AUDIT REPORT

Tennessee Board of Regents
Middle Tennessee State University

For the Year Ended
June 30, 2008

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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February 17, 2009

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, 2008. 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,

Arthur A. Hayes, Jr., CPA
Director

AAH/cj
08/099

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, 2008

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, 2008

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Tennessee Board of Regents
Middle Tennessee State University
For the Year Ended June 30, 2008

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 Executive Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the university is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 2007, through June 30, 2008, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 2008. Middle Tennessee State University is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the university's internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements;

2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;

3. to determine the fairness of the presentation of the financial statements; and

4. to recommend appropriate actions to correct any deficiencies.

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

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

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

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

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 2008, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing opinions on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. 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 generally accepted government auditing standards.

Fairness of Financial Statement Presentation

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

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

December 11, 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:

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, 2008, and have issued our report thereon dated December 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the university's internal control over financial reporting 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 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 university'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 generally accepted government auditing standards.

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

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

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/cj

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

December 11, 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:

We have audited the accompanying basic financial statements of Middle Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the university's management. Our responsibility is to express opinions on these financial statements, based on our audit.

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

As discussed in Note 1, the financial statements of Middle Tennessee State University, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only Middle Tennessee State University. They do not purport to, and do not present fairly the financial position of the Tennessee Board of Regents, as of June 30, 2008, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tennessee Board of Regents, Middle Tennessee State University, and its discretely presented component unit as of June 30, 2008, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15, during the year ended June 30, 2008, the university implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*.

The management's discussion and analysis and the schedule of funding progress on pages 11 through 32 and page 57 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 58 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated December 11, 2008, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

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, 2008

This section of Middle Tennessee State University's report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2008, with comparative information presented for the fiscal year ended June 30, 2007. This discussion, along with the financial statements and related note disclosures, has been prepared by management 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)

	2008	2007
Assets		
Current assets	$ 60,918	$ 57,165
Capital assets, net	265,833	229,106
Other assets	44,707	44,190
Total Assets	**371,458**	**330,461**
Liabilities		
Current liabilities	39,765	38,211
Noncurrent liabilities	150,447	127,738
Total Liabilities	**190,212**	**165,949**
Net Assets		
Invested in capital assets, net of debt	129,342	104,811
Restricted - expendable	10,728	8,176
Restricted - nonexpendable	792	827
Unrestricted	40,384	50,698
Total Net Assets	**$ 181,246**	**$ 164,512**

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. Thus, the accompanying statements include receivables from DCS for these subrecipient payments.

- 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 discussion and analysis.

- 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 discussion and analysis.

- The restricted–expendable section of Net Assets increased from 2007 to 2008 as a result of the accumulation of debt service fee reserves for the new Student Union project. This fee was approved in June 2007 for the 2007-08 fiscal year. The Student Union project is currently in the planning and design stage. These reserves will be used toward the overall construction project, along with proceeds from TSSBA issued debt, in future years.

Component Unit
Net Assets
(in thousands of dollars)

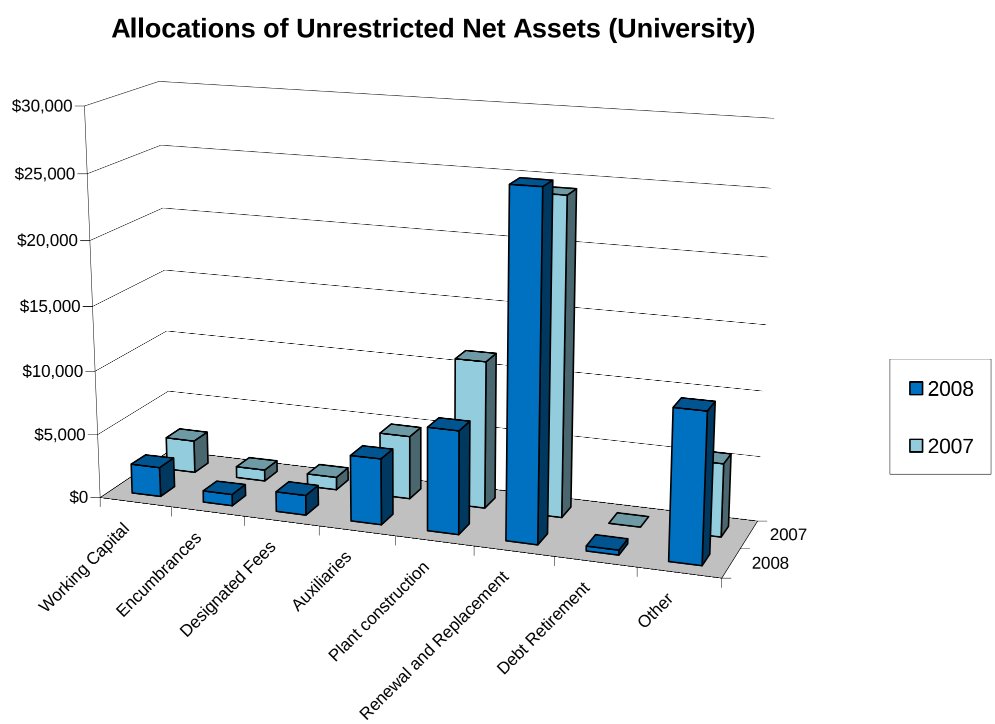
	2008	2007
Assets		
Current assets	$ 2,139	$ 2,070
Capital assets, net	19,732	20,174
Other assets	44,002	45,490
Total Assets	**65,873**	**67,734**
Liabilities		
Current liabilities	682	999
Noncurrent liabilities	-	-
Total Liabilities	**682**	**999**
Net Assets		
Invested in capital assets, net of debt	19,732	20,174
Restricted - expendable	11,351	12,268
Restricted - nonexpendable	33,268	33,632
Unrestricted	840	661
Total Net Assets	**$ 65,191**	**$ 66,735**

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

- Current liabilities decreased due to a reduction in the payable to the university. This payable results from transactions occurring between the two charts of accounts.

- Restricted–expendable net assets decreased between fiscal years due to a transfer of donations for the baseball stadium upgrade to the university. These funds were transferred to the baseball stadium upgrade project account and used for capital expenses.

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 designation for Plant Construction decreased between fiscal years as a result of more projects moving from the planning stage to the construction phase. Capital expenditures from Plant Construction funds alone increased from $31 million to $44 million for the current fiscal year. More detailed information about the university's capital assets is presented in the Capital Asset and Debt Administration section of this discussion and analysis.

- Renewal and replacement reserves increased from 2007 to 2008, resulting from the accumulation of auxiliary revenues. A major portion of these reserves resulted from revenues generated from university housing operations and Health Services. These reserves will be used for future capital outlay for renovations to university housing facilities and for the student health, wellness, and recreation center facility upgrade.

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

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

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

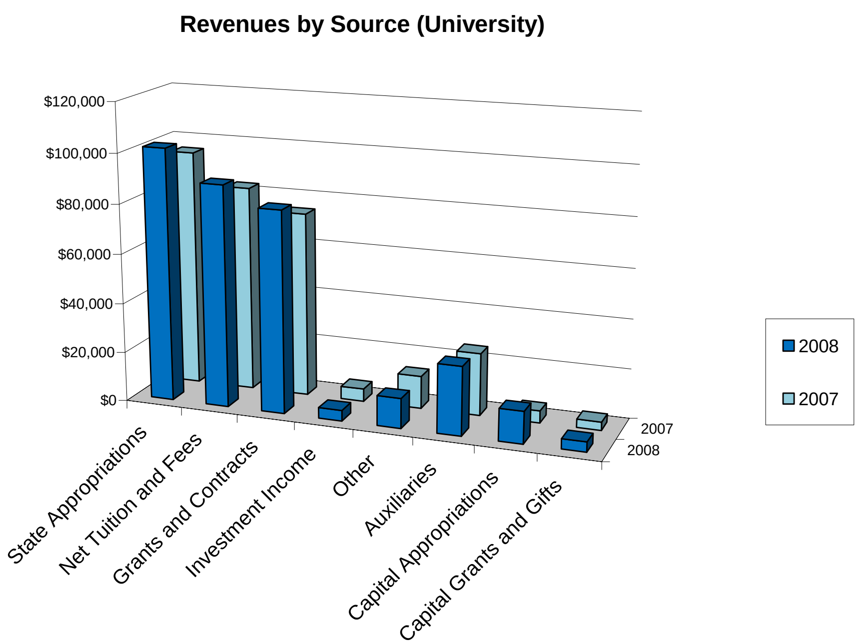
	2008	2007
Operating revenues		
Net tuition and fees	$ 89,216	$ 82,775
Auxiliaries	27,601	25,157
Grants and contracts	30,921	31,207
Other	10,806	11,290
Total operating revenues	158,544	150,429
Operating expenses	311,535	285,970
Operating loss	(152,991)	(135,541)
Nonoperating revenues and expenses		
State appropriations	101,760	95,362
Gifts	1,257	1,538
Grants and contracts	50,380	42,391
Investment income	4,276	5,105
Other revenues and expenses	(5,515)	(4,645)
Total nonoperating revenues and expenses	152,158	139,751
Income (loss) before other revenues, expenses, gains, or losses	(833)	4,210
Other revenues, expenses, gains, or losses		
Capital appropriations	14,136	4,845
Capital grants and gifts	4,042	3,344
Other	(611)	252
Total revenues, expenses, gains, or losses	17,567	8,441
Increase in net assets	16,734	12,651
Net assets at beginning of year	164,512	151,861
Net assets at end of year	$ 181,246	$ 164,512

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

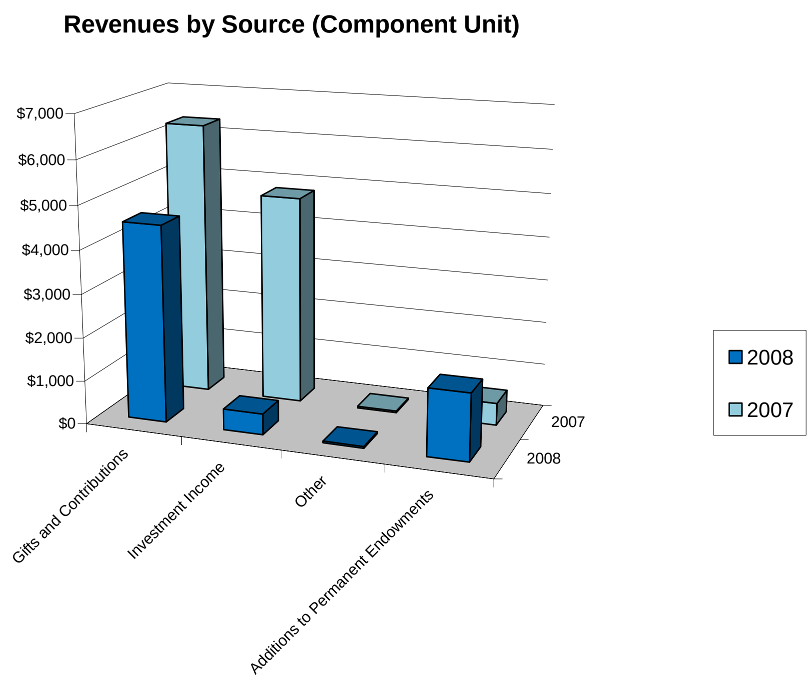
	2008	2007
Operating revenues		
Gifts	$ 4,509	$ 6,334
Grants and contracts	39	42
Total operating revenues	4,548	6,376
Operating expenses	8,140	6,247
Operating income (loss)	(3,592)	129
Nonoperating revenues and expenses		
Investment income	483	4,814
Other revenues and expenses	(2)	-
Total nonoperating revenues and expenses	481	4,814
Income (loss) before other revenues, expenses, gains, or losses	(3,111)	4,943
Other revenues, expenses, gains, or losses		
Capital grants and gifts	29	-
Additions to permanent endowments	1,538	511
Total revenues, expenses, gains, or losses	1,567	511
Increase (decrease) in net assets	(1,544)	5,454
Net assets at beginning of year	66,735	61,281
Net assets at end of year	$ 65,191	$ 66,735

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the university's operating activities for the year ended June 30, 2008, and June 30, 2007 (amounts are presented in thousands of dollars).



Revenues by Source (University)
$120,000
$100,000
$80,000
$60,000
$40,000
$20,000
$0
State Appropriations
Net Tuition and Fees
Grants and Contracts
Investment Income
Other
Auxiliaries
Capital Appropriations
Capital Grants and Gifts
2007
2008
2008
2007



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

- Net tuition and fee revenue increased between fiscal years as a result of an across-the-board fee increase of 6% and a student enrollment increase of 1%.
- Non-operating grants and contracts increased from 2007 to 2008 as a result of an increase in the university's Pell and SEOG federal awards, as well as an increase in the amount of scholarships from the Tennessee Education Lottery Scholarship (TELS) Program of approximately $3.7 million. The TELS Program began awarding students scholarships in fiscal year 2004-05.
- Capital appropriations increased from 2007 to 2008 as a result of capital expenditures incurred on the new and renovated science facilities project.
- State appropriations and tuition and fees made up 57.1% of the university's revenue in 2007-08 and 58.6% in 2006-07.

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

- The decrease in gifts and contributions from 2007 to 2008 is due to a downturn in the nation's economy, resulting in a decrease in non-endowment contributions to the foundation.

- The decrease in investment income between fiscal years was due primarily to $2.3 million of unrealized losses resulting from the decrease in the fair market value of invested assets during the 2007-08 fiscal year, as compared to $2.2 million of unrealized gains in 2006-07.

- The increase in additions to permanent endowments from 2007 to 2008 is due to an increase in endowment cash and pledge gifts received during the year.

Expenses

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

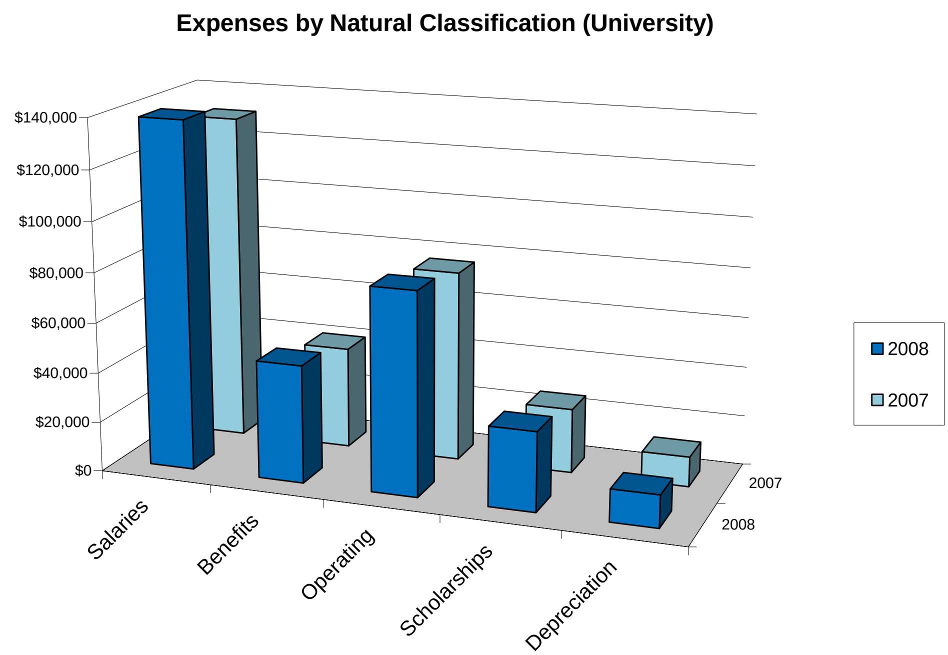
Tennessee Board of Regents
Middle Tennessee State University
Management's Discussion and Analysis (Cont.)
For the Year Ended June 30, 2008

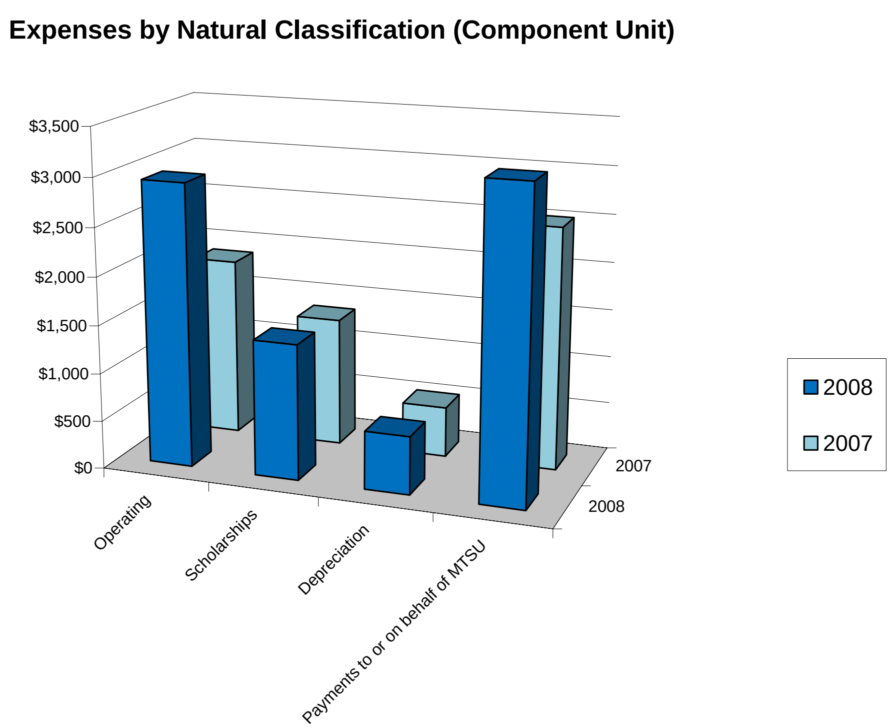
Middle Tennessee State University
Natural Classification
(in thousands)

	2008	2007
Salaries	$ 138,800	$ 131,121
Benefits	47,163	40,737
Operating	80,974	76,346
Scholarships	31,673	25,809
Depreciation	12,925	11,957
TOTAL	$ 311,535	$ 285,970

Component Unit
Natural Classification
(in thousands)

	2008	2007
Operating	$ 2,936	$ 1,866
Scholarships	1,408	1,343
Depreciation	603	524
Payments to or on behalf of MTSU	3,193	2,514
TOTAL	$ 8,140	$ 6,247


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
2007
2008
2008
2007


Expenses by Natural Classification (Component Unit)
$3,500
$3,000
$2,500
$2,000
$1,500
$1,000
$500
$0
Operating
Scholarships
Depreciation
Payments to or on behalf of MTSU
2007
2008
2008
2007

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

- The increase in salary expenses from 2007 to 2008 is due to a 3% across-the-board pay raise effective July 1, 2007; an MTSU bonus paid in October 2007; and equity adjustments for the increases in pay grade ranges for incumbents effective January 1, 2008. Other factors were related to new faculty positions, new support staff positions, and positions added for new grants.

- Employee benefit expenses increased between fiscal years as a result of increases in the state's group insurance premiums, additional benefits for new positions, and the recognition of other postemployment benefits. The Governmental Accounting Standards Board's Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions,* was implemented during the 2007-08 fiscal year. The statement was implemented prospectively with the university recording a liability as a current-year benefit expense in the accompanying statements.

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

- Scholarship expenses increased between fiscal years due to increased funding from the Tennessee Education Lottery Scholarship program, federal scholarship award programs, and Tennessee Student Assistance Corporation.

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

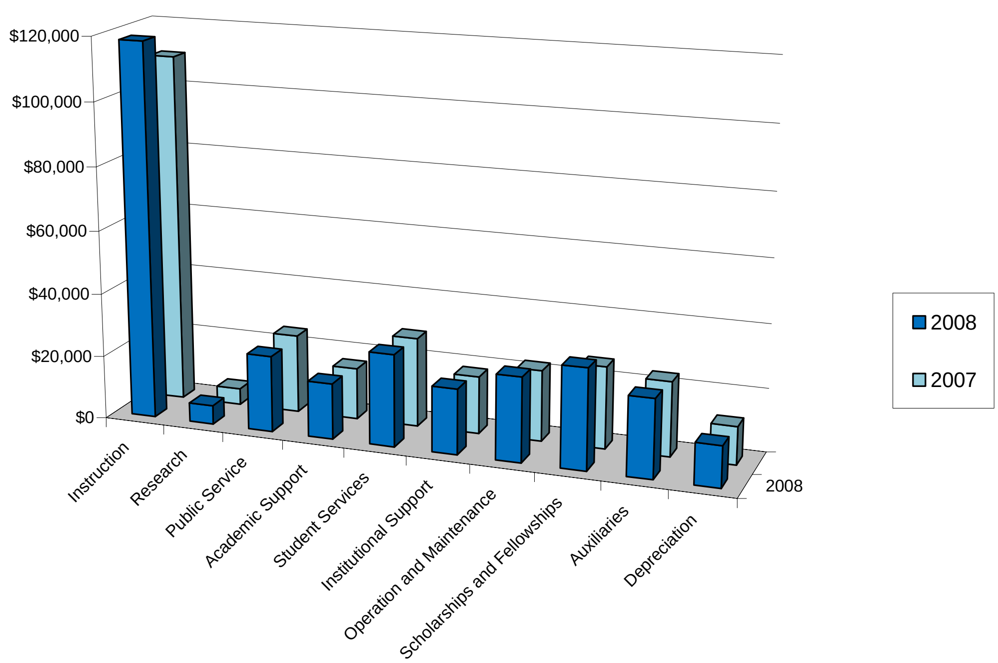
- Operating expenses for the component unit increase and decrease based on the amount of requests received from university departments to purchase items to support university functions.

- Payments to or on behalf of MTSU increased in 2008 as a result of the transfer of funds to the university for the Baseball Stadium Upgrade Project. Contributions were made to the foundation with a designation the funds be used for the baseball stadium project.

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

	2008	2007
Instruction	$ 118,337	$ 110,168
Research	5,950	5,063
Public Service	24,062	24,715
Academic Support	17,588	16,210
Student Services	29,016	28,116
Institutional Support	20,614	18,134
Operation and Maintenance	26,639	22,315
Scholarships and Fellowships	31,673	25,809
Auxiliaries	24,731	23,483
Depreciation	12,925	11,957
TOTAL	$ 311,535	$ 285,970

Expenses by Program Classification (University)



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

- The Instruction function increased between fiscal years due to pay raises, MTSU bonuses, equity adjustments, faculty promotions, new faculty positions, and increases in employee benefits (including the recognition of other postemployment benefits).

- Institutional Support increased from 2007 to 2008 due to pay raises, MTSU bonuses, equity adjustments, and increases in employee benefits (including the recognition of other postemployment benefits). Two new departments, Business and Finance Technology Support Services and Community Engagement, were created during the fiscal year. In addition, two legal settlements were reached during the year and expenses recognized in the accompanying statements.

- The increase in the Operation and Maintenance function in 2007-08 is due to increased noncapital expenses incurred on campus projects. These projects relate to funding provided for deferred maintenance on campus facilities and infrastructure. The university is involved in several reroofing projects and safety code renovations of existing buildings that are expensed in the year the costs are incurred.

- The increase in the Scholarships and Fellowships function between fiscal years resulted from increased funding from the Tennessee Education Lottery Scholarship program, federal scholarship award programs, and Tennessee Student Assistance Corporation.

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)

	2008	2007
Cash provided (used) by		
Operating activities	$ (136,480)	$ (124,643)
Noncapital financing activities	153,083	139,575
Capital and related financing activities	(17,950)	(18,142)
Investing activities	4,302	5,077
Net increase (decrease) in cash	**$ 2,955**	**$ 1,867**
Cash, beginning of year	**68,854**	**66,987**
Cash, end of year	**$ 71,809**	**$ 68,854**

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 awarded to 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, an increase in the award amount of the DCS grant to the university, and increased funding from the TELS program for student scholarships.

- Cash used by capital and related financing activities experienced a small increase from 2007 to 2008 as the result of a significant increase in capital purchases by the university, with most of this increase offset by increases in capital debt proceeds, capital state appropriations, and capital grants and gifts received.

- The university's cash position increased by $3.0 million for 2007-08 and $1.9 million for 2006-07.

Component Unit
Cash Flows
(in thousands of dollars)

	2008	2007
Cash provided (used) by		
Operating activities	$ (2,529)	$ 1,042
Noncapital financing activities	1,539	511
Capital and related financing activities	(165)	(106)
Investing activities	(1,134)	1,059
Net increase (decrease) in cash	**$ (2,289)**	**$ 2,506**
Cash, beginning of year	**10,809**	**8,303**
Cash, end of year	**$ 8,520**	**$ 10,809**

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

- The increase in cash used by operating activities between fiscal years was largely due to increased payments to and on behalf of MTSU for the baseball stadium upgrade project, as well as decreased non-endowment cash contributions received from contributors as compared to the previous year. Major uses of cash were for payments to suppliers and vendors, payments for scholarships and fellowships, and payments to the university.

- The increase in cash provided by noncapital financing activities between fiscal years was primarily due to increased endowment cash and pledge gifts received.

- The increase in cash used by capital and related financing activities from 2007 to 2008 resulted from a decrease in capital grants and gifts received.

- The decrease in cash provided by investing activities from 2007 to 2008 was primarily due to increased investment purchases during the current fiscal year.

- The component unit's cash position decreased by $2.2 million for 2007-08 and increased by $2.5 million for 2006-07.

Capital Asset and Debt Administration

Capital Assets - University

Middle Tennessee State University had $265,832,984 invested in capital assets, net of accumulated depreciation of $155,352,828 at June 30, 2008; and $229,106,211 invested in capital assets, net of accumulated depreciation of $146,667,073 at June 30, 2007. Depreciation charges totaled $12,924,579 and $11,956,958 for the years ended June 30, 2008, and June 30, 2007, respectively. Details of these assets are shown below.

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

	2008	2007
Land	$ 10,521	$ 10,169
Land improvements and infrastructure	15,237	12,760
Buildings	138,269	141,942
Equipment	15,606	15,325
Library holdings	9,940	10,149
Software	3,012	2,948
Projects in progress	73,248	35,813
Total	$ 265,833	$ 229,106

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

- Land improvements and infrastructure increased from 2007 to 2008 due to the completion of the track and field complex improvements.

- Buildings decreased from 2007 to 2008 as a result of recording annual depreciation, in conjunction with most new major building projects still under construction or renovation. Accumulated costs for these buildings are shown in the Projects in Progress category.

- Projects in Progress increased from 2007 to 2008 mainly as the result of capital expenses incurred for the student health, wellness, and recreation facility upgrade; university housing renovations; phase I of the parking and transportation project; upgrades to baseball stadium; and planning for the new science building. Projects completed during the 2007-08 fiscal year and moved to a specific capital asset category included the track and field complex improvements, as well as other various buildings, software, and improvements and infrastructure projects.

- 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 2008-09 for the following projects: continued renovation to the university's housing facilities, including Cummings Hall that will be funded from the issuance of TSSBA bonds; design and bidding for a new student union facility funded by the issuance of TSSBA bonds; and project design for new academic facilities for the College of Education and Behavioral Science funded from the state. The request for construction funding for the new science building remains a top capital priority for the university. Planning and design funding of the science building was appropriated in 2007-08, and the construction documents are now complete.

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 $19,732,545 invested in capital assets, net of accumulated depreciation of $3,319,448 at June 30, 2008; and $20,173,599 invested in capital assets, net of accumulated depreciation of $2,721,080 at June 30, 2007. Depreciation charges totaled $603,068 and $524,281 for the years ended June 30, 2008, and June 30, 2007, respectively. Details of these assets are shown below.

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

	2008	2007
Land	$ 2,277	$ 2,229
Land improvements and infrastructure	635	674
Buildings	16,821	17,271
Equipment	-	-
Projects in progress	-	-
Total	$ 19,733	$ 20,174

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

- Land increased between fiscal years due to the purchase of two residential properties on behalf of MTSU during the year.

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

Debt

The university had $144,055,279 and $124,295,374 in debt outstanding at June 30, 2008, and June 30, 2007, respectively. The table below summarizes these amounts by type of debt instrument (in thousands of dollars).

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

	2008	2007
TSSBA bonds	$ 85,064	$ 88,969
TSSBA commercial paper	58,991	35,326
Total Debt	$ 144,055	$ 124,295

TSSBA issued commercial paper for the university on the following major projects during the 2007-08 fiscal year: renovations of university housing facilities; phase 1 of a parking and transportation project; upgrade to the baseball stadium; a Student Health, Wellness, and Recreation Facility upgrade; and planning for a new Student Union facility.

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

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

Economic Factors That Will Affect the Future

Funding provided by the state for the 2008-09 fiscal year will decrease by approximately $6.1 million over current-year appropriations. Budget cuts have been implemented for the 2008-09 fiscal year to allow the university to protect its core mission of educating students. The impact of such a large reduction of funding will be felt campus-wide. Some services offered in the past will be slowed, and in some cases, may not be available at all in order for the university to properly manage its resources.

Due to the state budget cuts, there were no salary increases provided by the state for the 2008-09 fiscal year. The university will not be permitted to give any increases independently as it has in the past.

Only capital maintenance funding for renovations at the Homer J. Pittard Campus School was appropriated for 2008-09. Therefore, the university will not receive the anticipated $115 million for the new science building at this time. Some funding had previously been made available for capital maintenance projects, and these will continue as planned. Other capital maintenance projects for the university are still pending due to lack of funding.

The Tennessee Board of Regents approved at its June board meeting a 6% fee increase for 2008-09. The additional tuition and fee revenue will be used to offset increased costs directly associated with offering courses to students and university fixed costs. Some funds have been set aside in case of additional state-funding reductions or impoundments.

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 211, Murfreesboro, TN 37132.

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENTS OF NET ASSETS
JUNE 30, 2008

	Middle Tennessee State University	Component Unit Middle Tennessee State University Foundation
	June 30, 2008	June 30, 2008
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 17)	$ 30,925,485.89	$ 1,521,826.77
Accounts, notes, and grants receivable (net) (Note 4)	26,703,122.61	-
Pledges receivable (net) (Note 17)	-	576,575.82
Inventories	2,533,744.45	-
Prepaid expenses and deferred charges	741,233.40	2,000.00
Accrued interest receivable	13,913.18	38,471.22
Total current assets	60,917,499.53	2,138,873.81
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 17)	40,883,689.62	6,998,431.79
Investments (Notes 3 and 17)	751,077.70	35,709,435.95
Accounts, notes, and grants receivable (net) (Note 4)	3,072,417.36	1,289.31
Pledges receivable (net) (Note 17)	-	1,293,028.30
Capital assets (net) (Notes 5 and 17)	265,832,984.35	19,732,545.27
Total noncurrent assets	310,540,169.03	63,734,730.62
Total assets	371,457,668.56	65,873,604.43
LIABILITIES		
Current liabilities:		
Accounts payable	8,850,190.49	682,167.45
Accrued liabilities	16,178,329.90	-
Student deposits	1,096,553.32	-
Deferred revenue	6,007,400.36	-
Compensated absences (Note 6)	1,565,847.24	-
Accrued interest payable	763,254.02	-
Long-term liabilities, current portion (Note 6)	4,143,259.97	-
Deposits held in custody for others	824,477.56	-
Other liabilities	335,901.11	-
Total current liabilities	39,765,213.97	682,167.45
Noncurrent liabilities:		
Net OPEB obligation (Notes 6 and 10)	3,040,105.45	-
Compensated absences (Note 6)	4,656,890.16	-
Long-term liabilities (Note 6)	139,912,018.60	-
Due to grantors (Note 6)	2,837,368.05	-
Total noncurrent liabilities	150,446,382.26	-
Total liabilities	190,211,596.23	682,167.45
NET ASSETS		
Invested in capital assets, net of related debt	129,342,241.94	19,732,545.27
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	10,900.00	30,651,762.10
Research	-	927,628.35
Instructional department uses	-	1,688,569.93
Other	781,305.15	-
Expendable:		
Scholarships and fellowships	286,130.17	2,554,136.73
Research	103,954.04	3,431.49
Instructional department uses	122,282.53	5,814,494.83
Loans	1,834,476.93	-
Capital projects	792,814.96	927,615.72
Debt service	5,368,601.11	-
Other	2,219,628.35	2,051,593.23
Unrestricted (Notes 7 and 8)	40,383,737.15	839,659.33
Total net assets	$ 181,246,072.33	$ 65,191,436.98

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

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008

	Middle Tennessee State University	Component Unit Middle Tennessee State University Foundation
	Year Ended June 30, 2008	Year Ended June 30, 2008
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $31,941,796.84)	$ 89,216,321.44	$ -
Gifts and contributions	-	4,508,822.27
Governmental grants and contracts	29,833,587.94	-
Non-governmental grants and contracts	1,086,754.63	38,847.93
Sales and services of educational departments	9,734,912.98	-
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $2,873,353.58: all residential life revenues are used as security for revenue bonds, see Note 6)	8,018,972.65	-
Bookstore (net of scholarship allowances of $2,587,921.11: all bookstore revenues are used as security for revenue bonds, see Note 6)	7,226,250.23	-
Food service	1,032,562.18	-
Wellness facility (net of scholarship allowances of $654,591.81: all wellness facility revenues are used as security for revenue bonds, see Note 6)	1,834,536.88	-
Other auxiliaries	9,488,550.41	-
Interest earned on loans to students	69,350.37	-
Other operating revenues	1,001,992.39	-
Total operating revenues	158,543,792.10	4,547,670.20
EXPENSES		
Operating Expenses (Note 14):		
Salaries and wages	138,799,866.77	-
Benefits	47,163,026.82	-
Utilities, supplies, and other services	80,973,560.34	2,935,721.56
Scholarships and fellowships	31,673,513.06	1,408,346.53
Depreciation expense	12,924,578.95	603,067.62
Payments to or on behalf of MTSU (Note 17)	-	3,192,617.37
Total operating expenses	311,534,545.94	8,139,753.08
Operating loss	(152,990,753.84)	(3,592,082.88)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	101,759,700.00	-
Gifts, including $1,254,167.32 from component unit	1,257,231.40	-
Grants and contracts	50,379,975.07	-
Investment income (net of investment expense of $9,349.72 for the university and $102,365.68 for the component unit)	4,276,460.39	483,467.27
Interest on capital asset-related debt	(5,437,865.81)	-
Other non-operating revenues/(expenses)	(77,321.24)	(2,101.52)
Net nonoperating revenues (expenses)	152,158,179.81	481,365.75
Loss before other revenues, expenses gains, or losses	(832,574.03)	(3,110,717.13)
Capital appropriations	14,136,039.07	-
Capital grants and gifts, including $1,938,450.05 from component unit	4,041,988.00	29,583.95
Additions to permanent endowments	-	1,537,697.62
Other capital	(611,116.73)	-
Total other revenues	17,566,910.34	1,567,281.57
Increase (decrease) in net assets	16,734,336.31	(1,543,435.56)
NET ASSETS		
Net Assets - beginning of year	164,511,736.02	66,734,872.54
Net Assets - end of year	$ 181,246,072.33	$ 65,191,436.98

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

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008

		Year Ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$	88,948,803.93
Grants and contracts		29,044,618.97
Sales and services of educational activities		9,949,010.23
Payments to suppliers and vendors		(79,870,932.81)
Payments to employees		(138,407,069.92)
Payments for benefits		(42,834,104.39)
Payments for scholarships and fellowships		(31,673,513.06)
Loans issued to students and employees		(121,324.28)
Collection of loans from students and employees		201,545.95
Interest earned on loans to students		78,811.29
Auxiliary enterprise charges:		
Residence halls		8,029,658.23
Bookstore		7,214,992.80
Food services		1,014,675.73
Wellness facility		1,833,645.53
Other auxiliaries		9,505,564.24
Other receipts (payments)		605,777.84
Net cash used by operating activities		(136,479,839.72)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations		101,744,200.00
Gifts and grants received for other than capital or endowment purposes, including $1,254,167.32 from component unit		51,689,142.18
Federal student loan receipts		83,983,143.54
Federal student loan disbursements		(84,420,544.61)
Changes in deposits held for others		87,622.28
Net cash provided by non-capital financing activities		153,083,563.39
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt		23,665,648.55
Capital - state appropriation		12,920,489.07
Capital grants and gifts received, including $1,933,221.39 from component unit		4,036,759.34
Purchase of capital assets and construction		(49,041,690.05)
Principal paid on capital debt and lease		(3,905,743.75)
Interest paid on capital debt and lease		(5,548,498.99)
Other capital and related financing receipts (payments)		(77,321.24)
Net cash used by capital and related financing activities		(17,950,357.07)

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008

CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		38,258.20
Income on investments		4,334,761.67
Purchase of investments		(71,000.00)
Net cash provided by investing activities		4,302,019.87
Net increase in cash and cash equivalents		2,955,386.47
Cash and cash equivalents - beginning of year		68,853,789.04
Cash and cash equivalents - end of year	$	71,809,175.51
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(152,990,753.84)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense		12,924,578.95
Change in assets and liabilities:		
Receivables, net		(948,529.27)
Inventories		(244,446.83)
Prepaid/deferred items		7,398.34
Other assets		9,460.92
Accounts payable		92,833.34
Accrued liabilities		4,256,130.89
Deferred revenues		295,992.74
Deposits		(31,289.35)
Compensated absences		336,285.62
Due to grantors		19,390.48
Loans to students and employees		(13,641.90)
Other		(193,249.81)
Net cash used by operating activities	$	(136,479,839.72)
Non-cash transactions		
Gifts in-kind - capital	$	5,228.66
Unrealized losses on investments	$	(55,951.23)

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

Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements
June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The university is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. The financial statements present only that portion of the Tennessee Board of Regents' activities that is attributable to the transactions of Middle Tennessee State University.

The Middle Tennessee State University Foundation is considered a component unit of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements. See Note 17 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 weighted average basis. All other items are maintained on an average cost or first-in, first-out basis.

Compensated Absences

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

Capital Assets

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

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

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

Net Assets

The university's net assets are classified as follows:

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

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

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

Unrestricted net assets - Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the university, and may be used at the discretion of the university to meet current expenses for any purpose. The 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, 2008, cash and cash equivalents consisted of $8,050,899.71 in bank accounts, $116,255.35 of petty cash on hand; $58,831,416.66 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, $4,780,376.34 in LGIP deposits for capital projects, and $30,227.45 in a money market account.

LGIP deposits for capital projects - Payments related to the university's capital projects are made by the State of Tennessee's Department of Finance and Administration. The university's estimated local share of the cost of each project is held in a separate Local Government Investment Pool account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the university for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

NOTE 3. INVESTMENTS

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

At June 30, 2008, 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	$468,624.29	$ -	$ -	$ -	$ -	$468,624.29
Mutual equity funds	282,453.41	-	-	-	-	282,453.41
Total	$751,077.70	$ -	$ -	$ -	$ -	$751,077.70

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. The university does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; banker's acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool (LGIP). The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. The university has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations.

At June 30, 2008, the university's investments were rated as follows:

Investment Type	Fair Value	Unrated
LGIP	$63,611,793.00	$63,611,793.00
Mutual funds	468,624.29	$468,624.29
Total	$64,080,417.29	$64,080,417.29

Custodial credit risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the university will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The university does not have a policy for custodial credit risk. At June 30, 2008, the university had $751,077.70 of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the university's name.

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

	Carrying Value June 30, 2008
Mutual bond funds	$468,624.29
Mutual equity funds	282,453.41
Total	$751,077.70

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2008
Student accounts receivable	$ 4,843,412.75
Grants receivable	19,961,584.81

Notes receivable	409,714.19
State appropriation receivable	413,700.00
Other receivables	3,303,611.05
Subtotal	28,932,022.80
Less allowance for doubtful accounts	(2,228,900.19)
Total receivables	$26,703,122.61

Federal Perkins Loan Program funds included the following:

	June 30, 2008
Perkins loans receivable	$3,702,912.15
Less allowance for doubtful accounts	(630,494.79)
Total	$3,072,417.36

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$10,168,582.86	$ 352,190.00	$ -	$ -	$10,520,772.86
Land improvements and infrastructure	30,178,177.15	-	4,663,590.91	830,300.00	34,011,468.06
Buildings	235,359,812.17	958,385.00	944,380.74	-	237,262,577.91
Equipment	41,758,437.01	3,538,988.30	-	2,565,246.17	42,732,179.14
Library holdings	18,990,137.96	1,877,676.94	-	1,454,394.95	19,413,419.95
Software	3,505,024.84	-	492,384.53	-	3,997,409.37
Projects in progress	35,813,112.36	43,535,228.47	(6,100,356.18)	-	73,247,984.65
Total	375,773,284.35	50,262,468.71	-	4,849,941.12	421,185,811.94

Less accum. depreciation:					
Land improvements and infrastructure	17,417,817.51	1,688,596.37	-	332,120.00	18,774,293.88
Buildings	93,417,950.93	5,575,973.36	-	-	98,993,924.29
Equipment	26,433,282.39	3,145,163.55	-	2,452,309.44	27,126,136.50
Library holdings	8,840,767.88	2,086,781.49	-	1,454,394.95	9,473,154.42
Software	557,254.32	428,064.18	-	-	985,318.50
Total accum. depreciation	146,667,073.03	12,924,578.95	-	4,238,824.39	155,352,827.59
Capital assets, net	$229,106,211.32	$37,337,889.76	$ -	$611,116.73	$265,832,984.35

NOTE 6. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$ 88,968,799.99	$ 1,067.00	$3,905,743.75	$85,064,123.24	$4,143,259.97
Commercial paper	35,326,573.78	23,664,581.55	-	58,991,155.33	-
Subtotal	124,295,373.77	23,665,648.55	3,905,743.75	144,055,278.57	4,143,259.97
Other liabilities:					
Compensated absences	5,886,451.78	3,051,790.37	2,715,504.75	6,222,737.40	1,565,847.24
Due to grantors	2,817,977.57	1,026,013.30	1,006,622.82	2,837,368.05	-
Net OPEB obligation	-	3,040,010.45	-	3,040,010.45	-
Subtotal	8,704,429.35	7,117,814.12	3,722,127.57	12,100,115.90	1,565,847.24
Total long-term liabilities	$132,999,803.12	$30,783,462.67	$7,627,871.32	$156,155,394.47	$5,709,107.21

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 June 30, 2008. Unexpended debt proceeds were $151,107.01 at June 30, 2008.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2008, are as follows:

Year Ending June 30	Principal	Interest	Total
2009	$ 4,143,259.97	$ 3,867,314.40	$ 8,010,574.37
2010	4,292,390.43	3,711,743.39	8,004,133.82
2011	4,025,269.72	3,540,830.41	7,566,100.13
2012	4,192,396.67	3,382,878.83	7,575,275.50
2013	4,203,700.92	3,217,364.92	7,421,065.84
2014 – 2018	22,802,297.98	13,176,272.85	35,978,570.83
2019 – 2023	21,416,391.29	7,909,440.94	29,325,832.23
2024 – 2028	18,477,155.93	2,860,515.09	21,337,671.02
2029-2033	1,511,260.33	116,710.43	1,627,970.76
	$85,064,123.24	$41,783,071.26	$126,847,194.50

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 $58,991,155.33 at June 30, 2008.

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 37243-1402, or by calling (615) 401-7872.

NOTE 7. ENDOWMENTS

If a donor has not provided specific instructions to the university, state law permits the university to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the university is required to consider the university's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation spent is required to be spent for the purposes for which the endowment was established.

The university chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the university, all interest earnings have been authorized for expenditure. At June 30, 2008, net appreciation of $6,341.64 is available to be spent, of which $6,341.64 is 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, 2008
Working capital	$2,302,857.37
Encumbrances	884,368.85
Designated fees	1,544,171.59
Auxiliaries	5,076,398.00
Quasi-endowment	155,100.00

Plant construction	7,892,429.49
Renewal and replacement of equipment	26,121,161.76
Debt retirement	375,479.10
Undesignated	(3,968,229.01)
Total	$40,383,737.15

NOTE 9. PENSION PLANS

A. Defined Benefit Plans

1. Tennessee Consolidated Retirement System

Plan Description - The university contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated,* establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report 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 13.62% 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, 2008, 2007, and 2006 were $6,649,192.21, $6,305,780.58, and $4,429,789.45. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The university contributes to three defined contribution plans: Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated.* State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans was $7,788,207.33 for the year ended June 30, 2008, and $7,180,256.50 for the year ended June 30, 2007. Contributions met the requirements for each year.

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible university retirees. This program includes two plans available to higher education employees – the State Employee Group Plan and the Medicare Supplement Plan. Both plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Title 8, Chapter 27, Part 201, *Tennessee Code Annotated*. Prior to reaching age 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the university's eligible retirees; see Note 16. The plans are reported in the

Tennessee Comprehensive Annual Financial Report. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

Funding Policy. The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. In accordance with TCA 8-27-205 (b), retirees not eligible for Medicare pay a percentage of the total state premium under the State Employee Group Plan based on years of service, leaving a portion of retiree premiums effectively subsidized by contributions to the State Employee Group Plan for active employees. Retirees with 30 years of service pay 20% of the total premium under the State Employee Group Plan. Retirees with 20 but less than 30 years of service pay 30% of the total premium under the State Employee Group Plan. Retirees 55 and older with less than 20 but more than 10 years of service pay 40% of the total premium under the State Employee Group Plan. Contributions for the State Employee Group Plan for the year ended June 30, 2008, were $20,247,420.24, which consisted of $16,766,708.48 from the university and $3,480,711.76 from the employees.

Annual OPEB Cost and Net OPEB Obligation

	State Employee Group Plan
Annual Required Contribution (ARC)	$4,866,000.00
Interest on the Net OPEB Obligation	-
Adjustment to the ARC	-
Annual OPEB Cost	4,866,000.00
Amount of Contribution	1,825,894.55
Increase in Net OPEB Obligation	3,040,105.45
Net OPEB Obligation – Beginning of Year	-
Net OPEB Obligation – End of Year	$3,040,105.45

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2008	State Employee Group Plan	$4,866,000.00	37.5%	$3,040,105.45

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2008, was as follows:

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

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2007, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7 percent initially, increased to 11 percent in the second year and then reduced by decrements to an ultimate rate of 5 percent after 12 years. Both rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

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 amount of settlements has not exceeded insurance coverage for each of the three past fiscal years. The Risk Management Fund is also responsible for claims for damages to state-owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from $25,000 per occurrence, depending on the type of coverage, to an aggregate of $5 million.

The university participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2008, and June 30, 2007, 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 Rosa L. Parks Avenue, Nashville, Tennessee 37243-1102, 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, 2008, the Risk Management Fund held $123.9 million in cash and cash equivalents designated for payment of claims.

At June 30, 2008, the scheduled coverage for the university was $663,784,700 for buildings and $259,383,340 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 $51,355,316.89 at June 30, 2008.

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 $354,210.84 and for personal property were $8,128.12 for the year ended June 30, 2008. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2008, outstanding commitments under construction contracts totaled $10,474,691.74 for all major projects including ADA improvements; parking improvements; student Health, Wellness, and Recreation Center improvements; underground electrical update; several buildings' safety code corrections; Murphy Center renovations; Peck Hall HVAC update; dorm renovations; the baseball stadium upgrade; science facilities improvements; academic space renovations; several building roof replacements; master plan update; dairy farm improvements; Cope Administration Building electrical upgrades; Jones Hall HVAC; Concrete Industry Management; the new Student Union and KUC; and the College of Education and Behavioral Science Building; of which $7,297,286.37 will be funded by future state capital outlay appropriations.

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

NOTE 13. CHAIRS OF EXCELLENCE

The university had $22,581,801.35 on deposit at June 30, 2008, 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, 2008, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$80,072,730.36	$24,510,203.53	$13,753,824.13	$ -	$ -	$118,336,758.02
Research	3,321,274.83	938,658.36	1,689,618.92	-	-	5,949,552.11
Public service	7,354,924.08	2,592,740.47	14,114,410.67	-	-	24,062,075.22
Academic support	12,988,438.41	4,884,794.38	(285,465.62)	-	-	17,587,767.17
Student services	12,682,686.20	4,767,249.40	11,566,051.26	-	-	29,015,986.86
Institutional support	11,089,480.60	4,670,012.62	4,854,286.06	-	-	20,613,779.28
Operation & maintenance	5,125,742.62	2,382,560.95	19,130,917.72	-	-	26,639,221.29
Scholar. & fellow.	-	-	-	31,673,513.06	-	31,673,513.06
Auxiliary	6,164,589.67	2,416,807.11	16,149,917.20	-	-	24,731,313.98
Depreciation	-	-	-	-	12,924,578.95	12,924,578.95
Total	$138,799,866.77	$47,163,026.82	$80,973,560.34	$31,673,513.06	$12,924,578.95	$311,534,545.94

NOTE 15. CHANGE IN ACCOUNTING PRINCIPLE

The university has implemented the Governmental Accounting Standards Board's Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This statement establishes standards for the measurement, recognition, and display of OPEB expense and related liabilities, note disclosures, and required supplementary information. The statement was implemented prospectively with a zero net OPEB obligation at transition.

NOTE 16. ON-BEHALF PAYMENTS

During the year ended June 30, 2008, the State of Tennessee made payments of $142,779.82 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

NOTE 17. COMPONENT UNIT

The Middle Tennessee State University Foundation is a legally separate, tax-exempt organization supporting Middle Tennessee State University. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the university in support of its programs. The 41-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, 2008, the foundation made distributions of $5,899,380.41 to or on behalf of the university for both restricted and unrestricted purposes, of which $2,706,763.04 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, TN 37132.

Cash and cash equivalents - Cash and cash equivalents consists of demand deposit accounts, a State of Tennessee Local Government Investment Pool account administered by the state treasurer, and money market funds. Uninsured bank balances at June 30, 2008 totaled $2,419,009.95.

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

Investments held at June 30, 2008, were as follows:

	Cost	Market Value
U.S. Treasury	$ 1,359,812.85	$ 1,522,233.35
Corporate stocks	2,872,339.90	2,595,739.50
Mutual equity funds	13,353,657.68	18,221,794.25
Mutual bond funds	6,476,686.03	6,412,809.91
Cash surrender value of life insurance	-	427,841.05
Annuities	48,530.78	53,239.89
Alternative Investments	5,457,000.00	6,475,778.00
Total investments	$29,568,027.24	$35,709,435.95

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

	June 30, 2008
Current pledges	$576,575.82
Pledges due in one to five years	1,273,392.41
Pledges due after five years	71,834.45
Subtotal	1,921,802.68
Less discount to net present value	(52,198.56)
Total pledges receivable, net	$1,869,604.12

Capital assets – Capital asset activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$2,228,921.97	$71,300.00	$23,550.68	$2,276,671.29
Land improvements	241,164.52	-	-	241,164.52
Improvements and Infrastructure	537,484.72	-	-	537,484.72
Buildings	19,887,108.02	203,564.29	94,000.00	19,996,672.31
Total	22,894,679.23	274,864.29	117,550.68	23,051,992.84
Less accum. depreciation:				
Land improvements	36,174.68	12,058.23	-	48,232.91
Improvements and infrastructure	68,648.15	26,874.24	-	95,522.39
Buildings	2,616,257.12	564,135.15	4,700.00	3,175,692.27
Total accum. depreciation	2,721,079.95	603,067.62	4,700.00	3,319,447.57
Capital assets, net	$20,173,599.28	$(328,203.33)	$112,850.68	$19,732,545.27

Subsequent Events – Further disruption in the credit markets and overall declines in economic conditions in markets in the United States of America and internationally have resulted in significant declines in the fair value of the foundation's investments subsequent to June 30, 2008. Based on information available from fund managers, the foundation estimates that the value of the investments as of October 31, 2008, has declined approximately $6.12 million compared to the value at June 30, 2008.

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
7/01/2007	State Employee Group Plan	$ 0.00	$42,876,000.00	$42,876,000.00	$0.00	$113,201,926.22	37.9%

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
SUPPLEMENTARY SCHEDULE OF CASH FLOWS - COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2008

		Year Ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$	3,435,513.32
Vendor Commissions		40,551.30
Payments for scholarships and fellowships		(1,386,888.80)
Payments to suppliers and vendors		(448,685.73)
Payments on behalf of MTSU		(982,065.25)
Payments to MTSU		(3,187,388.71)
Net cash used by operating activities		(2,528,963.87)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes		1,539,197.62
Net cash provided by non-capital financing activities		1,539,197.62
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts received		118,687.78
Purchase of capital assets and construction		(283,664.74)
Net cash used by capital and related financing activities		(164,976.96)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		4,840,396.40
Income on investments		2,862,635.29
Purchase of investments		(8,835,556.56)
Other investing receipts (payments)		(1,201.40)
Net cash used by investing activities		(1,133,726.27)
Net decrease in cash and cash equivalents		(2,288,469.48)
Cash and cash equivalents - beginning of year		10,808,728.04
Cash and cash equivalents - end of year	$	8,520,258.56
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(3,592,082.88)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense		603,067.62
Other adjustments		384,627.97
Change in assets and liabilities:		
Receivables, net		382,994.12
Accounts payable		(307,570.70)
Net cash used by operating activities	$	(2,528,963.87)
Non-cash transactions		
Gifts in-kind	$	443,331.04
Pledges	$	774,091.95
Unrealized losses on investments	$	(2,336,690.83)