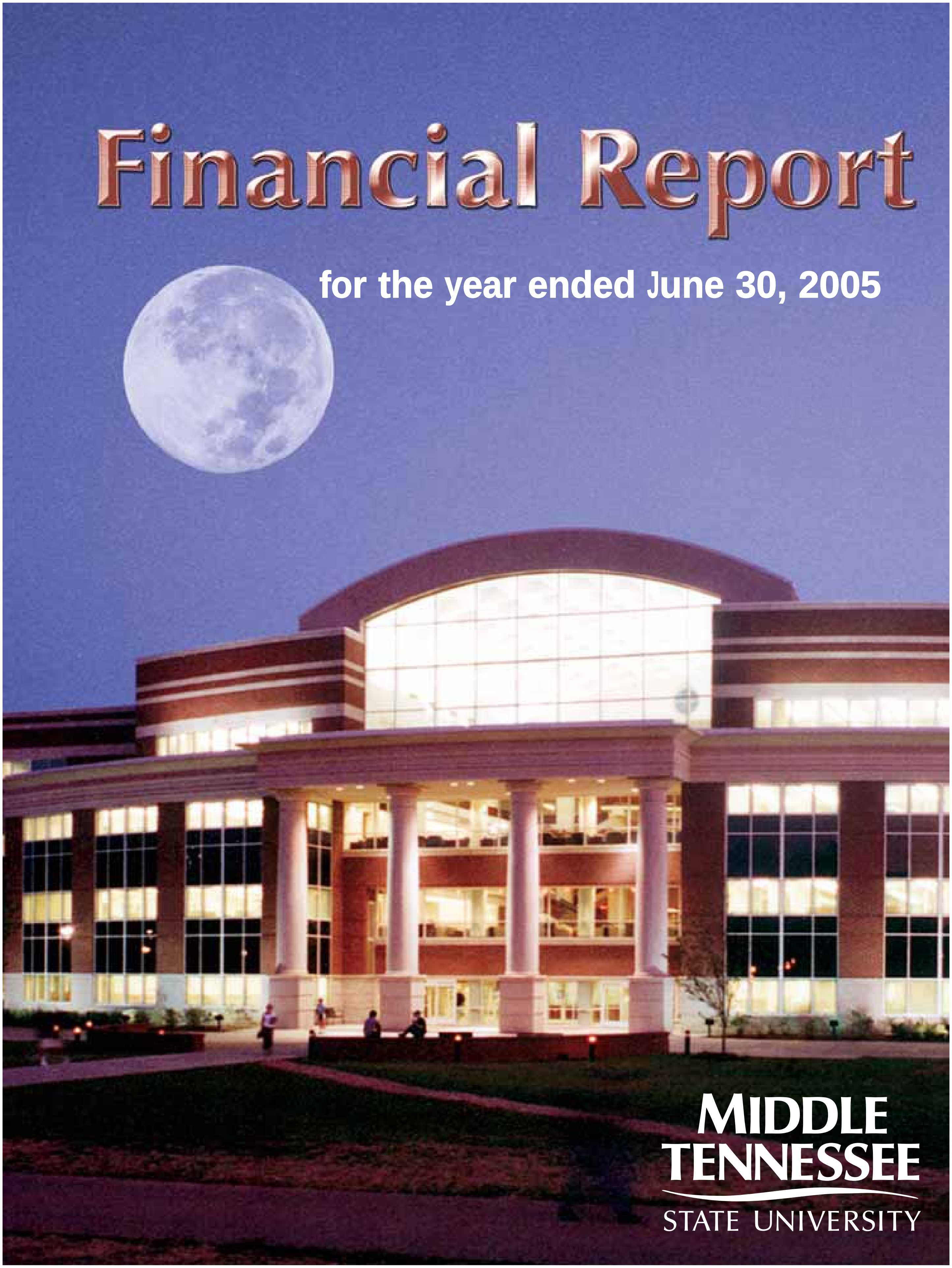
Financial Report

for the year ended June 30, 2005



MIDDLE TENNESSEE STATE UNIVERSITY

Middle Tennessee State University

FINANCIAL REPORT

For the Year Ended June 30, 2005

MIDDLE TENNESSEE
STATE UNIVERSITY

Office of the President
Middle Tennessee State University
110 Cope Administration Building
Murfreesboro, Tennessee 37132
615-898-2622
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MIDDLE TENNESSEE STATE UNIVERSITY

September 2, 2005

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, 2005. This report has been prepared in accordance with Generally Accepted Accounting Principles.

Respectfully submitted,

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

MIDDLE TENNESSEE
STATE UNIVERSITY

September 2, 2005

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, 2005.

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, 2004. An audit is currently in progress for fiscal year ended June 30, 2005.

Respectfully submitted,

John W. Cothern
Senior Vice President

MIDDLE TENNESSEE STATE UNIVERSITY
FINANCIAL REPORT
For the Year Ended June 30, 2005

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A Tennessee Board of Regents University

MTSU is an equal opportunity, non-racially identifiable, educational institution that does not discriminate against individuals with disabilities. BF026-1205

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, 2005, with comparative information presented for the fiscal year ended June 30, 2004. 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.

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

	2005	2004	2003
Assets			
Current assets	$ 46,942	$ 41,078	$ 39,652
Capital assets, net	189,900	177,341	170,627
Other assets	40,730	36,109	25,848
Total Assets	**$ 277,572**	**$ 254,528**	**$ 236,127**
Liabilities			
Current liabilities	$ 30,382	$ 25,191	$ 24,070
Noncurrent liabilities	105,226	90,338	84,878
Total Liabilities	**$ 135,608**	**$ 115,529**	**$ 108,948**
Net Assets			
Invested in capital assets, net of debt	$ 88,311	$ 90,781	$ 89,235
Restricted - expendable	10,181	7,358	5,585
Restricted - nonexpendable	764	738	716
Unrestricted	42,707	40,122	31,643
Total Net Assets	**$ 141,963**	**$ 138,999**	**$ 127,179**

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

- Net capital assets increased from 2004 to 2005 as a result of the purchase of the Guy James farm from Rutherford County, continued renovation of the University’s housing facilities, and an energy savings and performance project. The increase from 2003 to 2004 is 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 from 2003 to 2004 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 from 2004 to 2005 and from 2003 to 2004 due to the issuance of bonds and commercial paper by the Tennessee State School Bond Authority (TSSBA) on behalf of the University for various capital projects. More detailed information about the University’s capital assets is presented in the Capital Asset and Debt Administration section of this report.

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

	2005	2004	2003
Assets			
Current assets	$ 1,088	$ 929	$ 1,458
Capital assets, net	20,540	21,915	20,735
Other assets	36,371	34,111	31,463
Total Assets	**$ 57,999**	**$ 56,955**	**$ 53,656**
Liabilities			
Current liabilities	$ 422	$ 53	$ 138
Noncurrent liabilities	-	-	-
Total Liabilities	**$ 422**	**$ 53**	**$ 138**
Net Assets			
Invested in capital assets, net of debt	$ 20,540	$ 21,915	$ 20,735
Restricted - expendable	10,875	11,198	11,990
Restricted - nonexpendable	25,705	23,296	20,196
Unrestricted	456	493	597
Total Net Assets	**$ 57,576**	**$ 56,902**	**$ 53,518**

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

- The decrease in capital assets from 2004 to 2005 is the result of transferring the Rose and Emmett Kennon Sports Hall of Fame building to the University. The increase from 2003 to 2004 is attributable to the continued construction of the Sports Hall of Fame, which is shown as Projects in Progress in the notes.

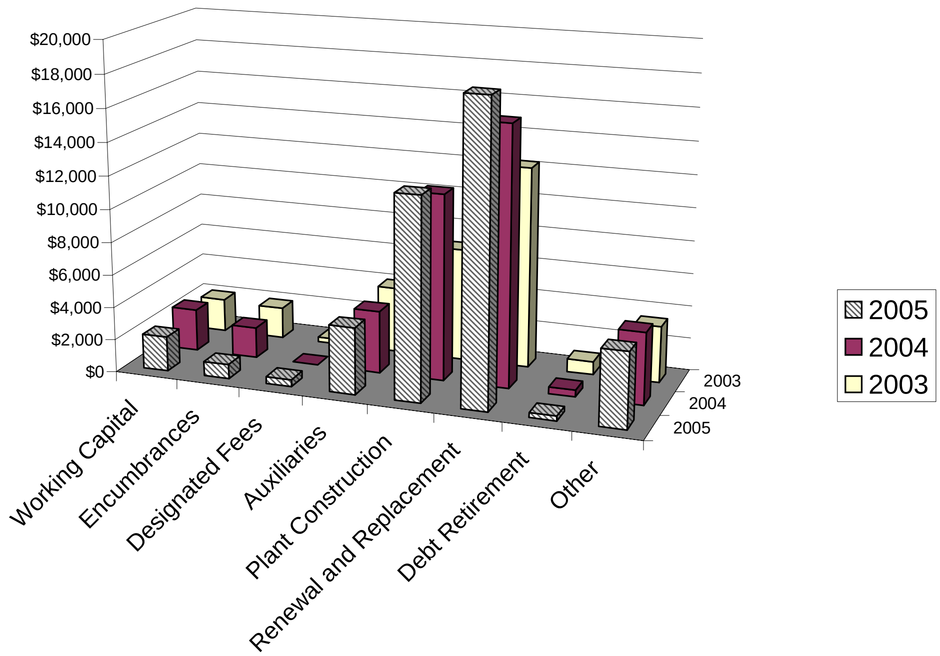
- The Other Assets category increased from 2003 to 2004 due to the execution of contracts with a donor, which resulted in the recording of accounts receivables.

- The increase in current liabilities from 2004 to 2005 resulted from a payable setup to the University at June 30, 2005. This payable represents transactions occurring between the University and foundation at year end.

- Restricted nonexpendable net assets increased from 2004 to 2005 and from 2003 to 2004 due to the favorable market performance. Nonexpendable investments increased approximately $4.0 million from 2004 to 2005 and $2.5 million from 2003 to 2004.

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):

Allocations of Unrestricted Net Assets (University)



- Encumbrances for 2005 decreased by over $1 million from 2004 due to an earlier cutoff of purchases by campus departments for the 2004–05 fiscal year. This allowed for the actual delivery of items ordered prior to the end of the fiscal year.

- Plant construction increases occurred between 2004 and 2005, as well as between 2003 and 2004, as the result of more funds being set aside for future year projects, which include a University-wide replacement of PCs for the staff and the purchase of a new Enterprise Resource Planning (ERP) system to replace the current administrative systems. In addition, plant construction increased from 2003 to 2004 due to private giving dollars received for an addition to the Nursing Building, which construction is slated to begin as early as the 2005–06 fiscal year.

- Renewal and replacement increased from 2004 to 2005 for the continued set aside of funds for the Student Health, Wellness, and Recreation Facility upgrade project. Increases from 2003 to 2004 are 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.

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

	2005	2004	2003
Operating revenues			
Net tuition and fees	$ 76,531	$ 76,220	$ 65,044
Gifts	-	-	-
Auxiliaries	23,907	24,042	22,298
Grants and contracts	20,739	14,894	23,042
Other	8,986	8,185	5,956
Total operating revenues	$ 130,163	$ 123,341	$ 116,340
Operating expenses	$ 249,045	$ 215,315	$ 201,150
Operating loss	$ (118,882)	$ (91,974)	$ (84,810)
Nonoperating revenues and expenses			
State appropriations	$ 86,884	$ 82,359	$ 83,208
Gifts	975	664	929
Grants and contracts	29,464	14,431	-
Investment income	2,483	1,732	1,716
Other revenues and expenses	(4,996)	(4,113)	(3,597)
Total nonoperating revenues and expenses	$ 114,810	$ 95,073	$ 82,256
Income (loss) before other revenues, expenses, gains, or losses	$ (4,072)	$ 3,099	$ (2,554)
Other revenues, expenses, gains, or losses			
Capital appropriations	$ 5,248	$ 6,703	$ 1,372
Capital grants and gifts	2,444	2,163	2,385
Other	(656)	(145)	(52)
Total other revenues, expenses, gains, or losses	$ 7,036	$ 8,721	$ 3,705
Increase (decrease) in net assets	$ 2,964	$ 11,820	$ 1,151
Net assets at beginning of year	$ 138,999	$ 127,179	$ 126,180
Prior period adjustment	-	-	(152)
Net assets at end of year	$ 141,963	$ 138,999	$ 127,179

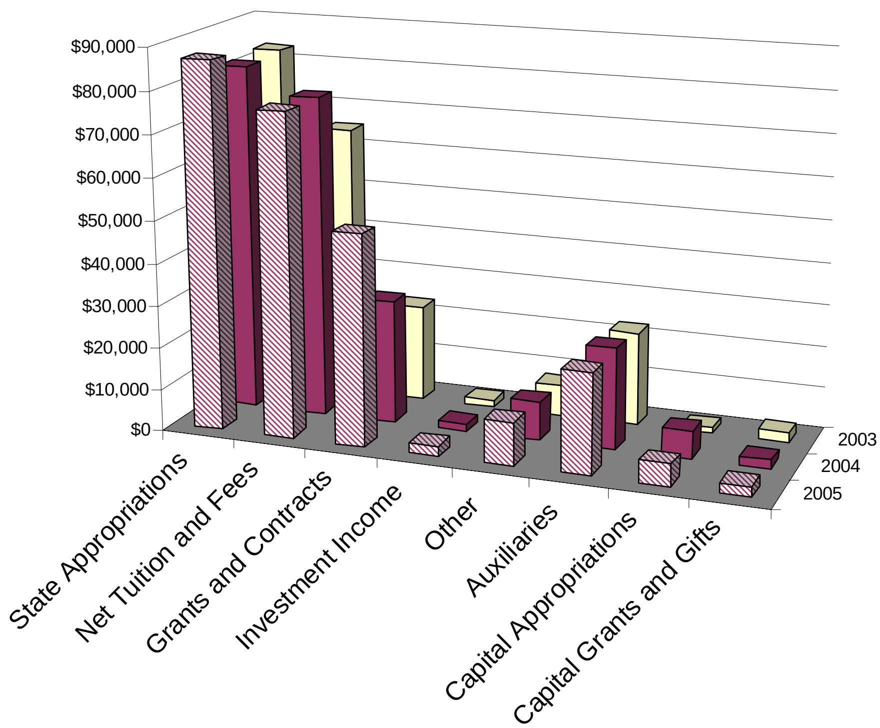
Component Unit
Statement of Revenues, Expenses and Changes In Net Assets
(in thousands of dollars)

	2005	2004	2003
Operating revenues			
Gifts	$ 3,668	$ 5,077	$ 6,024
Grants and contracts	101	20	-
Total operating revenues	$ 3,769	$ 5,097	$ 6,024
Operating expenses	$ 6,796	$ 5,616	$ 4,537
Operating loss	$ (3,027)	$ (519)	$ 1,487
Nonoperating revenues and expenses			
Investment income	$ 2,061	$ 1,942	$ 1,399
Other revenues and expenses	(1)	(2)	(1)
Total nonoperating revenues and expenses	$ 2,060	$ 1,940	$ 1,398
Income (loss) before other revenues, expenses, gains, or losses	$ (967)	$ 1,421	$ 2,885
Other revenues, expenses, gains, or losses			
Capital grants and gifts	$ 75	$ 381	$ 450
Additions to permanent endowments	1,566	1,494	689
Total other revenues, expenses, gains, or losses	$ 1,641	$ 1,875	$ 1,139
Increase (decrease) in net assets	$ 674	$ 3,296	$ 4,024
Net assets at beginning of year	$ 56,902	$ 53,518	$ 49,477
Prior period adjustment	-	88	17
Net assets at end of year	$ 57,576	$ 56,902	$ 53,518

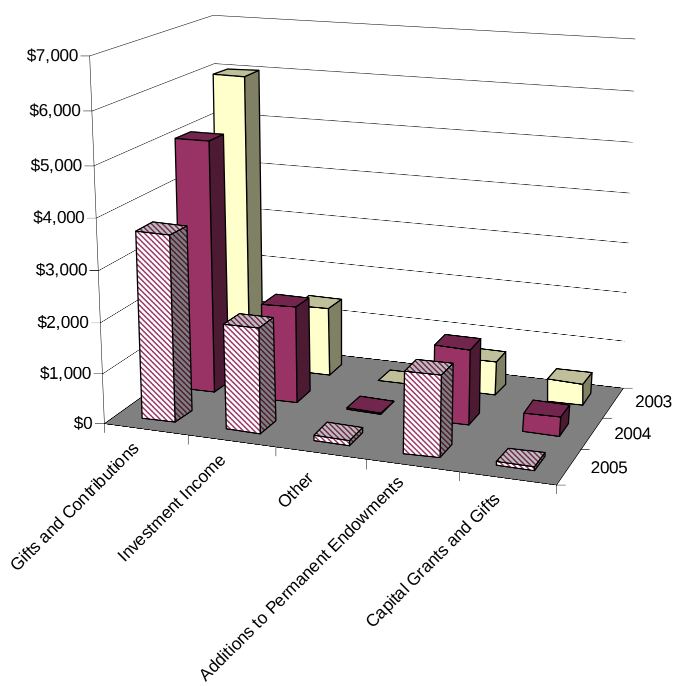
Revenues

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, 2005, the year ended June 30, 2004, and the year ended June 30, 2003 (in thousands of dollars).

Revenues by Source (University)



Revenues by Source (Component Unit)



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

- An across-the-board fee increase of 7% and a student enrollment increase of 1.6% in the fall occurred during the 2004–05 fiscal year. However, this increase in tuition and fee revenue was offset by current and new students receiving funds from the Tennessee Education Lottery Scholarship Program. Because students received these scholarships, tuition and fee revenue was reduced, and the reduction is shown as grants and contracts revenue. The increase in tuition and fees from 2003 to 2004 is attributable to an across-the-board fee increase of 14% for the 2003–04 academic year and a student enrollment increase of approximately 3.2% in fall 2003.

- Grants and contracts increased from 2004 to 2005 due to the addition of two new programs during the fiscal year. The University was awarded the Tennessee Department of Children's Services Consortium contract to provide training services for DCS, which resulted in an increase of approximately $5 million. The Tennessee Education Lottery Scholarship Program began awarding students scholarships in fiscal year 2004–05. MTSU's share of the lottery scholarships for the year was approximately $12 million. Grants and contracts increased from 2003 to 2004 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 from 2003 to 2004 occurred in the following programs: Pell, Geier Consent Degree and Desegregation programs, Governor's School, Chairs of Excellence, and many private grants and contracts. The increase from 2002 to 2003 is the result of an increase in the University's Pell Grant award of approximately $1.8 million, significant increases in existing grant program revenues, and the addition of several new grant programs.

- Capital appropriations increased from 2003 to 2004 primarily due to the use of funds previously appropriated by the state for the Todd Building renovation.

- State appropriations and tuition and fees made up sixty-four percent of the University's revenue in 2004–05 and sixty-eight percent in 2003–04.

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

- The decrease in gifts and contributions from 2004 to 2005 is due to the following factors: completion of previous financial obligations for the Rose and Emmett Kennon Sports Hall of Fame, recording of revenue for the purchase of Steinway pianos for the McLean School of Music in 2004, and the recognition of a donation from the Christy-Houston Foundation earmarked for the Nursing Building addition in 2004. The decrease from 2003 to 2004 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 from 2003 to 2004 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 from 2003 to 2004 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.

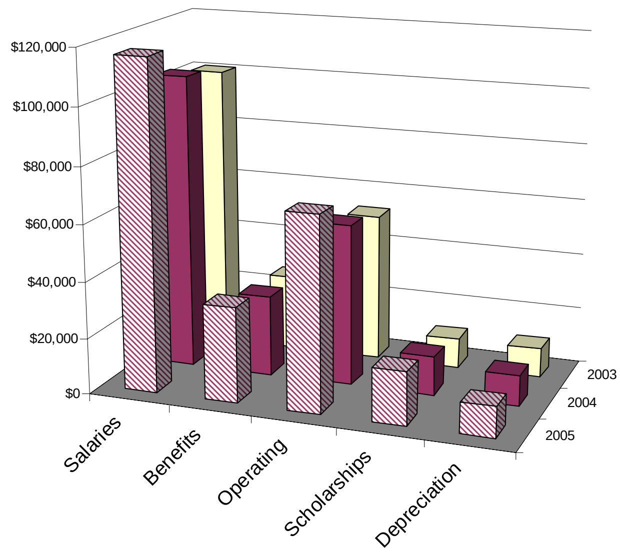
Middle Tennessee State University
Natural Classification
(in thousands)

	2005	2004	2003
Salaries	$ 116,498	$ 104,590	$ 100,949
Benefits	33,845	28,538	26,690
Operating	68,810	57,337	52,657
Scholarships	18,976	13,826	10,437
Depreciation	10,917	11,024	10,417
TOTAL	$ 249,046	$ 215,315	$ 201,150

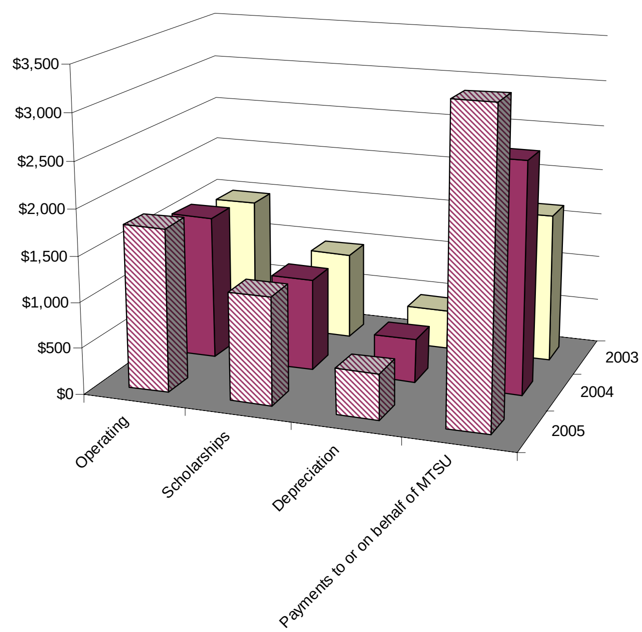
Component Unit
Natural Classification
(in thousands)

	2005	2004	2003
Operating	$ 1,780	$ 1,596	$ 74
Scholarships	1,175	1,016	971
Depreciation	495	480	439
Payments to or on behalf of MTSU	3,346	2,524	3,053
TOTAL	$ 6,796	$ 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 from 2004 to 2005 is due to a 3% across-the-board pay raise effective July 1, 2004; an increase in pay grade ranges of 19.44% effective July 1, 2004; state and MTSU bonuses paid in October 2004; and equity adjustments for the increases in pay grade ranges for incumbents effective January 1, 2005. Other factors related to new faculty positions, new support staff positions, and positions added for the DCS grant. The increase from 2003 to 2004 is primarily due to implementation of the second half of the 2% across-the-board pay raise, 3% salary equity adjustment for the faculty, and 2% salary equity adjustment for administrative and classified personnel, all implemented January 2003. Other factors contributing to these increases are faculty promotions, new faculty positions, new Public Safety officer positions, and new graduate assistant positions.

- Employee benefit expenses increased from 2004 to 2005 and from 2003 to 2004 due to increases in the state's group insurance premiums, increases in TCRS rates, and benefits for new positions. In 2005, the percentage used to calculate the compensated absence liability was increased from 16% to 18% for employee benefits.

- Operating expenses increased from 2004 to 2005 due to increases in utility rates, increases in software maintenance agreements, ERP-related expenses, and the addition of the DCS grant.

- Scholarship expenses increased from 2004 to 2005 due to the initial year of the Tennessee Education Lottery Scholarship Program.

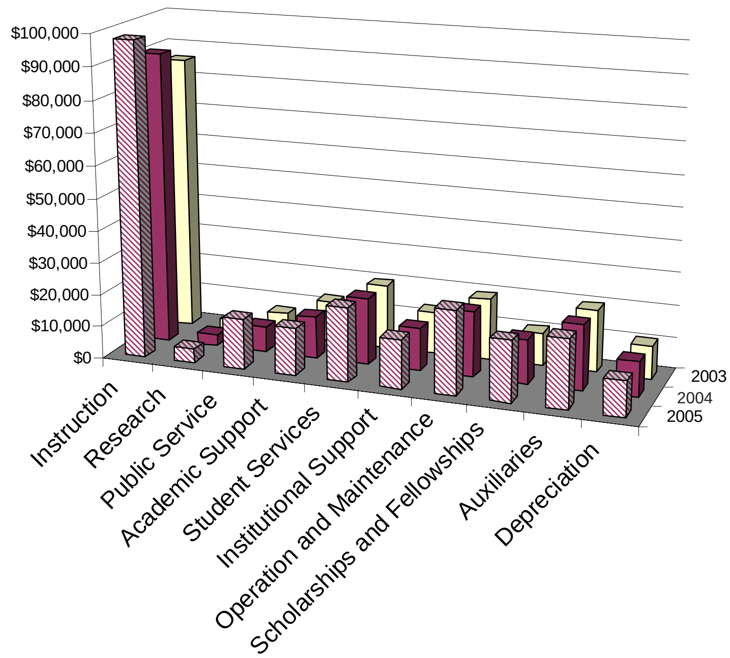
The component unit had the following significant change in expenses between fiscal years:

- Payments to or on behalf of MTSU increased from 2004 to 2005 as a result of the transfer of the Rose and Emmett Kennon Sports Hall of Fame building to the University. The increase from 2003 to 2004 is due to more requests from the University faculty to purchase items to support University functions. As the University's budget has decreased, requests for funds from the foundation has increased.

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

	2005	**2004**	**2003**
Instruction	$ 98,049	$ 90,974	$ 86,133
Research	4,359	3,556	2,782
Public Service	15,808	8,022	7,161
Academic Support	14,768	12,989	12,766
Student Services	23,112	20,773	19,688
Institutional Support	15,332	13,438	12,973
Operation and Maintenance	26,142	20,381	19,169
Scholarships and Fellowships	18,976	13,837	10,437
Auxiliaries	21,582	20,321	19,624
Depreciation	10,917	11,024	10,417
TOTAL	$ 249,045	$ 215,315	$ 201,150

Expenses by Program Classification (University)



- The Instruction function increased from 2004 to 2005 due to pay raises, pay grade adjustments, bonuses, faculty promotions, new faculty positions, increases in chair and graduate teaching assistant stipends, and an increase in the flight training fees for the Flight Training program. The increase from 2003 to 2004 is the result of faculty salary increases in January 2003 and January 2004, 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 College of Business, and most of the new funds are spent within the Instruction function.

- The increase in the Public Service function from 2004 to 2005 is the result of the addition of the Tennessee DCS grant.

- The increase in the Scholarships and Fellowships function from 2004 to 2005 is due to the initial year of the Tennessee Education Lottery Scholarship Program. The increase from 2003 to 2004 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.

Middle Tennessee State University
Statement of Cash Flows
(in thousands of dollars)

	2005	2004	2003
Cash provided (used) by:			
Operating activities	$ (94,244)	$ (80,108)	$ (72,668)
Noncapital financing activities	102,818	98,051	85,149
Capital and related financing activities	(6,3766)	(8,310)	(11,659)
Investing activities	2,472	1,708	1,684
Net increase (decrease) in cash	**$ 4,280**	**$ 11,341**	**$ 2,506**
Cash, beginning of year	**61,620**	**50,279**	**47,773**
Cash, end of year	**$ 65,900**	**$ 61,620**	**$ 50,279**

The University had the following significant changes in expenses 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 from 2004 to 2005 as a result of an increase in state appropriations from the previous year. The increase from 2003 to 2004 is 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 from 2004 to 2005 because more of the University's capital projects were funded from the issuance of debt instruments and less projects were funded from local University funds. The decrease in the use of cash from 2003 to 2004 is due to more of the University's capital projects being funded from capital state appropriations and less projects being funded from local University funds.

- The University's cash position increased by $4.3 million for 2004–05 and $11.3 million for 2003–04.

Component Unit
Statement of Cash Flows
(in thousands of dollars)

	2005	2004	2003
Cash provided (used) by			
Operating activities	$ (441)	$ 1,382	$ (1,160)
Noncapital financing activities	1,610	1,583	653
Capital and related financing activities	70	(2,287)	(469)
Investing activities	(1,994)	(761)	(704)
Net increase (decrease) in cash	**$ (755)**	**$ (83)**	**$ (1,680)**
Cash, beginning of year	**9,365**	**9,448**	**11,128**
Cash, end of year	**$ 8,610**	**$ 9,365**	**$ 9,448**

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

- Cash provided by operating activities decreased from 2004 to 2005 largely due to a decrease in cash donations received from contributors. The increase from 2003 to 2004 was largely due to increases in cash donations received from contributors.

- Cash provided by noncapital financing activities increased from 2003 to 2004 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 decreased from 2004 to 2005 due to the completion of the Rose and Emmett Kennon Sports Hall of Fame. The increase from 2003 to 2004 is 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 2004–05 fiscal year decreased by $755,199 and for the 2003–04 fiscal year decreased by $83,278.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2005, Middle Tennessee State University had $189,899,765 invested in capital assets, net of accumulated depreciation of $129,434,870. Depreciation charges totaled $10,916,742 for the current fiscal year. Details of these assets are shown below.

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

	2005	2004	2003
Land	$ 9,737	$ 4,980	$ 4,527
Land improvements and infrastructure	11,887	13,112	13,195
Buildings	124,148	124,940	124,449
Equipment	14,874	14,721	12,438
Library holdings	9,354	8,945	8,323
Projects in progress	19,900	10,643	7,695
Total	$ 189,900	$ 177,341	$ 170,627

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

- Land increased from 2004 to 2005 due to the acquisition of the Guy James farm from Rutherford County.
- Equipment increased from 2003 to 2004 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 from 2004 to 2005 due to the continued renovations of University housing facilities and the Todd Building, initial purchase of the new ERP system, and purchase of the Middle Tennessee Building to be renovated for future administrative office space. Major projects underway during the 2003–04 fiscal year included renovations of University housing facilities and the Todd Building. Three projects were completed during the 2003–04 year and transferred out of projects in progress: Paul W. Martin Sr. Honors College 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.

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

	2005	2004	2003
Land	$ 2,283	$ 2,213	$ 3,615
Land improvements and infrastructure	318	95	100
Buildings	17,939	17,982	16,608
Equipment	-	41	30
Projects in progress	-	1,584	382
Total	$ 20,540	$ 21,915	$ 20,735

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

- ♦ The decrease in land from 2003 to 2004 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 from 2003 to 2004 as a result of the above reclassification along with the completion of the Horse Science addition.
- ♦ Projects in progress increased from 2003 to 2004 due to continued construction of the Rose and Emmett Kennon Sports Hall of Fame and the Tennessee Miller Coliseum Warm-Up Ring. Both of these projects were completed in the 2004–05 fiscal year.

The University expects to make major capital expenditures during fiscal year 2005–06 for the following projects: continued renovation to the University's housing facilities that will be funded from the issuance of TSSBA bonds; Student Health, Wellness, and Recreation Facility upgrade to be funded from University auxiliary reserve balances and the issuance of TSSBA bonds; addition to the Nursing Building funded partially from a donation from the Christy-Houston Foundation; first phase of a parking master plan funded from issuance of TSSBA bonds; renovation of the Middle Tennessee Building funded from University resources; and implementation of next phase of the ERP system. More detailed information about the University's capital assets is presented in note 7 to the financial statements.

Debt

At June 30, 2005, the University had $101,588,837 in debt outstanding. The table below summarizes these amounts by type of debt instrument (in thousands of dollars).

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

	2005	2004	2003
TSSBA Bonds	$ 80,646	$ 81,331	$ 75,490
TSSBA Commercial Paper	20,943	5,229	5,902
Total Debt	$ 101,589	$ 86,560	$ 81,392

Tennessee State School Bond Authority (TSSBA) issued commercial paper for the University on the following major projects during the 2004–05 fiscal year: renovations of University housing facilities, project for energy savings and performance contracting, acquisition of the Middle Tennessee Building, payment on the new ERP system, and acquisition of the Guy James farm. TSSBA also refunded the original bonds issued on the several projects in order to obtain a lower rate of interest. Commercial paper was issued for several other ongoing capital projects during the year.

TSSBA issued new bonds on behalf of the University for the following four projects during the 2003–04 fiscal year: Steinway piano purchases for the School of Music, Aerospace Department's flight training airplanes, 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 8 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, 2005. Funding will be provided by the state for approximately 60% of this increase through increased state appropriations, with the remaining 40% to be funded from University resources.

The Tennessee Board of Regents approved, at their June board meeting, a 9.7% fee increase for 2005–06.

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

Requests for Information

This financial report is designed to provide a general overview 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, Middle Tennessee State University, CAB 105, Murfreesboro, TN 37132.

BASIC FINANCIAL STATEMENTS

Middle Tennessee State University
Unaudited Statement of Net Assets
June 30, 2005, with comparative figures at June 30, 2004

	University		Component Unit	
	2005	2004	2005	2004
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 3, 4, and 17)	$ 28,861,888.14	$ 29,608,620.54	$ 869,646.23	$ 539,109.59
Accounts, notes, and grants receivable (net) (Note 6)	15,098,482.69	8,528,005.74		
Pledges receivable (net) (Note 17)			206,411.73	380,170.51
Inventories (at lower of cost or market)	2,299,281.46	2,484,672.66		
Prepaid expenses and deferred charges	651,477.29	417,413.39		
Accrued interest receivable	30,447.17	39,566.42	11,517.94	9,764.36
Total current assets	46,941,576.75	41,078,278.75	1,087,575.90	929,044.46
Noncurrent assets:				
Cash and cash equivalents (Notes 3, 4, and 17)	37,037,368.59	32,011,615.78	7,739,880.11	8,825,615.79
Investments (Notes 5 and 17)	735,939.27	716,066.91	27,232,478.67	23,177,229.87
Accounts, notes, and grants receivable (net) (Notes 6 and 17)	2,957,149.17	3,381,410.72	1,257,785.33	1,967,673.45
Pledges receivable (net) (Note 17)			140,580.61	140,648.18
Capital assets (net) (Notes 7 and 17)	189,899,764.83	177,341,128.89	20,540,221.86	21,914,575.17
Total noncurrent assets	230,630,221.86	213,450,222.30	56,910,946.58	56,025,742.46
Total assets	$277,571,798.61	$254,528,501.05	$ 57,998,522.48	$ 56,954,786.92
LIABILITIES				
Current liabilities:				
Accounts payable	$ 4,251,873.84	$ 1,835,454.26	$ 422,149.85	$ 53,272.86
Accrued liabilities	14,182,258.93	12,936,676.21		
Student deposits	920,843.14	907,383.44		
Deferred revenue	4,945,766.38	4,554,664.58		
Compensated absences (Note 8)	1,230,533.22	1,093,023.14		
Accrued interest payable	651,917.34	707,451.88		
Long-term liabilities, current portion (Note 8)	2,912,009.67	2,208,716.72		
Deposits held in custody for others	691,291.76	642,349.43		
Other liabilities	595,730.55	305,889.74		
Total current liabilities	30,382,224.83	25,191,609.40	422,149.85	53,272.86
Noncurrent liabilities:				
Compensated absences (Note 8)	3,658,674.10	3,052,933.65		
Long-term liabilities (Note 8)	98,676,827.50	84,351,172.71		
Due to grantors (Note 8)	2,890,649.27	2,933,577.40		
Total noncurrent liabilities	105,226,150.87	90,337,683.76		
Total liabilities	$135,608,375.70	$115,529,293.16	$ 422,149.85	$ 53,272.86
NET ASSETS				
Invested in capital assets, net of related debt	$ 88,310,927.66	$ 90,781,239.46	$ 20,540,221.86	$ 21,914,575.17
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	10,900.00	10,900.00	24,132,408.69	21,741,298.56
Research			735,352.39	740,940.64
Other	753,552.68	727,061.61	837,084.68	813,699.10
Expendable:				
Scholarships and fellowships	134,532.81	143,892.28	1,040,397.07	885,379.37
Research	75,635.82	79,087.22	3,038.49	3,038.49
Instructional department uses	144,377.26	83,963.03	5,761,502.47	5,770,380.57
Loans	1,773,733.16	1,728,243.26		
Capital projects	2,554,919.50	1,931,294.70	2,767,214.74	3,315,258.11
Debt service	3,480,389.10	2,311,238.19		
Other	2,017,674.74	1,080,498.63	1,302,916.26	1,223,828.08
Unrestricted (Note 10)	42,706,780.18	40,121,789.51	456,235.98	493,115.97
Total net assets	$141,963,422.91	$138,999,207.89	$ 57,576,372.63	$ 56,901,514.06

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, 2005, with comparative figures at June 30, 2004

	University		Component Unit	
	2005	2004	2005	2004
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $21,074,735.72 for the year ended June 30, 2005, and $14,440,618.35 for the year ended June 30, 2004)	$ 76,530,877.32	$ 76,219,797.24		
Gifts and contributions			$ 3,668,100.98	$ 5,076,915.87
Governmental grants and contracts	20,216,064.96	14,025,250.06		
Non-governmental grants and contracts	523,111.03	869,011.58	101,051.76	19,599.02
Sales and services of educational departments	7,569,394.28	6,987,364.42		
Auxiliary enterprises:				
Residential life (net of scholarship allowances of $2,289,784.52 for the year ended June 30, 2005, and $1,583,844.04 for the year ended June 30, 2004: all residential life revenues are used as security for revenue bonds, see Note 8)	9,495,045.78	9,549,714.11		
Bookstore (net of scholarship allowances of $1,859,007.59 for the year ended June 30, 2005, and $1,390,735.54 for the year ended June 30, 2004: all bookstore revenues are used as security for revenue bonds, see Note 8)	6,752,004.95	7,344,697.62		
Food service	803,416.51	560,304.82		
Wellness facility (net of scholarship allowances of $417,956.19 for the year ended June 30, 2005, and $301,178.40 for the year ended June 30, 2004: all wellness facilities revenues are used as security for revenue bonds, see Note 8)	1,442,356.29	1,585,841.93		
Other auxiliaries	5,413,998.31	5,000,931.74		
Interest earned on loans to students	74,766.87	83,013.48		
Other operating revenues	1,341,594.00	1,115,041.68		
Total operating revenues	$ 130,162,630.30	$ 123,340,968.68	$ 3,769,152.74	$ 5,096,514.89
EXPENSES				
Operating expenses				
Salaries and wages	$ 116,497,852.68	$ 104,590,058.79		
Benefits	33,844,967.12	28,537,541.14		
Utilities, supplies, and other services	68,809,762.16	57,336,706.49	$ 1,780,204.49	$ 1,596,079.99
Scholarships and fellowships	18,975,843.21	13,826,489.17	1,175,463.82	1,016,401.09
Depreciation expense	10,916,741.56	11,023,830.06	495,218.73	479,725.01
Payments to or on behalf of MTSU			3,345,513.59	2,523,883.30
Total operating expenses	$ 249,045,166.73	$ 215,314,625.65	$ 6,796,400.63	$ 5,616,089.39
Operating income (loss)	$ (118,882,536.43)	$ (91,973,656.97)	$ (3,027,247.89)	$ (519,574.50)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	$ 86,884,500.00	$ 82,359,300.00		
Gifts, including $961,709.61 from component unit in FY 2005 and $663,797.84 from component unit in FY 2004	975,013.99	663,797.84		
Grants and contracts	29,463,893.83	14,431,290.00		
Investment income (net of investment expense of $6,486.99 for the university and $104,833.07 for the component unit for FY 2005 and $6,089.47 for the university and $107,006.37 for the component unit for FY 2004)	2,482,542.88	1,732,132.39	$ 2,061,294.25	$ 1,942,198.83
Interest on capital asset-related debt	(4,321,121.70)	(3,868,967.60)		
Bond issuance costs	(1,022,625.05)	(643,544.71)		
Other non-operating revenues/(expenses)	348,206.73	397,835.55	(1,216.61)	(1,589.08)
Net nonoperating revenues	$ 114,810,410.68	$ 95,071,843.47	$ 2,060,077.64	$ 1,940,609.75
Income before other revenues, expenses gains, or losses	$ (4,072,125.75)	$ 3,098,186.50	$ (967,170.25)	$ 1,421,035.25
Capital appropriations	$ 5,248,091.69	$ 6,703,137.55		
Capital grants and gifts, including $2,383,803.98 from the component unit in FY 2005 and $1,860,085.46 from the component unit in FY 2004	2,444,081.64	2,163,390.74	75,464.69	380,859.88
Additions to permanent endowments			1,566,564.13	1,493,591.24
Other capital	(655,832.56)	(144,966.40)		
Total other revenues	$ 7,036,340.77	$ 8,721,561.89	$ 1,642,028.82	$ 1,874,451.12
Increase in net assets	$ 2,964,215.02	$ 11,819,748.39	$ 674,858.57	$ 3,295,486.37
NET ASSETS				
Net Assets -beginning of year	$ 138,999,207.89	$ 127,179,459.50	$ 56,901,514.06	$ 53,518,229.83
Prior period adjustment				87,797.86
Net Assets - end of year	$ 141,963,422.91	$ 138,999,207.89	$ 57,576,372.63	$ 56,901,514.06

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, 2005 with comparative figures at June 30, 2004

	University	
	2005	**2004**
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 79,806,820.16	$ 76,554,245.71
Grants and contracts	15,403,546.19	14,700,777.34
Sales and services of educational activities	7,265,512.27	6,768,574.00
Payments to suppliers and vendors	(69,429,633.38)	(57,214,859.07)
Payments to employees	(115,845,079.42)	(104,246,821.55)
Payments for benefits	(32,256,709.16)	(28,002,601.24)
Payments for scholarships and fellowships	(18,975,843.21)	(13,826,489.17)
Loans issued to students and employees	(263,644.25)	(288,142.76)
Collection of loans from students and employees	323,065.35	292,905.30
Interest earned on loans to students	75,075.95	86,393.83
Auxiliary enterprise charges:		
Residence halls	9,176,748.92	9,341,052.39
Bookstore	6,842,037.87	7,451,597.11
Food services	743,231.88	582,998.64
Wellness facility	1,442,356.29	1,585,841.93
Other auxiliaries	5,420,910.71	4,991,237.31
Other receipts (payments)	1,341,594.00	1,115,041.68
Net cash flows used by operating activities	$ (108,930,009.83)	$ (80,108,248.55)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	$ 86,888,200.00	$ 82,336,500.00
Gifts and grants received for other than capital or endowment purposes, including $961,709.61 from Middle Tennessee State University Foundation for FY 2005 and $663,797.84 for FY 2004	30,228,790.96	15,506,687.57
Federal student loan receipts	64,469,145.05	58,990,249.28
Federal student loan disbursements	(64,173,704.19)	(59,056,911.27)
Changes in deposits held for others	(256,787.48)	(123,272.61)
Other noncapital financing receipts (payments)	348,206.73	397,835.55
Net cash flows provided by noncapital financing activities	$ 117,503,851.07	$ 98,051,088.52
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	$ 18,061,264.43	$ 8,204,074.93
Capital - state appropriation	5,248,091.69	6,703,137.55
Capital grants and gifts received, including $818,384.00 from Middle Tennessee State University Foundation for FY 2005 and $1,810,435.46 for FY 2004	849,241.47	2,113,740.74
Purchase of capital assets and construction	(22,536,369.89)	(17,833,096.37)
Principal paid on capital debt and lease	(3,032,316.69)	(3,036,527.45)
Interest paid on capital debt and lease	(4,333,587.48)	(3,817,822.89)
Bond issue costs paid on new debt issue	(1,022,625.05)	(643,544.71)
Net cash flows used by capital and related financing activities	$ (6,766,301.52)	$ (8,310,038.20)

Middle Tennessee State University
Unaudited Statement of Cash Flows
for the year ended June 30, 2005, with comparative figures at June 30, 2004

	University	
	2005	**2004**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	$ 32,900.10	$ 5,000.00
Income on investments	2,470,580.59	1,708,180.26
Purchase of investments	(32,000.00)	(5,000.00)
Net cash provided by investing activities	$ 2,471,480.69	$ 1,708,180.26
Net increase in cash and cash equivalents	4,279,020.41	11,340,982.03
Cash and cash equivalents - beginning of year	61,620,236.32	50,279,254.29
Cash and cash equivalents - end of year (Note 3)	$ 65,899,256.73	$ 61,620,236.32
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (118,882,536.43)	$ (91,973,656.97)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	10,916,741.56	11,023,830.06
Change in assets and liabilities:		
Receivables, net	(5,878,590.61)	(839,374.44)
Inventories	185,391.20	(7,885.09)
Prepaid/deferred items	(234,063.90)	312,688.95
Other assets	309.08	3,380.35
Accounts payable	2,424,921.70	8,234.57
Accrued liabilities	1,202,513.96	651,947.26
Deferred revenues	391,101.80	628,862.63
Deposits	13,459.70	(41,967.86)
Compensated absences	743,250.53	91,107.29
Due to grantors	(42,928.13)	(71,520.13)
Loans to students and employees	(59,421.10)	(4,762.54)
Other	289,840.81	110,867.37
Net cash used by operating activities	$ (108,930,009.83)	$ (80,108,248.55)
Non-cash transactions		
Gifts in-kind		45,400.00
Unrealized gains/losses on investments	22,872.36	17,750.09

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

1. **Summary of Significant Accounting Policies**

REPORTING ENTITY

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The 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 and non-exchange transactions.

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, library holdings, and software, 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 $100,000.

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

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

INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT. This represents the 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 University 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 University 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 University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

2. **Independent Audit**

The financial statements for the year ended June 30, 2005, are unaudited. The most recent audit covered the year ended June 30, 2004, for which an audit report has been issued. The institution received an unqualified opinion in the audit report for the year ended June 30, 2004. There is an audit in progress for the year ended June 30, 2005.

3. **Cash and Cash Equivalents**

In addition to demand deposits and petty cash on hand, this classification includes instruments that are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2005, cash and cash equivalents consist of $31,306,716.60 in bank accounts, $115,340.00 of petty cash on hand, $31,247,657.59 in the State of Tennessee Local Government Investment Pool administered by the state treasurer, $3,211,929.13 in the LGIP Deposits–Capital Projects account, and $17,613.41 in a money market account.

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

4. **Deposits**

The University'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, 2005, the carrying amount of the institution's deposits was $31,324,330.01 and the bank balance was $35,392,375.09. 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.

Middle Tennessee State University 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 required risk disclosures 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**

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.

		Investment Maturity
Investment Type	Fair Value	More Than 10 Years
Mutual Funds	$ 753,552.68	$ 753,552.68
Less Amounts Reported as Cash and Cash Equivalents:		
Money Market Funds	17,613.41	17,613.41
Total Investments	$ 735,939.27	$ 735,939.27

Interest Rate Risk. The institution does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value arising from increasing interest rates.

Credit Risk. Middle Tennessee State University is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies that are backed by the full faith and credit of the United States, repurchase agreements for United States securities, certificates of deposit in banks and savings and loan associations, banker's acceptances, commercial paper, money market mutual funds, and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the institution and that endowment investments be prudently diversified. The institution has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations. As of June 30, 2005, the institution's investments were unrated by Moody's, Standard and Poor's, and Fitch. The mutual fund was given a four-star rating by Morningstar.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the institution will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The institution does not have a deposit policy for custodial credit risk. At June 30, 2005, the institution had $735,939.27 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 institution's name.

Concentration of Credit Risk. The institution places no limit on the amount it may invest in any one issuer.

Foreign Currency Risk. The institution places no limit on the amount it may invest in foreign currency. The institution has no exposure to foreign currency risk.

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

	Carrying Value	
	2004–05	2003–04
Mutual Funds	$735,939.27	$716,066.91

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 131,188.630 units at June 30, 2005, each having a market value of $5.61, were owned by quasi-endowments.

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

	Pooled Assets		Net Gains	Market Value
	Market	Cost	(Losses)	Per Unit
End of year	$ 735,939.27	$ 745,185.22	$ (9,245.95)	$ 5.61
Beginning of year	716,066.91	748,185.22	(32,118.31)	5.46
				$ .15
Unrealized net gains			$ 22,872.36	
Realized net gains			3,618.71	
Total net gains			$ 26,491.07	

The average annual earnings per unit, exclusive of net gains, were $.08 for the year.

6. **Accounts, Notes, and Grants Receivable**

Accounts receivable included the following at June 30, 2005:

Student accounts receivable	$ 3,241,005.26
Grants receivable	10,051,590.16
Notes receivable	398,196.73
Pledges receivable	-
State appropriation receivable	445,600.00
Other receivables	2,687,523.97
Subtotal	$ 16,823,916.12
Less allowance for doubtful accounts	(1,725,433.43)
Total	$ 15,098,482.69

Federal Perkins Loan Program funds include the following at June 30, 2005:

Perkins loans receivable	$ 3,644,182.02
Less allowance for doubtful accounts	(687,032.85)
Total	$ 2,957,149.17

7. **Capital Assets**

Capital asset activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 4,980,605.51	$ 4,478,170.00	$ 277,907.35	$ -	$ 9,736,682.86
Improvements and infrastructure	26,659,828.12	-	-	-	$ 26,659,828.12
Buildings	202,936,623.86	2,482,100.91	1,617,724.76	289,067.45	$ 206,747,382.08
Equipment	37,548,565.96	3,768,930.26	-	2,253,529.82	$ 39,063,966.40
Library holdings	16,339,719.65	2,269,405.71	-	1,381,888.28	$ 17,227,237.08
Projects in progress	10,643,324.43	11,151,845.84	(1,895,632.11)	-	$ 19,899,538.16
Total	$ 299,108,667.53	$ 24,150,452.72	$ -	$ 3,924,485.55	$ 319,334,634.70
Less accumulated depreciation:					
Improvements and infrastructure	$ 13,548,202.65	$ 1,224,554.52	-	$ -	$ 14,772,757.17
Buildings	77,997,014.01	4,865,635.93	-	264,139.89	$ 82,598,510.05
Equipment	22,827,935.68	2,965,638.57	-	1,603,382.16	$ 24,190,192.09
Library holdings	7,394,386.30	1,860,912.54	-	1,381,888.28	$ 7,873,410.56
Total accumulated depreciation	$ 121,767,538.64	$ 10,916,741.56	$ -	$ 3,249,410.33	$ 129,434,869.87
Capital assets, net	$ 177,341,128.89	$ 13,233,711.16	$ -	$ 675,075.22	$ 189,899,764.83

8. **Long-term Liabilities**

Long term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables					
Bonds	$ 81,330,915.77	$ 1,523,356.38	$ 2,208,716.69	$ 80,645,555.46	$ 2,912,009.67
Commercial Paper	5,228,973.66	16,537,908.05	823,600.00	20,943,281.71	-
Subtotal	$ 86,559,889.43	$ 18,061,264.43	$ 3,032,316.69	$101,588,837.17	$ 2,912,009.67
Other Liabilities					
Compensated Absences	$ 4,145,956.79	$ 2,721,905.44	$ 1,978,654.91	$ 4,889,207.32	$ 1,230,533.22
Due to Grantors	2,933,577.40	1,628,407.17	1,671,335.30	2,890,649.27	-
Subtotal	$ 7,079,534.19	$ 4,350,312.61	$ 3,649,990.21	$ 7,779,856.59	$ 1,230,533.22
Total long term liabilities	$ 93,639,423.62	$ 22,411,577.04	$ 6,682,306.90	$109,368,693.76	$ 4,142,542.89

Bonds Payable

Bond issues, with interest rates ranging from 1.30% to 7.15% 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 $361,146.61 at June 30, 2005, and $923,913.41 at June 30, 2004. Unexpended debt proceeds were $125,339.07 at June 30, 2005.

Debt service requirements to maturity for all bonds payable at June 30, 2005, are as follows:

For the Year(s) Ending June 30	Principal	Interest	Total
2006	$ 2,912,009.67	$ 3,543,237.51	$ 6,455,247.18
2007	3,045,064.64	3,556,560.14	6,601,624.78
2008	3,175,813.74	3,435,190.22	6,611,003.96
2009	3,382,671.97	3,305,394.64	6,688,066.61
2010	3,484,477.85	3,180,247.18	6,664,725.03
2011-2015	18,188,977.13	13,736,634.81	31,925,611.94
2015-2020	18,604,398.86	9,456,345.78	28,060,744.64
2021-2025	17,463,654.05	5,088,621.41	22,552,275.46
2026-2030	10,393,093.16	1,218,256.92	11,611,350.08
2031-2033	(4,605.61)	1,082.62	(3,522.99)
Total	$80,645,555.46	$ 46,521,571.23	$127,167,126.69

Commercial Paper

The Tennessee State School Bond Authority authorized the issuance of commercial paper to finance costs of various capital projects. At June 30, 2005, $20,943,281.71 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) 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, 2005, net appreciation of $2,422.72 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 2005
Working capital	$ 2,107,567.70
Encumbrances	869,171.65
Auxiliaries	4,062,761.51
Quasi-endowment	155,100.00
Plant construction	12,244,647.24
Renewal and replacement of equipment	18,170,785.85
Debt retirement	282,846.94
Unreserved/undesignated balance	4,813,899.29
Total	$ 42,706,780.18

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 10.54% 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, 2005, 2004, and 2003 were $4,196,023.29, $2,615,506.45, and $2,571,010.23, 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 members 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, 2005, was $6,420,827.30 and for the year ended June 30, 2004, was $5,701,120.78. 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 $21,978,623.22 on deposit at June 30, 2005, 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, 2005, the scheduled coverage was $533,629,900 for buildings and $227,008,300 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 $41,861,857.90 at June 30, 2005.

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 $210,179.47 and $186,020.74, respectively, for the year ended June 30, 2005. Comparative amounts for the year ended June 30, 2004, were $173,342.05 and $147,414.29, respectively. All operating leases are cancelable at the lessee's option.

CONSTRUCTION IN PROGRESS. At June 30, 2005, outstanding commitments under construction contracts totaled $6,246,205.62. Major projects include Todd renovation, ADA improvements, life safety renovations, systems replacement, underground electrical update, Bragg Mass Communication roof replacement, and Ezell/Abernathy safety code corrections, of which $3,111,858.45 will be funded by future state capital outlay appropriations.

CONTRACTS. In December 2004, the Tennessee Board of Regents system entered into a contract with SungardSCT for the purchase of a comprehensive enterprise resource planning system. The contract includes a multiyear phase-in of administrative software for financial, human resource, and student systems. The institution's outstanding liability for this contract is estimated as $5,103,055.95 at June 30, 2005.

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, 2005, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Operating	Scholarships	Depreciation	Total
Instruction	$ 68,260,119.95	$ 18,325,702.23	$ 11,463,234.50	$ -	$ -	$ 98,049,056.68
Research	2,694,555.58	604,537.75	1,059,561.00	-	-	4,358,654.33
Public Service	4,643,676.27	1,510,239.79	9,654,222.19	-	-	15,808,138.25
Academic Support	10,700,399.55	3,334,518.69	733,215.95	-	-	14,768,134.19
Student Services	10,333,958.45	3,257,330.74	9,521,018.28	-	-	23,112,307.47
Institutional Support	9,375,006.21	3,205,186.12	2,751,581.48	-	-	15,331,773.81
Maintenance and Operations	5,002,121.41	1,906,253.67	19,234,276.87	-	-	26,142,651.95
Scholarships and Fellowships	-	-	-	18,975,843.21	-	18,975,843.21
Auxiliaries	5,488,015.26	1,701,198.13	14,392,651.89	-	-	21,581,865.28
Depreciation	-	-	-	-	10,916,741.56	10,916,741.56
Total Expenses	$116,497,852.68	$ 33,844,967.12	$ 68,809,762.16	$ 18,975,843.21	$ 10,916,741.56	$ 249,045,166.73

17. **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 fundraising 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 are restricted to the activities of the University by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the University, the foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

During the year ended June 30, 2005, the foundation made distributions of $5,021,718.28 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 presentation 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, 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, 2005, 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, 2005, were as follows:

	Cost	Market Value
U.S. Treasury Notes	$ 1,461,603.58	$ 1,449,110.00
U.S. Treasury Strips	67,247.14	224,708.04
Certificates Accrual Treasury Securities (CATS)	3,710.00	10,321.20
Corporate Stocks	16,375,178.76	19,765,341.43
Corporate Bonds	5,760,367.91	5,335,388.80
Mutual Funds	48,608.60	47,242.41
Cash Surrender Value of Life Insurance		400,366.79
Total Investments per Statement of Net Assets		$ 27,232,478.67

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

Current pledges	$ 219,276.86
Pledges due in one to five years	149,223.64
Pledges due after five years	84.00
Subtotal	368,584.50
Less: Discounts to net present value	(21,592.16)
Total pledges receivable, net	$ 346,992.34

CAPITAL ASSETS. Capital assets for the year ended June 30, 2005, were as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 2,213,221.97	$ 75,000.00	$ -	$ 5,300.00	$ 2,282,921.97
Land Improvements	-	241,164.52	-	-	$ 241,164.52
Improvements and infrastructure	105,019.41	-	-	-	$ 105,019.41
Buildings	19,154,322.30	259,541.66	175,712.92	-	$ 19,589,576.88
Equipment	70,919.66	-	-	70,919.66	$ -
Projects in progress	1,583,754.21	-	(175,712.92)	1,408,041.29	$ -
Total	$ 23,127,237.55	$ 575,706.18	$ -	$ 1,484,260.95	$ 22,218,682.78
Less accumulated depreciation:					
Land Improvements	$ -	$ 12,058.23	$ -	$ -	$ 12,058.23
Improvements and infrastructure	10,501.94	5,250.97	-	-	$ 15,752.91
Buildings	1,172,740.25	477,909.53	-	-	$ 1,650,649.78
Equipment	29,420.19	-	-	29,420.19	$ -
Total accumulated depreciation	$ 1,212,662.38	$ 495,218.73	$ -	$ 29,420.19	$ 1,678,460.92
Capital assets, net	$ 21,914,575.17	$ 80,487.45	$ -	$ 1,454,840.76	$ 20,540,221.86

Component Unit
Unaudited Statement of Cash Flows
for the Year Ended June 30, 2005, with comparative figures for the year ended June 30, 2004

	Component Unit 2005	Component Unit 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 3,558,593.36	$ 6,291,051.40
Grants and contracts	101,051.76	19,599.02
Payments to suppliers and vendors	(1,146,496.68)	(1,439,288.01)
Payments for scholarships and fellowships	(1,174,393.15)	(1,015,493.55)
Payments to Middle Tennessee State University	(1,780,093.61)	(2,474,233.30)
Net cash flows provided (used) by operating activities	$ (441,338.32)	$ 1,381,635.56
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	$ 1,610,361.48	$ 1,582,740.20
Net cash flows provided by non-capital financing activities	$ 1,610,361.48	$ 1,582,740.20
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts received	$ 669,151.60	$ (223,408.63)
Proceeds from sale of capital assets	5,300.00	
Purchase of capital assets and construction	(604,294.80)	(2,063,884.29)
Net cash flows provided (used) by capital and related financing activities	$ 70,156.80	$ (2,287,292.92)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	$ 2,613,726.49	$ 9,346,579.33
Income on investments	163,243.45	373,217.20
Purchase of investments	(4,770,747.42)	(10,479,555.56)
Other investing receipts (payments)	(601.52)	(601.52)
Net cash used by investing activities	$ (1,994,379.00)	$ (760,360.55)
Net decrease in cash and cash equivalents	(755,199.04)	(83,277.71)
Cash and cash equivalents - beginning of year	9,364,725.38	9,448,003.09
Cash and cash equivalents - end of year	$ 8,609,526.34	$ 9,364,725.38
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating loss	$ (3,027,247.89)	$ (519,574.50)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense	495,218.73	479,725.01
Change in assets and liabilities:		
Receivables, net	168,684.47	1,381,987.66
Accounts payable	356,586.39	(10,152.61)
Other	1,565,419.98	49,650.00
Net cash provided (used) by operating activities	$ (441,338.32)	$ 1,381,635.56
Non-cash transactions		
Gifts in-kind	278,192.09	167,852.13
Pledges	(173,826.35)	(1,995,168.97)
Unrealized gains/losses on investments	1,408,045.58	916,844.64

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