

AUDIT REPORT

Tennessee Board of Regents
Middle Tennessee State University

For the Year Ended
June 30, 2009



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



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**STATE OF TENNESSEE
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DIVISION OF STATE AUDIT**

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May 20, 2010

The Honorable Phil Bredesen, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217

and

Dr. Sidney A. McPhee, President
Middle Tennessee State University
110 Cope Administration Building
Murfreesboro, Tennessee 37132

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Middle Tennessee State University, for the year ended June 30, 2009. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The university's administration has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/vdn
09/080

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Middle Tennessee State University
For the Year Ended June 30, 2009

AUDIT OBJECTIVES

The objectives of the audit were to consider the university's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

INTERNAL CONTROL FINDING

The University Did Not Ensure That Amounts Were Properly Reported in the Foundation's Financial Statements and Accompanying Notes to the Financial Statements

Our audit of the financial statements of Middle Tennessee State University (MTSU)—including its foundation, which is a discretely presented component unit of the university—discovered numerous reporting errors in the financial statements and the notes to the financial statements of the foundation (page 8).

This finding was considered a material weakness. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the university's internal control.

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Middle Tennessee State University
For the Year Ended June 30, 2009

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**Tennessee Board of Regents
Middle Tennessee State University
For the Year Ended June 30, 2009**

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Middle Tennessee State University. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

Middle Tennessee State University was first established in 1911 as Middle Tennessee State Normal School in Murfreesboro, Tennessee. In 1925, when the General Assembly provided for three teachers’ colleges—one in each of the grand divisions—Middle Tennessee State Normal School became Middle Tennessee State Teachers’ College and gained the power to grant the Bachelor of Science degree. The college’s name was changed to Middle Tennessee State College by an act of the legislature in 1943 and to Middle Tennessee State University by a special legislative act in 1965. The university is composed of the Graduate School, the Office of Continuing Studies and Public Service, and six undergraduate colleges: Basic and Applied Sciences, Business, Education and Behavioral Sciences, Honors, Liberal Arts, and Mass Communications.

ORGANIZATION

The governance of Middle Tennessee State University is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Executive Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the university is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 2008, through June 30, 2009, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 2009. Middle Tennessee State University is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the university's internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing opinions on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the institution. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the institution is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the institution.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the institution. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic.

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, promulgated by the American Institute of Certified Public Accountants, requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 2009, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing opinions on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. A material weakness, along with recommendations and management's responses, is detailed in the Finding and Recommendation section.

Compliance and Other Matters

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under generally accepted government auditing standards.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered unqualified opinions on the university's financial statements.



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**Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

March 1, 2010

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and

Dr. Sidney A. McPhee, President
Middle Tennessee State University
110 Cope Administration Building
Murfreesboro, Tennessee 37132

Ladies and Gentlemen:

We have audited the financial statements of Middle Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the year ended June 30, 2009, and have issued our report thereon dated March 1, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the

standards applicable to financial audits contained in generally accepted government auditing standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the university's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the university's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the university's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

The following significant deficiency was noted:

- The university did not ensure that amounts were properly reported in the foundation's financial statements and accompanying notes to the financial statements

This deficiency is described in the Finding and Recommendation section of this report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

March 1, 2010
Page Three

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

We also noted certain matters involving the internal control over financial reporting, which we have reported to the university's management in a separate letter.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the university's financial statements are free of material misstatement, we performed tests of the university's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under generally accepted government auditing standards.

Middle Tennessee State University's response to the finding identified in our audit is included in the Finding and Recommendation section of this report. We did not audit the university's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the Tennessee Board of Regents, and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA
Director

AAH/vdn

FINDING AND RECOMMENDATION

The university did not ensure that amounts were properly reported in the foundation's financial statements and accompanying notes to the financial statements

Finding

Our audit of the financial statements of Middle Tennessee State University (MTSU)—including its foundation, which is a discretely presented component unit of the university—discovered numerous reporting errors in the financial statements and the notes to the financial statements of the foundation. The responsibility for financial reporting for the foundation is split between the Controller, The Director of Accounting Services, and the Foundation Accountant, who is also an employee of the university's business office.

MTSU reports under standards of the Governmental Accounting Standards Board (GASB), while the Middle Tennessee State University Foundation reports under standards of the Financial Accounting Standards Board (FASB). Certain revenue recognition criteria and presentation formats are different in FASB and GASB reporting. The Foundation Accountant prepares FASB financial statements, and the Controller makes any necessary presentation adjustments to compile the GASB statements included in the university's financial report. The scope of our audit includes only the foundation's GASB financial statements and notes included in the university's financial report.

The errors we found in the foundation were as follows:

- On the foundation's Statement of Net Assets, restricted nonexpendable net assets were overstated by \$754,596, and restricted expendable net assets and unrestricted net assets were understated by \$654,814 and \$99,782, respectively. Total net assets for the foundation were \$58,498,396.
- On the foundation's Statement of Cash Flows, various components of cash flows from investing activities were misstated by amounts that were more than inconsequential.
- In the foundation's note disclosure of changes in endowment net assets, all beginning balances, ending balances, and changes were misstated. Total beginning balances were understated by \$6,095,589, and total ending balances were overstated by \$2,157,453.

More detailed information on these errors is presented below.

Inaccuracies in the Foundation’s Statement of Net Assets

Section 352.35 of the National Association of College and University Business Officers (NACUBO) Financial Accounting and Reporting Manual (FARM) states that quasi-endowments may be either temporarily restricted or unrestricted net assets, depending on the source of the funds used to establish them.

According to the Foundation Accountant, he reviewed the donor agreements for each quasi-endowment and determined that 11 should be classified as temporarily restricted funds and one should be classified as unrestricted. However, he did not properly report the net assets for 11 of the 12 quasi-endowments. As a result, the net assets of 11 quasi-endowments with a total fair value of \$754,595.97 were reported in nonexpendable net assets at June 30, 2009. For the audit report, an adjustment was made to reclassify four quasi-endowments totaling \$393,388.56 to restricted net assets expendable for scholarships and fellowships, six quasi-endowments totaling \$261,425.01 to restricted net assets expendable for instruction, and one quasi-endowment of \$99,782.40 to unrestricted net assets.

Transactions Misstated on the Foundation’s Statement of Cash Flows

We performed tests to determine the accuracy of the foundation’s Statement of Cash Flows. We noted several inaccuracies in the cash flows from investing activities reported on the statement. The Foundation Accountant uses year-end investment account statements from the investment advisor as the primary source used to prepare the investing information on the Statement of Cash Flows. However, the Foundation Accountant did not properly classify all of the information from the investment advisor on the Statement of Cash Flows.

We notified the Controller of these errors, and the Controller prepared a revised Statement of Cash Flows. We did not note any problems with the revised statement. The differences between the original and revised versions are listed below:

	<u>Original</u>	<u>Revised</u>	<u>Difference</u>
Proceeds from sales and maturities of investments	\$4,155,803.66	\$4,476,698.34	\$320,894.68
Income on investments	732,824.75	526,174.04	(206,650.71)
Purchase of investments	(3,954,133.63)	(4,093,566.35)	(139,432.72)
Other investing receipts (payments)	<u>(846.81)</u>	<u>25,984.03</u>	<u>26,830.84</u>
Total	\$ 933,647.97	\$935,290.06	\$ 1,642.09

The revised Statement of Cash Flows is included in the audit report.

Inaccuracies in the Foundation's Endowment Note Disclosures

FASB Staff Position Number FAS 117-1, Paragraph 11.e. Enhanced Disclosures for All Endowment Funds, now requires a “reconciliation of the beginning and ending balance of the organization’s endowment, in total and by net asset class. . . .” Based on our review of the foundation’s GASB endowment note disclosures, the Foundation Accountant did not properly disclose the changes in endowment net assets for the fiscal year ended June 30, 2009. In the notes to the financial statements, endowment net assets were overstated by \$2,157,453.49 at June 30, 2009. No one involved in the reporting process adequately understood the reporting requirements of the new pronouncements. As a result, the endowment section of the component unit note to the financial statements was materially misstated. The disclosures were revised in accordance with FASB guidelines.

In May 2007, MTSU management completed the Business and Finance section of the university’s risk assessment and identified inaccurate or untimely financial reports as a high impact, low probability of occurrence risk of financial management. MTSU’s management’s intention is to mitigate this risk by monitoring all aspects of financial operations and reporting. However, their monitoring failed to detect material misstatements of both the financial statements and the notes of the foundation. Inaccurate financial information could ultimately lead to improper financial decisions for the foundation.

Recommendation

The Controller and the Director of Accounting Services should ensure the foundation’s financial statements are prepared by someone with an adequate knowledge and understanding of appropriate accounting standards. They should also carefully and thoughtfully review the financial statements and related note disclosures for the foundation. The Director of Accounting Services should ensure that the amounts reported in the financial ledgers are accurate, that the foundation’s note disclosures in the financial statements are accurate at year-end and in agreement with respective amounts in the financial ledgers, and that all financial reporting is done in accordance with generally accepted accounting principles. The Senior Vice President and the Controller should assign specific staff the responsibility for monitoring the process for preparing and reviewing year-end entries and, ultimately, for preparing and reviewing the financial statements and related notes, to mitigate the risk of errors or fraud, waste, or abuse, and the potential of material misstatement associated with financial reporting.

Management should continue to evaluate risks and include them in documented risk assessments. Management should ensure that staff who are responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exceptions timely are continually evaluating those controls. Management should ensure that staff who are responsible for ongoing monitoring for compliance with all requirements are indeed monitoring and taking prompt action should exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

Management's Comment

MTSU concurs with this finding. Since the issues noted only relate to the financial presentation of the component unit and not to the amounts reported from the accounting system, action has been taken to address each of the issues noted in this presentation.

The Director of Accounting Services, or other appropriate Business Office staff, will have periodic meetings throughout the year with the Foundation Accountant for reviewing various aspects of financial reporting. The Controller and/or Director of Accounting Services will review all foundation statements, notes, and other financial reporting prior to publication of the University's annual financial statements. Specific actions already taken include the following:

The foundation's chart of accounts has been revamped in order that the Statements of Net Assets can now be prepared automatically from the Banner accounting system. Each fund in the chart has been mapped to the appropriate net assets category, including the twelve quasi-endowments. This automation is similar to the process used to prepare the university's statements.

Investments transactions included on the various investment statements have been reviewed, categorized, and documented as to how they should be reported on the Statement of Cash Flows. This will provide consistency in the method used to reflect these transactions in the financial statements from year to year.

University staff is currently working on an ad-hoc report to pull the information needed for the foundation's endowment note disclosures. Changes made to the chart of accounts will automate the process used to prepare this note disclosure, eliminating the manual process used for the 2008-09 fiscal year. This report will be completed by the end of the 2009-2010 fiscal year.

The university is continually reviewing and evaluating its internal controls through risk assessments. Business and Finance related risks and controls are evaluated in the spring of each year. Staff is responsible for monitoring internal processes for identifying risks, putting controls in place to mitigate these risks, and taking prompt action when exceptions occur. Documented risk assessments are submitted to the Tennessee Board of Regents twice a year.



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Independent Auditor's Report

March 1, 2010

The Honorable Phil Bredesen, Governor

and

Members of the General Assembly

State Capitol

Nashville, Tennessee 37243

and

The Honorable Charles W. Manning, Chancellor

Tennessee Board of Regents

1415 Murfreesboro Road, Suite 350

Nashville, Tennessee 37217

and

Dr. Sidney A. McPhee, President

Middle Tennessee State University

110 Cope Administration Building

Murfreesboro, Tennessee 37132

Ladies and Gentlemen:

We have audited the accompanying basic financial statements of Middle Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the university's management. Our responsibility is to express opinions on these financial statements, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of Middle Tennessee State University, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only Middle Tennessee State University. They do not purport to, and do not present fairly the financial position of the Tennessee Board of Regents, as of June 30, 2009, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Middle Tennessee State University and its discretely presented component unit as of June 30, 2009, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 18, the financial statements of Middle Tennessee State University Foundation, a discretely presented component unit of Middle Tennessee State University, include investments valued at \$12,664,006.54 (21.7 percent of net assets of the foundation), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

The management's discussion and analysis on pages 15 through 32 and the schedule of funding progress on page 64 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

March 1, 2010
Page Three

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 65 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated March 1, 2010, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." The signature is written in a cursive style with a prominent initial "A" and a flourish at the end.

Arthur A. Hayes, Jr., CPA
Director

AAH/vdn

**Tennessee Board of Regents
Middle Tennessee State University
Management's Discussion and Analysis**

This section of Middle Tennessee State University's report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2009, with comparative information presented for the fiscal year ended June 30, 2008. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

Using This Annual Report

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

The Statement of Net Assets

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

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

**Tennessee Board of Regents
Middle Tennessee State University
Management's Discussion and Analysis (Cont.)**

Middle Tennessee State University
Net Assets
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
Assets		
Current assets	\$ 73,592	\$ 60,918
Capital assets, net	293,028	265,833
Other assets	<u>47,733</u>	<u>44,707</u>
Total Assets	<u>414,353</u>	<u>371,458</u>
Liabilities		
Current liabilities	47,799	39,765
Noncurrent liabilities	<u>165,470</u>	<u>150,447</u>
Total Liabilities	<u>213,269</u>	<u>190,212</u>
Net Assets		
Invested in capital assets, net of debt	141,859	129,342
Restricted - expendable	13,560	10,728
Restricted - nonexpendable	704	792
Unrestricted	<u>44,961</u>	<u>40,384</u>
Total Net Assets	<u>\$ 201,084</u>	<u>\$ 181,246</u>

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

- ◆ Current assets increased as a result of uncertainty in the amount of state appropriations the university would receive for the year. The administration restricted spending by campus departments due to uncertainty of revenues and the nation's economic condition.
- ◆ The increase in net capital assets, along with the corresponding increase in invested in capital assets (net of debt), between fiscal years is a result of additions to the university's capitalized assets. More detailed information about the university's capital assets is presented in the Capital Asset and Debt Administration section of this discussion and analysis.
- ◆ Current liabilities increased between fiscal years as a result of setting up a Due to Primary Government liability at year-end. Based upon guidance provided by the Tennessee Recovery Act Management (TRAM) office, the total allotment of 2008-09 State Fiscal Stabilization Funds (SFSF) was drawn down and receipted as of June 30, 2009. It was subsequently determined that institutions would not lose the availability of funds not drawn down at June 30, 2009, and SFSF of \$7,767,300 were returned on July

**Tennessee Board of Regents
Middle Tennessee State University
Management's Discussion and Analysis (Cont.)**

13, 2009, and are included on the Statement of Net Assets as Due to Primary Government.

- ◆ Noncurrent liabilities increased primarily due to an increase in the amount of other post-employment benefits to be recognized under GASB 45 and the issuance of bonds and/or commercial paper by the Tennessee State School Bond Authority (TSSBA) on behalf of the university for various capital projects. More detailed information about the university's debt is presented in the Capital Asset and Debt Administration section of this discussion and analysis.
- ◆ The restricted-expendable section of Net Assets increased as a result of the accumulation of debt service fee reserves for the new Student Union project. This fee was approved in June 2007 and added as a student fee starting with the 2007-08 fiscal year. The Student Union project is currently in the planning and design stage. These reserves will be used toward the overall construction project, along with proceeds from TSSBA issued debt, in future years.

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

	2009	2008
Assets		
Current assets	\$ 1,460	\$ 2,139
Capital assets, net	18,908	19,732
Other assets	38,315	44,002
Total assets	58,683	65,873
Liabilities		
Current liabilities	185	682
Noncurrent liabilities	-	-
Total liabilities	185	682
Net assets		
Invested in capital assets, net of debt	18,908	19,732
Restricted - expendable	14,129	10,770
Restricted - nonexpendable	24,429	33,849
Unrestricted	1,032	840
Total net assets	\$ 58,498	\$ 65,191

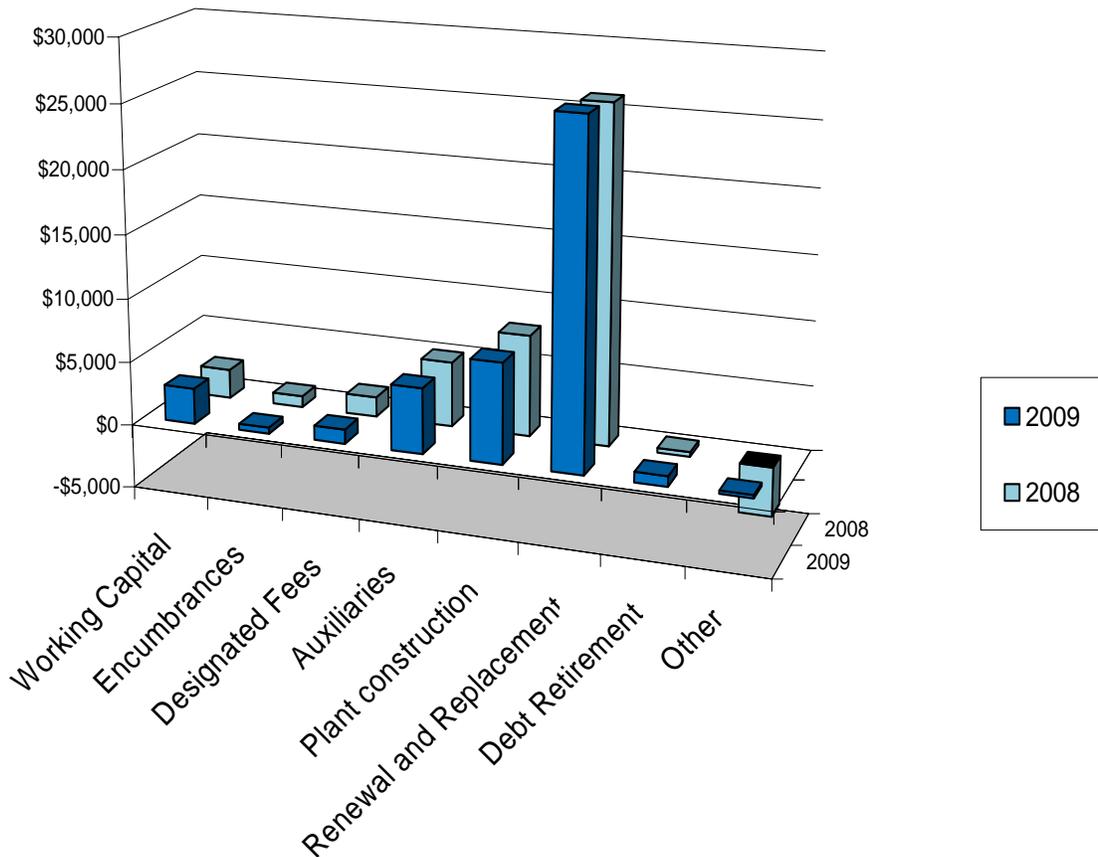
The component unit had the following significant change between fiscal years on the Statement of Net Assets:

**Tennessee Board of Regents
Middle Tennessee State University
Management's Discussion and Analysis (Cont.)**

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

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

Allocations of Unrestricted Net Assets (University)



**Tennessee Board of Regents
Middle Tennessee State University
Management's Discussion and Analysis (Cont.)**

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

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

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

**Middle Tennessee State University
Changes in Net Assets
(in thousands of dollars)**

	2009	2008
Operating revenues		
Net tuition and fees	\$ 95,450	\$ 89,216
Auxiliaries	27,736	27,601
Grants and contracts	31,691	30,921
Other	12,809	10,806
Total operating revenues	167,686	158,544
Operating expenses	308,327	311,535
Operating loss	(140,641)	(152,991)
Nonoperating revenues and expenses		
State appropriations	93,791	101,760
Gifts	548	1,257
Grants and contracts	57,263	50,380
Investment income	2,240	4,276
Other revenues and expenses	(5,104)	(5,515)
Total nonoperating revenues and expenses	148,738	152,158
Income (loss) before other revenues, expenses, gains, or losses	8,097	(833)
Other revenues, expenses, gains, or losses		
Capital appropriations	10,904	14,136
Capital grants and gifts	810	4,042

**Tennessee Board of Regents
Middle Tennessee State University
Management's Discussion and Analysis (Cont.)**

Other	27	(611)
Total revenues, expenses, gains, or losses	11,741	17,567
Increase in net assets	19,838	16,734
Net assets at beginning of year	181,246	164,512
Net assets at end of year	\$ 201,084	\$ 181,246

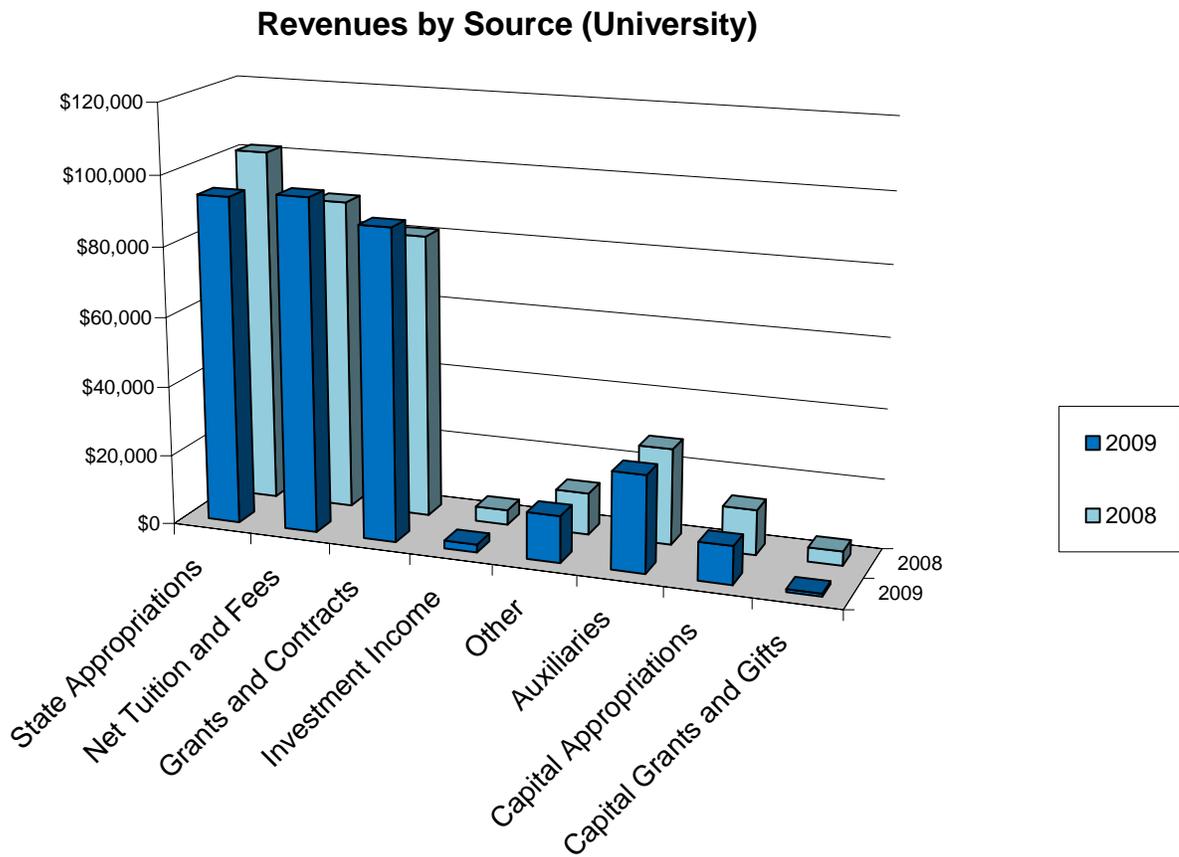
**Component Unit
Changes in Net Assets
(in thousands of dollars)**

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

**Tennessee Board of Regents
Middle Tennessee State University
Management's Discussion and Analysis (Cont.)**

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the university's operating activities for the year ended June 30, 2009, and June 30, 2008 (amounts are presented in thousands of dollars).



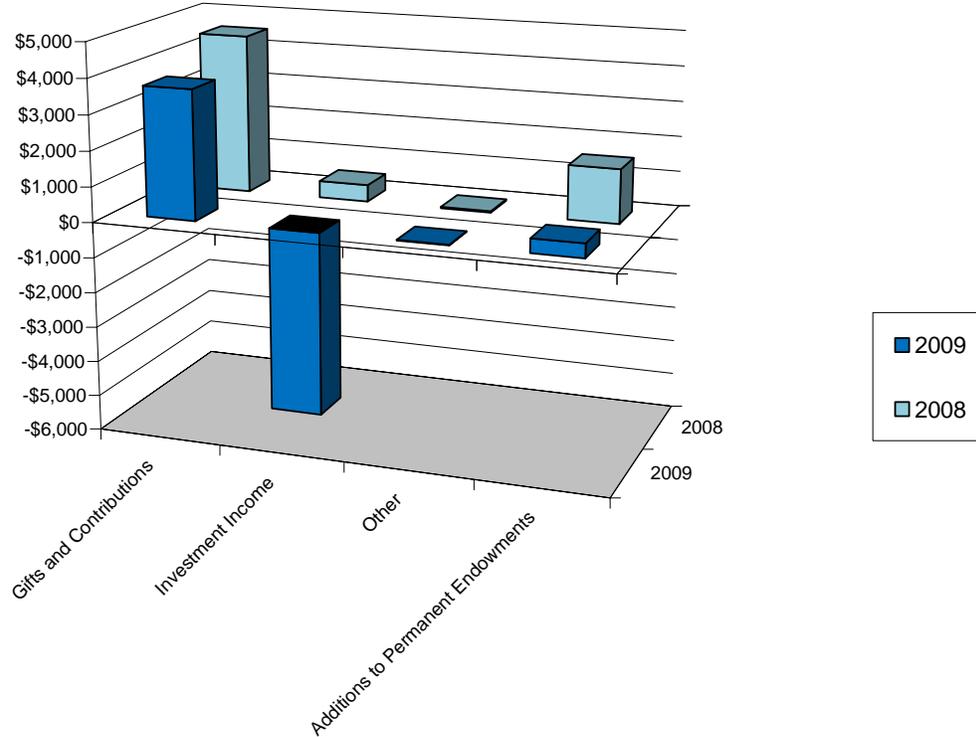
The university had the following significant changes in revenues between fiscal years:

- ◆ Tuition and fees increased due to a 6% fee increase and a 3% increase in enrollment.
- ◆ State appropriations decreased as a result of budget cuts by the State of Tennessee, resulting from decreased sales tax revenues.

**Tennessee Board of Regents
Middle Tennessee State University
Management's Discussion and Analysis (Cont.)**

- ◆ Non-operating grants and contracts increased as a result of an increase in the university's federal PELL award, as well as an increase in the amount of scholarships from the Tennessee Education Lottery Scholarship (TELS) Program.
- ◆ Investment income decreased due to the current market conditions.
- ◆ Capital appropriations decreased as a result of the completion of several capital projects during the year. More detailed information about the university's capital assets is presented in the Capital Asset and Debt Administration section of this discussion and analysis.
- ◆ Capital grants and gifts decreased due to fewer capital transfers from the campus foundation.

Revenues by Source (Component Unit)



**Tennessee Board of Regents
Middle Tennessee State University
Management's Discussion and Analysis (Cont.)**

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

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

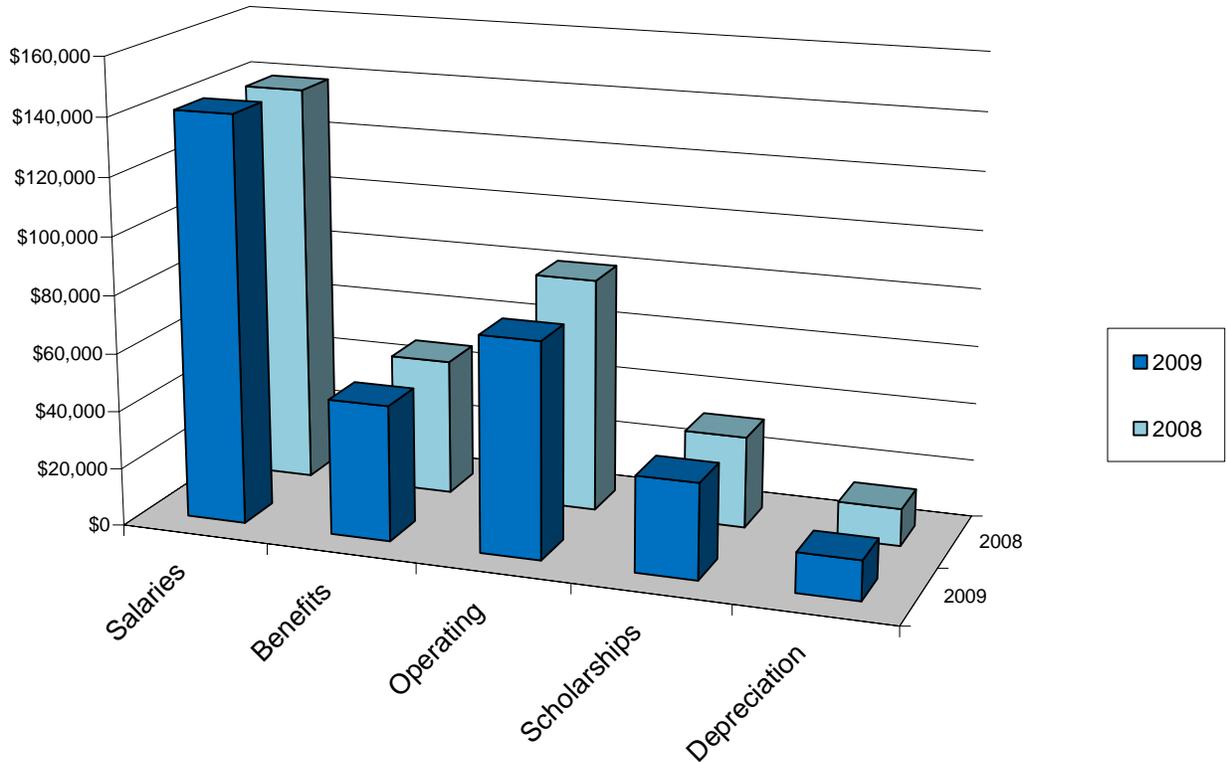
Expenses

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

Middle Tennessee State University		
Natural Classification		
(in thousands)		
	2009	2008
Salaries	\$ 140,567	\$ 138,800
Benefits	46,914	47,163
Operating	74,259	80,974
Scholarships	32,899	31,673
Depreciation	13,688	12,925
TOTAL	\$ 308,327	\$ 311,535

**Tennessee Board of Regents
Middle Tennessee State University
Management's Discussion and Analysis (Cont.)**

Expenses by Natural Classification (University)



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

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

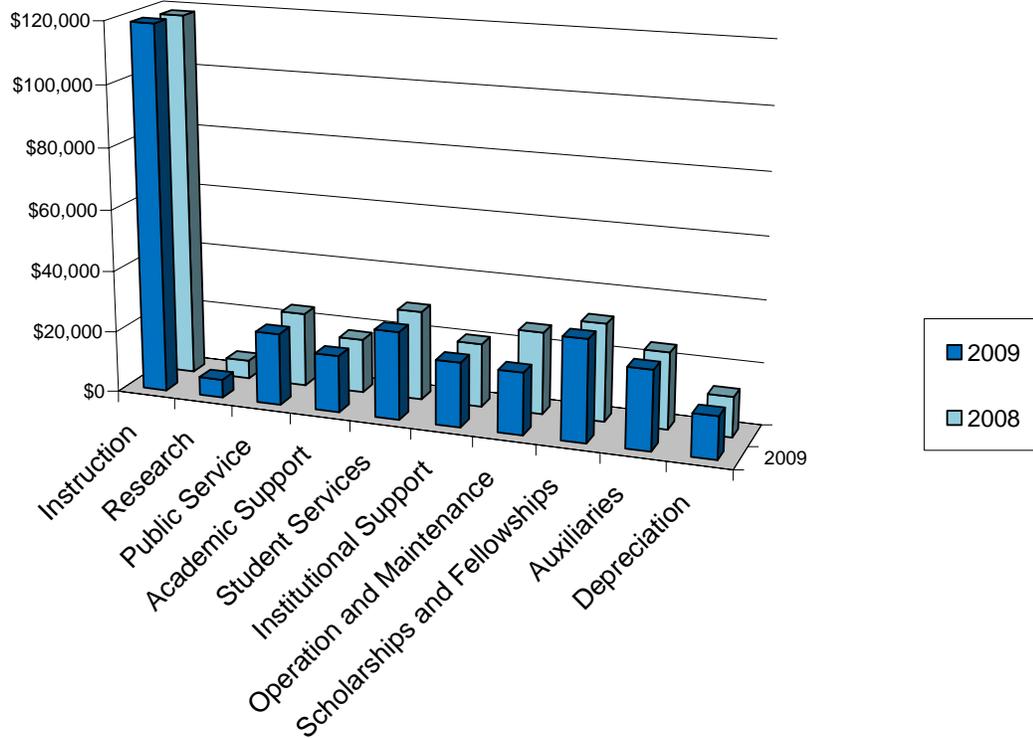
**Tennessee Board of Regents
Middle Tennessee State University
Management's Discussion and Analysis (Cont.)**

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

	<u>2009</u>	<u>2008</u>
Instruction	\$ 119,079	\$ 118,337
Research	5,907	5,950
Public Service	23,337	24,062
Academic Support	18,418	17,588
Student Services	28,384	29,016
Institutional Support	20,927	20,614
Operation and Maintenance	20,054	26,639
Scholarships and Fellowships	32,899	31,673
Auxiliaries	25,634	24,731
Depreciation	13,688	12,925
TOTAL	<u><u>\$ 308,327</u></u>	<u><u>\$ 311,535</u></u>

**Tennessee Board of Regents
Middle Tennessee State University
Management's Discussion and Analysis (Cont.)**

Expenses by Program Classification (University)



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

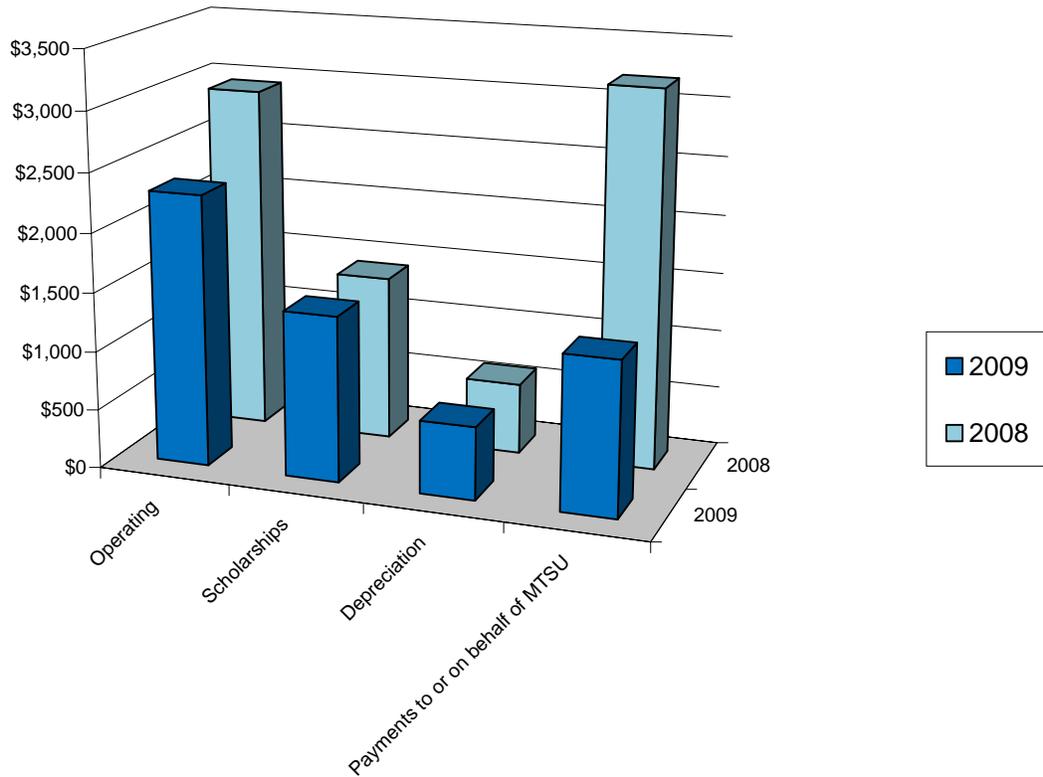
- ◆ Operation and maintenance of plant expenses decreased due to fewer noncapital expenses incurred on campus projects. Less funds were available during the year for maintenance on campus facilities and infrastructure.
- ◆ Scholarship expenses increased due to increased funding from the Tennessee Education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

**Tennessee Board of Regents
Middle Tennessee State University
Management's Discussion and Analysis (Cont.)**

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

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

Expenses by Natural Classification (Component Unit)



**Tennessee Board of Regents
Middle Tennessee State University
Management's Discussion and Analysis (Cont.)**

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

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

Capital Asset and Debt Administration

Capital Assets - University

Middle Tennessee State University had \$293.0 million invested in capital assets, net of accumulated depreciation of \$165.3 million at June 30, 2009; and 265.8 million invested in capital assets, net of accumulated depreciation of \$155.3 million at June 30, 2008. Depreciation charges totaled \$13.7 million and \$12.9 million for the years ended June 30, 2009, and June 30, 2008, respectively. Details of these assets are shown below.

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

	2009	2008
Land	\$ 11,368	\$ 10,521
Land improvements and infrastructure	20,817	15,237
Buildings	160,754	138,269
Equipment	16,261	15,606
Library holdings	9,302	9,940
Software	2,820	3,012
Projects in progress	71,706	73,248
Total	\$ 293,028	\$ 265,833

**Tennessee Board of Regents
Middle Tennessee State University
Management's Discussion and Analysis (Cont.)**

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

- ◆ The university purchased 18 properties during the fiscal year, reflected above in both Land and Buildings, financed with both State of Tennessee General Obligation Bonds/Bond Anticipation Notes and local campus funds. The university has a line of credit of \$3.7 million, of which \$2.0 million has been expended to date, for expansion purchases as disclosed in the university's Master Plan.
- ◆ Land improvements and infrastructure increased during the year as a result of completing the baseball stadium improvements and the chilled water line project.
- ◆ Buildings increased during the year as a result of completion of the following major projects: health, wellness, and recreation facility upgrade; renovations to the MT Building; additional phase of the observatory project; and renovations to Peck Hall.
- ◆ Although several projects were completed during the fiscal year and removed from Projects in Progress, several additions were made to this category for the following projects: university housing renovations; phase I of the parking and transportation project; and planning for the new science building, new student union building, and college of education building. Projects completed during the fiscal year were moved to a specific capital asset category as discussed above.

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

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

**Tennessee Board of Regents
Middle Tennessee State University
Management's Discussion and Analysis (Cont.)**

Capital Assets – Component Unit

The component unit had \$18.9 million invested in capital assets, net of accumulated depreciation of \$3.9 million at June 30, 2009; and \$19.7 million invested in capital assets, net of accumulated depreciation of \$3.3 million at June 30, 2008. Depreciation charges totaled \$.6 million each year. Details of these assets are shown below.

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

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

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

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

More detailed information about the component unit's capital assets is presented in Note 18 to the financial statements.

Debt

The university had \$158.3 million and \$144.1 million in debt outstanding at June 30, 2009, and June 30, 2008, respectively. The table below summarizes these amounts by type of debt instrument (in thousands of dollars).

**Tennessee Board of Regents
Middle Tennessee State University
Management's Discussion and Analysis (Cont.)**

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

	2009	2008
TSSBA bonds	\$ 138,715	\$ 85,064
TSSBA commercial paper	17,621	58,991
General Obligation commercial paper	1,983	-
Total Debt	\$ 158,319	\$ 144,055

TSSBA converted commercial paper to bonds during the fiscal year for the following major projects: renovations of various university housing facilities; phase 1 of a parking and transportation project; upgrade to the baseball stadium; a Student Health, Wellness, and Recreation Facility upgrade; and an energy performance contract. Commercial paper was also issued by TSSBA during the year on these projects prior to bonding.

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

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

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

Economic Factors That Will Affect the Future

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

The State of Tennessee will participate in the American Recovery and Reinvestment Act (ARRA) by receiving State Fiscal Stabilization Funds (SFSF) through September 2011. The university is expected to receive \$17.7 million under this federal program for 2009-10. The university will also receive \$6.8 million in 2009-10 from the state under the Maintenance of

**Tennessee Board of Regents
Middle Tennessee State University
Management's Discussion and Analysis (Cont.)**

Effort (MOE) state-funded program. The university is continuing to work on budget reductions consistent with its "Positioning the University for the Future" plan.

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

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

Requests for Information

This financial report is designed to provide a general overview of the institution's finances for all those with an interest in the university's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Alan Thomas, Controller and Executive Director of Finance Technology and Compliance, Middle Tennessee State University, CAB 211, Murfreesboro, TN 37132.

**TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENTS OF NET ASSETS
JUNE 30, 2009**

	Middle Tennessee State University	Component Unit Middle Tennessee State University Foundation
	June 30, 2009	June 30, 2009
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 18)	\$ 52,783,693.59	\$ 1,017,478.49
Accounts, notes, and grants receivable (net) (Note 4)	17,452,859.64	-
Pledges receivable (net) (Note 18)	-	416,457.75
Inventories	2,369,450.58	-
Prepaid expenses and deferred charges	983,694.83	-
Accrued interest receivable	2,044.89	26,811.40
Total current assets	<u>73,591,743.53</u>	<u>1,460,747.64</u>
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 18)	43,738,552.73	8,130,303.91
Investments (Notes 3 and 18)	660,084.10	29,341,379.56
Accounts, notes, and grants receivable (net) (Note 4)	3,334,367.54	4,783.56
Pledges receivable (net) (Note 18)	-	838,424.67
Capital assets (net) (Notes 5 and 18)	293,027,731.17	18,907,981.13
Total noncurrent assets	<u>340,760,735.54</u>	<u>57,222,872.83</u>
Total assets	<u>414,352,479.07</u>	<u>58,683,620.47</u>
LIABILITIES		
Current liabilities:		
Accounts payable (Note 6)	5,567,434.75	185,224.93
Accrued liabilities	16,336,665.51	-
Due to primary government	7,767,300.00	-
Student deposits	1,024,067.98	-
Deferred revenue	7,243,173.05	-
Compensated absences (Note 7)	1,701,563.37	-
Accrued interest payable	1,155,805.40	-
Long-term liabilities, current portion (Note 7)	6,167,665.81	-
Deposits held in custody for others	834,938.94	-
Other liabilities	45.00	-
Total current liabilities	<u>47,798,659.81</u>	<u>185,224.93</u>
Noncurrent liabilities:		
Net OPEB obligation (Notes 7 and 12)	5,859,034.64	-
Compensated absences (Note 7)	4,659,409.30	-
Long-term liabilities (Note 7)	152,151,061.07	-
Due to grantors (Note 7)	2,800,049.42	-
Total noncurrent liabilities	<u>165,469,554.43</u>	<u>-</u>
Total liabilities	<u>213,268,214.24</u>	<u>185,224.93</u>
NET ASSETS		
Invested in capital assets, net of related debt	141,859,524.76	18,907,981.13
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	10,900.00	21,536,565.79
Research	-	927,628.35
Instructional department uses	-	1,964,869.43
Other	693,193.56	-
Expendable:		
Scholarships and fellowships	263,043.64	2,890,340.72
Research	142,867.48	3,431.49
Instructional department uses	159,808.95	5,156,396.95
Loans	1,854,695.97	-
Capital projects	26,490.44	2,579,250.19
Debt service	8,735,126.43	-
Other	2,377,714.42	3,500,113.13
Unrestricted (Notes 8 and 9)	44,960,899.18	1,031,818.36
Total net assets	<u>\$ 201,084,264.83</u>	<u>\$ 58,498,395.54</u>

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

**TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Component Unit</u>	
	Middle Tennessee State University	Middle Tennessee State University Foundation
	Year Ended June 30, 2009	Year Ended June 30, 2009
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$37,719,637.99)	\$ 95,450,396.72	\$ -
Gifts and contributions	-	3,677,417.98
Governmental grants and contracts	30,574,882.43	-
Non-governmental grants and contracts	1,116,086.11	17,814.58
Sales and services of educational departments	11,623,713.81	-
Auxiliary enterprises:		
Residential life (net of scholarship allowances of \$3,290,766.77: all residential life revenues are used as security for revenue bonds, see Note 7)	8,328,615.44	-
Bookstore (net of scholarship allowances of \$2,616,647.43: all bookstore revenues are used as security for revenue bonds, see Note 7)	6,620,335.95	-
Food service	971,234.41	-
Wellness facility (net of scholarship allowances of \$722,904.29: all wellness facility revenues are used as security for revenue bonds, see Note 7)	1,834,001.28	-
Other auxiliaries	9,981,280.78	-
Interest earned on loans to students	89,058.20	-
Other operating revenues	1,096,662.44	-
Total operating revenues	<u>167,686,267.57</u>	<u>3,695,232.56</u>
EXPENSES		
Operating Expenses (Note 16):		
Salaries and wages	140,567,404.23	-
Benefits	46,913,506.49	-
Utilities, supplies, and other services	74,258,937.50	2,302,604.23
Scholarships and fellowships	32,899,262.12	1,404,636.72
Depreciation expense	13,687,816.30	615,868.96
Payments to or on behalf of MTSU (Note 18)	-	1,301,855.96
Total operating expenses	<u>308,326,926.64</u>	<u>5,624,965.87</u>
Operating loss	<u>(140,640,659.07)</u>	<u>(1,929,733.31)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	93,790,584.00	-
Gifts, including \$531,248.11 from component unit	547,738.11	-
Grants and contracts	57,263,250.91	-
Investment income (net of investment expense of \$8,626.36 for the university and \$136,403.81 for the component unit)	2,240,264.68	(5,169,063.95)
Interest on capital asset-related debt	(6,002,180.18)	-
Bond issuance premium (costs)	1,071,557.50	-
Other non-operating revenues/(expenses)	<u>(173,281.16)</u>	<u>(11,569.28)</u>
Net nonoperating revenues (expenses)	<u>148,737,933.86</u>	<u>(5,180,633.23)</u>
Income/(loss) before other revenues, expenses gains, or losses	<u>8,097,274.79</u>	<u>(7,110,366.54)</u>
Capital appropriations	10,903,609.86	-
Capital grants and gifts, including \$770,607.85 from component unit	810,607.85	15,229.68
Additions to permanent endowments	-	402,095.42
Other capital	<u>26,700.00</u>	<u>-</u>
Total other revenues	<u>11,740,917.71</u>	<u>417,325.10</u>
Increase (decrease) in net assets	<u>19,838,192.50</u>	<u>(6,693,041.44)</u>
NET ASSETS		
Net Assets - beginning of year	181,246,072.33	65,191,436.98
Net Assets - end of year	<u>\$ 201,084,264.83</u>	<u>\$ 58,498,395.54</u>

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

**TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Year Ended June 30, 2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	\$ 95,461,928.98
Grants and contracts	39,482,189.94
Sales and services of educational activities	12,088,802.93
Payments to suppliers and vendors	(75,912,017.26)
Payments to employees	(140,241,615.42)
Payments for benefits	(43,986,447.77)
Payments for scholarships and fellowships	(32,899,262.12)
Loans issued to students	(148,064.01)
Collection of loans from students	263,475.56
Interest earned on loans to students	85,118.45
Auxiliary enterprise charges:	
Residence halls	8,118,198.77
Bookstore	7,181,249.37
Food services	883,613.65
Wellness facility	1,835,755.28
Other auxiliaries	9,911,488.83
Other receipts (payments)	768,924.72
Net cash used by operating activities	<u>(117,106,660.10)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State appropriations	93,680,200.00
Gifts and grants received for other than capital or endowment purposes, including \$531,248.11 from component unit	65,628,232.77
Federal student loan receipts	99,010,988.11
Federal student loan disbursements	(99,255,977.72)
Changes in deposits held for others	(13,475.62)
Net cash provided by non-capital financing activities	<u>159,049,967.54</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	18,478,510.39
Capital - state appropriation	10,903,609.86
Capital grants and gifts received, including \$520,005.09 from component unit	560,005.09
Proceeds from sale of capital assets	26,700.00
Purchase of capital assets and construction	(40,707,169.84)
Principal paid on capital debt	(4,215,062.08)
Interest paid on capital debt	(5,597,382.19)
Bond issuance costs/premium on new debt issue	1,071,557.50
Other capital and related financing receipts (payments)	(98,071.68)
Net cash used by capital and related financing activities	<u>(19,577,302.95)</u>

**TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009**

CASH FLOWS FROM INVESTING ACTIVITIES

Income on investments	2,347,066.32
Net cash provided by investing activities	<u>2,347,066.32</u>
Net increase in cash and cash equivalents	24,713,070.81
Cash and cash equivalents - beginning of year	71,809,175.51
Cash and cash equivalents - end of year	\$ <u><u>96,522,246.32</u></u>

Reconciliation of operating loss to net cash used by operating activities:

Operating loss	\$ (140,640,659.07)
Other adjustments (Note 17)	138,184.00
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	13,687,816.30
Change in assets and liabilities:	
Receivables, net	9,205,892.20
Inventories	164,293.87
Prepaid/deferred items	(242,461.43)
Other assets	(3,939.75)
Accounts payable	(3,266,898.25)
Accrued liabilities	2,965,018.19
Deferred revenues	1,235,772.69
Deposits	(72,485.34)
Compensated absences	138,235.27
Due to grantors	(37,318.63)
Loans to students	(42,254.04)
Other	(335,856.11)
Net cash used by operating activities	\$ <u><u>(117,106,660.10)</u></u>

Non-cash transactions

Gifts in-kind - capital	\$ 250,602.76
Unrealized losses on investments	\$ (90,993.60)
Loss on disposal of capital assets	\$ 509,566.92
Trade-in allowance	\$ 461,057.44

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

**Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements
June 30, 2009**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The 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 significant financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. The financial statements present only that portion of the Tennessee Board of Regents' activities that is attributable to the transactions of Middle Tennessee State University.

The Middle Tennessee State University Foundation is considered a component unit of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the 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 financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) 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, the university is considered a special-purpose government 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.

Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 2009

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

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

All other activity is nonoperating in nature and includes (1) state appropriations for operations; (2) investment income; (3) bond issuance costs; (4) interest on capital asset-related debt; (5) certain grants and contracts; and (6) gifts and nonexchange transactions.

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

Cash Equivalents

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

Inventories

Inventories are valued at the lower of cost or market. Textbooks included in the inventory are recorded on a weighted average basis. All other items are maintained on an average cost or first-in, first-out basis.

Compensated Absences

The university's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are reported in the statement of net assets.

**Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 2009**

Capital Assets

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

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

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

Net Assets

The university's net assets are classified as follows:

Invested in capital assets, net of related debt - This represents the university's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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

Expendable restricted net assets - Expendable restricted net assets include resources which the university is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets - Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the university, and may be used at the discretion of the university to meet current expenses for any purpose. The

**Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 2009**

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 assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the university and the amount that is paid by the student and/or third parties making payments on the student's 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.

NOTE 2. CASH AND CASH EQUIVALENTS

At June 30, 2009, cash and cash equivalents consisted of \$8,826,919.24 in bank accounts, \$118,191.31 of petty cash on hand, \$84,899,132.98 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, \$2,644,893.33 in LGIP deposits for capital projects, and \$33,109.46 in a money market account.

LGIP deposits for capital projects - Payments related to the 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 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.

**Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 2009**

NOTE 3. INVESTMENTS

All investments permitted to be reported at fair value under GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

At June 30, 2009, the university had the following investments and maturities.

Investment Maturities (in Years)

<u>Investment Type</u>	<u>Fair Value</u>	<u>No Maturity Date</u>
Mutual bond funds	\$462,414.18	\$462,414.18
Mutual equity funds	<u>197,669.92</u>	<u>197,669.92</u>
Total	<u>\$660,084.10</u>	<u>\$660,084.10</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. The 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. The 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 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 (LGIP). 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

**Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 2009**

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

At June 30, 2009, the university's investments were rated as follows:

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

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the 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 policy for custodial credit risk. At June 30, 2009, the university had \$660,084.10 of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the university's name.

**Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 2009**

Investments of the university's endowment and similar funds are composed of the following:

	<u>Carrying Value June 30, 2009</u>
Mutual bond funds	\$ 462,414.18
Mutual equity funds	<u>197,669.92</u>
Total	<u>\$ 660,084.10</u>

NOTE 4. RECEIVABLES

Receivables included the following:

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

Federal Perkins Loan Program funds included the following:

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

**Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 2009**

NOTE 5. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 10,520,772.86	\$ 846,774.34	\$ -	\$ -	\$ 11,367,547.20
Land improvements and infrastructure	34,011,468.06	124,289.00	7,226,535.66	-	41,362,292.72
Buildings	237,262,577.91	1,942,300.00	26,528,868.97	-	265,733,746.88
Equipment	42,732,179.14	4,572,391.20	-	2,420,858.01	44,883,712.33
Library holdings	19,413,419.95	1,447,782.77	-	1,838,518.69	19,022,684.03
Software	3,997,409.37	-	271,890.90	-	4,269,300.27
Projects in progress	<u>73,247,984.65</u>	<u>32,485,292.73</u>	<u>(34,027,295.53)</u>	<u>-</u>	<u>71,705,981.85</u>
 Total	 <u>421,185,811.94</u>	 <u>41,418,830.04</u>	 <u>-</u>	 <u>4,259,376.70</u>	 <u>458,345,265.28</u>
 Less accumulated depreciation:					
Land improvements and infrastructure	18,774,293.88	1,771,068.66	-	-	20,545,362.54
Buildings	98,993,924.29	5,986,233.54	-	-	104,980,157.83
Equipment	27,126,136.50	3,380,674.34	-	1,884,591.09	28,622,219.75
Library holdings	9,473,154.42	2,086,120.28	-	1,838,518.69	9,720,756.01
Software	<u>985,318.50</u>	<u>463,719.48</u>	<u>-</u>	<u>-</u>	<u>1,449,037.98</u>
 Total accumulated depreciation	 <u>155,352,827.59</u>	 <u>13,687,816.30</u>	 <u>-</u>	 <u>3,723,109.78</u>	 <u>165,317,534.11</u>
 Capital assets, net	 <u>\$265,832,984.35</u>	 <u>\$27,731,013.74</u>	 <u>\$ -</u>	 <u>\$ 536,266.92</u>	 <u>\$293,027,731.17</u>

NOTE 6. ACCOUNTS PAYABLE

Accounts payable included the following:

	<u>June 30, 2009</u>
Vendors payable	\$5,222,838.00
Unapplied student payments	307,955.91

**Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 2009**

Other payables	36,640.84
Total accounts payable	\$5,567,434.75

NOTE 7. LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	\$ 85,064,123.24	\$ 57,990,530.93	\$ 4,339,840.96	\$ 138,714,813.21	\$ 6,167,665.81
Commercial paper	58,991,155.33	12,467,999.88	53,838,522.72	17,620,632.49	-
General obligation debt:					
Commercial paper	-	1,983,281.18	-	1,983,281.18	-
Subtotal	<u>144,055,278.57</u>	<u>72,441,811.99</u>	<u>58,178,363.68</u>	<u>158,318,726.88</u>	<u>6,167,665.81</u>
Other liabilities:					
Compensated absences	6,222,737.40	3,445,641.15	3,307,405.88	6,360,972.67	1,701,563.37
Due to grantors	2,837,368.05	748,896.00	786,214.63	2,800,049.42	-
Net OPEB obligation	<u>3,040,105.45</u>	<u>2,818,929.19</u>	<u>-</u>	<u>5,859,034.64</u>	<u>-</u>
Subtotal	<u>12,100,210.90</u>	<u>7,013,466.34</u>	<u>4,093,620.51</u>	<u>15,020,056.73</u>	<u>1,701,563.37</u>
Total long-term liabilities	<u>\$156,155,489.47</u>	<u>\$79,455,278.33</u>	<u>\$62,271,984.19</u>	<u>\$173,338,783.61</u>	<u>\$7,869,229.18</u>

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 2.00% to 7.15%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2038 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations; see Note 10 for further details. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the statement of net assets is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was \$5,646,021.19 at June 30, 2009. Unexpended debt proceeds were \$1,141,088.35 at June 30, 2009, and were restricted for parking projects.

**Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 2009**

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

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 6,167,665.81	\$ 6,792,799.73	\$ 12,960,465.54
2011	6,629,875.52	6,549,804.05	13,179,679.57
2012	6,925,132.34	6,268,652.77	13,193,785.11
2013	7,036,758.72	6,008,690.58	13,045,449.30
2014	7,124,013.67	5,686,025.22	12,810,038.89
2015 – 2019	38,099,956.19	23,467,143.16	61,567,099.35
2020 – 2024	36,010,507.50	14,045,654.23	50,056,161.73
2025 – 2029	23,300,100.15	5,452,795.55	28,752,895.70
2030 – 2034	4,605,979.61	1,738,646.89	6,344,626.50
2035 – 2038	<u>2,814,823.70</u>	<u>551,393.44</u>	<u>3,366,217.14</u>
Total	<u>\$138,714,813.21</u>	<u>\$76,561,605.62</u>	<u>\$215,276,418.83</u>

TSSBA Debt - Commercial Paper

The Tennessee State School Bond Authority issues commercial paper to finance the costs of various capital projects during their 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 issued for projects at the university was \$17,620,632.49 at June 30, 2009.

For the commercial paper program, the Tennessee State School Bond Authority maintains an interest rate reserve fund. The 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/tssbacaf.html>.

**Tennessee Board of Regents
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Notes to the Financial Statements (Cont.)
June 30, 2009**

General Obligation Debt - Commercial Paper

The Tennessee State Funding Board issues commercial paper for the purpose of, among other things, acquisition of certain sites and existing structures for expansion purposes for the TBR on the behalf of the university. The amount outstanding for projects at the university was \$1,983,281.18 at June 30, 2009. Additional information regarding the state's commercial paper can be found in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>.

NOTE 8. ENDOWMENTS

If a donor has not provided specific instructions to the 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 the university's 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 spent is required to be spent for the purposes for which the endowment was established.

The 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. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2009, net appreciation of \$2,501.61 is available to be spent, of which \$2,501.61 is included in unrestricted net assets.

**Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 2009**

NOTE 9. UNRESTRICTED NET ASSETS

Unrestricted net assets include funds that have been designated for specific purposes. The unrestricted net assets are composed of the following:

	<u>June 30, 2009</u>
Working capital	\$ 2,799,484.94
Encumbrances	481,190.47
Designated fees	1,110,059.83
Auxiliaries	5,102,181.45
Quasi-endowment	155,100.00
Plant construction	7,799,899.88
Renewal and replacement of equipment	26,611,181.88
Debt retirement	809,981.90
Undesignated	<u>91,818.83</u>
 Total	 <u>\$44,960,899.18</u>

NOTE 10. PLEDGED REVENUES

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

**Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 2009**

NOTE 11. PENSION PLANS

A. Defined Benefit Plans

1. Tennessee Consolidated Retirement System

Plan Description - The 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 <http://www.state.tn.us/treasury/tcrs/index.html>.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 13.02% of annual covered payroll. Contribution requirements for the university are established and may be amended by the TCRS' Board of Trustees. The university's contributions to TCRS for the years ended June 30, 2009, 2008, and 2007 were \$6,254,322.27, \$6,649,192.21, and \$6,305,780.58. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The university contributes to three defined contribution plans: Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), ING Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8,

**Tennessee Board of Regents
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Notes to the Financial Statements (Cont.)
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Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans was \$7,790,975.75 for the year ended June 30, 2009, and \$7,788,207.33 for the year ended June 30, 2008. Contributions met the requirements for each year.

NOTE 12. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible university retirees. This program includes two plans – the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-201, *Tennessee Code Annotated*, for the State Employee Group Plan and Section 8-27-701, *Tennessee Code Annotated*, for the Medicare Supplement Plan. Prior to reaching age 65, retirees may participate in the State Employee Group Plan. Members of this plan have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, retirees who are also in the state's retirement system may participate in the Medicare Supplement Plan that 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 *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>, or by calling (615) 741-2140.

Special Funding Situation

The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including Middle Tennessee State University. The state is the sole contributor for the university

**Tennessee Board of Regents
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Notes to the Financial Statements (Cont.)
June 30, 2009**

retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy

The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is 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 participants. Retirees in the State Employee Group Plan pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 20 but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium.

University's Annual OPEB Cost and Net OPEB Obligation
State Employee Group Plan

Annual required contribution (ARC)	\$4,921,000.00
Interest on the net OPEB obligation	136,804.73
Adjustment to the ARC	<u>(133,151.06)</u>
Annual OPEB cost	4,924,653.67
Amount of contribution	<u>2,105,724.48</u>
Increase (decrease) in net OPEB obligation	2,818,929.19
Net OPEB obligation – beginning of year	<u>3,040,105.45</u>
Net OPEB obligation – end of year	<u>\$5,859,034.64</u>

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2009	State Employee Group Plan	\$4,924,653.67	42.8%	\$5,859,034.64

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Notes to the Financial Statements (Cont.)
June 30, 2009**

Funded Status and Funding Progress

The funded status of the university's portion of the State Employee Group Plan as of July 1, 2007, was as follows:

	State Employee Group Plan
Actuarial valuation date	July 1, 2007
Actuarial accrued liability (AAL)	\$42,876,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$42,876,000.00
Actuarial value of assets as a percentage of the AAL	0.00%
Covered payroll (active plan members)	\$113,201,926.22
UAAL as percentage of covered payroll	37.9%

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, 2007, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7 percent initially, increased to 11 percent in the second year and then reduced by decrements to an ultimate rate of 5 percent after 12 years. Both rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being

**Tennessee Board of Regents
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Notes to the Financial Statements (Cont.)
June 30, 2009**

amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

NOTE 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 amount of settlements has 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.

The university participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2009, and June 30, 2008, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>. Since the 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 the 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. At June 30, 2009, the Risk Management Fund held \$127.0 million in cash and cash equivalents designated for payment of claims.

**Tennessee Board of Regents
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Notes to the Financial Statements (Cont.)
June 30, 2009**

At June 30, 2009, the scheduled coverage for the university was \$844,137,825.00 for buildings and \$298,523,696.00 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. The 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.

NOTE 14. COMMITMENTS AND CONTINGENCIES

Sick Leave

The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$51,862,184.69 at June 30, 2009.

Operating Leases

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

Construction in Progress

At June 30, 2009, outstanding commitments under construction contracts totaled \$3,877,834.83 for major projects including ADA improvements, parking improvements, the student health, wellness, and recreation facility improvements, the underground electrical update, several buildings safety code corrections, systems replacement, the sewer system updates, the Murphy Center renovations and fire alarm replacement, dorm fixtures, the baseball stadium upgrade, the science facilities improvements, the Jones Hall HVAC, the Concrete Industry Management, the new Student Union and KUC, and the College of Education and Behavioral Sciences

**Tennessee Board of Regents
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Notes to the Financial Statements (Cont.)
June 30, 2009**

Building, of which \$3,140,209.80 will be funded by future state capital outlay appropriations.

Litigation

The university is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

NOTE 15. CHAIRS OF EXCELLENCE

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

NOTE 16. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses by functional classification for the year ended June 30, 2009, are as follows:

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

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Notes to the Financial Statements (Cont.)
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NOTE 17. ON-BEHALF PAYMENTS

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

NOTE 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 fund-raising organization to supplement the resources that are available to the university in support of its programs. The 34-member board of the foundation is self-perpetuating and consists of graduates and friends of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements.

The foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation reformatting, no modifications have been made to the foundation's financial information in the university's financial statements for these differences.

During the year ended June 30, 2009, the foundation made distributions of \$3,399,746.45 to or on behalf of the university for both restricted and unrestricted purposes, of which \$2,097,890.49 is shown as utilities, supplies and other services. Complete financial statements for the foundation can be obtained from Jay Chalmers, Foundation Accountant, Middle Tennessee State University, P.O. Box 109, Murfreesboro, TN 37132.

**Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 2009**

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, 2009.

	Total Fair Value at <u>June 30, 2009</u>	Quoted Prices <u>Level 1</u>	Significant Other Inputs <u>Level 2</u>	Significant Unobservable Inputs <u>Level 3</u>
Assets:				
Cash equivalents	\$ 1,011,832.73	\$ 1,011,832.73	\$ -	\$ -
Certificates of deposit	56,549.07	56,549.07	-	-
U.S. Treasury	1,509,559.06	1,509,559.06	-	-
Corporate stocks	2,448,272.45	2,448,272.45	-	-
Mutual equity funds	11,925,558.09	11,925,558.09	-	-
Mutual bond funds	4,792,850.10	1,582,448.10	-	3,210,402.00
Real estate investment trust	2,567,090.12	-	-	2,567,090.12
Alternative investments	5,631,632.00	-	-	5,631,632.00
Pledges receivable	<u>1,254,882.42</u>	<u>-</u>	<u>-</u>	<u>1,254,882.42</u>
 Total assets	 <u>\$31,198,226.04</u>	 <u>\$18,534,219.50</u>	 <u>\$ -</u>	 <u>\$12,664,006.54</u>

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Notes to the Financial Statements (Cont.)
June 30, 2009**

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

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

All gains and losses, both realized and unrealized, have been reported on the statement of revenues, expenses, and changes in net assets as interest/investment income. Of this total, \$(5,683,513.66) is attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at June 30, 2009.

Cash and Cash Equivalents

Cash and cash equivalents consists of demand deposit accounts, money market funds, and a State of Tennessee Local Government Investment Pool account administered by the state treasurer. The bank balances of deposits at June 30, 2009, were entirely insured.

Investments

Investments are recorded on the date of contribution and are stated at market value. Unrealized gains and losses are determined by the difference between market values at the beginning and end of the year.

Investments held at June 30, 2009, were as follows:

	<u>Cost</u>	<u>Market Value</u>
Certificates of deposit	\$ 55,000.00	\$ 56,549.07
U.S. Treasury	1,359,812.85	1,509,559.06
Corporate stocks	2,878,113.71	2,448,272.45
Mutual equity funds	11,553,263.12	11,925,558.09
Mutual bond funds	4,630,968.65	4,792,850.10

**Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 2009**

Real estate investment trusts	2,933,511.09	2,567,090.12
Alternative investments	5,369,251.00	5,631,632.00
Cash surrender value of life insurance	<u>N/A</u>	<u>409,868.67</u>
 Total investments	 <u>\$ 28,779,920.42</u>	 <u>\$ 29,341,379.56</u>

Alternative investments - The foundation has investments in off-shore hedge fund-of-funds. The estimated fair value of these assets is \$5,631,632.00 at June 30, 2009.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2009. Because these investments are not readily marketable, the estimated value is subject to uncertainty, and therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. 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.

June 30, 2009

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

**Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 2009**

Capital Assets

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 2,276,671.29	\$ 32,000.00	\$ -	\$ 71,300.00	\$ 2,237,371.29
Improvements and infrastructure	778,649.24	29,080.00	-	-	807,729.24
Buildings	19,996,672.31	124,289.00	-	327,853.29	19,793,108.02
Equipment	<u>-</u>	<u>119,627.66</u>	<u>-</u>	<u>119,627.66</u>	<u>-</u>
Total	<u>23,051,992.84</u>	<u>304,996.66</u>	<u>-</u>	<u>518,780.95</u>	<u>22,838,208.55</u>
Less accumulated depreciation:					
Improvements and infrastructure	143,755.30	40,386.47	-	-	184,141.77
Buildings	<u>3,175,692.27</u>	<u>575,482.49</u>	<u>-</u>	<u>5,089.11</u>	<u>3,746,085.65</u>
Total accumulated depreciation	<u>3,319,447.57</u>	<u>615,868.96</u>	<u>-</u>	<u>5,089.11</u>	<u>3,930,227.42</u>
Capital assets, net	<u>\$19,732,545.27</u>	<u>\$ (310,872.30)</u>	<u>\$ -</u>	<u>\$ 513,691.84</u>	<u>\$18,907,981.13</u>

Endowments

The Middle Tennessee State University Foundation's endowment consists of approximately 450 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 2009**

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 foundation to not spend below 98% of the endowment's historic dollar value. As a result of this interpretation, the Middle Tennessee State University Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment; (2) the original value of subsequent gifts to the permanent endowment; (3) 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 (4) the portion of the investment return that is added to the fund's principle. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the foundation and the endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the foundation; and (7) the investment policies of the foundation.

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

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$24,429,063.57	\$ -	\$ -	\$24,429,063.57
Board-designated endowment funds	-	<u>2,360,832.56</u>	<u>99,782.40</u>	<u>2,460,614.96</u>
Total funds	<u>\$24,429,063.57</u>	<u>\$2,360,832.56</u>	<u>\$ 99,782.40</u>	<u>\$26,889,678.53</u>

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Middle Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 2009**

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2009				
	Permanently <u>Restricted</u>	Temporarily <u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Endowment net assets beginning of year	\$ 35,319,553.61	\$ -	\$ -	\$ 35,319,553.61
Investment return:				
Investment Income	438,040.46	1,834.91	43,413.66	483,289.03
Net depreciation (realized and unrealized)	(5,215,513.10)	(454,477.15)	(71,010.50)	(5,741,000.75)
Total investment return	(4,777,472.64)	(452,642.24)	(27,596.84)	(5,257,711.72)
Contributions	460,930.27	33,002.16	-	493,932.43
Expenditures	(369,257.59)	997.82	23,608.33	(344,651.44)
Appropriations of endowment assets for expenditure	(1,390,836.84)	-	-	(1,390,836.84)
Other changes				
Transfers	(2,846,486.27)	2,742,715.36	103,770.91	-
Reallocation	<u>(1,967,366.97)</u>	<u>36,759.46</u>	<u>-</u>	<u>(1,930,607.51)</u>
Endowment net assets, end of year	<u>\$ 24,429,063.57</u>	<u>\$ 2,360,832.56</u>	<u>\$ 99,782.40</u>	<u>\$ 26,889,678.53</u>

Return objectives and risk parameters – The foundation has adopted investment and spending 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 policies for endowment assets that attempt to provide a predictable stream of funding to programs supported as appropriate. The foundation expects its endowment funds, over time, to provide an average rate of return of approximately 9% 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

**Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 2009**

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 annually appropriating for distribution 4.5% of the three-year rolling average total fair market value of the endowment. Payout policy is determined by the foundation year-to-year, and in a year of significantly declining investment values, the board may choose to not make an annual payout to preserve the future purchasing and payout power of the endowment. In establishing this policy, the foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the foundation expects the current spending policy to allow its endowment to grow at an average of 3.5% 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.

**Tennessee Board of Regents
Middle Tennessee State University
Required Supplementary Information
OPEB Schedule of Funding Progress
Unaudited**

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	State Employee Group Plan	\$ 0.00	\$42,876,000.00	\$42,876,000.00	0.00	\$113,201,926.22	37.9%

**TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
SUPPLEMENTARY SCHEDULE OF CASH FLOWS - COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2009**

	Year Ended June 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES	
Gifts and contributions	\$ 3,957,382.04
Vendor commissions	14,320.33
Payments for scholarships and fellowships	(1,400,969.95)
Payments to suppliers and vendors	(702,770.28)
Payments on behalf of MTSU	(1,491,700.71)
Payments to MTSU	(1,051,253.20)
Net cash used by operating activities	(674,991.77)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Private gifts for endowment purposes	403,595.42
Net cash provided by non-capital financing activities	403,595.42
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital grants and gifts received	23,395.25
Purchase of capital assets and construction	(302,629.41)
Proceeds from sale of capital assets	242,864.29
Net cash used by capital and related financing activities	(36,369.87)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	4,476,698.34
Income on investments	526,174.04
Purchase of investments	(4,093,566.35)
Other investing receipts (payments)	25,984.03
Net cash used by investing activities	935,290.06
Net increase in cash and cash equivalents	627,523.84
Cash and cash equivalents - beginning of year	8,520,258.56
Cash and cash equivalents - end of year	\$ 9,147,782.40
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (1,929,733.31)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	615,868.96
Other adjustments	522,034.88
Change in assets and liabilities:	
Receivables, net	613,227.47
Accounts payable	(496,389.77)
Net cash used by operating activities	\$ (674,991.77)
Non-cash transactions	
Gifts in-kind	\$ 425,030.12
Gifts in-kind - capital	\$ (250,602.76)
Pledges	\$ 614,721.70
Unrealized losses on investments	\$ (5,683,513.66)