

**Tennessee Board of Regents  
Middle Tennessee State University**

**For the Year Ended  
June 30, 2004**

**Arthur A. Hayes, Jr., CPA, JD, CFE**  
Director

**Charles K. Bridges, CPA**  
Assistant Director

**Shirley A. Henry, CPA**  
Audit Manager

**Britt Wood, CPA, CFE**  
In-Charge Auditor

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**Treesie Farmer, CFE**  
**Danisha Jones**  
**Erica Pettway**  
**Robyn Probus, CPA, CFE**  
Staff Auditors

**Gerry Boaz, CPA**  
Technical Analyst

**Amy Brack**  
Editor

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 401-7897

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**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY**

State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

**John G. Morgan**  
Comptroller

January 27, 2005

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, 2004. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/th  
04115

State of Tennessee

# **A u d i t   H i g h l i g h t s**

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Middle Tennessee State University**  
For the Year Ended June 30, 2004

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## **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.

## **AUDIT FINDINGS**

The audit report contains no findings.

## **OPINION ON THE FINANCIAL STATEMENTS**

The opinion on the financial statements is unqualified.

**Audit Report**  
**Tennessee Board of Regents**  
**Middle Tennessee State University**  
**For the Year Ended June 30, 2004**

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**Tennessee Board of Regents  
Middle Tennessee State University  
For the Year Ended June 30, 2004**

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**INTRODUCTION**

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**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 act of the legislature in 1943 and to Middle Tennessee State University by a special legislative act in 1956. 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 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.

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## AUDIT SCOPE

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The audit was limited to the period July 1, 2003, through June 30, 2004, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the year ended June 30, 2004, and for comparative purposes, the year ended June 30, 2003. 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*.

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## OBJECTIVES OF THE AUDIT

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The objectives of the audit were

1. to consider the university's internal control over financial reporting to determine 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.

**Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.**

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## **PRIOR AUDIT FINDINGS**

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There were no findings in the prior audit report.

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## **OBSERVATIONS AND COMMENTS**

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### **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, and 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.

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## **RESULTS OF THE AUDIT**

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### **AUDIT CONCLUSIONS**

#### Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 2004, we considered internal control over financial reporting to determine 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Consideration of internal control over financial reporting disclosed no material weaknesses.

#### Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

#### Fairness of Financial Statement Presentation

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



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT**

**SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 401-7897  
FAX (615) 532-2765**

**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***

November 19, 2004

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

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, as of and for the year ended June 30, 2004, and have issued our report thereon dated November 19, 2004. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. During the year ended June 30, 2004, the university implemented GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the university's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk of misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The Honorable John G. Morgan  
November 19, 2004  
Page Two

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

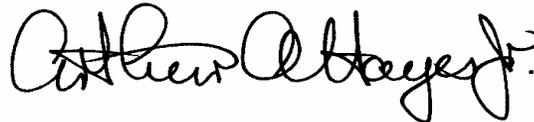
### **Compliance and Other Matters**

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 *Government Auditing Standards*.

We did, however, note certain less significant instances of noncompliance, which we have reported to the university's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee 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." The signature is written in a cursive style with a large, prominent initial "A".

Arthur A. Hayes, Jr., CPA,  
Director

AAH/th



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 401-7897  
FAX (615) 532-2765**

**Independent Auditor's Report**

November 19, 2004

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

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, 2004, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. 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. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of many agencies, commissions, and component units of the State of Tennessee; managing the state's debt; and making loans to the state's colleges and universities from debt proceeds. Some of the boards of which the Comptroller of the Treasury serves as a member per state statutes include the State Building Commission and the Tennessee Higher Education Commission.

The Honorable John G. Morgan  
November 19, 2004  
Page Two

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tennessee Board of Regents, Middle Tennessee State University, and its discretely presented component unit as of June 30, 2004, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2004, the university implemented GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*.

The management's discussion and analysis on pages 9 through 22 is not a required part of the basic financial statements but is 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information on page 44 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 *Government Auditing Standards*, we have also issued our report dated November 19, 2004, 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 *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, appearing to read "Arthur A. Hayes, Jr.", written in a cursive style.

Arthur A. Hayes, Jr., CPA,  
Director

AAH/th

**MIDDLE TENNESSEE STATE UNIVERSITY**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2004**

This section of Middle Tennessee State University's annual financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2004, with comparative information presented for the fiscal year ended June 30, 2003. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

**Using This Annual Report**

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

**The Statement of Net Assets**

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

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

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

	University		Component Unit	
	2004	2003	2004	2003
<b>Assets:</b>				
Current assets	\$ 41,078	\$ 39,652	\$ 929	\$ 1,458
Capital assets, net	177,341	170,627	21,915	20,455
Other assets	<u>36,109</u>	<u>25,848</u>	<u>34,111</u>	<u>31,831</u>
<b>Total assets</b>	<u>254,528</u>	<u>236,127</u>	<u>56,955</u>	<u>53,744</u>
<b>Liabilities:</b>				
Current liabilities	25,191	24,070	53	138
Noncurrent liabilities	<u>90,338</u>	<u>84,878</u>	<u>-</u>	<u>-</u>
<b>Total liabilities</b>	<u>115,529</u>	<u>108,948</u>	<u>53</u>	<u>138</u>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	90,781	89,235	21,915	20,455
Restricted - nonexpendable	738	5,585	11,198	20,196
Restricted - expendable	7,358	716	23,296	12,358
Unrestricted	<u>40,122</u>	<u>31,643</u>	<u>493</u>	<u>597</u>
<b>Total net assets</b>	<u>\$138,999</u>	<u>\$127,179</u>	<u>\$56,902</u>	<u>\$53,606</u>

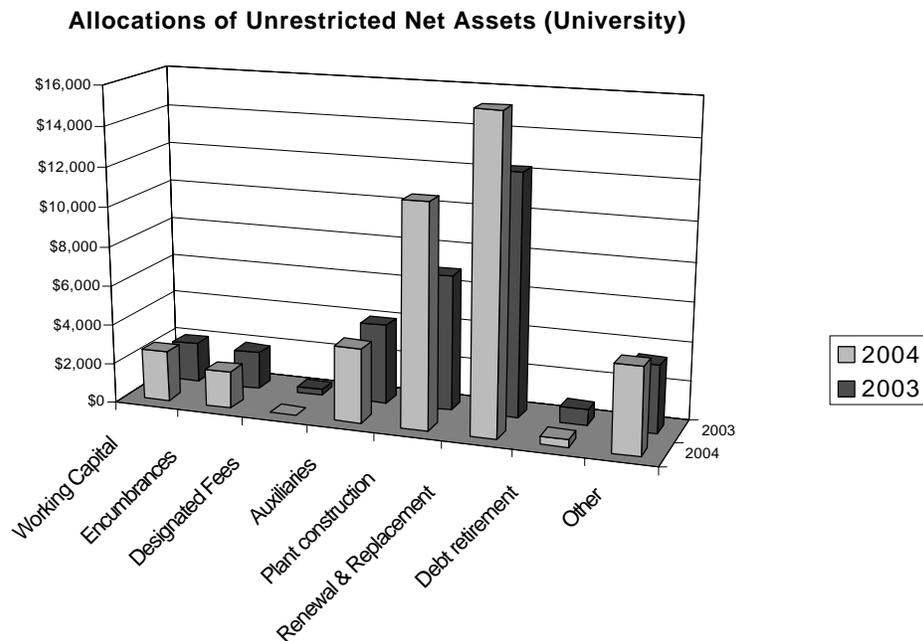
The university had the following significant changes between fiscal years on the Statement of Net Assets:

- ◆ Net capital assets increased due to the purchase of the remaining flight training airplanes for the Aerospace Department, renovation of the university's housing facilities, and renovation of the Todd Building.
- ◆ The increase in other assets is mainly attributable to an increase in noncurrent cash and cash equivalents. This was due to an enrollment increase of 3.22% in fall 2003 and an across-the-board fee increase of 14% for 2003-04.
- ◆ Noncurrent liabilities increased due to the issuance of bonds and commercial paper by the Tennessee State School Bond Authority (TSSBA) for various capital projects. More detailed information about the university's capital assets is presented in the Capital Assets and Debt Administration section of Management's Discussion and Analysis.

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

- ◆ The increase in capital assets is the result of the continued construction of the Sports Museum, which is shown as projects in progress in the notes.
- ◆ The other assets category increased due to the execution of contracts with donors, which resulted in the recording of accounts receivable.
- ◆ Restricted - nonexpendable net assets increased due to the favorable market performance. Nonexpendable investments increased approximately \$2.5 million.

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, and capital projects. The following graph shows the allocations (in thousands of dollars):



- ◆ Plant construction increased due to private giving dollars received this year for an addition to the Nursing Building, for which construction is slated to begin as early as the 2005-06 fiscal year. In addition, more funds have been set aside for future year projects which include a university-wide replacement of PCs for all staff and the purchase of a new Enterprise Resource Planning (ERP) system to replace the current administrative systems.
- ◆ Renewal and replacement increased due to (1) more funds set aside by the campus auxiliary units for future projects; (2) less funds needed for the retirement of debt on the student Recreation Center due to a refunding of the bonds by TSSBA, thus allowing more funds to be set aside for a Student Health, Wellness, and Recreation Facility upgrade

project; (3) proceeds received from the sale of existing airplanes in the flight training program; and (4) less funds needed to cover impoundments imposed by the state in previous years.

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

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

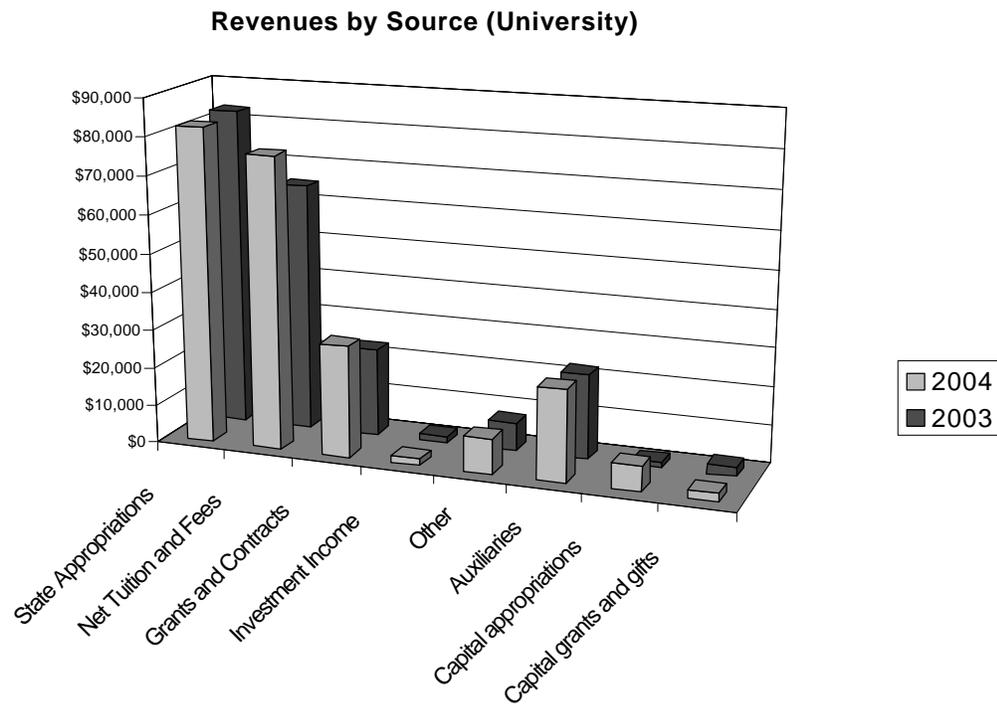
#### Statement of Revenues, Expenses, and Changes in Net Assets (in thousands of dollars)

	University		Component Unit	
	2004	2003	2004	2003
<b>Operating revenues:</b>				
Net tuition and fees	\$ 76,220	\$ 65,044	\$ -	\$ -
Gifts	-	-	5,077	6,024
Grants and contracts	14,894	23,042	20	-
Auxiliaries	24,042	22,298	-	-
Other	8,185	5,956	-	-
<b>Total operating revenues</b>	<b>123,341</b>	<b>116,340</b>	<b>5,097</b>	<b>6,024</b>
Operating expenses	215,315	200,429	5,616	4,572
<b>Operating income (loss)</b>	<b>(91,974)</b>	<b>(84,089)</b>	<b>(519)</b>	<b>1,452</b>
<b>Nonoperating revenues and expenses:</b>				
State appropriations	82,359	83,208	-	-
Gifts	664	929	-	-
Grants and contracts	14,431	-	-	-
Investment income	1,732	1,716	1,942	1,399
Other revenues and expenses	(4,114)	( 3,597)	(2)	(1)
<b>Total nonoperating revenues and expenses</b>	<b>95,072</b>	<b>82,256</b>	<b>1,940</b>	<b>1,398</b>
<b>Income (loss) before other revenues, expenses, gains, or losses</b>	<b>3,098</b>	<b>(1,833)</b>	<b>1,421</b>	<b>2,850</b>
<b>Other revenues, expenses, gains, or losses:</b>				
Capital appropriations	6,703	1,372	-	-
Capital grants and gifts	2,164	2,385	381	450
Additions to permanent endowments	-	-	1,494	689

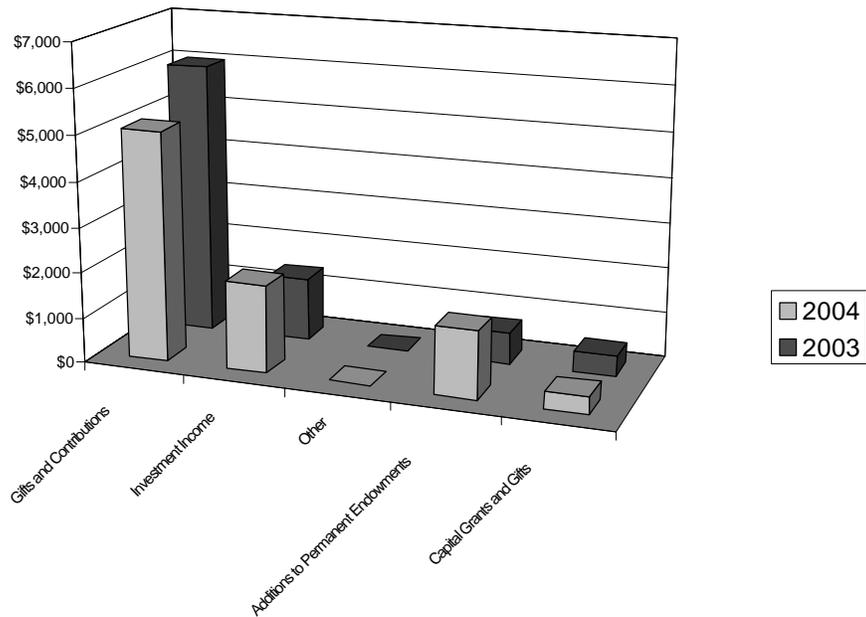
Other	(145)	(52)	-	-
<b>Total other revenues, expenses, gains, or losses</b>	<b>8,722</b>	<b>3,705</b>	<b>1,875</b>	<b>1,139</b>
<b>Increase in net assets</b>	<b>11,820</b>	<b>1,872</b>	<b>3,296</b>	<b>3,989</b>
Net assets at beginning of year	127,179	125,307	53,606	49,617
<b>Net assets at end of year</b>	<b>\$138,999</b>	<b>\$127,179</b>	<b>\$ 56,902</b>	<b>\$53,606</b>

### Revenues

The following are graphic illustrations of revenues by source (both operating and nonoperating), which were used to fund the university's and its component unit's operating activities for the years ended June 30, 2004, and June 30, 2003 (in thousands of dollars).



**Revenues by Source (Component Unit)**



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

- ◆ The increase in tuition and fees is attributable to an across-the-board fee increase of 14% for the 2003-04 year and a student enrollment increase of approximately 3% from fall 2002 to fall 2003.
- ◆ Grants and contracts increased primarily due to a change in recognition of funds received from the Tennessee Student Assistance Corporation (TSAC). In 2003-04, these funds are recognized as revenues by the university with the associated scholarship expense. Previously, these funds were not shown on the university's statements and only flowed through the university's accounting system. The amount for 2003-04 was over \$3 million. Other significant funding increases occurred in the following programs: Pell, Geier Consent Decree and Desegregation programs, Governor's School, Chairs of Excellence, and many private grants and contracts.
- ◆ Capital appropriations increased primarily due to the use of funds previously appropriated by the state for the Todd Building renovation.
- ◆ State appropriations and tuition and fees make up 68% of the university's revenue.

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

- ◆ The decrease in gifts and contributions is due to a decrease in the amount of pledges for the year of almost \$1.9 million. This decrease is the result of a review of all outstanding

pledges but was partially offset by increases in cash contributions, gifts-in-kind, and stock gifts for the current year.

- ◆ The increase in investment income is the result of favorable market performance. During the year, realized gains on investments totaled approximately \$384,000.
- ◆ The increase in additions to permanent endowments is due to an increase in cash contributions of approximately \$937,000 for the year.

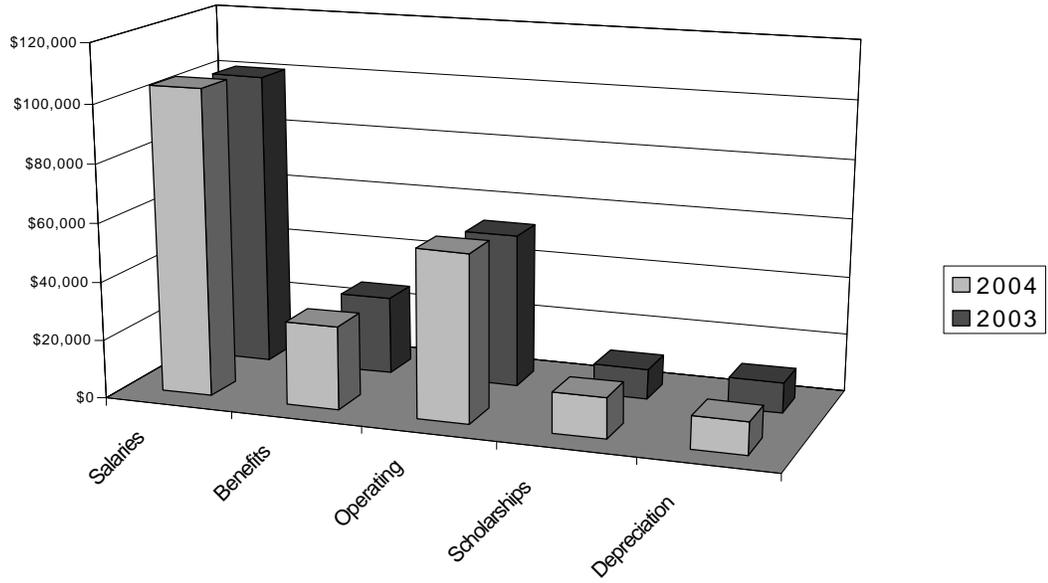
### Expenses

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

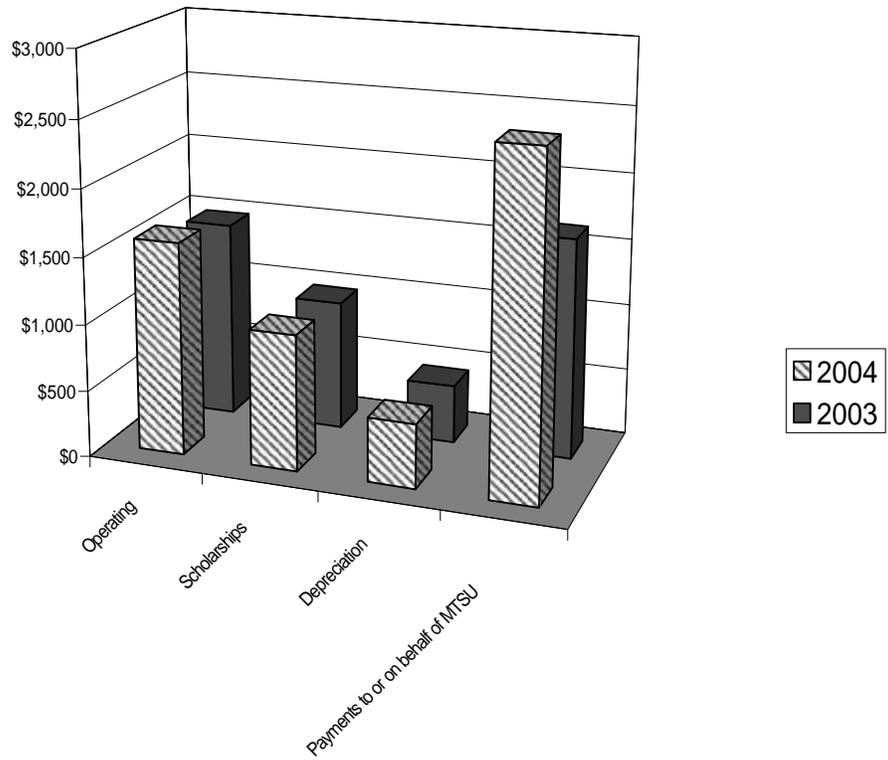
#### **Natural Classification (in thousands of dollars)**

	<b>University</b>		<b>Component Unit</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Salaries	\$ 104,590	\$100,949	\$ -	\$ -
Benefits	28,538	26,690	-	
Operating	57,337	52,594	1,596	1,481
Scholarships	13,826	10,437	1,016	971
Depreciation	11,024	9,759	480	474
Payments to or on behalf of MTSU	-	-	2,524	1,646
<b>Total</b>	<u>\$ 215,315</u>	<u>\$200,429</u>	<u>\$ 5,616</u>	<u>\$ 4,572</u>

### Expenses by Natural Classification (University)



### Expenses by Natural Classification (Component Unit)



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

- ◆ The increase in salary expenses is primarily due to implementation of the second half of the 2% across-the-board pay raise, 3% salary equity adjustment for faculty, and 2% salary equity adjustment for administrative and classified personnel, all implemented January 2003. Other factors contributing to this increase are faculty promotions, new faculty positions, and new graduate assistant positions.
- ◆ Employee benefit expenses increased due to increases in the state's group insurance premiums in January 2003 and January 2004 and the addition of benefits for new positions.

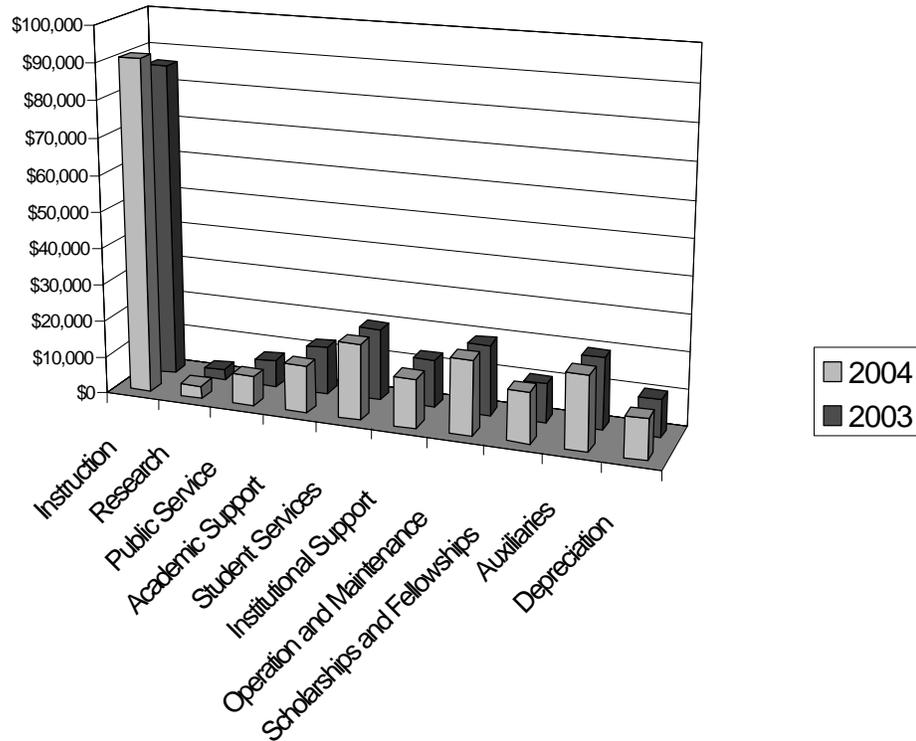
The component unit had the following significant change in expenses between fiscal years:

- ◆ Payments to or on behalf of MTSU increased due to more requests from university faculty to purchase items to support university functions. As the university's budget has decreased, the request of funds from the foundation has increased.

**Program Classification for University  
(in thousands of dollars)**

	<b>2004</b>	<b>2003</b>
Instruction	\$ 90,974	\$ 86,133
Research	3,556	2,782
Public service	8,022	7,161
Academic support	12,989	12,766
Student services	20,773	19,688
Institutional support	13,438	12,973
Operation and maintenance	20,381	19,106
Scholarships and fellowships	13,837	10,437
Auxiliaries	20,321	19,624
Depreciation	<u>11,024</u>	<u>9,759</u>
Total	<u>\$215,315</u>	<u>\$200,429</u>

### Expenses by Program Classification (University)



- ◆ The instruction function increased as a result of faculty salary increases in January 2003, faculty promotions, new faculty positions, new graduate assistantship positions, more funds available from the technology access fee, and the approval of a business course fee. Funds received from the business course fee must be used by the College of Business, of which most of the new funds are spent within the instruction function.
- ◆ The increase in the scholarships and fellowships function is the result of a change in recognition of funds received from TSAC. In 2003-04, these funds were recognized as revenues by the university with the associated scholarship expense. Previously, these funds were not shown on the university’s statements and only flowed through the university’s accounting system. The amount for 2003-04 was over \$3 million.

### The Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the university’s ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

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

	University		Component Unit	
	2004	2003	2004	2003
<b>Cash provided (used) by:</b>				
Operating activities	\$(80,108)	\$ (72,668)	\$ 1,382	\$ (1,160)
Noncapital financing activities	98,051	85,149	1,583	653
Capital and related financing activities	(8,310)	(11,659)	(2,287)	(469)
Investing activities	<u>1,708</u>	<u>1,684</u>	<u>(761)</u>	<u>(704)</u>
<b>Net increase (decrease) in cash</b>	<b>11,341</b>	<b>2,506</b>	<b>(83)</b>	<b>(1,680)</b>
Cash, beginning of year	<u>50,279</u>	<u>47,773</u>	<u>9,448</u>	<u>11,128</u>
<b>Cash, end of year</b>	<b><u>\$ 61,620</u></b>	<b><u>\$ 50,279</u></b>	<b><u>\$ 9,365</u></b>	<b><u>\$ 9,448</u></b>

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

- ◆ Cash used by operating activities increased due to salary and benefit increases and more scholarships provided for students. Major uses of cash were for payments to suppliers and vendors, payments to employees, and payments for scholarships and fellowships.
- ◆ Cash provided by noncapital financing activities increased due to the reclassification of Pell and FSEOG federal financial assistance funds from operating activities to noncapital financing activities.
- ◆ Cash used by capital and related financing activities decreased due to more of the university's capital projects funded from capital state appropriations and fewer projects funded from local university funds.
- ◆ The university's cash position for the year increased by \$11,340,982.

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

- ◆ The change in cash provided by operating activities was largely due to increases in cash donations received from contributors.
- ◆ Cash provided by noncapital financing activities increased due to the effort to move excess funds held in the temporarily restricted accounts to the endowment accounts.
- ◆ Cash used by capital and related financing activities increased due to the construction of the Kennon Sports Museum, Tennessee Miller Coliseum Warm-Up Ring, and the Horse Science addition.

- ◆ The component unit's cash position for the year decreased by \$83,278.

## Capital Assets and Debt Administration

### Capital Assets

At June 30, 2004, Middle Tennessee State University had \$177,341,129 invested in capital assets, net of accumulated depreciation of \$121,767,539. At June 30, 2003, the university had \$170,627,179 invested in capital assets, net of accumulated depreciation of \$113,865,863. Depreciation charges totaled \$11,023,830 for the current fiscal year and \$9,758,808 for the fiscal year ended June 30, 2003. At June 30, 2004, the component unit had \$21,914,575 invested in capital assets, net of accumulated depreciation of \$1,212,662. At June 30, 2003, the component unit had \$20,454,742 invested in capital assets, net of accumulated depreciation of \$732,937. Depreciation charges totaled \$479,725 for the current fiscal year and \$473,913 for the fiscal year ended June 30, 2003. Details of these assets are shown below.

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

	<b>University</b>		<b>Component Unit</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Land	\$ 4,980	\$ 4,527	\$ 2,213	\$ 2,213
Land improvements and infrastructure	13,112	13,195	95	100
Buildings	124,940	124,449	17,982	17,730
Equipment	14,721	12,438	41	30
Library holdings	8,945	8,323	-	-
Projects in progress	<u>10,643</u>	<u>7,695</u>	<u>1,584</u>	<u>382</u>
Total	<u>\$177,341</u>	<u>\$170,627</u>	<u>\$ 21,915</u>	<u>\$ 20,455</u>

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

- ◆ Equipment increased due to the purchase of items costing more than \$5,000 by campus departments. The majority of this increase is attributable to the acquisition of the remaining flight training airplanes for the Aerospace Department.
- ◆ Projects in progress increased significantly due to current renovations of university housing facilities and the Todd Building. Three projects were completed during the year and transferred out of projects in progress: Paul W. Martin, Sr. Honors Building, parking lot expansions, and the airplane classroom.
- ◆ All other categories either increased or decreased due to the additions of capital assets and the recording of depreciation.

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

- ◆ Buildings increased as a result of the completion of the Horse Science addition.
- ◆ Projects in progress increased due to continued construction of the Kennon Sports Museum and the Tennessee Miller Coliseum Warm-Up Ring.

The university expects to make major capital expenditures during fiscal year 2004-05 for the following projects: continued renovation of the Todd Building funded from capital state appropriations; continued renovation to the university’s housing facilities that will be funded from the issuance of TSSBA bonds; and a Student Health, Wellness, and Recreation Facility upgrade to be funded from university auxiliary reserve balances and the issuance of TSSBA bonds.

More detailed information about the university’s capital assets is presented in Note 6 to the financial statements. More detailed information about the component unit’s capital assets is presented in Note 17 to the financial statements.

Debt

At June 30, 2004, the university had \$86,559,889.43 in debt outstanding. At June 30, 2003, the university has \$81,392,341.95 in debt outstanding. The table below summarizes these amounts by type of debt instrument (in thousands of dollars).

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

	<b>2004</b>	<b>2003</b>
TSSBA Bonds	\$ 81,331	\$ 75,490
TSSBA Commercial paper	<u>5,229</u>	<u>5,902</u>
Total debt	<u>\$ 86,560</u>	<u>\$ 81,392</u>

The Tennessee State School Bond Authority (TSSBA) issued new bonds on behalf of the university for the following four projects during the year: Steinway piano purchases for the School of Music; Aerospace Department’s flight training airplanes; project for energy savings and performance contracting; and the student health, wellness, and recreation facility upgrade. TSSBA also refunded the original bonds issued on the student Recreation Center in order to obtain a lower rate of interest. Commercial paper was issued during the year for several ongoing capital projects.

TSSBA currently is rated as AA- by Standard & Poor's. More detailed information about the university's long-term liabilities is presented in Note 7 to the financial statements.

### **Economic Factors That Will Affect the Future**

The state has approved a 3% across-the-board salary increase for all state employees effective July 1, 2004. Funding will be provided by the state for 1% of this increase through increased state appropriations, with the remaining 2% to be funded from university resources.

The Tennessee Board of Regents approved, at their June board meeting, a 7% fee increase for 2004-05.

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 operations 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:

Mr. Alan Thomas  
Business Office Controller  
Middle Tennessee State University, CAB 105  
Murfreesboro, Tennessee 37132

**TENNESSEE BOARD OF REGENTS  
MIDDLE TENNESSEE STATE UNIVERSITY  
STATEMENTS OF NET ASSETS  
JUNE 30, 2004**

	University	Component Unit - MTSU Foundation
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Notes 2, 3, and 17)	\$ 29,608,620.54	\$ 539,109.59
Accounts, notes, and grants receivable (net) (Note 5)	8,528,005.74	-
Pledges receivable (net) (Note 17)	-	380,170.51
Inventories (at lower of cost or market)	2,484,672.66	-
Prepaid expenses and deferred charges	417,413.39	-
Accrued interest receivable	39,566.42	9,764.36
Total current assets	41,078,278.75	929,044.46
Noncurrent assets:		
Cash and cash equivalents (Notes 2, 3, and 17)	32,011,615.78	8,825,615.79
Investments (Notes 4 and 17)	716,066.91	23,177,229.87
Accounts, notes, and grants receivable (net) (Note 5)	3,381,410.72	1,967,673.45
Pledges receivable (net) (Note 17)	-	140,648.18
Capital assets (net) (Notes 6 and 17)	177,341,128.89	21,914,575.17
Total noncurrent assets	213,450,222.30	56,025,742.46
Total assets	254,528,501.05	56,954,786.92
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	1,835,454.26	53,272.86
Accrued liabilities	12,936,676.21	-
Student deposits	907,383.44	-
Deferred revenue	4,554,664.58	-
Compensated absences (Note 7)	1,093,023.14	-
Accrued interest payable	707,451.88	-
Long-term liabilities, current portion (Note 7)	2,208,716.72	-
Deposits held in custody for others	642,349.43	-
Other liabilities	305,889.74	-
Total current liabilities	25,191,609.40	53,272.86
Noncurrent liabilities:		
Compensated absences (Note 7)	3,052,933.65	-
Long-term liabilities (Note 7)	84,351,172.71	-
Due to grantors (Note 7)	2,933,577.40	-
Total noncurrent liabilities	90,337,683.76	-
Total liabilities	115,529,293.16	53,272.86
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	90,781,239.46	21,914,575.17
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	10,900.00	21,741,298.56
Research	-	740,940.64
Other	727,061.61	813,699.10
Expendable:		
Scholarships and fellowships	143,892.28	885,379.37
Research	79,087.22	3,038.49
Instructional department uses	83,963.03	5,770,380.57
Loans	1,728,243.26	-
Capital projects	1,931,294.70	3,315,258.11
Debt service	2,311,238.19	-
Other	1,080,498.63	1,223,828.08
Unrestricted (Notes 8 and 9)	40,121,789.51	493,115.97
Total net assets	\$ 138,999,207.89	\$ 56,901,514.06

The notes to the financial statements are an 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, 2004**

	University	Component Unit - MTSU Foundation
<b>REVENUES</b>		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$14,440,618.35)	\$ 76,219,797.24	\$ -
Gifts and contributions	-	5,076,915.87
Governmental grants and contracts	14,025,250.06	-
Nongovernmental grants and contracts	869,011.58	19,599.02
Sales and services of educational departments	6,987,364.42	-
Auxiliary enterprises:		
Residential life (net of scholarship allowances of \$1,583,844.04; all residential life revenues are used as security for revenue bonds; see Note 7)	9,549,714.11	-
Bookstore (net of scholarship allowances of \$1,390,735.54; all bookstore revenues are used as security for revenue bonds; see Note 7)	7,344,697.62	-
Food service	560,304.82	-
Wellness facility (net of scholarship allowances of \$301,178.40; all wellness facility revenues are used as security for revenue bonds; see Note 7)	1,585,841.93	-
Other auxiliaries	5,000,931.74	-
Interest earned on loans to students	83,013.48	-
Other operating revenues	1,115,041.68	-
Total operating revenues	<u>123,340,968.68</u>	<u>5,096,514.89</u>
<b>EXPENSES</b>		
Operating expenses (Note 15):		
Salaries and wages	104,590,058.79	-
Benefits	28,537,541.14	-
Utilities, supplies, and other services	57,336,706.49	1,596,079.99
Scholarships and fellowships	13,826,489.17	1,016,401.09
Depreciation expense	11,023,830.06	479,725.01
Payments to or on behalf of Middle Tennessee State University	-	2,523,883.30
Total operating expenses	<u>215,314,625.65</u>	<u>5,616,089.39</u>
Operating loss	<u>(91,973,656.97)</u>	<u>(519,574.50)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	82,359,300.00	-
Gifts from component unit	663,797.84	-
Grants and contracts	14,431,290.00	-
Investment income (net of investment expense of \$6,089.47 for the university and \$107,006.37 for the component unit)	1,732,132.39	1,942,198.83
Interest on capital asset-related debt	(3,868,967.60)	-
Bond issuance costs	(643,544.71)	-
Other nonoperating revenues (expenses)	397,835.55	(1,589.08)
Net nonoperating revenues	<u>95,071,843.47</u>	<u>1,940,609.75</u>
Income before other revenues, expenses, gains, or losses	<u>3,098,186.50</u>	<u>1,421,035.25</u>
Capital appropriations	6,703,137.55	-
Capital grants and gifts, including \$1,860,085.46 from component unit	2,163,390.74	380,859.88
Additions to permanent endowments	-	1,493,591.24
Other	(144,966.40)	-
Total other revenues	<u>8,721,561.89</u>	<u>1,874,451.12</u>
Increase in net assets	<u>11,819,748.39</u>	<u>3,295,486.37</u>
<b>NET ASSETS</b>		
Net assets - beginning of year	127,179,459.50	53,606,027.69
Net assets - end of year	<u>\$ 138,999,207.89</u>	<u>\$ 56,901,514.06</u>

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

**TENNESSEE BOARD OF REGENTS  
MIDDLE TENNESSEE STATE UNIVERSITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2004**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Tuition and fees	\$ 76,554,245.71
Grants and contracts	14,700,777.34
Sales and services of educational activities	6,768,574.00
Payments to suppliers and vendors	(57,214,859.07)
Payments to employees	(104,246,821.55)
Payments for benefits	(28,002,601.24)
Payments for scholarships and fellowships	(13,826,489.17)
Loans issued to students and employees	(288,142.76)
Collection of loans from students and employees	292,905.30
Interest earned on loans to students	86,393.83
Auxiliary enterprise charges:	
Residence halls	9,341,052.39
Bookstore	7,451,597.11
Food services	582,998.64
Wellness facility	1,585,841.93
Other auxiliaries	4,991,237.31
Other receipts	1,115,041.68
Net cash used by operating activities	<u>(80,108,248.55)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State appropriations	82,336,500.00
Gifts and grants received for other than capital purposes, including \$663,797.84 from Middle Tennessee State University Foundation	15,506,687.57
Federal student loan receipts	58,990,249.28
Federal student loan disbursements	(59,056,911.27)
Changes in deposits held for others	(123,272.61)
Other noncapital financing receipts (payments)	397,835.55
Net cash provided by noncapital financing activities	<u>98,051,088.52</u>

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

Proceeds from capital debt	8,204,074.93
Capital appropriations	6,703,137.55
Capital grants and gifts received, including \$1,810,435.46 from Middle Tennessee State University Foundation	2,113,740.74
Purchases of capital assets and construction	(17,833,096.37)
Principal paid on capital debt	(3,036,527.45)
Interest paid on capital debt	(3,817,822.89)
Bond issue costs paid on new debt issue	(643,544.71)
Net cash used by capital and related financing activities	<u>(8,310,038.20)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from sales and maturities of investments	5,000.00
Income on investments	1,708,180.26
Purchases of investments	(5,000.00)
Net cash provided by investing activities	<u>1,708,180.26</u>
Net increase in cash and cash equivalents	11,340,982.03
Cash and cash equivalents - beginning of year (Note 16)	50,279,254.29
Cash and cash equivalents - end of year	<u>\$ 61,620,236.32</u>

**TENNESSEE BOARD OF REGENTS  
MIDDLE TENNESSEE STATE UNIVERSITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2004**

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<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	\$ (91,973,656.97)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	11,023,830.06
Change in assets and liabilities:	
Receivables, net	(839,374.44)
Inventories	(7,885.09)
Prepaid/deferred items	312,688.95
Other assets	3,380.35
Accounts payable	8,234.57
Accrued liabilities	651,947.26
Deferred revenue	628,862.63
Deposits	(41,967.86)
Compensated absences	91,107.29
Due to grantors	(71,520.13)
Loans to students and employees	(4,762.54)
Other	110,867.37
Net cash used by operating activities	\$ <u><u>(80,108,248.55)</u></u>
<b>Noncash transactions</b>	
Gifts in-kind	\$ 45,400.00
Unrealized gains on investments	\$ 17,750.09

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

**Tennessee Board of Regents  
Middle Tennessee State University  
Notes to the Financial Statements  
June 30, 2004**

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**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 financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

**Basis of Presentation**

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This was followed in November 1999 by GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities* and in May 2002 by GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*. The financial statement presentation required by those statements provides a comprehensive, entity-wide perspective of the university's, including component unit's, assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

**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.

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

**Tennessee Board of Regents**  
**Middle Tennessee State University**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2004**

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elected not to follow private-sector guidance issued subsequent to November 30, 1989.

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

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

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

**Inventories**

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

**Compensated Absences**

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.

**Capital Assets**

Capital assets, which include property, plant, equipment, and library holdings, 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.

**Tennessee Board of Regents**  
**Middle Tennessee State University**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2004**

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These assets, with the exception of land, are depreciated 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 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

**Tennessee Board of Regents**  
**Middle Tennessee State University**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2004**

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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**

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2004, cash and cash equivalents consisted of \$42,746,162.94 in bank accounts, \$115,240.00 of petty cash on hand, \$16,304,835.87 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, \$2,443,002.81 in LGIP deposits for capital projects, and \$10,994.70 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 (LGIP) account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the university for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

**NOTE 3. DEPOSITS**

The university's deposits are in financial institutions that participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2004, the carrying amount of the university's deposits was \$42,757,157.64, and the bank balance including accrued interest was \$44,589,352.38. The bank balance was insured.

**Tennessee Board of Regents  
Middle Tennessee State University  
Notes to the Financial Statements (Cont.)  
June 30, 2004**

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The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 115%, 100%, or 90% of the uninsured deposits at financial institutions participating in the collateral pool. The pledge level is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

The university also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

**NOTE 4. INVESTMENTS**

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; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified.

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

The university's investments are shown below.

Investments not susceptible to credit risk categorization:

Mutual funds	\$716,066.91
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Notes to the Financial Statements (Cont.)  
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Investments of the university's endowment and similar funds are composed of the following:

	<u>Carrying Value</u>
Mutual funds	\$ 716,066.91

Assets of endowments are pooled on a fair value basis, with each individual fund subscribing to or disposing of units on the basis of the fair value per unit at the beginning of the calendar quarter within which the transaction takes place. The 131,097.766 units at June 30, 2004, each having a fair value of \$5.46, were owned by quasi-endowments.

The following tabulation summarizes changes in relationships between cost and fair values of the pooled assets:

	Pooled Assets		Net Gains (Losses)	Fair Value Per Unit
	Fair Value	Cost		
End of year	\$716,066.91	\$748,185.22	\$(32,118.31)	\$5.46
Beginning of year	\$697,319.67	\$747,188.07	<u>(49,868.40)</u>	<u>5.22</u>
				<u>\$0.24</u>
Unrealized net gains			17,750.09	
Realized net gains			<u>4,564.22</u>	
Total net gains			<u>\$ 22,314.31</u>	

The average annual earnings per unit, exclusive of net gains, were \$0.07 for the year.

**Tennessee Board of Regents  
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Notes to the Financial Statements (Cont.)  
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**NOTE 5. RECEIVABLES**

Receivables included the following:

Student accounts receivable	\$3,860,066.83
Grants receivable	3,961,947.44
Notes receivable	464,403.79
State appropriation receivable	449,300.00
Other receivables	<u>1,917,417.21</u>
Subtotal	10,653,135.27
Less allowance for doubtful accounts	<u>(1,707,527.72)</u>
Total receivables	<u>\$8,945,607.55</u>

Federal Perkins Loan Program funds included the following:

Perkins loans receivable	\$3,769,717.18
Less allowance for doubtful accounts	<u>(805,908.27)</u>
Total	<u>\$ 2,963,808.91</u>

**NOTE 6. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 4,527,224.51	\$ 453,381.00	\$ -	\$ -	\$ 4,980,605.51
Land improvements and infrastructure	25,518,526.32	-	1,141,301.80	-	26,659,828.12
Buildings	197,490,414.98	105,769.00	5,340,439.88	-	202,936,623.86
Equipment	33,640,466.28	5,466,548.43	-	1,558,448.75	37,548,565.96
Library holdings	15,620,926.23	2,427,285.94	-	1,708,492.52	16,339,719.65
Projects in progress	<u>7,695,304.11</u>	<u>9,464,575.15</u>	<u>(6,481,741.68)</u>	<u>34,813.15</u>	<u>10,643,324.43</u>
Total	<u>284,492,862.43</u>	<u>17,917,559.52</u>	<u>-</u>	<u>3,301,754.42</u>	<u>299,108,667.53</u>

**Tennessee Board of Regents  
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Notes to the Financial Statements (Cont.)  
June 30, 2004**

Less accum. depreciation:					
Land improvements and infrastructure	12,323,648.23	1,224,554.42	-	-	13,548,202.65
Buildings	73,040,997.81	4,956,016.20	-	-	77,997,014.01
Equipment	21,202,979.82	3,038,438.21	-	1,413,482.35	22,827,935.68
Library holdings	<u>7,298,057.59</u>	<u>1,804,821.23</u>	<u>-</u>	<u>1,708,492.52</u>	<u>7,394,386.30</u>
Total accum. depreciation	<u>113,865,683.45</u>	<u>11,023,830.06</u>	<u>-</u>	<u>3,121,974.87</u>	<u>121,767,538.64</u>
Capital assets, net	<u>\$170,627,178.98</u>	<u>\$6,893,729.46</u>	<u>\$ -</u>	<u>\$ 179,779.55</u>	<u>\$177,341,128.89</u>

**NOTE 7. LONG-TERM LIABILITIES**

Long-term liabilities activity for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
Bonds	\$75,489,882.28	\$ 8,363,960.94	\$2,522,927.45	\$81,330,915.77	\$2,208,716.72
Commercial paper	<u>5,902,459.67</u>	<u>3,316,947.59</u>	<u>3,990,433.60</u>	<u>5,228,973.66</u>	<u>-</u>
Subtotal	<u>81,392,341.95</u>	<u>11,680,908.53</u>	<u>6,513,361.05</u>	<u>86,559,889.43</u>	<u>2,208,716.72</u>
Other liabilities:					
Compensated absences	4,054,849.50	2,222,946.15	2,131,838.86	4,145,956.79	1,093,023.14
Due to grantors	<u>3,005,097.53</u>	<u>1,094,882.02</u>	<u>1,166,402.15</u>	<u>2,933,577.40</u>	<u>-</u>
Subtotal	<u>7,059,947.03</u>	<u>3,317,828.17</u>	<u>3,298,241.01</u>	<u>7,079,534.19</u>	<u>1,093,023.14</u>
Total long-term liabilities	<u>\$88,452,288.98</u>	<u>\$14,998,736.70</u>	<u>\$9,811,602.06</u>	<u>\$93,639,423.62</u>	<u>\$3,301,739.86</u>

**Tennessee Board of Regents  
Middle Tennessee State University  
Notes to the Financial Statements (Cont.)  
June 30, 2004**

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**Bonds Payable**

Bond issues, with interest rates ranging from 1.30% to 7.75% for Tennessee State School Bond Authority bonds, are due serially to 2033 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations. The bonded indebtedness with the Tennessee State School Bond Authority reported 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 \$923,913.41 at June 30, 2004. Unexpended debt proceeds were \$626,070.40 at June 30, 2004.

Debt service requirements to maturity for bonds payable at June 30, 2004, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 2,208,716.72	\$ 4,165,301.36	\$ 6,374,018.08
2006	2,617,232.36	3,967,166.34	6,584,398.70
2007	3,045,064.64	3,838,271.65	6,883,336.29
2008	3,175,813.74	3,716,901.74	6,892,715.48
2009	3,307,644.13	3,587,106.19	6,894,750.32
2010-2014	17,499,701.29	15,619,799.63	33,119,500.92
2015-2019	18,367,269.95	11,096,708.53	29,463,978.48
2020-2024	17,120,562.78	6,488,698.65	23,609,261.43
2025-2029	13,225,962.51	2,102,400.33	15,328,362.84
2030-2033	<u>762,947.65</u>	<u>46,633.52</u>	<u>809,581.17</u>
	<u>\$81,330,915.77</u>	<u>\$54,628,987.94</u>	<u>\$135,959,903.71</u>

**Commercial Paper**

The Tennessee State School Bond Authority also authorized the issuance of commercial paper to finance the costs of various capital projects. The amount issued for projects at the university was \$5,228,973.66 at June 30, 2004.

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

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Notes to the Financial Statements (Cont.)  
June 30, 2004**

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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.

**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. At June 30, 2004, net appreciation of \$1,636.36 is available to be spent, none of which is restricted to specific purposes. The amount is included in unrestricted net assets.

**NOTE 9. UNRESTRICTED NET ASSETS**

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

Working capital	\$ 2,568,425.55
Encumbrances	1,872,942.50
Auxiliaries	3,801,943.51
Quasi-endowment	155,100.00
Plant construction	11,300,392.03
Renewal and replacement of equipment	15,788,328.21
Debt retirement	417,293.49
Unreserved/undesigned	<u>4,217,364.22</u>
Total	<u>\$ 40,121,789.51</u>

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Notes to the Financial Statements (Cont.)  
June 30, 2004**

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**NOTE 10. PENSION PLANS**

**A. Defined Benefit Plan**

**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 may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 7.3% 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, 2004, 2003, and 2002 were \$2,615,506.45, \$2,571,010.23, and \$2,165,347.75. 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), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely

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Notes to the Financial Statements (Cont.)  
June 30, 2004**

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on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. 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 \$5,701,120.78 for the year ended June 30, 2004, and \$5,393,658.17 for the year ended June 30, 2003. Contributions met the requirements for each year.

**NOTE 11. OTHER POST-EMPLOYMENT BENEFITS**

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible university retirees. This benefit is provided and administered by the State of Tennessee. The university assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

**NOTE 12. INSURANCE-RELATED ACTIVITIES**

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The Risk Management Fund is also responsible for claims for damages to state owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from \$25,000 per occurrence, depending on the type of coverage, to an aggregate of 7.5 million.

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Notes to the Financial Statements (Cont.)  
June 30, 2004**

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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. 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, 2004, the state's Risk Management Fund held \$101.1 million in cash designated for payment of claims.

During the year ended June 30, 2003, the state incurred 13 property claims which exceeded the per occurrence deductible. The gross amount of claims for the period was approximately \$7.2 million, of which the state's property insurance carrier will ultimately assume approximately \$2.2 million.

At June 30, 2004, the scheduled coverage for the university was \$365,638,800 for buildings and \$154,634,400 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 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 13. 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

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Notes to the Financial Statements (Cont.)  
June 30, 2004**

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no liability for sick leave at June 30. The dollar amount of unused sick leave was \$38,294,756.06 at June 30, 2004.

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 \$173,342.05 and for personal property were \$147,414.29 for the year ended June 30, 2004. Comparative amounts for the year ended June 30, 2003, were \$193,645.16 and \$137,998.57. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2004, outstanding commitments under construction contracts totaled \$3,277,268.67 for the Todd renovation, student housing renovations, ADA improvements, life safety renovations, and systems replacement, of which \$2,265,334.22 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 14. CHAIRS OF EXCELLENCE**

The university had \$21,691,395.14 on deposit at June 30, 2004, 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 15. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS**

The university's operating expenses by functional classification for the year ended June 30, 2004, are as follows:

<u>Functional Classification</u>	<u>Natural Classification</u>						<u>Total</u>
	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>		
Instruction	\$62,438,557.84	\$15,894,833.96	\$12,640,306.67	\$ -	\$ -	-	\$90,973,698.47
Research	2,221,960.35	484,309.17	849,450.29	-	-	-	3,555,719.81
Public service	3,352,569.36	1,022,722.35	3,646,786.16	-	-	-	8,022,077.87
Academic support	9,352,369.79	2,696,096.79	940,425.39	-	-	-	12,988,891.97

**Tennessee Board of Regents  
Middle Tennessee State University  
Notes to the Financial Statements (Cont.)  
June 30, 2004**

Student services	9,285,296.63	2,790,256.41	8,697,051.72	-	-	20,772,604.76
Institutional support	8,279,036.16	2,626,012.40	2,533,016.22	-	-	13,438,064.78
Operation & maint.	4,463,669.03	1,573,802.46	14,343,803.96	-	-	20,381,275.45
Scholar. & fellow.	-	-	10,425.72	13,826,489.17	-	13,836,914.89
Auxiliary	5,196,599.63	1,449,507.60	13,675,440.36	-	-	20,321,547.59
Depreciation	-	-	-	-	11,023,830.06	11,023,830.06
<b>Total</b>	<u>\$104,590,058.79</u>	<u>\$28,537,541.14</u>	<u>\$57,336,706.49</u>	<u>\$13,826,489.17</u>	<u>\$11,023,830.06</u>	<u>\$215,314,625.65</u>

**NOTE 16. PRIOR-YEAR RESTATEMENT**

In prior years, changes in cash related to foundation transactions were included with the university's and reflected on the statement of cash flows. The following fiscal year 2003 amount was restated to reflect the separation of cash and cash equivalents between the university and the foundation.

<u>Statement of Cash Flows</u>	<u>Original Amount</u>	<u>Restated Amount</u>
Cash and cash equivalents - end of year	\$59,727,257.38	\$50,279,254.29

**NOTE 17. 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 84-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*

**Tennessee Board of Regents  
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Notes to the Financial Statements (Cont.)  
June 30, 2004**

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*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, 2004, the foundation made distributions of \$4,023,788.27 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Tom Brannan, Director of Advancement Services and Development Operations, MTSU PO Box 109, Murfreesboro, Tennessee 37132.

Cash and cash equivalents - Cash and cash equivalents consists of demand deposit accounts, certificates of deposit, money market funds, and State of Tennessee Local Government Investment Pool Account administered by the State Treasurer. The bank balances of deposits at June 30, 2004, 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, 2004, were as follows:

	<u>Cost</u>	<u>Market Value</u>
U.S. government securities	\$ 96,905.38	\$ 250,108.58
Corporate stocks	\$15,744,841.66	17,759,232.15
Corporate bonds	\$ 5,191,923.20	4,735,092.53
Mutual funds	\$ 48,608.60	45,195.89
Cash surrender value of life insurance		387,600.72
		<u>\$23,177,229.87</u>

Pledges Receivable - Pledges receivable are summarized below net of the allowance for doubtful accounts.

**Tennessee Board of Regents  
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Notes to the Financial Statements (Cont.)  
June 30, 2004**

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Current pledges	\$384,450.34
Pledges due in one to five years	142,091.55
Pledges due after five years	<u>140.00</u>
Subtotal	526,681.89
Less discounts to net present value	<u>(5,863.20)</u>
Total pledges receivable, net	<u>\$520,818.69</u>

Capital assets - Capital asset activity for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$2,213,221.97	\$ -	\$ -	\$ -	\$2,213,221.97
Land improvements and infrastructure	105,019.41	-	-	-	105,019.41
Buildings	18,436,520.57	372,009.73	345,792.00	-	19,154,322.30
Equipment	51,113.00	69,456.66	-	49,650.00	70,919.66
Projects in progress	<u>381,804.50</u>	<u>1,547,741.71</u>	<u>(345,792.00)</u>	<u>-</u>	<u>1,583,754.21</u>
Total	<u>21,187,679.45</u>	<u>1,989,208.10</u>	<u>-</u>	<u>49,650.00</u>	<u>23,127,237.55</u>
Less accum. depreciation:					
Land improvements and infrastructure	5,250.97	5,250.97	-	-	10,501.94
Buildings	706,284.79	466,455.46	-	-	1,172,740.25
Equipment	<u>21,401.61</u>	<u>8,018.58</u>	<u>-</u>	<u>-</u>	<u>29,420.19</u>
Total accum. depreciation	<u>732,937.37</u>	<u>479,725.01</u>	<u>-</u>	<u>-</u>	<u>1,212,662.38</u>
Capital assets, net	<u>\$ 20,454,742.08</u>	<u>\$ 1,509,483.09</u>	<u>\$ -</u>	<u>\$ 49,650.00</u>	<u>\$21,914,575.17</u>

**TENNESSEE BOARD OF REGENTS  
MIDDLE TENNESSEE STATE UNIVERSITY  
SUPPLEMENTARY INFORMATION  
STATEMENT OF CASH FLOWS - COMPONENT UNIT  
FOR THE YEAR ENDED JUNE 30, 2004**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Gifts and contributions	\$ 6,291,051.40
Grants and contracts	19,599.02
Payments to suppliers and vendors	(1,439,288.01)
Payments for scholarships and fellowships	(1,015,493.55)
Payments to Middle Tennessee State University	(2,474,233.30)
Net cash provided by operating activities	<u>1,381,635.56</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Private gifts for endowment purposes	<u>1,582,740.20</u>
Net cash provided by noncapital financing activities	<u>1,582,740.20</u>

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

Capital grants and gifts received	(223,408.63)
Purchases of capital assets and construction	<u>(2,063,884.29)</u>
Net cash used by capital and related financing activities	<u>(2,287,292.92)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from sales and maturities of investments	9,346,579.33
Income on investments	373,217.20
Purchases of investments	(10,479,555.56)
Other investing receipts (payments)	<u>(601.52)</u>
Net cash used by investing activities	<u>(760,360.55)</u>

Net decrease in cash and cash equivalents	(83,277.71)
Cash and cash equivalents - beginning of year	<u>9,448,003.09</u>
Cash and cash equivalents - end of year	<u>\$ 9,364,725.38</u>

**Reconciliation of operating loss to net cash provided by operating activities:**

Operating loss	\$ (519,574.50)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	479,725.01
Change in assets and liabilities:	
Receivables, net	1,381,987.66
Accounts payable	(10,152.61)
Other	<u>49,650.00</u>
Net cash provided by operating activities	<u>\$ 1,381,635.56</u>

**Noncash transactions**

Gifts in-kind	\$ 167,852.13
Pledges	\$ (1,995,168.97)
Unrealized gain on investments	\$ 916,844.64