

# Financial Report

for the year ended June 30, 2006

**MIDDLE  
TENNESSEE**  
STATE UNIVERSITY

**Middle Tennessee State University**

**FINANCIAL REPORT**  
**For the Year Ended June 30, 2006**

**MIDDLE  
TENNESSEE**  
  
STATE UNIVERSITY

**Office of the President**

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



September 5, 2006

Dr. Charles Manning, Chancellor  
Tennessee Board of Regents  
1415 Murfreesboro Road, Suite 350  
Nashville, TN 37217

Dear Chancellor Manning:

Enclosed is the annual Financial Report for the fiscal year ended June 30, 2006.  
This report has been prepared in accordance with Generally Accepted Accounting Principles.

Sincerely,

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

Sidney A. McPhee  
President

SAM:fr

Enclosures



A Tennessee Board of Regents Institution

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

**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 5, 2006

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, 2006.

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, 2005. An audit is currently in progress for fiscal year ended June 30, 2006.

Sincerely,

A handwritten signature in black ink, appearing to read "John W. Cothorn", written over a large, stylized initial "J".

John W. Cothorn  
Senior Vice President

Enclosures





# MIDDLE TENNESSEE STATE UNIVERSITY

## FINANCIAL REPORT

For the Year Ended June 30, 2006

### TABLE OF CONTENTS

Management's Discussion and Analysis .....	6
Unaudited Statement of Net Assets.....	26
Unaudited Statement of Revenues, Expenses, and Changes in Net Assets .....	27
Unaudited Statement of Cash Flows.....	28
Notes to the Financial Statements.....	31
Supplementary Information .....	44



**MIDDLE TENNESSEE STATE UNIVERSITY**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2006**

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, 2006, with comparative information presented for the fiscal year ended June 30, 2005. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

### **Using This Annual Report**

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

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

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

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the University's equity in property, plant, and equipment owned. The next asset category is restricted net assets, which is divided into two 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)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Assets</b>			
Current assets	\$ 52,545	\$ 46,942	\$ 41,078
Capital assets, net	203,546	189,900	177,341
Other assets	43,143	40,730	36,109
<b>Total Assets</b>	<b><u>\$ 299,234</u></b>	<b><u>\$ 277,572</u></b>	<b><u>\$ 254,528</u></b>
<b>Liabilities</b>			
Current liabilities	\$ 34,640	\$ 30,383	\$ 25,191
Noncurrent liabilities	113,476	105,226	90,338
<b>Total Liabilities</b>	<b><u>\$ 148,116</u></b>	<b><u>\$ 135,609</u></b>	<b><u>\$ 115,529</u></b>
<b>Net Assets</b>			
Invested in capital assets, net of debt	\$ 94,540	\$ 88,311	\$ 90,781
Restricted - expendable	8,598	10,181	7,358
Restricted - nonexpendable	779	764	738
Unrestricted	47,201	42,707	40,122
<b>Total Net Assets</b>	<b><u>\$ 151,118</u></b>	<b><u>\$ 141,963</u></b>	<b><u>\$ 138,999</u></b>

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

- ◆ Current assets increased from 2005 to 2006 and from 2004 to 2005 due to an increase in receivables from grant accounts at year end. The most significant increase is attributable to the new Tennessee Department of Children’s Services (DCS) grant. These receivables relate to billings from several institutions across the state received after June 30 and were setup as payables, thus creating a receivable for the University from the grantor at year end.
- ◆ Net capital assets increased from 2005 to 2006 mainly as a result of the continued renovation of the University’s housing facilities, an addition to the nursing building, and phase I of the University’s parking and transportation project. Other projects contributing to the increase included renovations to Andrew L. Todd Hall, improvements to the track and field complex, renovations to Murphy Center, and capitalization of the University’s new Enterprise Resource Planning (ERP) software. The increase from 2004 to 2005 is due to the purchase of the Guy James farm from Rutherford County, continued renovation of the University’s housing facilities, and an energy savings and performance contracting project.
- ◆ Current liabilities increased from 2005 to 2006 and from 2004 to 2005 as a result of increased payables at year end. The most significant increase in payables resulted from restricted funds and is attributable to the new DCS grant.
- ◆ Noncurrent liabilities increased from 2005 to 2006 and from 2004 to 2005 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.

- ◆ The restricted–expendable section of Net Assets increased from 2004 to 2005 as a result of increased restricted funds in grant, capital project, and renewals and replacements accounts. There were more capital projects in 2004–05 being funded from private dollars, and the accumulation of excess debt service fees continued to grow for future use toward the Student Health, Wellness, and Recreation Center Facility upgrade project. The subsequent decrease from 2005 to 2006 resulted mainly from the use of those private dollars on existing capital projects.

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

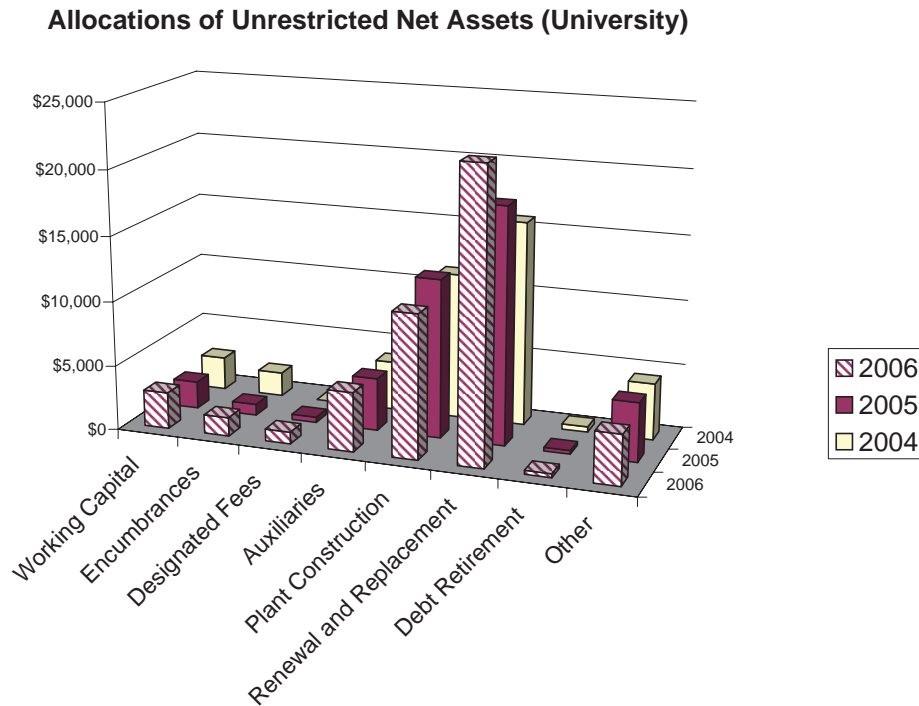
	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Assets</b>			
Current assets	\$ 1,333	\$ 1,088	\$ 929
Capital assets, net	20,477	20,540	21,915
Other assets	39,951	36,371	34,111
<b>Total Assets</b>	<u>\$ 61,761</u>	<u>\$ 57,999</u>	<u>\$ 56,955</u>
<b>Liabilities</b>			
Current liabilities	\$ 480	\$ 422	\$ 53
Noncurrent liabilities	-	-	-
<b>Total Liabilities</b>	<u>\$ 480</u>	<u>\$ 422</u>	<u>\$ 53</u>
<b>Net Assets</b>			
Invested in capital assets, net of debt	\$ 20,478	\$ 20,540	\$ 21,915
Restricted - expendable	10,502	10,875	11,198
Restricted - nonexpendable	29,927	25,705	23,296
Unrestricted	374	456	493
<b>Total Net Assets</b>	<u>\$ 61,281</u>	<u>\$ 57,576</u>	<u>\$ 56,902</u>

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

- ◆ The increase in current assets from 2005 to 2006 is due to new pledges to the baseball building fund. This was part of the increased focus in soliciting gifts for University facilities over the past fiscal year.
- ◆ 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 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 2005 to 2006 and from 2004 to 2005 due to the favorable market performance. Noncurrent investments also increased approximately \$2.3 million from 2005 to 2006 and \$4.0 million from 2004 to 2005.

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 graph shows the allocations (in thousands of dollars):



- ◆ Encumbrances for 2006 increased from 2005 over \$500,000 due to adjusting the year-end cutoff schedule from the previous year. 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. The change in the schedule was required by the conversion to the new ERP system. It also allowed for the actual delivery of more items prior to the end of the fiscal year.
- ◆ Plant construction increases occurred between 2004 and 2005 as the result of more funds being set aside for future year projects, which include a University-wide replacement of PCs for staff and the purchase of a new Enterprise Resource Planning (ERP) system to replace the current administrative systems.
- ◆ Renewal and replacement increased from 2005 to 2006 and from 2004 to 2005 due to the continued setting aside of funds for the Student Health, Wellness, and Recreation Center facility upgrade project, phases of the parking and transportation project, and funding of future losses in housing revenues resulting from facilities under renovation.

## 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 generally accepted to accounting principles in the United States of America.

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

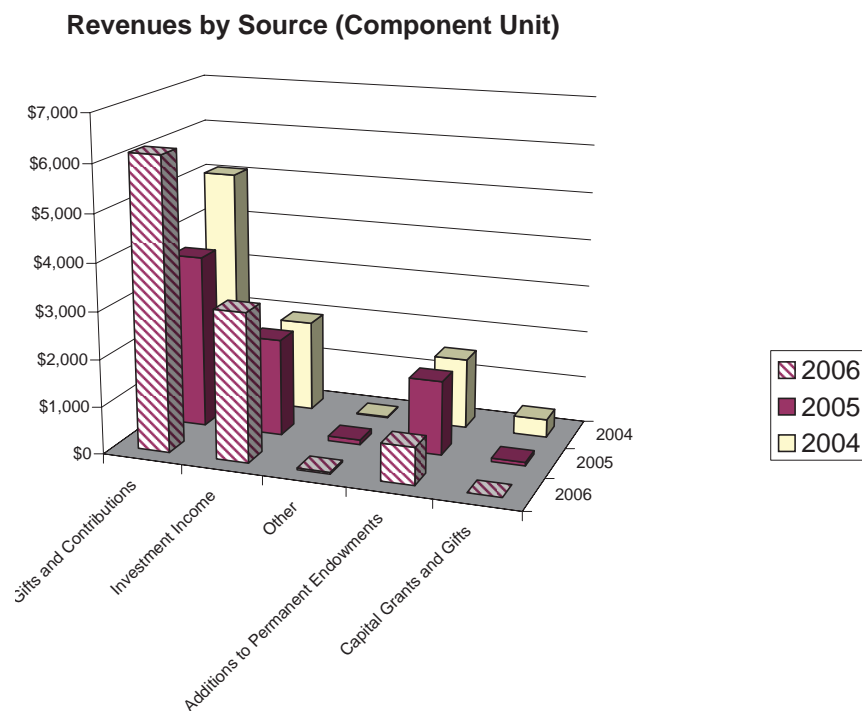
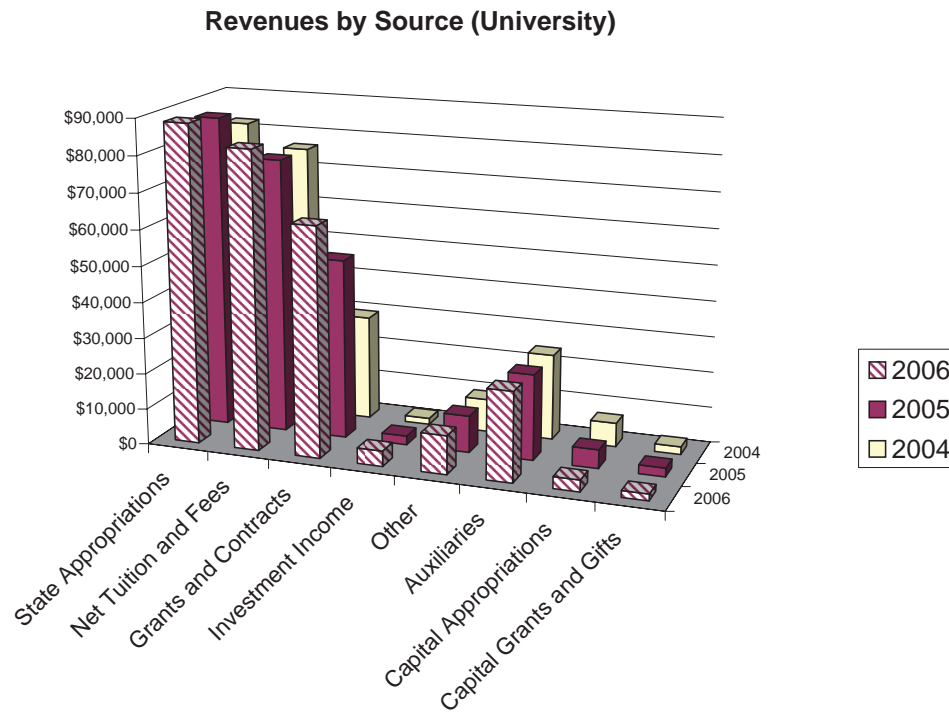
	2006	2005	2004
<b>Operating revenues</b>			
Net tuition and fees	\$ 82,848	\$ 76,531	\$ 76,220
Gifts	-	-	-
Auxiliaries	24,936	23,907	24,042
Grants and contracts	29,509	20,739	14,894
Other	9,813	8,986	8,185
<b>Total operating revenues</b>	<u>\$ 147,106</u>	<u>\$ 130,163</u>	<u>\$ 123,341</u>
Operating expenses	\$ 266,251	\$ 249,045	\$ 215,315
<b>Operating loss</b>	<u>\$ (119,145)</u>	<u>\$ (118,882)</u>	<u>\$ (91,974)</u>
<b>Nonoperating revenues and expenses</b>			
State appropriations	\$ 88,540	\$ 86,884	\$ 82,359
Gifts	966	975	664
Grants and contracts	34,364	29,464	14,431
Investment income	4,312	2,483	1,732
Other revenues and expenses	(4,889)	(4,996)	(4,113)
<b>Total nonoperating revenues and expenses</b>	<u>\$ 123,923</u>	<u>\$ 114,810</u>	<u>\$ 95,073</u>
<b>Income (loss) before other revenues, expenses, gains, or losses</b>	<u>\$ 4,148</u>	<u>\$ (4,072)</u>	<u>\$ 3,099</u>
<b>Other revenues, expenses, gains, or losses</b>			
Capital appropriations	\$ 3,254	\$ 5,248	\$ 6,703
Capital grants and gifts	1,853	2,444	2,163
Other	(100)	(656)	(145)
<b>Total other revenues, expenses, gains, or losses</b>	<u>\$ 5,007</u>	<u>\$ 7,036</u>	<u>\$ 8,721</u>
<b>Increase (decrease) in net assets</b>	<u>\$ 9,155</u>	<u>\$ 2,964</u>	<u>\$ 11,820</u>
Net assets at beginning of year	<u>\$ 141,963</u>	<u>\$ 138,999</u>	<u>\$ 127,179</u>
<b>Net assets at end of year</b>	<u><u>\$ 151,118</u></u>	<u><u>\$ 141,963</u></u>	<u><u>\$ 138,999</u></u>

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Operating revenues</b>			
Gifts	\$ 6,160	\$ 3,668	\$ 5,077
Grants and contracts	38	101	20
<b>Total operating revenues</b>	<u>\$ 6,198</u>	<u>\$ 3,769</u>	<u>\$ 5,097</u>
Operating expenses	\$ 6,473	\$ 6,796	\$ 5,616
<b>Operating loss</b>	<u>\$ (275)</u>	<u>\$ (3,027)</u>	<u>\$ (519)</u>
<b>Nonoperating revenues and expenses</b>			
Investment income	\$ 3,193	\$ 2,061	\$ 1,942
Other revenues and expenses	-	(1)	(2)
<b>Total nonoperating revenues and expenses</b>	<u>\$ 3,193</u>	<u>\$ 2,060</u>	<u>\$ 1,940</u>
<b>Income (loss) before other revenues, expenses, gains, or losses</b>	\$ 2,918	\$ (967)	\$ 1,421
<b>Other revenues, expenses, gains, or losses:</b>			
Capital grants and gifts	\$ -	75	\$ 381
Additions to permanent endowments	787	1,566	1,494
<b>Total other revenues, expenses, gains, or losses</b>	<u>\$ 787</u>	<u>\$ 1,641</u>	<u>\$ 1,875</u>
<b>Increase (decrease) in net assets</b>	<u>\$ 3,705</u>	<u>\$ 674</u>	<u>\$ 3,296</u>
Net assets at beginning of year	\$ 57,576	\$ 56,902	\$ 53,518
Prior period adjustment	-	-	88
<b>Net assets at end of year</b>	<u><u>\$ 61,281</u></u>	<u><u>\$ 57,576</u></u>	<u><u>\$ 56,902</u></u>

## Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the University's operating activities for the year ended June 30, 2006, the year ended June 30, 2005, and the year ended June 30, 2004 (amounts are presented in thousands of dollars).



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

- ◆ Net tuition and fee revenue increased from 2005 to 2006 as a result of a 15% across-the-board fee increase of 9.7% and a student enrollment increase of .53%. 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 (TELS) Program which reduces tuition and fee revenue and is shown as grants and contracts revenue.
- ◆ Grants and contracts increased from 2004 to 2005 due to an increase in the DCS grant of over \$7.4 million and an increase in the amount of scholarships from the TELS Program of approximately \$5.5 million. The increase from 2004 to 2005 is due to the addition of two new programs during the 2004–05 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.
- ◆ Capital appropriations decreased from 2005 to 2006 due to fewer capital appropriations received from the state than in previous years.
- ◆ State appropriations and tuition and fees made up 61% of the University’s revenue in 2005–06 and 64% in 2004–05.

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

- ◆ The increase in gifts and contributions from 2005 to 2006 is the result of an increased focus in soliciting gifts for University facilities over the past fiscal year. This increase affected the temporarily restricted gifts of the Foundation. The decrease 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 increase in investment income from 2005 to 2006 is the result of favorable market performance. During the year, realized gains on investments totaled approximately \$1.1 million.
- ◆ The decrease in additions to permanent endowments from 2005 to 2006 is due to a decrease in bequests to the foundation. The Foundation did not receive any bequests during the current fiscal 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)

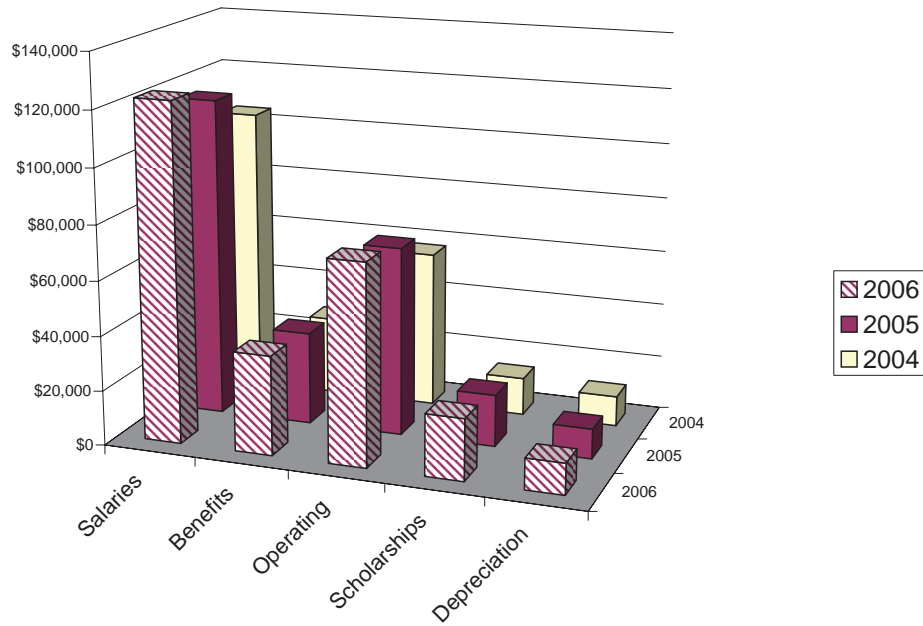
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Salaries	\$ 123,007	\$ 116,498	\$ 104,590
Benefits	36,314	33,845	28,538
Operating	73,161	68,810	57,337
Scholarships	22,452	18,976	13,826
Depreciation	11,317	10,917	11,024
<b>Total</b>	<b><u>\$ 266,251</u></b>	<b><u>\$ 249,046</u></b>	<b><u>\$ 215,315</u></b>

### Component Unit Natural Classification (in thousands)

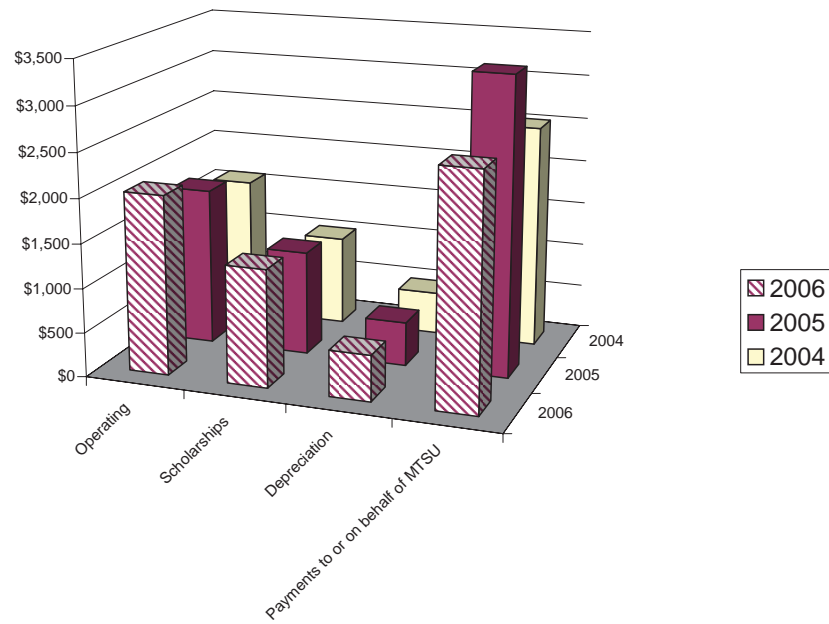
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating	\$ 2,021	\$ 1,780	\$ 1,596
Scholarships	1,324	1,175	1,016
Depreciation	518	495	480
Payments to or on behalf of MTSU	2,610	3,346	2,524
<b>Total</b>	<b><u>\$ 6,473</u></b>	<b><u>\$ 6,796</u></b>	<b><u>\$ 5,616</u></b>



**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 2005 to 2006 is due to a 3% across-the-board pay raise effective July 1, 2005, and an MTSU bonus paid in October 2005. The increase 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.
- ◆ Employee benefit expenses increased from 2005 to 2006 mainly as a result of increases in the state's group insurance premiums and added benefits for new positions. The increase from 2004 to 2005 was 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 2005 to 2006 and 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 2005 to 2006 and from 2004 to 2005 due to increased scholarships from the Tennessee Education Lottery Scholarship Program.

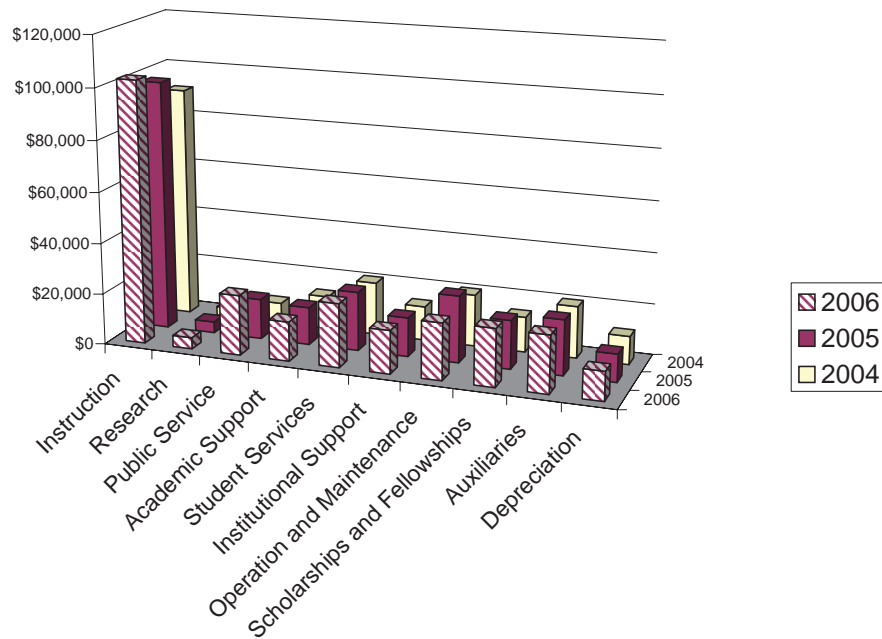
The component unit had the following significant change in expenses between fiscal years:

- ◆ Operating expenses increased from 2005 to 2006 due to more requests from the University departments to purchase items to support University functions.
- ◆ 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. Thus, the amount then decreased from 2005 to 2006 since there were no large transfers to the University in 2005–06.

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Instruction	\$ 102,770	\$ 98,049	\$ 90,974
Research	4,463	4,359	3,556
Public Service	23,507	15,808	8,022
Academic Support	15,426	14,768	12,989
Student Services	24,871	23,112	20,773
Institutional Support	16,929	15,332	13,438
Operation and Maintenance	22,134	26,142	20,381
Scholarships and Fellowships	22,452	18,976	13,837
Auxiliaries	22,382	21,582	20,321
Depreciation	11,317	10,917	11,024
<b>Total</b>	<b><u>\$ 266,251</u></b>	<b><u>\$ 249,045</u></b>	<b><u>\$ 215,315</u></b>

### Expenses by Program Classification (University)



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

- ◆ The Instruction function increased from 2005 to 2006 due to the 3% across-the-board pay raise effective July 1, 2005, and the MTSU bonus paid in October 2005. The increase from 2004–2005 is the result of 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 in the Public Service function from 2005 to 2006 and from 2004 to 2005 is the result of the addition of the Tennessee DCS grant.
- ◆ The increase in the Operation and Maintenance function from 2004 to 2005 is due to increased noncapital expenses incurred on major projects. The Energy and Performance Contracting project and the Life Safety project both incurred large amounts of maintenance-type expenses in 2004–05, attributing to the significant increase from 2004 to 2005 and the subsequent decrease from 2005 to 2006.
- ◆ The increase in the Scholarships and Fellowships function from 2005 to 2006 resulted from additional scholarships received from the Tennessee Education Lottery Scholarship Program. The 2004 to 2005 increase resulted from the initiation of the Tennessee Education Lottery Scholarship Program.

## 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)

	2006	2005	2004
<b>Cash provided (used) by:</b>			
Operating activities	\$ (109,844)	\$ (108,930)	\$ (80,108)
Noncapital financing activities	123,773	117,504	98,051
Capital and related financing activities	(17,149)	(6,766)	(8,310)
Investing activities	4,308	2,471	1,708
<b>Net increase (decrease) in cash</b>	<b>\$ 1,088</b>	<b>\$ 4,279</b>	<b>\$ 11,341</b>
<b>Cash, beginning of year</b>	<b>65,899</b>	<b>61,620</b>	<b>50,279</b>
<b>Cash, end of year</b>	<b>\$ 66,987</b>	<b>\$ 65,899</b>	<b>\$ 61,620</b>

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 from 2005 to 2006 and from 2004 to 2005 mainly as a result of an increase in state appropriations from previous years and the awarding of the DCS grant to the University.
- ◆ Cash used by capital and related financing activities increased from 2005 to 2006 as the result of less funding of capital projects from use of TSSBA debt instruments. The decrease from 2004 to 2005 is the result of having more of the University's capital projects funded from the issuance of debt instruments and less projects funded from local University funds.
- ◆ The University's cash position increased by \$1.1 million for 2005–06 and \$4.3 million for 2004–05.

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Cash provided (used) by</b>			
Operating activities	\$ 215	\$ (441)	\$ 1,382
Noncapital financing activities	789	1,610	1,583
Capital and related financing activities	(1,156)	70	(2,287)
Investing activities	<u>(155)</u>	<u>(1,994)</u>	<u>(761)</u>
<b>Net increase (decrease) in cash</b>	<b>\$ (307)</b>	<b>\$ (755)</b>	<b>\$ (83)</b>
<b>Cash, beginning of year</b>	<u>8,610</u>	<u>9,365</u>	<u>9,448</u>
<b>Cash, end of year</b>	<u><u>\$ 8,303</u></u>	<u><u>\$ 8,610</u></u>	<u><u>\$ 9,365</u></u>

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

- ◆ The increase in cash provided by operating activities from 2005 to 2006 was largely due to increased cash donations for facilities improvements. The decrease from 2004 to 2005 was largely due to decreases in cash donations received from contributors.
- ◆ The decrease in cash provided by noncapital financing activities from 2005 to 2006 was primarily due to the fact that no bequests were received by the Foundation for the fiscal year.
- ◆ The increase in cash used by capital and related financing activities was primarily due to the completion of the Miller Coliseum drainage project, phase 1 of the track and field complex improvement project, and the baseball lighting improvement project. The decrease from 2004 to 2005 is due to the completion of the Rose and Emmett Kennon Sports Hall of Fame.
- ◆ The decrease in cash used by investing activities from 2005 to 2006 mainly results from the sale of \$10.7 million of investments during the fiscal year.
- ◆ The component unit's cash position for the 2005–06 fiscal year decreased by \$307,290 and for the 2004–05 fiscal year decreased by \$755,199.

## Capital Asset and Debt Administration

### Capital Assets

Middle Tennessee State University had \$203,545,549 invested in capital assets, net of accumulated depreciation of \$138,850,529 at June 30, 2006; \$189,899,765 invested in capital assets, net of accumulated depreciation of \$129,434,870 at June 30, 2005; and \$177,341,129 invested in capital assets, net of accumulated depreciation of \$121,767,539 at June 30, 2004. Depreciation charges totaled \$11,316,914, \$10,916,742, and \$11,023,830 for the years ended June 30, 2006, June 30, 2005, and June 30, 2004, respectively. Details of these assets are shown below.

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Land	\$ 9,886	\$ 9,737	\$ 4,980
Land improvements and infrastructure	11,642	11,887	13,112
Buildings	130,727	124,148	124,940
Equipment	14,416	14,874	14,721
Library holdings	9,744	9,354	8,945
Software	1,774	-	-
Projects in progress	25,357	19,900	10,643
<b>Total</b>	<b><u>\$ 203,546</u></b>	<b><u>\$ 189,900</u></b>	<b><u>\$ 177,341</u></b>

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.
- ◆ Buildings increased from 2005 to 2006 as a result of completion of the renovations to the Smith Hall complex. These capitalized costs associated with the project were moved from the projects in progress category to the buildings category.
- ◆ Software was added as a capital asset category in the 2005–06 fiscal year as a result of capitalization of the new ERP system software and implementation costs.
- ◆ Projects in Progress increased from 2005 to 2006 due to the continued renovations of University housing facilities and Andrew L. Todd Hall, phase I of the parking and transportation project, and the addition to the nursing building. Three major projects were transferred out of projects in progress during the 2005–06 year: renovations to the Smith Hall complex, construction of the Naked Eye Observatory, and the purchase and implementation costs associated with the ERP software system. Projects in Progress increased significantly from 2004 to 2005 due to the continued renovations of University housing facilities and Andrew L. Todd Hall, initial purchase of the new ERP system, and purchase of the Middle Tennessee Building to be renovated for future administrative office space.

- ◆ 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)**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Land	\$ 2,229	\$ 2,283	\$ 2,213
Land improvements and infrastructure	696	318	95
Buildings	17,552	17,939	17,982
Equipment	-	-	41
Projects in progress	-	-	1,584
<b>Total</b>	<b><u>\$ 20,477</u></b>	<b><u>\$ 20,540</u></b>	<b><u>\$ 21,915</u></b>

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

- ◆ Land improvements and infrastructure increased from 2005 to 2006 upon capitalization of the Miller Coliseum drainage project. The increase from 2004 to 2005 resulted from additions made to the Miller Coliseum warm-up rings.
- ◆ Projects in progress decreased from 2004 to 2005 due to the completion of the Rose and Emmett Kennon Sports Hall of Fame and the Tennessee Miller Coliseum.

The University expects to make major capital expenditures during fiscal year 2006–07 for the following projects: continued renovation to the University’s housing facilities that will be funded from the issuance of TSSBA bonds; the Student Health, Wellness, and Recreation Facility upgrade to be funded from University auxiliary reserve balances and the issuance of TSSBA bonds; renovation of the Middle Tennessee Building funded from University resources; and implementation of next phase of the ERP system. The following projects require major capital expenditures in the upcoming fiscal year for planning and design work: new and renovated Science facilities funded by capital appropriations from the state; future design and construction of new student union facilities funded by the issuance of TSSBA bonds; and renovation of Deer and Nicks Halls, which is part of the larger long-range project to renovate and improve existing housing facilities and complete life safety code upgrades with the installation of sprinklers. More detailed information about the University’s capital assets is presented in Note 6 to the financial statements.

## Debt

The University had \$109,005,540, \$101,588,837, and \$86,559,889 in debt outstanding at June 30, 2006, June 30, 2005, and June 30, 2004, respectively. The table below summarizes these amounts by type of debt instrument (in thousands of dollars).

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
TSSBA Bonds	\$ 93,070	\$ 80,646	\$ 81,331
TSSBA Commercial Paper	15,936	20,943	5,229
<b>Total Debt</b>	<b><u>\$ 109,006</u></b>	<b><u>\$ 101,589</u></b>	<b><u>\$ 86,560</u></b>

The Tennessee State School Bond Authority (TSSBA) converted the following projects from commercial paper to long-term bonds during 2005–06: renovations to the Smith Hall complex, purchase of the ERP system, property acquisitions, construction of the new Printing Services building, and purchase of the Middle Tennessee Building. The following increases in the amount of commercial paper were netted with the reductions in commercial paper noted above during the 2005–06 fiscal year: phase I of the parking and transportation project and phase II of the energy savings and performance contracting project. Commercial paper was issued for several other ongoing capital projects during the year.

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 several projects in order to obtain a lower rate of interest. In addition to the above projects, commercial paper was issued for several other ongoing capital projects during the year.

TSSBA currently has the following long term debt ratings: Fitch rating of AA, Moody's Investor's rating of AA3, and Standard & Poor's rating of AA-. More detailed information about the University's long-term liabilities is presented in Note 7 to the financial statements.



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

The state has approved a 2% across-the-board salary increase for all state employees effective July 1, 2006. Funding provided by the state for the new fiscal year increased by \$4.3 million over current year appropriations.

The Tennessee Board of Regents approved at their June board meeting a 4.1% fee increase for 2006-07.

Implementation of the new ERP system continues to remain on schedule. Banner Finance and Banner Human Resources went live within the 2005-06 fiscal year. Banner Advancement and Banner Student are on schedule to go live within the 2006-07 fiscal year. Additional components of the Banner software package are being implemented at different stages within the overall implementation schedule.

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

### **Requests for Information**

This financial report is designed to provide a general overview of the institution's finances for all those with an interest in the University's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Alan Thomas, Controller, Middle Tennessee State University, CAB 105, Murfreesboro, TN 37132.

# **BASIC FINANCIAL STATEMENTS**

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**Middle Tennessee State University**  
**Unaudited Statement of Net Assets**  
**June 30, 2006, with comparative figures at June 30, 2005**

	University		Component Unit	
	2006	2005	2006	2005
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents (Notes 2 and 15)	\$ 27,739,551.44	\$ 28,861,888.14	\$ 844,681.04	\$ 869,646.23
Accounts, notes, and grants receivable (net) (Note 4)	21,692,998.87	15,098,482.69		
Pledges receivable (net) (Note 15)			476,972.33	206,411.73
Inventories (at lower of cost or market)	2,399,292.08	2,299,281.46		
Prepaid expenses and deferred charges	683,276.43	651,477.29		
Accrued interest receivable	30,331.05	30,447.17	11,004.48	11,517.94
Total current assets	<u>52,545,449.87</u>	<u>46,941,576.75</u>	<u>1,332,657.85</u>	<u>1,087,575.90</u>
Noncurrent assets:				
Cash and cash equivalents (Notes 2 and 15)	39,247,292.31	37,037,368.59	7,457,555.53	7,739,880.11
Investments (Notes 3 and 15)	739,420.19	735,939.27	30,474,176.81	27,232,478.67
Accounts, notes, and grants receivable (net) (Notes 4 and 15)	3,155,924.86	2,957,149.17	1,398,267.30	1,257,785.33
Pledges receivable (net) (Note 15)			620,919.12	140,580.61
Capital assets (net) (Notes 5 and 15)	<u>203,545,548.68</u>	<u>189,899,764.83</u>	<u>20,477,283.52</u>	<u>20,540,221.86</u>
Total noncurrent assets	<u>246,688,186.04</u>	<u>230,630,221.86</u>	<u>60,428,202.28</u>	<u>56,910,946.58</u>
Total assets	<u>\$299,233,635.91</u>	<u>\$277,571,798.61</u>	<u>\$ 61,760,860.13</u>	<u>\$57,998,522.48</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 8,682,173.40	\$ 4,251,873.84	\$ 480,303.84	\$ 422,149.85
Accrued liabilities	13,628,713.27	14,182,258.93		
Student deposits	759,784.97	920,843.14		
Deferred revenue	5,023,884.71	4,945,766.38		
Compensated absences (Note 6)	657,766.68	1,230,533.22		
Accrued interest payable	750,374.04	651,917.34		
Long-term liabilities, current portion (Note 6)	3,851,248.16	2,912,009.67		
Deposits held in custody for others	825,483.80	691,291.76		
Other liabilities	460,183.32	595,730.55		
Total current liabilities	<u>34,639,612.35</u>	<u>30,382,224.83</u>	<u>480,303.84</u>	<u>422,149.85</u>
Noncurrent liabilities:				
Compensated absences (Note 6)	4,774,797.34	3,658,674.10		
Long-term liabilities (Note 6)	105,154,291.44	98,676,827.50		
Due to grantors (Note 6)	3,546,885.53	2,890,649.27		
Total noncurrent liabilities	<u>113,475,974.31</u>	<u>105,226,150.87</u>		
Total liabilities	<u>\$148,115,586.66</u>	<u>\$135,608,375.70</u>	<u>\$ 480,303.84</u>	<u>\$ 422,149.85</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 94,540,009.08	\$ 88,310,927.66	\$ 20,477,283.52	\$ 20,540,221.86
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	10,900.00	10,900.00	28,052,055.84	24,132,408.69
Research			760,010.82	735,352.39
Instructional department uses			1,115,249.06	837,084.68
Other	768,146.06	753,552.68		
Expendable:				
Scholarships and fellowships	136,311.65	134,532.81	1,387,785.53	1,040,397.07
Research	96,051.12	75,635.82	3,038.49	3,038.49
Instructional department uses	153,488.40	144,377.26	5,347,659.81	5,761,502.47
Loans	1,030,131.12	1,773,733.16	-	-
Capital projects	578,846.95	2,554,919.50	2,750,945.50	2,767,214.74
Debt service	4,780,717.00	3,480,389.10	-	-
Other	1,822,225.37	2,017,674.74	1,012,322.83	1,302,916.26
Unrestricted (Note 8)	<u>47,201,222.50</u>	<u>42,706,780.18</u>	<u>374,204.89</u>	<u>456,235.98</u>
Total net assets	<u>\$151,118,049.25</u>	<u>\$141,963,422.91</u>	<u>\$ 61,280,556.29</u>	<u>\$57,576,372.63</u>

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, 2006, with comparative figures at June 30, 2005**

	University		Component Unit	
	2006	2005	2006	2005
<b>REVENUES</b>				
Operating revenues:				
Student tuition and fees ( net of scholarship allowances of \$23,634,104.34 for the year ended June 30, 2006, and \$21,074,735.72 for the year ended June 30, 2005)	\$ 82,848,138.19	\$ 76,530,877.32		
Gifts and contributions			\$ 6,159,675.77	\$ 3,668,100.98
Endowment Income (per spending plan)				
Governmental grants and contracts	28,655,607.11	20,216,064.96		
Non-governmental grants and contracts	853,178.19	523,111.03	37,921.58	101,051.76
Sales and services of educational departments	8,869,319.49	7,569,394.28		
Auxiliary enterprises:				
Residential life (net of scholarship allowances of \$2,352,574.33 for the year ended June 30, 2006, and \$2,289,784.52 for the year ended June 30, 2005: all residential life revenues are used as security for revenue bonds, see Note 6)	8,241,690.14	9,495,045.78		
Bookstore (net of scholarship allowances of \$2,101,633.07 for the year ended June 30, 2006, and \$1,859,007.59 for the year ended June 30, 2005: all bookstore revenues are used as security for revenue bonds, see Note 6)	7,364,702.81	6,752,004.95		
Food service	803,369.00	803,416.51		
Wellness facility (net of scholarship allowances of \$427,740.79 for the year ended June 30, 2006, and \$417,956.19 for the year ended June 30, 2005: all wellness facility revenues are used as security for revenue bonds, see Note 6)	1,500,775.46	1,442,356.29		
Other auxiliaries	7,025,594.17	5,413,998.31		
Interest earned on loans to students	77,584.43	74,766.87		
Other operating revenues	865,791.00	1,341,594.00		
<b>Total operating revenues</b>	<b>\$ 147,105,749.99</b>	<b>\$ 130,162,630.30</b>	<b>\$ 6,197,597.35</b>	<b>\$ 3,769,152.74</b>
<b>EXPENSES</b>				
Operating Expenses				
Salaries and wages	\$ 123,006,687.50	\$ 116,497,852.68		
Benefits	36,314,195.23	33,844,967.12		
Utilities, supplies, and other services	73,161,271.11	68,809,762.16	\$ 2,020,537.54	\$ 1,780,204.49
Scholarships and fellowships	22,451,945.93	18,975,843.21	1,324,214.17	1,175,463.82
Depreciation expense	11,316,914.23	10,916,741.56	518,338.76	495,218.73
Payments to or on behalf of MTSU			2,609,676.71	3,345,513.59
<b>Total operating expenses</b>	<b>\$ 266,251,014.00</b>	<b>\$ 249,045,166.73</b>	<b>\$ 6,472,767.18</b>	<b>\$ 6,796,400.63</b>
Operating income (loss)	\$ (119,145,264.01)	\$ (118,882,536.43)	\$ (275,169.83)	\$ (3,027,247.89)
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	\$ 88,539,800.00	\$ 86,884,500.00		
Gifts, including \$925,610.75 from component unit in FY 2006 and \$961,709.61 from component unit in FY 2005	966,503.30	975,013.99		
Grants and contracts	34,363,802.74	29,463,893.83		
Investment income (net of investment expense of \$6,851.38 for the university and \$102,268.83 for the component unit for FY 2006 and \$6,486.99 for the university and \$104,833.07 for the component unit for FY 2005)	4,311,529.64	2,482,542.88	\$ 3,192,761.20	\$ 2,061,294.25
Interest on capital asset-related debt	(4,428,375.26)	(4,321,121.70)		
Bond issuance costs	(179,447.52)	(1,022,625.05)		
Other non-operating revenues/(expenses)	(281,331.77)	348,206.73	(300.76)	(1,216.61)
<b>Net nonoperating revenues</b>	<b>\$ 123,292,481.13</b>	<b>\$ 114,810,410.68</b>	<b>\$ 3,192,460.44</b>	<b>\$ 2,060,077.64</b>
Income before other revenues, expenses gains, or losses	\$ 4,147,217.12	\$ (4,072,125.75)	\$ 2,917,290.61	\$ (967,170.25)
Capital appropriations	\$ 3,253,835.70	\$ 5,248,091.69		
Capital grants and gifts, including \$1,684,065.96 from component unit in FY 2006 and \$2,383,803.98 from component unit in FY 2005	1,853,292.12	2,444,081.64	\$ 120.00	\$ 75,464.69
Additions to permanent endowments			786,773.05	1,566,564.13
Other capital	(99,718.60)	(655,832.56)		
<b>Total other revenues</b>	<b>\$ 5,007,409.22</b>	<b>\$ 7,036,340.77</b>	<b>\$ 786,893.05</b>	<b>\$ 1,642,028.82</b>
Increase (decrease) in net assets	\$ 9,154,626.34	\$ 2,964,215.02	\$ 3,704,183.66	\$ 674,858.57
<b>NET ASSETS</b>				
Net Assets - beginning of year	\$ 141,963,422.91	\$ 138,999,207.89	\$ 57,576,372.63	\$ 56,901,514.06
<b>Net Assets - end of year</b>	<b>\$ 151,118,049.25</b>	<b>\$ 141,963,422.91</b>	<b>\$ 61,280,556.29</b>	<b>\$ 57,576,372.63</b>

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, 2006 with comparative figures at June 30, 2005**

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 79,956,859.10	\$ 79,806,820.16
Grants and contracts	29,434,494.26	15,403,546.19
Sales and services of educational activities	8,752,853.49	7,265,512.27
Payments to suppliers and vendors	(70,803,636.12)	(69,429,633.38)
Payments to employees	(123,184,106.58)	(115,845,079.42)
Payments for benefits	(36,298,416.19)	(32,256,709.16)
Payments for scholarships and fellowships	(22,451,945.93)	(18,975,843.21)
Loans issued to students and employees	(153,769.66)	(263,644.25)
Collection of loans from students and employees	228,354.81	323,065.35
Interest earned on loans to students	77,786.40	75,075.95
Auxiliary enterprise charges:		
Residence halls	7,859,099.92	9,176,748.92
Bookstore	6,826,372.73	6,842,037.87
Food services	911,876.49	743,231.88
Wellness facility	1,500,775.46	1,442,356.29
Other auxiliaries	7,044,671.71	5,420,910.71
Other receipts (payments)	454,575.45	1,341,594.00
Net cash provided (used) by operating activities	\$ (109,844,154.66)	\$ (108,930,009.83)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
State appropriations	\$88,572,700.00	\$86,888,200.00
Gifts and grants received for other than capital or endowment purposes, including \$925,610.75 from Middle Tennessee State University Foundation for FY 2006 and \$961,709.61 for FY 2005	35,253,527.51	30,228,790.96
Private gifts for endowment purposes		
Federal student loan receipts	66,685,353.97	64,469,145.05
Federal student loan disbursements	(67,344,399.95)	(64,173,704.19)
Changes in deposits held for others	605,771.66	(256,787.48)
Other non-capital financing receipts (payments)		348,206.73
Net cash provided (used) by non-capital financing activities	\$ 123,772,953.19	\$ 117,503,851.07
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from capital debt	\$ 10,267,166.20	\$ 18,061,264.43
Capital - state appropriation	3,253,835.70	5,248,091.69
Capital grants and gifts received, including \$620,671.68 from Middle Tennessee State University Foundation for FY 2006 and \$818,384.00 for FY 2005	789,897.84	849,241.47
Proceeds from sale of capital assets		
Purchase of capital assets and construction	(23,999,022.40)	(22,536,369.89)
Principal paid on capital debt and lease	(2,850,463.77)	(3,032,316.69)
Interest paid on capital debt and lease	(4,331,182.66)	(4,333,587.48)
Bond issue costs paid on new debt issue	(279,405.29)	(1,022,625.05)
Net cash provided (used) by capital and related financing activities	\$ (17,149,174.38)	\$ (6,766,301.52)

**Middle Tennessee State University**  
**Unaudited Statement of Cash Flows**  
for the year ended June 30, 2006, with comparative figures at June 30, 2005

	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments		\$ 32,900.10
Income on investments	\$ 4,307,962.87	2,470,580.59
Purchase of investments		(32,000.00)
Net cash provided (used) by investing activities	\$ 4,307,962.87	\$ 2,471,480.69
Net increase (decrease) in cash and cash equivalents	1,087,587.02	4,279,020.41
Cash and cash equivalents - beginning of year	65,899,256.73	61,620,236.32
Cash and cash equivalents - end of year (Note 2 )	\$ 66,986,843.75	\$ 65,899,256.73
 <b>RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income/(loss)	\$ (119,145,264.01)	\$ (118,882,536.43)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense	11,316,914.23	10,916,741.56
Change in assets and liabilities:		
Receivables, net	(6,726,241.85)	(5,878,590.61)
Inventories	(100,010.62)	185,391.20
Prepaid/deferred items	(31,799.14)	(234,063.90)
Other assets	201.97	309.08
Accounts payable	4,423,804.24	2,424,921.70
Accrued liabilities	(552,281.56)	1,202,513.96
Deferred revenues	78,118.33	391,101.80
Deposits	(161,058.17)	13,459.70
Compensated absences	543,356.70	743,250.53
Due to grantors	656,236.26	(42,928.13)
Loans to students and employees	(10,583.81)	(59,421.10)
Other	(135,547.23)	289,840.81
Net cash provided (used) by operating activities	\$ (109,844,154.66)	\$ (108,930,009.83)
 <b>Non-cash transactions</b>		
Gifts in-kind - capital	1,063,394.28	
Unrealized gains/losses on investments	3,480.92	22,872.36

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



**MIDDLE TENNESSEE STATE UNIVERSITY**  
**Notes to the Financial Statements**  
**June 30, 2006**

**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 University's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

**BASIS OF ACCOUNTING**

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

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

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

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

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



## 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

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

## CAPITAL ASSETS

Capital assets, which include property, plant, equipment, library holdings, and 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 \$50,000. The capitalization threshold for software is set at \$100,000.

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

## NET ASSETS

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

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

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

**RESTRICTED NET ASSETS–EXPENDABLE.** Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend 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 Middle Tennessee State University to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

## SCHOLARSHIP DISCOUNTS AND ALLOWANCES

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discount and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by Middle Tennessee State University and the amount that is paid by the 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. 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, 2006, cash and cash equivalents consist of \$25,699,124.69 in bank accounts, \$114,450.00 of petty cash on hand, \$37,271,342.91 in the State of Tennessee Local Government Investment Pool administered by the state treasurer, \$3,873,200.28 in the LGIP Deposits–Capital Projects account, and \$28,725.87 in a money market account. 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.

## 3. Investments

During the year ended June 30, 2005, Middle Tennessee State University implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*. The statement modified the custodial credit risk disclosures of GASB Statement 3 to limit required disclosures to investment securities that are uninsured, are not registered in the name of the University, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the University's name.

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

As of June 30, 2006, Middle Tennessee State University had the following investments and maturities.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 to 5	6 to 10	More than 10
Mutual Funds	\$739,420.19	\$ -	\$ -	\$ -	\$739,420.19

As of June 30, 2005, Middle Tennessee State University had the following investments and maturities.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 to 5	6 to 10	More than 10
Mutual Funds	\$735,939.27	\$ -	\$ -	\$ -	\$735,939.27

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

**Credit Risk.** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Middle Tennessee State University is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endow-

ments 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 University and that endowment investments be prudently diversified. Middle Tennessee State University has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations.

As of June 30, 2006, the University's investments were rated as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Unrated</u>
LGIP	\$41,144,543.19	\$41,144,543.19
Mutual Funds	739,420.19	739,420.19
	<u>\$41,883,963.38</u>	<u>\$41,883,963.38</u>

As of June 30, 2005, the University's investments were rated as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Unrated</u>
LGIP	\$34,459,586.72	\$34,459,586.72
Mutual Funds	735,939.27	735,939.27
	<u>\$35,195,525.99</u>	<u>\$35,195,525.99</u>

**Custodial Credit Risk.** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, Middle Tennessee State University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a deposit policy for custodial credit risk. At June 30, 2006, Middle Tennessee State University had \$739,420.19 of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the University's name. At June 30, 2005, Middle Tennessee State University had \$ 735,939.27 of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the University's name.

**Concentration of Credit Risk.** Middle Tennessee State University places no limit on the amount the University may invest in any one issuer.

**Foreign Currency Risk.** Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Middle Tennessee State University places no limit on the amount the University may invest in foreign currency. At June 30, 2006, and June 30, 2005, the University had not exposure to foreign currency risk.

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

	<u>Carrying Value</u>	
	<u>2005-06</u>	<u>2004-05</u>
Mutual Funds	\$739,420.19	\$435,939.27

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 fair value at the beginning of the calendar quarter within which the transaction takes place. At June 30, 2006, each unit had a fair value of \$11.31 and 65,374.67 units were owned by quasi-endowment. At June 30, 2005, each unit had a fair value of \$5.61 and 131,188.630 units were owned by quasi-endowments.

The following tabulation summarizes changes in relationships between cost and fair values of the pooled assets at June 30, 2006:

	<b>Pooled Assets</b>		<b>Net Gains (Losses)</b>	<b>Market Value Per Unit</b>
	<b>Market</b>	<b>Cost</b>		
End of year	\$739,420.19	\$745,185.22	\$ (5,765.03)	\$11.31
Beginning of year	735,939.27	745,185.22	(9,245.95)	5.61
				<u>\$ 5.70</u>
Unrealized net gains			\$ 3,480.92	
Realized net gains			11,112.46	
Total net gains			<u>\$ 14,593.38</u>	

The following tabulation summarizes changes in relationships between cost and fair values of the pooled assets at June 30, 2005:

	<b>Pooled Assets</b>		<b>Net Gains (Losses)</b>	<b>Market Value Per Unit</b>
	<b>Market</b>	<b>Cost</b>		
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
				<u>\$ .15</u>
Unrealized net gains			\$ 22,872.36	
Realized net gains			3,618.71	
Total net gains			<u>\$ 26,491.07</u>	

The average annual earnings per unit, exclusive of net gains, were \$.26 for the year ended June 30, 2006, and \$.08 for the year ended June 30, 2005.

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

Accounts receivable included the following:

	<b>June 30, 2006</b>	<b>June 30, 2005</b>
Student accounts receivable	\$ 4,289,080.31	\$ 3,241,005.26
Grants receivable	15,325,907.52	10,051,590.16
Notes receivable	412,990.26	398,196.73
State appropriation receivable	412,700.00	445,600.00
Other receivables	3,113,740.86	2,687,523.97
Subtotal	\$23,554,418.95	\$16,823,916.12
Less allowance for doubtful accounts	(1,861,420.08)	(1,725,433.43)
<b>Total</b>	<b><u>\$21,692,998.87</u></b>	<b><u>\$15,098,482.69</u></b>

Federal Perkins Loan Program funds include the following:

	<b>June 30, 2006</b>	<b>June 30, 2005</b>
Perkins loans receivable	\$ 3,794,436.25	\$ 3,644,182.02
Less allowance for doubtful accounts	(638,511.39)	(687,032.85)
<b>Total</b>	<b><u>\$ 3,155,924.86</u></b>	<b><u>\$ 2,957,149.17</u></b>

## 5. Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	\$ 9,736,682.86	\$ 149,000.00	\$ -	\$ -	\$ 9,885,682.86
Improvements and infrastructure	26,659,828.12	-	1,017,628.11	-	27,677,456.23
Buildings	206,747,382.08	-	11,842,098.57	-	218,589,480.65
Equipment	39,063,966.40	2,277,660.24	-	563,634.29	40,777,992.35
Library holdings	17,227,237.08	2,347,577.41	-	1,437,339.72	18,137,474.77
Software	-	-	1,971,107.06	-	1,971,107.06
Projects in progress	19,899,538.16	20,288,179.03	(14,830,833.74)	-	25,356,883.45
<b>Total</b>	<b>\$319,334,634.70</b>	<b>\$25,062,416.68</b>	<b>\$ -</b>	<b>\$ 2,000,974.01</b>	<b>\$342,396,077.37</b>
<b>Less accumulated depreciation:</b>					
Improvements and infrastructure	\$ 14,772,757.17	\$ 1,263,109.86	\$ -	\$ -	\$ 16,035,867.03
Buildings	82,598,510.05	5,263,891.87	-	-	87,862,401.92
Equipment	24,190,192.09	2,635,320.34	-	463,915.69	26,361,596.74
Library holdings	7,873,410.56	1,957,481.45	-	1,437,339.72	8,393,552.29
Software	-	197,110.71	-	-	197,110.71
Total accumulated depreciation	\$129,434,869.87	\$11,316,914.23	\$ -	\$ 1,901,255.41	\$138,850,528.69
<b>Capital assets, net</b>	<b>\$189,899,764.83</b>	<b>\$13,745,502.45</b>	<b>\$ -</b>	<b>\$ 99,718.60</b>	<b>\$203,545,548.68</b>

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
<b>Total</b>	<b>\$299,108,667.53</b>	<b>\$24,150,452.72</b>	<b>\$ -</b>	<b>\$ 3,924,485.55</b>	<b>\$319,334,634.70</b>
<b>Less accumulated depreciation:</b>					
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
<b>Capital assets, net</b>	<b>\$177,341,128.89</b>	<b>\$13,233,711.16</b>	<b>\$ -</b>	<b>\$ 675,075.22</b>	<b>\$189,899,764.83</b>

## 6. Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables					
Bonds	\$ 80,645,555.46	\$15,041,335.26	\$ 2,617,232.37	\$ 93,069,658.35	\$ 3,851,248.16
Commercial Paper	20,943,281.71	6,781,544.34	11,788,944.80	15,935,881.25	-
Subtotal	\$101,588,837.17	\$21,822,879.60	\$14,406,177.17	\$109,005,539.60	\$ 3,851,248.16
Other Liabilities					
Compensated					
Absences	\$ 4,889,207.32	\$ 2,507,760.92	\$ 1,964,404.22	\$ 5,432,564.02	\$ 657,766.68
Due to Grantors	2,890,649.27	1,203,094.64	546,858.38	3,546,885.53	-
Subtotal	\$ 7,779,856.59	\$ 3,710,855.56	\$ 2,511,262.60	\$ 8,979,449.55	\$ 657,766.68
<b>Total long-term liabilities</b>	<b>\$109,368,693.76</b>	<b>\$25,533,735.16</b>	<b>\$16,917,439.77</b>	<b>\$117,984,989.15</b>	<b>\$4,509,014.84</b>

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
<b>Total long-term liabilities</b>	<b>\$93,639,423.62</b>	<b>\$22,411,577.04</b>	<b>\$6,682,306.90</b>	<b>\$109,368,693.76</b>	<b>\$4,142,542.89</b>

### 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 \$66,369.30 at June 30, 2006, and \$361,146.61 at June 30, 2005. Unexpended debt proceeds were \$448,291.30 at June 30, 2006, and \$125,339.07 at June 30, 2005.

Debt service requirements to maturity for all bonds payable at June 30, 2006, are as follows:

For the Year(s) Ending June 30	Principal	Interest	Total
2007	\$ 3,851,248.16	\$ 4,154,894.29	\$ 8,006,142.45
2008	3,905,743.74	4,055,671.03	7,961,414.77
2009	4,143,259.97	3,896,678.30	8,039,938.27
2010	4,293,852.42	3,741,107.29	8,034,959.71
2011	4,023,807.73	3,570,194.32	7,594,002.05
2012-2016	21,600,416.49	15,275,335.62	36,875,752.11
2017-2021	22,311,585.13	10,148,907.47	32,460,492.60
2022-2026	21,712,665.00	4,908,505.97	26,621,170.97
2027-2031	7,235,148.00	695,289.31	7,930,437.31
2032-2033	(8,068.29)	576.50	(7,491.79)
<b>Total</b>	<b>\$ 93,069,658.35</b>	<b>\$50,447,160.10</b>	<b>\$143,516,818.45</b>

**Commercial Paper**

The Tennessee State School Bond Authority authorized the issuance of commercial paper to finance costs of various capital projects during the construction phase. When projects are placed in service, long-term, fixed-rate debt is issued to finance the project over its useful payback period and the commercial paper is redeemed. The amount issued for projects at Middle Tennessee State University was \$15,935,881.25 at June 30, 2006, and \$20,943,281.71 at June 30, 2005.

Of the \$15,935,881.25 balance owed at June 30, 2006, it is Middle Tennessee State University's intent to refinance \$15,935,881.25 with long-term bonds. In accordance with Financial Accounting Standards Board Statement No. 6, Classification of Short-term Obligations Expected to be Refinanced, this agreement meets the criteria of a refinancing agreement; thus, \$15,935,881.25 of the commercial paper payable is classified as a long-term liability.

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

**7. Endowments**

If a donor has not provided specific instructions to Middle Tennessee State University, state law permits the University to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the University is required to consider its long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

Middle Tennessee State University chooses to spend the investment income (including changes in the value of investments) each year. Under the spending plan established by the University, all interest earnings have been authorized for expenditure. At June 30, 2006, net appreciation of \$6,340.51 was available to be spent, of which \$6,340.51 was included in unrestricted net assets. At June 30, 2005, net appreciation of \$2,422.72 was available to be spent, of which \$2,422.72 was included in unrestricted net assets.

**8. Unrestricted Net Assets**

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

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Working capital	\$ 2,813,166.69	\$ 2,107,567.70
Encumbrances	1,441,291.46	869,171.65
Designated fees	922,719.66	422,887.66
Auxiliaries	4,570,393.89	4,062,761.51
Quasi-endowment	155,100.00	155,100.00
Plant construction	11,019,632.38	12,244,647.24
Renewal and replacement of equipment	22,265,292.28	18,170,785.85
Debt retirement	301,218.20	282,846.94
Unreserved/undesigned balance	3,712,407.94	4,391,011.63
<b>Total</b>	<b><u>\$47,201,222.50</u></b>	<b><u>\$42,706,780.18</u></b>

## 9. Pension Plans

### Defined Benefit Plan

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, TN 37243-0230 or by calling (615) 741-8202, extension 139.

FUNDING POLICY. Plan members are noncontributory. Middle Tennessee State University is required to contribute at an actuarially determined rate. The current rate is 10.31% of annual covered payroll. The contribution requirements of the University are established and may be amended by the TCRS Board of Trustees. Middle Tennessee State University's contributions to TCRS for the years ending June 30, 2006, 2005, and 2004 were \$4,429,789.45, \$4,196,023.29, and \$2,615,506.40, respectively, equal to the required contributions for each year.

### Defined Contribution Plans

PLAN DESCRIPTION. Middle Tennessee State University contributes to three defined contribution plans: Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), 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. Middle Tennessee State University contributes an amount equal to 10% of the employee's base salary up to the Social Security wage base and 11% above the Social Security wage base. Contribution requirements are established and amended by state statute. The contribution made by Middle Tennessee State University to the plans for the year ended June 30, 2006, was \$6,779,780.94 and for the year ended June 30, 2005, was \$6,420,827.30. Contributions met the requirements for each year.

## 10. Other Post-Employment Benefits

The State of Tennessee administers a group health insurance program that provides post-employment health insurance benefits to eligible University retirees. This benefit is provided by and administered by the State of Tennessee. Middle Tennessee State University 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.

## 11. Chairs of Excellence

Middle Tennessee State University had \$21,767,870.06 on deposit at June 30, 2006, and \$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.



## 12. Insurance-Related Activities

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The Risk Management Fund is also responsible for claims for damages to state-owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from \$25,000 per occurrence, depending on the type of coverage, to an aggregate of \$7.5 million.

Middle Tennessee State University participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to Middle Tennessee State University based on a percentage of the University's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2006, and June 30, 2005, 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 37243-0298, or by calling (615) 741-2140. Since Middle Tennessee State University participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of Middle Tennessee State University for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. As of June 30, 2005, the Risk Management Fund held \$114.4 million in cash and cash equivalents designated for payment of claims. The amount of cash and cash equivalents designated for payment of claims by the Risk Management Fund at June 30, 2006, was not available.

At June 30, 2006, the scheduled coverage for Middle Tennessee State University was \$531,103,900 for buildings and \$234,305,200 for contents. At June 30, 2005, the scheduled coverage for the University was \$533,629,900 for buildings and \$227,008,300 for contents.

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

## 13. Commitments and Contingencies

**SICK LEAVE.** Middle Tennessee State University records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an 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 \$44,680,042.10 at June 30, 2006, and \$41,861,857.90 at June 30, 2005.

**OPERATING LEASES.** Middle Tennessee State University has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real and personal property were \$259,303.18 and \$41,601.13, respectively for the year ended June 30, 2006. Comparative amounts for the year ended June 30, 2005, were \$210,179.47 and \$186,020.74, respectively. All operating leases are cancelable at the lessee's option.

CONSTRUCTION IN PROGRESS. At June 30, 2006, outstanding commitments under construction contracts totaled \$5,471,002.10 for major projects including Andrew L. Todd Hall renovation, ADA improvements, life safety renovations, systems replacement, underground electrical update, Ezell and Abernathy dorms safety code corrections, Peck Hall HVAC update, and several building roof replacements, of which \$703,300.01 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. Middle Tennessee State University's outstanding liability for this contract is estimated as \$4,167,065.37 at June 30, 2006.

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

#### 14. Natural Classifications with Functional Classifications

Middle Tennessee State University's operating expenses by functional classification for the year ended June 30, 2006, are as follows:

Functional Classification	Natural Classification					
	Salaries	Benefits	Operating	Scholarships	Depreciation	Total
Instruction	\$ 71,134,468.26	\$19,172,709.49	\$12,463,164.93	\$ -	\$ -	\$102,770,342.68
Research	2,565,833.31	565,952.08	1,330,975.15	-	-	4,462,760.54
Public Service	5,986,278.25	2,008,170.33	15,512,221.71	-	-	23,506,670.29
Academic Support	11,809,013.25	3,781,645.33	(164,667.70)	-	-	15,425,990.88
Student Services	11,006,160.14	3,537,348.10	10,327,825.96	-	-	24,871,334.20
Institutional Support	9,952,082.15	3,498,300.62	3,478,233.70	-	-	16,928,616.47
M & O	5,012,479.33	1,947,642.77	15,174,041.35	-	-	22,134,163.45
Scholarships and Fellowships	-	-	-	\$22,451,945.93	-	22,451,945.93
Auxiliaries	5,540,372.81	1,802,426.51	15,039,476.01	-	-	22,382,275.33
Depreciation	-	-	-	-	\$11,316,914.23	11,316,914.23
<b>Total Expenses</b>	<b>\$123,006,687.50</b>	<b>\$36,314,195.23</b>	<b>\$73,161,271.11</b>	<b>\$22,451,945.93</b>	<b>\$11,316,914.23</b>	<b>\$266,251,014.00</b>

Middle Tennessee State University's operating expenses by functional classification for the year ended June 30, 2005, are as follows:

Functional Classification	Natural 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
M & O	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
<b>Total Expenses</b>	<b>\$116,497,852.68</b>	<b>\$33,844,967.12</b>	<b>\$68,809,762.16</b>	<b>\$18,975,843.21</b>	<b>\$10,916,741.56</b>	<b>\$249,045,166.73</b>

#### 15. 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 Middle Tennessee State University does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the foundation can only be used by or for the benefit of Middle Tennessee State University, the foun-

ation is considered a component unit of the University and is discretely presented in the University's financial statements.

During the year ended June 30, 2006, the foundation made distributions of \$4,556,377.92 to or on behalf of Middle Tennessee State University for both restricted and unrestricted purposes, of which \$1,946,701.21 are shown as utilities, supplies, and other services. During the year ended June 30, 2005, the foundation made distributions of \$5,021,718.28 to or on behalf of Middle Tennessee State University for both restricted and unrestricted purposes, of which \$1,676,204.69 are shown as utilities, supplies, and other services. Complete financial statements for the foundation can be obtained from Tom Brannan, Director of Advancement Services, 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 consist of demand deposit accounts, State of Tennessee Local Government Investment Pool account administered by the state treasurer, and money market funds. Of the bank balances on deposit at June 30, 2006, \$200,000 was insured by FDIC and \$1,750,047.49 was not insured. Of the bank balances on deposit at June 30, 2005, \$200,000 was insured by FDIC and \$1,867,487.58 was not insured.

The foundation's deposits in the Local Government Investment Pool (LGIP) are 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 Eight Avenue North, Nashville, Tennessee 37242-0298, or by calling (615) 741-2140.

**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, 2006, were as follows:

	<u>Cost</u>	<u>Market Value</u>
U.S. Treasury	\$ 1,484,856.89	\$ 1,584,423.65
Corporate Stocks	20,166,844.47	28,412,888.36
Mutual Funds	48,608.60	49,568.15
Cash Surrender Value of Life Insurance		427,296.65
<b>Total Investments</b>		<b><u><u>\$30,474,176.81</u></u></b>

Investment securities held at June 30, 2005, were as follows:

	<u>Cost</u>	<u>Market Value</u>
U.S. Treasury	\$ 1,532,560.72	\$ 1,684,139.24
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
<b>Total Investments</b>		<b><u><u>\$27,232,478.67</u></u></b>

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

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Current pledges	\$ 525,658.54	\$ 219,276.86
Pledges due in one to five years	570,378.03	149,223.64
Pledges due after five years	<u>113,894.09</u>	<u>84.00</u>
Subtotal	1,209,930.66	368,584.50
Less: Discounts to net present value	<u>(112,039.21)</u>	<u>(21,592.16)</u>
<b>Total pledges receivable, net</b>	<b><u>\$ 1,097,891.45</u></b>	<b><u>\$ 346,992.34</u></b>

CAPITAL ASSETS. Capital assets for the year ended June 30, 2006, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 2,282,921.97	\$ 21,000.00	\$ -	\$ 75,000.00	\$ 2,228,921.97
Land improvements	241,164.52	-	-	-	241,164.52
Improvements and infrastructure	105,019.41	415,400.42	-	-	520,419.83
Buildings	19,589,576.88	94,000.00	-	-	19,683,576.88
<b>Total</b>	<b><u>\$22,218,682.78</u></b>	<b><u>\$530,400.42</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 75,000.00</u></b>	<b><u>\$22,674,083.20</u></b>
<b>Less accumulated depreciation:</b>					
Land improvements	\$ 12,058.23	\$ 12,058.23	-	-	\$ 24,116.46
Improvements and infrastructure	15,752.91	26,020.99	-	-	41,773.90
Buildings	1,650,649.78	480,259.54	-	-	2,130,909.32
Total accumulated depreciation	<u>\$ 1,678,460.92</u>	<u>\$518,338.76</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,196,799.68</u>
<b>Capital assets, net</b>	<b><u>\$20,540,221.86</u></b>	<b><u>\$ 12,061.66</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 75,000.00</u></b>	<b><u>\$20,477,283.52</u></b>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
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	-	435,254.58	-	19,589,576.88
Equipment	70,919.66	-	-	70,919.66	-
Projects in progress	1,583,754.21	435,254.58	(435,254.58)	1,583,754.21	-
<b>Total</b>	<b><u>\$23,127,237.55</u></b>	<b><u>\$ 751,419.10</u></b>	<b><u>\$ -</u></b>	<b><u>\$1,659,973.87</u></b>	<b><u>\$22,218,682.78</u></b>
<b>Less accumulated depreciation:</b>					
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	<u>\$ 1,212,662.38</u>	<u>\$ 495,218.73</u>	<u>\$ -</u>	<u>\$ 29,420.19</u>	<u>\$ 1,678,460.92</u>
<b>Capital assets, net</b>	<b><u>\$ 21,914,575.17</u></b>	<b><u>\$ 256,200.37</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,630,553.68</u></b>	<b><u>\$ 20,540,221.86</u></b>

**Component Unit  
Supplementary Information  
Unaudited Statement of Cash Flows - Component Unit  
for the year ended June 30, 2006, with comparative figures for the year ended June 30, 2005**

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Gifts and contributions	\$ 5,044,335.90	\$ 3,558,593.36
Grants and contracts	37,921.58	101,051.76
Payments to suppliers and vendors	(2,010,991.59)	(1,146,496.68)
Payments for scholarships and fellowships	(1,309,568.87)	(1,174,393.15)
Payments to Middle Tennessee State University	(1,546,282.43)	(1,780,093.61)
Net cash provided (used) by operating activities	<u>\$ 215,414.59</u>	<u>\$ (441,338.32)</u>
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Private gifts for endowment purposes	<u>\$ 788,916.18</u>	<u>\$ 1,610,361.48</u>
Net cash provided (used) by non-capital financing activities	<u>\$ 788,916.18</u>	<u>\$ 1,610,361.48</u>
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital grants and gifts received	\$ (24,488.64)	\$ 669,151.60
Proceeds from sale of capital assets	62,500.00	5,300.00
Purchase of capital assets and construction	(1,194,237.27)	(604,294.80)
Net cash provided (used) by capital and related financing activities	<u>\$ (1,156,225.91)</u>	<u>\$ 70,156.80</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	\$10,805,600.30	\$ 2,613,726.49
Income on investments	(43,904.54)	163,243.45
Purchase of investments	(10,916,789.63)	(4,770,747.42)
Other investing receipts (payments)	(300.76)	(601.52)
Net cash provided (used) by investing activities	<u>\$ (155,394.63)</u>	<u>\$(1,994,379.00)</u>
Net increase (decrease) in cash and cash equivalents	(307,289.77)	(755,199.04)
Cash and cash equivalents - beginning of year	8,609,526.34	9,364,725.38
Cash and cash equivalents - end of year (Note 15 )	<u>\$ 8,302,236.57</u>	<u>\$8,609,526.34</u>
 <b>RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income/(loss)	\$ (275,169.83)	\$ (3,027,247.89)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense	518,338.76	495,218.73
Change in assets and liabilities:		
Receivables, net	(762,245.18)	168,684.47
Accounts payable	(328,903.44)	356,586.39
Other	1,063,394.28	1,565,419.98
Net cash provided (used) by operating activities	<u>\$ 215,414.59</u>	<u>\$ (441,338.32)</u>
 <b>Noncash transactions</b>		
Gifts-in-kind	\$ 353,094.69	\$ 278,192.09
Pledges	750,899.11	(173,826.35)
Unrealized gains/losses on investments	(59,380.43)	1,408,045.58