



Middle Tennessee State University
Financial Report
for the year ended June 30, 2012

**MIDDLE
TENNESSEE**
STATE UNIVERSITY

Tennessee's Best

Middle Tennessee State University

FINANCIAL REPORT
For the Year Ended June 30, 2012



Office of the President

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



October 18, 2012

Mr. John Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, TN 37217

Dear Chancellor Morgan:

Enclosed is the annual Financial Report for the fiscal year ended June 30, 2012. 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



October 18, 2012

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, 2012.

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, 2011. An audit is currently in progress for fiscal year ended June 30, 2012.

Sincerely,

A handwritten signature in black ink, appearing to read "John W. Cothorn", written over a horizontal line.

John W. Cothorn
Senior Vice President

Enclosures



MIDDLE TENNESSEE STATE UNIVERSITY
FINANCIAL REPORT
for Year Ended June 30, 2012

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1012-264 – Middle Tennessee State University is an AA/EEO employer and does not discriminate on the basis of race, color, national origin, sex, disability, or age in its programs and activities. The following person has been designated to handle inquiries regarding the nondiscrimination policies: Executive Director of Institutional Equity and Compliance, 1301 E. Main Street, CAB 220, Murfreesboro, TN 37132, 615-898-2185. Additionally, the MTSU Title IX Coordinator, designated to monitor and oversee Title IX complaints, may be contacted at: Sam Ingram Building 2269 Middle Tennessee Blvd. Murfreesboro, TN 37132 615-898-5133, or via this webpage: <http://www.mtsu.edu/titleix/>.

MIDDLE TENNESSEE STATE UNIVERSITY
Management's Discussion and Analysis
for the Year Ended June 30, 2012

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, 2012, with comparative information presented for the fiscal year ended June 30, 2011. 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 related debt, provides the University's equity in property, plant, and equipment owned by the University. The next asset category is restricted net assets, which is divided into two 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>2012</u>	<u>2011</u>
Assets		
Current assets	\$ 90,136	\$ 92,766
Capital assets, net	391,669	360,963
Other assets	94,806	93,072
Total Assets	<u>576,611</u>	<u>546,801</u>
Liabilities		
Current liabilities	46,797	47,484
Noncurrent liabilities	229,489	201,886
Total Liabilities	<u>276,286</u>	<u>249,370</u>
Net Assets		
Invested in capital assets, net of debt	178,024	174,660
Restricted - expendable	4,825	5,240
Restricted - nonexpendable	798	815
Unrestricted	116,678	116,716
Total Net Assets	<u>\$ 300,325</u>	<u>\$ 297,431</u>

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

- ◆ 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. Detailed information about the University's capital assets is presented in the Capital Asset and Debt Administration section of this report.
- ◆ Noncurrent liabilities increased due to the issuance of commercial paper by the Tennessee State School Bond Authority (TSSBA) on behalf of the University for various capital projects. Detailed information about the University's debt is presented in the Capital Asset and Debt Administration section of this report.
- ◆ The remaining allocations remained relatively unchanged.

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

	2012	2011
Assets		
Current assets	\$ 3,362	\$ 1,253
Capital assets, net	18,240	18,558
Other assets	63,512	54,591
Total Assets	85,114	74,402
Liabilities		
Current liabilities	1,196	474
Total Liabilities	1,196	474
Net Assets		
Invested in capital assets, net of debt	18,240	18,558
Restricted - expendable	33,575	25,151
Restricted - nonexpendable	31,184	29,818
Unrestricted	919	401
Total Net Assets	\$ 83,918	\$ 73,928

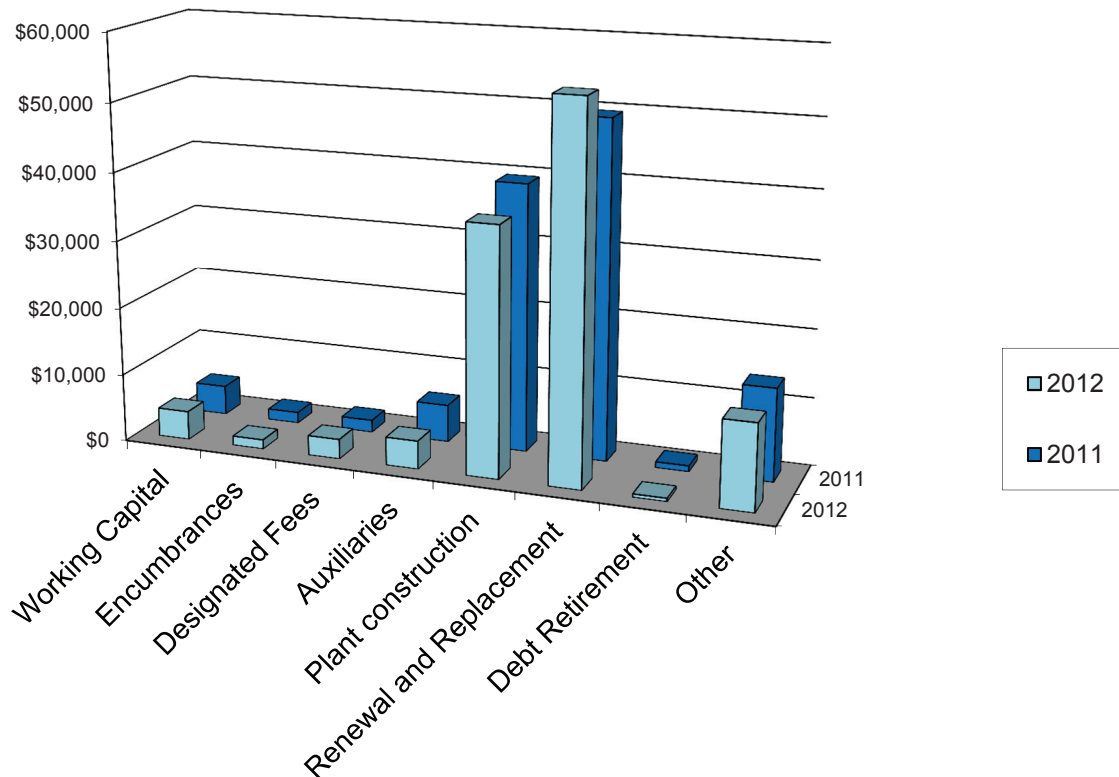
The component unit had the following significant changes between fiscal years on the Statement of Net Assets:

- ◆ Other assets rose as a result of an increase in nonendowment gifts, specifically, a \$9 million pledge receivable from a single MTSU alumnus. The recent fundraising success is attributed to an increase in enrollment and in the number of graduates each year. The growth in the University's alumni base, along with improvements in the nation's economy, has boosted fundraising activities. As a result of the fundraising success, restricted-expendable net assets also increased between fiscal years.
- ◆ Unrestricted net assets increased mainly due to the sale of property to the University. The proceeds from the sales of 1902 Greenland Drive and 2739 Middle Tennessee Blvd were approximately \$271,000. Also, approximately \$132,000 was reallocated back to Unrestricted that had been previously allocated to certain discretionary accounts.

Many of the University's unrestricted net assets have been designated 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)



- ◆ Allocations for plant construction decreased due to the spending of project funding set aside for local capital projects. These projects were funded in the previous fiscal year with nonrecurring operating appropriations from the State but not completed until the current fiscal year.
- ◆ Allocations for renewal and replacement increased as a result of debt service fees collected in the current fiscal year over the amount needed to pay the current year's principal and interest payments for the new student union building. These accumulated reserves will be used in future periods to partially fund the construction of a student services building adjacent to the new student union.
- ◆ 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>2012</u>	<u>2011</u>
Operating revenues		
Net tuition and fees	\$ 122,021	\$ 110,695
Auxiliaries	30,716	30,475
Grants and contracts	32,341	30,779
Other	15,453	14,685
Total operating revenues	<u>200,531</u>	<u>186,634</u>
Operating expenses	355,444	329,675
Operating loss	<u>(154,913)</u>	<u>(143,041)</u>
Nonoperating revenues and expenses		
State appropriations	74,924	100,986
Gifts	1,398	1,244
Grants and contracts	84,983	89,605
Investment income	864	1,095
Other revenues and expenses	(7,535)	(6,568)
Total nonoperating revenues and expenses	<u>154,634</u>	<u>186,362</u>
Income (loss) before other revenues, expenses, gains, or losses	(279)	43,321
Other revenues, expenses, gains, or losses		
Capital appropriations	6,844	12,031
Capital grants and gifts	1,867	237
Total revenues, expenses, gains, or losses	<u>8,711</u>	<u>12,268</u>
Increase (decrease) in net assets	8,432	55,589
Net assets at beginning of year	297,431	241,842
Prior period adjustment	(5,538)	-
Net assets at end of year	<u>\$ 300,325</u>	<u>\$ 297,431</u>

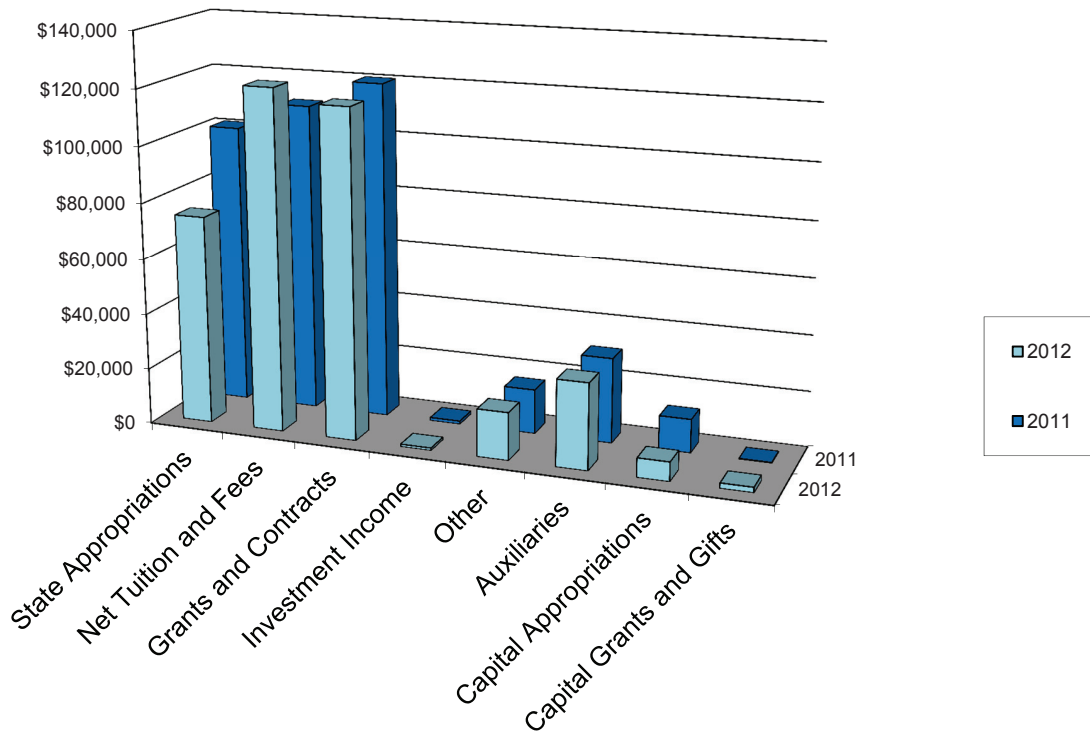
Component Unit
Statement of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

	<u>2012</u>	<u>2011</u>
Operating revenues		
Gifts	\$ 16,281	\$ 8,159
Endowment Income	1,464	1,256
Grants and contracts	4	17
Other	51	59
Total operating revenues	<u>17,800</u>	<u>9,491</u>
Operating expenses	<u>8,193</u>	<u>4,932</u>
Operating income (loss)	<u>9,607</u>	<u>4,559</u>
Nonoperating revenues and expenses		
Investment income	(1,506)	4,054
Other revenues and expenses	(14)	(6)
Total nonoperating revenues and expenses	<u>(1,520)</u>	<u>4,048</u>
Income (loss) before other revenues, expenses, gains, or losses	8,087	8,607
Other revenues, expenses, gains, or losses		
Capital grants and gifts	625	148
Additions to permanent endowments	1,278	747
Total revenues, expenses, gains, or losses	<u>1,903</u>	<u>895</u>
Increase (decrease) in net assets	9,990	9,502
Net assets at beginning of year	<u>73,928</u>	<u>64,426</u>
Net assets at end of year	<u><u>\$ 83,918</u></u>	<u><u>\$ 73,928</u></u>

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the University's operating activities for the years ended June 30, 2012, and June 30, 2011 (amounts are presented in thousands of dollars).

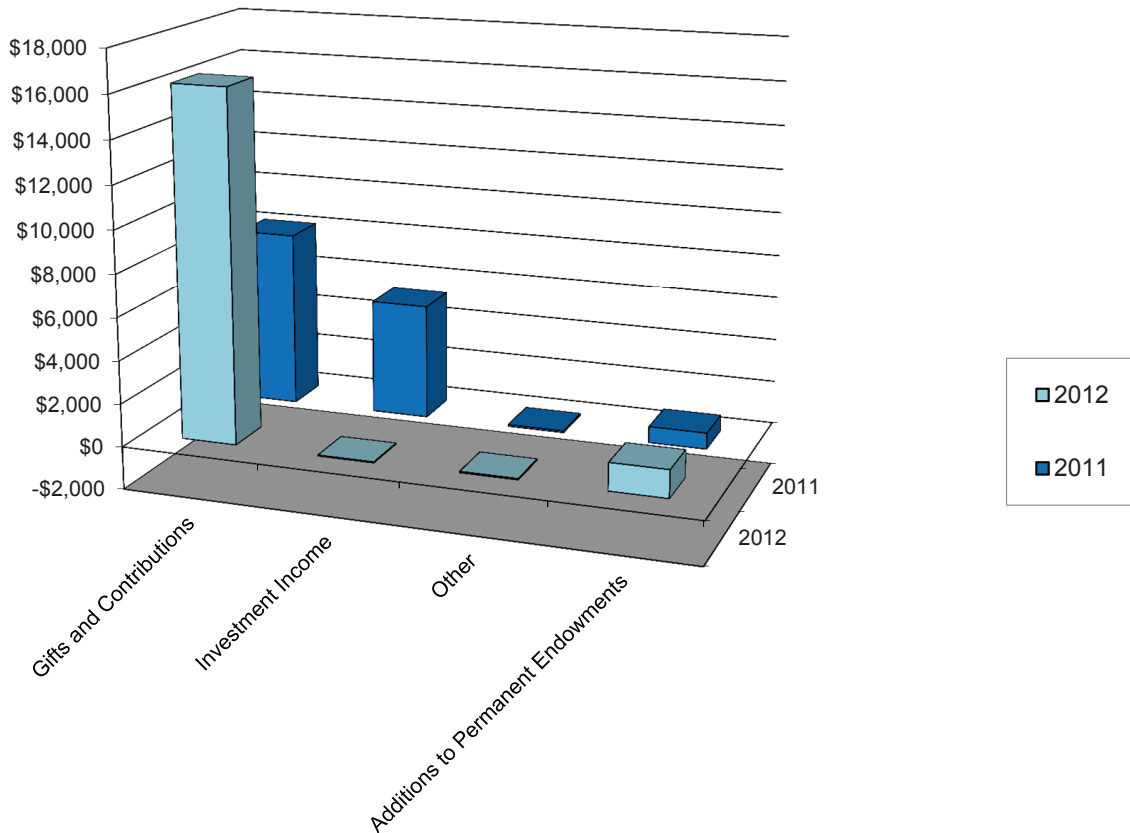
Revenues by Source (University)



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

- ◆ State appropriations decreased for the year as a result of one-time nonrecurring funding provided by the State of Tennessee in the previous fiscal year. This funding was provided as temporary measure while schools planned for permanent reductions in base budgets. In 2010–11, the University received nonrecurring operating appropriations in the amount of \$17.6 million and \$5.5 million under the Maintenance of Effort (MOE) state funded program.
- ◆ Tuition and fees increased due to a 9.8% fee increase for the 2011–12 academic year.
- ◆ Nonoperating grants and contracts decreased mainly as a result of receiving less State Fiscal Stabilization Funds (SFSF) under the American Recovery and Reinvestment Act (ARRA) in 2011–12 than in the previous fiscal year. Federal aid awards showed declines during the year due to funding cuts in two grant programs. See the Expenses by Natural Classification section for additional details of these programs.
- ◆ Capital appropriation revenue for both fiscal years was composed mainly of appropriations for the College of Education building. Since a significant amount of this building was under construction during the 2010–11 fiscal year, this would have been the year in which most of the appropriations were recorded. The building was finished early within the 2011–12 fiscal year.

Revenues by Source (Component Unit)



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

- ◆ Gifts increased during the fiscal year as a result of growth in fundraising opportunities. Funds from private support systems generated over \$8 million during the fiscal year, which exceeds our national peers by more than 40 percent. The recent fundraising success is attributed in part to an increase in University graduates, thereby resulting in a larger alumni base. Improvements in the nation's economy, led by a recovering labor market, should open new outlets for future fundraising opportunities.
- ◆ The decrease in investment income resulted from unrealized losses due to weak market conditions during the fiscal year.
- ◆ Revenues in other areas remained relatively unchanged during the fiscal year.

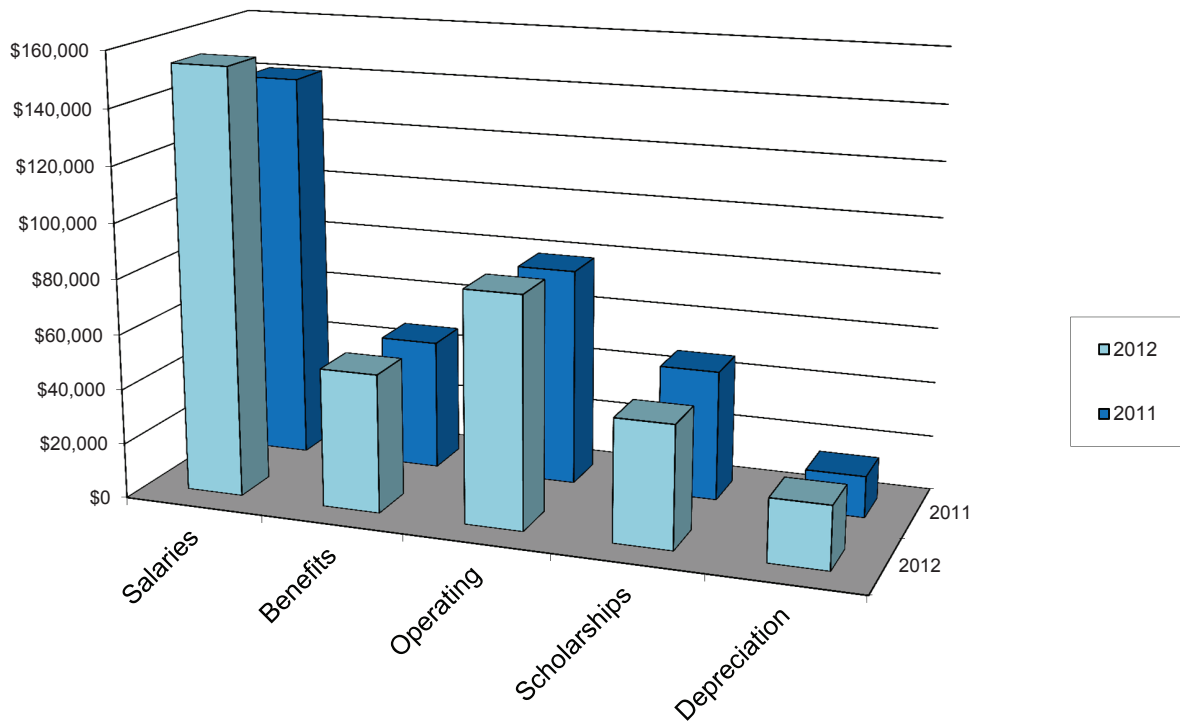
Expenses

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

Middle Tennessee State University Natural Classification (in thousands)

	2012	2011
Salaries	\$154,174	\$141,306
Benefits	50,309	47,230
Operating	83,737	78,885
Scholarships	44,374	47,208
Depreciation	22,850	15,045
TOTAL	\$355,444	\$329,674

Expenses by Natural Classification (University)



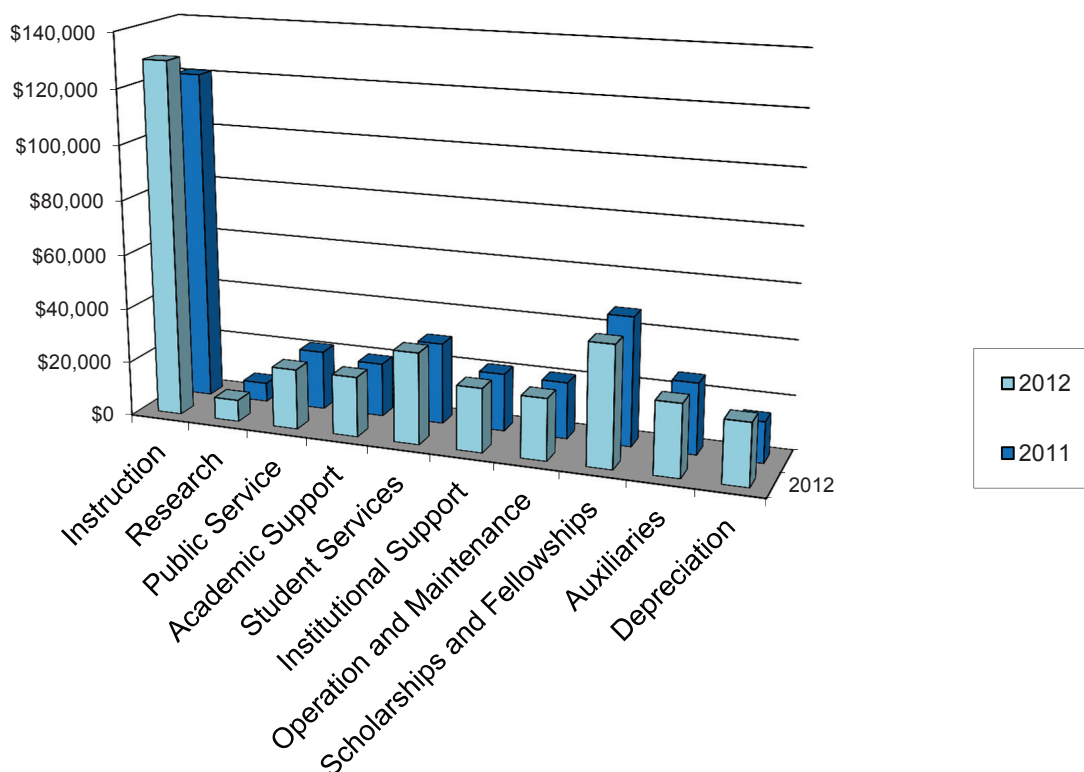
The University had the following significant changes in expenses between fiscal years:

- ◆ Several events affected salaries and wage expense during the 2011–12 fiscal year. In July 2011, University employees received a 3% cost of living allowance salary increase. A \$1,000 employee bonus was paid in October 2011. In January 2012, the TBR–approved market study went into effect to bring employee salaries and wages in line with the current market minimum.
- ◆ Operating expenses rose primarily due to the completion of building projects and routine expenses. The University experienced increases in the areas of utilities due to new and renovated buildings put into use and maintenance expense related to buildings, software, and equipment. In addition to maintenance, expenses rose due to changes in the accounting of periodicals purchased by Walker Library. The University also realized an increase in write-offs of student account balances.
- ◆ Scholarship expense declined slightly due to changes by Congress in federal aid programs. Amendments to the Higher Education Opportunity Act of 2008 did not provide funding to reauthorize the federal ACG and SMART grant programs. As a result, no awards were made to students during the fiscal year.
- ◆ Depreciation expense rose sharply on the basis of changes in the University’s accounting for library holdings, specifically periodicals. Based on new guidance, the University will no longer capitalize the purchase of periodicals. As a result, the University expensed the remaining book value of all periodicals during the fiscal year.

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

	2012	2011
Instruction	\$129,741	\$121,151
Research	7,986	6,984
Public Service	22,146	21,637
Academic Support	22,035	19,713
Student Services	33,593	29,859
Institutional Support	23,512	21,203
Operation and Maintenance	22,655	20,765
Scholarships and Fellowships	44,374	47,208
Auxiliaries	26,552	26,109
Depreciation	22,850	15,045
TOTAL	\$355,444	\$329,674

Expenses by Program Classification (University)



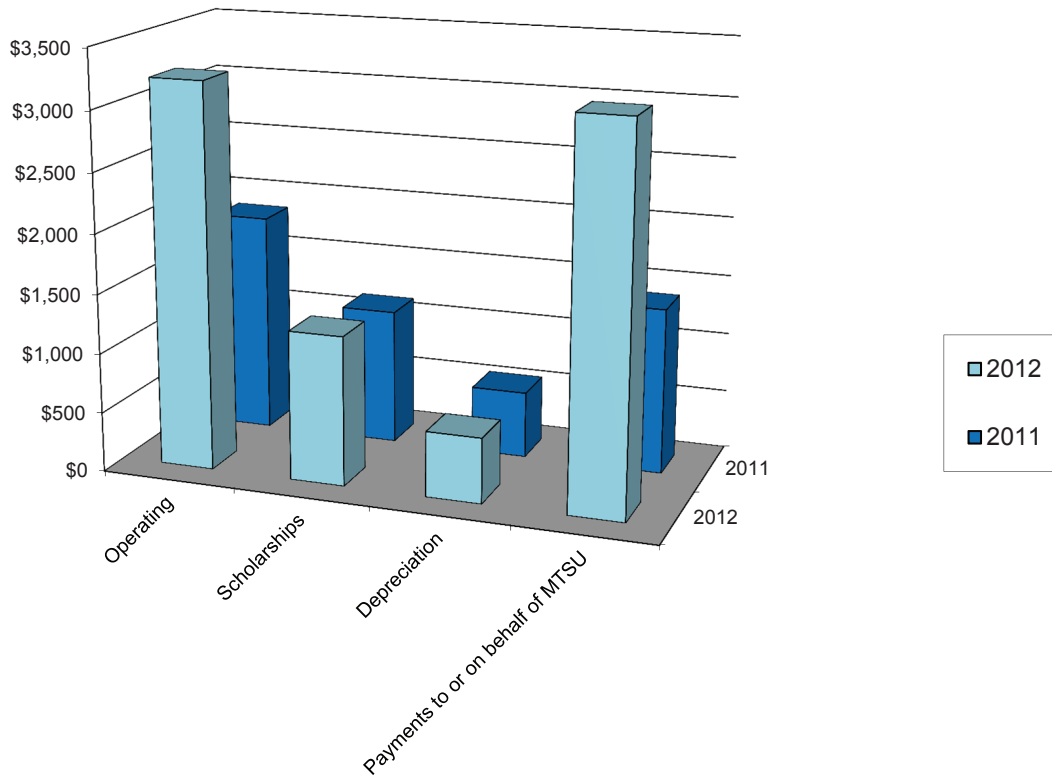
The University had the following significant changes in program expenses between fiscal years:

- ◆ Instruction expenses increased during the year primarily on the basis of salaries and benefits. Specifically, faculty salaries rose 7% as a result of the 3% cost of living adjustment and the salaries and wages market study as discussed in the previous section. Although overall instructional expenses increased, operating expenses, such as consumable supplies and travel, declined during the fiscal year.
- ◆ Student services expenses rose during the year as a result of increases to salaries and benefits. Routine maintenance on student facilities, software, and grounds also increased during the year.
- ◆ Scholarship expenses decreased as a result of changes in federal aid programs. As stated in the previous section, federal funding for the ACG and National SMART grant programs was not reauthorized by Congress. As a result, no students were awarded during the fiscal year.
- ◆ Depreciation expense increased as a result of changes in the accounting treatment of the purchase of periodicals. The University will no longer capitalize periodicals but will expense these items in the year purchased.
- ◆ Expenditures in other areas remained relatively unchanged.

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

	<u>2012</u>	<u>2011</u>
Operating	\$3,226	\$1,851
Scholarships	1,252	1,137
Depreciation	547	556
Payments to or on behalf of MTSU	3,168	1,388
TOTAL	<u>\$8,193</u>	<u>\$4,932</u>

Expenses by Natural Classification (Component Unit)



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

- ◆ Operating expenses increased during the year as a result of recording in-kind expenses related to noncash donations, mainly a donation made to the Albert Gore Research Center. The increase is also attributable to a contribution made by a donor and used for the renovation of the women's basketball offices.
- ◆ Payments to or on behalf of MTSU for the component unit rose during the fiscal year primarily due to the transfer of \$1.8 million for Floyd Stadium Club Level renovations.
- ◆ Expenditures in other areas remained relatively unchanged.

Capital Asset and Debt Administration

Capital Assets—University

Middle Tennessee State University had \$391.7 million invested in capital assets, net of accumulated depreciation of \$194.4 million at June 30, 2012, and \$361.0 million invested in capital assets, net of accumulated depreciation of \$188.8 million at June 30, 2011. Depreciation charges totaled \$22.9 million and \$15.0 million for the years ended June 30, 2012, and June 30, 2011, respectively. Details of these assets are shown below.

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

	<u>2012</u>	<u>2011</u>
Land	\$ 12,607	\$ 12,344
Land improvements and infrastructure	40,048	17,123
Buildings	219,929	170,705
Equipment	20,409	18,854
Library holdings	2,478	8,448
Intangible assets	1,703	2,201
Projects in progress	94,495	131,288
Total	<u>\$391,669</u>	<u>\$360,963</u>

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

- ◆ Improvements to land and infrastructure rose sharply during the 2011–12 fiscal year. A substantial part of this change was represented by the completion of the current phase of the University’s parking and transportation project. The current phase included a new entrance on the north side of campus and new bus lanes to improve traffic management. In addition to the parking and transportation project, the University completed work on a new energy management system and an interoperable digital radio system.
- ◆ During the fiscal year, buildings increased due to the completion of several major projects. In July, construction was completed on the 87,322-sq.-ft., state-of-the-art College of Education Building. The building was open for use in the fall. Other projects completed during the year were the renovation of Corlew and Deere dormitories and upgrades to Tucker Theater.
- ◆ As discussed in the previous section, there was a steep decline in library holdings due to depreciating the net book value of all periodicals.
- ◆ Projects in progress declined during the fiscal year due to the completion of several major improvements to land, infrastructure, and building projects as stated above. Although there was a decrease in this category, several additions were made for the following projects: the new science building, the student services building, two new parking garages, and the student union building. The student union building will be completed during the 2012–13 fiscal year.

Major capital expenditures are to be expected during the next fiscal year. The State of Tennessee approved the University’s request for capital appropriations necessary to begin construction on the \$147 million science building. The new 250,000-sq.-ft. facility represents one of the most significant investments ever made toward the enhancement of science and technology education in Tennessee. Groundbreaking for this capital project was held in May 2012, and the project is scheduled to be completed by the spring of 2015.

Noteworthy capital projects in progress include the new student union building, the student services building, and two parking garages, one in the Holmes Building lot and another adjacent to the Health, Wellness, and Recreation Center. These three projects have capital budgets in excess of \$104 million and are mainly funded through the issuance of TSSBA commercial paper.

In addition, capital appropriations will allow the University to fund renovation projects, such as the Walker Library roof replacement project, updates to Murphy Center HVAC units, phase two of the University’s underground electrical systems upgrade, and updates to the University’s water and sewer system.

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 \$18.2 million invested in capital assets, net of accumulated depreciation of \$5.5 million at June 30, 2012, and \$18.6 million invested in capital assets, net of accumulated depreciation of \$4.9 million at June 30, 2011. Depreciation charges totaled \$.5 million and \$.6 million for the years ended June 30, 2012, and June 30, 2011, respectively. Details of these assets are shown below.

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

	<u>2012</u>	<u>2011</u>
Land	\$ 2,903	\$ 2,341
Land improvements and infrastructure	674	724
Buildings	14,658	15,488
Equipment	5	5
Total	<u>\$18,240</u>	<u>\$18,558</u>

Categories presented on the Schedule of Capital Assets for the component unit remained relatively unchanged between fiscal years. There was a small rise in land due to a donation of land in the Eagleville community during the fiscal year. The land is valued at \$625,000.

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

Debt

The University had \$219.6 million and \$192.6 million in debt outstanding at June 30, 2012, and June 30, 2011, 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>2012</u>	<u>2011</u>
TSSBA bonds	\$145,254	\$147,158
TSSBA commercial paper	74,339	45,392
Total Debt	<u>\$219,593</u>	<u>\$192,550</u>

TSSBA did not issue any new bonds for capital projects during the fiscal year; however, the University did record unamortized bond premiums and discounts on previous bond issues during the fiscal year. More detailed information is presented in Note 17 regarding unamortized bond premiums and discounts.

Additional commercial paper was issued on behalf of the University for the following major projects: renovations of various University housing facilities, construction of a new student union facility, and construction of new University parking garages.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2012, were as follows: Fitch rating of AA+, Moody's Investor's rating of Aa1, and Standard & Poor's rating of AA.

More detailed information about the University's long-term liabilities is presented in Note 7 to the financial statements.

Economic Factors that Will Affect the Future

The final state budget as proposed by Governor Haslam and subsequently approved by the state legislature included both an additional higher education state funding reduction of 2.1% and some enhancement funds to cover improvements under the THEC Outcomes-Based Funding Formula. This combination of incremental increases and reduction resulted in only a small budget increase for 2012–13.

The governor's budget included \$126,650,000 for construction of the new Science Building. The approved budget for the Science Building included a matching funds component of \$18,750,000. This project was approved by the state legislature in the final state appropriation. Funding of the match will be handled with local funds, private donations, and student fees. Capital maintenance funds totaling \$5,320,000 were approved for the University as well.

The 2012–13 budget also included a 2.5% Cost of Living Allowance (COLA) salary increase for state employees. As in previous years, the state appropriation did not fully fund higher education's increase, and the University will be required to fund a portion of this salary increase.

The Tennessee Board of Regents approved a 6.8% tuition increase for the University at its June 2012 meeting. New funds from this increase will replace part of the reduced state appropriations, cover some inflationary cost, cover the University's portion of the state 2.5% salary increase, fund a TBR Business Intelligence Strategy, and provide funds for new tenure-track faculty positions.

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 them. 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, Cope Administration Building 211, 1301 E. Main St., Murfreesboro, TN 37132.

BASIC FINANCIAL STATEMENTS

Middle Tennessee State University
Unaudited Statement of Net Assets
June 30, 2012

	University	Component Unit
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 19)	\$ 63,488,186.85	\$ 2,003,942.78
Accounts, notes, and grants receivable (net) (Note 4)	24,080,583.58	-
Due from primary government	346,000.00	-
Pledges receivable (net) (Note 19)	-	1,327,248.67
Inventories (at lower of cost or market)	849,125.47	-
Prepaid expenses and deferred charges	1,337,001.09	2,154.13
Accrued interest receivable	34,847.90	29,029.99
Total current assets	90,135,744.89	3,362,375.57
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 19)	91,499,447.93	14,004,903.44
Investments (Notes 3 and 19)	725,597.81	39,911,313.25
Accounts, notes, and grants receivable (net) (Note 4)	2,581,178.08	-
Pledges receivable (net) (Note 19)	-	9,595,682.68
Capital assets (net) (Notes 5 and 19)	391,669,416.52	18,239,683.08
Total noncurrent assets	486,475,640.34	81,751,582.45
Total assets	576,611,385.23	85,113,958.02
LIABILITIES		
Current liabilities:		
Accounts payable (Note 6)	6,094,324.00	1,195,694.19
Accrued liabilities	19,096,193.78	-
Student deposits	906,456.07	-
Deferred revenue	8,973,091.94	-
Compensated absences (Note 7)	1,883,588.05	-
Accrued interest payable	1,176,868.57	-
Long-term liabilities, current portion (Note 7)	7,885,938.12	-
Deposits held in custody for others	780,654.14	-
Total current liabilities	46,797,114.67	1,195,694.19
Noncurrent liabilities:		
Net OPEB obligation (Notes 7 and 12)	10,813,534.32	-
Compensated absences (Note 7)	4,499,521.47	-
Long-term liabilities (Note 7)	211,707,459.11	-
Due to grantors (Note 7)	2,468,394.05	-
Total noncurrent liabilities	229,488,908.95	-
Total liabilities	276,286,023.62	1,195,694.19
NET ASSETS		
Invested in capital assets, net of related debt	178,023,688.35	18,239,683.08
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	10,900.00	27,754,662.43
Research	-	949,078.35
Instructional department uses	-	2,455,273.57
Other	787,180.47	25,245.99
Expendable:		
Scholarships and fellowships	77,296.59	10,134,891.38
Research	72,622.93	162,448.71
Instructional department uses	223,455.61	8,467,344.83
Loans	1,874,624.26	-
Capital projects	-	12,535,796.91
Debt service	354,745.35	-
Other	2,222,274.11	2,274,910.13
Unrestricted (Note 9)	116,678,573.94	918,928.45
Total net assets	\$ 300,325,361.61	\$ 83,918,263.83

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

Middle Tennessee State University
Unaudited Statement of Revenues, Expenses, and Changes in Net Assets
for the year ended June 30, 2012

	University	Component Unit
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$54,908,170.26)	\$ 122,021,025.17	-
Gifts and contributions	-	\$ 16,280,728.41
Endowment Income (per spending plan)	-	1,464,188.90
Governmental grants and contracts	31,617,421.23	-
Nongovernmental grants and contracts	723,156.16	3,753.20
Sales and services of educational activities	765,563.25	-
Sales and services of other activities	14,345,753.49	-
Auxiliary enterprises:		
Residential life (Net of scholarship allowances of \$4,348,230.14. All residential life revenues are used as security for revenue bonds, see Note 10.)	9,660,805.01	-
Bookstore (Net of scholarship allowances of \$2,534,898.96. All bookstore revenues are used as security for revenue bonds, see Note 10)	5,623,647.22	-
Food service	1,360,043.00	-
Wellness facility (Net of scholarship allowances of \$953,724.36. All wellness facility revenues are used as security for revenue bonds, see Note 10)	2,136,691.84	-
Other auxiliaries	11,934,969.67	-
Interest earned on loans to students	98,415.91	-
Other operating revenues	243,422.51	51,583.13
Total operating revenues	200,530,914.46	17,800,253.64
EXPENSES		
Operating Expenses		
Salaries and wages	154,173,839.31	-
Benefits	50,309,345.88	-
Utilities, supplies, and other services	83,737,467.28	3,226,441.27
Scholarships and fellowships	44,373,788.81	1,251,643.55
Depreciation expense	22,849,908.78	546,930.13
Payments to or on behalf of MTSU	-	3,167,746.03
Total operating expenses	355,444,350.06	8,192,760.98
Operating income (loss)	(154,913,435.60)	9,607,492.66
NONOPERATING REVENUES (EXPENSES)		
State appropriations	74,924,252.30	-
Gifts, including \$1,340,925.96 from component unit	1,398,070.41	-
Grants and contracts	84,982,682.95	-
Investment income (net of investment expense of \$10,499.28 for the University and \$123,858.58 for the component unit)	864,153.32	(1,506,682.44)
Interest on capital asset-related debt	(6,846,052.69)	-
Bond issuance costs	-	-
Other nonoperating revenues/(expenses)	(688,789.98)	(13,999.53)
Net nonoperating revenues	154,634,316.31	(1,520,681.97)
Income before other revenues, expenses, gains, or losses	(279,119.29)	8,086,810.69
Capital appropriations	6,844,135.01	-
Capital grants and gifts, including \$1,826,820.07 from component unit	1,866,820.07	625,000.00
Additions to permanent endowments	-	1,277,921.43
Total other revenues	8,710,955.08	1,902,921.43
Increase (decrease) in net assets	8,431,835.79	9,989,732.12
NET ASSETS		
Net Assets - beginning of year	297,431,341.71	73,928,531.71
Prior period adjustment (Note 17)	(5,537,815.89)	-
Net Assets - end of year	\$ 300,325,361.61	\$ 83,918,263.83

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, 2012**

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 120,744,140.64
Grants and contracts	31,665,771.87
Sales and services of educational activities	776,170.36
Sales and services of other activities	13,785,442.19
Payments to suppliers and vendors	(85,954,893.66)
Payments to employees	(152,309,698.37)
Payments for benefits	(47,846,066.46)
Payments for scholarships and fellowships	(44,373,788.81)
Loans issued to students	(75,815.22)
Collection of loans from students	146,642.78
Interest earned on loans to students	99,913.25
Auxiliary enterprise charges:	
Residence halls	9,580,019.15
Bookstore	6,958,267.24
Food services	1,310,281.65
Wellness facility	2,117,939.84
Other auxiliaries	11,865,917.50
Other receipts (payments)	168,422.51
Net cash provided (used) by operating activities	<u>(131,341,333.54)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	74,771,891.56
Gifts and grants received for other than capital or endowment purposes, including \$1,340,925.96 from component unit	86,381,474.75
Federal student loan receipts	129,570,875.05
Federal student loan disbursements	(129,971,065.51)
Changes in deposits held for others	(30,821.85)
Other noncapital financing receipts	139,293.26
Net cash provided (used) by noncapital financing activities	<u>160,861,647.26</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from capital debt	29,646,258.03
Capital - state appropriation	6,844,135.01
Capital grants and gifts received, including \$57,597.62 from component unit	97,597.62
Purchase of capital assets and construction	(52,537,067.56)
Principal paid on capital debt and lease	(7,757,661.14)
Interest paid on capital debt and lease	(7,205,750.41)
Other capital and related financing receipts (payments)	(78,395.80)
Net cash provided (used) by capital and related financing activities	<u>\$ (30,990,884.25)</u>

**Middle Tennessee State University
Unaudited Statement of Cash Flows
for the year ended June 30, 2012**

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	1,241,899.00
Income on investments	870,565.26
Purchase of investments	(1,218,383.09)
Net cash provided (used) by investing activities	894,081.17
Net increase (decrease) in cash and cash equivalents	(576,489.36)
Cash and cash equivalents - beginning of year	155,564,124.14
Cash and cash equivalents - end of year (Note 2)	\$ 154,987,634.78

**RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating income/(loss)	\$ (154,913,435.60)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation expense	22,849,908.78
Other adjustments	159,460.74
Change in assets and liabilities:	
Receivables, net	(1,744,856.55)
Inventories	1,618,833.06
Prepaid/deferred items	888,200.38
Other assets	1,497.34
Accounts payable	(2,467,569.54)
Accrued liabilities	4,027,870.80
Deferred revenues	(1,841,703.74)
Deposits	122,763.61
Compensated absences	114,943.35
Due to grantors	(86,418.61)
Loans to students	(70,827.56)
Net cash provided (used) by operating activities	\$ (131,341,333.54)
Noncash investing, capital, and financing transactions	
Gifts in-kind – capital	\$ 1,821,110.45
Unrealized gains/(losses) on investments	23,527.77
Gain/(loss) on disposal of capital assets	(750,162.88)
Trade-in allowance	475.44

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

MIDDLE TENNESSEE STATE UNIVERSITY
Notes to the Financial Statements
June 30, 2012

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 19 for more detailed information about the component unit and how to obtain the report.

BASIS OF PRESENTATION

The University's 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) certain 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 nonexchange 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 weighted average 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 and sick leave at varying rates, depending upon length of service or classification. Prior to April 16, 2012, some employees earned compensatory time. These employees will continue to retain their accumulated balances until depleted. The amount of the liabilities for annual leave and compensatory time and their related benefits are reported in the Statement of Net Assets. There is no liability for unpaid accumulated sick leave since the University's policy is to pay this only if the employee is sick or upon death.

CAPITAL ASSETS

Capital assets, which include property, plant, equipment, library holdings, and intangible assets, are reported in the Statement of Net Assets at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' useful lives are not capitalized.

A capitalization threshold of \$100,000 is used for buildings and \$50,000 is used for infrastructure. Equipment is capitalized when the unit acquisition cost is \$5,000 or greater. The capitalization threshold for additions and improvements to buildings and land is set at \$50,000. The capitalization threshold for intangible assets is set at \$100,000.

These assets, with the exception of land, are depreciated/amortized using the straight-line method over the estimated useful lives of the 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 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

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2012, cash and cash equivalents consisted of \$75,953,005.33 in bank accounts; \$33,015.00 of petty cash on hand; \$69,611,668.92 in the State of Tennessee Local Government Investment Pool administered by the state treasurer; \$9,328,362.87 in the LGIP Deposits–Capital Projects account; and \$61,582.66 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 expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the 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, 2012, 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		
Corporate bond funds	\$212,153.50	\$50,028.50	\$50,172.00	\$ -	\$111,953.00	\$ -	
Corporate stock	36,972.70	-	-	-	-	36,972.70	
Mutual bond funds	352,874.53	-	-	-	-	352,874.53	
Mutual equity funds	123,597.08	-	-	-	-	123,597.08	
Total	<u>\$725,597.81</u>	<u>\$50,028.50</u>	<u>\$50,172.00</u>	<u>\$ -</u>	<u>\$111,953.00</u>	<u>\$513,444.31</u>	

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 bankers 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. Prime banker's acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible, the original maturity must not be more than 270 days, and it must (1) arise out of the current shipment of goods between countries or with the United States, or (2) arise out of storage within the United States of goods under contract of sale or expected to move into the channel or trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

The policy requires that prime commercial paper shall be limited to that of corporations that meet the following criteria: (1) Senior long-term debt, if any, should have a minimum rating of A1 or equivalent, and short-term debt should have 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 A1 by all rating services (minimum of two). (2) The rating should be based on the merits of the issuer or guarantee by a nonbank. (3) A financial review should be made to ascertain the issuer's financial strength to cover the debt. (4) Commercial paper of a banking institution should not be purchased. Prime commercial paper shall not have a maturity that exceeds 270 days.

As of June 30, 2012, the University's investments were rated as follows:

Investment Type	Fair Value	Credit Quality Rating			
		A	A-	AA-	Unrated
LGIP	\$ 78,940,031.79	\$ -	\$ -	\$ -	\$ 78,940,031.79
Corporate bonds	212,153.50	56,292.00	55,661.00	100,200.50	-
Mutual bond funds	352,874.53	-	-	-	352,874.53
Total	<u>\$ 79,505,059.82</u>	<u>\$ 56,292.00</u>	<u>\$ 55,661.00</u>	<u>\$ 100,200.50</u>	<u>\$ 79,292,906.32</u>

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, Middle Tennessee State University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a deposit policy for custodial credit risk. At June 30, 2012, Middle Tennessee State University had \$ 725,597.81 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.

4. Accounts, Notes, and Grants Receivable

Accounts receivable included the following:

	<u>June 30, 2012</u>
Student accounts receivable	\$ 6,934,491.93
Grants receivable	14,214,642.85
Notes receivable	199,732.68
Other receivables	4,448,177.05
Subtotal	<u>\$25,797,044.51</u>
Less allowance for doubtful accounts	<u>(1,716,460.93)</u>
Total	<u>\$24,080,583.58</u>

Federal Perkins Loan Program funds include the following:

	<u>June 30, 2012</u>
Perkins Loans receivable	\$3,420,808.87
Less allowance for doubtful accounts	(839,630.79)
Total	<u>\$2,581,178.08</u>

5. Capital Assets

Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	\$ 12,344,247.20	\$ 262,377.05	\$ -	\$ -	\$12,606,624.25
Improvements and infrastructure	41,362,292.72	-	25,879,683.80	-	67,241,976.52
Buildings	289,976,533.00	453,850.00	57,837,218.02	2,609,470.09	345,658,130.93
Equipment	49,878,088.14	6,185,942.79	-	1,436,622.24	54,627,408.69
Library holdings	20,294,582.76	480,195.49	-	14,401,336.49	6,373,441.76
Intangible assets	4,611,425.27	-	-	-	4,611,425.27
Projects in progress	131,287,760.47	46,923,924.68	(83,716,901.82)	-	94,494,783.33
Total	<u>549,754,929.56</u>	<u>54,306,290.01</u>	<u>-</u>	<u>18,447,428.82</u>	<u>585,613,790.75</u>
Less accumulated depreciation					
Improvements and infrastructure	24,239,471.11	2,954,113.04	-	-	27,193,584.15
Buildings	119,270,986.38	8,388,825.60	-	1,930,942.78	125,728,869.20
Equipment	31,024,531.13	4,558,767.18	-	1,365,462.11	34,217,836.20
Library holdings	11,846,528.77	6,450,270.98	-	14,401,336.49	3,895,463.26
Intangible assets	2,410,689.44	497,931.98	-	-	2,908,621.42
Total accumulated depreciation	<u>188,792,206.83</u>	<u>22,849,908.78</u>	<u>-</u>	<u>17,697,741.38</u>	<u>193,944,374.23</u>
Capital assets, net	<u>\$360,962,722.73</u>	<u>\$ 31,456,381.23</u>	<u>\$ -</u>	<u>\$ 749,687.44</u>	<u>\$391,669,416.52</u>

The decrease in library holdings is due to a change in accounting estimate. During fiscal year 2012, it was determined that periodicals are more appropriately expensed. The estimated useful life of periodicals was decreased from 10 years to 0 years, resulting in a current year adjustment of \$13,555,376.89.

6. Accounts Payable

Accounts payable included the following:

	<u>June 30, 2012</u>
Vendors payable	\$5,835,149.41
Unapplied student payments	247,615.85
Other payables	11,558.74
Total	<u>\$6,094,324.00</u>

7. Long-term Liabilities

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables					
TSSBA Debt:					
Bonds	\$147,157,697.14	\$ 699,652.31	\$ 7,757,661.14	\$140,099,688.31	\$7,885,938.12
Unamortized bond premium/discount	-	5,537,815.89	382,892.78	5,154,923.11	
Commercial paper	45,392,180.09	28,946,605.72	-	74,338,785.81	-
Subtotal	192,549,877.23	35,184,073.92	8,140,553.92	219,593,397.23	7,885,938.12
Other liabilities					
Compensated absences	6,268,166.17	3,332,664.13	3,217,720.78	6,383,109.52	1,883,588.05
Due to grantors	2,554,812.66	498,681.00	585,099.61	2,468,394.05	-
Net OPEB obligation	10,022,577.66	790,956.66	-	10,813,534.32	-
Subtotal	18,845,556.49	4,622,301.79	3,802,820.39	19,665,037.89	1,883,588.05
Total long-term liabilities	\$211,395,433.72	\$ 39,806,375.71	\$ 11,943,374.31	\$239,258,435.12	\$9,769,526.17

TSSBA Debt - Bonds Payable

Bonds, with interest rates ranging from 2% to 5.5% were issued by the Tennessee State School Bond Authority. The bonds are due serially until 2038 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 (see Note 10 for further details). 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 \$7,288,940.36 at June 30, 2012. Unexpended debt proceeds were \$9,999.63 at June 30, 2012.

Debt service requirements to maturity for the University's portion of TSSBA bonds at June 30, 2012, are as follows:

For the Year(s) Ending June 30	Principal	Interest	Total
2013	7,885,938.12	6,893,920.82	14,779,858.94
2014	7,998,668.47	6,545,780.08	14,544,448.55
2015	8,192,971.62	6,202,099.23	14,395,070.85
2016	8,383,267.30	5,855,691.68	14,238,958.98
2017	8,795,666.91	5,457,912.16	14,253,579.07
2018-2022	45,562,197.12	21,044,152.49	66,606,349.61
2023-2027	37,933,617.77	10,431,293.08	48,364,910.85
2028-2032	10,880,248.93	2,953,986.08	13,834,235.01
2033-2037	4,467,112.07	1,057,117.25	5,524,229.32
2038	-	58,195.44	58,195.44
Total	\$140,099,688.31	\$66,500,148.31	\$206,599,836.62

TSSBA Debt - Commercial Paper

The Tennessee State School Bond Authority issues commercial paper to finance costs of various capital projects during the construction phase. When projects are placed in service, long-term, fixed-rate debt is issued by TSSBA to finance the project over its useful payback period and the commercial paper is redeemed. The amount outstanding for projects at Middle Tennessee State University was \$74,338,785.81 at June 30, 2012.

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>.

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 only a portion of 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, 2012, net appreciation of \$15,831.61 is available to be spent, of which \$13.47 is included in restricted net assets expendable for scholarships and fellowships and \$15,818.14 is included in restricted net assets expendable for loans.

9. Unrestricted Net Assets

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

	<u>June 30, 2012</u>
Working capital	\$ 4,215,387.71
Encumbrances	1,362,257.50
Designated fees	2,901,358.05
Auxiliaries	4,138,025.10
Plant construction	36,374,837.81
Renewal and replacement of equipment	54,586,303.70
Debt retirement	482,333.96
Undesignated balance	12,618,070.11
Total	<u>\$116,678,573.94</u>

10. Pledged Revenues

The University has pledged certain revenues and fees, including state appropriations, to repay \$140,099,688.31 in revenue bonds issued from March 2004 to September 2010. 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; 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 the Ingram Building. The bonds are payable through 2037. Annual principal and interest payments on the bonds are expected to require less than 4.8% of available revenues. The total principal and interest remaining to be paid on the bonds is \$206,599,836.62. Principal and interest paid for the current year and total available revenues were \$14,880,368.36 and \$308,229,542.11, 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 SETHEEPP. That report is available on the state's Web site at 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 15.03% 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, 2012, 2011, and 2010 were \$7,481,791.25, \$6,714,529.05, and \$5,982,087.97, 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), ING Life 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, 2012, was \$8,429,029.55 and for the year ended June 30, 2011, was \$7,885,925.09. 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 Employee Group 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 for the state plan and TCA 8-27-701 for the Medicare Supplement Plan. Prior to reaching the age of 65, all members had the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state’s retirement system may participate in the Medicare Supplement Plan. That plan 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. Administrative costs of the plan are allocated to plan participants. Retired employees who have not reached the age of 65 pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. Retired employees who are 65 years of age or older have flat rate premium subsidies based on years of service. Retirees with 30 years of service receive \$50 per month; 20 but less than 30 years, \$37.50; and less than 20 years, \$25.

Contributions for the State Employee Group Plan for the year ended June 30, 2012, were \$23,766,951.07, which consisted of \$19,332,328.26 from the University and \$4,434,622.81 from the employees.

Annual OPEB Cost and Net OPEB Obligation

	State Plan
Annual Required Contribution (ARC)	\$ 3,468,000.00
Interest on the Net Postemployment Obligation (NPO)	400,903.11
Adjustment to the ARC	(425,551.01)
Annual OPEB Cost	3,443,352.10
Amount of Contribution	(2,652,395.44)
Increase/Decrease in NPO	790,956.66
Net OPEB Obligation - Beginning of Year	10,022,577.66
Net OPEB Obligation - End of Year	<u>\$10,813,534.32</u>

Year-End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-End
6/30/2012	State Employee Group Plan	\$3,443,352.10	77.0%	\$10,813,534.32
6/30/2011	State Employee Group Plan	\$3,909,888.85	57.7%	\$10,022,577.66
6/30/2010	State Employee Group Plan	\$4,299,921.48	41.6%	\$ 8,370,476.42

FUNDED STATUS AND FUNDING PROGRESS. The funded status of the plan as of July 1, 2011, was as follows:

Actuarial Valuation Date	July 1, 2011
Actuarial Accrued Liability (AAL)	\$ 27,510,000.00
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 27,510,000.00
Actuarial Value of Assets as a % of the AAL	0.0%
Covered Payroll (Active Plan Members)	\$119,509,425.68
UAAL as Percentage of Covered Payroll	23.0%

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 Required Supplementary Information 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, 2011 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.25 percent in fiscal year 2012, decreased to 8.75 percent in fiscal year 2013 and then reduced by decrements to an ultimate rate of 5 percent in fiscal year 2021. All rates include a 2.5 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 \$23,740,390.92 on deposit at June 30, 2012, 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 amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years. 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, 2011, and June 30, 2010, are presented in the Tennessee Comprehensive Annual Financial Report. The CAFR is available on the state's website 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, 2012, was not available. At June 30, 2011, the Risk Management Fund held \$107.6 million in cash and cash equivalents designated for payment of claims.

At June 30, 2012, the scheduled coverage for Middle Tennessee State University was \$923,905,900.00 for buildings and \$321,365,800.00 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 the 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, including the 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 \$56,942,590.25 at June 30, 2012.

OPERATING LEASES. Middle Tennessee State University has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real and personal property were \$459,200.97 and \$60,194.08 respectively for the year ended June 30, 2012. All operating leases are cancelable at the lessee's option.

CONSTRUCTION IN PROGRESS. At June 30, 2012, outstanding commitments under construction contracts totaled \$52,517,234.23 for major projects including parking and transportation improvements; life safety renovations; domestic water and sewer updates; Saunders Fine Arts HVAC; campus lighting; Tucker Theater renovations; underground electrical update; the College of Education building; systems replacement; dorm renovations; several building roof replacements and Campus Rec roof replacement; safety code corrections; improvements to the dairy farm; steam line replacement; Mass Communication renovations; physical plant upgrades; ADA adaptations; Todd Hall air quality upgrades; several buildings' envelope repair; the conference center; the new parking garages; science facilities improvements; renovations to Cope Administration Building; planning for a Concrete Industry building; and the new Student Union, of which \$7,946,257.22 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, 2012, are as follows:

Functional Classification	Natural Classification					
	Salaries	Benefits	Operating	Scholarships	Depreciation	Total
Instruction	\$ 88,344,418.94	\$ 26,492,463.45	\$ 14,903,894.00	\$ -	\$ -	\$129,740,776.39
Research	4,113,097.25	1,109,650.45	2,763,194.26	-	-	7,985,941.96
Public Service	8,110,357.96	2,577,464.67	11,458,256.90	-	-	22,146,079.53
Academic Support	14,739,267.87	5,285,959.79	2,009,699.47	-	-	22,034,927.13
Student Services	14,740,974.23	5,005,922.89	13,846,390.71	-	-	33,593,287.83
Institutional Support	11,829,563.65	4,944,651.09	6,737,550.28	-	-	23,511,765.02
M & O	4,982,472.82	2,280,091.60	15,392,729.45	-	-	22,655,293.87
Scholarships and Fellowships	-	-	-	44,373,788.81	-	44,373,788.81
Auxiliaries	7,313,686.59	2,613,141.94	16,625,752.21	-	-	26,552,580.74
Depreciation	-	-	-	-	22,849,908.78	22,849,908.78
Total Expenses	\$154,173,839.31	\$ 50,309,345.88	\$ 83,737,467.28	\$ 44,373,788.81	\$ 22,849,908.78	\$355,444,350.06

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services, and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling \$8,633,197.70 were reallocated from academic support to the other functional areas.

17. Prior Period Adjustment

In the year ended June 30, 2012, the University began amortizing TSSBA bond premiums and discounts greater than \$100,000 over the life of the bonds. Prior issuances were reviewed for materiality. The University identified fifteen projects with bond premiums exceeding the \$100,000 threshold. Unamortized premiums and discounts of \$5,537,815.89 at June 30, 2011 were recorded. As a result, invested in capital assets, net of related debt, was reduced by \$5,537,815.89 at June 30, 2011.

18. On-Behalf Payments

During the year ended June 30, 2012, the State of Tennessee made payments of \$159,460.74 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 website at <http://tennessee.gov/finance/act/cafr.html>.

19. Component Unit

The Middle Tennessee State University Foundation is a legally separate, tax-exempt organization supporting Middle Tennessee State University. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The 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 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.

During the year ended June 30, 2012, the Foundation made distributions of \$3,167,746.03 to or on behalf of Middle Tennessee State University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Joe Bales, Vice President for Development and University Relations, MTSU, 1301 East Main Street, Murfreesboro, TN 37132.

The Foundation is a nonprofit organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from those of GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the Foundation's financial information in the University's financial report for these differences.

FAIR VALUE 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, 2012:

	Total Fair Value at June 30, 2012	Quoted Prices Level 1	Significant Other Inputs: Level 2	Significant Unobservable Inputs: Level 3
Assets:				
Cash equivalents	\$1,467,053.47	\$ 1,467,053.47	\$ -	\$ -
Certificates of deposit	77,648.74	-	77,648.74	-
U.S. Treasury	1,597,690.22	1,597,690.22	-	-
Corporate stocks	4,101,359.75	4,101,359.75	-	-
Bonds	2,338,367.50	-	2,338,367.50	-
Mutual equity funds	11,960,196.96	11,960,196.96	-	-
Mutual bond funds	4,149,747.80	4,149,747.80	-	-
Equity Trust	1,050,140.00	1,050,140.00	-	-
Cash surrender value of life insurance	349,757.94	349,757.94	-	-
Real estate investment trust	2,798,131.34	-	-	2,798,131.34
Alternative investments	11,488,273.00	-	-	11,488,273.00
Pledges receivable	10,922,931.35	-	-	10,922,931.35
Total Assets	<u>\$52,301,298.07</u>	<u>\$ 24,675,946.14</u>	<u>\$ 2,416,016.24</u>	<u>\$25,209,335.69</u>

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

	Beginning Balance	Total Gains/ Losses, Realized and Unrealized	Purchases, Issuances, and Settlements	Transfers In/ Out of Level 3	Ending Balance
Assets:					
Real estate investment trust	\$ 2,580,574.25	\$ 217,557.09	\$ -	\$ -	\$ 2,798,131.34
Alternative investments	11,074,051.00	(85,778.00)	500,000.00	-	11,488,273.00
Pledges receivable	1,308,534.89	9,614,396.46	-	-	10,922,931.35
Total Assets	<u>\$14,963,160.14</u>	<u>\$9,746,175.55</u>	<u>\$ 500,000.00</u>	<u>\$ -</u>	<u>\$25,209,335.69</u>

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, \$(1,147,352.23) is attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at June 30, 2012.

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. Uninsured bank balances at June 30, 2012 totaled \$8,265,368.97.

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:

	<u>Cost</u>	<u>Market Value</u>
U.S. Treasury	\$ 1,355,067.22	\$ 1,597,690.22
Certificates of deposit	77,299.35	77,648.74
Corporate stocks	3,800,508.99	4,101,359.75
Bonds	3,013,358.34	2,338,367.50
Mutual equity funds	8,461,511.12	11,960,196.96
Mutual bond funds	4,131,710.77	4,149,747.80
Equity Trust	1,000,000.00	1,050,140.00
Cash surrender value of life insurance	N/A	349,757.94
Real estate investment trust	2,500,000.00	2,798,131.34
Alternative investments	7,519,169.00	11,488,273.00
Total investments	<u>\$31,858,624.79</u>	<u>\$39,911,313.25</u>

ALTERNATIVE INVESTMENTS. The Foundation has investments in offshore hedge fund-of-funds. The estimated fair value of these assets is \$11,488,273.00 at June 30, 2012.

The Foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2012. 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. These fair values are estimated using various valuation techniques. 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:

	<u>June 30, 2012</u>
Current pledges	\$ 1,327,248.67
Pledges due in one to five years	4,536,759.92
Pledges due after five years	5,067,566.65
Subtotal	10,931,575.24
Less: Discounts to net present value	(8,643.89)
Total pledges receivable, net	<u>\$10,922,931.35</u>

CAPITAL ASSETS. Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	\$ 2,341,197.28	\$ 665,565.73	\$ -	\$ 103,825.99	\$ 2,902,937.02
Improvements and infrastructure	1,009,439.46	-	-	-	1,009,439.46
Buildings	20,134,880.40	1,755,115.66	-	2,096,888.04	19,793,108.02
Equipment	5,976.12	14,106.79	-	14,106.79	5,976.12
Total	23,491,493.26	2,434,788.18	-	2,214,820.82	23,711,460.62
Less accumulated depreciation					
Improvements and infrastructure	285,085.70	50,471.98	-	-	335,557.68
Buildings	4,647,559.01	495,860.54	-	8,544.31	5,134,875.24
Equipment	747.01	597.61	-	-	1,344.62
Total accumulated depreciation	4,933,391.72	546,930.13	-	8,544.31	5,471,777.54
Capital assets, net	\$18,558,101.54	\$1,887,858.05	\$ -	\$2,206,276.51	\$18,239,683.08

ENDOWMENTS. Middle Tennessee State University Foundation's endowment consists of approximately 550 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. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

INTERPRETATION OF RELEVANT LAW. The Board of Trustees of the Middle Tennessee State University Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as requiring the preservation of the fair value of the original gift, as of the gift date, of the endowment funds absent explicit donor stipulations to the contrary. 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 principal. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is 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, 2012**

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$31,184,260.34	\$3,002,313.79	\$ (13,752.82)	\$34,172,821.31
Board-designated endowment funds	-	5,835,273.73	121,483.08	5,956,756.81
Total funds	<u>\$31,184,260.34</u>	<u>\$8,837,587.52</u>	<u>\$107,730.26</u>	<u>\$40,129,578.12</u>

**Changes in Endowment Net Assets
As of June 30, 2012**

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$29,818,142.66	\$10,633,178.32	\$105,807.41	\$40,557,128.39
Investment return:				-
Investment income	13,903.24	800,512.27	2,655.36	817,070.87
Net depreciation (realized and unrealized)	-	(801,839.18)	5,804.76	(796,034.42)
Total investment return	<u>13,903.24</u>	<u>(1,326.91)</u>	<u>8,460.12</u>	<u>21,036.45</u>
Contributions	1,277,921.43	38,704.12	-	1,316,625.55
Expenditures	-	(402,297.71)	(1,281.89)	(403,579.60)
Appropriation of endowment assets for expenditure	-	(1,460,803.37)	(3,385.53)	(1,464,188.90)
Other changes:				-
Transfers	74,293.01	30,133.07	(1,869.85)	102,556.23
Endowment net assets, end of year	<u>\$31,184,260.34</u>	<u>\$8,837,587.52</u>	<u>\$107,730.26</u>	<u>\$40,129,578.12</u>

FUNDS WITH DEFICIENCIES. From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the foundation is required to retain in a fund of perpetual duration. In accordance with U.S. generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and/or continued appropriation for fees and previously approved budgeted expenditures. At June 30, 2012, deficiencies of this nature totaled \$219,587.76.

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 of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds. 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. The Foundation expects its endowment funds, over time, to provide an average total rate of return of approximately 9 percent annually. Actual returns in any given year may vary from this amount.

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.

SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE. The Foundation has a policy of appropriating for distribution each year 4.5% of the three-year rolling average total fair market value of the endowment. 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 this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 3.5 percent annually. This is consistent with the Foundation's objective 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
Required Supplementary Information
Schedule of Funding Progress
for the year ended June 30, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2009	\$ -	\$38,764,000.00	\$38,764,000.00	0	\$117,734,804.41	32.92%
July 1, 2010	\$ -	\$35,594,000.00	\$35,594,000.00	0	\$110,803,754.02	32.12%
July 1, 2011	\$ -	\$27,510,000.00	\$27,510,000.00	0	\$119,509,425.68	23.02%

The amount reported here for covered payroll relates to the fiscal year in which the valuations were performed, with the exception of the July 1, 2010 actuarial valuation. The covered payroll date for the July 1, 2010 actuarial valuation is July 1, 2009.

**Middle Tennessee State University
Supplementary Information
Supplementary Schedule of Cash Flows - Component Unit
for the year ended June 30, 2012**

CASH FLOWS FROM OPERATING ACTIVITIES	
Gifts and contributions	\$ 6,111,705.76
Grants and contracts	3,753.20
Payments to suppliers and vendors	(2,478,316.51)
Payments for scholarships and fellowships	(1,251,643.55)
Payments to or on behalf of MTSU	(1,398,523.58)
Other receipts (payments)	51,583.13
Net cash provided (used) by operating activities	<u>1,038,558.45</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Private gifts for endowment purposes	<u>1,832,547.62</u>
Net cash provided (used) by noncapital financing activities	<u>1,832,547.62</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from sale of capital assets	432,906.99
Purchase of capital assets and construction	<u>(1,809,788.18)</u>
Net cash provided (used) by capital and related financing activities	<u>(1,376,881.19)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	2,534,261.06
Income on investments	823,279.54
Purchase of investments	(5,976,237.78)
Other investing receipts (payments)	<u>(9,852.46)</u>
Net cash provided (used) by investing activities	<u>(2,628,549.64)</u>
Net increase (decrease) in cash and cash equivalents	(1,134,324.76)
Cash and cash equivalents - beginning of year	<u>17,143,170.98</u>
Cash and cash equivalents - end of year (Note 19)	<u>\$ 16,008,846.22</u>
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income/(loss)	\$ 9,607,492.66
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation expense	546,930.13
Endowment income per spending plan	(1,464,188.90)
Change in assets and liabilities:	
Receivables, net	(10,169,022.65)
Prepaid/deferred items	26,347.86
Accounts payable	721,776.90
Other	<u>1,769,222.45</u>
Net cash provided (used) by operating activities	<u>\$ 1,038,558.45</u>
Noncash investing, capital, and financing transactions	
Unrealized gains/(losses) on investments	\$ (1,147,352.23)
Gain/(loss) on disposal of capital assets	(4,147.07)
Transfer of capital asset to institution	(1,769,222.45)

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