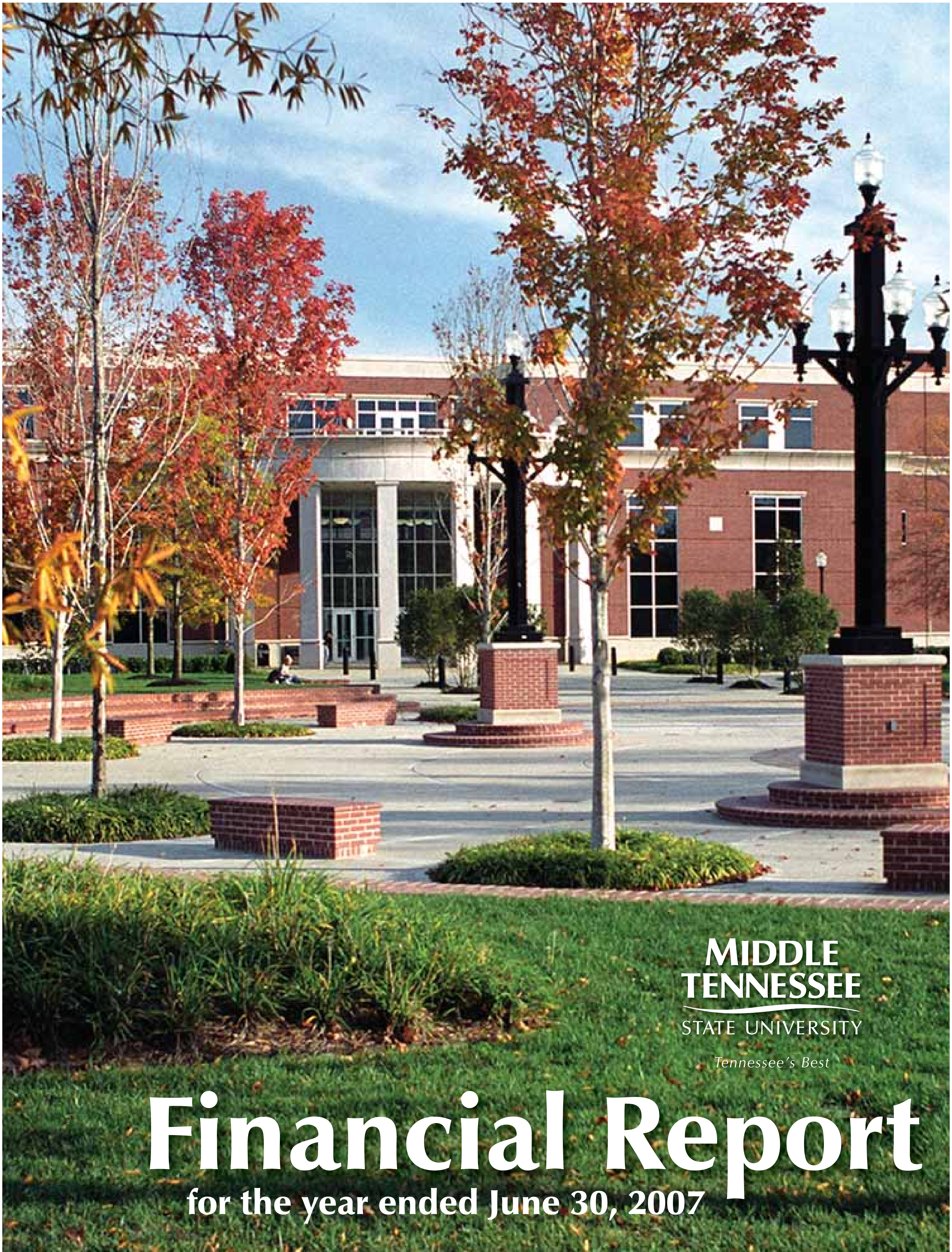

MIDDLE TENNESSEE STATE UNIVERSITY

Tennessee's Best

Financial Report

for the year ended June 30, 2007

Middle Tennessee State University

FINANCIAL REPORT

For the Year Ended June 30, 2007

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

MIDDLE TENNESSEE
STATE UNIVERSITY

August 31, 2007

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, 2007. This report has been prepared in accordance with Generally Accepted Accounting Principles.

Sincerely,

Sidney A. McPhee
President

SAM:fr

Enclosures

Vice President for Business and Finance
Middle Tennessee State University
211 Cope Administration Building
Murfreesboro, Tennessee 37132
615-898-2852
FAX: 615-898-5906

MIDDLE TENNESSEE STATE UNIVERSITY

August 31, 2007

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, 2007.

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, 2006. An audit is currently in progress for fiscal year ended June 30, 2007.

Sincerely,

John W. Cothern
Senior Vice President

JWC:jb

Enclosures

Middle Tennessee State University
FINANCIAL REPORT
for Year Ended June 30, 2007

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MIDDLE TENNESSEE STATE UNIVERSITY
Management's Discussion and Analysis
For the Year Ended June 30, 2007

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, 2007, with comparative information presented for the fiscal years ended June 30, 2006, and June 30, 2005. This discussion, along with the financial statements and related note disclosures, has been prepared by management and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

Using This Annual Report

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

The Statement of Net Assets

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

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

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

	2007	2006	2005
Assets			
Current assets	$ 57,165	$ 52,545	$ 46,942
Capital assets, net	229,106	203,546	189,900
Other assets	44,189	43,143	40,730
Total Assets	**$ 330,460**	**$ 299,234**	**$ 277,572**
Liabilities			
Current liabilities	$ 38,211	$ 34,640	$ 30,383
Noncurrent liabilities	127,738	113,476	105,226
Total Liabilities	**$ 165,949**	**$ 148,116**	**$ 135,609**
Net Assets			
Invested in capital assets, net of debt	$ 104,811	$ 94,540	$ 88,311
Restricted - expendable	8,176	8,598	10,181
Restricted - nonexpendable	827	779	764
Unrestricted	50,698	47,201	42,707
Total Net Assets	**$ 164,512**	**$ 151,118**	**$ 141,963**

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

- Current assets increased between fiscal years due to an increase in receivables from grant accounts at year end. The most significant increase is attributable to the Tennessee Department of Children's Services (DCS) grant. These receivables relate to billings from several institutions across the state received close to June 30 of each year and thus not allowing the University time to receive funds from DCS for these payouts.
- The increase in net capital assets between fiscal years is a result of additions to the University's capitalized assets. More detailed information about the University's capital assets is presented in the Capital Asset and Debt Administration section of this report.
- Noncurrent liabilities increased between fiscal years due to the issuance of bonds and/or commercial paper by the Tennessee State School Bond Authority (TSSBA) on behalf of the University for various capital projects. More detailed information about the University's debt is presented in the Capital Asset and Debt Administration section of this report.
- The restricted-expendable section of Net Assets decreased from 2005 to 2006 as a result of the use of accumulated private dollars on capital projects. These funds were received in prior years and then used on capital projects in the 2005–06 fiscal year. The continued decrease from 2006 to 2007 resulted from the accumulated excess debt service fees collected being used for the Student Health, Wellness, and Recreation Center facility upgrade project.

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

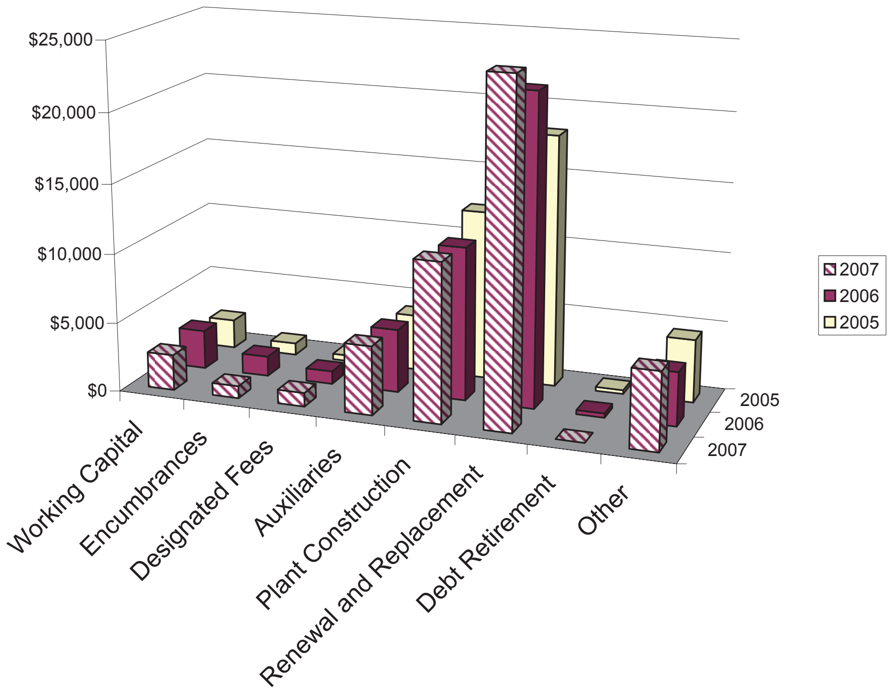
	2007	2006	2005
Assets			
Current assets	$ 2,068	$ 1,333	$ 1,088
Capital assets, net	20,174	20,477	20,540
Other assets	45,492	39,951	36,371
Total Assets	**$ 67,734**	**$ 61,761**	**$ 57,999**
Liabilities			
Current liabilities	$ 999	$ 480	$ 422
Noncurrent liabilities	-	-	-
Total Liabilities	**$ 999**	**$ 480**	**$ 422**
Net Assets			
Invested in capital assets, net of debt	$ 20,174	$ 20,478	$ 20,540
Restricted - expendable	12,268	10,502	10,875
Restricted - nonexpendable	33,632	29,927	25,705
Unrestricted	661	374	456
Total Net Assets	**$ 66,735**	**$ 61,281**	**$ 57,576**

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

- The increase in current assets from 2006 to 2007 resulted from an increase in the payable setup to the University at June 30, 2007. This payable represents transactions occurring between the University and foundation at year end. Since this payable is set up in the unrestricted fund, more cash is shown as a current asset rather than noncurrent. 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 increase in other assets includes an increase in investments between fiscal years due to contributions received by the foundation from donors each year. Contributions received by the foundation during the 2006–07 and 2005–06 fiscal years exceeded $6 million each year.
- The increase in current liabilities from 2006 to 2007 resulted from an increase in the payable setup to the University at June 30, 2007, as described previously in this report.
- Restricted-nonexpendable net assets increased between fiscal years due to favorable market performance. Noncurrent investments increased approximately $3.5 million from 2006 to 2007 and $3.2 million from 2005 to 2006.

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

Allocations of Unrestricted Net Assets (University)



- The change in encumbrance amounts between fiscal years is attributable to how University departments spend their allotted budgets each year. A department may wait until close to the end of a fiscal year to purchase large items based on its available budget. In another year, the department may not have this flexibility in its departmental budget; thus creating a fluctuation in the encumbrance amount from one year to the next.
- Renewal and replacement increased from 2006 to 2007, resulting from the accumulation of parking services revenues for the parking and transportation project. The increase from 2005 to 2006 is due to the accumulation of funds for the Student Health, Wellness, and Recreation Center facility upgrade project, parking and transportation project, and funding of future losses in housing revenues resulting from facilities under renovation.
- The change in the Other category between fiscal years results from funds not spent during the year by University departments. Department initiatives may change from one year to the next, creating this fluctuation in the amount shown as unreserved or undesignated.

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

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

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

	2007	2006	2005
Operating revenues			
Net tuition and fees	$ 82,775	$ 82,848	$ 76,531
Auxiliaries	25,157	24,936	23,907
Grants and contracts	31,950	29,509	20,739
Other	11,290	9,813	8,986
Total operating revenues	$ 151,172	$ 147,106	$ 130,163
Operating expenses	$ 285,970	$ 266,251	$ 249,045
Operating loss	$ (134,798)	$ (119,145)	$ (118,882)
Nonoperating revenues and expenses			
State appropriations	$ 95,362	$ 88,540	$ 86,884
Gifts	1,538	966	975
Grants and contracts	42,391	34,364	29,464
Investment income	5,105	4,312	2,483
Other revenues and expenses	(4,645)	(4,889)	(4,996)
Total nonoperating revenues and expenses	$ 139,751	$ 123,293	$ 114,810
Income (loss) before other revenues, expenses, gains, or losses	$ 4,953	$ 4,148	$ (4,072)
Other revenues, expenses, gains, or losses			
Capital appropriations	$ 4,845	$ 3,254	$ 5,248
Capital grants and gifts	3,344	1,853	2,444
Other	252	(100)	(656)
Total revenues, expenses, gains, or losses	$ 8,441	$ 5,007	$ 7,036
Increase (decrease) in net assets	$ 13,394	$ 9,155	$ 2,964
Net assets at beginning of year	$ 151,118	$ 141,963	$ 138,999
Net assets at end of year	$ 164,512	$ 151,118	$ 141,963

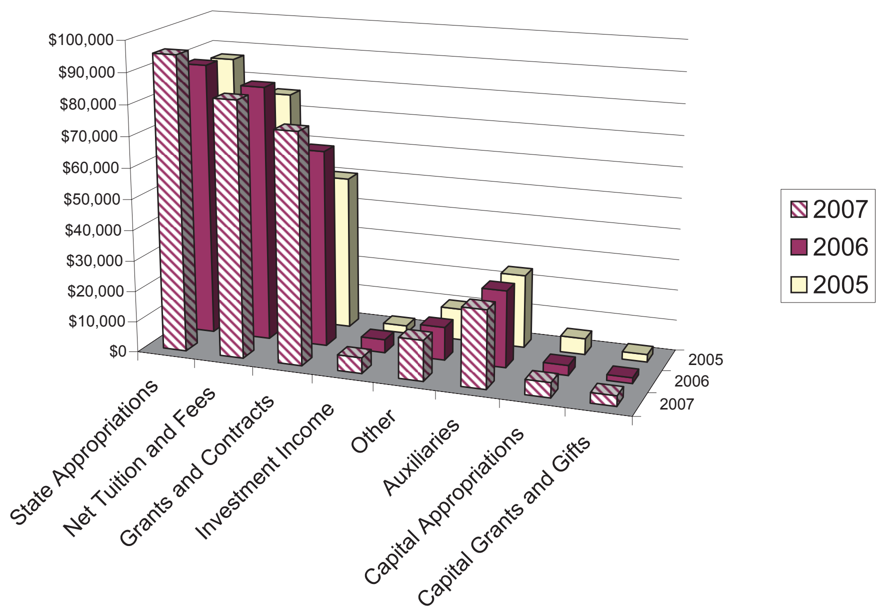
Component Unit
Statement of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

	2007	2006	2005
Operating revenues			
Gifts	$ 6,334	$ 6,160	$ 3,668
Grants and contracts	42	38	101
Total operating revenues	$ 6,376	$ 6,198	$ 3,769
Operating expenses	$ 6,247	$ 6,473	$ 6,796
Operating loss	$ 129	$ (275)	$ (3,027)
Nonoperating revenues and expenses			
Investment income	$ 4,814	$ 3,193	$ 2,061
Other revenues and expenses	(1)	-	(1)
Total nonoperating revenues and expenses	$ 4,813	$ 3,193	$ 2,060
Income (loss) before other revenues, expenses, gains, or losses	$ 4,942	$ 2,918	$ (967)
Other revenues, expenses, gains, or losses			
Capital grants and gifts	$ -	$ -	$ 75
Additions to permanent endowments	512	787	1,566
Total revenues, expenses, gains, or losses	$ 512	$ 787	$ 1,641
Increase (decrease) in net assets	$ 5,454	$ 3,705	$ 674
Net assets at beginning of year	$ 61,281	$ 57,576	$ 56,902
Net assets at end of year	$ 66,735	$ 61,281	$ 57,576

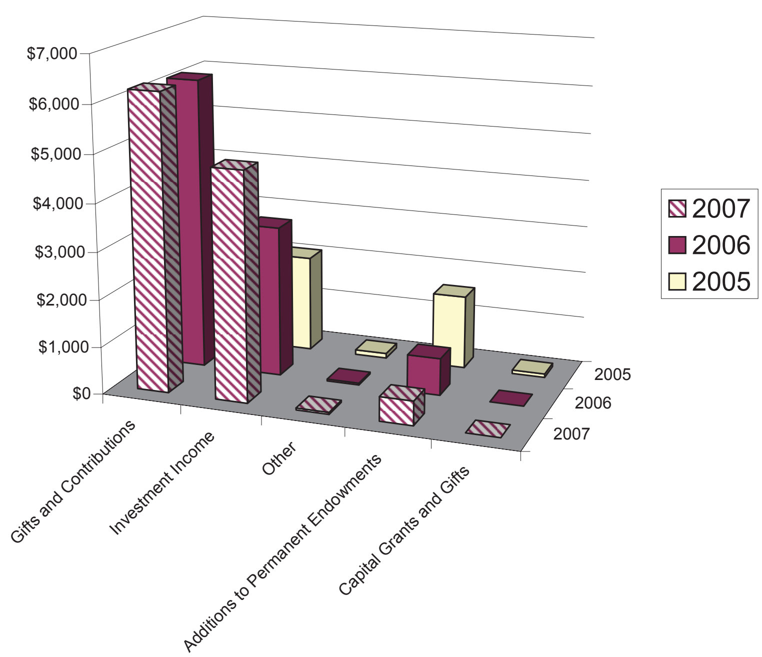
Revenues

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, 2007, the year ended June 30, 2006, and the year ended June 30, 2005 (amounts are presented in thousands of dollars).

Revenues by Source (University)



Revenues by Source (Component Unit)



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

- Net tuition and fee revenue increased from 2006 to 2007 as a result of an across-the-board fee increase of 4.1% and a student enrollment increase of 1.13%. 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. An across-the-board fee increase of 9.7% and a student enrollment increase of 0.53% occurred during the 2005–06 fiscal year.

- Grants and contracts increased from 2006 to 2007 as a result of an increase in the Tennessee Department of Children's Services (DCS) Consortium contract of $2.1 million and an increase in the amount of scholarships from the TELS program of approximately $7 million. Grants and contracts increased from 2005 to 2006 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 University was awarded the consortium contract to provide training services for DCS. The TELS program began awarding students scholarships in fiscal year 2004–05.
- Capital appropriations increased from 2006 to 2007 due to the appropriation of funds for new and renovated science facilities. Capital appropriations decreased from 2005 to 2006 due to fewer capital appropriations received from the state than in previous years.
- Capital grants and gifts increased from 2006 to 2007 mainly as a result of funds received from the City of Murfreesboro for improvements to the track and field complex and the baseball stadium.
- State appropriations and tuition and fees made up 58.6% of the University's revenue in 2006–07, 61.1% in 2005–06, and 63.3% 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 prior fiscal year. This increase affected the temporarily restricted gifts of the foundation.
- The increase in investment income between fiscal years is the result of continued favorable market performance, resulting in increases in interest rates, realized gains, and unrealized gains.
- The decrease in additions to permanent endowments from 2005 to 2006 is due to a decrease in bequests to the foundation.

Expenses

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

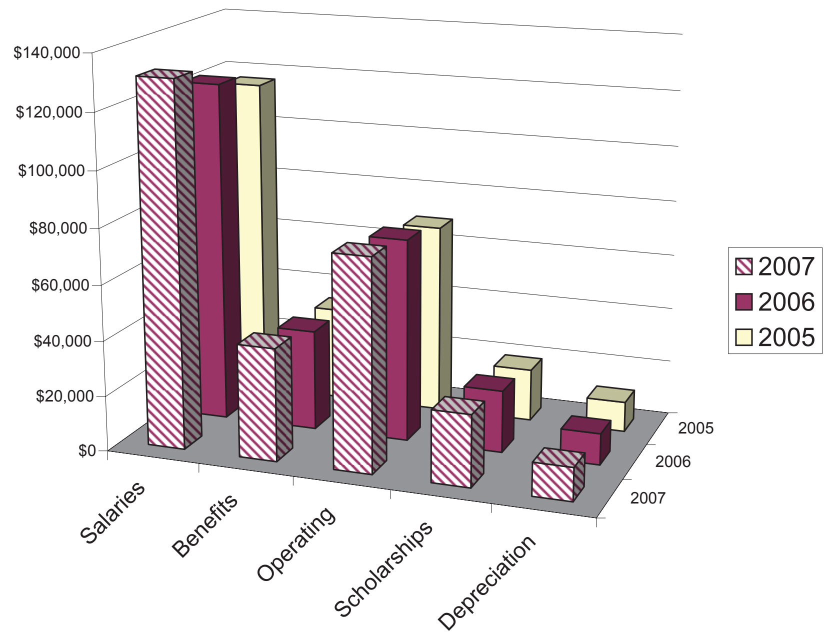
Middle Tennessee State University
Natural Classification
(in thousands)

	2007	2006	2005
Salaries	$ 131,121	$ 123,007	$ 116,498
Benefits	40,737	36,314	33,845
Operating	76,346	73,161	68,810
Scholarships	25,809	22,452	18,976
Depreciation	11,957	11,317	10,917
TOTAL	**$ 285,970**	**$ 266,251**	**$ 249,046**

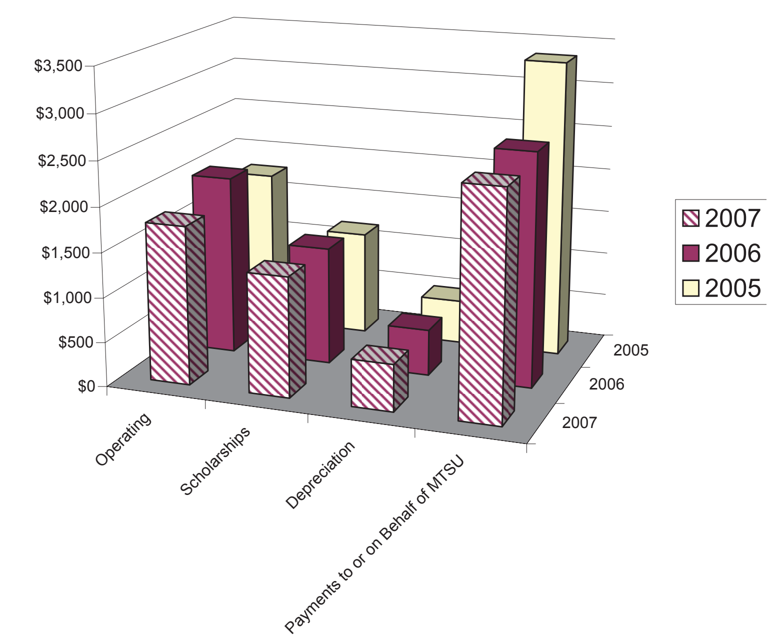
Component Unit
Natural Classification
(in thousands)

	2007	2006	2005
Operating	$ 1,866	$ 2,021	$ 1,780
Scholarships	1,343	1,324	1,175
Depreciation	524	518	495
Payments to or on behalf of MTSU	2,514	2,610	3,346
TOTAL	**$ 6,247**	**$ 6,473**	**$ 6,796**

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 2006 to 2007 is due to a 2% across-the-board pay raise effective July 1, 2006; state and MTSU bonuses paid in October 2006; and equity adjustments for the increases in pay grade ranges for incumbents effective January 1, 2007. The increase 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. Other factors were related to new faculty positions, new support staff positions, and positions added for the DCS grant.
- Employee benefit expenses increased between fiscal years mainly as a result of increases in the state's group insurance premiums, increases in Tennessee Consolidated Retirement System (TCRS) rates, and/or added benefits for new positions.
- Operating expenses increased between fiscal years due to increases in utility rates, increases in software maintenance agreements, ERP-related expenses, and additional expenses related to the DCS grant.
- Scholarship expenses increased between fiscal years due to increased scholarships from the Tennessee Education Lottery Scholarship program.

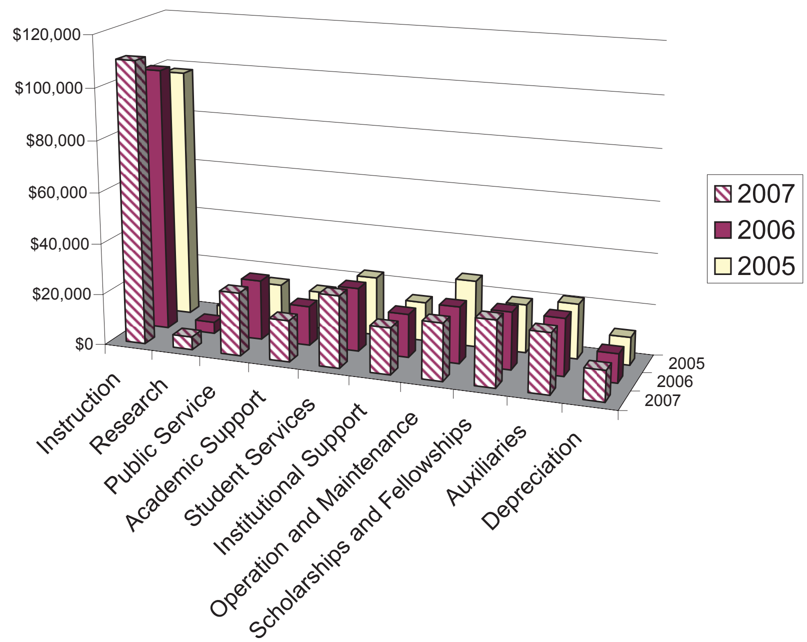
The component unit had the following significant change in expenses between fiscal years:

- Operating expenses for the component unit increase and decrease based on the amount of requests received from University departments to purchase items to support University functions.
- Payments to or on behalf of MTSU in 2005 were significantly larger than other years, resulting from the transfer of the Rose and Emmett Kennon Sports Hall of Fame building to the University.

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

	2007	**2006**	**2005**
Instruction	$ 110,168	$ 102,770	$ 98,049
Research	5,063	4,463	4,359
Public Service	24,715	23,507	15,808
Academic Support	16,210	15,426	14,768
Student Services	28,116	24,871	23,112
Institutional Support	18,134	16,929	15,332
Operation and Maintenance	22,315	22,134	26,142
Scholarships and Fellowships	25,809	22,452	18,976
Auxiliaries	23,483	22,382	21,582
Depreciation	11,957	11,317	10,917
TOTAL	**$ 285,970**	**$ 266,251**	**$ 249,045**

Expenses by Program Classification (University)



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

- The Instruction function increased between fiscal years due to pay raises, state and/or MTSU bonuses, equity adjustments, faculty promotions, new faculty positions, and increases in various employee benefits.
- The increase in the Public Service function from 2005 to 2006 is the result of the addition of the Tennessee DCS grant.
- Student Services increased from 2006 to 2007 due to pay raises, state and/or MTSU bonuses, equity adjustments, and increases in various employee benefits. Athletic expenditures experienced a significant increase due to the above circumstances in addition to an increase in travel expenses related to attending the Motor City Bowl in December 2006.
- The increase in the Operation and Maintenance function in 2005 is due to increased non-capital 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 2005, attributing to the significant increase.
- The increase in the Scholarships and Fellowships function between fiscal years resulted from additional scholarships received from 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)

	2007	2006	2005
Cash provided (used) by			
Operating activities	$ (124,643)	$ (109,844)	$ (108,930)
Noncapital financing activities	139,575	123,773	117,504
Capital and related financing activities	(18,142)	(17,149)	(6,766)
Investing activities	5,077	4,308	2,471
Net increase (decrease) in cash	**$ 1,867**	**$ 1,088**	**$ 4,279**
Cash, beginning of year	**66,987**	**65,899**	**61,620**
Cash, end of year	**$ 68,854**	**$ 66,987**	**$ 65,899**

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 are payments to suppliers and vendors, payments to employees, and payments for scholarships and fellowships.
- Cash provided by noncapital financing activities increased between fiscal years mainly as a result of an increase in state appropriations from previous years and increases in the award amount of the DCS grant to the University.
- Cash used by capital and related financing activities increased from 2005 to 2006 as the result of capital projects being funded more from local University funds rather than through TSSBA debt instruments. In 2006–07, TSSBA-funded projects increased significantly; however, locally funded projects remained stable with the previous year, which created only a small change between the 2006 and the 2007 years.
- The University's cash position increased by $1.9 million for 2006–07, $1.1 million for 2005–06, and $4.3 million for 2004–05.

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

	2007	2006	2005
Cash provided (used) by			
Operating activities	$ 1,062	$ 215	$ (441)
Noncapital financing activities	511	789	1,610
Capital and related financing activities	(126)	(1,156)	70
Investing activities	905	(155)	(1,994)
Net increase (decrease) in cash	**$ 2,352**	**$ (307)**	**$ (755)**
Cash, beginning of year	**8,302**	**8,609**	**9,364**
Cash, end of year	**$ 10,654**	**$ 8,302**	**$ 8,609**

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

- The increase in cash provided by operating activities between fiscal years was largely due to increased cash donations for facilities improvements. Major uses of cash were for payments to suppliers and vendors, payments for scholarships and fellowships, and payments to the University.
- The decrease in cash provided by noncapital financing activities between fiscal years was primarily due to reductions in bequests to the foundation.
- The increase in cash provided by capital and related financing activities from 2006 to 2007 resulted from a large principal distribution from the Mary E. Miller trust for the year. The increase in cash used from 2005 to 2006 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 in cash used by investing activities from 2005 to 2006 mainly resulted from decreases in private gifts received for endowment purposes for 2006 and 2007. This resulted in less funds available for investing in those years.
- The component unit's cash position increased by $2.4 million for 2006–07, decreased by $307,000 for 2005–06, and decreased by $755,000 for 2004–05.

Capital Asset and Debt Administration

Capital Assets - University

Middle Tennessee State University had $229,106,211 invested in capital assets, net of accumulated depreciation of $146,667,073 at June 30, 2007; $203,545,549 invested in capital assets, net of accumulated depreciation of $138,850,529 at June 30, 2006; and $189,899,765 invested in capital assets, net of accumulated depreciation of $129,434,870 at June 30, 2005. Depreciation charges totaled $11,956,958, $11,316,914, and $10,916,742 for the years ended June 30, 2007, June 30, 2006, and June 30, 2005, respectively. Details of these assets are shown below.

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

	2007	2006	2005
Land	$ 10,169	$ 9,886	$ 9,737
Land improvements and infrastructure	12,760	11,642	11,887
Buildings	141,942	130,727	124,148
Equipment	15,325	14,416	14,874
Library holdings	10,149	9,744	9,354
Software	2,948	1,774	-
Projects in progress	35,813	25,357	19,900
Total	**$ 229,106**	**$ 203,546**	**$ 189,900**

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

- Buildings increased from 2006 to 2007 mainly as a result of the completion of the following projects: airplane hanger, nursing building addition, Andrew L. Todd Hall renovation, and renovations to various University housing facilities. The increase from 2005 to 2006 was due to the 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. Additional costs related to this system, as well as other software packages meeting the software capitalization threshold, are capitalized annually.
- Projects in Progress increased from 2006 to 2007 as the result of capital expenses incurred for the student health, wellness, and recreation facility upgrade, Lyon/Monohan renovations, Ingram Building renovation, family housing renovation, phase I of the parking and transportation project, track and field complex improvements, and planning for the new science building. Projects completed during the 2006–07 fiscal year and moved to a specific capital asset category included the airplane hanger, nursing building addition, Andrew L. Todd Hall,

renovations to various University housing facilities, and various improvements and infrastructure projects. Projects in Progress increased significantly from 2005 to 2006 due to the continued renovations of University housing facilities and Andrew L. Todd Hall, phase 1 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.

- All other categories either increased or decreased due to the additions of capital assets and the recording of depreciation.

The University expects to make major capital expenditures during fiscal year 2007-08 for the following projects: continued renovation to the University's housing facilities that will be funded from the issuance of TSSBA bonds; construction completion of the Student Health, Wellness, and Recreation Facility upgrade to be funded from University auxiliary reserve balances and the issuance of TSSBA bonds; construction of improved baseball stadium facilities funded primarily from gift funds and grant funds from the City of Murfreesboro; construction of a new chiller plant to support increased chilled water demand funded through local capital outlay funding. The following projects will 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; new academic facilities for the College of Education and Behavioral Science funded from the state; design and construction of new student union facilities funded by the issuance of TSSBA bonds; and renovation of Corlew and Cummings Halls, which is part of the larger long-range project to renovate and improve existing housing facilities and complete life safety code upgrades

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

Capital Assets – Component Unit

The component unit had $20,173,599 invested in capital assets, net of accumulated depreciation of $2,721,079.95 at June 30, 2007; $20,477,284 invested in capital assets, net of accumulated depreciation of $2,196,800 at June 30, 2006; and $20,540,222 invested in capital assets, net of accumulated depreciation of $1,678,461 at June 30, 2005. Depreciation charges totaled $524,280.27, $518,338.76, and $495,218.73 for the years ended June 30, 2007, June 30, 2006, and June 30, 2005, respectively. Details of these assets are shown below.

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

	2007	2006	2005
Land	$ 2,229	$ 2,229	$ 2,283
Land improvements and infrastructure	674	696	318
Buildings	17,271	17,552	17,939
Total	**$ 20,174**	**$ 20,477**	**$ 20,540**

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.

More detailed information about the component unit's capital assets is presented in Note 16 to the financial statements.

Debt

The University had $124,295,372, $109,005,540, and $101,588,837 in debt outstanding at June 30, 2007, June 30, 2006, and June 30, 2005, 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)

	2007	2006	2005
TSSBA bonds	$ 88,969	$ 93,070	$ 80,646
TSSBA commercial paper	35,326	15,936	20,943
Total Debt	**$ 124,295**	**$ 109,006**	**$ 101,589**

The Tennessee State School Bond Authority (TSSBA) refunded three projects in 2006–07 that were previously bonded in order to obtain a lower rate of interest as follows: stadium expansion, dorm renovations, and the Development facility. This refunding took place in January 2007. Commercial paper was issued for the University on the following major projects during 2006–07: family housing renovation, Student Health, Wellness, and Recreation Center facility upgrade, Lyon/Monohan housing renovation, and phase 1 of the parking and transportation project.

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 Ingram 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 1 of the parking and transportation project and phase 2 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 Ingram 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 6 to the financial statements.

Economic Factors that Will Affect the Future

The state has approved a 3% across-the-board salary increase for all state employees effective July 1, 2007. Funding provided by the state for the 2007–08 fiscal year increased by $6.4 million over current year appropriations.

The Tennessee Board of Regents approved at its June board meeting a 6% fee increase for 2007–08.

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

Middle Tennessee State University
Unaudited Statement of Net Assets
June 30, 2007, with comparative figures at June 30, 2006

	University		Component Unit	
	2007	2006	2007	2006
ASSETS				
Current Assets				
Cash and cash equivalents (Notes 2 and 16)	$ 28,304,729.86	$ 27,739,551.44	$ 1,533,904.35	$ 844,681.04
Accounts, notes, and grants receivable (net) (Notes 4 and 16)	25,794,818.84	21,692,998.87	111,301.22	
Pledges receivable (net) (Note 16)			395,627.96	476,972.33
Inventories (at lower of cost or market)	2,289,297.62	2,399,292.08		
Prepaid expenses and deferred charges	748,631.74	683,276.43		
Accrued interest receivable	27,985.20	30,331.05	27,520.85	11,004.48
Total current assets	57,165,463.26	52,545,449.87	2,068,354.38	1,332,657.85
Noncurrent assets				
Cash and cash equivalents (Notes 2 and 16)	40,549,059.18	39,247,292.31	9,120,487.36	7,457,555.53
Investments (Notes 3 and 16)	772,026.08	739,420.19	34,622,811.77	30,474,176.81
Accounts, notes, and grants receivable (net) (Notes 4 and 16)	2,867,741.48	3,155,924.86	1,049,074.14	1,398,267.30
Pledges receivable (net) (Note 16)			699,884.21	620,919.12
Capital assets (net) (Notes 5 and 16)	229,106,211.32	203,545,548.68	20,173,599.28	20,477,283.52
Total noncurrent assets	273,295,038.06	246,688,186.04	65,665,856.76	60,428,202.28
Total assets	$ 330,460,501.32	$299,233,635.91	$ 67,734,211.14	$ 61,760,860.13
LIABILITIES				
Current liabilities				
Accounts payable	$ 8,773,278.39	$ 8,682,173.40	$ 999,338.60	$ 480,303.84
Accrued liabilities	14,974,193.17	13,628,713.27		
Student deposits	1,127,842.67	759,784.97		
Deferred revenue	5,711,407.62	5,023,884.71		
Compensated absences (Note 6)	1,356,536.71	657,766.68		
Accrued interest payable	861,998.49	750,374.04		
Long-term liabilities, current portion (Note 6)	3,905,743.74	3,851,248.16		
Deposits held in custody for others	971,090.92	825,483.80		
Other liabilities	529,150.92	460,183.32		
Total current liabilities	38,211,242.63	34,639,612.35	999,338.60	480,303.84
Noncurrent liabilities				
Compensated absences (Note 6)	4,529,915.07	4,774,797.34		
Long-term liabilities (Note 6)	120,389,630.03	105,154,291.44		
Due to grantors (Note 6)	2,817,977.57	3,546,885.53		
Total noncurrent liabilities	127,737,522.67	113,475,974.31		
Total liabilities	$ 165,948,765.30	$ 148,115,586.66	$ 999,338.60	$ 480,303.84
NET ASSETS				
Invested in capital assets, net of related debt	$ 104,810,837.55	$ 94,540,009.08	$ 20,173,599.28	$ 20,477,283.52
Restricted for:				
Nonexpendable				
Scholarships and fellowships	10,900.00	10,900.00	31,551,556.29	28,052,055.84
Research			710,693.96	760,010.82
Instructional department uses			1,369,468.44	1,115,249.06
Other	815,781.13	768,146.06		
Expendable				
Scholarships and fellowships	102,840.82	136,311.65	1,593,162.48	1,387,785.53
Research	107,928.33	96,051.12	2,931.49	3,038.49
Instructional department uses	105,855.60	153,488.40	6,151,469.85	5,347,659.81
Loans	1,819,529.34	1,030,131.12		
Capital projects	1,619,875.97	578,846.95	2,520,619.14	2,750,945.50
Debt service	2,531,297.27	4,780,717.00		
Other	1,888,521.51	1,822,225.37	2,000,000.00	1,012,322.83
Unrestricted (Note 8)	50,698,368.50	47,201,222.50	661,371.61	374,204.89
Total net assets	$ 164,511,736.02	$ 151,118,049.25	$ 66,734,872.54	$ 61,280,556.29

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, 2007, with comparative figures at June 30, 2006

	University		Component Unit	
	2007	2006	2007	2006
REVENUES				
Operating revenues				
Student tuition and fees (net of scholarship allowances of $29,204,891.95 for the year ended June 30, 2007, and $23,634,104.34 for the year ended June 30, 2006)	$ 82,775,411.02	$ 82,848,138.19		
Gifts and contributions			$ 6,334,123.19	$ 6,159,675.77
Endowment Income (per spending plan)				
Governmental grants and contracts	31,159,937.19	28,655,607.11		
Non-governmental grants and contracts	790,097.77	853,178.19	42,391.40	37,921.58
Sales and services of educational departments	10,325,076.64	8,869,319.49		
Auxiliary enterprises				
Residential life (net of scholarship allowances of $2,667,720.89 for the year ended June 30, 2007, and $2,352,574.33 for the year ended June 30, 2006: all residential life revenues are used as security for revenue bonds, see Note 6)	7,559,794.86	8,241,690.14		
Bookstore (net of scholarship allowances of $2,632,711.43 for the year ended June 30, 2007, and $2,101,633.07 for the year ended June 30, 2006: all bookstore revenues are used as security for revenue bonds, see Note 6)	7,464,616.22	7,364,702.81		
Food service	873,763.58	803,369.00		
Wellness facility (net of scholarship allowances of $504,136.23 for the year ended June 30, 2007, and $427,740.79 for the year ended June 30, 2006: all wellness facility revenues are used as security for revenue bonds, see Note 6)	1,428,523.70	1,500,775.46		
Other auxiliaries	7,830,209.03	7,025,594.17		
Interest earned on loans to students	78,783.87	77,584.43		
Other operating revenues	885,857.93	865,791.00		
Total operating revenues	$ 151,172,071.81	$ 147,105,749.99	$ 6,376,514.59	$ 6,197,597.35
EXPENSES				
Operating Expenses				
Salaries and wages	$ 131,120,675.97	$ 123,006,687.50		
Benefits	40,737,206.01	36,314,195.23		
Utilities, supplies, and other services	76,346,302.06	73,161,271.11	$ 1,865,664.53	$ 2,020,537.54
Scholarships and fellowships	25,809,168.21	22,451,945.93	1,343,580.83	1,324,214.17
Depreciation expense	11,956,957.53	11,316,914.23	524,280.27	518,338.76
Payments to or on behalf of MTSU			2,513,722.36	2,609,676.71
Total operating expenses	$ 285,970,309.78	$ 266,251,014.00	$ 6,247,247.99	$ 6,472,767.18
Operating income (loss)	$ (134,798,237.97)	$ (119,145,264.01)	$ 129,266.60	$ (275,169.83)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	$ 95,361,800.00	$ 88,539,800.00		
Gifts, including $1,479,975.35 from component unit in FY 2007 and $925,610.75 from component unit in FY 2006	1,537,908.79	966,503.30		
Grants and contracts	42,391,061.00	34,363,802.74		
Investment income (net of investment expense of $7,143.06 for the university and $86,458.56 for the component unit for FY 2007 and $6,851.38 for the university and $102,268.83 for the component unit for FY 2006)	5,105,406.43	4,311,529.64	$ 4,813,955.78	$ 3,192,761.20
Interest on capital asset-related debt	(4,912,152.54)	(4,428,375.26)		
Bond issuance costs	545,727.48	(179,447.52)		
Other non-operating revenues/(expenses)	(278,506.17)	(281,331.77)	(601.52)	(300.76)
Net nonoperating revenues	$ 139,751,244.99	$ 123,292,481.13	$ 4,813,354.26	$ 3,192,460.44
Income before other revenues, expenses gains, or losses	$ 4,953,007.02	$ 4,147,217.12	$ 4,942,620.86	$ 2,917,290.61
Capital appropriations	$ 4,844,985.23	$ 3,253,835.70		
Capital grants and gifts, including $1,033,747.01 from component unit in FY 2007 and $1,684,065.96 from component unit in FY 2006	3,343,869.90	1,853,292.12		$ 120.00
Additions to permanent endowments			$ 511,695.39	786,773.05
Other capital	251,824.62	(99,718.60)		
Total other revenues	$ 8,440,679.75	$ 5,007,409.22	$ 511,695.39	$ 786,893.05
Increase (decrease) in net assets	$ 13,393,686.77	$ 9,154,626.34	$ 5,454,316.25	$ 3,704,183.66
NET ASSETS				
Net Assets - beginning of year	$ 151,118,049.25	$ 141,963,422.91	$ 61,280,556.29	$ 57,576,372.63
Net Assets - end of year	$ 164,511,736.02	$ 151,118,049.25	$ 66,734,872.54	$ 61,280,556.29

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, 2007 with comparative figures at June 30, 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 83,580,108.42	$ 79,956,859.10
Grants and contracts	27,562,434.34	29,434,494.26
Sales and services of educational activities	9,778,795.56	8,752,853.49
Payments to suppliers and vendors	(75,866,859.26)	(70,803,636.12)
Payments to employees	(130,990,565.01)	(123,184,106.58)
Payments for benefits	(39,033,743.88)	(36,298,416.19)
Payments for scholarships and fellowships	(25,809,168.21)	(22,451,945.93)
Loans issued to students and employees	(148,223.26)	(153,769.66)
Collection of loans from students and employees	182,532.63	228,354.81
Interest earned on loans to students	77,413.31	77,786.40
Auxiliary enterprise charges:		
Residence halls	7,967,473.19	7,859,099.92
Bookstore	7,532,439.48	6,826,372.73
Food services	805,852.83	911,876.49
Wellness facility	1,428,523.70	1,500,775.46
Other auxiliaries	7,774,264.31	7,044,671.71
Other receipts (payments)	515,697.60	454,575.45
Net cash provided (used) by operating activities	$ (124,643,024.25)	$ (109,844,154.66)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	$ 95,376,300.00	$ 88,572,700.00
Gifts and grants received for other than capital or endowment purposes, including $1,479,975.35 from Middle Tennessee State University Foundation for FY 2007 and $925,610.75 for FY 2006	43,741,315.50	35,253,527.51
Private gifts for endowment purposes		
Federal student loan receipts	71,994,377.33	66,685,353.97
Federal student loan disbursements	(71,595,297.21)	(67,344,399.95)
Changes in deposits held for others	58,635.62	605,771.66
Other non-capital financing receipts (payments)		
Net cash provided (used) by non-capital financing activities	$ 139,575,331.24	$ 123,772,953.19
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	$ 19,141,082.34	$ 10,267,166.20
Capital - state appropriation	4,844,985.23	3,253,835.70
Capital grants and gifts received, including $623,267.98 from Middle Tennessee State University Foundation for FY 2007 and $620,671.68 for FY 2006	2,933,390.87	789,897.84
Proceeds from sale of capital assets	325,000.00	
Purchase of capital assets and construction	(37,180,316.52)	(23,999,022.40)
Principal paid on capital debt and lease	(3,851,248.17)	(2,850,463.77)
Interest paid on capital debt and lease	(4,811,289.93)	(4,331,182.66)
Bond issue costs paid on new debt issue	456,517.53	(279,405.29)
Net cash provided (used) by capital and related financing activities	$ (18,141,878.65)	$ (17,149,174.38)

Middle Tennessee State University
Unaudited Statement of Cash Flows
for the year ended June 30, 2007, with comparative figures at June 30, 2006

	2007	2006
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		
Income on investments	$ 5,076,516.95	$ 4,307,962.87
Purchase of investments		
Net cash provided (used) by investing activities	$ 5,076,516.95	$ 4,307,962.87
Net increase (decrease) in cash and cash equivalents	1,866,945.29	1,087,587.02
Cash and cash equivalents - beginning of year	66,986,843.75	65,899,256.73
Cash and cash equivalents - end of year (Note 2)	$ 68,853,789.04	$ 66,986,843.75

	2007	2006
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income/(loss)	$(134,798,237.97)	$(119,145,264.01)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense	11,956,957.53	11,316,914.23
Change in assets and liabilities:		
Receivables, net	(4,143,307.88)	(6,726,241.85)
Inventories	109,994.46	(100,010.62)
Prepaid/deferred items	(65,355.31)	(31,799.14)
Other assets	(1,370.56)	201.97
Accounts payable	58,557.63	4,423,804.24
Accrued liabilities	1,356,241.74	(552,281.56)
Deferred revenues	687,522.91	78,118.33
Deposits	368,057.70	(161,058.17)
Compensated absences	453,887.76	543,356.70
Due to grantors	(728,907.96)	656,236.26
Loans to students and employees	33,968.10	(10,583.81)
Other	68,967.60	(135,547.23)
Net cash provided (used) by operating activities	$(124,643,024.25)	$(109,844,154.66)
Non-cash transactions		
Gifts in-kind - capital	410,479.03	1,063,394.28
Unrealized gains/losses on investments	32,605.89	3,480.92

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.*

The Middle Tennessee State University Foundation is considered a component unit of the University. Although the University does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the foundation can only be used by or for the benefit of Middle Tennessee State University, the foundation is considered a component unit of the University and is discretely presented in the University's financial statements. See Note 16 for more detailed information about the component unit and how to obtain the report.

BASIS OF PRESENTATION
The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental colleges and universities engaged in business-type activities as prescribed by the Governmental Accounting Standards Board (GASB).

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

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

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

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

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

CASH EQUIVALENTS

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

INVENTORIES

Inventories are valued at the lower of cost or market. Textbooks included in the inventory are recorded on a 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 assets or materially extend the assets' useful lives are not capitalized.

A capitalization threshold of $100,000 is used for buildings and $50,000 is used for infrastructure. Equipment is capitalized when the unit acquisition cost is $5,000 or greater. The capitalization threshold for additions and improvements to buildings and land is set at $50,000. The capitalization threshold for 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, 2007, cash and cash equivalents consisted of $14,922,641.60 in bank accounts; $114,243.44 of petty cash on hand; $46,398,223.96 in the State of Tennessee Local Government Investment Pool administered by the state treasurer; $7,374,924.99 in the LGIP Deposits – Capital Projects account, and $43,755.05 in a money market account. At June 30, 2006, cash and cash equivalents consisted 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.

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

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

As of June 30, 2007, Middle Tennessee State University had the following investments and maturities.

		Investment Maturities (in Years)				
Investment Type	**Fair Value**	**Less than 1**	**1 to 5**	**6 to 10**	**More than 10**	**No Maturity Date**
Mutual bond funds	$ 466,713.49	$ -	$ -	$ -	$ -	$ 466,713.49
Mutual equity funds	305,312.59	-	-	-	-	305,312.59
Total	$ 772,026.08	$ -	$ -	$ -	$ -	$ 772,026.08

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

		Investment Maturities (in Years)				
Investment Type	**Fair Value**	**Less than 1**	**1 to 5**	**6 to 10**	**More than 10**	**No Maturity Date**
Mutual bond funds	$ 462,891.88	$ -	$ -	$ -	$ -	$ 462,891.88
Mutual equity funds	276,528.31	-	-	-	-	276,528.31
Total	$ 739,420.19	$ -	$ -	$ -	$ -	$ 739,420.19

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

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Middle Tennessee State University is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies 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, 2007, the University's investments were rated as follows:

Investment Type	Fair Value	Unrated
LGIP	$53,773,148.95	$53,773,148.95
Mutual funds	466,713.49	466,713.49
	$54,239,862.44	$54,239,862.44

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

Investment Type	Fair Value	Unrated
LGIP	$41,144,543.19	$41,144,543.19
Mutual funds	462,891.88	462,891.88
	$41,607,435.07	$41,607,435.07

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, 2007, Middle Tennessee State University had $772,026.08 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, 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.

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

	Carrying Value	
	2006–07	2005–06
Mutual funds	$772,026.08	$739,420.19

Each endowment is invested separately.

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

Accounts receivable included the following:

	June 30, 2007	June 30, 2006
Student accounts receivable	$ 4,328,791.62	$ 4,289,080.31
Grants receivable	18,951,283.27	15,325,907.52
Notes receivable	415,964.14	412,990.26
State appropriation receivable	398,200.00	412,700.00
Other receivables	3,551,922.33	3,113,740.86
Subtotal	$ 27,646,161.36	$ 23,554,418.95
Less allowance for doubtful accounts	(1,851,342.52)	(1,861,420.08)
Total	**$ 25,794,818.84**	**$ 21,692,998.87**

Federal Perkins Loan Program funds include the following:

	June 30, 2007	June 30, 2006
Perkins Loans receivable	$ 3,488,040.10	$ 3,794,436.25
Less allowance for doubtful accounts	(620,298.62)	(638,511.39)
Total	**$ 2,867,741.48**	**$ 3,155,924.86**

5. **Capital Assets**

Capital asset activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 9,885,682.86	$ 282,900.00	$ -	$ -	$ 10,168,582.86
Improvements and infrastructure	27,677,456.23	-	2,500,720.92	-	30,178,177.15
Buildings	218,589,480.65	698,500.00	16,071,831.52	-	235,359,812.17
Equipment	40,777,992.35	3,640,142.99	-	2,659,698.33	41,758,437.01
Library holdings	18,137,474.77	2,465,772.31	-	1,613,109.12	18,990,137.96
Software	1,971,107.06		1,533,917.78		3,505,024.84
Projects in progress	25,356,883.45	30,600,290.13	(20,106,470.22)	37,591.00	35,813,112.36
Total	**$ 342,396,077.37**	**$ 37,687,605.43**	**$ -**	**$ 4,310,398.45**	**$ 375,773,284.35**
Less accumulated depreciation					
Improvements and infrastructure	$ 16,035,867.03	$ 1,381,950.48	$ -	$ -	$ 17,417,817.51
Buildings	87,862,401.92	5,555,549.01	-	-	93,417,950.93
Equipment	26,361,596.74	2,598,989.72	-	2,527,304.07	26,433,282.39
Library holdings	8,393,552.29	2,060,324.71		1,613,109.12	8,840,767.88
Software	197,110.71	360,143.61	-	-	557,254.32
Total accumulated depreciation	**$ 138,850,528.69**	**$ 11,956,957.53**	**$ -**	**$ 4,140,413.19**	**$ 146,667,073.03**
Capital assets, net	**$ 203,545,548.68**	**$ 25,730,647.90**	**$ -**	**$ 169,985.26**	**$ 229,106,211.32**

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
Total	**$ 319,334,634.70**	**$25,062,416.68**	**$ -**	**$ 2,000,974.01**	**$342,396,077.37**
Less accumulated depreciation					
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**	**$138,850,528.69**
Capital assets, net	**$ 189,899,764.83**	**$13,745,502.45**	**$ -**	**$ 99,718.60**	**$203,545,548.68**

6. Long-term Liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables					
Bonds	$ 93,069,658.35	$ 296,117.29	$ 4,396,975.65	$ 88,968,799.99	$ 3,905,743.74
Commercial paper	15,935,881.25	19,390,692.53	-	35,326,573.78	-
Subtotal	$109,005,539.60	$ 19,686,809.82	$ 4,396,975.65	$ 124,295,373.77	$ 3,905,743.74
Otherl liabilities					
Compensated absences	$ 5,432,564.02	$ 3,213,910.36	$ 2,760,022.60	$ 5,886,451.78	$ 1,356,536.71
Due to grantors	3,546,885.53	701,358.23	1,430,266.19	2,817,977.57	-
Subtotal	$ 8,979,449.55	$ 3,915,268.59	$ 4,190,288.79	$ 8,704,429.35	$ 1,356,536.71
Total long-term liabilities	**$117,984,989.15**	**$23,602,078.41**	**$ 8,587,264.44**	**$132,999,803.12**	**$ 5,262,280.45**

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
Total long-term liabilities	**$109,368,693.76**	**$25,533,735.16**	**$16,917,439.77**	**$117,984,989.15**	**$ 4,509,014.84**

TSSBA Debt - Bonds Payable

Bond issues with interest rates ranging from 2.25% to 7.15% were issued by the Tennessee State School Bond Authority. The bonds are due serially until 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 included in long-term liabilities on the Statement of Net Assets is shown net of assets held by the authority in the debt service reserve and net of unexpended debt proceeds. The reserve amount was $66,369.30 at June 30, 2007, and $66,369.30 at June 30, 2006. Unexpended debt proceeds were $152,174.01 at June 30, 2007, and $448,291.30 at June 30, 2006.

Debt service requirements to maturity for the University's portion of TSSBA bonds at June 30, 2007, are as follows:

For the Year(s) Ending June 30	Principal	Interest	Total
2008	$ 3,905,743.74	$ 4,026,307.13	$ 7,932,050.87
2009	4,143,259.97	3,867,314.40	8,010,574.37
2010	4,293,852.42	3,711,743.39	8,005,595.81
2011	4,023,807.73	3,540,830.41	7,564,638.14
2012	4,192,396.67	3,382,878.83	7,575,275.50
2013-2017	22,231,952.81	14,181,024.73	36,412,977.54
2018-2022	22,041,628.18	8,955,200.67	30,996,828.85
2023-2027	19,913,194.09	3,808,839.52	23,722,033.61
2028-2033	4,222,964.38	335,239.30	4,558,203.68
Total	**$88,968,799.99**	**$45,809,378.38**	**$134,778,178.37**

TSSBA Debt - Commercial Paper

The Tennessee State School Bond Authority issues commercial paper to finance costs of various capital projects during the construction phase. When projects are placed in service, long-term, fixed-rate debt is issued by TSSBA to finance the project over its useful payback period and the commercial paper is redeemed. The amount outstanding for projects at Middle Tennessee State University was $35,326,573.78 at June 30, 2007, and $15,935,881.25 at June 30, 2006.

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

More detailed information regarding the bonds and commercial paper can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report may be obtained by writing to the Director of Bond Finance, Suite 1600, James K. Polk Building, Nashville, TN 37243-0273, or by calling (615) 401-7872.

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, 2007, net appreciation of $8,168.06 was available to be spent, of which $8,168.06 was included in unrestricted net assets. 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.

8. **Unrestricted Net Assets**

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

	June 30, 2007	June 30, 2006
Working capital	$ 2,570,280.74	$ 2,813,166.69
Encumbrances	879,699.03	1,441,291.46
Designated fees	994,161.04	922,719.66
Auxiliaries	4,947,294.32	4,570,393.89
Quasi-endowment	155,100.00	155,100.00
Plant construction	11,391,548.88	11,019,632.38
Renewal and replacement of equipment	24,338,696.38	22,265,292.28
Debt retirement	-	301,218.20
Unreserved/undesignanted balance	5,421,588.11	3,712,407.94
Total	**$50,698,368.50**	**$47,201,222.50**

9. **Pension Plans**

Defined Benefit Plan

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report 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 13.66% of annual covered payroll. The contribution requirements of the University are established and may be amended by the board of trustees. Middle Tennessee State University's contributions to TCRS for the years ending June 30, 2007, 2006, and 2005 were $6,305,780.58, $4,429,789.45, and $4,196,023.29, 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 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, 2007, was $7,180,256.50 and for the year ended June 30, 2006, was $6,779,780.94. 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 $24,142,748.55 on deposit at June 30, 2007, and $21,767,870.06 on deposit at June 30, 2006, 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 $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, 2007, and June 30, 2006, 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. The amount of cash and cash equivalents designated for payment of claims held by the Risk Management Fund at June 30, 2007, was not available. At June 30, 2006, the Risk Management Fund held $133.2 million in cash and cash equivalents designated for payment of claims.

At June 30, 2007, the scheduled coverage for Middle Tennessee State University was $666,719,000 for buildings and $246,853,440 for contents. At June 30, 2006, the scheduled coverage for the University was $531,103,900 for buildings and $234,305,200 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 $48,034,614.58 at June 30, 2007, and $44,680,042.10 at June 30, 2006.

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 $312,077.45 and $44,666.90 respectively for the year ended June 30, 2007. Comparative amounts for the year ended June 30, 2006, were $259,303.18 and $41,601.13, respectively. All operating leases are cancelable at the lessee's option.

CONSTRUCTION IN PROGRESS. At June 30, 2007, outstanding commitments under construction contracts totaled $13,482,713.57 for major projects including ADA improvements, life safety renovations, systems replacement, underground electrical update, Ezell and Abernathy dorms safety code corrections, Peck Hall HVAC update, dorm renovations, the observatory plaza project, the nursing building addition, the baseball stadium upgrade, science facilities improvements, academic space renovations, and several building roof replacements, of which $6,689,423.07 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 $1,040,581.00.

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, 2007, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Operating	Scholarships	Depreciation	Total
Instruction	$ 75,051,079.97	$20,947,319.61	$14,169,330.20	$ -	$ -	$110,167,729.78
Research	2,772,099.63	715,594.39	1,575,130.89	-	-	5,062,824.91
Public Service	7,323,211.09	2,559,196.67	14,833,002.02	-	-	24,715,409.78
Academic Support	12,459,109.90	4,289,367.91	(538,318.85)	-	-	16,210,158.96
Student Services	12,159,840.66	4,147,863.46	11,808,483.27	-	-	28,116,187.39
Institutional Support	10,566,272.87	3,908,177.94	3,659,559.65	-	-	18,134,010.46
M & O	5,091,898.33	2,134,592.36	15,088,258.24	-	-	22,314,748.93
Scholarships and Fellowships	-	-	-	25,809,168.21	-	25,809,168.21
Auxiliaries	5,697,163.52	2,035,093.67	15,750,856.64	-	-	22,382,275.33
Depreciation	-	-	-	-	$11,956,957.53	11,956,957.53
Total Expenses	**$131,120,675.97**	**$40,737,206.01**	**$76,346,302.06**	**$25,809,168.21**	**$11,956,957.53**	**$285,970,309.78**

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

	Natural Classification					
Functional 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
Total Expenses	**$123,006,687.50**	**$36,314,195.23**	**$73,161,271.11**	**$22,451,945.93**	**$11,316,914.23**	**$266,251,014.00**

15. Subsequent Events

In 2002–03, the University purchased new Steinway pianos for our School of Music. This purchase was financed with the issuance of TSSBA commercial paper, which was later converted to bonds. The bonds were issued to mature May 1, 2014. Funding for the annual payment of principal and interest on the bonds was to come from private gifts of a University donor each year. Subsequent to June 30, 2007, the University discovered the donor may not be able to continue the donations under the original agreement. The University will continue to make the annual bond payments, approximately $150,000 per year, from other sources until the maturity date.

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

During the year ended June 30, 2007, the foundation made distributions of $4,289,299.52 to or on behalf of Middle Tennessee State University for both restricted and unrestricted purposes, of which $1,775,577.16 is shown as utilities, supplies, and other services. 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 is shown as utilities, supplies, and other services. Complete financial statements for the foundation can be obtained from Jay Chalmers, Foundation Accountant, 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, a 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, 2007, $500,000 was insured by FDIC and $3,648,534.40 was not insured. Of the bank balances on deposit at June 30, 2006, $200,000 was insured by FDIC and $1,750,047.49 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 Eighth Avenue North, Nashville, Tennessee 37242-0298, or by calling (615) 741-2140.

INVESTMENTS. The foundation is authorized to invest funds in accordance with its board of directors' policies. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

As of June 30, 2007, the foundation had the following investments and maturities:

	Cost	**Market Value**
U.S. Treasury	$ 1,458,818.55	$ 1,458,438.65
Corporate stocks	18,939,019.49	25,954,427.43
Certificates of deposit	600,000.00	616,357.97
Mutual funds	5,255,608.60	6,156,977.18
Cash surrender value of life insurance		436,610.54
Total Investments		**$34,622,811.77**

As of June 30, 2006, the foundation had the following investments and maturities:

	Cost	**Market Value**
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
Total Investments		**$30,474,176.81**

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

	June 30, 2007	June 30, 2006
Current pledges	$ 438,257.24	$ 525,658.54
Pledges due in one to five years	688,753.71	570,378.03
Pledges due after five years	86,506.35	113,894.09
Subtotal	1,213,517.30	1,209,930.66
Less: Discounts to net present value	(118,005.13)	(112,039.21)
Total pledges receivable, net	**$ 1,095,512.17**	**$ 1,097,891.45**

CAPITAL ASSETS. Capital assets for the year ended June 30, 2007, were as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 2,228,921.97	$ -	$ -	$ -	$ 2,228,921.97
Land Improvements	241,164.52	-	-	-	241,164.52
Improvements and infrastructure	520,419.83	17,064.89	-	-	537,484.72
Buildings	19,683,576.88	543,907.60	-	340,376.46	19,887,108.02
Equipment	-	70,102.59	-	70,102.59	-
Total	**$ 22,674,083.20**	**$ 631,075.08**	**$ -**	**$ 410,479.05**	**$22,894,679.23**
Less accumulated depreciation					
Land Improvements	$ 24,116.46	$ 12,058.22	$ -	$ -	$ 36,174.68
Improvements and infrastructure	41,773.90	26,874.25	-	-	68,648.15
Buildings	2,130,909.32	485,347.80	-	-	2,616,257.12
Total accumulated depreciation	**$ 2,196,799.68**	**$ 524,280.27**	**$ -**	**$ -**	**$ 2,721,079.95**
Capital assets, net	**$ 20,477,283.52**	**$ 106,794.81**	**$ -**	**$ 410,479.05**	**$20,173,599.28**

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
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
Total	**$22,218,682.78**	**$530,400.42**	**$ -**	**$ 75,000.00**	**$22,674,083.20**
Less accumulated depreciation:					
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	**$ 1,678,460.92**	**$518,338.76**	**$**	**$ -**	**$ 2,196,799.68**
Capital assets, net	**$20,540,221.86**	**$ 12,061.66**	**$ -**	**$ 75,000.00**	**$20,477,283.52**

Component Unit
Supplementary Information
Unaudited Statement of Cash Flows - Component Unit
for the year ended June 30, 2007, with comparative figures for the year ended June 30, 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 6,136,071.77	$ 5,044,335.90
Grants and contracts	42,391.40	37,921.58
Payments to suppliers and vendors	(1,656,334.31)	(2,010,991.59)
Payments for scholarships and fellowships	(1,357,117.21)	(1,309,568.87)
Payments to Middle Tennessee State University	(2,103,243.33)	(1,546,282.43)
Net cash provided (used) by operating activities	$ 1,061,768.32	$ 215,414.59
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	$ 511,448.39	$ 788,916.18
Net cash provided (used) by non-capital financing activities	$ 511,448.39	$ 788,916.18
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts received	$ 201,747.15	$ (24,488.64)
Proceeds from sale of capital assets	-	62,500.00
Purchase of capital assets and construction	(327,355.11)	(1,194,237.27)
Net cash provided (used) by capital and related financing activities	$ (125,607.96)	$ 1,156,225.91)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	$ 5,552,467.86	$ 10,805,600.30
Income on investments	401,477.93	(43,904.54)
Purchase of investments	(5,048,797.88)	(10,916,789.63)
Other investing receipts (payments)	(601.52)	(300.76)
Net cash provided (used) by investing activities	$ 904,546.39	$ (155,394.63)
Net increase (decrease) in cash and cash equivalents	2,352,155.14	(307,289.77)
Cash and cash equivalents - beginning of year	8,302,236.57	8,609,526.34
Cash and cash equivalents - end of year (Note 16)	$ 10,654,391.71	$ 8,302,236.57
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income/(loss)	$ 129,266.60	$ (275,169.83)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense	524,280.27	518,338.76
Change in assets and liabilities:		
Receivables, net	22,371.87	(762,245.18)
Accounts payable	(24,629.45)	(328,903.44)
Other	410,479.03	1,063,394.28
Net cash provided (used) by operating activities	$ 1,061,768.32	$ 215,414.59
Noncash transactions		
Gifts-in-kind	$ 220,423.29	$ 353,094.69
Pledges	(2,379.28)	750,899.11
Unrealized gains/losses on investments	2,244,254.00	(59,380.43)