



# Financial Report

for the year ended June 30, 2009

MIDDLE TENNESSEE STATE UNIVERSITY

**Middle Tennessee State University**

**FINANCIAL REPORT**  
**For the Year Ended June 30, 2009**

**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 11, 2009

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, 2009. 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



**Senior Vice President**

119 Cope Administration Building  
Middle Tennessee State University  
1301 East Main Street  
Murfreesboro, Tennessee 37132  
Office: 615-898-2852 • Fax: 615-898-5906



September 11, 2009

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, 2009.

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, 2008. An audit is currently in progress for fiscal year ended June 30, 2009.

Sincerely,

A handwritten signature in black ink, appearing to read "John W. Cothorn". The signature is written in a cursive style with a large initial "J" and a long horizontal stroke at the end.

John W. Cothorn  
Senior Vice President

Enclosures





**MIDDLE TENNESSEE STATE UNIVERSITY**  
**FINANCIAL REPORT**  
for Year Ended June 30, 2009

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**MIDDLE TENNESSEE STATE UNIVERSITY**  
**Management's Discussion and Analysis**  
**for the Year Ended June 30, 2009**

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, 2009, with comparative information presented for the fiscal year ended June 30, 2008. 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 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)

	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
Current assets	\$ 73,592	\$ 60,918
Capital assets, net	293,028	264,617
Other assets	<u>47,733</u>	<u>44,707</u>
<b>Total Assets</b>	<b><u>\$ 414,353</u></b>	<b><u>\$ 370,242</u></b>
<b>Liabilities</b>		
Current liabilities	\$ 47,799	\$ 39,765
Noncurrent liabilities	<u>165,470</u>	<u>150,446</u>
<b>Total Liabilities</b>	<b><u>\$ 213,269</u></b>	<b><u>\$ 190,211</u></b>
<b>Net Assets</b>		
Invested in capital assets, net of debt	\$ 141,859	\$ 128,127
Restricted - expendable	13,560	10,728
Restricted - nonexpendable	704	792
Unrestricted	<u>44,961</u>	<u>40,384</u>
<b>Total Net Assets</b>	<b><u>\$ 201,084</u></b>	<b><u>\$ 180,031</u></b>

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

- ◆ Current assets increased as a result of uncertainty in the amount of state appropriations the University would receive for the year. Administration restricted spending by campus departments due to uncertainty of revenues and the nation's economic condition.
- ◆ The increase in net capital assets, along with the corresponding increase in invested in capital assets (net of debt), 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.
- ◆ Current liabilities increased between fiscal years as a result of setting up a Due to Primary Government liability at year end. Based upon guidance provided by the Tennessee Recovery Act Management (TRAM) office, the total allotment of 2008–09 State Fiscal Stabilization Funds (SFSF) was drawn down and receipted as of June 30, 2009. It was subsequently determined that institutions would not lose the availability of funds not drawn down at June 30, 2009, and SFSF of \$7,767,300 were returned on July 13, 2009, and are included on the Statement of Net Assets as Due to Primary Government.
- ◆ Noncurrent liabilities increased primarily due to an increase in the amount of other postemployment benefits to be recognized under GASB 45 and 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 increased as a result of the accumulation of debt service fee reserves for the new Student Union project. This fee was approved in June 2007 and added as a student fee starting with the 2007–08 fiscal year. The Student Union project is currently in the planning and design stage. These reserves will be used toward the overall construction project, along with proceeds from TSSBA issued debt, in future years.

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

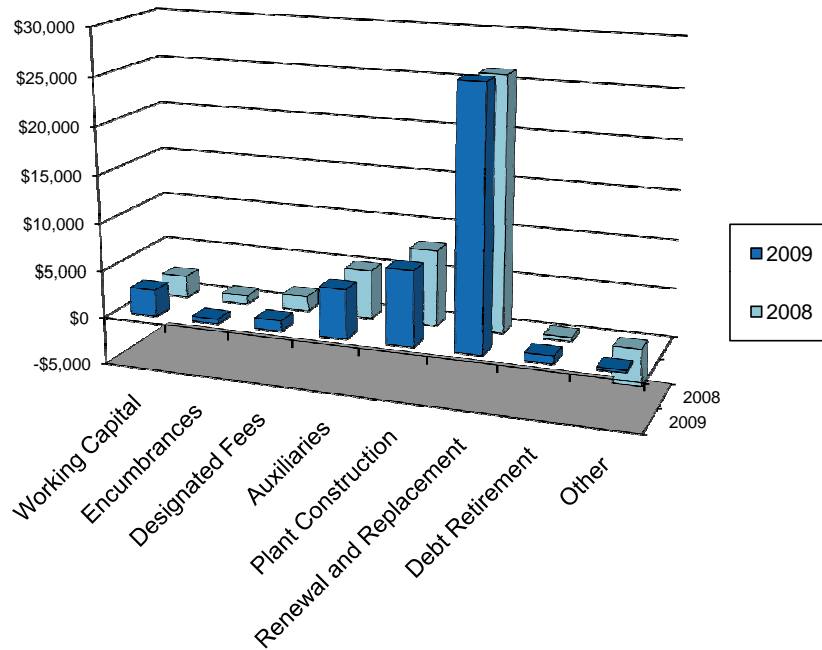
	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
Current assets	\$ 1,460	\$ 2,139
Capital assets, net	18,908	19,732
Other assets	38,315	44,002
<b>Total Assets</b>	<b>\$ 58,683</b>	<b>\$ 65,873</b>
<b>Liabilities</b>		
Current liabilities	\$ 185	\$ 682
Noncurrent liabilities	-	-
<b>Total Liabilities</b>	<b>\$ 185</b>	<b>\$ 682</b>
<b>Net Assets</b>		
Invested in capital assets, net of debt	\$ 18,908	\$ 19,732
Restricted - expendable	11,769	10,770
Restricted - nonexpendable	26,889	33,849
Unrestricted	932	840
<b>Total Net Assets</b>	<b>\$ 58,498</b>	<b>\$ 65,191</b>

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

- ◆ Other assets decreased primarily due to current economic conditions and the decline in fair market values of investments. As a result, restricted-nonexpendable net assets also decreased between fiscal years.

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)



Due to national economic conditions, along with state budget cuts resulting from decreased sales tax revenues, campus departments were restricted in their spending for the year. This resulted in an increase in the Other allocations category. The remaining allocations remained relatively unchanged.

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

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

	<u>2009</u>	<u>2008</u>
<b>Operating revenues</b>		
Net tuition and fees	\$ 95,450	\$ 89,216
Auxiliaries	27,735	27,601
Grants and contracts	31,690	30,921
Other	12,809	10,806
<b>Total operating revenues</b>	<u>\$ 167,684</u>	<u>\$ 158,544</u>
Operating expenses	\$ 308,327	\$ 311,534
<b>Operating loss</b>	<u>\$ (140,643)</u>	<u>\$ (152,990)</u>
<b>Nonoperating revenues and expenses</b>		
State appropriations	\$ 93,791	\$ 101,760
Gifts	548	1,257
Grants and contracts	57,263	50,380
Investment income	2,240	4,276
Other revenues and expenses	(5,104)	(5,515)
<b>Total nonoperating revenues and expenses</b>	<u>\$ 148,738</u>	<u>\$ 152,158</u>
<b>Income (loss) before other revenues, expenses, gains, or losses</b>	<u>\$ 8,095</u>	<u>\$ (832)</u>
<b>Other revenues, expenses, gains, or losses</b>		
Capital appropriations	\$ 10,904	\$ 12,920
Capital grants and gifts	811	4,042
Other	27	(611)
<b>Total revenues, expenses, gains, or losses</b>	<u>\$ 11,742</u>	<u>\$ 16,351</u>
<b>Increase (decrease) in net assets</b>	\$ 19,837	\$ 15,519
Net assets at beginning of year	180,031	164,512
<b>Prior period adjustment</b>	1,216	-
<b>Net assets at end of year</b>	<u>\$ 201,084</u>	<u>\$ 180,031</u>

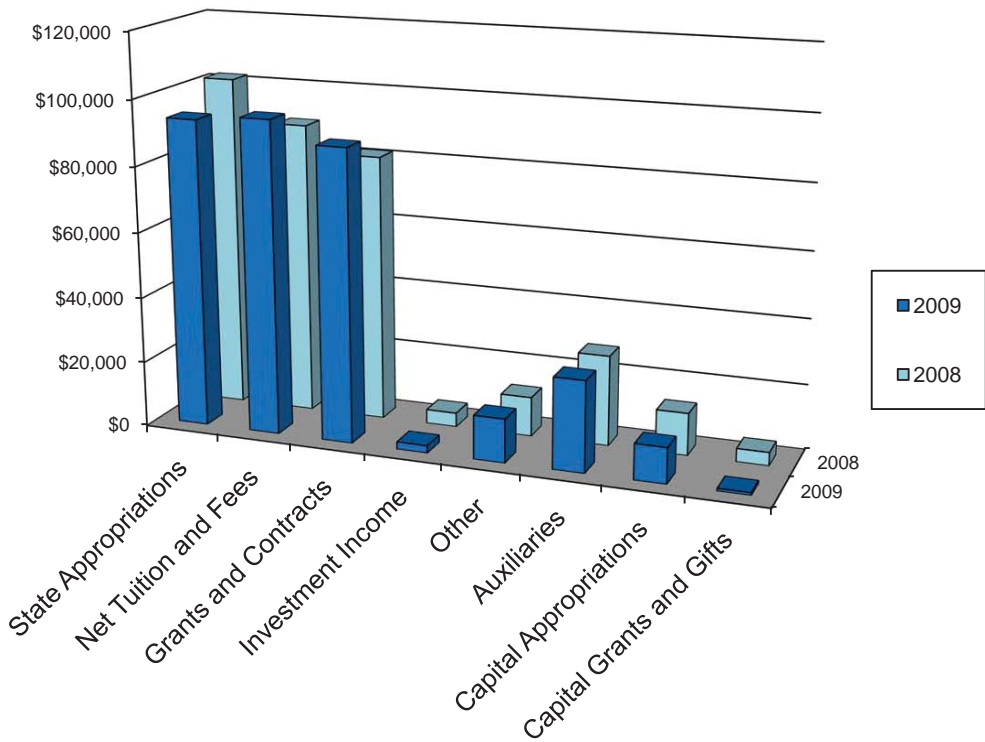
**Component Unit**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
<b>Operating revenues</b>		
Gifts	\$ 3,677	\$ 4,509
Grants and contracts	18	39
<b>Total operating revenues</b>	<u>\$ 3,695</u>	<u>\$ 4,548</u>
Operating expenses	\$ 5,625	\$ 8,140
<b>Operating loss</b>	<u>\$ (1,930)</u>	<u>\$ (3,592)</u>
<b>Nonoperating revenues and expenses</b>		
Investment income	\$ (5,169)	\$ 483
Other revenues and expenses	(11)	(2)
<b>Total nonoperating revenues and expenses</b>	<u>\$ (5,180)</u>	<u>\$ 481</u>
<b>Income (loss) before other revenues, expenses, gains, or losses</b>	\$ (7,110)	\$ (3,111)
<b>Other revenues, expenses, gains, or losses</b>		
Capital grants and gifts	\$ 15	\$ 29
Additions to permanent endowments	402	1,538
<b>Total revenues, expenses, gains, or losses</b>	<u>\$ 417</u>	<u>\$ 1,567</u>
<b>Increase (decrease) in net assets</b>	\$ (6,693)	\$ (1,544)
Net assets at beginning of year	<u>65,191</u>	<u>66,735</u>
<b>Net assets at end of year</b>	<u>\$ 58,498</u>	<u>\$ 65,191</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, 2009, and June 30, 2008 (amounts are presented in thousands of dollars).

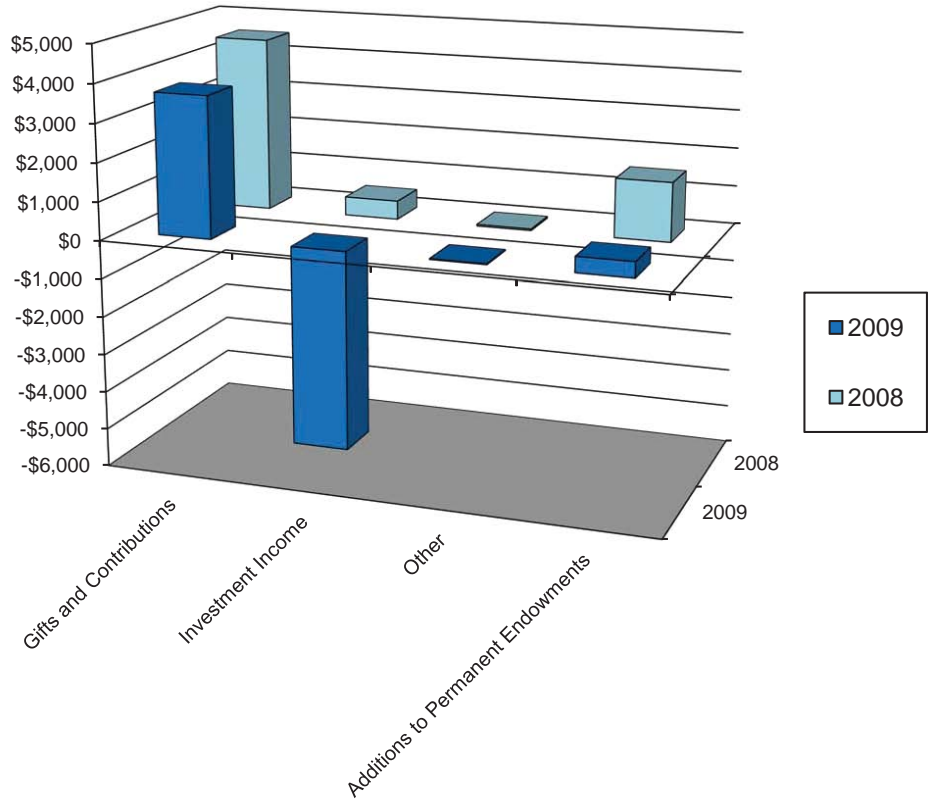
### Revenues by Source (University)



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

- ◆ Tuition and fees increased due to a 6% fee increase and a 3% increase in enrollment.
- ◆ State appropriations decreased as a result of budget cuts by the State of Tennessee implemented due to decreased sales tax revenues.
- ◆ Nonoperating grants and contracts increased as a result of an increase in the University's federal PELL award as well as an increase in the amount of scholarships from the TELS program.
- ◆ Investment income decreased due to the current market conditions.
- ◆ Capital appropriations decreased as a result of the completion of several capital projects during the year. More detailed information about the University's capital assets is presented in the Capital Asset and Debt Administration section of this report.
- ◆ Capital grants and gifts decreased due to fewer capital transfers from the University foundation.

### Revenues by Source (Component Unit)



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

- ◆ Gifts, along with additions to permanent endowments, decreased during the fiscal year as a result of current economic conditions. Also, the upgrades to the baseball facility were completed during the year, resulting in fewer contributions.
- ◆ The decrease in investment income is primarily due to unrealized losses resulting from the decrease in the fair market value of invested assets.

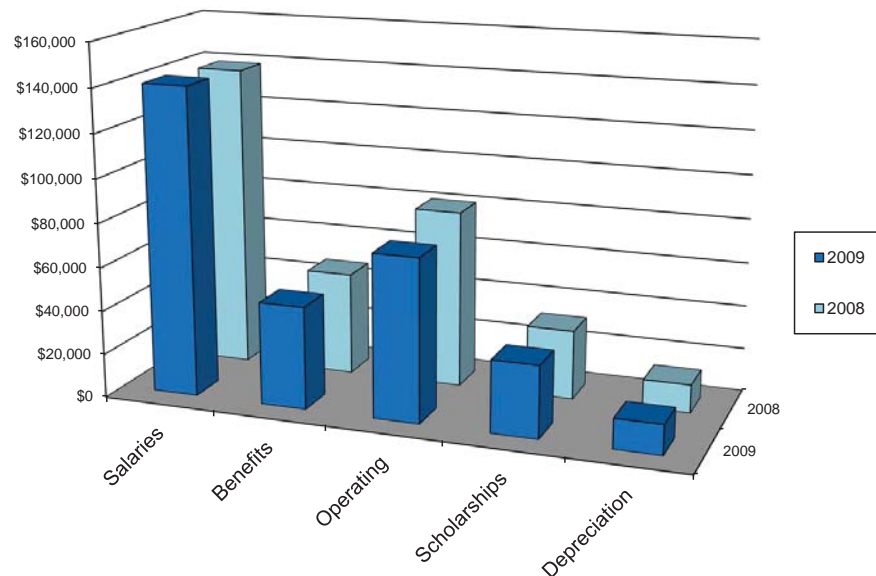
### Expenses

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>2009</u>	<u>2008</u>
Salaries	\$ 140,567	\$ 138,800
Benefits	46,914	47,163
Operating	74,259	80,973
Scholarships	32,899	31,673
Depreciation	13,688	12,925
<b>TOTAL</b>	<b><u>\$ 308,327</u></b>	<b><u>\$ 311,534</u></b>

**Expenses by Natural Classification (University)**



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

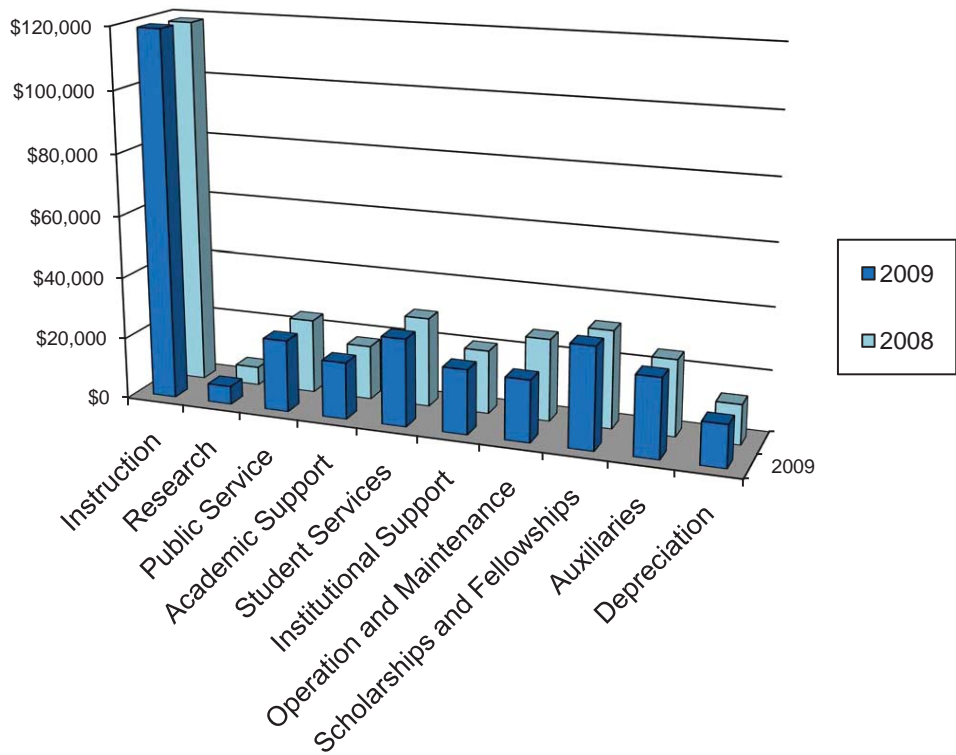
- ◆ Salaries increased primarily due to a state bonus of \$400 paid in October 2008 to all full-time employees, new faculty and staff positions, and faculty promotions.
- ◆ Operating expenses decreased as a result of uncertainty in the amount of state appropriations the University would receive for the year. Administration restricted spending by campus departments due to uncertainty of revenues and the nation's economic condition.
- ◆ Scholarship expenses increased due to increased funding from the Tennessee Education Lottery Scholarship program and federal scholarship award programs.



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

	<u>2009</u>	<u>2008</u>
Instruction	\$ 119,079	\$ 118,337
Research	5,907	5,949
Public Service	23,337	24,062
Academic Support	18,418	17,588
Student Services	28,384	29,016
Institutional Support	20,927	20,614
Operation and Maintenance	20,054	26,639
Scholarships and Fellowships	32,899	31,673
Auxiliaries	25,634	24,731
Depreciation	13,688	12,925
<b>TOTAL</b>	<b><u>\$ 308,327</u></b>	<b><u>\$ 311,534</u></b>

**Expenses by Program Classification (University)**



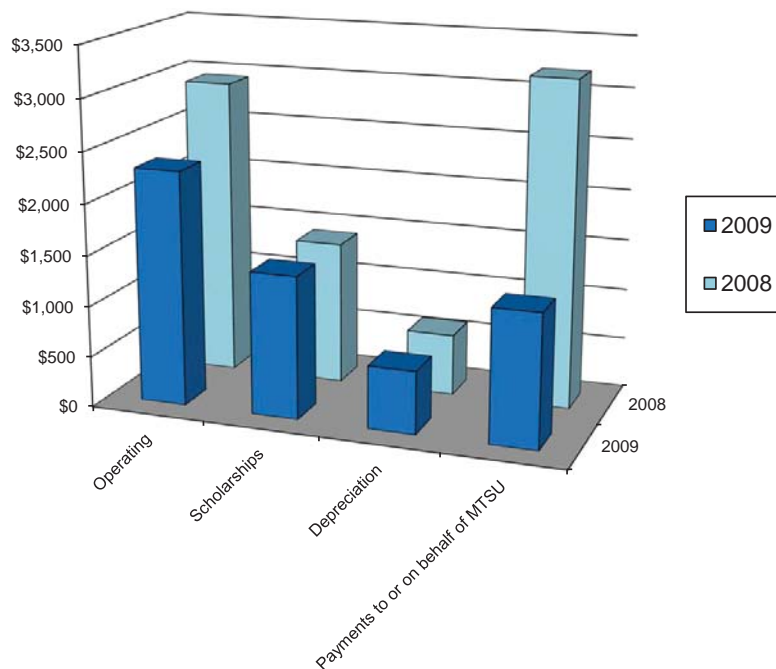
The University had the following significant changes in program expenses between fiscal years:

- ◆ Operation and maintenance of plant expenses decreased due to fewer noncapital expenses incurred on campus projects. Less funds were available during the year for maintenance on campus facilities and infrastructure.
- ◆ Scholarship expenses increased due to increased funding from the Tennessee Education Lottery Scholarship program and federal scholarship award programs.
- ◆ Expenditures in other areas remained relatively unchanged.

**Component Unit  
Natural Classification  
(in thousands)**

	<u>2009</u>	<u>2008</u>
Operating	\$2,303	\$2,936
Scholarships	1,404	1,408
Depreciation	616	603
Payments to or on behalf of MTSU	1,302	3,193
<b>TOTAL</b>	<b><u>\$5,625</u></b>	<b><u>\$8,140</u></b>

**Expenses by Natural Classification (Component Unit)**



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

- ◆ Operating expenses for the component unit fluctuate from year to year based on the amount of requests received from University departments to purchase items to support University functions.
- ◆ Payments to or on behalf of MTSU decreased for the year. In 2008, funds were transferred to the University for the Baseball Stadium Upgrade Project. Contributions were made to the foundation with a designation that the funds be used for the baseball stadium project.

## 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)

	2009	2008
<b>Cash provided (used) by</b>		
Operating activities	\$ (117,107)	\$ (136,480)
Noncapital financing activities	159,050	153,083
Capital and related financing activities	(19,577)	(17,950)
Investing activities	2,347	4,302
<b>Net increase (decrease) in cash</b>	<b>\$ 24,713</b>	<b>\$ 2,955</b>
<b>Cash, beginning of year</b>	<b>71,809</b>	<b>68,854</b>
<b>Cash, end of year</b>	<b>\$ 96,522</b>	<b>\$ 71,809</b>

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

- ◆ Cash used by operating activities reflects increases in tuition and fee revenues resulting from a fee increase and enrollment growth. Major uses of cash are payments to suppliers and vendors, payments to employees, and payments for scholarships and fellowships.
- ◆ Noncapital financing sources increased primarily as a result of increased funding from the TELS program for student scholarship and an increased PELL grant award.

- ◆ Cash used by capital and related financing activities increased due to more capital construction projects during the year.
- ◆ Cash provided by capital and related financing activities decreased as the result of a significant decrease in interest rates on bank and short term investment accounts.
- ◆ The University's cash position increased by \$24.7 million for 2008–09 and \$3.0 million for 2007–08.

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

	<u>2009</u>	<u>2008</u>
<b>Cash provided (used) by</b>		
Operating activities	\$ (675)	\$ (2,529)
Noncapital financing activities	404	1,539
Capital and related financing activities	(35)	(165)
Investing activities	<u>934</u>	<u>(979)</u>
<b>Net increase (decrease) in cash</b>	<b>\$ 628</b>	<b>\$ (2,134)</b>
<b>Cash, beginning of year</b>	<u><b>8,520</b></u>	<u><b>10,654</b></u>
<b>Cash, end of year</b>	<u><b>\$ 9,148</b></u>	<u><b>\$ 8,520</b></u>

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

- ◆ The decrease in cash used by operating activities was primarily due to decreased payments to and on behalf of MTSU for the prior year baseball stadium building project as well as decreased cash contributions received from contributors for the year.
- ◆ The decrease in cash provided by noncapital financing activities resulted from decreased pledge and stock gifts for the year.
- ◆ The decrease in cash used by capital and related financing activities was due to proceeds received from the sale to MTSU of two residential properties.
- ◆ The increase in cash provided by investing activities was a due to decreased investment purchases during the year, resulting from current economic conditions.
- ◆ The component unit's cash position increased by \$.6 million for 2008–09 and decreased by \$2.1 million for 2007–08.

## Capital Asset and Debt Administration

### Capital Assets—University

Middle Tennessee State University had \$293.0 million invested in capital assets, net of accumulated depreciation of \$165.3 million, at June 30, 2009; and \$264.6 million invested in capital assets, net of accumulated depreciation of \$155.3 million, at June 30, 2008. Depreciation charges totaled \$13.7 million and \$12.9 million for the years ended June 30, 2009, and June 30, 2008, respectively. Details of these assets are shown below.

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

	<u>2009</u>	<u>2008</u>
Land	\$ 11,368	\$ 10,521
Land improvements and infrastructure	20,817	15,237
Buildings	160,754	138,269
Equipment	16,261	15,606
Library holdings	9,302	9,940
Software	2,820	3,012
Projects in progress	71,706	72,032
<b>Total</b>	<b><u>\$ 293,028</u></b>	<b><u>\$ 264,617</u></b>

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

- ◆ The University purchased eighteen properties during the fiscal year, reflected above in both Land and Buildings, financed with both State of Tennessee General Obligation Bonds/Bond Anticipation Notes and local campus funds. The University has a line of credit of \$3.7 million, of which \$2.0 million has been expended to date, for expansion purchases as disclosed in the University's Master Plan.
- ◆ Land improvements and infrastructure increased during the year as a result of completing the baseball stadium improvements and the chilled water line project.
- ◆ Buildings increased during the year as a result of completion of the following major projects: health, wellness, and recreation facility upgrade; renovations to the MT Building; additional phase of the observatory project; and renovations to Peck Hall.
- ◆ Although several projects were completed during the fiscal year and removed from Projects in Progress, several additions were made to this category for the following projects: University housing renovations; phase I of the parking and transportation project; and planning for the new science building, new student union building, and college of education building. Projects completed during the fiscal year were moved to a specific capital asset category as discussed above.

The University expects to make major capital expenditures during the upcoming fiscal year for the following projects: continued renovation to the University's housing facilities, including Cummings Hall, that will be funded from the issuance of TSSBA bonds; construction of a new student union facility funded through the issuance of TSSBA bonds; and construction for new academic facilities for the College of Education and Behavioral Science funded from capital appropriations. The request for construction funding for the new science building remains a top capital priority for the University. Planning and design funding of the science building was appropriated in 2007–08 and the construction documents are now complete. Commencement of construction will require future capital appropriations from the state.

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 \$18.9 million invested in capital assets, net of accumulated depreciation of \$3.9 million, at June 30, 2009; and \$19.7 million invested in capital assets, net of accumulated depreciation of \$3.3 million, at June 30, 2008. Depreciation charges totaled \$.6 million and \$.6 million for the years ended June 30, 2009, and June 30, 2008, respectively. Details of these assets are shown below.

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

	<u>2009</u>	<u>2008</u>
Land	\$ 2,237	\$ 2,277
Land improvements and infrastructure	624	635
Buildings	16,047	16,821
<b>Total</b>	<b><u>\$ 18,908</u></b>	<b><u>\$ 19,733</u></b>

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

- ◆ Two properties were transferred to the University during the fiscal year, resulting in a decrease in Land. Other categories decreased as a result of recording annual depreciation charges.

More detailed information about the component unit's capital assets is presented in Note 19 to the financial statements.

## Debt

The University had \$158.3 million and \$144.1 million in debt outstanding at June 30, 2009, and June 30, 2008, 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>2009</u>	<u>2008</u>
TSSBA bonds	\$ 138,715	\$ 85,064
TSSBA commercial paper	17,621	58,991
General Obligation commercial paper	1,983	-
<b>Total Debt</b>	<b><u>\$ 158,319</u></b>	<b><u>\$ 144,055</u></b>

TSSBA converted commercial paper to bonds during the fiscal year for the following major projects: renovations of various University housing facilities; phase 1 of a parking and transportation project; upgrade to the baseball stadium; a student health, wellness, and recreation facility upgrade; and an energy performance contract. Commercial paper was also issued by TSSBA during the year on these projects prior to bonding.

TSSBA issued additional commercial paper for the University on the following major projects during the fiscal year: renovations of various University housing facilities and planning for a new Student Union facility. General Obligation commercial paper was issued by the state for the purchase of property located within the University's master plan.

TSSBA currently has the following long-term debt ratings: Fitch rating of AA, Moody's Investor's rating of Aa2, 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

A negative economic outlook for the State of Tennessee continues due to large decreases in state tax collections. As a result, the University's appropriation for 2009–10 will decrease by \$19.3 million.

The State of Tennessee will participate in the American Recovery Act (ARRA) by receiving State Fiscal Stabilization Funds (SFSF) through September 2011. The University is expected to receive \$17.7 million under this federal program for 2009–10. The University will also receive \$6.8 million from the state in 2009–10 under the Maintenance of Effort (MOE) state-funded program. The University is continuing to work on budget reductions consistent with its "Positioning the University for the Future" plan.

The Tennessee Board of Regents approved a 6% tuition increase at its June 2009 meeting. New revenue generated from this increase will first be used to cover fixed cost increases such as utilities, scholarship increases, faculty promotion, and increased fringe benefits costs. A portion of the revenue may also be used for new initiatives that have been designed to position the University for the future.

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 and Executive Director of Finance Technology and Compliance, 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, 2009**

	<b>University</b>	<b>Component Unit</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Notes 2 and 19)	\$ 52,783,693.59	\$ 1,017,478.49
Accounts, notes, and grants receivable (net) (Note 4)	17,452,859.64	
Pledges receivable (net) (Note 19)		416,457.75
Inventories (at lower of cost or market)	2,369,450.58	
Prepaid expenses and deferred charges	983,694.83	
Accrued interest receivable	2,044.89	26,811.40
Total current assets	73,591,743.53	1,460,747.64
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 19)	43,738,552.73	8,130,303.91
Investments (Notes 3 and 19)	660,084.10	29,341,379.56
Accounts, notes, and grants receivable (net) (Note 4)	3,334,367.54	4,783.56
Pledges receivable (net) (Note 19)	-	838,424.67
Capital assets (net) (Notes 5 and 19)	293,027,731.17	18,907,981.13
Total noncurrent assets	340,760,735.54	57,222,872.83
Total assets	\$414,352,479.07	\$58,683,620.47
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 5,567,434.75	\$ 185,224.93
Accrued liabilities	16,336,665.51	
Due to primary government	7,767,300.00	
Student deposits	1,024,067.98	
Deferred revenue	7,243,173.05	
Compensated absences (Note 7)	1,701,563.37	
Accrued interest payable	1,155,805.40	
Long-term liabilities, current portion (Note 7)	6,167,665.81	
Deposits held in custody for others	834,938.94	
Other liabilities	45.00	
Total current liabilities	47,798,659.81	185,224.93
Noncurrent liabilities:		
Net OPEB obligation (Note 7)	5,859,034.64	
Compensated absences (Note 7)	4,659,409.30	
Long-term liabilities (Note 7)	152,151,061.07	
Due to grantors (Note 7)	2,800,049.42	
Total noncurrent liabilities	165,469,554.43	
Total liabilities	\$213,268,214.24	\$ 185,224.93
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$141,859,524.76	\$18,907,981.13
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	10,900.00	23,635,973.34
Research		927,628.35
Instructional department uses		2,326,076.84
Other	693,193.56	
Expendable:		
Scholarships and fellowships	263,043.64	2,496,952.17
Research	142,867.48	3,431.49
Instructional department uses	159,808.95	4,894,971.94
Loans	1,854,695.97	
Capital projects	26,490.44	873,231.19
Debt service	8,735,126.43	
Other	2,377,714.42	3,500,113.13
Unrestricted (Note 9)	44,960,899.18	932,035.96
Total net assets	\$201,084,264.83	\$58,498,395.54

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, 2009**

	<u>University</u>	<u>Component Unit</u>
<b>REVENUES</b>		
Operating revenues:		
Student tuition and fees ( net of scholarship allowances of \$37,719,637.99)	\$ 95,450,396.72	
Gifts and contributions		\$ 3,677,417.98
Governmental grants and contracts	30,574,882.43	
Non-governmental grants and contracts	1,116,086.11	17,814.58
Sales and services of educational departments	11,623,713.81	
Auxiliary enterprises:		
Residential life (net of scholarship allowances of \$3,290,766.77: all residential life revenues are used as security for revenue bonds, see Note 7)	8,328,615.44	
Bookstore (net of scholarship allowances of \$2,616,647.43: all bookstore revenues are used as security for revenue bonds, see Note 7)	6,620,335.95	
Food service	971,234.41	
Wellness facility (net of scholarship allowances of \$722,904.29: all wellness facility revenues are used as security for revenue bonds, see Note 7)	1,834,001.28	
Other auxiliaries	9,981,280.78	
Interest earned on loans to students	89,058.20	
Other operating revenues	1,096,662.44	
Total operating revenues	<u>\$ 167,686,267.57</u>	<u>\$ 3,695,232.56</u>
<b>EXPENSE</b>		
Operating Expenses		
Salaries and wages	\$ 140,567,404.23	
Benefits	46,913,506.49	
Utilities, supplies, and other services	74,258,937.50	\$ 2,302,604.23
Scholarships and fellowships	32,899,262.12	1,404,636.72
Depreciation expense	13,687,816.30	615,868.96
Payments to or on behalf of MTSU		1,301,855.96
Total operating expenses	<u>\$ 308,326,926.64</u>	<u>\$ 5,624,965.87</u>
Operating income (loss)	<u>\$(140,640,659.07)</u>	<u>\$ (1,929,733.31)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	\$ 93,790,584.00	
Gifts, including \$531,248.11 from component unit	547,738.11	
Grants and contracts	57,263,250.91	
Investment income (net of investment expense of \$8,626.36 for the university and \$136,403.81 for the component unit)	2,240,264.68	\$ (5,169,063.95)
Interest on capital asset-related debt	(6,002,180.18)	
Bond issuance costs	1,071,557.50	
Other non-operating revenues/(expenses)	(173,281.16)	(11,569.28)
Net nonoperating revenues	<u>\$ 148,737,933.86</u>	<u>\$ (5,180,633.23)</u>
Income before other revenues, expenses, gains, or losses	<u>\$ 8,097,274.79</u>	<u>\$ (7,110,366.54)</u>
Capital appropriations	\$ 10,903,609.86	
Capital grants and gifts, including \$770,607.85 from component unit	810,607.85	\$ 15,229.68
Additions to permanent endowments		402,095.42
Other capital	26,700.00	
Total other revenues	<u>\$ 11,740,917.71</u>	<u>\$ 417,325.10</u>
Increase (decrease) in net assets	<u>\$ 19,838,192.50</u>	<u>\$ (6,693,041.44)</u>
<b>NET ASSETS</b>		
Net Assets -beginning of year	\$ 180,030,522.33	\$65,191,436.98
Prior period adjustment (Note 17)	1,215,550.00	
Net Assets - end of year	<u>\$ 201,084,264.83</u>	<u>\$58,498,395.54</u>

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

**Middle Tennessee State University  
Unaudited Statement of Cash Flows  
for the year ended June 30, 2009**

	<b>University</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and fees	\$ 95,461,928.98
Grants and contracts	39,482,189.94
Sales and services of educational activities	12,088,802.93
Payments to suppliers and vendors	(75,912,017.26)
Payments to employees	(140,241,615.42)
Payments for benefits	(43,986,447.77)
Payments for scholarships and fellowships	(32,899,262.12)
Loans issued to students and employees	(148,064.01)
Collection of loans from students and employees	263,475.56
Interest earned on loans to students	85,118.45
Auxiliary enterprise charges:	
Residence halls	8,118,198.77
Bookstore	7,181,249.37
Food services	883,613.65
Wellness facility	1,835,755.28
Other auxiliaries	9,911,488.83
Other receipts (payments)	768,924.72
Net cash used by operating activities	\$(117,106,660.10)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
State appropriations	\$ 93,680,200.00
Gifts and grants received for other than capital or endowment purposes, including \$531,248.11 from component unit	65,628,232.77
Federal student loan receipts	99,010,988.11
Federal student loan disbursements	(99,255,977.72)
Changes in deposits held for others	(13,475.62)
Net cash provided by non-capital financing activities	\$ 159,049,967.54
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from capital debt	\$ 18,478,510.39
Capital - state appropriation	10,903,609.86
Capital grants and gifts received, including \$520,005.09 from component unit	560,005.09
Proceeds from sale of capital assets	26,700.00
Purchase of capital assets and construction	(40,707,169.84)
Principal paid on capital debt and lease	(4,215,062.08)
Interest paid on capital debt and lease	(5,597,382.19)
Bond issue costs paid on new debt issue	1,071,557.50
Other capital and related financing receipts (payments)	(98,071.68)
Net cash used by capital and related financing activities	\$ (19,577,302.95)

**Middle Tennessee State University  
Unaudited Statement of Cash Flows  
for the year ended June 30, 2009**

	<b>University</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Income on investments	\$ 2,347,066.32
Net cash provided by investing activities	\$ 2,347,066.32
Net increase in cash and cash equivalents	\$ 24,713,070.81
Cash and cash equivalents - beginning of year	71,809,175.51
Cash and cash equivalents - end of year (Note 2)	\$ 96,522,246.32
 <b>RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Operating loss	\$(140,640,659.07)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	13,687,816.30
Other adjustments	138,184.00
Change in assets and liabilities:	
Receivables, net	9,205,892.20
Inventories	164,293.87
Prepaid/deferred items	(242,461.43)
Other assets	(3,939.75)
Accounts payable	(3,266,898.25)
Accrued liabilities	2,965,018.19
Deferred revenues	1,235,772.69
Deposits	(72,485.34)
Compensated absences	138,235.27
Due to grantors	(37,318.63)
Loans to students and employees	(42,254.04)
Other	(335,856.11)
Net cash used by operating activities	\$(117,106,660.10)
 <b>Non-cash transactions</b>	
Gifts in-kind - capital	250,602.76
Unrealized gains/(losses) on investments	(90,993.60)
Loss on disposal of capital assets	(509,566.92)
Trade-in allowance	(461,057.44)
On-behalf payments	138,184.00
On-behalf expense	(138,184.00)

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

**MIDDLE TENNESSEE STATE UNIVERSITY**  
**Notes to the Financial Statements**  
**June 30, 2009**

**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 financial statements present only that portion of the Tennessee Board of Regents' activities that is attributable to the transactions of Middle Tennessee State University.

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 17 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 students 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

This classification includes demand deposits and petty cash on hand. At June 30, 2009, cash and cash equivalents consisted of \$8,826,919.24 in bank accounts; \$118,191.31 of petty cash on hand; \$84,899,132.98 in the State of Tennessee Local Government Investment Pool administered by the state treasurer; \$2,644,893.33 in the LGIP Deposits – Capital Projects account; and \$33,109.46 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, 2009, Middle Tennessee State University had the following investments and maturities.

Investment Type	Fair Value	Investment Maturities (in Years)				No Maturity Date
		Less than 1	1 to 5	6 to 10	More than 10	
Mutual bond funds	\$ 462,414.18	\$ -	\$ -	\$ -	\$ -	\$ 462,414.18
Mutual equity funds	197,669.92	-	-	-	-	197,669.92
<b>Total</b>	<b>\$ 660,084.10</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 660,084.10</b>

**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 that are backed by the full faith and credit of the United States, repurchase agreements for United States securities, certificates of deposit in banks and savings and loan associations, banker's acceptances, commercial paper, money market mutual funds, and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources

external to the University and that endowment investments be prudently diversified. Securities are rated using Standard and Poor's, Moody's, and/or Fitch's and are presented below using the Standard and Poor's rating scale. TBR policy restricts investments in banker's acceptances and commercial paper. The policy requires that prime banker's acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term debt rating by a majority of the rating services that have rated the issuer. The policy further requires that commercial paper must be issued by corporations with a minimum rating of A1 or equivalent as provided by a majority of the rating services that rate the issuer. If there is no long-term debt rating, the short-term debt must be rated A1 by all rating services (minimum of two). Commercial paper of a banking institution must not be purchased.

As of June 30, 2009, the University's investments were rated as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Unrated</u>
LGIP	\$87,544,026.31	\$87,544,026.31
Mutual bond funds	462,414.18	462,414.18
<b>Total</b>	<b>\$88,006,440.49</b>	<b>\$88,006,440.49</b>

**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, 2009, Middle Tennessee State University had \$660,084.10 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:

	<u>Carrying Value</u>
Mutual bond funds	\$462,414.18
Mutual equity funds	197,669.92
<b>Total</b>	<b>\$660,084.10</b>

Each endowment is invested separately.

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

Accounts receivable included the following:

	<u>June 30, 2009</u>
Student accounts receivable	\$ 5,516,272.12
Grants receivable	10,587,052.96
Notes receivable	362,924.30
State appropriation receivable	385,900.00
Other receivables	3,026,740.14
Subtotal	\$19,878,889.52
Less allowance for doubtful accounts	(2,426,029.88)
<b>Total</b>	<b>\$17,452,859.64</b>

Federal Perkins Loan Program funds include the following:

	<u>June 30, 2009</u>
Perkins Loans receivable	\$ 3,964,966.52
Less allowance for doubtful accounts	(630,598.98)
<b>Total</b>	<b>\$ 3,334,367.54</b>

## 5. Capital Assets

Capital asset activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	\$ 10,520,772.86	\$ 846,774.34	\$ -	\$ -	\$ 11,367,547.20
Improvements and infrastructure	34,011,468.06	124,289.00	7,226,535.66	-	41,362,292.72
Buildings	237,262,577.91	1,942,300.00	26,528,868.97	-	265,733,746.88
Equipment	42,732,179.14	4,572,391.20	-	2,420,858.01	44,883,712.33
Library holdings	19,413,419.95	1,447,782.77	-	1,838,518.69	19,022,684.03
Software	3,997,409.37	-	271,890.90	-	4,269,300.27
Projects in progress	72,032,434.65	33,700,842.73	(34,027,295.53)	-	71,705,981.85
<b>Total</b>	<b>\$ 419,970,261.94</b>	<b>\$ 42,634,380.04</b>	<b>\$ -</b>	<b>\$ 4,259,376.70</b>	<b>\$ 458,345,265.28</b>
<b>Less accumulated depreciation</b>					
Improvements and infrastructure	\$ 18,774,293.88	\$ 1,771,068.66	\$ -	\$ -	\$ 20,545,362.54
Buildings	98,993,924.29	5,986,233.54	-	-	104,980,157.83
Equipment	27,126,136.50	3,380,674.34	-	1,884,591.09	28,622,219.75
Library holdings	9,473,154.42	2,086,120.28	-	1,838,518.69	9,720,756.01
Software	985,318.50	463,719.48	-	-	1,449,037.98
<b>Total accumulated depreciation</b>	<b>\$ 155,352,827.59</b>	<b>\$ 13,687,816.30</b>	<b>\$ -</b>	<b>\$ 3,723,109.78</b>	<b>\$ 165,317,534.11</b>
<b>Capital assets, net</b>	<b>\$ 264,617,434.35</b>	<b>\$ 28,946,563.74</b>	<b>\$ -</b>	<b>\$ 536,266.92</b>	<b>\$ 293,027,731.17</b>

## 6. Accounts Payable

Accounts payable included the following:

	June 30, 2009
Vendors payable	\$ 5,222,838.00
Unapplied student payments	307,955.91
Other payables	36,640.84
<b>Total</b>	<b>\$ 5,567,434.75</b>

## 7. Long-term Liabilities

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
<b>Payables</b>					
TSSBA Debt:					
Bonds	\$ 85,064,123.24	\$57,990,530.93	\$ 4,339,840.96	\$138,714,813.21	\$6,167,665.81
Commercial paper	58,991,155.33	12,467,999.88	53,838,522.72	17,620,632.49	-
General Obligation Debt:					
Commercial paper	-	1,983,281.18	-	1,983,281.18	-
<b>Subtotal</b>	<b>\$144,055,278.57</b>	<b>\$72,441,811.99</b>	<b>\$58,178,363.68</b>	<b>\$158,318,726.88</b>	<b>\$6,167,665.81</b>
<b>Other liabilities</b>					
Compensated absences	\$ 6,222,737.40	\$ 3,445,641.15	\$ 3,307,405.88	\$ 6,360,972.67	\$1,701,563.37
Due to grantors	2,837,368.05	970,117.52	1,007,436.15	2,800,049.42	-
Net OPEB obligation	3,040,105.45	2,818,929.19	-	5,859,034.64	-
Subtotal	\$ 12,100,210.90	\$ 7,234,687.86	\$ 4,314,842.03	\$ 15,020,056.73	\$1,701,563.37
<b>Total long-term liabilities</b>	<b>\$156,155,489.47</b>	<b>\$79,676,499.85</b>	<b>\$62,493,205.71</b>	<b>\$173,338,783.61</b>	<b>\$7,869,229.18</b>

## TSSBA Debt - Bonds Payable

Bond issues with interest rates ranging from 2.0% to 7.15% were issued by the Tennessee State School Bond Authority. The bonds are due serially until 2037 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 \$5,646,021.19 at June 30, 2009. Unexpended debt proceeds were \$1,141,088.35 at June 30, 2009.

Debt service requirements to maturity for the University's portion of TSSBA bonds at June 30, 2009, are as follows:

For the Year(s)			
Ending June 30, 2009	Principal	Interest	Total
2010	\$ 6,167,665.81	\$ 6,792,799.73	\$ 12,960,465.54
2011	6,629,875.52	6,549,804.05	13,179,679.57
2012	6,925,132.34	6,268,652.77	13,193,785.11
2013	7,036,758.72	6,008,690.58	13,045,449.30
2014	7,124,013.67	5,686,025.22	12,810,038.89
2015-2019	38,099,956.19	23,467,143.16	61,567,099.35
2020-2024	36,010,507.50	14,045,654.23	50,056,161.73
2025-2029	23,300,100.15	5,452,795.55	28,752,895.70
2030-2034	4,605,979.61	1,738,646.89	6,344,626.50
2035-2038	2,814,823.70	51,393.44	3,366,217.14
<b>Total</b>	<b>\$138,714,813.21</b>	<b>\$ 76,561,605.62</b>	<b>\$215,276,418.83</b>

## 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 a project is 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 \$17,620,632.49 at June 30, 2009.

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 is available on the state's Web site at <http://tn.gov/comptroller/bf/tssbacafr.htm>.

**General Obligation Debt - Commercial Paper** - The Tennessee State Funding Board issues commercial paper for the purpose of, among other things, acquisition of certain sites and existing structures for expansion purposes for the TBR on behalf of the University. The amount outstanding for projects at Middle Tennessee State University was \$1,983,281.18 at June 30, 2009. More detailed information regarding the commercial paper can be found in the notes to the financial statements in the financial report for the Tennessee State Funding Board. The report may be obtained by writing to the Assistant Secretary of State Funding Board, Suite 1600, James K. Polk State Office Building, Nashville, Tennessee 37243.

## 8. 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, 2009, net appreciation of \$2,501.61 was available to be spent, of which \$2,501.61 was included in unrestricted net assets.

## 9. Unrestricted Net Assets

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

	<b>FY 2009</b>
Working capital	\$ 2,799,484.94
Encumbrances	481,190.47
Designated fees	1,110,059.83
Auxiliaries	5,102,181.45
Quasi-endowment	155,100.00
Plant construction	7,799,899.88
Renewal and replacement of equipment	26,611,181.88
Debt retirement	809,981.90
Unreserved/undesignated balance	91,818.83
<b>Total</b>	<b><u>\$44,960,899.18</u></b>

## 10. Pledged Revenues

The University has pledged certain revenues and fees, including state appropriations, to repay \$138,714,813.21 in revenue bonds issued from June 1976 to April 2009. Proceeds from the bonds provided financing for the following projects: construction of a cogeneration plant, the Wood/Stegall development facility, a printing services building, and Greek Row housing; demolition at 1403 East Main Street; a chiller conversion project; dormitory and family housing upgrades; student health, wellness, and recreation facility upgrades; purchase of the Woodfin property; purchase of Steinway pianos; purchase of a new fleet of airplanes for the Aerospace Department; energy savings and performance contracts; parking and transportation projects; football stadium enhancements; baseball stadium improvements; and purchase of hardware to house a new ERP administrative system. The bonds are payable through 2038. Annual principal and interest payments on the bonds are expected to require less than 4% of available revenues. The total principal and interest remaining to be paid on the bonds is \$215,276,418.83. Principal and interest paid for the current year and total available revenues were \$10,147,438.93 and \$275,483,999.42, respectively.

## 11. 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 SETHEPP. That report is available on the state's Web site at [www.state.tn.us/treasury/tcrs/index.html](http://www.state.tn.us/treasury/tcrs/index.html).

**FUNDING POLICY.** Plan members are noncontributory. Middle Tennessee State University is required to contribute at an actuarially determined rate. The current rate is 13.02% 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, 2009, 2008, and 2007 were \$6,254,322.27, \$6,649,192.21, and \$6,305,780.58, 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, 2009, was \$7,790,975.75 and for the year ended June 30, 2008, was \$7,788,207.33. Contributions met the requirements for each year.

## **12. Other Postemployment Benefits**

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that provides postemployment health insurance benefits to eligible Middle Tennessee State University retirees. This program includes two plans available to higher education employees—the State Plan and the Medicare Supplement Plan. Both plans are agent multiple-employer-defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Tennessee Code Annotated (TCA) 8-27-201. Prior to reaching age 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the University's eligible retirees (see Note 18). The plans are reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's Web site at <http://tennessee.gov/finance/act/cafr.html>.

**FUNDING POLICY.** The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. In accordance with TCA 8-27-205(b), retirees not eligible for Medicare pay a percentage of the total state premium

under the State Employee Group Plan based on years of service, leaving a portion of retiree premiums effectively subsidized by contributions to the State Employee Group Plan for active employees. Retirees with 30 years of service pay 20% of the total premium under the State Employee Group Plan. Retirees with 20 years but less than 30 years of service pay 30% of the total premium under the State Employee Group Plan. Retirees 55 and older with less than 20 years but more than 10 years of service pay 40% of the total premium under the State Employee Group Plan.

Contributions for the state plan for the year ended June 30, 2009, were \$21,178,115.20, which consisted of \$17,547,704.16 from the University and \$3,630,411.04 from the employees.

### Annual OPEB Cost and Net OPEB Obligation

	<u>State Plan</u>
Annual Required Contribution (ARC)	\$4,921,000.00
Interest on the Net Postemployment Obligation (NPO)	136,804.73
Adjustment to the ARC	<u>(133,151.06)</u>
Annual OPEB Cost	4,924,653.67
Amount of Contribution	<u>2,105,724.48</u>
Increase/Decrease in NPO	2,818,929.19
Net OPEB Obligation - Beginning of Year	<u>3,040,105.45</u>
Net OPEB Obligation - End of Year	<u><u>\$5,859,034.64</u></u>

<u>Year-End</u>	<u>Plan</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation at Year-End</u>
6/30/2009	State Plan	\$ 4,924,653.67	42.8%	\$ 5,859,034.64

FUNDED STATUS AND FUNDING PROGRESS. The funded status of the plan as of June 30, 2009, was as follows:

	<u>State Plan</u>
Actuarial Valuation Date	July 1, 2007
Actuarial Accrued Liability (AAL)	\$ 42,876,000.00
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 42,876,000.00
Actuarial Value of Assets as a % of the AAL	0.0%
Covered Payroll (Active Plan Members)	\$117,734,804.41
UAAL as Percentage of Covered Payroll	36.4%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

ACTUARIAL METHODS AND ASSUMPTIONS. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2007, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 11 percent initially, reduced by decrements to an ultimate rate of 6 percent after ten years. Both rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

### 13. Chairs of Excellence

Middle Tennessee State University had \$19,182,970.10 on deposit at June 30, 2009, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in these financial statements.

### 14. Insurance-Related Activities

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, 2009, and June 30, 2008, are presented in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's Web site at <http://tennessee.gov/finance/act/cafr.html>. 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, 2009, was not available. At June 30, 2008, the Risk Management Fund held \$123.9 million in cash and cash equivalents designated for payment of claims.

At June 30, 2009, the scheduled coverage for Middle Tennessee State University was \$844,137,825 for buildings and \$298,523,696 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

## 15. 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 \$51,862,184.69 at June 30, 2009.

**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 \$338,786.29 and \$44,244.72 respectively for the year ended June 30, 2009. All operating leases are cancelable at the lessee's option.

**CONSTRUCTION IN PROGRESS.** At June 30, 2009, outstanding commitments under construction contracts totaled \$3,877,834.83 for major projects including ADA improvements; parking improvements; student health, wellness, and recreation facility improvements; underground electrical update; safety code corrections for several buildings; systems replacement; sewer system updates; Murphy Center renovations and fire alarm replacement; dorm fixtures; the baseball stadium upgrade; science facilities improvements; academic space renovations; master plan update; dairy farm improvements; Jones Hall HVAC; Concrete Industry Management; the new Student Union and KUC; and the College of Education and Behavioral Science Building, of which \$3,140,209.80 will be funded by future state capital outlay appropriations.

**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

## 16. Natural Classifications with Functional Classifications

Middle Tennessee State University's operating expenses by functional classification for the year ended June 30, 2009, are as follows:

Functional Classification	Natural Classification					
	Salaries	Benefits	Operating	Scholarships	Depreciation	Total
Instruction	\$81,007,400.04	\$24,459,328.91	\$13,612,462.32	\$ -	\$ -	\$119,079,191.27
Research	3,269,927.16	935,760.80	1,701,577.91	-	-	5,907,265.87
Public Service	7,374,878.19	2,598,832.07	13,363,075.59	-	-	23,336,785.85
Academic Support	13,364,863.31	4,947,791.81	105,386.22	-	-	18,418,041.34
Student Services	12,613,834.82	4,601,510.66	11,168,873.11	-	-	28,384,218.59
Institutional Support	11,436,615.78	4,639,825.79	4,850,373.28	-	-	20,926,814.85
M & O	5,015,665.65	2,306,041.36	12,732,473.07	-	-	20,054,180.08
Scholarships and Fellowships	-	-	-	32,899,262.12	-	32,899,262.12
Auxiliaries	6,484,219.28	2,424,415.09	16,724,716.00	-	-	25,633,350.37
Depreciation	-	-	-	-	13,687,816.30	13,687,816.30
<b>Total Expenses</b>	<b>\$140,567,404.23</b>	<b>\$46,913,506.49</b>	<b>\$74,258,937.50</b>	<b>\$32,899,262.12</b>	<b>\$13,687,816.30</b>	<b>\$308,326,926.64</b>

## 17. Prior Period Adjustment

A prior period adjustment was made to capitalize expenses from a prior year on the science facilities project. An amount of \$1,215,550.00 was never recorded on the University's records as a capital asset and as capital appro-

priations revenue. This amount has been reflected in the accompanying statements as an increase to capital assets on the Unaudited Statement of Net Assets and a prior period adjustment on the Unaudited Statement of Revenues, Expenses, and Changes in Net Assets.

## 18. On-Behalf Payments

During the year ended June 30, 2009, the State of Tennessee made payments of \$138,184.00 on behalf of Middle Tennessee State University for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 12. The plan is reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's Web site at <http://tennessee.gov/finance/act/cafr.html>.

## 19. Component Unit

Middle Tennessee State University Foundation (the Foundation) is a legally separate, tax-exempt 501(c)(3) not-for-profit 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 34-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, 2009, the Foundation made distributions of \$3,399,476.45 to or on behalf of Middle Tennessee State University for both restricted and unrestricted purposes, of which \$2,097,890.49 is shown as utilities, supplies, and other services. Complete financial statements for the Foundation can be obtained from Jay Chalmers, Foundation Accountant, MTSU Box 109, 1301 East Main St., Murfreesboro, TN 37132.

The Foundation is a nonprofit organization that reports under FASB standards, including FASB Statement No. 117, Financial Reporting for Not-for-Profit Organizations. As such, certain revenue recognition criteria and presentation features are different from those of the GASB. 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.

FAIR MARKET MEASUREMENTS. The Foundation reports certain assets and liabilities at fair value. Fair value has been determined using quoted prices in active markets for identical assets and liabilities that are accessible at the measurement date (Level 1), inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset or liability (Level 2), or significant unobservable inputs (Level 3). The following table categorizes the recurring fair value measurements for assets and liabilities at June 30, 2009:

	<b>Total Fair Value at June 30, 2009</b>	<b>Quoted Prices: Level 1</b>	<b>Significant Other Inputs: Level 2</b>	<b>Significant Unobservable Inputs: Level 3</b>
<b>Assets:</b>				
Cash and Cash Equivalents	\$ 1,011,832.73	\$ 1,011,832.73		
U.S. Treasury	1,509,559.06	1,509,559.06		
Corporate Stocks	2,448,272.45	2,448,272.45		
Mutual Bond Funds	4,792,850.10	1,582,448.10		\$ 3,210,402.00
Mutual Equity Funds	11,925,558.09	11,925,558.09		
CSV of Life Insurance	409,868.67	409,868.67		
Real Estate Investment Trust	2,567,090.12			2,567,090.12
Alternative Investments	5,631,632.00			5,631,632.00
Pledges Receivable	1,254,882.42			1,254,882.42
<b>Total Assets</b>	<b>\$31,551,545.64</b>	<b>\$18,887,539.10</b>	<b>\$ -</b>	<b>\$12,664,006.54</b>

The following table reconciles beginning and ending balances of all assets valued using Level 3 inputs:

	<b>Beginning Balance</b>	<b>Total Gains/Losses, Realized and Unrealized</b>	<b>Purchases, Issuances, and Settlements</b>	<b>Transfers In/Out of Level 3</b>	<b>Ending Balance</b>
Assets:					
Mutual Bond Funds	\$ 2,964,399.00	\$ 246,003.00			\$ 3,210,402.00
Pledges Receivable	1,869,604.12	(614,721.70)			1,254,882.42
Real Estate Investment					
Trust	3,930,153.00	(1,363,062.88)			2,567,090.12
Alternative Investments	6,475,778.00	(844,146.00)			5,631,632.00
<b>Total Assets</b>	<b><u>\$15,239,934.12</u></b>	<b><u>\$(2,575,927.58)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$12,664,006.54</u></b>

All gains and losses, both realized and unrealized, have been reported on the Statement of Revenues, Expenses, and Changes in Net Assets as investment income. Of this total, \$(5,550,494.28) is attributable to unrealized losses relating to those assets and liabilities still held at June 30, 2009.

**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. All bank balances at June 30, 2009, were insured.

**INVESTMENTS.** Investments are recorded on the date of contribution and are stated at market value. Unrealized gains and losses are determined by the difference between market values at the beginning and end of the year. Investment securities held at year-end were as follows:

	<b>Cost</b>	<b>Market Value</b>
U.S. Treasury	\$1,359,812.85	\$1,509,559.06
Certificates of Deposit	55,000.00	56,549.07
Corporate Stocks	2,878,113.71	2,448,272.45
Mutual Bond Funds	4,630,968.65	4,792,850.10
Mutual Equity Funds	11,553,263.12	11,925,558.09
Cash Surrender Value of Life Insurance	N/A	409,868.67
Real Estate Investment Trust	2,933,511.09	2,567,090.12
Alternative Investments	5,369,251.00	5,631,632.00
Total investments		<u>\$29,341,379.56</u>

**ALTERNATIVE INVESTMENTS.** The Foundation has investments in Barlow Partners and Private Advisors, which are classified as offshore hedge fund-of-funds. The estimated fair value of these assets is \$5,631,632.00 at June 30, 2009.

The Foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2009. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such differences could be material. These investments are made in accordance with the Foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. Each offshore hedge fund-of-funds owned by the Foundation has an annual independent CPA firm audit. Hedge fund values are determined by using monthly reports received directly from the hedge fund-of-funds managers, as well as from the Foundation's registered investment advisors and/or investment custodian.

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

	<b>June 30, 2009</b>
Current pledges	\$ 416,457.75
Pledges due in one to five years	777,624.96
Pledges due after five years	64,285.71
Subtotal	1,258,368.42
Less: Discounts to net present value	(3,486.00)
<b>Total pledges receivable, net</b>	<b>\$ 1,254,882.42</b>

CAPITAL ASSETS. Capital assets for the year ended June 30, 2009, were as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Land	\$ 2,517,835.81	\$ 61,080.00	\$ 71,300.00	\$ 2,507,615.81
Improvements and infrastructure	537,484.72	-	-	537,484.72
Buildings	19,996,672.31	124,286.00	327,850.29	19,793,108.02
Equipment	-	119,627.66	119,627.66	-
<b>Total</b>	<b>\$23,051,992.84</b>	<b>\$ 304,993.66</b>	<b>\$518,777.95</b>	<b>\$22,838,208.55</b>
<b>Less accumulated depreciation</b>				
Improvements and infrastructure	\$ 143,755.30	\$ 40,386.47	\$ -	\$ 184,141.77
Buildings	3,175,692.27	575,482.49	5,089.11	3,746,085.65
Total accumulated depreciation	\$ 3,319,447.57	\$ 615,868.96	\$ 5,089.11	\$ 3,930,227.42
<b>Capital assets, net</b>	<b>\$19,732,545.27</b>	<b>\$(310,875.30)</b>	<b>\$513,688.84</b>	<b>\$18,907,981.13</b>

ENDOWMENTS. Middle Tennessee State University Foundation's endowment consists of approximately 450 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. All board-designated funds are shown as temporarily restricted assets and net assets at no lower than the fund's Historic Dollar Value (HDV). HDV is defined simply as the dollar amount of the original gift plus any subsequent gifts with no income, expenditures, or fair market value adjustments of any kind. Recent accounting standards require that we present funds in our Statement of Net Assets at no lower than their respective total HDV. If the total fair market value falls below their respective total HDV, this deficiency is presented as an unrestricted contra-asset, with an offsetting charge (reduction) in the unrestricted portion of net assets. The contra-asset is increased through credits (increases) to net assets to the extent fair market value is subsequently restored. As required by GAAP, net assets associated with endowment funds are classified as permanently restricted assets and net assets, and funds designated by the Board of Trustees to function as quasi-endowments are classified as temporarily restricted assets and net assets.

INTERPRETATION OF RELEVANT LAW. The Board of Trustees of Middle Tennessee State University Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as requiring the Foundation to not spend below 98% of the endowment's Historic Dollar Value. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation

is added to the fund, and (d) the portion of the investment return that is added to the fund's principle. Similar to quasi-endowments, fair market value deficiencies below the HDV for donor-restricted funds are presented as unrestricted contra-assets, with equal charges (reductions) to unrestricted net assets. These contra-assets may be removed through credits (increases) to unrestricted net assets to the extent that the fair market value of the donor-restricted funds is restored in later periods. Fair market value portions in excess of the HDV of the donor-restricted endowment funds are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by the Act.

In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. the duration and preservation of the fund,
2. the purposes of the Foundation and the endowment fund,
3. general economic conditions,
4. the possible effect of inflation or deflation,
5. the expected total return from income and the appreciation of investments,
6. other resources of the Foundation, and
7. the investment policies of the Foundation.

**Composition of Endowment by Net Asset Class  
As of June 30, 2009**

	<b>Permanently Restricted</b>	<b>Temporarily Restricted</b>	<b>Unrestricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$27,821,534.22	\$ 1,097,393.42	\$ -	\$28,918,927.64
Board-designated endowment funds	(2,940,854.04)	2,360,832.56	99,782.40	(480,239.08)
<b>Total funds</b>	<b>\$24,880,680.18</b>	<b>\$ 3,458,225.98</b>	<b>\$ 99,782.40</b>	<b>\$28,438,688.56</b>

## UPMIFA-Required Disclosure

### Changes in Endowment Net Assets As of June 30, 2009

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Endowment net assets, beginning of year 7/1/2008	\$28,438,688.56	\$ -	\$ -	\$28,438,688.56
Investment return:				-
Investment income				-
Net depreciation (realized and unrealized)		<u>(452,642.24)</u>	<u>(27,596.84)</u>	<u>(480,239.08)</u>
Total investment return	<u>\$28,438,688.56</u>	<u>\$ (452,642.24)</u>	<u>\$(27,596.84)</u>	<u>\$27,958,449.48</u>
Contributions				-
Appropriation of endowment assets for expenditure				-
Other changes:				-
UPMIFA Transfers	<u>\$ (3,558,008.38)</u>	<u>\$3,910,868.22</u>	<u>\$127,379.24</u>	<u>\$ 480,239.08</u>
Endowment net assets, end of year 6/30/2009	<u><u>\$24,880,680.18</u></u>	<u><u>\$3,458,225.98</u></u>	<u><u>\$ 99,782.40</u></u>	<u><u>\$28,438,688.56</u></u>

**RETURN OBJECTIVES AND RISK PARAMETERS.** The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets and net assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds that are classified as temporarily restricted quasi-endowment assets and net assets at no lower than that fund's total HDV. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that provide for adequate long-term purchasing power preservation as well as current scholarship and other institutional support as appropriate. Over the last ten fiscal years ending on June 30, 2009, the Foundation has experienced an average annual rate of return of 4.64%. Actual returns in any given year may vary. This average rate of return is after paying all authorized scholarship and other payouts, 1% annual administrative fees, and all other support and expenditures made on behalf of the University and the community.

**STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES.** To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk restraints. During the last ten fiscal years ending June 30, 2009, the Foundation endowment has realized a 10.14% average annual total rate-of-return. This return was generally allocated to fund the 4.5% annual endowment payout and the 1% annual administrative fee. The remaining capital appreciation is generally reinvested for future accumulation and/or appropriation for approved purposes.

SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE. The Foundation historically has had a policy of annually appropriating for distribution 4.5% of the three-year rolling average total fair market value of the endowment. This amount is usually paid in two equal semiannual installments. Payout policy is determined by the Foundation year-to-year, and in a year of significantly declining investment values, the board may choose to not make an annual payout to preserve the future purchasing and payout power of the endowment. In establishing payout policy, the Foundation's objective is to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**Middle Tennessee State University  
Supplementary Information  
Unaudited Statement of Cash Flows-Component Unit  
for the year ended June 30, 2009**

	<b>Component Unit</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Gifts and contributions	\$ 3,957,382.04
Grants and contracts	14,320.33
Payments to suppliers and vendors	(2,194,470.99)
Payments for scholarships and fellowships	(1,400,969.95)
Payments to MTSU	(1,051,253.20)
Net cash used by operating activities	\$ (674,991.77)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
Private gifts for endowment purposes	\$ 403,595.42
Net cash provided by non-capital financing activities	\$ 403,595.42
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital grants and gifts received	\$ 25,395.25
Proceeds from sale of Capital Assets	242,864.29
Purchase of capital assets and construction	(302,987.32)
Net cash used by capital and related financing activities	\$ (34,727.78)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from sales and maturities of investments	\$ 4,155,803.66
Income on investments	732,824.75
Purchase of investments	(3,954,133.63)
Other investing receipts (payments)	(846.81)
Net cash provided by investing activities	\$ 933,647.97
Net increase in cash and cash equivalents	627,523.84
Cash and cash equivalents – beginning of year	8,520,258.56
Cash and cash equivalents – end of year (Note 17 )	\$ 9,147,782.40
<b>RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Operating loss	\$ (1,929,733.31)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	615,868.96
Other adjustments	522,034.88
Change in assets and liabilities:	
Receivables, net	613,227.47
Accounts payable	(496,389.77)
Net cash used by operating activities	\$ (674,991.77)
<b>Non-cash transactions</b>	
Gifts in-kind	425,030.12
Gifts in-kind - capital	(250,602.76)
Pledges	(614,721.70)
Unrealized losses on investments	(5,754,768.93)

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



**Middle Tennessee State University  
Supplementary Information  
Schedule of Funding Progress  
for the year ended June 30, 2009**

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2007	State Plan	\$ -	\$ 42,876,000.00	\$ 42,876,000.00	0	\$113,201,926.22	37.9%

*NOTE: Two additional years will be reported as the data becomes available. The amount reported here for covered payroll relates to the fiscal year in which the valuations were performed.*