

Middle Tennessee State University

# Financial Report

for the year ended June 30, 2013

**MIDDLE  
TENNESSEE**  
STATE UNIVERSITY

*Tennessee's Best*



**Middle Tennessee State University**

**FINANCIAL REPORT**  
**for the Year Ended June 30, 2013**



**Office of the President**  
Middle Tennessee State University  
110 Cope Administration Building  
Murfreesboro, TN 37132  
o: 615-898-2622 • f: 615-898-2507



October 14, 2013

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, 2013. This report has been prepared in accordance with accounting principles generally accepted in the United States of America.

Sincerely,

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

Sidney A. McPhee  
President

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 14, 2013

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, 2013.

This report has been prepared in accordance with accounting principles generally accepted in the United States of America. The Financial Report has not been audited. The last audit by the State Comptroller's Office was completed as of June 30, 2012. An audit is currently in progress for fiscal year ended June 30, 2013.

Sincerely,

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

John W. Cothorn  
Senior Vice President

Enclosures



# MIDDLE TENNESSEE STATE UNIVERSITY

## FINANCIAL REPORT

for the Year Ended June 30, 2013

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1013-0558 – 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, 2013**

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, 2013, with comparative information presented for the fiscal year ended June 30, 2012. 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.

The University has one discretely presented component unit, the Middle Tennessee State University foundation. More detailed information about the foundation is presented in Note 18 to the financial statements. This discussion and analysis focuses on the University and does not include the foundation.

## **Overview of the Financial Statements**

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The financial statements are presented on a consolidated basis to focus on the University as a whole. The full scope of the University's activities is considered to be a single business-type activity; accordingly, it is reported within a single column in the basic financial statements.

The University's financial report includes the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. Notes to the financial statements are also presented to provide additional information that is essential to a full understanding of the financial statements.

## **The Statement of Net Position**

The Statement of Net Position is a point-in-time financial statement. The Statement of Net Position presents the financial position of the University at the end of the fiscal year. To aid the reader in determining the University's ability to meet immediate and future obligations, the statement includes all assets, liabilities, deferred outflows/inflows, and net position of the University and segregates the assets and liabilities into current and noncurrent components. Current assets are those that are available to satisfy current liabilities inclusive of assets that will be converted to cash within one year. Current liabilities are those that will be paid within one year. The Statement of Net Position is prepared under the accrual basis of accounting; assets and liabilities are recognized when goods or services are provided or received despite when cash is actually exchanged.



From the data presented, readers of the statement are able to determine the assets available to continue the operations of the University. They are also able to determine how much the University owes vendors, lenders, and others. Net position represents the difference between the University's assets and liabilities, and with the difference between deferred outflows and deferred inflows and is one indicator of the University's current financial condition.

The Statement of Net Position also indicates the availability of net position for expenditure by the University. Net position is divided into three major categories. The first category, net investment in capital assets, represents the University's total investment in property, plant, and equipment, net of outstanding debt obligations related to these capital assets. To the extent debt or deferred inflows of resources has been incurred but not yet expended for capital assets, such amounts are not included. The next category is restricted net position, which is subdivided into two categories, nonexpendable and expendable. Nonexpendable restricted net position includes endowment and similar resources whose use is limited by donors or other outside sources and, as a condition of the gift, the principal is to be maintained in perpetuity. Expendable restricted net position is 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 resources. The final category is unrestricted net position. Unrestricted net position is available to the University for any lawful purpose.

The following table summarizes the University's assets, liabilities, deferred outflows/inflows, and net position at June 30, 2013, and June 30, 2012.

**Statement of Net Position**  
(in thousands of dollars)

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Current assets	\$ 80,087	\$ 90,136
Capital assets, net	462,165	391,669
Other assets	97,103	94,806
<b>Total Assets</b>	<u><b>639,355</b></u>	<u><b>576,611</b></u>
<b>Deferred Outflows of Resources</b>		
Deferred loss on debt refunding	1,904	-
<b>Total Deferred Outflows</b>	<u><b>1,904</b></u>	<u><b>-</b></u>
<b>Liabilities</b>		
Current liabilities	48,155	46,797
Noncurrent liabilities	255,398	229,489
<b>Total Liabilities</b>	<u><b>303,553</b></u>	<u><b>276,286</b></u>
<b>Deferred Inflows of Resources</b>		
Deferred gain on debt refunding	144	-
<b>Total Deferred Inflows</b>	<u><b>144</b></u>	<u><b>-</b></u>
<b>Net Position</b>		
Net investment in capital assets	223,520	178,024
Restricted—expendable	6,023	4,825
Restricted—nonexpendable	819	798
Unrestricted	107,200	116,678
<b>Total Net Position</b>	<u><b>\$337,562</b></u>	<u><b>\$300,325</b></u>

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

- ◆ Current assets decreased due to a decline in receivables from grant accounts at year end. The most significant decrease is attributable to the discontinuance of the Tennessee Department of Children's Services (DCS) grant.
- ◆ The increase in net capital assets, along with the corresponding increase in net investment in capital assets between fiscal years, is a result of additions to the University's capitalized assets. More detailed information about the University's capital assets is presented in the Capital Asset and Debt Administration section of this report.

- ◆ Noncurrent liabilities increased 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.
- ◆ Deferred outflows of resources and deferred inflows of resources is the result of early implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. See Note 1 to the financial statements for more details.
- ◆ The decrease in unrestricted net position is mainly due to an increase in expenses for the fiscal year. Increased expenses related to a 2.5% Cost of Living Allowance salary increase for employees, implementation of a salaries and wages market study, and employee benefits. The University also experienced increases in facilities maintenance and repairs, electricity costs, software costs related to updating student technology resources, and electronic media and database resources used in Walker Library.
- ◆ The remaining allocations remained relatively unchanged.

## **The Statement of Revenues, Expenses, and Changes in Net Position**

The Statement of Revenues, Expenses, and Changes in Net Position presents the results of operations for the fiscal year. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received. The statement indicates whether the University's financial condition has improved or deteriorated during the fiscal year. The statement presents the revenues received by the University, both operating and nonoperating, and the expenses paid by the University, operating and nonoperating, and any other revenues, expenses, gains, or losses received or spent by the University.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided directly to the payor. Although Middle Tennessee State University is dependent upon state appropriations and gifts to fund educational and general operations, under GASB standards these funding sources are reported as nonoperating revenues, as is investment income. As a result, the University has historically reported an excess of operating expenses over operating revenues, resulting in an operating loss. Therefore, the "increase in net position" is more indicative of overall financial results for the year.

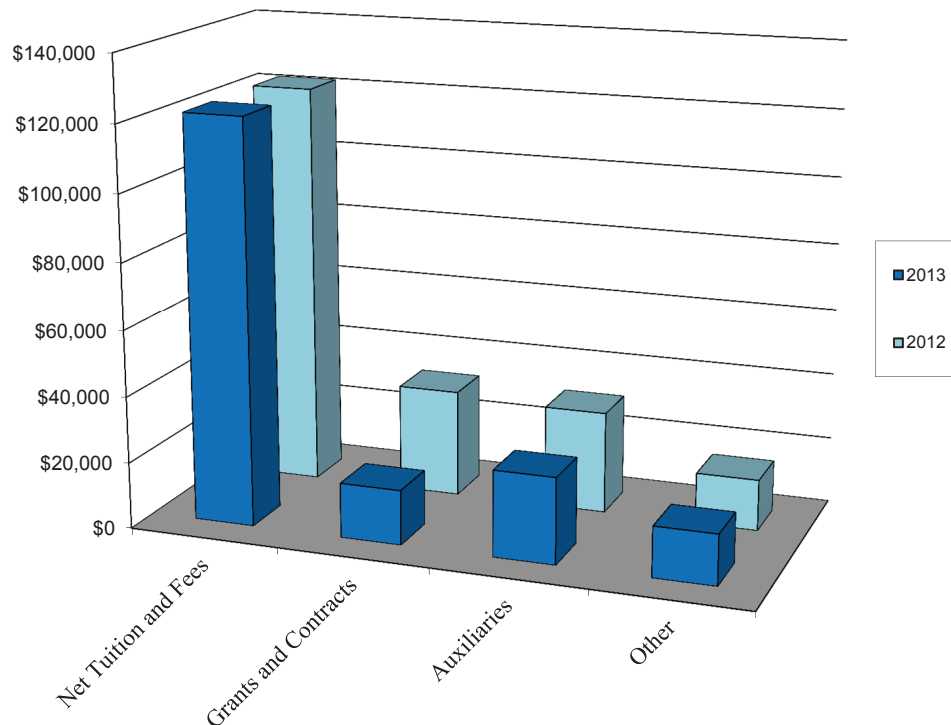
A summary of the University's revenues, expenses, and changes in net position for the year ended June 30, 2013, and June 30, 2012, follows.

**Statement of Revenues, Expenses, and Changes in Net Position**  
(in thousands of dollars)

	<u>2013</u>	<u>2012</u>
Operating revenues	\$179,518	\$200,531
Operating expenses	<u>339,833</u>	<u>355,444</u>
<b>Operating loss</b>	(160,315)	(154,913)
Nonoperating revenues and expenses	<u>155,429</u>	<u>154,634</u>
Income (loss) before other revenues, expenses, gains, or losses	(4,886)	(279)
Other revenues, expenses, gains, or losses	<u>42,562</u>	<u>8,711</u>
<b>Increase (decrease) in net position</b>	37,676	8,432
Net position at beginning of year	300,325	297,431
Prior period adjustment	<u>(439)</u>	<u>(5,538)</u>
<b>Net Position at end of year</b>	<u><u>\$337,562</u></u>	<u><u>\$300,325</u></u>

## Operating Revenues

The following summarizes the operating revenues by source that were used to fund operating activities for the last two fiscal years (in thousands of dollars):



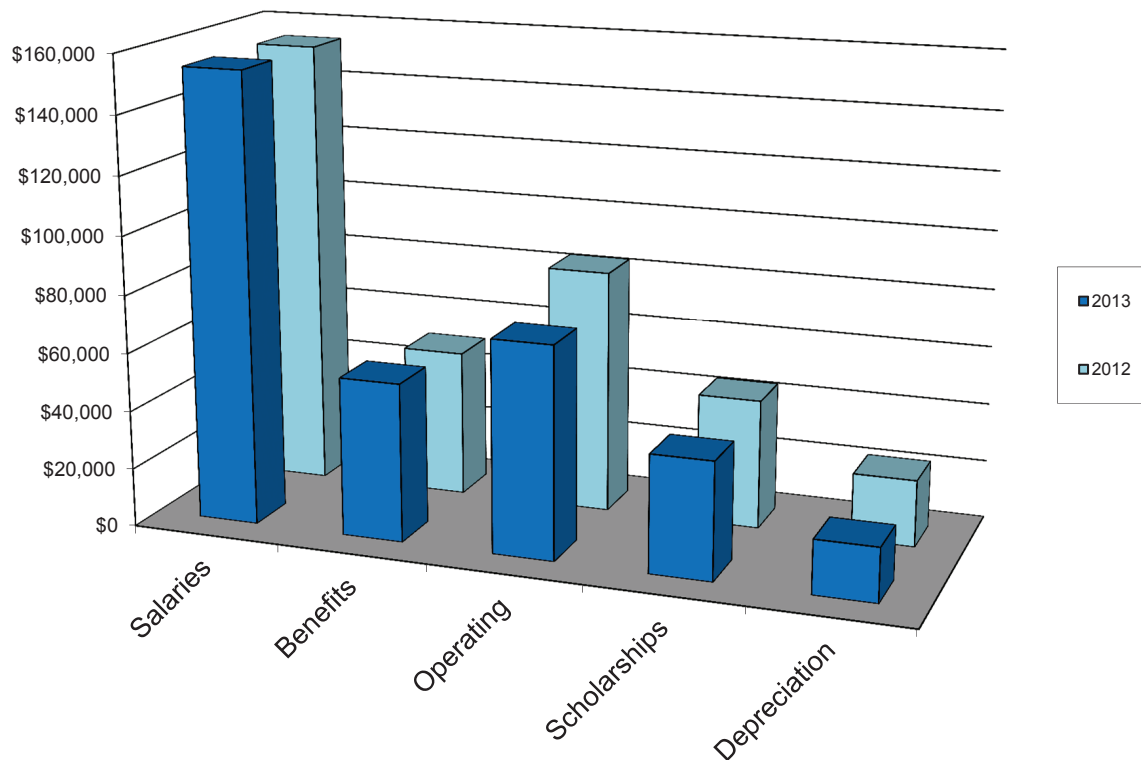
The University had the following significant changes in revenues between fiscal years:

- ◆ Operating grants and contracts decreased mainly as a result of discontinuance of the Tennessee Center for Child Welfare (TCCW) contract due to the decision by DCS to provide in-house training.
- ◆ Auxiliaries decreased due to the University discontinuing bookstore operations. The University entered into an agreement to outsource this service to Follett Higher Education Group Inc. beginning May 2012.
- ◆ Revenues in other areas were relatively unchanged during the fiscal year.



## Operating Expenses

Operating expenses may be reported by nature or function. The University has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net position and has displayed the functional classification in the notes to the financial statements. The following summarizes the operating expenses by natural classifications for the last two fiscal years (in thousands of dollars):



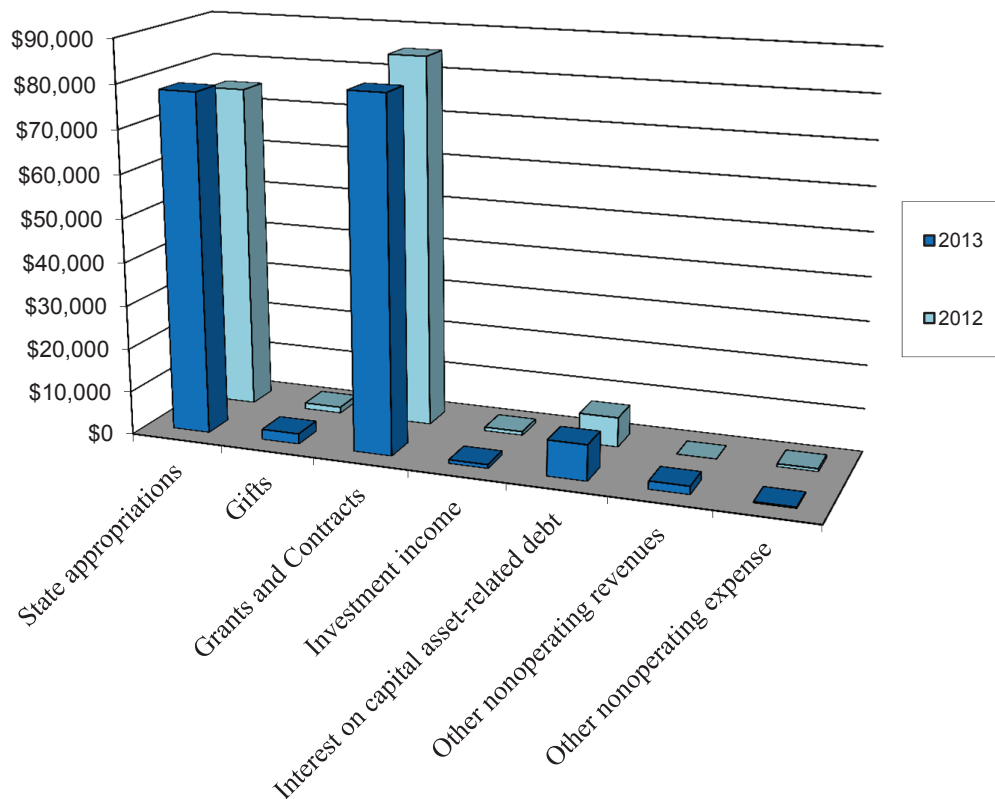
The University had the following significant changes in operating expenses between fiscal years:

- ◆ Employee benefits expense increased, with a corresponding decrease in scholarship expense, due to changes in the accounting treatment for graduate assistantships with service requirements. The University will no longer account for the tuition and fee waiver as a scholarship but will recognize a benefits expense for the waiver amount provided to the graduate assistant.
- ◆ Operating expenses decreased primarily as a result of discontinuance of the TCCW operations.

- ◆ Depreciation expense decreased due to a change in accounting estimate that was made in the prior fiscal year. During fiscal year 2012, it was determined that periodicals were more appropriately expensed, which resulted in a significant depreciation expense in the prior year.
- ◆ Other expense categories remained relatively unchanged between fiscal years.

## **Nonoperating Revenues and Expenses**

Certain revenue sources that the University relies on to provide funding for operations, including state noncapital appropriations, certain gifts and grants, and investment income, are defined by the GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University's nonoperating revenues and expenses for the last two fiscal years (in thousands of dollars):

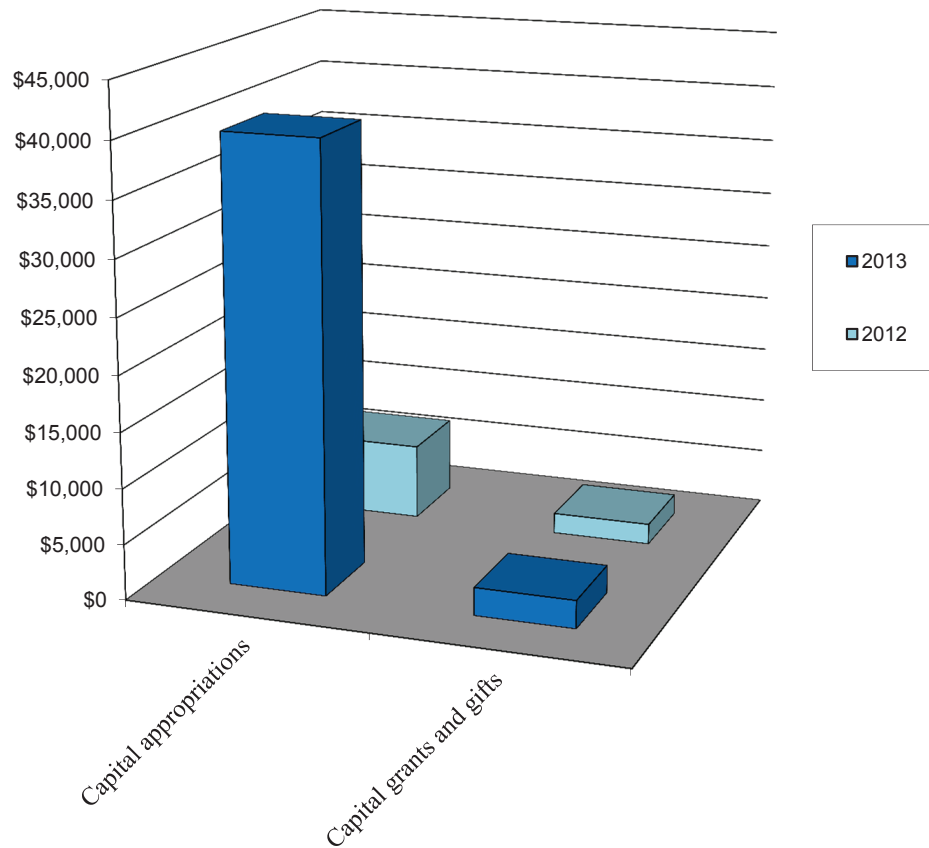


The University had the following significant changes in nonoperating expenses between fiscal years:

- ◆ The University experienced an increase in state appropriations resulting from enhancement funds included in the governor's budget to cover improvements under the THEC Outcomes-Based Funding Formula. These improvement funds offset a 2.1% decrease for higher education in state funding for 2012–13.
- ◆ Nonoperating grants and contracts decreased as a result of discontinuance of State Fiscal Stabilization Funds under the American Recovery and Reinvestment Act and a decrease in the University's federal PELL award. There was a decrease in scholarships from the Tennessee Education Lottery Scholarship program as well.
- ◆ Interest on capital asset–related debt increased with the issuance of bonds by TSSBA on August 1, 2012, for two projects: construction of a new Student Union Building and renovation of the Deere and Nicks housing facilities. Along with this bond issue, TSSBA refunded several of the University's previously issued bonds, resulting in interest savings on these projects. Detailed information related to this refunding is presented in Note 7 to the financial statements.
- ◆ Other categories were relatively unchanged during the fiscal year.

## Other Revenues

This category is composed of state appropriations for capital purposes, capital grants and gifts, and additions to permanent endowments. These amounts were as follows for the last two fiscal years (in thousands of dollars):



- ◆ Capital appropriations increased mainly as a result of capital expenditures incurred on the new science building currently under construction. Appropriations for other significant projects during the year include an updated HVAC system for Murphy Center, underground electrical system upgrades, Learning Resources Center improvements, and a roof replacement for Walker Library. More detailed information about the University's capital assets is presented in the Capital Asset section of this report.

## Capital Asset and Debt Administration

### Capital Assets

Middle Tennessee State University had \$462.2 million invested in capital assets, net of accumulated depreciation of \$208.5 million at June 30, 2013; and \$391.7 million invested in capital assets, net of accumulated depreciation of \$193.9 million at June 30, 2012. Depreciation charges totaled \$18.5 million and \$22.9 million for the years ended June 30, 2013, and June 30, 2012, respectively.

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

	2013	2012
Land	\$ 16,218	\$ 12,607
Land improvements and infrastructure	37,627	40,048
Buildings	276,192	219,929
Equipment	18,697	20,409
Library holdings	2,421	2,478
Intangible assets	1,304	1,703
Projects in progress	109,706	94,495
Total	<u>\$462,165</u>	<u>\$391,669</u>

Significant additions to capital assets occurred in fiscal year 2013. These additions were mainly from the purchase of the Bell Street Center property and parking garage completion of the following major projects: new Student Union building, football stadium club level improvements, and dairy farm building improvements. Various projects in progress at the University include the following: Bell Street Center renovations, campus lighting improvements, underground electric upgrade, Learning Resources Center improvements, and construction of the new science building and student services building.

At June 30, 2013, outstanding commitments under construction contracts totaled \$83.1 million for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund \$54.8 million of these costs.

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



## Debt

The University had \$245.8 million and \$219.6 million in debt outstanding at June 30, 2013, and June 30, 2012, respectively. The table below summarizes these amounts by type of debt instrument.

### Outstanding Debt Schedule (in thousands of dollars)

	2013	2012
TSSBA bonds	\$208,171	\$145,254
TSSBA commercial paper	37,654	74,339
Total Debt	<u>\$245,825</u>	<u>\$219,593</u>

The TSSBA issued bonds with interest rates ranging from .18% to 5.0% due serially until 2042 on behalf of Middle Tennessee State University. The University is responsible for the debt service of these bonds. The current portion of the \$208.2 million outstanding at June 30, 2013, is \$9.3 million.

The TSSBA issued commercial paper with variable interest rates on behalf of Middle Tennessee State University. The University is responsible for the debt service of the commercial paper. The outstanding amount at June 30, 2013 is \$37.7 million.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2013, were as follows:

Fitch	AA+
Moody's Investor Service	Aa1
Standard & Poor's	AA

More 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 implementation of the final year of the phase-in of the THEC Outcomes Based Funding Formula, which was a reduction in state funding for the University. It also included some enhancement funds to cover improvements under the formula. The combination resulted in a small budget increase for the University.

The new fiscal year budget also included a 1.5% Cost of Living Allowance (COLA) across-the-board salary increase for state employees effective July 1, 2013. 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.

In addition, the state budget included some capital maintenance funds for the University to replace the Murphy Center roof and install a central plant cooling tower.

Fall enrollment is tracking downward again this year. Although final enrollments won't be counted until the 14th day census, it appears the University will experience growth in the entering freshman class following two years of minor declines in these numbers.

The Tennessee Board of Regents approved a 5.7% tuition increase at its June 2013 meeting for the University. New funds from this increase will (1) replace part of the reduced state appropriations; (2) cover some inflationary cost; (3) cover the University's portion of the state 1.5% salary increase; (4) provide some funds to help ensure that facilities, technology, and adequate resources are available to support student success; and (5) provide funds for new tenure-track faculty positions and some academic infrastructure improvements.



# **BASIC FINANCIAL STATEMENTS**

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**Middle Tennessee State University**  
**Unaudited Statement of Net Position**  
**June 30, 2013**

	<u>University</u>	<u>Component Unit</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Notes 2 and 18)	\$ 62,916,681.35	\$ 2,446,782.36
Accounts, notes, and grants receivable (net) (Note 4)	13,549,099.13	-
Due from component unit	1,592,894.40	-
Pledges receivable (net) (Note 18)	-	1,539,371.15
Inventories (at lower of cost or market)	725,812.33	-
Prepaid expenses	1,277,705.16	19,060.00
Accrued interest receivable	25,217.42	27,144.41
Total current assets	<u>80,087,409.79</u>	<u>4,032,357.92</u>
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 18)	93,484,001.43	15,465,129.17
Investments (Notes 3 and 18)	784,063.44	48,303,026.55
Accounts, notes, and grants receivable (net) (Note 4)	2,835,473.37	-
Pledges receivable (net) (Note 18)	-	9,244,113.35
Capital assets (net) (Notes 5 and 18)	462,164,557.33	17,692,752.95
Total noncurrent assets	<u>559,268,095.57</u>	<u>90,705,022.02</u>
Total assets	<u><u>639,355,505.36</u></u>	<u><u>94,737,379.94</u></u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred loss on debt refunding	1,903,736.93	
Total deferred outflows of resources	<u><u>1,903,736.93</u></u>	
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable (Note 6)	3,869,306.24	102,700.79
Accrued liabilities	18,858,525.94	-
Due to primary government	-	1,592,894.40
Student deposits	991,355.92	-
Unearned revenue	10,992,806.47	-
Compensated absences (Note 7)	1,874,214.40	-
Accrued interest payable	1,558,395.19	-
Long-term liabilities, current portion (Note 7)	9,297,710.44	-
Deposits held in custody for others	712,584.80	-
Total current liabilities	<u>48,154,899.40</u>	<u>1,695,595.19</u>
Noncurrent liabilities:		
Net OPEB obligation (Note 11)	11,781,847.71	-
Compensated absences (Note 7)	4,669,786.65	-
Long-term liabilities (Note 7)	236,527,026.14	-
Due to grantors (Note 7)	2,419,842.96	-
Total noncurrent liabilities	<u>255,398,503.46</u>	<u>-</u>
Total liabilities	<u><u>303,553,402.86</u></u>	<u><u>1,695,595.19</u></u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred gain on debt refunding	144,269.07	
Total deferred inflows of resources	<u><u>144,269.07</u></u>	
<b>NET POSITION</b>		
Net investment in capital assets	223,520,044.62	17,692,752.95
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	10,900.00	31,243,525.88
Research	-	949,378.35
Instructional department uses	-	4,616,983.29
Other	808,130.27	25,295.99
Expendable:		
Scholarships and fellowships	78,222.10	13,695,026.69
Research	75,882.13	210,078.17
Instructional department uses	231,389.59	9,295,114.92
Loans	1,881,368.21	-
Capital projects	1,000,000.00	12,495,523.49
Debt service	549,133.86	-
Other	2,207,010.96	1,412,685.51
Unrestricted	107,199,488.62	1,405,419.51
Total net position	<u><u>\$337,561,570.36</u></u>	<u><u>\$93,041,784.75</u></u>

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



**Middle Tennessee State University**  
**Unaudited Statement of Revenues, Expenses, and Changes in Net Position**  
**for the year ended June 30, 2013**

	<u>University</u>	<u>Component Unit</u>
<b>REVENUES</b>		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$56,430,300.10)	\$121,815,670.17	-
Gifts and contributions	-	\$ 9,133,553.91
Endowment income (per spending plan)	-	1,584,310.28
Governmental grants and contracts	15,151,852.80	-
Non-governmental grants and contracts	1,355,485.84	7,920.21
Sales and services of educational departments	722,696.58	-
Sales and services of other activities	13,864,592.43	-
Auxiliary enterprises:		
Residential life (net of scholarship allowances of \$4,417,305.08: all residential life revenues are used as security for revenue bonds, see Note 9)	9,533,512.59	-
Bookstore	810,819.68	-
Food service	2,010,224.00	-
Wellness facility (net of scholarship allowances of \$932,885.41: all wellness facility revenues are used as security for revenue bonds, see Note 9)	2,012,616.65	-
Other auxiliaries	11,596,369.46	-
Interest earned on loans to students	93,433.56	-
Other operating revenues	550,409.62	52,693.36
Total operating revenues	<u>179,517,683.38</u>	<u>10,778,477.76</u>
<b>EXPENSES</b>		
Operating expenses:		
Salaries and wages	154,309,705.01	-
Benefits	54,279,760.30	-
Utilities, supplies, and other services	72,604,418.70	3,599,345.03
Scholarships and fellowships	40,169,803.30	1,421,225.99
Depreciation expense	18,469,435.39	546,930.13
Payments to or on behalf of MTSU	-	4,799,367.36
Total operating expenses	<u>339,833,122.70</u>	<u>10,366,868.51</u>
Operating income (loss)	<u>(160,315,439.32)</u>	<u>411,609.25</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	78,114,161.00	-
Gifts, including \$2,319,817.48 from component unit	2,386,857.48	-
Grants and contracts	80,677,931.00	-
Investment income (net of investment expense of \$10,881.33 for the university and \$129,530.24 for the component unit)	883,962.74	3,322,135.60
Interest on capital asset-related debt	(8,220,975.89)	-
Bond issuance costs	(304,565.06)	-
Other nonoperating revenues/(expenses)	1,891,907.82	(1,852.46)
Net nonoperating revenues	<u>155,429,279.09</u>	<u>3,320,283.14</u>
Income (Loss) before other revenues, expenses, gains, or losses	<u>(4,886,160.23)</u>	<u>3,731,892.39</u>
Capital appropriations	40,042,708.04	-
Capital grants and gifts, including \$2,479,549.88 from component unit	2,519,549.88	-
Additions to permanent endowments	-	5,391,628.53
Total other revenues	<u>42,562,257.92</u>	<u>5,391,628.53</u>
Increase (decrease) in net position	<u>37,676,097.69</u>	<u>9,123,520.92</u>
<b>NET POSITION</b>		
Net position - beginning of year	300,325,361.61	83,918,263.83
Prior period adjustment (Note 16)	(439,888.94)	-
Net position - end of year	<u>\$337,561,570.36</u>	<u>\$93,041,784.75</u>

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

**Middle Tennessee State University**  
**Unaudited Statement of Cash Flows**  
**for the year ended June 30, 2013**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Tuition and fees	\$123,507,638.61
Grants and contracts	23,481,393.51
Sales and services of educational activities	725,520.78
Sales and services of other activities	13,225,480.93
Payments to suppliers and vendors	(72,055,979.60)
Payments to employees	(155,060,698.54)
Payments for benefits	(52,558,656.14)
Payments for scholarships and fellowships	(40,169,803.30)
Loans issued to students	(37,483.25)
Collection of loans from students	86,055.71
Interest earned on loans to students	95,277.60
Auxiliary enterprise charges:	
Residence halls	9,930,561.43
Bookstore	1,486,145.42
Food services	1,316,448.07
Wellness facility	2,036,938.65
Other auxiliaries	11,725,266.24
Other receipts (payments)	475,409.62
Net cash provided (used) by operating activities	<u>(131,790,484.26)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State appropriations	78,331,500.00
Gifts and grants received for other than capital or endowment purposes, including \$2,319,817.48 from component unit	82,667,609.69
Federal/State student loan receipts	122,033,596.02
Federal/State student loan disbursements	(122,307,258.36)
Changes in deposits held for others	(89,675.58)
Other noncapital financing receipts (payments)	117,217.19
Net cash provided (used) by noncapital financing activities	<u>160,752,988.96</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Proceeds from capital debt	65,538,002.65
Capital-state appropriation	40,042,708.04
Capital grants and gifts received, including \$2,081,483.70 from component unit	2,121,483.70
Proceeds from sale of capital assets	9,999.95
Purchase of capital assets and construction	(88,603,412.48)
Principal paid on capital debt and lease	(40,342,998.72)
Interest paid on capital debt and lease	(8,562,581.71)
Bond issue costs paid on new debt issue	(304,565.06)
Other capital and related financing receipts (payments)	1,718,623.38
Net cash provided (used) by capital and related financing activities	<u>\$ (28,382,740.25)</u>

**Middle Tennessee State University  
Unaudited Statement of Cash Flows  
for the year ended June 30, 2013**

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from sales and maturities of investments	\$ 613,050.30
Income on investments	871,030.70
Purchase of investments	(650,797.45)
<b>Net cash provided (used) by investing activities</b>	<u>833,283.55</u>
Net increase (decrease) in cash and cash equivalents	1,413,048.00
Cash and cash equivalents - beginning of year	154,987,634.78
Cash and cash equivalents - end of year (Note 2)	<u><u>\$ 156,400,682.78</u></u>

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

Operating income/(loss)	\$(160,315,439.32)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation expense	18,469,435.39
Other adjustments	128,661.00
Change in assets, liabilities, and deferrals:	
Receivables, net	8,974,640.83
Inventories	123,313.14
Prepaid items	59,295.93
Other assets	1,844.04
Accounts payable	(2,214,232.94)
Accrued liabilities	813,615.31
Unearned revenues	2,019,714.53
Deposits	84,899.85
Compensated absences	160,891.53
Due to grantors	(48,551.09)
Loans to students	(48,572.46)
<b>Net cash used by operating activities</b>	<u><u>\$(131,790,484.26)</u></u>

**Non-cash investing, capital, or financing transactions**

Gifts in-kind - capital	\$ 62,750.00
Unrealized gains/(losses) on investments	(16,984.79)
Gain/(loss) on disposal of capital assets	(52,493.49)
Trade-in allowance	15,591.00

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

**MIDDLE TENNESSEE STATE UNIVERSITY**  
**Notes to the Financial Statements**  
**June 30, 2013**

**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, 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 18 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.

The University has classified its revenues and expenses as either operating or nonoperating according to the following criteria: Operating revenues and expenses are those that have the characteristics of exchange transactions. Operating revenues include (1) tuition and fees, net of scholarship discounts and allowances; (2) most federal, state, local, and private grants and contracts; (3) sales and services of auxiliary enterprises, net of scholarship discounts and allowances; and (4) interest on institutional loans. Operating expenses include (1) salaries and wages; (2) employee benefits; (3) scholarships and fellowships; (4) depreciation; and (5) utilities, supplies, and other services.

Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other activities that are defined as nonoperating by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement 34, such as state appropriations and investment income.

When both restricted and unrestricted resources are available for use, it is the University's policy to determine whether to use restricted or unrestricted resources first depending upon existing facts and circumstances.

#### 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.

#### 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 Position. 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 Position 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 POSITION

Middle Tennessee State University's net position is classified as follows:

**NET INVESTMENT IN CAPITAL ASSETS.** 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 net investment in capital assets.

**RESTRICTED NET POSITION–NONEXPENDABLE.** Nonexpendable restricted net position consists 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 POSITION–EXPENDABLE.** Restricted expendable net position includes resources in which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

**UNRESTRICTED NET POSITION.** Unrestricted net position represents 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 discounts and allowances in the statement of revenues, expenses, and changes in net position. 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.

#### EARLY IMPLEMENTATION OF ACCOUNTING PRONOUNCEMENT

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Middle Tennessee State University has elected to early implement the provisions of this statement for fiscal year 2013.

## 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, 2013, cash and cash equivalents consists of \$77,554,258.43 in bank accounts; \$35,270.00 of petty cash on hand; \$64,305,017.16 in the State of Tennessee Local Government Investment Pool administered by the state treasurer; \$14,482,070.36 in the LGIP Deposits–Capital Projects account; and \$24,066.83 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, 2013, Middle Tennessee State University had the following investments and maturities.

Investment Type	Fair Value	Investment Maturities (in Years)				
		Less than 1	1 to 5	6 to 10	More than 10	No Maturity Date
Corporate bonds	\$158,782.00	\$50,047.00	\$ -	\$108,735.00	\$ -	\$ -
Corporate stocks	-	-	-	-	-	-
Mutual bond funds	317,248.16	-	-	-	-	317,248.16
Mutual equity funds	286,999.47	-	-	-	-	286,999.47
Exchange traded funds	21,033.81	-	-	-	-	21,033.81
Total	<u>\$784,063.44</u>	<u>\$50,047.00</u>	<u>\$ -</u>	<u>\$108,735.00</u>	<u>\$ -</u>	<u>\$625,281.44</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 Poor's, Moody's, and/or Fitch's and are presented below using the Standard 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, 2013, the University's investments were rated as follows:

Investment Type	Fair Value	Credit Quality Rating			
		A	A-	AA-	Unrated
LGIP	\$78,787,087.52	\$ -	\$ -	\$ -	\$78,787,087.52
Corporate bonds	158,782.00	54,244.50	54,490.50	50,047.00	-
Mutual bond funds	317,248.16	-	-	-	317,248.16
Other	308,033.28	-	-	-	308,033.28
Total	\$79,571,150.96	\$54,244.50	\$54,490.50	\$50,047.00	\$79,412,368.96

**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, 2013, Middle Tennessee State University had \$ 784,063.44 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:

	<b>June 30, 2013</b>
Student accounts receivable	\$ 7,699,651.08
Grants receivable	5,340,202.39
Notes receivable	154,346.34
Other receivables	2,786,264.76
Subtotal	\$15,980,464.57
Less allowance for doubtful accounts	(2,431,365.44)
Total	<u>\$13,549,099.13</u>

Federal Perkins Loan Program funds include the following:

	<b>June 30, 2013</b>
Perkins Loans receivable	\$3,726,802.28
Less allowance for doubtful accounts	(891,328.91)
Total	<u>\$2,835,473.37</u>

#### 5. Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Transfers</b>	<b>Reductions</b>	<b>Ending Balance</b>
Land	\$ 12,606,624.25	\$ 3,611,125.75	\$ -	\$ -	\$ 16,217,750.00
Improvements and infrastructure	67,241,976.52	-	573,613.11	-	67,815,589.63
Buildings	345,658,130.93	797,700.00	65,367,900.91	116,678.55	411,707,053.29
Equipment	54,627,408.69	2,654,019.64	136,878.28	2,900,970.26	54,517,336.35
Library holdings	6,373,441.76	539,117.36	-	947,277.29	5,965,281.83
Intangible assets	4,611,425.27	-	110,078.00	-	4,721,503.27
Projects in progress	94,494,783.33	81,399,515.91	(66,188,470.30)	-	109,705,828.94
<b>Total</b>	<u>585,613,790.75</u>	<u>89,001,478.66</u>	<u>-</u>	<u>3,964,926.10</u>	<u>670,650,343.31</u>
<b>Less accumulated depreciation</b>					
Improvements and infrastructure	27,193,584.15	2,994,882.89	-	-	30,188,467.04
Buildings	125,728,869.20	9,902,071.32	-	116,678.55	135,514,261.97
Equipment	34,217,836.20	4,467,013.20	-	2,864,067.80	35,820,781.60
Library holdings	3,895,463.26	596,528.20	-	947,277.29	3,544,714.17
Intangible assets	2,908,621.42	508,939.78	-	-	3,417,561.20
<b>Total accumulated depreciation</b>	<u>193,944,374.23</u>	<u>18,469,435.39</u>	<u>-</u>	<u>3,928,023.64</u>	<u>208,485,785.98</u>
<b>Capital assets, net</b>	<u>\$391,669,416.52</u>	<u>\$70,532,043.27</u>	<u>\$ -</u>	<u>\$ 36,902.46</u>	<u>\$462,164,557.33</u>

The University has elected not to capitalize several campus collections consisting mainly of historical treasures. These collections are held in the Center for Popular Music, Center for Historical Preservation, and the Albert Gore Research Center. This election not to capitalize is based on the collections being held for public exhibition, education, and research in furtherance of public service rather than financial gain. The collections are protected, cared for, and preserved by custodians in each of the various areas. The University allows departments to retain proceeds from sales of large capital assets and collections for the acquisition of replacement items.

## 6. Accounts Payable

Accounts payable included the following:

	June 30, 2013
Vendors payable	\$3,732,859.97
Unapplied student payments	122,908.59
Other payables	13,537.68
<b>Total</b>	<b>\$3,869,306.24</b>

## 7. Long-term Liabilities

Long-term liability activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables					
TSSBA Debt:					
Bonds	\$140,099,688.31	\$ 92,229,503.41	\$ 39,355,519.92	\$192,973,671.80	\$ 9,297,710.44
Unamortized bond premium/discount	5,154,923.11	11,244,405.53	1,202,094.20	15,197,234.44	-
Commercial paper	74,338,785.81	27,691,836.06	64,376,791.53	37,653,830.34	-
Subtotal	219,593,397.23	131,165,745.00	104,934,405.65	245,824,736.58	9,297,710.44
Other liabilities					
Compensated absences	6,383,109.52	3,580,267.80	3,419,376.27	6,544,001.05	1,874,214.40
Due to grantors	2,468,394.05	813,239.00	861,790.09	2,419,842.96	-
Subtotal	8,851,503.57	4,393,506.80	4,281,166.36	8,963,844.01	1,874,214.40
Total long-term liabilities	\$228,444,900.80	\$135,559,251.80	\$109,215,572.01	\$254,788,580.59	\$11,171,924.84

### TSSBA Debt - Bonds Payable

Bonds with interest rates ranging from .18% to 5.0% were issued by the Tennessee State School Bond Authority. The bonds are due serially until 2042 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 9 for further details). The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the Statement of Net Position is shown net of assets held by the authority in the debt service reserve and net of unexpended debt proceeds. The reserve amount was \$7,272,766.06 at June 30, 2013. Unexpended debt proceeds were \$3,364,067.52 at June 30, 2013.

Debt service requirements to maturity for the University's portion of TSSBA bonds at June 30, 2013, are as follows:

<b>For the Year(s) Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2014	\$ 9,297,710.44	\$ 9,186,196.22	\$ 18,483,906.66
2015	9,437,208.81	8,809,816.07	18,247,024.88
2016	9,679,357.79	8,389,467.80	18,068,825.59
2017	10,152,800.33	7,930,786.85	18,083,587.18
2018	10,466,403.87	7,470,829.51	17,937,233.38
2019–2023	52,153,894.82	29,933,025.85	82,086,920.67
2024–2028	45,942,039.87	17,966,240.24	63,908,280.11
2029–2033	19,916,937.99	9,046,852.38	28,963,790.37
2034–2038	16,667,622.40	4,900,644.49	21,568,266.89
2039–2042	9,259,695.48	1,050,829.85	10,310,525.33
<b>Total</b>	<b>\$192,973,671.80</b>	<b>\$104,684,689.26</b>	<b>\$297,658,361.06</b>

### **TSSBA Debt - Commercial Paper**

The Tennessee State School Bond Authority issues commercial paper to finance costs of various capital projects during the construction phase. When 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 \$37,653,830.34 at June 30, 2013.

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 website at <http://tn.gov/comptroller/bf/tssbacafr.htm>.

### **Refunding of Debt**

On August 1, 2012, the state issued \$29,155,556.30 in revenue bonds with an average interest rate of 4.21 percent to advance refund \$30,294,208.37 of outstanding 2004–2006 Series bonds with an average interest rate of 4.42 percent. The net proceeds of \$32,532,637.99 (after payment of \$94,635.42 in underwriter's fees and issuance costs) were deposited with an escrow agent to provide for all future debt service payments on the 2004–2006 Series bonds. As a result, the 2004–2006 Series bonds are considered to be defeased and the liability for those bonds has been removed from the University's long-term liabilities.

Although the advance refunding resulted in the recognition of a deferred loss of \$1,895,950.82 to be amortized over the next 16 years, the University in effect reduced its aggregate debt service payments by \$4,218,028.06 over the next 20 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$3,123,429.92.

## **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, 2013, net appreciation of \$13,001.12 is available to be spent, of which \$14.53 is included in restricted net position, expendable for scholarships and fellowships and \$12,986.59 is included in restricted net position, expendable for loans.

## **9. Pledged Revenues**

The University has pledged certain revenues and fees, including state appropriations, to repay \$192,973,671.80 in revenue bonds issued from March 2004 to August 2012. 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; purchase of the Ingram Building; and construction of the new Student Union Building. The bonds are payable through 2042. Annual principal and interest payments on the bonds are expected to require less than 5.7% of available revenues. The total principal and interest remaining to be paid on the bonds is \$297,658,361.06. Principal and interest paid for the current year and total available revenues were \$17,234,469.48 and \$302,492,149.13, respectively. The amount of principal and interest paid for the current year does not include debt of \$30,294,208.37 defeased through a bond refunding in the 2012–13 fiscal year.

## **10. 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 website at [www.state.tn.us/treasury/tcrs/index.html](http://www.state.tn.us/treasury/tcrs/index.html).

**FUNDING POLICY.** Plan members are noncontributory. Middle Tennessee State University is required to contribute at an actuarially determined rate. The current rate is 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, 2013, 2012, and 2011 were \$7,398,445.45, \$7,481,791.25, and \$6,714,529.05, 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, 2013, was \$8,594,085.67 and for the year ended June 30, 2012, was \$8,429,029.55. Contributions met the requirements for each year.

## 11. 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. Before 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. After 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 17). The plans are 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>.

**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, 2013, were \$24,760,482.29, which consisted of \$20,113,110.29 from the University and \$4,647,372.00 from the employees.

### Annual OPEB Cost and Net OPEB Obligation

Annual Required Contribution (ARC)	\$ 3,501,000.00
Interest on the Net OPEB Obligation (NPO)	432,541.37
Adjustment to the ARC	(459,134.44)
Annual OPEB Cost	3,474,406.93
Amount of Contribution	(2,506,093.54)
Increase/Decrease in Net OPEB Obligation	968,313.39
Net OPEB Obligation - Beginning of Year	10,813,534.32
Net OPEB Obligation - End of Year	<u>\$11,781,847.71</u>

<u>Year-End</u>	<u>Plan</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation at Year-End</u>
6/30/2013	State Employee Group Plan	\$3,474,406.93	72.1%	\$11,781,847.71
6/30/2012	State Employee Group Plan	\$3,443,352.09	77.0%	\$10,813,534.32
6/30/2011	State Employee Group Plan	\$3,909,888.85	57.7%	\$10,022,577.66

**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 initially, 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, which also represents the projected salary increase. 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.

## **12. Chairs of Excellence**

Middle Tennessee State University had \$25,124,474.23 on deposit at June 30, 2013, with the state treasurer for its Chairs of Excellence. These funds are held in trust by the state and are not included in these financial statements.

## **13. 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, 2012, and June 30, 2011, 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, 2013, the scheduled coverage for Middle Tennessee State University was \$933,591,300.00 for buildings and \$333,151,200.00 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.

#### **14. 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 \$61,207,200.39 at June 30, 2013.

**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 \$325,895.40 and \$51,450.70 respectively for the year ended June 30, 2013. All operating leases are cancelable at the lessee's option.

**CONSTRUCTION IN PROGRESS.** At June 30, 2013, outstanding commitments under construction contracts totaled \$83,088,425.90 for major projects including parking and transportation improvements; life safety renovations; domestic water and sewer updates; Saunders Fine Arts HVAC; campus lighting; underground electrical update; the LRC building; systems replacement; planning for Middle Tennessee Boulevard; Walker Library roof replacement; physical plant upgrades; several buildings envelope repair; the MT Conference Center; science facilities improvements; renovations to Cope Administration Building; planning for a Concrete Industry building; Murphy Center improvements; and the new Student Union, of which \$54,769,311.15 will be funded by future state capital outlay appropriations.

CONFERENCE USA. In January 2013, Conference USA confirmed the University's membership effective July 1, 2013. The University will pay an initiation fee of \$2,000,000 in four installments of \$500,000. The first installment was paid in December 2012, with the remaining installments payable each December over the next three years. It is anticipated the final three installment payments will be a reduction in conference revenue sharing.

LITIGATION. Middle Tennessee State University is involved in several lawsuits, of which most are not expected to have a material effect on the accompanying financial statements. On March 28, 2013, the Court of Appeals overturned an earlier trial court decision against the University for \$3 million. A petition to appeal was filed in the Tennessee Supreme Court on May 28, 2013, which was granted on September 11, 2013. The Office of Attorney General, on behalf of the University, is in the process of preparing a legal brief, which is due by October 11, 2013.

## 15. Natural Classifications with Functional Classifications

Middle Tennessee State University's operating expenses by functional classification for the year ended June 30, 2013, are as follows:

Functional Classification	Natural Classification					Total
	Salaries	Benefits	Operating	Scholarships	Depreciation	
Instruction	\$ 90,651,878.61	\$30,829,575.17	\$14,846,410.22	\$ -	\$ -	\$136,327,864.00
Research	3,874,285.90	1,213,945.33	2,112,222.50	-	-	7,200,453.73
Public Service	4,734,582.59	1,022,857.41	3,758,088.92	-	-	9,515,528.92
Academic Support	15,342,013.08	5,755,193.57	1,623,349.26	-	-	22,720,555.91
Student Services	15,469,885.14	5,704,600.04	14,644,299.70	-	-	35,818,784.88
Institutional Support	12,428,586.70	5,212,458.16	6,425,064.69	-	-	24,066,109.55
M & O	5,268,539.33	2,389,953.82	17,717,836.78	-	-	25,376,329.93
Scholarships and Fellowships	-	-	-	40,169,803.30	-	40,169,803.30
Auxiliaries	6,539,933.66	2,151,176.80	11,477,146.63	-	-	20,168,257.09
Depreciation	-	-	-	-	18,469,435.39	18,469,435.39
Total Expenses	\$154,309,705.01	\$54,279,760.30	\$72,604,418.70	\$40,169,803.30	\$18,469,435.39	\$339,833,122.70

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 \$9,233,195.61 were reallocated from academic support to the other functional areas.

## 16. Prior Period Adjustment

The University identified overstatements in receivables and associated revenues arising from billings to Greek organizations. These overstatements resulted from two separate processes. First, Greek Row leases state that interest earnings on any idle funds are to be credited to each organization on their respective billing. Interest earnings were credited to retirement of indebtedness accounts; however, adjustments were not made to the billings, resulting in an overstatement of the receivable and revenue amounts. Second, Tennessee State School Bond Authority (TSSBA) amortization schedules reflect semiannual payments based on a principal payment, interest charges, and an administrative charge. Monthly rent amounts were calculated based on the total amount of these three charges; however, TSSBA was not charging the University the administrative charge. Therefore, Greek receivables and the related revenues were overstated for these amounts. A prior period adjustment, along with a reduction in accounts, notes, and grants receivable, was recorded in the amount of \$439,888.94.

## 17. On-Behalf Payments

During the year ended June 30, 2013, the State of Tennessee made payments of \$128,661.00 on behalf of Middle Tennessee State University for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 11. 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>.

## 18. 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 32-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, 2013, the foundation made distributions of \$4,799,367.36 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 University Advancement, 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, 2013:

	<b>Total Fair Value at June 30, 2013</b>	<b>Quoted Prices Level 1</b>	<b>Significant Other Inputs: Level 2</b>	<b>Significant Unobservable Inputs: Level 3</b>
<b>Assets:</b>				
Cash equivalents	\$ 1,706,158.47	\$ 1,628,451.01	\$ 77,707.46	\$ -
U.S. Treasury	1,280,416.98	1,280,416.98	-	-
Corporate stocks	5,060,613.74	5,060,613.74	-	-
Bonds	1,920,956.50	-	1,920,956.50	-
Mutual equity funds	18,297,624.35	18,297,624.35	-	-
Mutual bond funds	3,473,991.90	3,473,991.90	-	-
Equity Trust	1,207,313.00	1,207,313.00	-	-
Cash surrender value of life insurance	430,903.53	-	430,903.53	-
Real estate investment trust	2,973,635.92	-	-	2,973,635.92
Alternative investments	13,657,570.63	-	-	13,657,570.63
Pledges receivable	10,783,484.50	-	-	10,783,484.50
<b>Total Assets</b>	<b><u>\$60,792,669.52</u></b>	<b><u>\$30,948,410.98</u></b>	<b><u>\$2,429,567.49</u></b>	<b><u>\$27,414,691.05</u></b>

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

	<b>Beginning Balance</b>	<b>Total Gains/ Losses, Realized and Unrealized</b>	<b>Purchases, Issuances, and Settlements</b>	<b>Transfers In/Out of Level 3</b>	<b>Ending Balance</b>
<b>Assets:</b>					
Real estate investment trust	\$ 2,798,131.34	\$ 175,504.58	\$ -	\$ -	\$ 2,973,635.92
Alternative investments	11,488,273.00	1,159,856.76	1,000,018.72	9,422.15	13,657,570.63
Pledges receivable	10,922,931.35	(139,446.85)	-	-	10,783,484.50
<b>Total Assets</b>	<b>\$25,209,335.69</b>	<b>\$1,195,914.49</b>	<b>\$1,000,018.72</b>	<b>\$ 9,422.15</b>	<b>\$27,414,691.05</b>

All gains and losses, both realized and unrealized, have been reported on the Statement of Revenues, Expenses, and Changes in Net Position as investment income. Of this total, \$3,329,986.98 is attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at June 30, 2013.

**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, a certificate of deposit, and money market funds. Uninsured bank balances at June 30, 2013, totaled \$9,926,124.17.

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

	<b>Cost</b>	<b>Market Value</b>
U.S. Treasury	\$ 1,048,707.84	\$ 1,280,416.98
Corporate stocks	3,994,750.59	5,060,613.74
Bonds	3,013,358.28	1,920,956.50
Mutual equity funds	13,417,975.46	18,297,624.35
Mutual bond funds	3,552,008.79	3,473,991.90
Equity Trust	1,000,000.00	1,207,313.00
Cash surrender value of life insurance	N/A	430,903.53
Real estate investment trust	2,500,000.00	2,973,635.92
Alternative investments	8,528,203.72	13,657,570.63
<b>Total investments</b>	<b>\$37,055,004.68</b>	<b>\$48,303,026.55</b>

**ALTERNATIVE INVESTMENTS.** The foundation has investments in offshore hedge fund-of-funds. The estimated fair value of these assets is \$13,657,570.63 at June 30, 2013.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2013. 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:

	<b>June 30, 2013</b>
Current pledges	\$ 1,539,371.15
Pledges due in one to five years	5,238,688.73
Pledges due after five years	4,011,900.02
Subtotal	10,789,959.90
Less: Discounts to net present value	(6,475.40)
Total pledges receivable, net	<u>\$10,783,484.50</u>

**CAPITAL ASSETS.** Capital asset activity for the year ended June 30, 2013, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Transfers</b>	<b>Reductions</b>	<b>Ending Balance</b>
Land	\$ 2,902,937.02	\$ -	\$ -	\$ -	\$ 2,902,937.02
Improvements and infrastructure	1,009,439.46	-	-	-	1,009,439.46
Buildings	19,793,108.02	-	-	-	19,793,108.02
Equipment	5,976.12	233,339.92	-	233,339.92	5,976.12
<b>Total</b>	23,711,460.62	233,339.92	-	233,339.92	23,711,460.62
<b>Less accumulated depreciation</b>					
Improvements and infrastructure	335,557.68	50,471.98	-	-	386,029.66
Buildings	5,134,875.24	495,860.54	-	-	5,630,735.78
Equipment	1,344.62	597.61	-	-	1,942.23
<b>Total accumulated depreciation</b>	5,471,777.54	546,930.13	-	-	6,018,707.67
<b>Capital assets, net</b>	<u>\$18,239,683.08</u>	<u>\$(313,590.21)</u>	<u>\$ -</u>	<u>\$233,339.92</u>	<u>\$17,692,752.95</u>

**ENDOWMENTS.** Middle Tennessee State University foundation's endowment consists of approximately 570 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 position 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 position (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 position is classified as temporarily restricted net position 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
7. The investment policies of the foundation

**Composition of Endowment by Net Position Class  
as of June 30, 2013**

	<b>Permanently Restricted</b>	<b>Temporarily Restricted</b>	<b>Unrestricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$36,835,183.51	\$ 5,378,212.59	\$ (4,208.71)	\$42,209,187.39
Board-designated endowment funds	-	6,924,825.72	632,335.21	7,557,160.93
Total funds	<u>\$36,835,183.51</u>	<u>\$12,303,038.31</u>	<u>\$628,126.50</u>	<u>\$49,766,348.32</u>

**Changes in Endowment Net Position  
for the Fiscal Year Ended June 30, 2013**

	<b>Permanently Restricted</b>	<b>Temporarily Restricted</b>	<b>Unrestricted</b>	<b>Total</b>
Endowment net position, beginning of year	\$31,184,260.34	\$ 8,837,587.52	\$107,730.26	\$40,129,578.12
Investment return:				-
Investment income	35,722.31	1,255,396.67	4,077.61	1,295,196.59
Net depreciation (realized and unrealized)	-	3,598,288.62	20,869.85	3,619,158.47
Total investment return	<u>35,722.31</u>	<u>4,853,685.29</u>	<u>24,947.46</u>	<u>4,914,355.06</u>
Contributions	5,391,628.53	603,318.94	-	5,994,947.47
Expenditures	-	(397,185.78)	(1,214.83)	(398,400.61)
Appropriation of endowment assets for expenditure	-	(1,580,973.89)	(3,336.39)	(1,584,310.28)
Other changes:				-
Transfers	223,572.33	(13,393.77)	500,000.00	710,178.56
Endowment net position, end of year	<u>\$36,835,183.51</u>	<u>\$12,303,038.31</u>	<u>\$628,126.50</u>	<u>\$49,766,348.32</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 position. 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, 2013, deficiencies of this nature totaled \$178,587.48.

**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 8.5 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% 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  
OPEB Schedule of Funding Progress  
for the year ended June 30, 2013**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
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, 2013**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Gifts and contributions	\$ 9,273,000.76
Grants and contracts	7,920.21
Payments to suppliers and vendors	(3,116,349.90)
Payments for scholarships and fellowships	(1,421,225.99)
Payments to MTSU	(4,401,301.18)
Other receipts (payments)	52,693.36
Net cash provided (used) by operating activities	<u>394,737.26</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Private gifts for endowment purposes	5,391,628.53
Net cash provided (used) by noncapital financing activities	<u>5,391,628.53</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Purchase of capital assets and construction	(398,066.18)
Net cash provided (used) by capital and related financing activities	<u>(398,066.18)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from sales and maturities of investments	3,875,641.89
Income on investments	1,227,336.43
Purchase of investments	(8,586,360.16)
Other investing receipts (payments)	(1,852.46)
Net cash provided (used) by investing activities	<u>(3,485,234.30)</u>

Net increase (decrease) in cash and cash equivalents	1,903,065.31
Cash and cash equivalents - beginning of year	16,008,846.22
Cash and cash equivalents - end of year (Note 18)	<u><u>\$17,911,911.53</u></u>

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

Operating income/(loss)	\$ 411,609.25
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation expense	546,930.13
Endowment income (per spending plan)	(1,584,310.28)
Change in assets, liabilities, and deferrals:	
Receivables, net	139,446.85
Prepaid items	(16,905.87)
Accounts payable	499,901.00
Other	398,066.18
Net cash used by operating activities	<u><u>\$ 394,737.26</u></u>

**Noncash investing, capital, and financing transactions**

Unrealized gains/(losses) on investments	\$ 3,329,985.99
Transfer of capital asset to institution	(398,066.18)

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