AUDIT REPORT

Tennessee Board of Regents
Middle Tennessee State University

For the Year Ended
June 30, 2006

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

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

John G. Morgan
Comptroller

May 8, 2007

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, 2006. 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 management 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,

John G. Morgan
Comptroller of the Treasury

JGM/sah
07/014

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, 2006

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 FINDINGS

Middle Tennessee State University and the Tennessee Board of Regents Should Improve Information Security Controls Related to the SunGard HE Banner System Implementation and Maintenance
The auditors noted significant conditions that violated best practices for information security controls during an examination of the Banner system implementation at MTSU (page 9).

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, 2006

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Tennessee Board of Regents
Middle Tennessee State University
For the Year Ended June 30, 2006

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 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.

AUDIT SCOPE

The audit was limited to the period July 1, 2005, through June 30, 2006, 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, 2006, and for comparative purposes, the year ended June 30, 2005. 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 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.

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, 2006, 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. A reportable condition, along with the recommendation and management's response, is detailed in the Finding and Recommendation section of this report.

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 unqualified opinions on the university's financial statements.

STATE OF TENNESSEE
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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*

December 21, 2006

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, and its discretely presented component unit as of and for the year ended June 30, 2006, and have issued our report thereon dated December 21, 2006. 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.

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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the university's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The following reportable condition was noted:

- Middle Tennessee State University and the Tennessee Board of Regents should improve information security controls related to the SunGard HE Banner system implementation and maintenance

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

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 that 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not 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 *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, 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,

Arthur A. Hayes, Jr., CPA
Director

AAH/sah

<u>Middle Tennessee State University and the Tennessee Board of Regents should improve information security controls related to the SunGard HE Banner system implementation and maintenance</u>

Finding

Information technology management at Middle Tennessee State University (MTSU) and the Tennessee Board of Regents (TBR) should improve information security controls related to the SunGard Higher Education (HE) Banner system implementation and maintenance. The TBR, in conjunction with the Banner system vendor SunGard HE, provides standardized computer programs directly to the respective colleges and universities within the TBR system including MTSU. These computer programs are utilized by the recipient institutions to provide academic, administrative, and financial services for their faculty, staff, and student populations. The auditors observed significant conditions that violated best practices for information security controls during an examination of the Banner system implementation at MTSU.

The wording of this finding does not identify specific vulnerabilities that could allow someone to exploit the university's systems. Disclosing those vulnerabilities could present a potential security risk by providing readers with information that might be confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the TBR and the university with detailed information regarding the specific vulnerabilities we identified as well as our recommendations for improvement.

Recommendation

MTSU and TBR information technology management along with SunGard HE should identify the specific technical procedures resulting in these conditions. These conditions should be remedied by the prompt development and implementation of effective controls (standards and procedures). Furthermore, the TBR should ensure that the remaining colleges and universities within its system are notified of the specific security conditions and that the top official of each of those organizations take prompt action to ensure that appropriate corrective action is implemented at their respective institutions. The Chancellor should ensure that these controls at the TBR include ongoing monitoring of their effectiveness. The TBR should also follow up with the colleges and universities in its system to see that effective controls, including ongoing monitoring, have been implemented at those institutions.

Management's Comments

<u>Middle Tennessee State University</u>

MTSU concurs with this finding and has identified the specific technical procedures that resulted in these conditions. In this regard, MTSU is taking immediate steps to improve information and security controls. Where responsibility is jointly shared by MTSU, the TBR, and SunGard Higher Education, the TBR and MTSU are developing a more secure model of control based on industry standards.

Tennessee Board of Regents

The TBR concurs with this finding, and working with SunGard Higher Education and the campuses, relevant security controls, policies, procedures and monitoring methodologies will be identified and created by the TBR Office of Information Technology to be disseminated to all TBR institutions.

These improvements are expected to be completed no later than April 2007.

STATE OF TENNESSEE
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Independent Auditor's Report

December 21, 2006

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 years ended June 30, 2006, and June 30, 2005, 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 audits.

We conducted our audits 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 audits provide 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.

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, 2006, and June 30, 2005, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 2 and 3 to the financial statements, during the year ended June 30, 2005, the university implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*.

The management's discussion and analysis on pages 14 through 32 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 audits were conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 59 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 December 21, 2006, 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*

The Honorable John G. Morgan
December 21, 2006
Page Three

Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/sah

MIDDLE TENNESSEE STATE UNIVERSITY
Management's Discussion and Analysis
For the Year Ended June 30, 2006

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, 2006, with comparative information presented for the fiscal years ended June 30, 2005, and June 30, 2004. 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 Report

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

The Statement of Net Assets

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

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

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

	2006	2005	2004
Assets:			
Current assets	$ 52,545	$ 46,942	$ 41,078
Capital assets, net	203,546	189,900	177,341
Other assets	43,143	40,730	36,109
Total assets	**299,234**	**277,572**	**254,528**
Liabilities:			
Current liabilities	34,640	30,383	25,191
Noncurrent liabilities	112,733	105,226	90,338
Total liabilities	**147,373**	**135,609**	**115,529**
Net assets:			
Invested in capital assets, net of related debt	94,540	88,311	90,781
Restricted - nonexpendable	779	764	738
Restricted - expendable	9,341	10,181	7,358
Unrestricted	47,201	42,707	40,122
Total net assets	**$151,861**	**$141,963**	**$138,999**

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

- Current assets increased from 2005 to 2006 and from 2004 to 2005 due to an increase in receivables from grant accounts at year end. The most significant increase is attributable to the new Tennessee Department of Children's Services (DCS) grant. These receivables relate to billings from several institutions across the state received after June 30 that were setup as payables, which created a receivable for the university from the grantor at year end.

- Net capital assets increased from 2005 to 2006 mainly as a result of the continued renovation of the university's housing facilities, an addition to the Nursing Building, and Phase I of the university's Parking and Transportation project. Other projects contributing to the increase included renovations to the Todd Library, improvements to the Athletic track field, renovations to Murphy Center, and capitalization of the university's new Enterprise Resource Planning (ERP) software. The increase from 2004 to 2005 is due to the purchase of the Guy James farm from Rutherford County, continued renovation of the university's housing facilities, and an energy savings and performance contracting project.

- Current liabilities increased from 2005 to 2006 and from 2004 to 2005 as a result of an increase in payables at year end. The most significant increase in payables resulted from restricted funds and is attributable to the new DCS grant.

- Noncurrent liabilities increased from 2005 to 2006 and from 2004 to 2005 due to the issuance of bonds and 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 capital assets is presented in the Capital Assets and Debt Administration section of Management's Discussion and Analysis.

- The restricted - expendable section of net assets increased from 2004 to 2005 as a result of increased restricted funds in grant, capital project, and renewals and replacements accounts. There were more capital projects in 2004-05 being funded from private dollars and the accumulation of excess debt service fees continued to grow, for future use toward the Student Health, Wellness, and Recreation Center Facility upgrade project. The subsequent decrease from 2005 to 2006 resulted mainly from the use of those private dollars on existing capital projects.

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

	2006	**2005**	**2004**
Assets:			
Current assets	$ 1,333	$ 1,087	$ 929
Capital assets, net	20,477	20,540	21,915
Other assets	39,951	36,371	34,111
Total assets	**61,761**	**57,998**	**56,955**
Liabilities:			
Current liabilities	480	422	53
Noncurrent liabilities	-	-	-
Total liabilities	**480**	**422**	**53**
Net assets:			
Invested in capital assets	20,477	20,540	21,915
Restricted - nonexpendable	29,926	25,705	23,296
Restricted - expendable	10,504	10,875	11,198
Unrestricted	374	456	493
Total net assets	**$61,281**	**$57,576**	**$56,902**

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

- The increase in current assets from 2005 to 2006 is due to new pledges to the baseball building fund. This was part of the increased focus in soliciting gifts for university facilities over the past fiscal year.

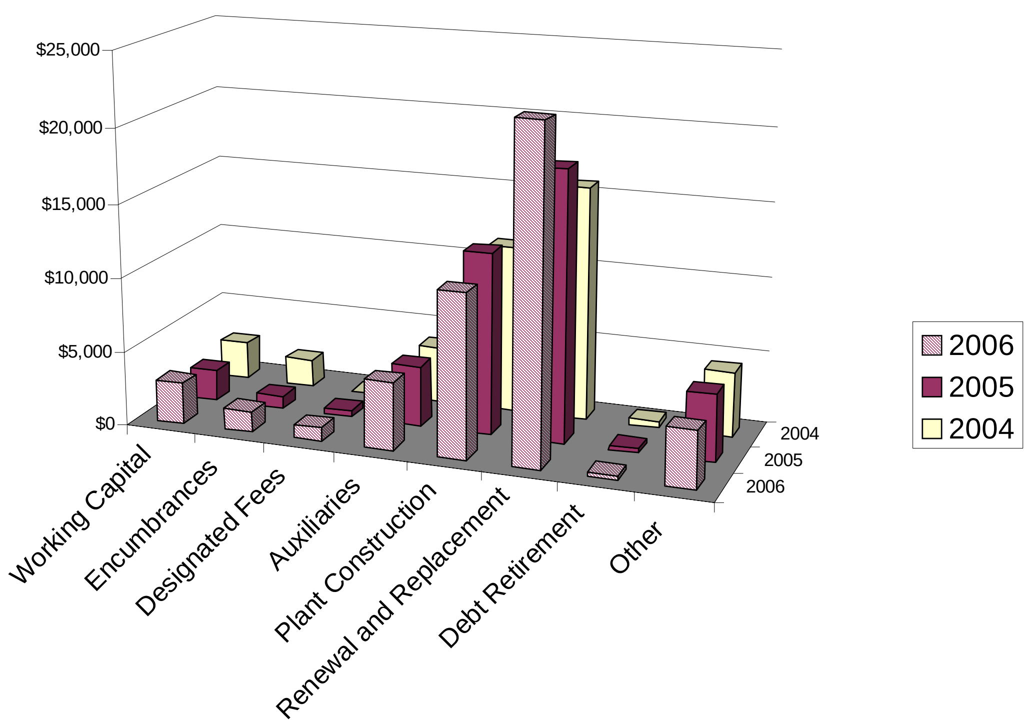
- The decrease in capital assets from 2004 to 2005 is the result of transferring the Rose and Emmett Kennon Sports Hall of Fame building to the university.

- The increase in current liabilities from 2004 to 2005 resulted from a payable setup to the university at June 30, 2005. This payable represents transactions occurring between the university and foundation at year end.

- Restricted - nonexpendable net assets increased from 2005 to 2006 and from 2004 to 2005 due to the favorable market performance. Noncurrent investments also increased approximately $3.2 million from 2005 to 2006 and $4.0 million from 2004 to 2005.

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):

Allocations of Unrestricted Net Assets (University)



- Encumbrances for 2006 increased from 2005 over $500,000 due to adjusting the year end cutoff schedule from the previous year. Encumbrances for 2005 decreased by over $1 million from 2004 due to an earlier cutoff of purchases by campus departments for the 2004-05 fiscal year. The change in the schedule was required by the conversion to the new ERP system. It also allowed for the actual delivery of more items prior to the end of the fiscal year.

- Plant construction increases occurred between 2004 and 2005 as the result of more funds being set aside for future year projects, which include a university-wide replacement of PCs for staff and the purchase of a new Enterprise Resource Planning (ERP) system to replace the current administrative systems.

- Renewal and replacement increased from 2005 to 2006 and from 2004 to 2005 due to the continued set aside of funds for the Student Health, Wellness, and Recreation Center Facility upgrade project, phases of the Parking and Transportation project, and funding of future losses in housing revenues resulting from facilities under renovation.

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

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

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

	2006	**2005**	**2004**
Operating revenues:			
Net tuition and fees	$ 82,848	$ 76,531	$ 76,220
Grants and contracts	30,252	20,739	14,894
Auxiliaries	24,936	23,907	24,042
Other	9,813	8,986	8,185
Total operating revenues	**147,849**	**130,163**	**123,341**
Operating expenses	266,251	249,045	215,315
Operating loss	**(118,402)**	**(118,882)**	**(91,974)**
Nonoperating revenues and expenses:			
State appropriations	88,540	86,884	82,359
Gifts	966	975	664
Grants and contracts	34,364	29,464	14,431
Investment income	4,312	2,483	1,732
Other nonoperating revenues and expenses	(4,889)	(4,996)	(4,114)
Total nonoperating revenues and expenses	**123,293**	**114,810**	**95,072**

Income (loss) before other revenues, expenses, gains, or losses	**4,891**	**(4,072)**	**3,098**
Other revenues, expenses, gains, or losses:			
Capital appropriations	3,254	5,248	6,703
Capital grants and gifts	1,853	2,444	2,164
Other	(100)	(656)	(145)
Total other revenues, expenses, gains, or losses	**5,007**	**7,036**	**8,722**
Increase in net assets	**9,898**	**2,964**	**11,820**
Net assets at beginning of year	141,963	138,999	127,179
Net assets at end of year	**$151,861**	**$141,963**	**$138,999**

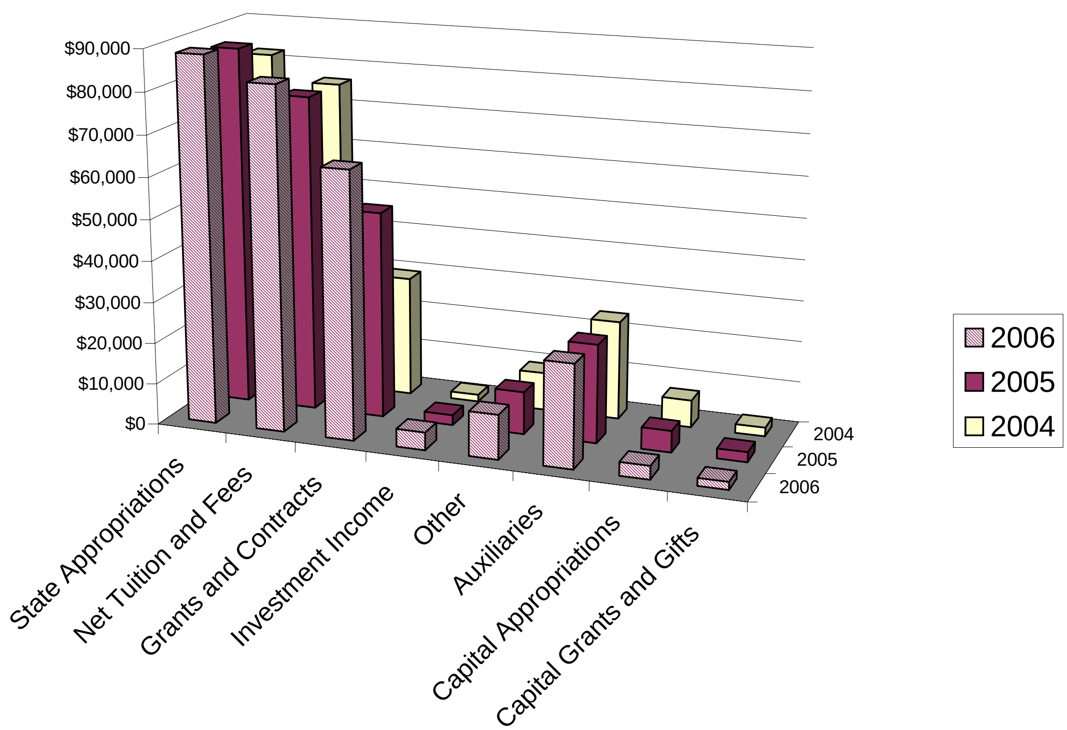
Component Unit
Statement of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

	2006	**2005**	**2004**
Operating revenues:			
Gifts	$ 6,160	$ 3,668	$ 5,077
Grants and contracts	38	101	20
Total operating revenues	**6,198**	**3,769**	**5,097**
Operating expenses	6,473	6,796	5,616
Operating loss	**(275)**	**(3,027)**	**(519)**
Nonoperating revenues and expenses:			
Investment income	3,193	2,061	1,942
Other nonoperating revenues and expenses	-	(1)	(2)
Total nonoperating revenues and expenses	**3,193**	**2,060**	**1,940**
Income (loss) before other revenues, expenses, gains, or losses	**2,918**	**(967)**	**1,421**
Other revenues, expenses, gains, or losses:			
Capital grants and gifts	-	75	381
Additions to permanent endowments	787	1,566	1,494
Total other revenues, expenses, gains, or losses	**787**	**1,641**	**1,875**
Increase in net assets	**3,705**	**674**	**3,296**
Net assets at beginning of year	57,576	56,902	53,606
Net assets at end of year	**$61,281**	**$57,576**	**$56,902**

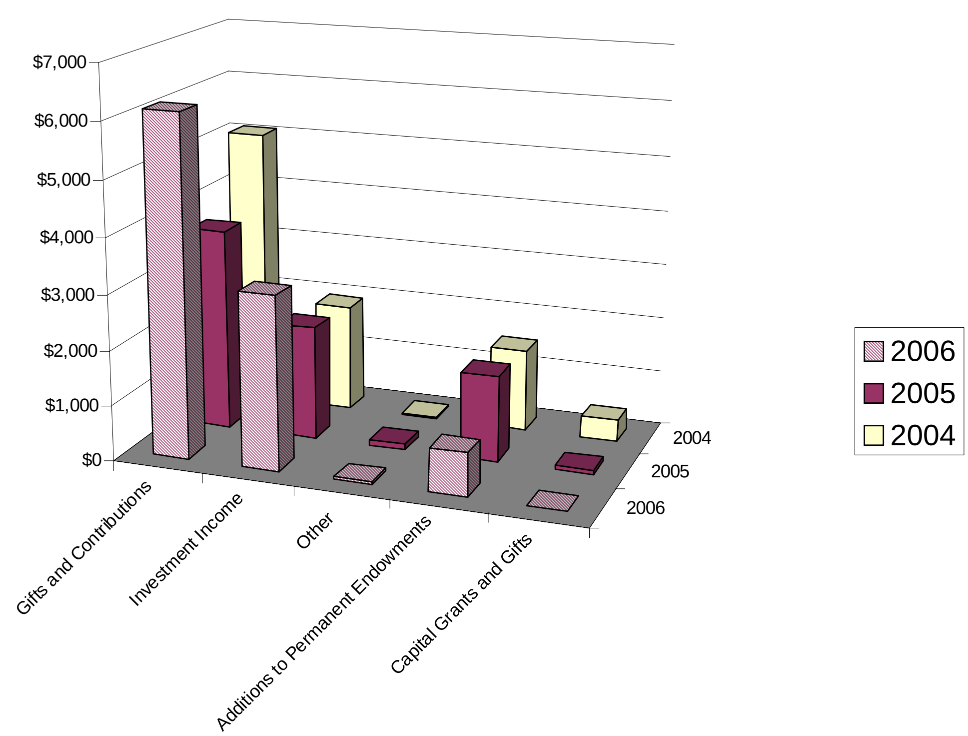
<u>Revenues</u>

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, 2006; June 30, 2005; and June 30, 2004 (amounts are presented in thousands of dollars).

Revenues by Source (University)



Revenues by Source (Component Unit)



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

- ♦ Net tuition and fee revenue increased from 2005 to 2006 as a result of an across-the-board fee increase of 9.7% and a student enrollment increase of .53%. An across-the-board fee increase of 7% and a student enrollment increase of 1.6% in the fall occurred during the 2004-05 fiscal year. However, this increase in tuition and fee revenue was offset by current and new students receiving funds from the Tennessee Education Lottery Scholarship (TELS) program, which reduces tuition and fee revenue since TELS funds are shown as grants and contracts revenue.

- ♦ Grants and contracts increased from 2005 to 2006 due to an increase in the DCS grant of over $7.4 million and an increase in the amount of scholarships from the TELS program of approximately $5.5 million. The increase from 2004 to 2005 is due to the addition of two new programs during the 2004-05 fiscal year. The university was awarded the Tennessee Department of Children's Services Consortium contract to provide training services for DCS, which resulted in an increase of approximately $5 million. The Tennessee Education Lottery Scholarship program began awarding students scholarships in fiscal year 2004-05. MTSU's share of the lottery scholarships for the year was approximately $12 million.

- ♦ Capital appropriations decreased from 2005 to 2006 due to fewer capital appropriations received from the state than in previous years.

- ♦ State appropriations and tuition and fees made up 61% of the university's revenue in 2005-06 and 64% in 2004-05.

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

- ♦ The increase in gifts and contributions from 2005 to 2006 is the result of an increased focus in soliciting gifts for university facilities over the past fiscal year. This increase affected the temporarily restricted gifts of the foundation. The decrease from 2004 to 2005 is due to the following factors: completion of previous financial obligations for the Rose and Emmett Kennon Sports Hall of Fame, recording of revenue for the purchase of Steinway pianos for the McLean School of Music in 2004, and the recognition of a donation from the Christy Houston Foundation earmarked for the Nursing Building addition in 2004.

- ♦ The increase in investment income from 2005 to 2006 is the result of favorable market performance. During the year, realized gains on investments totaled approximately $1.1 million.

- ♦ The decrease in additions to permanent endowments from 2005 to 2006 is due to a decrease in bequests to the foundation. The foundation did not receive any bequests during the current fiscal year.

Expenses

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

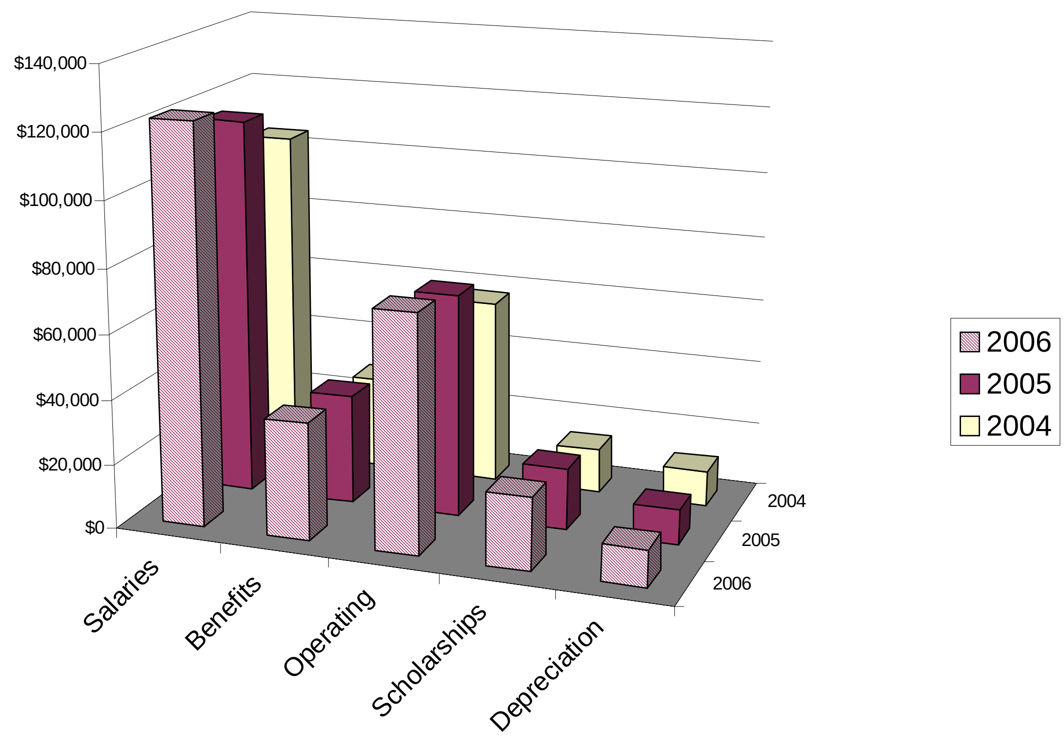
Middle Tennessee State University
Expenses by Natural Classification
(in thousands of dollars)

	2006	**2005**	**2004**
Salaries	$123,007	$116,498	$104,590
Benefits	36,314	33,845	28,538
Operating	73,161	68,809	57,337
Scholarships	22,452	18,976	13,826
Depreciation	11,317	10,917	11,024
Total expenses	**$266,251**	**$249,045**	**$215,315**

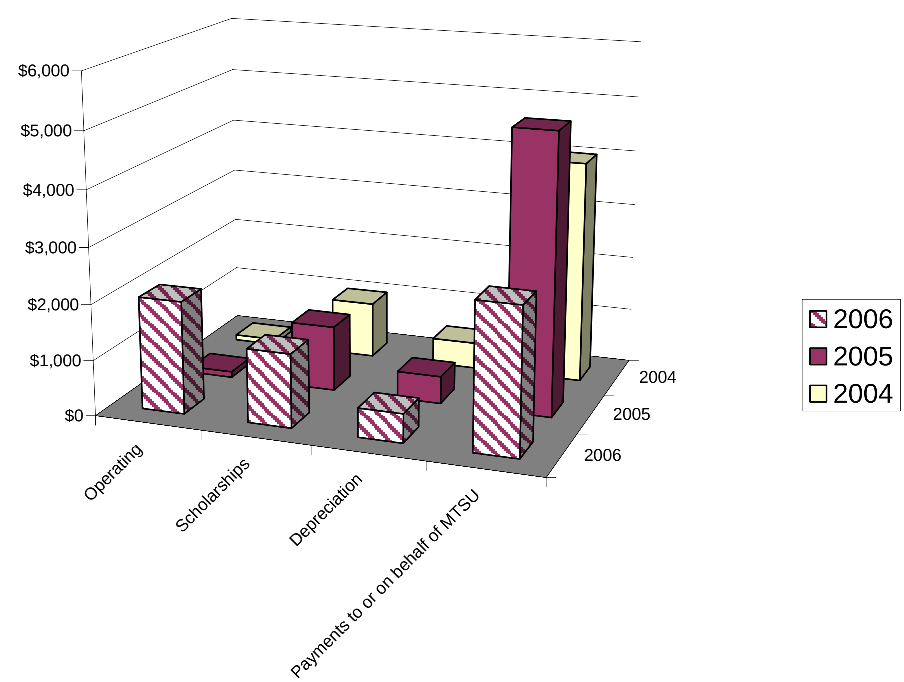
Component Unit
Expenses by Natural Classification
(in thousands of dollars)

	2006	**2005**	**2004**
Operating	$ 2,021	$ 104	$ 96
Scholarships	1,324	1,175	1,016
Depreciation	518	495	480
Payments to or on behalf of MTSU	2,610	5,022	4,024
Total expenses	**$6,473**	**$6,796**	**$5,616**

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 from 2005 to 2006 is due to a 3% across-the-board pay raise effective July 1, 2005, and an MTSU bonus paid in October 2005. The increase from 2004 to 2005 is due to a 3% across-the-board pay raise effective July 1, 2004; an increase in pay grade ranges of 19.44% effective July 1, 2004; state and MTSU bonuses paid in October 2004; and equity adjustments for the increases in pay grade ranges for incumbents effective January 1, 2005. Other factors related to new faculty positions, new support staff positions, and positions added for the DCS grant.

- ♦ Employee benefit expenses increased from 2005 to 2006 mainly as a result of increases in the state's group insurance premiums and added benefits for new positions. The increase from 2004 to 2005 was due to increases in the state's group insurance premiums, increases in TCRS rates, and benefits for new positions. In 2005, the percentage used to calculate the compensated absences liability was increased from 16% to 18% for employee benefits.

- ♦ Operating expenses increased from 2005 to 2006 and from 2004 to 2005 due to increases in utility rates, increases in software maintenance agreements, ERP related expenses, and the addition of the DCS grant.

- ♦ Scholarship expenses increased from 2005 to 2006 and from 2004 to 2005 due to increased scholarships from the Tennessee Education Lottery Scholarship program.

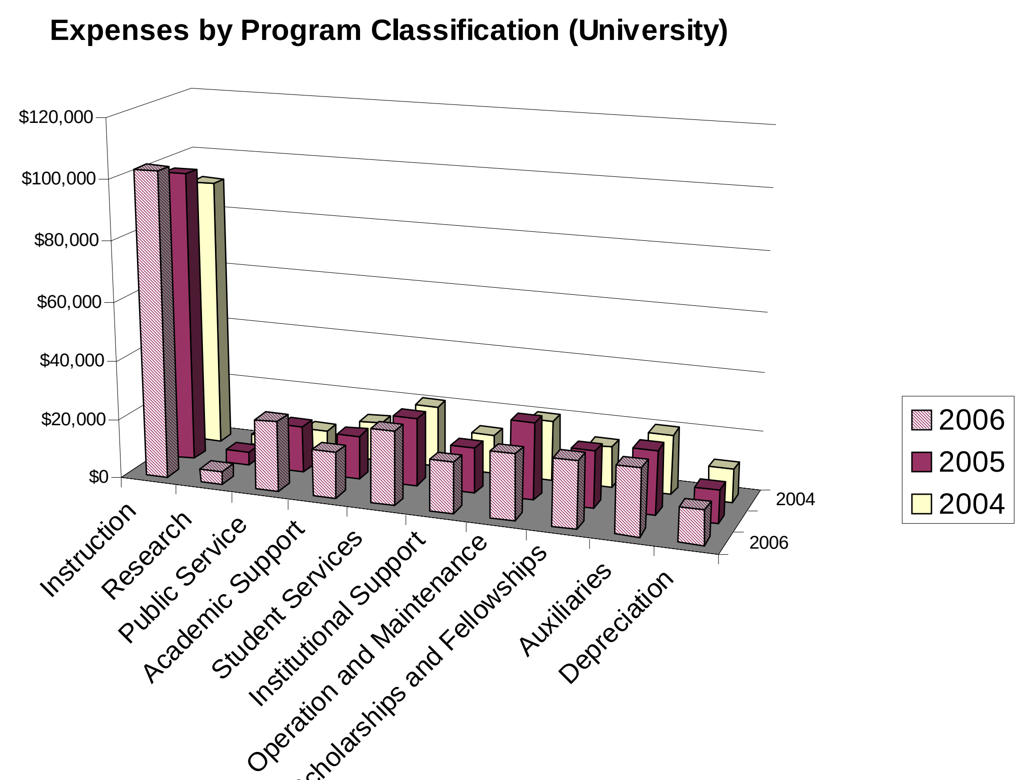
The component unit had the following significant changes in expenses between fiscal years:

- ♦ Operating expenses increased from 2005 to 2006 due to more requests from the university departments to purchase items to support university functions.

- ♦ Payments to or on behalf of MTSU increased from 2004 to 2005 as a result of the transfer of the Rose and Emmett Kennon Sports Hall of Fame building to the university. Thus, the amount then decreased from 2005 to 2006 since there were no large transfers to the university in 2005-06.

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

	2006	**2005**	**2004**
Instruction	$102,770	$ 98,049	$ 90,974
Research	4,463	4,359	3,556
Public service	23,507	15,808	8,022
Academic support	15,426	14,768	12,989
Student services	24,871	23,112	20,773
Institutional support	16,929	15,332	13,438
Operation and maintenance	22,134	26,142	20,381
Scholarships and fellowships	22,452	18,976	13,837
Auxiliaries	22,382	21,582	20,321
Depreciation	11,317	10,917	11,024
Total expenses	**$266,251**	**$249,045**	**$215,315**



- The instruction function increased from 2005 to 2006 due to the 3% across-the-board pay raise effective July 1, 2005, and the MTSU bonus paid in October 2005. The increase from 2004-2005 is the result of pay raises, pay grade adjustments, bonuses, faculty promotions, new faculty positions, increases in Chair and graduate teaching assistant stipends, and an increase in the flight training fees for the Flight Training program.

- The increase in the public service function from 2005 to 2006 and from 2004 to 2005 is the result of the addition of the Tennessee DCS grant.

- The increase in the operation and maintenance function from 2004 to 2005 is due to increased noncapital expenses incurred on major projects. The Energy and Performance Contracting project and the Life Safety project both incurred large amounts of maintenance type expenses in 2004-05, attributing to the significant increase from 2004 to 2005 and the subsequent decrease from 2005 to 2006.

- The increase in the scholarships and fellowships function from 2005 to 2006 resulted from additional scholarships received from the Tennessee Education Lottery Scholarship program. The 2004 to 2005 increase resulted from that year being the initial year of the Tennessee Education Lottery Scholarship program.

The Statement of Cash Flows

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

Middle Tennessee State University
Statement of Cash Flows
(in thousands of dollars)

	2006	**2005**	**2004**
Cash provided (used) by:			
Operating activities	$(109,844)	$(108,930)	$(80,108)
Noncapital financing activities	123,773	117,504	98,051
Capital and related financing activities	(17,149)	(6,766)	(8,310)
Investing activities	4,308	2,471	1,708
Net increase in cash	**1,088**	**4,279**	**11,341**
Cash, beginning of year	65,899	61,620	50,279
Cash, end of year	**$ 66,987**	**$ 65,899**	**$61,620**

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 mainly from 2005 to 2006 and from 2004 to 2005 as a result of an increase in state appropriations from previous years and the awarding of the DCS grant to the university.

- ♦ Cash used by capital and related financing activities increased from 2005 to 2006 as the result of less funding of capital projects from use of TSSBA debt instruments. The decrease from 2004 to 2005 is the result of more of the university's capital projects funded from the issuance of debt instruments and less projects funded from local university funds.

- ♦ The university's cash position increased by $1.1 million for 2005-06 and $4.3 million for 2004-05.

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

	2006	**2005**	**2004**
Cash provided (used) by:			
Operating activities	$ 223	$ (441)	$1,382
Noncapital financing activities	789	1,610	1,583
Capital and related financing activities	(1,207)	70	(2,287)
Investing activities	(112)	(1,994)	(761)
Net decrease in cash	**(307)**	**(755)**	**(83)**
Cash, beginning of year	8,610	9,365	9,448
Cash, end of year	**$ 8,303**	**$ 8,610**	**$9,365**

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

- ♦ The increase in cash provided by operating activities from 2005 to 2006 was largely due to increased cash donations for facilities improvements. The decrease from 2004 to 2005 was largely due to decreases in cash donations received from contributors.

- The decrease in cash provided by noncapital financing activities from 2005 to 2006 was primarily due to the fact that no bequests were received by the foundation for the fiscal year.

- The increase in cash used by capital and related financing activities from 2005 to 2006 was primarily due to the completion of the Miller Coliseum Drainage Project, Phase 1 of the MTSU Track Improvements Project, and the Baseball Lighting Improvement Project. The decrease from 2004 to 2005 is due to the completion of the Rose and Emmett Kennon Sports Hall of Fame.

- The decrease in cash used by investing activities from 2005 to 2006 mainly results from the sale of $10.7 million of investments during the fiscal year.

- The component unit's cash position for the 2005-06 fiscal year decreased by $307,290 and for the 2004-05 fiscal year decreased by $755,199.

Capital Assets and Debt Administration

<u>Capital Assets - University</u>

The university had $203,545,549 invested in capital assets, net of accumulated depreciation of $138,850,529 at June 30, 2006; $189,899,765 invested in capital assets, net of accumulated depreciation of $129,434,870 at June 30, 2005; and $177,341,129 invested in capital assets, net of accumulated depreciation of $121,767,539 at June 30, 2004. Depreciation charges totaled $11,316,914, $10,916,742, and $11,023,830 for the years ended June 30, 2006; June 30, 2005; and June 30, 2004, respectively. Details of these assets are shown below.

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

	2006	**2005**	**2004**
Land	$ 9,886	$ 9,737	$ 4,980
Land improvements and infrastructure	11,642	11,887	13,112
Buildings	130,727	124,149	124,940
Equipment	14,416	14,874	14,721
Library holdings	9,744	9,354	8,945
Software	1,774	-	-
Projects in progress	25,357	19,899	10,643
Total capital assets, net	**$203,546**	**$189,900**	**$177,341**

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

- ♦ Land increased from 2004 to 2005 due to the acquisition of the Guy James farm from Rutherford County.
- ♦ Buildings increased from 2005 to 2006 as a result of completion of the renovations to the Smith Hall Complex. These capitalized costs associated with the project were moved from the projects in progress category to the buildings category.
- ♦ Software was added as a capital asset category in the 2005-06 fiscal year as a result of capitalization of the new ERP system software and implementation costs.
- ♦ Projects in progress increased from 2005 to 2006 due to the continued renovations of university housing facilities and the Todd Building, Phase I of the Parking and Transportation project, and the addition to the Nursing Building. Three major projects were transferred out of projects in progress during the 2005-06 year: renovations to the Smith Hall complex, construction of the Naked Eye Observatory, and the purchase and implementation costs associated with the ERP software system. Projects in progress increased significantly from 2004 to 2005 due to the continued renovations of university housing facilities and the Todd Building, initial purchase of the new ERP system, and purchase of the Middle Tennessee Building to be renovated for future administrative office space.
- ♦ All other categories either increased or decreased due to the additions of capital assets and the recording of depreciation.

The university expects to make major capital expenditures during fiscal year 2006-07 for the following projects: continued renovation to the university's housing facilities that will be funded from the issuance of TSSBA bonds; Student Health, Wellness, and Recreation Facility upgrade to be funded from university auxiliary reserve balances and the issuance of TSSBA bonds; renovation of the Middle Tennessee Building funded from university resources; and implementation of the next phase of the ERP system. The following projects will incur major capital expenditures in the upcoming fiscal year for planning and design work: new and renovated Science facilities funded by capital appropriations from the state, future design and construction of new Student Union facilities funded by the issuance of TSSBA bonds, and renovation of Deer and Nicks Halls which is part of the larger long-range project to renovate and improve existing housing facilities and complete life safety code upgrades with the installation of sprinklers.

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

Capital Assets - Component Unit

The component unit had $20,477,284 invested in capital assets, net of accumulated depreciation of $2,196,800 at June 30, 2006; $20,540,222 invested in capital assets, net of accumulated depreciation of $1,678,461 at June 30, 2005; and $21,914,575 invested in capital assets, net of accumulated depreciation of $1,212,662 at June 30, 2004. Depreciation charges totaled $518,339, $495,219, and $479,725 for the years ended June 30, 2006; June 30, 2005; and June 30, 2004. Details of these assets are shown below.

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

	2006	**2005**	**2004**
Land	$ 2,229	$ 2,283	$ 2,213
Land improvements and infrastructure	696	318	95
Buildings	17,552	17,939	17,982
Equipment	-	-	41
Projects in progress	-	-	1,584
Total capital assets, net	**$20,477**	**$20,540**	**$21,915**

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

- Land improvements and infrastructure increased from 2005 to 2006 upon capitalization of the Miller Coliseum Drainage Project. The increase from 2004 to 2005 resulted from additions made to the Miller Coliseum warm up rings.

- Projects in progress decreased from 2004 to 2005 due to the completion of the following projects: Rose and Emmett Kennon Sports Hall of Fame and the Tennessee Miller Coliseum.

More detailed information about the component unit's capital assets is presented in Note 15 to the financial statements.

Debt

The university had $109,005,540, $101,588,837, and $86,559,889 in debt outstanding at June 30, 2006; June 30, 2005; and June 30, 2004, respectively. The table below summarizes these amounts by type of debt instrument (in thousands of dollars).

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

	2006	**2005**	**2004**
TSSBA Bonds	$ 93,070	$ 80,646	$81,331
TSSBA Commercial paper	15,936	20,943	5,229
Total debt	**$109,006**	**$101,589**	**$86,560**

The Tennessee State School Bond Authority (TSSBA) converted the following projects from commercial paper to long-term bonds during 2005-06: renovations to the Smith Hall complex, purchase of the ERP system, property acquisitions, construction of the new Printing Services building, and purchase of the Middle Tennessee Building. The following increases in the amount of commercial paper were netted with the reductions in commercial paper noted above during the 2005-06 fiscal year: Phase I of the Parking and Transportation project and Phase II of the energy savings and performance contracting project. Commercial paper was issued during the year for several other ongoing capital projects.

TSSBA issued commercial paper for the university on the following major projects during the 2004-05 fiscal year: renovations of university housing facilities, project for energy savings and performance contracting, acquisition of the Middle Tennessee Building, payment on the new ERP system, and acquisition of the Guy James farm. TSSBA also refunded the original bonds issued on several projects in order to obtain a lower rate of interest. In addition to the above projects, commercial paper was issued during the year for several other ongoing capital projects.

TSSBA currently has the following long-term debt ratings: Fitch rating of AA, Moody's Investor's rating of Aa3, and Standard and Poor's rating of AA-.

More detailed information about the university's long-term liabilities is presented in Note 6 to the financial statements.

Economic Factors That Will Affect the Future

The Tennessee Board of Regents approved a 2% across-the-board salary increase for all university employees effective July 1, 2006. Funding provided by the state for the new fiscal year increased by $4.3 million over current year appropriations.

The Tennessee Board of Regents approved, at their June board meeting, a 4.1% fee increase for 2006-07.

Implementation of the new ERP system continues to remain on schedule. Banner Finance and Banner Human Resources went live within the 2005-06 fiscal year. Banner Advancement and Banner Student are on schedule to go live within the 2006-07 fiscal year. Additional components of the Banner software package are being implemented at different stages within the overall implementation schedule.

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: Alan Thomas, Controller, Middle Tennessee State University, CAB 105, Murfreesboro, Tennessee 37132.

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENTS OF NET ASSETS
JUNE 30, 2006, AND JUNE 30, 2005

	Middle Tennessee State University		Component Unit Middle Tennessee State University Foundation	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2 and 15)	$ 27,739,551.44	$ 28,861,888.14	$ 844,681.04	$ 869,646.23
Accounts, notes, and grants receivable (net) (Note 4)	21,692,998.87	15,098,482.69	-	-
Pledges receivable (net) (Note 15)	-	-	476,972.33	206,411.73
Inventories (at lower of cost or market)	2,399,292.08	2,299,281.46	-	-
Prepaid expenses and deferred charges	683,276.43	651,477.29	-	-
Accrued interest receivable	30,331.05	30,447.17	11,004.48	11,517.94
Total current assets	52,545,449.87	46,941,576.75	1,332,657.85	1,087,575.90
Noncurrent assets:				
Cash and cash equivalents (Notes 2 and 15)	39,247,292.31	37,037,368.59	7,457,555.53	7,739,880.11
Investments (Notes 3 and 15)	739,420.19	735,939.27	30,474,176.81	27,232,478.67
Accounts, notes, and grants receivable (net) (Note 4)	3,155,924.86	2,957,149.17	1,398,267.30	1,257,785.33
Pledges receivable (net) (Note 15)	-	-	620,919.12	140,580.61
Capital assets (net) (Notes 5 and 15)	203,545,548.68	189,899,764.83	20,477,283.52	20,540,221.86
Total noncurrent assets	246,688,186.04	230,630,221.86	60,428,202.28	56,910,946.58
Total assets	299,233,635.91	277,571,798.61	61,760,860.13	57,998,522.48
LIABILITIES				
Current liabilities:				
Accounts payable	8,682,173.40	4,251,873.84	480,303.84	422,149.85
Accrued liabilities	13,628,713.27	14,182,258.93	-	-
Student deposits	759,784.97	920,843.14	-	-
Deferred revenue	5,023,884.71	4,945,766.38	-	-
Compensated absences (Note 6)	657,766.68	1,230,533.22	-	-
Accrued interest payable	750,374.04	651,917.34	-	-
Long-term liabilities, current portion (Note 6)	3,851,248.16	2,912,009.67	-	-
Deposits held in custody for others	825,483.80	691,291.76	-	-
Other liabilities	460,183.32	595,730.55	-	-
Total current liabilities	34,639,612.35	30,382,224.83	480,303.84	422,149.85
Noncurrent liabilities:				
Compensated absences (Note 6)	4,774,797.34	3,658,674.10	-	-
Long-term liabilities (Note 6)	105,154,291.44	98,676,827.50	-	-
Due to grantors (Note 6)	2,803,453.33	2,890,649.27	-	-
Total noncurrent liabilities	112,732,542.11	105,226,150.87	-	-
Total liabilities	147,372,154.46	135,608,375.70	480,303.84	422,149.85
NET ASSETS				
Invested in capital assets, net of related debt	94,540,009.08	88,310,927.66	20,477,283.52	20,540,221.86
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	10,900.00	10,900.00	28,022,622.93	24,132,408.69
Research	-	-	710,693.96	735,352.39
Instructional department uses	-	-	1,191,958.11	837,084.68
Other	768,146.06	753,552.68	-	-
Expendable:				
Scholarships and fellowships	136,311.65	134,532.81	1,385,515.55	1,040,397.07
Research	96,051.12	75,635.82	3,038.49	3,038.49
Instructional department uses	153,488.40	144,377.26	5,338,354.02	5,761,502.47
Loans	1,773,563.32	1,773,733.16	-	-
Capital projects	578,846.95	2,554,919.50	2,822,717.13	2,767,214.74
Debt service	4,780,717.00	3,480,389.10	-	-
Other	1,822,225.37	2,017,674.74	954,167.69	1,302,916.26
Unrestricted (Notes 7 and 8)	47,201,222.50	42,706,780.18	374,204.89	456,235.98
Total net assets	$ 151,861,481.45	$ 141,963,422.91	$ 61,280,556.29	$ 57,576,372.63

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

Exhibit B

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005

	Middle Tennessee State University		Component Unit Middle Tennessee State University Foundation	
	Year Ended June 30, 2006	Year Ended June 30, 2005	Year Ended June 30, 2006	Year Ended June 30, 2005
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $23,634,104.34 for the year ended June 30, 2006, and $21,074,735.72 for the year ended June 30, 2005)	$ 82,848,138.19	$ 76,530,877.32	$ -	$ -
Gifts and contributions	-	-	6,159,675.77	3,668,100.98
Governmental grants and contracts	29,399,039.31	20,216,064.96	-	-
Nongovernmental grants and contracts	853,178.19	523,111.03	37,921.58	101,051.76
Sales and services of educational departments	8,869,319.49	7,569,394.28	-	-
Auxiliary enterprises:				
Residential life (net of scholarship allowances of $2,352,574.33 for the year ended June 30, 2006, and $2,289,784.52 for the year ended June 30, 2005; all residential life revenues are used as security for revenue bonds; see Note 6)	8,241,690.14	9,495,045.78	-	-
Bookstore (net of scholarship allowances of $2,101,633.07 for the year ended June 30, 2006, and $1,859,007.59 for the year ended June 30, 2005; all bookstore revenues are used as security for revenue bonds; see Note 6)	7,364,702.81	6,752,004.95	-	-
Food service	803,369.00	803,416.51	-	-
Wellness facility (net of scholarship allowances of $427,740.79 for the year ended June 30, 2006, and $417,956.19 for the year ended June 30, 2005; all wellness facility revenues are used as security for revenue bonds; see Note 6)	1,500,775.46	1,442,356.29	-	-
Other auxiliaries	7,025,594.17	5,413,998.31	-	-
Interest earned on loans to students	77,584.43	74,766.87	-	-
Other operating revenues	865,791.00	1,341,594.00	-	-
Total operating revenues	147,849,182.19	130,162,630.30	6,197,597.35	3,769,152.74
EXPENSES				
Operating expenses (Note 14):				
Salaries and wages	123,006,687.50	116,497,852.68	-	-
Benefits	36,314,195.23	33,844,967.12	-	-
Utilities, supplies, and other services (Note 15)	73,161,271.11	68,809,762.16	2,020,537.54	103,999.80
Scholarships and fellowships	22,451,945.93	18,975,843.21	1,324,214.17	1,175,463.82
Depreciation expense	11,316,914.23	10,916,741.56	518,338.76	495,218.73
Payments to or on behalf of Middle Tennessee State University (Note 15)	-	-	2,609,676.71	5,021,718.28
Total operating expenses	266,251,014.00	249,045,166.73	6,472,767.18	6,796,400.63
Operating loss	(118,401,831.81)	(118,882,536.43)	(275,169.83)	(3,027,247.89)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	88,539,800.00	86,884,500.00	-	-
Gifts, including $925,610.75 from component unit for the year ended June 30, 2006, and $961,709.61 for the year ended June 30, 2005	966,503.30	975,013.99	-	-
Grants and contracts	34,363,802.74	29,463,893.83	-	-
Investment income (net of investment expense for the university of $6,851.38 for the year ended June 30, 2006, and $6,486.99 for the year ended June 30, 2005, and for the component unit of $102,268.83 for the year ended June 30, 2006, and $104,833.07 for the year ended June 30, 2005)	4,311,529.64	2,482,542.88	3,192,761.20	2,061,294.25
Interest on capital asset-related debt	(4,428,375.26)	(4,321,121.70)	-	-
Bond issuance costs	(179,447.52)	(1,022,625.05)	-	-
Other nonoperating revenues (expenses)	(281,331.77)	348,206.73	(300.76)	(1,216.61)
Net nonoperating revenues	123,292,481.13	114,810,410.68	3,192,460.44	2,060,077.64
Income (loss) before other revenues, expenses, gains, or losses	4,890,649.32	(4,072,125.75)	2,917,290.61	(967,170.25)

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005

	Middle Tennessee State University		Component Unit Middle Tennessee State University Foundation	
	Year Ended June 30, 2006	Year Ended June 30, 2005	Year Ended June 30, 2006	Year Ended June 30, 2005
Capital appropriations	3,253,835.70	5,248,091.69	-	-
Capital grants and gifts, including $1,684,065.96 from component unit for the year ended June 30, 2006, and $2,383,803.98 for the year ended June 30, 2005	1,853,292.12	2,444,081.64	120.00	75,464.69
Additions to permanent endowments	-	-	786,773.05	1,566,564.13
Other capital	(99,718.60)	(655,832.56)	-	-
Total other revenues	5,007,409.22	7,036,340.77	786,893.05	1,642,028.82
Increase in net assets	9,898,058.54	2,964,215.02	3,704,183.66	674,858.57
NET ASSETS				
Net assets - beginning of year	141,963,422.91	138,999,207.89	57,576,372.63	56,901,514.06
Net assets - end of year	$ 151,861,481.45	$ 141,963,422.91	$ 61,280,556.29	$ 57,576,372.63

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

Exhibit C

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005

	Year Ended June 30, 2006	Year Ended June 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 79,956,859.10	$ 79,806,820.16
Grants and contracts	29,434,494.26	15,403,546.19
Sales and services of educational activities	8,752,853.49	7,265,512.27
Payments to suppliers and vendors	(70,803,636.12)	(69,429,633.38)
Payments to employees	(123,184,106.58)	(115,845,079.42)
Payments for benefits	(36,298,416.19)	(32,256,709.16)
Payments for scholarships and fellowships	(22,451,945.93)	(18,975,843.21)
Loans issued to students and employees	(153,769.66)	(263,644.25)
Collection of loans from students and employees	228,354.81	323,065.35
Interest earned on loans to students	77,786.40	75,075.95
Auxiliary enterprise charges:		
Residence halls	7,859,099.92	9,176,748.92
Bookstore	6,826,372.73	6,842,037.87
Food services	911,876.49	743,231.88
Wellness facility	1,500,775.46	1,442,356.29
Other auxiliaries	7,044,671.71	5,420,910.71
Other receipts (payments)	454,575.45	1,341,594.00
Net cash used by operating activities	(109,844,154.66)	(108,930,009.83)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	88,572,700.00	86,888,200.00
Gifts and grants received for other than capital purposes, including $925,610.75 from Middle Tennessee State University Foundation for the year ended June 30, 2006, and $961,709.61 for the year ended June 30, 2005	35,253,527.51	30,228,790.96
Federal student loan receipts	66,685,353.97	64,469,145.05
Federal student loan disbursements	(67,344,399.95)	(64,173,704.19)
Changes in deposits held for others	605,771.66	(256,787.48)
Other noncapital financing receipts (payments)	-	348,206.73
Net cash provided by noncapital financing activities	123,772,953.19	117,503,851.07
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	10,267,166.20	18,061,264.43
Capital appropriations	3,253,835.70	5,248,091.69
Capital grants and gifts received, including $620,671.68 from Middle Tennessee State University Foundation for the year ended June 30, 2006, and $818,384.00 for the year ended June 30, 2005	789,897.84	849,241.47
Purchases of capital assets and construction	(23,999,022.40)	(22,536,369.89)
Principal paid on capital debt	(2,850,463.77)	(3,032,316.69)
Interest paid on capital debt	(4,331,182.66)	(4,333,587.48)
Bond issue costs paid on new debt issue	(279,405.29)	(1,022,625.05)
Net cash used by capital and related financing activities	(17,149,174.38)	(6,766,301.52)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	-	32,900.10
Income on investments	4,307,962.87	2,470,580.59
Purchases of investments	-	(32,000.00)
Net cash provided by investing activities	4,307,962.87	2,471,480.69

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005

	Year Ended June 30, 2006	Year Ended June 30, 2005
Net increase in cash and cash equivalents	1,087,587.02	4,279,020.41
Cash and cash equivalents - beginning of year	65,899,256.73	61,620,236.32
Cash and cash equivalents - end of year	$ 66,986,843.75	$ 65,899,256.73
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (118,401,831.81)	$ (118,882,536.43)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	11,316,914.23	10,916,741.56
Change in assets and liabilities:		
Receivables, net	(6,726,241.85)	(5,878,590.61)
Inventories	(100,010.62)	185,391.20
Prepaid/deferred items	(31,799.14)	(234,063.90)
Other assets	201.97	309.08
Accounts payable	4,423,804.24	2,424,921.70
Accrued liabilities	(552,281.56)	1,202,513.96
Deferred revenue	78,118.33	391,101.80
Deposits	(161,058.17)	13,459.70
Compensated absences	543,356.70	743,250.53
Due to grantors	(87,195.94)	(42,928.13)
Loans to students and employees	(10,583.81)	(59,421.10)
Other	(135,547.23)	289,840.81
Net cash used by operating activities	$ (109,844,154.66)	$ (108,930,009.83)
Noncash transactions		
Gifts in-kind - capital	$ 1,063,394.28	$ -
Unrealized gains on investments	$ 3,480.92	$ 22,872.36

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, 2006, and June 30, 2005

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*.

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 15 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.

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 which are readily convertible to known amounts of cash and have original maturities of three months or less.

Inventories

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

Compensated Absences

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, 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:

<u>Invested in capital assets, net of related debt</u> - 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.

<u>Nonexpendable restricted net assets</u> - 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.

<u>Expendable restricted net assets</u> - 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.

<u>Unrestricted net assets</u> - 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 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, 2006, cash and cash equivalents consisted of $25,699,124.69 in bank accounts, $114,450.00 of petty cash on hand, $37,271,342.91 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, $3,873,200.28 in LGIP deposits for capital projects, and $28,725.87 in a money market account. At June 30, 2005, cash and cash equivalents consisted of $31,306,716.60 in bank accounts, $115,340.00 of petty cash on hand, $31,247,657.59 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, $3,211,929.13 in LGIP deposits for capital projects, and $17,613.41 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.

During the year ended June 30, 2005, the university implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*. That statement modified the custodial credit risk disclosures of GASB Statement 3 to limit required disclosures to deposits that are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the university's name.

The university's deposits in the Local Government Investment Pool (LGIP) are administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and required risk disclosures 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 3. INVESTMENTS

During the year ended June 30, 2005, the university implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*. That statement modified the custodial credit risk disclosures of GASB Statement 3 to limit required disclosures to investment securities that are uninsured, are not registered in the name of the university, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the university's name.

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.

At June 30, 2006, the university had the following investments and maturities.

		Investment Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10	No Maturity Date
Mutual funds	$739,420.19	$ -	$ -	$ -	$ -	$739,420.19

At June 30, 2005, the university had the following investments and maturities.

		Investment Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10	No Maturity Date
Mutual funds	$735,939.27	$ -	$ -	$ -	$ -	$735,939.27

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; bankers' 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. The university has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations.

At June 30, 2006, the university's investments were unrated as follows:

Investment Type	Fair Value	Unrated
LGIP	$41,144,543.19	$41,144,543.19
Mutual funds	739,420.19	739,420.19
	$41,883,963.38	$41,883,963.38

At June 30, 2005, the university's investments were unrated as follows:

Investment Type	Fair Value	Unrated
LGIP	$34,459,586.72	$34,459,586.72
Mutual funds	735,939.27	735,939.27
	$35,195,525.99	$35,195,525.99

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, 2006, the university had $739,420.19 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. At June 30, 2005, the university had $735,939.27 of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the university's name.

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

	Carrying Value June 30, 2006	Carrying Value June 30, 2005
Mutual funds	$739,420.19	$735,939.27

Each endowment is invested separately.

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2006	June 30, 2005
Student accounts receivable	$ 4,289,080.31	$ 3,241,005.26
Grants receivable	15,325,907.52	10,051,590.16

Notes receivable	412,990.26	398,196.73
State appropriation receivable	412,700.00	445,600.00
Other receivables	3,113,740.86	2,687,523.97
Subtotal	23,554,418.95	16,823,916.12
Less allowance for doubtful accounts	(1,861,420.08)	(1,725,433.43)
Total receivables	$21,692,998.87	$15,098,482.69

Federal Perkins Loan Program funds included the following:

	June 30, 2006	June 30, 2005
Perkins loans receivable	$3,794,436.25	$3,644,182.02
Less allowance for doubtful accounts	(638,511.39)	(687,032.85)
Total	$3,155,924.86	$2,957,149.17

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 9,736,682.86	$ 149,000.00	$ -	$ -	$ 9,885,682.86
Land improvements and Infrastructure	26,659,828.12	-	1,017,628.11	-	27,677,456.23
Buildings	206,747,382.08	-	11,842,098.57	-	218,589,480.65
Equipment	39,063,966.40	2,277,660.24	-	563,634.29	40,777,992.35
Library holdings	17,227,237.08	2,347,577.41	-	1,437,339.72	18,137,474.77
Software	-	-	1,971,107.06	-	1,971,107.06
Projects in progress	19,899,538.16	20,288,179.03	(14,830,833.74)	-	25,356,883.45
Total	319,334,634.70	25,062,416.68	-	2,000,974.01	342,396,077.37
Less accum. depreciation:					
Land improvements and Infrastructure	14,772,757.17	1,263,109.86	-	-	16,035,867.03

Buildings	82,598,510.05	5,263,891.87	-	-	87,862,401.92
Equipment	24,190,192.09	2,635,320.34	-	463,915.69	26,361,596.74
Library holdings	7,873,410.56	1,957,481.45	-	1,437,339.72	8,393,552.29
Software	-	197,110.71	-	-	197,110.71
Total accum. depreciation	129,434,869.87	11,316,914.23	-	1,901,255.41	138,850,528.69
Capital assets, net	$189,899,764.83	$13,745,502.45	$ -	$ 99,718.60	$203,545,548.68

Capital asset activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 4,980,605.51	$ 4,478,170.00	$ 277,907.35	$ -	$ 9,736,682.86
Land improvements and Infrastructure	26,659,828.12	-	-	-	26,659,828.12
Buildings	202,936,623.86	2,482,100.91	1,617,724.76	289,067.45	206,747,382.08
Equipment	37,548,565.96	3,768,930.26	-	2,253,529.82	39,063,966.40
Library holdings	16,339,719.65	2,269,405.71	-	1,381,888.28	17,227,237.08
Projects in progress	10,643,324.43	11,151,845.84	(1,895,632.11)	-	19,899,538.16
Total	299,108,667.53	24,150,452.72	-	3,924,485.55	319,334,634.70
Less accum. depreciation:					
Land improvements and Infrastructure	13,548,202.65	1,224,554.52	-	-	14,772,757.17
Buildings	77,997,014.01	4,865,635.93	-	264,139.89	82,598,510.05
Equipment	22,827,935.68	2,965,638.57	-	1,603,382.16	24,190,192.09
Library holdings	7,394,386.30	1,860,912.54	-	1,381,888.28	7,873,410.56
Total accum. depreciation	121,767,538.64	10,916,741.56	-	3,249,410.33	129,434,869.87
Capital assets, net	$177,341,128.89	$13,233,711.16	$ -	$ 675,075.22	$189,899,764.83

NOTE 6. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 80,645,555.46	$15,041,335.26	$ 2,617,232.37	$ 93,069,658.35	$3,851,248.16
Commercial paper	20,943,281.71	6,781,544.34	11,788,944.80	15,935,881.25	-
Subtotal	101,588,837.17	21,822,879.60	14,406,177.17	109,005,539.60	3,851,248.16
Other liabilities:					
Compensated absences	4,889,207.32	2,507,760.92	1,964,404.22	5,432,564.02	657,766.68
Due to grantors	2,890,649.27	1,203,094.64	1,290,290.58	2,803,453.33	-
Subtotal	7,779,856.59	3,710,855.56	3,254,694.80	8,236,017.35	657,766.68
Total long-term liabilities	$109,368,693.76	$25,533,735.16	$17,660,871.97	$117,241,556.95	$4,509,014.84

Long-term liabilities activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$81,330,915.77	$ 1,523,356.38	$2,208,716.69	$ 80,645,555.46	$2,912,009.67
Commercial paper	5,228,973.66	16,537,908.05	823,600.00	20,943,281.71	-
Subtotal	86,559,889.43	18,061,264.43	3,032,316.69	101,588,837.17	2,912,009.67
Other liabilities:					
Compensated absences	4,145,956.79	2,721,905.44	1,978,654.91	4,889,207.32	1,230,533.22
Due to grantors	2,933,577.40	1,628,407.17	1,671,335.30	2,890,649.27	-
Subtotal	7,079,534.19	4,350,312.61	3,649,990.21	7,779,856.59	1,230,533.22
Total long-term liabilities	$93,639,423.62	$22,411,577.04	$6,682,306.90	$109,368,693.76	$4,142,542.89

TSSBA Debt - Bonds Payable

Bond issues, with interest rates ranging from 1.3% to 7.15%, were issued by the Tennessee State School Bond Authority (TSSBA). The 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 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 $66,369.30 at June 30, 2006, and $361,146.61 at June 30, 2005. Unexpended debt proceeds were $448,291.30 at June 30, 2006, and $125,339.07 at June 30, 2005.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2006, are as follows:

Year Ending June 30	Principal	Interest	Total
2007	$ 3,851,248.16	$ 4,154,894.29	$ 8,006,142.45
2008	3,905,743.74	4,055,671.03	7,961,414.77
2009	4,143,259.97	3,896,678.30	8,039,938.27
2010	4,293,852.42	3,741,107.29	8,034,959.71
2011	4,023,807.73	3,570,194.32	7,594,002.05
2012-2016	21,600,416.49	15,275,335.62	36,875,752.11
2017-2021	22,311,585.13	10,148,907.47	32,460,492.60
2022-2026	21,712,665.00	4,908,505.97	26,621,170.97
2027-2031	7,227,079.71	695,289.31	7,922,369.02
2032-2033	-	576.50	576.50
	$93,069,658.35	$50,447,160.10	$143,516,818.45

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 $15,935,881.25 at June 30, 2006, and $20,943,281.71 at June 30, 2005.

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 may be obtained by writing to the Director of Bond Finance, Suite 1600, James K. Polk Building, Nashville, Tennessee 37243-0273, or by calling (615) 401-7872.

NOTE 7. 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 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, 2006, net appreciation of $6,340.51 is available to be spent, and is included in unrestricted net assets. At June 30, 2005, net appreciation of $2,422.72 is available to be spent, and is included in unrestricted net assets.

NOTE 8. 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:

	June 30, 2006	June 30, 2005
Working capital	$ 2,813,166.69	$ 2,107,567.70

Encumbrances	1,441,291.46	869,171.65
Designated fees	922,719.66	422,887.66
Auxiliaries	4,570,393.89	4,062,761.51
Quasi-endowment	155,100.00	155,100.00
Plant construction	11,019,632.38	12,244,647.24
Renewal and replacement of equipment	22,265,292.28	18,170,785.85
Debt retirement	301,218.20	282,846.94
Unreserved/undesignated	3,712,407.94	4,391,011.63
Total	$47,201,222.50	$42,706,780.18

NOTE 9. 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 10.31% 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, 2006, 2005, and

2004 were $4,429,789.45, $4,199,662.94, and $2,615,506.45. 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 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 $6,779,780.94 for the year ended June 30, 2006, and $6,442,336.48 for the year ended June 30, 2005. Contributions met the requirements for each year.

NOTE 10. 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 11. 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.

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, 2006, and June 30, 2005, 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. 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, 2006, the Risk Management Fund held $133.2 million in cash and cash equivalents designated for payment of claims. At June 30, 2005, the Risk Management fund held $114.4 million in cash and cash equivalents designated for payment of claims.

At June 30, 2006, the scheduled coverage for the university was $531,103,900 for buildings and $234,305,200 for contents. At June 30, 2005, the scheduled coverage for the university was $533,629,900 for buildings and $227,008,300 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 12. 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 $44,680,042.10 at June 30, 2006, and $41,861,857.90 at June 30, 2005.

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 $259,303.18 and for personal property were $41,601.13 for the year ended June 30, 2006. Comparative amounts for the year ended June 30, 2005, were $210,179.47 and $186,020.74. All operating leases are cancelable at the lessee’s option.

Construction in Progress - At June 30, 2006, outstanding commitments under construction contracts totaled $5,471,002.10 for the Andrew L. Todd Hall renovation, ADA improvements, life safety renovations, systems replacement, underground electrical update, Ezell and Abernathy dorms safety code corrections, Peck Hall HVAC update, and several building roof replacements, of which $703,300.01 will be funded by future state capital outlay appropriations.

Contract - In December 2004, the Tennessee Board of Regents system entered into a contract with SungardSCT for the purchase of a comprehensive enterprise resource planning system. The contract includes a multi-year phase-in of administrative software for financial, human resource, and student systems. The university's outstanding liability for this contract is estimated as $4,167,065.37 at June 30, 2006.

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

NOTE 13. CHAIRS OF EXCELLENCE

The university had $21,767,870.06 on deposit at June 30, 2006, and $21,978,623.22 on deposit at June 30, 2005, 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 14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses by functional classification for the year ended June 30, 2006, are as follows:

			Natural Classification			
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 71,134,468.26	$19,172,709.49	$12,463,164.93	$ -	$ -	$102,770,342.68
Research	2,565,833.31	565,952.08	1,330,975.15	-	-	4,462,760.54
Public service	5,986,278.25	2,008,170.33	15,512,221.71	-	-	23,506,670.29
Academic support	11,809,013.25	3,781,645.33	(164,667.70)	-	-	15,425,990.88
Student services	11,006,160.14	3,537,348.10	10,327,825.96	-	-	24,871,334.20
Institutional support	9,952,082.15	3,498,300.62	3,478,233.70	-	-	16,928,616.47
Operation & maintenance	5,012,479.33	1,947,642.77	15,174,041.35	-	-	22,134,163.45
Scholar. & fellow.	-	-	-	22,451,945.93	-	22,451,945.93
Auxiliary	5,540,372.81	1,802,426.51	15,039,476.01	-	-	22,382,275.33
Depreciation	-	-	-	-	11,316,914.23	11,316,914.23
Total	$123,006,687.50	$36,314,195.23	$73,161,271.11	$22,451,945.93	$11,316,914.23	$266,251,014.00

The university's operating expenses by functional classification for the year ended June 30, 2005, are as follows:

Functional Classification	Natural Classification Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 68,260,119.95	$18,325,702.23	$11,463,234.50	$ -	$ -	$ 98,049,056.68
Research	2,694,555.58	604,537.75	1,059,561.00	-	-	4,358,654.33
Public service	4,643,676.27	1,510,239.79	9,654,222.19	-	-	15,808,138.25
Academic support	10,700,399.55	3,334,518.69	733,215.95	-	-	14,768,134.19
Student services	10,333,958.45	3,257,330.74	9,521,018.28	-	-	23,112,307.47
Institutional support	9,375,006.21	3,205,186.12	2,751,581.48	-	-	15,331,773.81
Operation & maintenance	5,002,121.41	1,906,253.67	19,234,276.87	-	-	26,142,651.95
Scholar. & fellow.	-	-	-	18,975,843.21	-	18,975,843.21
Auxiliary	5,488,015.26	1,701,198.13	14,392,651.89	-	-	21,581,865.28
Depreciation	-	-	-	-	10,916,741.56	10,916,741.56
Total	$116,497,852.68	$33,844,967.12	$68,809,762.16	$18,975,843.21	$10,916,741.56	$249,045,166.73

NOTE 15. 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 80-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, 2006, the foundation made distributions of $4,556,377.92 to or on behalf of the university for both restricted and unrestricted purposes, of which $1,946,701.21 of these distributions are shown as utilities, supplies, and other services. During the year ended June 30, 2005, the foundation made distributions of $5,021,718.28 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, P.O. Box 109, Murfreesboro, Tennessee 37132.

Cash and cash equivalents - Cash and cash equivalents consist of demand deposit accounts, a State of Tennessee Local Government Investment Pool account administered by the State Treasurer, and money market funds. Of the bank balances of deposits at June 30, 2006, $200,000.00 was insured by FDIC and $1,750,047.49 was not insured. Of the bank balances of deposits at June 30, 2005, $200,000.00 was insured by FDIC and $1,867,487.58 was not insured.

The foundation's deposits in the Local Government Investment Pool (LGIP) are administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and required risk disclosures 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.

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, 2006, were as follows:

	Cost	Market Value
U.S. Treasury	$ 1,484,856.89	$ 1,584,423.65
Corporate stocks	$20,166,844.47	28,412,888.36
Mutual funds	$ 48,608.60	49,568.15
Cash surrender value of life insurance		427,296.65
Total investments		$30,474,176.81

Investments held at June 30, 2005, were as follows:

	Cost	Market Value
U.S. Treasury	$ 1,532,560.72	$ 1,684,139.24
Corporate stocks	$16,375,178.76	19,765,341.43
Corporate bonds	$ 5,760,367.91	5,335,388.80
Mutual funds	$ 48,608.60	47,242.41
Cash surrender value of life insurance		400,366.79
Total investments		$27,232,478.67

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

	June 30, 2006	June 30, 2005
Current pledges	$ 525,658.54	$219,276.86
Pledges due in one to five years	570,378.03	149,223.64
Pledges due after five years	113,894.09	84.00
Subtotal	1,209,930.66	368,584.50
Less discount to net present value	(112,039.21)	(21,592.16)
Total pledges receivable, net	$1,097,891.45	$346,992.34

Capital assets - Capital asset activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 2,282,921.97	$ 21,000.00	$ -	$ 75,000.00	$ 2,228,921.97
Land improvements	241,164.52	-	-	-	241,164.52
Improvements and infrastructure	105,019.41	415,400.42	-	-	520,419.83
Buildings	19,589,576.88	94,000.00	-	-	19,683,576.88
Total	22,218,682.78	530,400.42	-	75,000.00	22,674,083.20

Less accum. depreciation:

Land improvements	12,058.23	12,058.23	-	-	24,116.46
Improvements and infrastructure	15,752.91	26,020.99	-	-	41,773.90
Buildings	1,650,649.78	480,259.54	-	-	2,130,909.32
Total accum. depreciation	1,678,460.92	518,338.76	-	-	2,196,799.68
Capital assets, net	$20,540,221.86	$ 12,061.66	$ -	$ 75,000.00	$20,477,283.52

Capital asset activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 2,213,221.97	$ 75,000.00	$ -	$ 5,300.00	$ 2,282,921.97
Land improvements	-	241,164.52	-	-	241,164.52
Improvements and infrastructure	105,019.41	-	-	-	105,019.41
Buildings	19,154,322.30	-	435,254.58	-	19,589,576.88
Equipment	70,919.66	-	-	70,919.66	-
Projects in progress	1,583,754.21	435,254.58	(435,254.58)	1,583,754.21	-
Total	23,127,237.55	751,419.10	-	1,659,973.87	22,218,682.78
Less accum. depreciation:					
Land improvements	-	12,058.23	-	-	12,058.23
Improvements and infrastructure	10,501.94	5,250.97	-	-	15,752.91
Buildings	1,172,740.25	477,909.53	-	-	1,650,649.78
Equipment	29,420.19	-	-	29,420.19	-
Total accum. depreciation	1,212,662.38	495,218.73	-	29,420.19	1,678,460.92
Capital assets, net	$21,914,575.17	$256,200.37	$ -	$1,630,553.68	$20,540,221.86

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
SUPPLEMENTARY INFORMATION
STATEMENTS OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005

	Year Ended June 30, 2006	Year Ended June 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 5,051,443.27	$ 3,558,593.36
Grants and contracts	37,921.58	101,051.76
Payments to suppliers and vendors	(2,010,991.59)	(1,146,496.68)
Payments for scholarships and fellowships	(1,309,568.87)	(1,174,393.15)
Payments to Middle Tennessee State University	(1,546,282.43)	(1,780,093.61)
Net cash provided (used) by operating activities	222,521.96	(441,338.32)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	788,916.18	1,610,361.48
Net cash provided by noncapital financing activities	788,916.18	1,610,361.48
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts received	(708.51)	669,151.60
Proceeds from sale of capital assets	62,500.00	5,300.00
Purchases of capital assets and construction	(1,268,968.72)	(604,294.80)
Net cash provided (used) by capital and related financing activities	(1,207,177.23)	70,156.80
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	10,793,100.30	2,613,726.49
Investment income	(51,724.36)	163,243.45
Purchases of investments	(10,852,625.86)	(4,770,747.42)
Other investing receipts (payments)	(300.76)	(601.52)
Net cash used by investing activities	(111,550.68)	(1,994,379.00)
Net decrease in cash and cash equivalents	(307,289.77)	(755,199.04)
Cash and cash equivalents - beginning of year	8,609,526.34	9,364,725.38
Cash and cash equivalents - end of year	$ 8,302,236.57	$ 8,609,526.34
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	$ (275,169.83)	$ (3,027,247.89)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense	518,338.76	495,218.73
Change in assets and liabilities:		
Receivables, net	(755,137.81)	168,684.47
Accounts payable	(328,903.44)	356,586.39
Other	1,063,394.28	1,565,419.98
Net cash provided (used) by operating activities	$ 222,521.96	$ (441,338.32)
Noncash transactions		
Gifts in-kind	$ 353,094.69	$ 278,192.09
Pledges	$ 750,899.11	$ (173,826.35)
Unrealized gains (losses) on investments	$ (59,380.43)	$ 1,408,045.58