6,883,336.29
2008	3,175,813.74	3,716,901.74	6,892,715.48
2009	3,307,644.13	3,587,106.19	6,894,750.32
2010 - 2014	17,499,701.29	15,619,799.63	33,119,500.92
2015 - 2019	18,367,269.95	11,096,708.53	29,463,978.48
2020 - 2024	17,120,562.78	6,488,698.65	23,609,261.43
2025 - 2029	13,225,962.51	2,102,400.33	15,328,362.84
2030 - 2033	762,947.65	46,633.52	809,581.17
Total	\$ 81,330,915.77	\$ 54,579,877.53	\$ 135,910,793.30

Commercial Paper

The Tennessee State School Bond Authority authorized the issuance of Commercial Paper to finance costs of various capital projects. At June 30, 2004, \$5,228,973.66 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.

9. 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.

The 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, 2004, net appreciation of \$1,636.36 is available to be spent, none of which is restricted to specific purposes.

10. Unrestricted Net Assets

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

	FY 2004
Working capital	\$ 2,568,425.55
Encumbrances	1,872,942.50
Auxiliaries	3,801,943.51
Quasi-endowment	155,100.00
Plant construction	11,300,392.03
Renewal and replacement of equipment	15,788,328.21
Debt retirement	417,293.49
Unreserved/undesignated balance	4,217,364.22
Total	<u>\$ 40,121,789.51</u>

11. Pension Plans

Defined Benefit Plan

PLAN DESCRIPTION – The institution 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 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 7.29% 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, 2004, 2003, and 2002 were \$2,615,506.45, \$2,571,010.23, and \$2,165,347.75, 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, 2004, was \$5,701,120.78 and for the year ended June 30, 2003, was \$5,393,658.17. Contributions met the requirements for each year.

12. 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*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor, William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37242-0298 or by calling (615) 741-2140.

13. Chairs of Excellence

The institution had \$21,691,395.14 on deposit at June 30, 2004, 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

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

insurance policy deductibles vary from \$1 million to \$5 million by type of risk coverage. A designation of \$5 million for incurred losses has been established in the state's general fund. In FY 2003, the state incurred 13 property claims which exceeded the per occurrence deductible. The gross amount of claims for the period was approximately \$7.2 million, of which the state's property insurance carrier will ultimately assume approximately \$2.2 million.

At June 30, 2004, the scheduled coverage was \$365,638,800 for buildings and \$154,634,400 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.

15. **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 \$38,294,756.06 at June 30, 2004.

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 \$173,342.05 and \$147,414.29, respectively for the year ended June 30, 2004. Comparative amounts for the year ended June 30, 2003, were \$193,645.16 and \$137,998.57, respectively. All operating leases are cancelable at the lessee's option.

CONSTRUCTION IN PROGRESS – At June 30, 2004, outstanding commitments under construction contracts totaled \$3,277,698.67. Major projects include Todd renovation, student housing renovations, ADA improvements, life safety renovations, and systems replacement, of which \$2,265,334.22 will be funded by future state capital outlay appropriations.

LITIGATION – The institution 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

The institution's operating expenses by functional classification for the year ended June 30, 2004, are as follows:

Functional Classification	Natural Classification					Total
	Salaries	Benefits	Operating	Scholarships	Depreciation	
Instruction	\$ 62,438,557.84	\$ 15,894,833.96	\$ 12,640,306.67	\$ -	\$ -	\$ 90,973,698.47
Research	2,221,960.35	484,309.17	849,450.29	-	-	3,555,719.81
Public Service	3,352,569.36	1,022,722.35	3,646,786.16	-	-	8,022,077.87
Academic Support	9,352,369.79	2,696,096.79	940,425.39	-	-	12,988,891.97
Student Services	9,285,296.63	2,790,256.41	8,697,051.72	-	-	20,772,604.76
Institutional Support	8,279,036.16	2,626,012.40	2,533,016.22	-	-	13,438,064.78
Maintenance and Operations	4,463,669.03	1,573,802.46	14,343,803.96	-	-	20,381,275.45
Scholarships and Fellowships	-	-	10,425.72	13,826,489.17	-	13,836,914.89
Auxiliaries	5,196,599.63	1,449,507.60	13,675,440.36	-	-	20,321,547.59
Depreciation	-	-	-	-	11,023,830.06	11,023,830.06
Total Expenses	\$ 104,590,058.79	\$ 28,537,541.14	\$ 57,336,706.49	\$ 13,826,489.17	\$ 11,023,830.06	\$ 215,314,625.65

17. Restatement of Prior Year Balances

In prior years, the institution included foundation assets in the agency fund and reported them on the statement of net assets. In addition, changes in cash related to foundation transactions were included with the University's and reflected on the statement of cash flows. The following FY 2003 amounts have been restated to remove these assets and any related liabilities as well as to restate appropriate cash flow items.

	<u>Original Amount</u>	<u>Restated Amount</u>
Statement of Net Assets		
Current assets		
Cash and cash equivalents	\$ 37,369,963.77	\$ 27,921,960.68
Short-term investments	20,107,679.91	-
Accounts, notes, and grants receivable	9,320,244.70	8,488,036.81
Accrued interest receivable	52,806.31	35,520.33
Other assets	20,735,166.96	-
Current liabilities:		
Accounts payable	1,982,611.39	1,844,509.73
Deposits held in custody for others	51,642,150.28	639,908.11
Statement of Cash Flows		
Cash Flows from Noncapital Financing Activities		
Change in deposits held for others	\$ (1,613,210.41)	\$ 66,737.10
Net increase in cash and cash equivalents	825,959.90	2,505,907.41
Cash and cash equivalents - beginning of year	58,901,297.48	47,773,346.88
Cash and cash equivalents - end of year	59,727,257.38	50,279,254.29

18. Component Unit

Middle Tennessee State University Foundation is a legally separate, tax-exempt organization supporting Middle Tennessee State University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The 80-member board of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests is restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

During the year ended June 30, 2004, the Foundation made distributions of \$4,023,788.27 to or on behalf of the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Tom Brannan, director of Advancement Services and Development Operations, MTSU P.O. Box 109, 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 presentations features are different from GASB revenue recognition criteria and presentation features. 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.

CASH AND CASH EQUIVALENTS – Cash and cash equivalents consists of demand deposit accounts, certificates of deposit, State of Tennessee Local Government Investment Pool account administered by the State Treasurer, and money market funds. The bank balances of deposits as of June 30, 2004, were entirely insured.

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 June 30, 2004, were as follows:

	Cost	Market Value
U.S. Government Securities	\$ 96,905.38	\$ 250,108.58
Corporate Stocks	15,744,841.66	17,759,232.15
Corporate Bonds	5,191,923.20	4,735,092.53
Mutual Funds	48,608.60	45,195.89
Cash Surrender Value of Life Insurance	-	387,600.72
Total Investments per Statement of Net Assets		<u>\$ 23,177,229.87</u>

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

Current pledges	\$ 384,450.34
Pledges due in one to five years	142,091.55
Pledges due after five years	140.00
Subtotal	<u>526,681.89</u>
Less: Discounts to net present value	<u>(5,863.20)</u>
Total pledges receivable, net	<u><u>\$ 520,818.69</u></u>

CAPITAL ASSETS – Capital assets for the year ended June 30, 2004, were as follows:

	Beginning Balance	Additions	Transfers	Ending Reductions	Balance
Land	\$ 3,615,346.20	\$ -	\$ (1,402,124.23)	\$ -	\$ 2,213,221.97
Improvements and infrastructure	105,019.41	-	-	-	105,019.41
Buildings	17,034,396.34	372,009.73	1,747,916.23	-	19,154,322.30
Equipment	51,113.00	69,456.66	-	49,650.00	70,919.66
Projects in progress	381,804.50	1,547,741.71	(345,792.00)	-	1,583,754.21
Total	<u>\$ 21,187,679.45</u>	<u>\$ 1,989,208.10</u>	<u>\$ -</u>	<u>\$ 49,650.00</u>	<u>\$ 23,127,237.55</u>
Less accumulated depreciation					
Improvements and infrastructure	\$ 5,250.97	\$ 5,250.97	\$ -	\$ -	\$ 10,501.94
Buildings	425,859.91	466,455.46	-	(280,424.88)	1,172,740.25
Equipment	21,401.61	8,018.58	-	-	29,420.19
Total accumulated depreciation	<u>\$ 452,512.49</u>	<u>\$ 479,725.01</u>	<u>\$ -</u>	<u>\$ (280,424.88)</u>	<u>\$ 1,212,662.38</u>
Capital assets, net	<u>\$ 20,735,166.96</u>	<u>\$ 1,509,483.09</u>	<u>\$ -</u>	<u>\$ 330,074.88</u>	<u>\$ 21,914,575.17</u>

Prior Period Adjustment

During the fiscal year, it was discovered that the Foundation owned several life insurance policies for which it was the beneficiary. In order to make the statements compliant with generally accepted accounting principles, these policies were capitalized at the Cash Surrender Value as of June 30, 2003. This correction totaled \$368,222.74.

The Foundation owns a house which had previously been capitalized as land rather than buildings. The house had not been depreciated over its useful life of 40 years. In order to make the statements compliant with generally accepted accounting principles, the house was added to buildings and depreciated. This correction is outlined as follows:

Addition to buildings	\$ 1,402,124.23
Reduction to land	(1,402,124.23)
Depreciation of house (1996 - 2003)	280,424.88