AUDIT REPORT

Tennessee Board of Regents
Middle Tennessee State University

For the Year Ended
June 30, 2007

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

January 24, 2008

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, 2007. 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 resulted in no audit findings.

Sincerely,

John G. Morgan

John G. Morgan
Comptroller of the Treasury

JGM/cj
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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, 2007

AUDIT OBJECTIVES

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

AUDIT FINDINGS

The audit report contains no findings.

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, 2007

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Tennessee Board of Regents
Middle Tennessee State University
For the Year Ended June 30, 2007

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, 2006, through June 30, 2007, 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, 2007, and for comparative purposes, the year ended June 30, 2006. 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

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The university filed its report with the Department of Audit on September 7, 2007. A follow-up of the prior audit finding was conducted as part of the current audit. The current audit disclosed that the university has corrected the previous audit finding concerning information security controls.

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, 2007, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing opinions on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

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

Fairness of Financial Statement Presentation

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

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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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 6, 2007

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, 2007, and have issued our report thereon dated December 6, 2007. 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.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the university's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that

The Honorable John G. Morgan
December 6, 2007
Page Two

there is more than a remote likelihood that a misstatement of the university's financial statements that is more than inconsequential will not be prevented or detected by the university's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

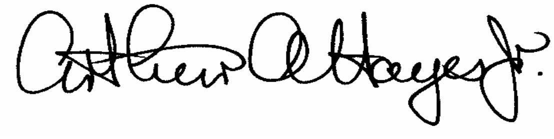
Compliance

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 note one other less significant instance of noncompliance, which we have reported to the university's management in a separate letter dated December 6, 2007.

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

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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DIVISION OF STATE AUDIT
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Independent Auditor's Report

December 6, 2007

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, 2007, and June 30, 2006, 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, 2007, and June 30, 2006, 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.

The management's discussion and analysis on pages 11 through 34 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 60 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 6, 2007, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/cj

Tennessee Board of Regents
Middle Tennessee State University
Management's Discussion and Analysis
For the Year Ended June 30, 2007

This section of Middle Tennessee State University's annual financial report presents a discussion and analysis of the financial performance of the University during the fiscal year ended June 30, 2007, with comparative information presented for the fiscal years ended June 30, 2006, and June 30, 2005. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

Using This Annual Report

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

The Statement of Net Assets

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

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

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

	2007	2006	2005
Assets			
Current assets	$ 57,165	$ 52,545	$ 46,942
Capital assets, net	229,106	203,546	189,900
Other assets	44,190	43,143	40,730
Total Assets	**$ 330,461**	**$ 299,234**	**$ 277,572**
Liabilities			
Current liabilities	$ 38,211	$ 34,640	$ 30,383
Noncurrent liabilities	127,738	112,733	105,226
Total Liabilities	**$ 165,949**	**$ 147,373**	**$ 135,609**
Net Assets			
Invested in capital assets, net of debt	$ 104,811	$ 94,540	$ 88,311
Restricted - expendable	8,176	9,341	10,181
Restricted - nonexpendable	827	779	764
Unrestricted	50,698	47,201	42,707
Total Net Assets	**$ 164,512**	**$ 151,861**	**$ 141,963**

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

- Current assets increased between fiscal years due to an increase in receivables from grant accounts at year end. The most significant increase is attributable to the Tennessee Department of Children's Services (DCS) grant. These receivables relate to billings from several institutions across the state received close to June 30 of each year and thus, not allowing the University time to receive funds from DCS for these pay outs.

- The increase in net capital assets between fiscal years is a result of additions to the University's capitalized assets. More detailed information about the University's capital assets is presented in the Capital Asset and Debt Administration section of this report.

- Noncurrent liabilities increased between fiscal years due to the issuance of bonds and/or commercial paper by the Tennessee State School Bond Authority (TSSBA) on behalf of the University for various capital projects. More detailed information about the University's debt is presented in the Capital Asset and Debt Administration section of this report.

- The restricted – expendable section of Net Assets decreased from 2005 to 2006 as a result of the use of accumulated private dollars on capital projects. These funds were received in prior years and then used on capital projects in the 2005-06 fiscal year. The continued decrease from 2006 to 2007 resulted from the accumulated excess debt service fees collected being used for the Student Health, Wellness, and Recreation Center Facility upgrade project.

Component Unit
Net Assets
(in thousands of dollars)

	2007	2006	2005
Assets			
Current assets	$ 2,070	$ 1,333	$ 1,087
Capital assets, net	20,174	20,477	20,540
Other assets	45,490	39,951	36,371
Total Assets	**$ 67,734**	**$ 61,761**	**$ 57,998**
Liabilities:			
Current liabilities	$ 999	$ 480	$ 422
Noncurrent liabilities	-	-	-
Total Liabilities	**$ 999**	**$ 480**	**$ 422**
Net Assets			
Invested in capital assets, net of debt	$ 20,174	$ 20,477	$ 20,540
Restricted - expendable	12,268	10,504	10,875
Restricted - nonexpendable	33,632	29,926	25,705
Unrestricted	661	374	456
Total Net Assets	**$ 66,735**	**$ 61,281**	**$ 57,576**

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

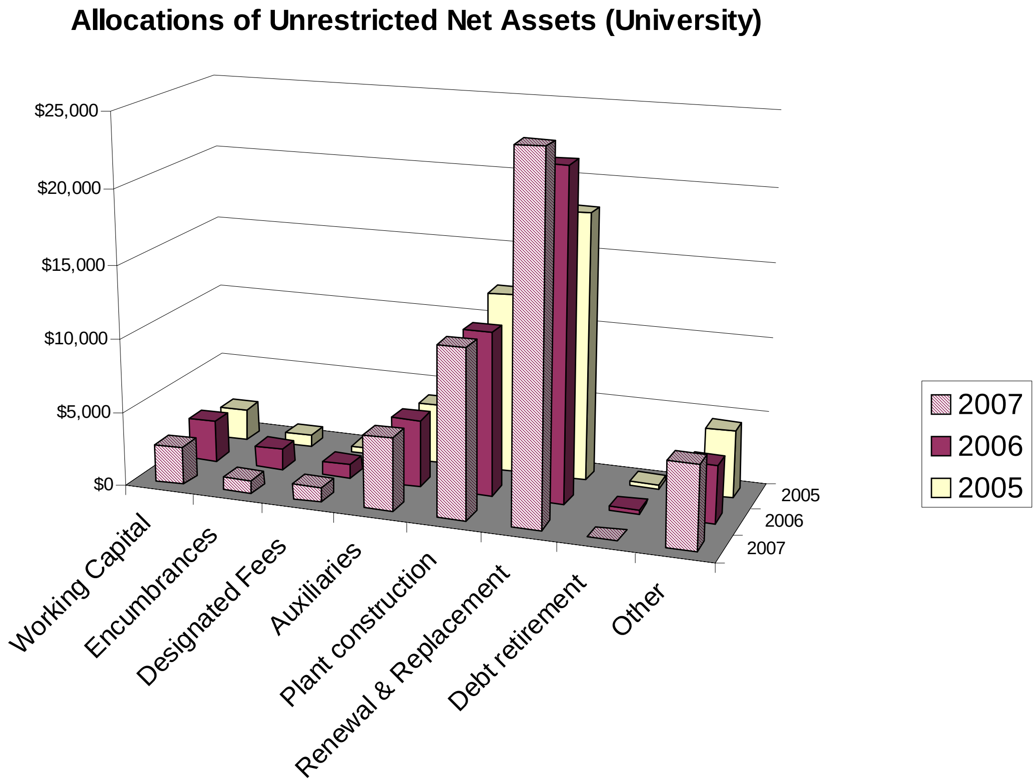
- The increase in current assets from 2006 to 2007 resulted from an increase in the payable setup to the University at June 30, 2007. This payable represents transactions occurring between the University and foundation at year end. Since this payable is setup in the unrestricted fund, more cash is shown as a current asset rather than noncurrent. 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 increase in other assets includes an increase in investments between fiscal years due to contributions received by the foundation from donors each year. Contributions received by the foundation during the 2006-07 and 2005-06 fiscal years exceeded $6 million each year.

- The increase in current liabilities from 2006 to 2007 resulted from an increase in the payable setup to the University at June 30, 2007, as described previously in this report.

- Restricted – nonexpendable net assets increased between fiscal years due to the favorable market performance. Noncurrent investments increased approximately $3.5 million from 2006 to 2007 and $3.2 million from 2005 to 2006.

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



- The change in the designation for encumbrances amount between the fiscal years is attributable to how University departments spend their allotted budgets each year. Departments may wait until close to the end of a fiscal year to purchase large items based on their available budget. In another year, they may not have this flexibility in their departmental budget, thus creating a fluctuation in the encumbrance amount from one year to the next.

- Renewal and replacement increased from 2006 to 2007, resulting from the accumulation of parking services revenues for the parking and transportation project. The increase from 2005 to 2006 is due to the accumulation of funds for the Student Health, Wellness, and Recreation Center Facility upgrade project, parking and transportation project, and funding of future losses in housing revenues resulting from facilities under renovation.

- The change in the other category between fiscal years results from funds not spent during the year by University departments. Department initiatives will change from one year to the next, creating this fluctuation in the amount shown as unreserved or undesignated.

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.

Tennessee Board of Regents
Middle Tennessee State University
Management's Discussion and Analysis (Cont.)
For the Year Ended June 30, 2007

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

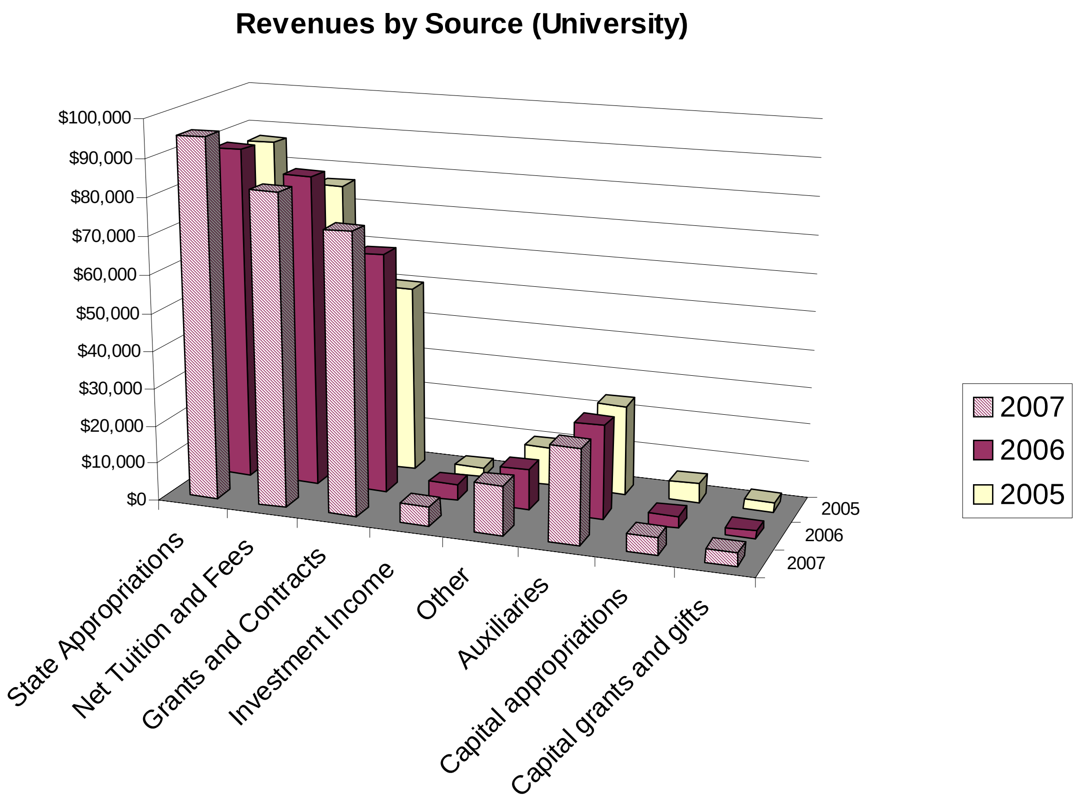
	2007	2006	2005
Operating revenues:			
Net tuition and fees	$ 82,775	$ 82,848	$ 76,531
Auxiliaries	25,157	24,936	23,907
Grants and contracts	31,207	30,252	20,739
Other	11,290	9,813	8,986
Total operating revenues	$ 150,429	$ 147,849	$ 130,163
Operating expenses	$ 285,970	$ 266,251	$ 249,045
Operating loss	$ (135,541)	$ (118,402)	$ (118,882)
Nonoperating revenues and expenses:			
State appropriations	$ 95,362	$ 88,540	$ 86,884
Gifts	1,538	966	975
Grants and contracts	42,391	34,364	29,464
Investment income	5,105	4,312	2,483
Other revenues and expenses	(4,645)	(4,889)	(4,996)
Total nonoperating revenues and expenses	$ 139,751	$ 123,293	$ 114,810
Income (loss) before other revenues, expenses, gains, or losses	$ 4,210	$ 4,891	$ (4,072)
Other revenues, expenses, gains, or losses:			
Capital appropriations	$ 4,845	$ 3,254	$ 5,248
Capital grants and gifts	3,344	1,853	2,444
Other	252	(100)	(656)
Total revenues, expenses, gains, or losses	$ 8,441	$ 5,007	$ 7,036
Increase (decrease) in net assets	$ 12,651	$ 9,898	$ 2,964
Net assets at beginning of year	$ 151,861	$ 141,963	$ 138,999
Net assets at end of year	$ 164,512	$ 151,861	$ 141,963

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

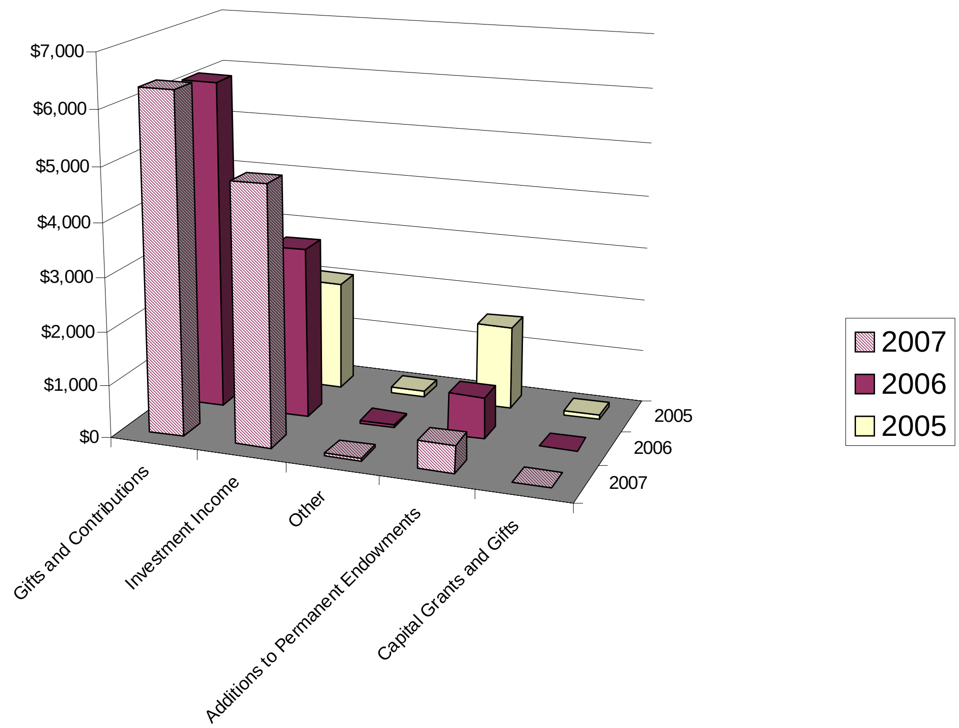
	2007	2006	2005
Operating revenues:			
Gifts	$ 6,334	$ 6,160	$ 3,668
Grants and contracts	42	38	101
Total operating revenues	$ 6,376	$ 6,198	$ 3,769
Operating expenses	$ 6,247	$ 6,473	$ 6,796
Operating loss	$ 129	$ (275)	$ (3,027)
Nonoperating revenues and expenses:			
Investment income	$ 4,814	$ 3,193	$ 2,061
Other revenues and expenses		-	(1)
Total nonoperating revenues and expenses	$ 4,814	$ 3,193	$ 2,060
Income (loss) before other revenues, expenses, gains, or losses	$ 4,943	$ 2,918	$ (967)
Other revenues, expenses, gains, or losses:			
Capital grants and gifts	$ -	$ -	$ 75
Additions to permanent endowments	511	787	1,566
Total revenues, expenses, gains, or losses	$ 511	$ 787	$ 1,641
Increase (decrease) in net assets	$ 5,454	$ 3,705	$ 674
Net assets at beginning of year	$ 61,281	$ 57,576	$ 56,902
Net assets at end of year	$ 66,735	$ 61,281	$ 57,576

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the University's operating activities for the years ended June 30, 2007; June 30, 2006; and June 30, 2005 (amounts are presented in thousands of dollars).


Revenues by Source (University)
$100,000
$90,000
$80,000
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
State Appropriations
Net Tuition and Fees
Grants and Contracts
Investment Income
Other
Auxiliaries
Capital appropriations
Capital grants and gifts
2005
2006
2007
2007
2006
2005

Revenues by Source (Component Unit)



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

- Net tuition and fee revenue increased from 2006 to 2007 as a result of an across-the-board fee increase of 4.1% and a student enrollment increase of 1.13%. 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 and is shown as grants and contracts revenue. An across-the-board fee increase of 9.7% and a student enrollment increase of 0.53% occurred during the 2005-06 fiscal year.

- Grants and contracts increased from 2006 to 2007 as a result of an increase in the Tennessee Department of Children's Services (DCS) Consortium contract of $2.1 million and an increase in the amount of scholarships from the TELS Program of approximately $7 million. 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

University was awarded the Consortium contract to provide training services for DCS. The TELS Program began awarding students scholarships in fiscal year 2004-05.

- ♦ Capital appropriations increased from 2006 to 2007 due to the appropriation of funds for new and renovated science facilities. Capital appropriations decreased from 2005 to 2006 due to fewer capital appropriations received from the state than in previous years.

- ♦ Capital grants and gifts increased from 2006 to 2007 mainly as a result of funds received from the City of Murfreesboro for improvements to our track and field complex and the baseball stadium.

- ♦ State appropriations and tuition and fees made up 58.6% of the University's revenue in 2006-07, 61.1% in 2005-06, and 63.3% 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 prior fiscal year. This increase affected the temporarily restricted gifts of the foundation.

- ♦ The increase in investment income between fiscal years is the result of continued favorable market performance, resulting in increases in interest rates, realized gains, and unrealized gains.

- ♦ The decrease in additions to permanent endowments from 2005 to 2006 is due to a decrease in bequests to the foundation.

Expenses

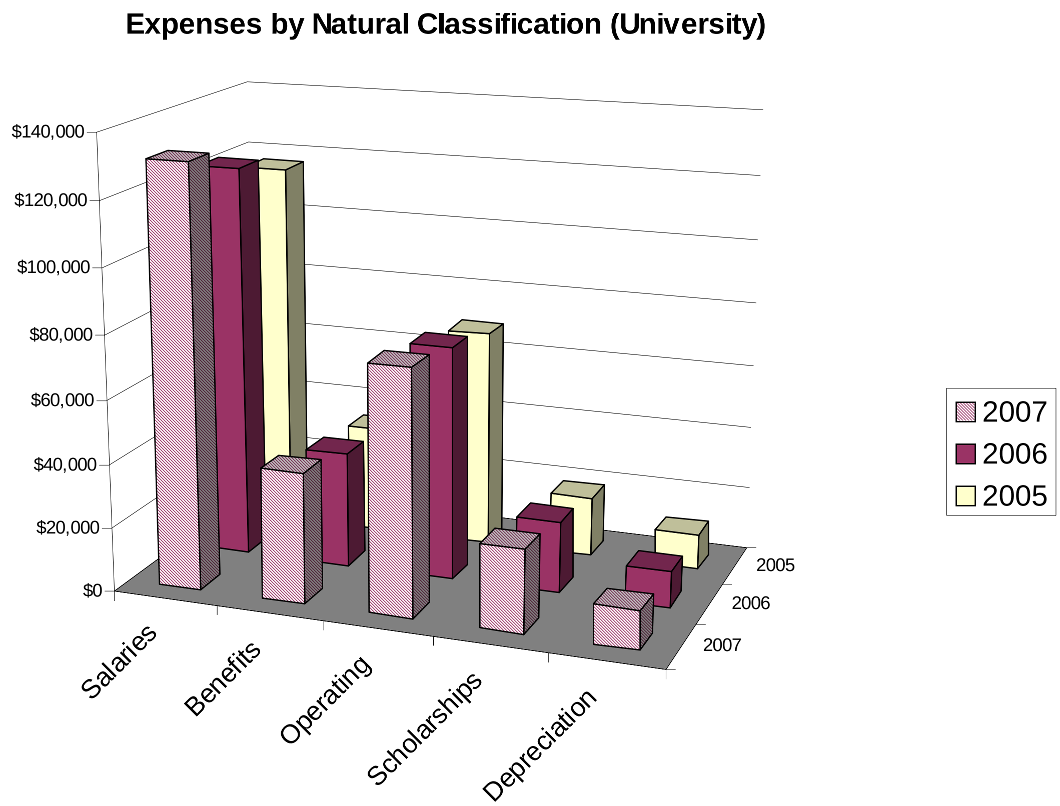
Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below in thousands.

Middle Tennessee State University
Natural Classification
(in thousands)

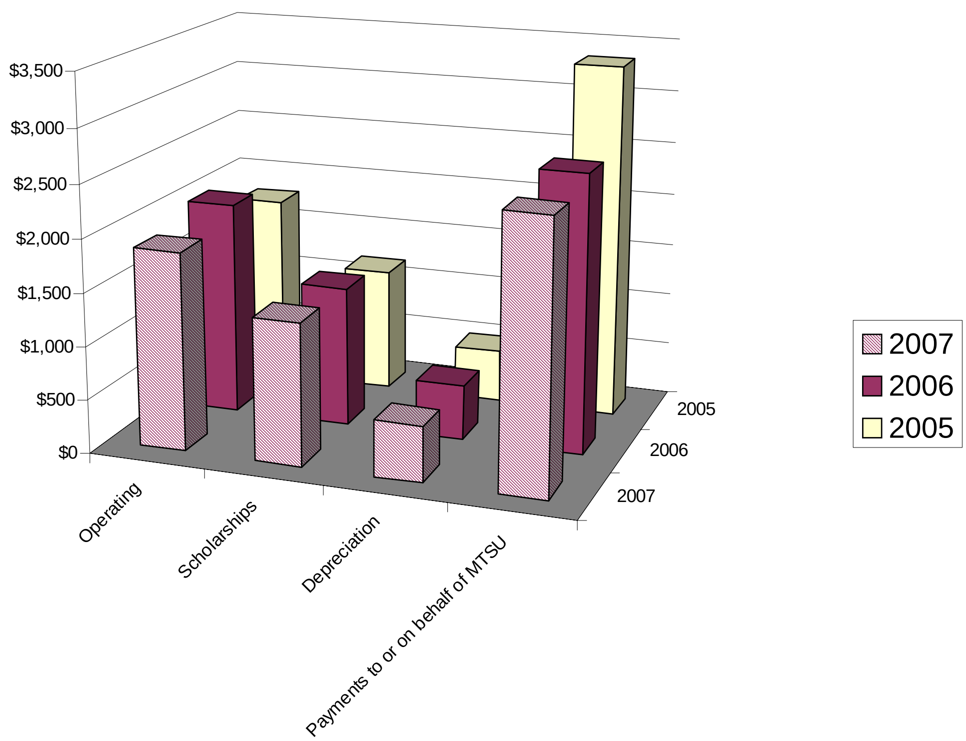
	2007	2006	2005
Salaries	$ 131,121	$ 123,007	$ 116,498
Benefits	40,737	36,314	33,845
Operating	76,346	73,161	68,809
Scholarships	25,809	22,452	18,976
Depreciation	11,957	11,317	10,917
TOTAL	$ 285,970	$ 266,251	$ 249,045

Component Unit
Natural Classification
(in thousands)

	2007	2006	2005
Operating	$ 1,866	$ 2,021	$ 104
Scholarships	1,343	1,324	1,175
Depreciation	524	518	495
Payments to or on behalf of MTSU	2,514	2,610	5,022
TOTAL	$ 6,247	$ 6,473	$ 6,796


Expenses by Natural Classification (University)
$140,000
$120,000
$100,000
$80,000
$60,000
$40,000
$20,000
$0
Salaries
Benefits
Operating
Scholarships
Depreciation
2005
2006
2007
2007
2006
2005

Expenses by Natural Classification (Component Unit)



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

- The increase in salary expenses from 2006 to 2007 is due to a 2% across-the-board pay raise effective July 1, 2006; state and MTSU bonuses paid in October 2006; and equity adjustments for the increases in pay grade ranges for incumbents effective January 1, 2007. The increase 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. Other factors related to new faculty positions, new support staff positions, and positions added for the DCS grant.

- Employee benefit expenses increased between fiscal years mainly as a result of increases in the state's group insurance premiums, increases in Tennessee Consolidated Retirement System (TCRS) rates, and/or added benefits for new positions.

- Operating expenses increased between fiscal years due to increases in utility rates, increases in software maintenance agreements, ERP-related expenses, and additional expenses related to the DCS grant.

- Scholarship expenses increased between fiscal years due to increased scholarships from the Tennessee Education Lottery Scholarship Program.

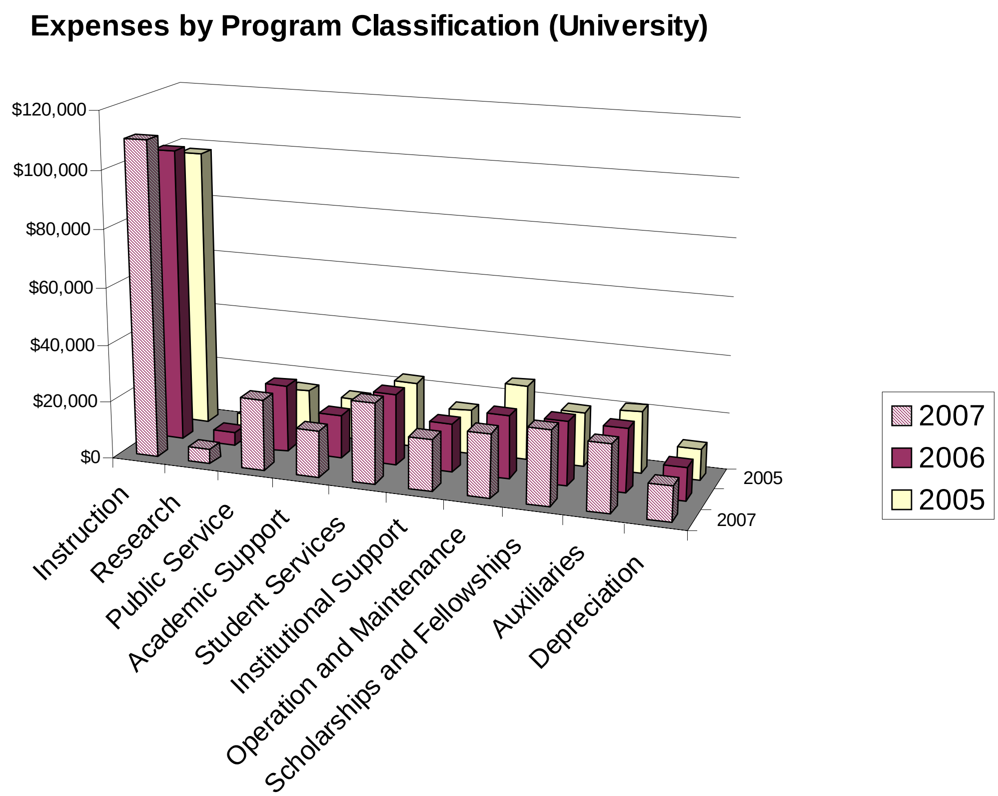
The component unit had the following significant changes in expenses between fiscal years:

- Operating expenses for the component unit increase and decrease based on the amount of requests received from University departments to purchase items to support University functions.

- Payments to or on behalf of MTSU in 2005 was significantly larger than other years, resulting from the transfer of the Rose and Emmett Kennon Sports Hall of Fame building to the University.

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

	2007	2006	2005
Instruction	$ 110,168	$ 102,770	$ 98,049
Research	5,063	4,463	4,359
Public Service	24,715	23,507	15,808
Academic Support	16,210	15,426	14,768
Student Services	28,116	24,871	23,112
Institutional Support	18,134	16,929	15,332
Operation and Maintenance	22,315	22,134	26,142
Scholarships and Fellowships	25,809	22,452	18,976
Auxiliaries	23,483	22,382	21,582
Depreciation	11,957	11,317	10,917
TOTAL	$ 285,970	$ 266,251	$ 249,045



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

- The Instruction function increased between fiscal years due to pay raises, state and/or MTSU bonuses, equity adjustments, faculty promotions, new faculty positions, and increases in various employee benefits.

- The increase in the Public Service function from 2005 to 2006 is the result of the addition of the Tennessee DCS grant.

- Student Services increased from 2006 to 2007 due to pay raises, state and/or MTSU bonuses, equity adjustments, and increases in various employee benefits. Athletic expenditures experienced a significant increase due to the above circumstances, in addition to an increase in travel expenses related to attending the Motor City Bowl in December 2006.

- The decrease in the Operation and Maintenance function in 2006 is due to decreased 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 2005, attributing to the significant decrease in 2006.

- The increase in the Scholarships and Fellowships function between fiscal years resulted from additional scholarships received from 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
Cash Flows
(in thousands of dollars)

	2007	2006	2005
Cash provided (used) by:			
Operating activities	$ (124,643)	$ (109,844)	$ (108,930)
Noncapital financing activities	139,575	123,773	117,504
Capital and related financing activities	(18,142)	(17,149)	(6,766)
Investing activities	5,077	4,308	2,471
Net increase (decrease) in cash	**$ 1,867**	**$ 1,088**	**$ 4,279**
Cash, beginning of year	**66,987**	**65,899**	**61,620**
Cash, end of year	**$ 68,854**	**$ 66,987**	**$ 65,899**

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 are payments to suppliers and vendors, payments to employees, and payments for scholarships and fellowships.
- Cash provided by noncapital financing activities increased between fiscal years mainly as a result of an increase in state appropriations from previous years and increases in the award amount of the DCS grant to the University.
- Cash used by capital and related financing activities increased from 2005 to 2006 as the result of capital projects being funded more from local University funds rather than the use of TSSBA debt instruments. In 2006-07, TSSBA funded projects increased significantly; however, local funded projects remained stable with the previous year, which created only a small change between the 2006 and the 2007 years.
- The University's cash position increased by $1.9 million for 2006-07, $1.1 million for 2005-06, and $4.3 million for 2004-05.

Component Unit
Cash Flows
(in thousands of dollars)

	2007	2006	2005
Cash provided (used) by:			
Operating activities	$ 1042	$ 223	$ (441)
Noncapital financing activities	511	789	1,610
Capital and related financing activities	(106)	(1,207)	70
Investing activities	1,059	(112)	(1,994)
Net increase (decrease) in cash	**$ 2,506**	**$ (307)**	**$ (755)**
Cash, beginning of year	**8,303**	**8,610**	**9,365**
Cash, end of year	**$ 10,809**	**$ 8,303**	**$ 8,610**

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

- ♦ The increase in cash provided by operating activities between fiscal years was largely due to increased cash donations for facilities improvements. Major uses of cash were for payments to suppliers and vendors, payments for scholarships and fellowships, and payments to the University.

- ♦ The decrease in cash provided by noncapital financing activities between fiscal years was primarily due to reductions in bequests to the foundation.

- ♦ The increase in cash provided by capital and related financing activities from 2006 to 2007 resulted from a large principal distribution from the Mary E. Miller trust for the year. The increase in cash used from 2005 to 2006 was primarily due to the completion of the Miller Coliseum drainage project, phase 1 of the track and field complex improvement project, and the baseball lighting improvement project.

- ♦ The decrease in cash used by investing activities from 2005 to 2006 mainly results from decreases in private gifts received for endowment purposes for 2006 and 2007. This resulted in less funds available for investing in those years.

- ♦ The component unit's cash position increased by $2.5 million for 2006-07, decreased by $307,000 for 2005-06, and decreased by $755,000 for 2004-05.

Capital Asset and Debt Administration

Capital Assets - University

Middle Tennessee State University had $229,106,211 invested in capital assets, net of accumulated depreciation of $146,667,073 at June 30, 2007; $203,545,549 invested in capital assets, net of accumulated depreciation of $138,850,529 at June 30, 2006; and $189,899,765 invested in capital assets, net of accumulated depreciation of $129,434,870 at June 30, 2005. Depreciation charges totaled $11,956,958, $11,316,914, and $10,916,742, for the years ended June 30, 2007; June 30, 2006; and June 30, 2005, respectively. Details of these assets are shown below.

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

	2007	2006	2005
Land	$ 10,169	$ 9,886	$ 9,737
Land improvements and infrastructure	12,760	11,642	11,887
Buildings	141,942	130,727	124,149
Equipment	15,325	14,416	14,874
Library holdings	10,149	9,744	9,354
Software	2,948	1,774	-
Projects in progress	35,813	25,357	19,899
Total	$ 229,106	$ 203,546	$ 189,900

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

- Buildings increased from 2006 to 2007 mainly as a result of the completion of the following projects: airplane hanger, nursing building addition, Andrew L. Todd Hall renovation, and renovations to various University housing facilities. The increase from 2005 to 2006 was due to the 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. Additional costs related to this system, as well as other software packages meeting the software capitalization threshold, are capitalized annually.
- Projects in Progress increased from 2006 to 2007 as the result of capital expenses incurred for the student health, wellness, and recreation facility upgrade, Lyon/Monohan renovations, Ingram Building renovation, family housing renovation, phase I of the parking and transportation project, track and field complex improvements, and planning for the new Science Building. Projects completed during the 2006-07 fiscal year and moved to a specific capital asset category included the airplane hanger, nursing building addition, Andrew L. Todd Hall, renovations to various University housing facilities, and various improvements and infrastructure projects. Projects in Progress increased significantly from 2005 to 2006 due to the continued renovations of University housing facilities and Andrew L. Todd Hall, 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.

- ♦ 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 2007-08 for the following projects: continued renovation to the University's housing facilities that will be funded from the issuance of TSSBA bonds; construction completion of the Student Health, Wellness, and Recreation Facility upgrade to be funded from University auxiliary reserve balances and the issuance of TSSBA bonds; construction of improved Baseball Stadium facilities funded primarily from gift funds, and grant funds from the City of Murfreesboro; construction of a new Chiller Plant to support increased chilled water demand funded through local capital outlay funding. The following projects will require 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; new academic facilities for the College of Education and Behavioral Science funded from the state; design and construction of new student union facilities funded by the issuance of TSSBA bonds; and renovation of Corlew and Cummings Halls, which is part of the larger long-range project to renovate and improve existing housing facilities and complete life safety code upgrades

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 $20,173,599 invested in capital assets, net of accumulated depreciation of $2,721,080 at June 30, 2007; $20,477,284 invested in capital assets, net of accumulated depreciation of $2,196,800 at June 30, 2006; and $20,540,222 invested in capital assets, net of accumulated depreciation of $1,678,461 at June 30, 2005. Depreciation charges totaled $524,280, $518,339, and $495,219, for the years ended June 30, 2007; June 30, 2006; and June 30, 2005, respectively. Details of these assets are shown below.

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

	2007	2006	2005
Land	$ 2,229	$ 2,229	$ 2,283
Land improvements and infrastructure	674	696	318
Buildings	17,271	17,552	17,939
Equipment	-	-	-
Projects in progress	-	-	-
Total	$ 20,174	$ 20,477	$ 20,540

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.

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

Debt

The University had $124,295,374, $109,005,540, and $101,588,837 in debt outstanding at June 30, 2007; June 30, 2006; and June 30, 2005, respectively. The table below summarizes these amounts by type of debt instrument (in thousands of dollars).

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

	2007	2006	2005
TSSBA Bonds	$ 88,969	$ 93,070	$ 80,646
TSSBA Commercial Paper	35,326	15,936	20,943
Total Debt	$ 124,295	$ 109,006	$ 101,589

The Tennessee State School Bond Authority (TSSBA) refunded three projects in 2006-07 that were previously bonded in order to obtain a lower rate of interest as follows:

Stadium Expansion, Dorm Renovations, and the Development Facility. This refunding took place in January 2007. Commercial paper was issued for the University on the following major projects during 2006-07: family housing renovation, student health, wellness, and recreation facility upgrade; Lyon/Monohan housing renovation; and phase I of the parking and transportation project.

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 2 of the energy savings and performance contracting project. Commercial paper was issued for several other ongoing capital projects during the year.

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 Ingram 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 for several other ongoing capital projects during the year.

TSSBA currently has the following long-term debt ratings: Fitch rating of AA, Moody's Investor's rating of AA3, and Standard & 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 state has approved a 3% across-the-board salary increase for all state employees effective July 1, 2007. Funding provided by the state for the 2007-08 fiscal year increased by $6.4 million over current year appropriations.

The Tennessee Board of Regents approved at their June board meeting a 6% fee increase for 2007-08.

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

Requests for Information

This financial report is designed to provide a general overview of the institution's finances for all those with an interest in the University's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Alan Thomas, Controller, Middle Tennessee State University, CAB 105, Murfreesboro, TN 37132.

Exhibit A

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENTS OF NET ASSETS
JUNE 30, 2007, AND JUNE 30, 2006

	Middle Tennessee State University		Component Unit Middle Tennessee State University Foundation	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2 and 15)	$ 28,304,729.86	$ 27,739,551.44	$ 1,533,904.35	$ 844,681.04
Accounts, notes, and grants receivable (net) (Note 4)	25,794,818.84	21,692,998.87	111,301.22	-
Pledges receivable (net) (Note 15)	-	-	397,665.62	476,972.33
Inventories (at lower of cost or market)	2,289,297.62	2,399,292.08	-	-
Prepaid expenses and deferred charges	748,631.74	683,276.43	-	-
Accrued interest receivable	27,985.20	30,331.05	27,520.85	11,004.48
Total current assets	57,165,463.26	52,545,449.87	2,070,392.04	1,332,657.85
Noncurrent assets:				
Cash and cash equivalents (Notes 2 and 15)	40,549,059.18	39,247,292.31	9,274,823.69	7,457,555.53
Investments (Notes 3 and 15)	772,026.08	739,420.19	34,468,475.44	30,474,176.81
Accounts, notes, and grants receivable (net) (Note 4)	2,867,741.48	3,155,924.86	1,049,074.14	1,398,267.30
Pledges receivable (net) (Note 15)	-	-	697,846.55	620,919.12
Capital assets (net) (Notes 5 and 15)	229,106,211.32	203,545,548.68	20,173,599.28	20,477,283.52
Total noncurrent assets	273,295,038.06	246,688,186.04	65,663,819.10	60,428,202.28
Total assets	330,460,501.32	299,233,635.91	67,734,211.14	61,760,860.13
LIABILITIES				
Current liabilities:				
Accounts payable	8,773,278.39	8,682,173.40	999,338.60	480,303.84
Accrued liabilities	14,974,193.17	13,628,713.27	-	-
Student deposits	1,127,842.67	759,784.97	-	-
Deferred revenue	5,711,407.62	5,023,884.71	-	-
Compensated absences (Note 6)	1,356,536.71	657,766.68	-	-
Accrued interest payable	861,998.49	750,374.04	-	-
Long-term liabilities, current portion (Note 6)	3,905,743.74	3,851,248.16	-	-
Deposits held in custody for others	971,090.92	825,483.80	-	-
Other liabilities	529,150.92	460,183.32	-	-
Total current liabilities	38,211,242.63	34,639,612.35	999,338.60	480,303.84
Noncurrent liabilities:				
Compensated absences (Note 6)	4,529,915.07	4,774,797.34	-	-
Long-term liabilities (Note 6)	120,389,630.03	105,154,291.44	-	-
Due to grantors (Note 6)	2,817,977.57	2,803,453.33	-	-
Total noncurrent liabilities	127,737,522.67	112,732,542.11	-	-
Total liabilities	165,948,765.30	147,372,154.46	999,338.60	480,303.84
NET ASSETS				
Invested in capital assets, net of related debt	104,810,837.55	94,540,009.08	20,173,599.28	20,477,283.52
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	10,900.00	10,900.00	31,551,556.29	28,022,622.93
Research	-	-	710,693.96	710,693.96
Instructional department uses	-	-	1,369,468.44	1,191,958.11
Other	815,781.13	768,146.06	-	-
Expendable:				
Scholarships and fellowships	102,840.82	136,311.65	1,593,162.48	1,385,515.55
Research	107,928.33	96,051.12	2,931.49	3,038.49
Instructional department uses	105,855.60	153,488.40	6,151,469.85	5,338,354.02
Loans	1,819,529.34	1,773,563.32	-	-
Capital projects	1,619,875.97	578,846.95	2,520,619.14	2,822,717.13
Debt service	2,531,297.27	4,780,717.00	-	-
Other	1,888,521.51	1,822,225.37	2,000,000.00	954,167.69
Unrestricted (Notes 7 and 8)	50,698,368.50	47,201,222.50	661,371.61	374,204.89
Total net assets	$ 164,511,736.02	$ 151,861,481.45	$ 66,734,872.54	$ 61,280,556.29

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

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Institution		Component Unit	
	Year Ended June 30, 2007	Year Ended June 30, 2006	Year Ended June 30, 2007	Year Ended June 30, 2006
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $29,204,891.95 for the year ended June 30, 2007, and $23,634,104.34 for the year ended June 30, 2006)	$ 82,775,411.02	$ 82,848,138.19	$ -	$ -
Gifts and contributions	-	-	6,334,123.19	6,159,675.77
Governmental grants and contracts	30,416,504.99	29,399,039.31	-	-
Nongovernmental grants and contracts	790,097.77	853,178.19	42,391.40	37,921.58
Sales and services of educational departments	10,325,076.64	8,869,319.49	-	-
Auxiliary enterprises:				
Residential life (net of scholarship allowances of $2,667,620.89 for the year ended June 30, 2007, and $2,352574.33 for the year ended June 30, 2006; all residential life revenues are used as security for revenue bonds; see Note 6.)	7,559,794.86	8,241,690.14	-	-
Bookstore(net of scholarship allowances of $2,632,711.43 for the year ended June 30, 2007, and $2,101,633.07 for the year ended June 30, 2006; all bookstore revenues are used as security for revenue bonds; see Note 6.)	7,464,616.22	7,364,702.81	-	-
Food service	873,763.58	803,369.00	-	-
Wellness facility (net of scholarship allowances of $504,136.23; the year ended June 30, 2007, and $427,740.79 for the year ended June 30, 2006; all wellness facility revenues are used as security for revenue bonds; see Note 6.)	1,428,523.70	1,500,775.46	-	-
Other auxiliaries	7,830,209.03	7,025,594.17	-	-
Interest earned on loans to students	78,783.87	77,584.43	-	-
Other operating revenue	885,857.93	865,791.00	-	-
Total operating revenues	150,428,639.61	147,849,182.19	6,376,514.59	6,197,597.35
EXPENSES				
Operating expenses (Note 14):				
Salaries and wages	131,120,675.97	123,006,687.50	-	-
Benefits	40,737,206.01	36,314,195.23	-	-
Utilities, supplies, and other services	76,346,302.06	73,161,271.11	1,865,664.53	2,020,537.54
Scholarships and fellowships	25,809,168.21	22,451,945.93	1,343,580.83	1,324,214.17
Depreciation expense	11,956,957.53	11,316,914.23	524,280.27	518,338.76
Payments to or on behalf of Middle Tennessee State University (Note 15)	-	-	2,513,722.36	2,609,676.71
Total operating expenses	285,970,309.78	266,251,014.00	6,247,247.99	6,472,767.18
Operating income (loss)	(135,541,670.17)	(118,401,831.81)	129,266.60	(275,169.83)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	95,361,800.00	88,539,800.00	-	-
Gifts, including $1,479,975.35 from component unit for the year ended June 30, 2007, and $925,610.75 for the year ended June 30, 2006.	1,537,908.79	966,503.30	-	-
Grants and contracts	42,391,061.00	34,363,802.74	-	-
Investment income (net of investment expense for the university of $7,143.06 ended June 30, 2007, and $6,851.38 for the year ended June 30, 2006; and for the component unit of $86,458.56 for the year ended June 30, 2007 and $102,268.83 for the year ended year ended June 30, 2006.	5,105,406.43	4,311,529.64	4,813,955.78	3,192,761.20
Interest on capital asset-related debt	(4,912,152.54)	(4,428,375.26)	-	-
Bond issuance expense	545,727.48	(179,447.52)	-	-
Other nonoperating expenses	(278,506.17)	(281,331.77)	(601.52)	(300.76)
Net nonoperating revenues	139,751,244.99	123,292,481.13	4,813,354.26	3,192,460.44
Loss before other revenues, expenses, gains, or losses	4,209,574.82	4,890,649.32	4,942,620.86	2,917,290.61
Capital appropriations	4,844,985.23	3,253,835.70	-	-
Capital grants and gifts, including $1,033,747.01 from component for the year ended June 30, 2007, and $1,684,065.96 for the year ended June 30, 2006	3,343,869.90	1,853,292.12	-	120.00
Additions to permanent endowments	-	-	511,695.39	786,773.05
Other	251,824.62	(99,718.60)	-	-
Total other revenues	8,440,679.75	5,007,409.22	511,695.39	786,893.05
Increase in net assets	12,650,254.57	9,898,058.54	5,454,316.25	3,704,183.66
NET ASSETS				
Net assets - beginning of year	151,861,481.45	141,963,422.91	61,280,556.29	57,576,372.63
Net assets - end of year	$ 164,511,736.02	$ 151,861,481.45	$ 66,734,872.54	$ 61,280,556.29

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, 2007, AND JUNE 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 83,580,108.42	$ 79,956,859.10
Grants and contracts	27,562,434.34	29,434,494.26
Sales and services of educational activities	9,778,795.56	8,752,853.49
Payments to suppliers and vendors	(75,866,859.26)	(70,803,636.12)
Payments to employees	(130,990,565.01)	(123,184,106.58)
Payments for benefits	(39,033,743.88)	(36,298,416.19)
Payments for scholarships and fellowships	(25,809,168.21)	(22,451,945.93)
Loans issued to students	(148,223.26)	(153,769.66)
Collection of loans from students	182,532.63	228,354.81
Interest earned on loans to students	77,413.31	77,786.40
Auxiliary enterprise charges:		
Residence halls	7,967,473.19	7,859,099.92
Bookstore	7,532,439.48	6,826,372.73
Food services	805,852.83	911,876.49
Wellness facility	1,428,523.70	1,500,775.46
Other auxiliaries	7,774,264.31	7,044,671.71
Other receipts	515,697.60	454,575.45
Net cash used by operating activities	(124,643,024.25)	(109,844,154.66)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	95,376,300.00	88,572,700.00
Gifts and grants received for other than capital purposes, including $1,479,975.35 from Middle Tennessee State University Foundation for the year ended June 30, 2007, and $925,610.75 for the year ended June 30, 2006	43,741,315.50	35,253,527.51
Federal student loan receipts	71,994,377.33	66,685,353.97
Federal student loan disbursements	(71,595,297.21)	(67,344,399.95)
Changes in deposits held for others	58,635.62	605,771.66
Net cash provided by noncapital financing activities	139,575,331.24	123,772,953.19
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	19,141,082.34	10,267,166.20
Capital appropriations	4,844,985.23	3,253,835.70
Capital grants and gifts received, including $623,267.98 from Middle Tennessee State University Foundation for the year ended June 30, 2007, and $620,671.68 for the year ended June 30, 2006	2,933,390.87	789,897.84
Proceeds from sale of capital assets	325,000.00	-
Purchases of capital assets and construction	(37,180,316.52)	(23,999,022.40)
Principal paid on capital debt	(3,851,248.17)	(2,850,463.77)
Interest paid on capital debt	(4,811,289.93)	(4,331,182.66)
Bond issue costs paid on new debt issue	456,517.53	(279,405.29)
Net cash used by capital and related financing activities	(18,141,878.65)	(17,149,174.38)
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	5,076,516.95	4,307,962.87
Net cash provided by investing activities	5,076,516.95	4,307,962.87

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
Net increase in cash and cash equivalents	1,866,945.29	1,087,587.02
Cash and cash equivalents - beginning of year	66,986,843.75	65,899,256.73
Cash and cash equivalents - end of year	$ 68,853,789.04	$ 66,986,843.75
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (135,541,670.17)	$ (118,401,831.81)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	11,956,957.53	11,316,914.23
Change in assets and liabilities:		
Receivables, net	(4,143,307.88)	(6,726,241.85)
Inventories	109,994.46	(100,010.62)
Prepaid/deferred items	(65,355.31)	(31,799.14)
Other assets	(1,370.56)	201.97
Accounts payable	58,557.63	4,423,804.24
Accrued liabilities	1,356,241.74	(552,281.56)
Deferred revenue	687,522.91	78,118.33
Deposits	368,057.70	(161,058.17)
Compensated absences	453,887.76	543,356.70
Due to grantors	14,524.24	(87,195.94)
Loans to students and employees	33,968.10	(10,583.81)
Other	68,967.60	(135,547.23)
Net cash used by operating activities	$ (124,643,024.25)	$ (109,844,154.66)
Noncash transactions		
Gifts in-kind - capital	$ 410,479.03	$ 1,063,394.28
Unrealized gains on investments	$ 32,605.89	$ 3,480.92

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The university is a part of the State University and Community College System of Tennesse (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 that are readily convertible to known amounts of cash and have original maturities of three months or less.

Inventories

Inventories are valued at the lower of cost or market. Textbooks included in the inventory are recorded on a 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, 2007, cash and cash equivalents consisted of $14,922,641.60 in bank accounts, $114,243.44 of petty cash on hand, $46,398,223.96 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, $7,374,924.99 in LGIP deposits for capital projects, and $43,755.05 in a money market account. 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.

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 LGIP account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the university for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

NOTE 3. INVESTMENTS

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

At June 30, 2007, 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 bond funds	$466,713.49	$ -	$ -	$ -	$ -	$466,713.49
Mutual equity funds	305,312.59	-	-	-	-	305,312.59
Total	$772,026.08	$ -	$ -	$ -	$ -	$772,026.08

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 bond funds	$462,891.88	$ -	$ -	$ -	$ -	$462,891.88
Mutual equity funds	276,528.31	-	-	-	-	276,528.31
Total	$739,420.19	$ -	$ -	$ -	$ -	$739,420.19

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, 2007, the university's investments were rated as follows:

Investment Type	Fair Value	Unrated
LGIP	$53,773,148.95	$53,773,148.95
Mutual bond funds	466,713.49	466,713.49
Total	$54,239,862.44	$54,239,862.44

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

Investment Type	Fair Value	Unrated
LGIP	$41,144,543.19	$41,144,543.19
Mutual Funds	462,891.88	462,891.88
Total	$41,607,435.07	$41,607,435.07

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2007	June 30, 2006
Student accounts receivable	$ 4,328,791.62	$ 4,289,080.31
Grants receivable	18,951,283.27	15,325,907.52
Notes receivable	415,964.14	412,990.26
State appropriation receivable	398,200.00	412,700.00
Other receivables	3,551,922.33	3,113,740.86

Subtotal	27,646,161.36	23,554,418.95
Less allowance for doubtful accounts	(1,851,342.52)	(1,861,420.08)
Total receivables	$25,794,818.84	$21,692,998.87

Federal Perkins Loan Program funds included the following:

	June 30, 2007	June 30, 2006
Perkins loans receivable	$3,488,040.10	$3,794,436.25
Less allowance for doubtful accounts	(620,298.62)	(638,511.39)
Total	$2,867,741.48	$3,155,924.86

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$9,885,682.86	$282,900.00	$ -	$ -	$10,168,582.86
Land improvements and infrastructure	27,677,456.23	-	2,500,720.92	-	30,178,177.15
Buildings	218,589,480.65	698,500.00	16,071,831.52	-	235,359,812.17
Equipment	40,777,992.35	3,640,142.99	-	2,659,698.33	41,758,437.01
Library holdings	18,137,474.77	2,465,772.31	-	1,613,109.12	18,990,137.96
Software	1,971,107.06	-	1,533,917.78	-	3,505,024.84
Projects in progress	25,356,883.45	30,600,290.13	(20,106,470.22)	37,591.00	35,813,112.36
Total	342,396,077.37	37,687,605.43	-	4,310,398.45	375,773,284.35
Less accum. depreciation:					
Land improvements and infrastructure	16,035,867.03	1,381,950.48	-	-	17,417,817.51
Buildings	87,862,401.92	5,555,549.01	-	-	93,417,950.93
Equipment	26,361,596.74	2,598,989.72	-	2,527,304.07	26,433,282.39
Library holdings	8,393,552.29	2,060,324.71	-	1,613,109.12	8,840,767.88

Software	197,110.71	360,143.61	-	-	557,254.32
Total accum. depreciation	138,850,528.69	11,956,957.53	-	4,140,413.19	146,667,073.03
Capital assets, net	$203,545,548.68	$25,730,647.90	$ -	$169,985.26	$229,106,211.32

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 accumulated 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
Software	-	197,110.71	-	-	197,110.71
Library holdings	7,873,410.56	1,957,481.45	-	1,437,339.72	8,393,552.29
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

NOTE 6. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	93,069,658.35	296,117.29	4,396,975.65	88,968,799.99	3,905,743.74
Commercial paper	15,935,881.25	19,390,692.53	-	35,326,573.78	-
Subtotal	109,005,539.60	19,686,809.82	4,396,975.65	124,295,373.77	3,905,743.74
Other liabilities:					
Compensated absences	5,432,564.02	3,213,910.36	2,760,022.60	5,886,451.78	1,356,536.71
Due to grantors	2,803,453.33	701,358.23	686,833.99	2,817,977.57	-
Subtotal	8,236,017.35	3,915,268.59	3,446,856.59	8,704,429.35	1,356,536.71
Total long-term liabilities	$117,241,556.95	$23,602,078.41	$7,843,832.24	$132,999,803.12	$5,262,280.45

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
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

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 2.25% 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 both June 30, 2007, and June 30, 2006. Unexpended debt proceeds were $152,174.01 at June 30, 2007, and $448,291.30 at June 30, 2006.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2007, are as follows:

Year Ending June 30	Principal	Interest	Total
2008	$ 3,905,743.74	$ 4,026,307.13	$ 7,932,050.87
2009	4,143,259.97	3,867,314.40	8,010,574.37
2010	4,293,852.42	3,711,743.39	8,005,595.81
2011	4,023,807.73	3,540,830.41	7,564,638.14
2012	4,192,396.67	3,382,878.83	7,575,275.50
2013-2017	22,231,952.81	14,181,024.73	36,412,977.54
2018-2022	22,041,628.18	8,955,200.67	30,996,828.85
2023-2027	19,913,194.09	3,808,839.52	23,722,033.61
2028-2032	4,222,964.38	335,017.44	4,557,981.82
2033	-	221.86	221.86
	$ 88,968,799.99	$ 45,809,378.38	$ 134,778,178.37

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 $35,326,573.78 at June 30, 2007, and $15,935,881.25 at June 30, 2006.

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 earnings of the investments of endowment funds. When administering its power to spend the earnings, the university is required to consider the university's long-term and short-term needs, present and anticipated financial requirements, expected return on its investments, price-level trends, and general economic conditions. Any earnings spent are required to be spent for the purposes for which the endowment was established.

The university chooses to spend only a portion of the investment income each year. Under the spending plan established by the university, all interest earnings have been authorized for expenditure. At June 30, 2007, net appreciation of $8,168.06 was available to be spent, of which $8,168.06 was included in unrestricted net assets. At June 30, 2006, net appreciation of $6,340.51 was available to be spent, of which $6,340.51 was included in unrestricted net assets.

NOTE 8. UNRESTRICTED NET ASSETS

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

	June 30, 2007	June 30, 2006
Working capital	$2,570,280.74	$2,813,166.69
Encumbrances	879,699.03	1,441,291.46
Designated fees	994,161.04	922,719.66
Auxiliaries	4,947,294.32	4,570,393.89
Quasi-endowment	155,100.00	155,100.00
Plant construction	11,391,548.88	11,019,632.38
Renewal and replacement of equipment	24,338,696.38	22,265,292.28
Debt retirement	-	301,218.20
Undesignated	5,421,588.11	3,712,407.94
Total	$50,698,368.50	$47,201,222.50

NOTE 9. PENSION PLANS

A. Defined Benefit Plans

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 13.66% 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, 2007, 2006, and 2005 were $6,305,780.58, $4,429,789.45, and $4,199,662.94. 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 $7,180,256.50 for the year ended June 30, 2007, and $6,779,780.94 for the year ended June 30, 2006. 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 $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, 2007, and June 30, 2006, 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, 2007, the Risk Management Fund held $116.7 million in cash. 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, 2007, the scheduled coverage for the university was $666,719,000 for buildings and $246,853,440 for contents. At June 30, 2006, the scheduled coverage for the university was $531,103,900 for buildings and $234,305,200 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 $48,034,614.58 at June 30, 2007, and $44,680,042.10 at June 30, 2006.

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 $312,077.45 and for personal property were $44,666.90 for the year ended June 30, 2007. Comparative amounts for the year ended June 30, 2006, were $259,303.18 and $41,601.13. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2007, outstanding commitments under construction contracts totaled $13,487,485.86 for major projects including ADA improvements, life safety renovations, systems replacement, underground electrical update, Ezell and Abernathy dorms safety code corrections, Peck Hall HVAC update, dorm renovations, the observatory plaza project, the nursing building addition, the baseball stadium upgrade, science facilities improvements, academic space renovations, and several building roof replacements, of which $6,689,423.07 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 was $1,040,581.00 at June 30, 2007, and $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 $24,142,748.55 on deposit at June 30, 2007, and $21,767,870.06 on deposit at June 30, 2006, 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, 2007, are as follows:

Functional Classification	Salaries	Benefits	Natural Classification Other Operating	Scholarships	Depreciation	Total
Instruction	$ 75,051,079.97	$ 20,947,319.61	$ 14,169,330.20	$ -	$ -	$ 110,167,729.78
Research	2,772,099.63	715,594.39	1,575,130.89	-	-	5,062,824.91
Public service	7,323,211.09	2,559,196.67	14,833,002.02	-	-	24,715,409.78
Academic support	12,459,109.90	4,289,367.91	(538,318.85)	-	-	16,210,158.96
Student services	12,159,840.66	4,147,863.46	11,808,483.27	-	-	28,116,187.39
Institutional support	10,566,272.87	3,908,177.94	3,659,559.65	-	-	18,134,010.46
Operation and maintenance	5,091,898.33	2,134,592.36	15,088,258.24	-	-	22,314,748.93
Scholar. & fellow.	-			25,809,168.21	-	25,809,168.21
Auxiliary	5,697,163.52	2,035,093.67	15,750,856.64	-	-	23,483,113.83
Depreciation	-	-	-	-	11,956,957.53	11,956,957.53
Total	$131,120,675.97	$ 40,737,206.01	$ 76,346,302.06	$ 25,809,168.21	$ 11,956,957.53	$ 285,970,309.78

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

Functional Classification	Salaries	Benefits	Natural Classification 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 and 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

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, 2007, the foundation made distributions of $4,289,299.52 to or on behalf of the university for both restricted and unrestricted purposes, of which $1,775,577.16 is shown as utilities, supplies, and other services. 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 is shown as utilities, supplies, and other services. Complete financial statements for the foundation can be obtained from Jay Chalmers, Foundation Accountant, MTSU, P.O. Box 109, Murfreesboro, Tennessee 37132.

<u>Cash and cash equivalents</u> - Cash and cash equivalents consists of demand deposit accounts, money market funds, and a State of Tennessee Local Government Investment Pool account administered by the state treasurer. Of the bank balances of deposits at June 30, 2007, $300,000 was insured by FDIC and $3,386,512.76 was not insured. Of the bank balances of deposits at June 30, 2006, $200,000 was insured by FDIC and $1,750,047.49 was not insured.

<u>Investments</u> - 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.

The foundation also has deposits in the Local Government Investment Pool (LGIP) administered by the state treasurer. The LGIP is part of the Pooled Investment Fund. The fund's required risk disclosures are present 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 37242-0298, or by calling (615) 741-2140.

Investments held at June 30, 2007, were as follows:

	Cost	Market Value
U.S. Treasury	$1,345,218.54	$ 1,460,087.50
Corporate stocks	14,881,946.49	22,104,193.40
Certificates of Deposit	450,000.00	462,021.64
Mutual funds	5,254,143.61	6,156,977.18
Cash surrender value of life insurance	-	436,610.54
Bond Funds	4,057,073.00	3,848,585.18
Total investments		$34,468,475.44

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

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

	June 30, 2007	June 30, 2006
Current pledges	$438,257.24	$525,658.54
Pledges due in one to five years	688,753.71	570,378.03
Pledges due after five years	86,506.35	113,894.09
Subtotal	1,213,517.30	1,209,930.66
Less discount to net present value	(118,005.13)	(112,039.21)
Total pledges receivable, net	$1,095,512.17	$1,097,891.45

Capital assets - Capital asset activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$ 2,228,921.97	$ -	$ -	$2,228,921.97
Land improvements	241,164.52	-	-	241,164.52
Improvements and infrastructure	520,419.83	17,064.89	-	537,484.72
Buildings	19,683,576.88	543,907.60	340,376.46	19,887,108.02
Equipment	-	70,102.59	70,102.59	-
Total	22,674,083.20	631,075.08	410,479.05	22,894,679.23
Less accum. depreciation:				
Land improvements	24,116.46	12,058.22	-	36,174.68
Improvements and infrastructure	41,773.90	26,874.25	-	68,648.15
Buildings	2,130,909.32	485,347.80	-	2,616,257.12
Total accum. depreciation	2,196,799.68	524,280.27	-	2,721,079.95
Capital assets, net	$20,477,283.52	$106,794.81	$410,479.05	$20,173,599.28

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

	Beginning Balance	Additions	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

NOTE 16. SUBSEQUENT EVENT

In 2002-03, the University purchased new Steinway pianos for our School of Music. This purchase was financed with the issuance of TSSBA commercial paper, which was later converted to bonds. The bonds were issued to mature May 1, 2014. Funding for the annual payment of principal and interest on the bonds was to come from private gifts of a University donor each year. Subsequent to June 30, 2007, the University discovered the donor will not be able to continue the donations under the original agreement. The University will continue to make the annual bond payments, approximately $150,000 per year, from other sources until the maturity date. In addition, a portion of the previous donations from this particular donor will be required to be returned to the donor’s estate.

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
SUPPLEMENTARY INFORMATION
STATEMENTS OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 6,115,911.18	$ 5,051,443.27
Grants and contracts	42,391.40	37,921.58
Payments to suppliers and vendors	(1,655,919.31)	(2,010,991.59)
Payments for scholarships and fellowships	(1,357,117.21)	(1,309,568.87)
Payments to Middle Tennessee State University	(2,103,243.33)	(1,546,282.43)
Net cash provided by operating activities	1,042,022.73	222,521.96
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	511,448.39	788,916.18
Net cash provided by noncapital financing activities	511,448.39	788,916.18
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts received	221,375.57	(708.51)
Proceeds from sale of capital assets	-	62,500.00
Purchases of capital assets and construction	(327,355.11)	(1,268,968.72)
Net cash used by capital and related financing activities	(105,979.54)	(1,207,177.23)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	3,493,081.75	10,793,100.30
Investment income	2,560,387.89	(51,724.36)
Purchases of investments	(4,993,868.23)	(10,852,625.86)
Other investing receipts (payments)	(601.52)	(300.76)
Net cash used by investing activities	1,058,999.89	(111,550.68)
Net decrease in cash and cash equivalents	2,506,491.47	(307,289.77)
Cash and cash equivalents - beginning of year	8,302,236.57	8,609,526.34
Cash and cash equivalents - end of year	$ 10,808,728.04	$ 8,302,236.57

	Year Ended June 30, 2007	Year Ended June 30, 2006
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$ 129,266.60	$ (275,169.83)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense	524,280.27	518,338.76
Change in assets and liabilities:		
Receivables, net	2,626.28	(755,137.81)
Accounts payable	(24,629.45)	(328,903.44)
Other	410,479.03	1,063,394.28
Net cash provided (used) by operating activities	$ 1,042,022.73	$ 222,521.96
Noncash transactions		
Gifts in-kind	$ 220,838.29	$ 353,094.69
Pledges	$ (2,379.28)	$ 750,899.11
Unrealized gains (losses) on investments	$ 2,253,567.89	$ (59,380.43)