AUDIT REPORT

Tennessee Board of Regents
Middle Tennessee State University

For the Year Ended
June 30, 2011

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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Director

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In-Charge Auditors

Angela Courtney
Benjamin Elliott
Hellens Tamimi, CPA, CFE
Tiffany Tanner, CFE
Staff Auditors

Gerry Boaz, CPA
Technical Manager

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-1402
(615) 401-7897

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

February 21, 2012

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
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, 2011. 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.

Arthur A. Hayes, Jr., CPA
Director

AAH/sp
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State of Tennessee

Audit Highlights

Comptroller of the Treasury Division of State Audit

Financial and Compliance Audit
Middle Tennessee State University
For the Year Ended June 30, 2011

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, 2011

TABLE OF CONTENTS

TABLE OF CONTENTS (CONT.)

Tennessee Board of Regents
Middle Tennessee State University
For the Year Ended June 30, 2011

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

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

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, 2010, through June 30, 2011, 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, 2011. Middle Tennessee State University is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

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

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

4. to recommend appropriate actions to correct any deficiencies.

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, 2011, 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 and Other Matters

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

Fairness of Financial Statement Presentation

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

STATE OF TENNESSEE
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DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

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

December 5, 2011

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
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, 2011, and have issued our report thereon dated December 5, 2011. 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

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

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the university's financial statements are free of material misstatement, we performed tests of its 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 noted certain matters that we reported to the management of Middle Tennessee State University 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/sp

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
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FAX (615) 532-2765

Independent Auditor's Report

December 5, 2011

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
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, 2011, 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, 2011, 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 Middle Tennessee State University, and its discretely presented component unit as of June 30, 2011, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 18, the financial statements of Middle Tennessee State University Foundation, a discretely presented component unit of Middle Tennessee State University, include investments valued at $11,074,051.00 (15 percent of net assets of the foundation), whose fair values have been estimated by management in the absence of readily determinable fair values. Management’s estimates are based on information provided by the fund managers or the general partners.

The management’s discussion and analysis on pages 11 through 26 and the schedule of funding progress on page 58 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.

December 5, 2011
Page Three

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 59 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated December 5, 2011, 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 considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/sp

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

This section of Middle Tennessee State University's annual financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2011, with comparative information presented for the fiscal year ended June 30, 2010. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited basic financial statements, and the accompanying notes. The basic 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. 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)

	2011	2010
Assets		
Current assets	$ 92,766	$ 66,568
Capital assets, net	360,963	312,113
Other assets	93,072	87,881
Total Assets	**546,801**	**466,562**
Liabilities		
Current liabilities	47,483	45,301
Noncurrent liabilities	203,768	179,419
Total Liabilities	**251,251**	**224,720**
Net Assets		
Invested in capital assets, net of related debt	172,779	148,272
Restricted - nonexpendable	815	739
Restricted - expendable	5,240	5,289
Unrestricted	116,716	87,542
Total Net Assets	**$ 295,550**	**$ 241,842**

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

- Current assets increased because the university received stimulus funds and one-time non-recurring operating appropriations over the past couple of fiscal years. This resulted in a corresponding increase in unrestricted net assets and helped the administration plan for reduced funding in future years.

- The increase in net capital assets, along with the corresponding increase in invested in capital assets (net of related debt), between fiscal years is a result of additions to the university's capitalized assets. This increase was mainly to the projects in progress category and related to the following projects: new student union building, college of education building, university housing renovations, dairy farm improvements, phase I of the parking and transportation project, an energy management system, an interoperable digital radio system, and additional campus lighting. More detailed information about the university's capital assets is presented in the Capital Assets and Debt Administration section of this discussion and analysis.

- Noncurrent liabilities increased due to the issuance of bonds and commercial paper by the Tennessee State School Bond Authority (TSSBA) on behalf of the university for various capital projects. More detailed information about the university's debt is presented in the Capital Assets and Debt Administration section of this discussion and analysis.

- The increase in unrestricted net assets resulted from the increase in current assets.

Component Unit
Net Assets
(in thousands of dollars)

	2011	2010
Assets		
Current assets	$ 1,253	$ 1,295
Capital assets, net	18,558	19,001
Other assets	54,591	44,444
Total Assets	**74,402**	**64,740**
Liabilities		
Current liabilities	474	314
Total Liabilities	**474**	**314**
Net Assets		
Invested in capital assets	18,558	19,001
Restricted - nonexpendable	29,818	28,757
Restricted - expendable	25,151	16,795
Unrestricted	401	(127)
Total Net Assets	**$ 73,928**	**$ 64,426**

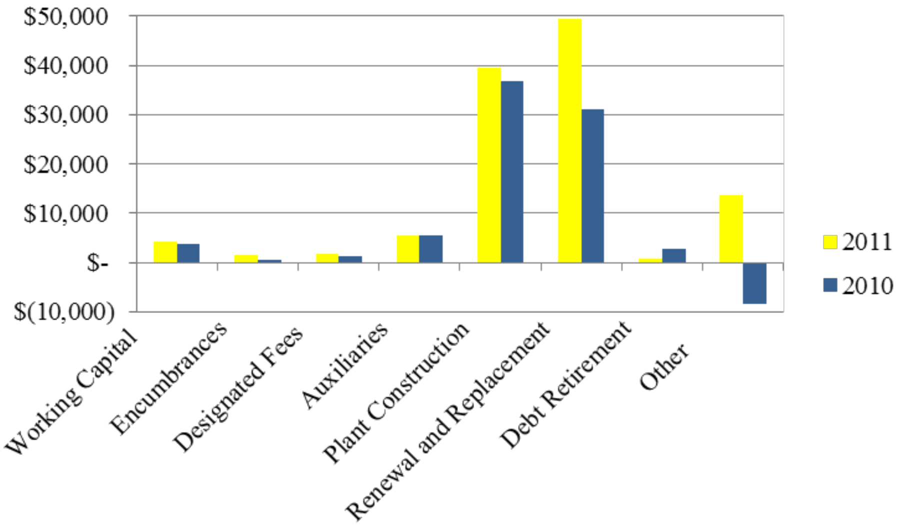
The component unit had the following significant changes between fiscal years on the Statement of Net Assets:

- Other assets increased primarily due to an increase in the fair market values of investments from a more favorable economic outlook and an increase in non-endowment gifts. This recent fundraising success is attributed to increases in enrollment and larger alumni bases, along with improvements in the nation's economy. As a result, restricted - expendable net assets also increased between fiscal years.

- Unrestricted net assets increased as a result of improvements in the nation's economy as well. As required by the Financial Accounting Standards Board, any endowment account where the fair market value is less than the historical dollar value of the investment must be reclassified from restricted - nonexpendable to unrestricted net assets. With the improved market conditions, fewer account balances were reclassified as underwater this fiscal year.

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

Allocations of Unrestricted Net Assets (University)



- ♦ The allocation for renewal and replacement increased as a result of the reclassification of four account balances from restricted expendable - debt service to unrestricted net assets. These balances resulted from the accumulation of debt service fees collected in prior and the current fiscal years over the amount needed to pay the current year's principal and interest payments. Since these funds will not be used to pay the annual debt service requirements on these projects and there are not outside restrictions on the use of these funds, they have been reclassified appropriately as unrestricted net assets.

- ♦ The remaining allocations remained relatively unchanged.

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

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

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

	2011	**2010**
Operating revenues		
Net tuition and fees	$ 110,695	$ 100,725
Auxiliaries	30,475	29,522
Grants and contracts	30,779	31,424
Other	14,685	13,420
Total operating revenues	**186,634**	**175,091**
Operating expenses	329,675	317,936
Operating loss	**(143,041)**	**(142,845)**
Nonoperating revenues and expenses		
State appropriations	100,986	83,893
Gifts	1,244	740
Grants and contracts	89,605	93,219
Investment income	1,095	1,151
Other nonoperating revenues and expenses	(8,449)	(6,973)
Total nonoperating revenues and expenses	**184,481**	**172,030**
Income before other revenues, expenses, gains, or losses	**41,440**	**29,185**
Other revenues, expenses, gains, or losses		
Capital appropriations	12,031	11,454
Capital grants and gifts	237	119
Total other revenues, expenses, gains, or losses	**12,268**	**11,573**
Increase in net assets	**53,708**	**40,758**
Net assets at beginning of year	241,842	201,084
Net assets at end of year	**$ 295,550**	**$ 241,842**

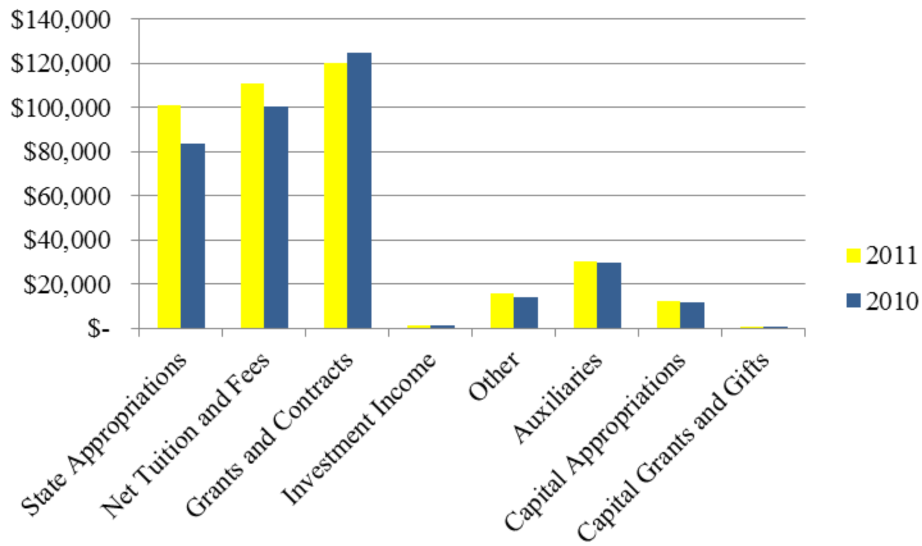
Component Unit
Changes in Net Assets
(in thousands of dollars)

	2011	2010
Operating revenues		
Gifts	$ 8,159	$ 5,774
Endowment income	1,256	584
Grants and contracts	17	18
Other	59	12
Total operating revenues	**9,491**	**6,388**
Operating expenses	4,879	4,100
Operating income	**4,612**	**2,288**
Nonoperating revenues and expenses		
Investment income	4,054	2,297
Other nonoperating revenues and expenses	(59)	(7)
Total nonoperating revenues and expenses	**3,995**	**2,290**
Income before other revenues, expenses gains, or losses	**8,607**	**4,578**
Other revenues, expenses, gains, or losses		
Capital grants and gifts	148	-
Additions to permanent endowments	747	1,350
Total other revenues, expenses, gains, or losses	**895**	**1,350**
Increase in net assets	**9,502**	**5,928**
Net assets at beginning of year	64,426	58,498
Net assets at end of year	**$ 73,928**	**$ 64,426**

Revenues

The following are graphic illustrations of revenues by source (both operating and nonoperating), which were used to fund the university's and its component unit's operating activities for the years ended June 30, 2011, and June 30, 2010 (amounts are presented in thousands of dollars).

Revenues by Source
(University)



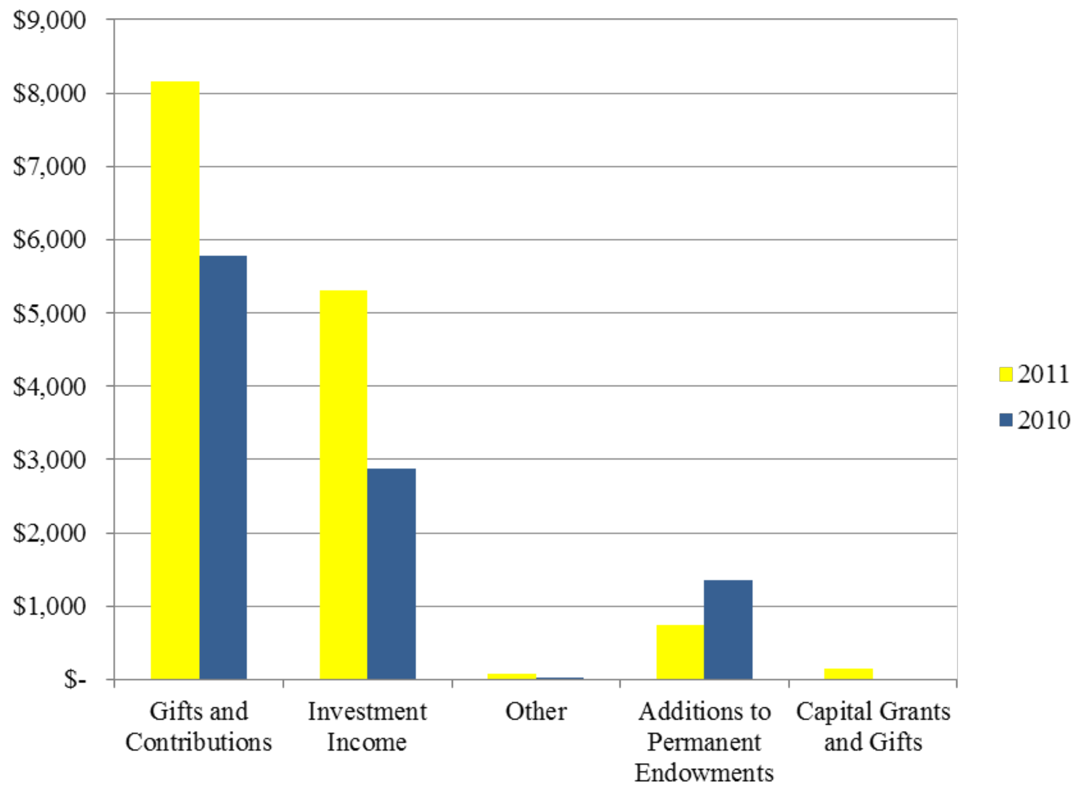
The university had the following significant changes in revenues between fiscal years:

- State appropriations increased as a result of one-time non-recurring funding provided by the State of Tennessee for the fiscal year. This funding was provided as a temporary measure while schools planned for permanent reductions in base budgets starting next year.

- Tuition and fees increased due to a 5% fee increase and a 4.2% increase in enrollment.

- Nonoperating grants and contracts decreased as a result of a decrease in stimulus funds used from $18.8 million in the prior year compared to $4.8 million in the current year and an increase in Pell and Lottery funding of more than $10 million over the prior year.

Revenues by Source
(Component Unit)



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

- Gifts increased during the fiscal year as a result of growth in fundraising. This recent fundraising success is attributed to increases in enrollment and larger alumni bases, along with improvements in the nation's economy.

- The increase in investment income resulted from a more favorable outlook in the financial market over the previous few years. Investment income is comprised of both realized and unrealized gains and losses, as well as interest earnings on invested funds.

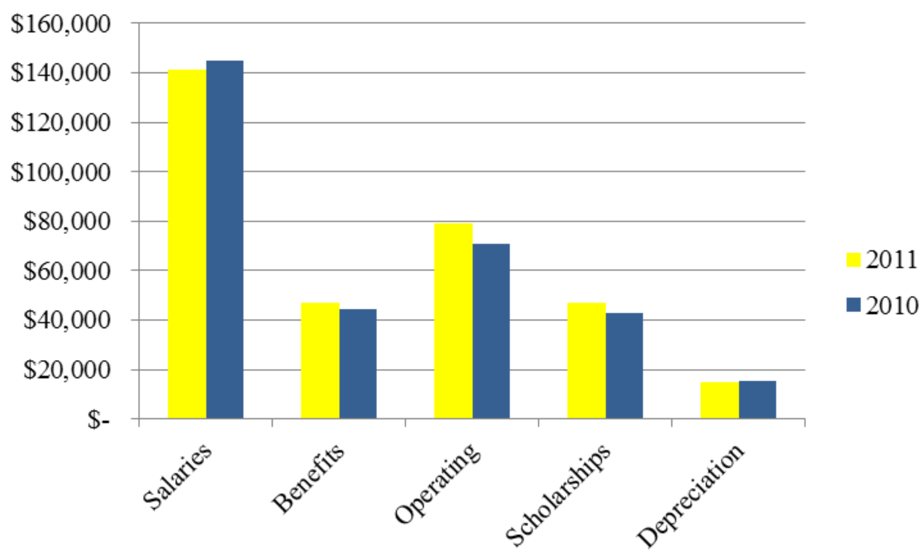
Expenses

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

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

	2011	2010
Salaries	$ 141,306	$ 144,947
Benefits	47,231	44,315
Operating	78,885	70,921
Scholarships	47,208	42,593
Depreciation	15,045	15,160
Total	$ 329,675	$ 317,936

Expenses by Natural Classification (University)



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

- Salaries decreased primarily due to the university's Voluntary Buyout Program offered to employees in the prior fiscal year. Employees who participated in the buyout had to depart the university by June 30, 2010. Many of these positions remain unfilled as part of the university's permanent budget cuts.

- Employee benefits increased as a result of the state not requiring payments into the state insurance pool during the months of December 2009 and January 2010. During the current fiscal year, payments were made into the state insurance pool for all twelve months.

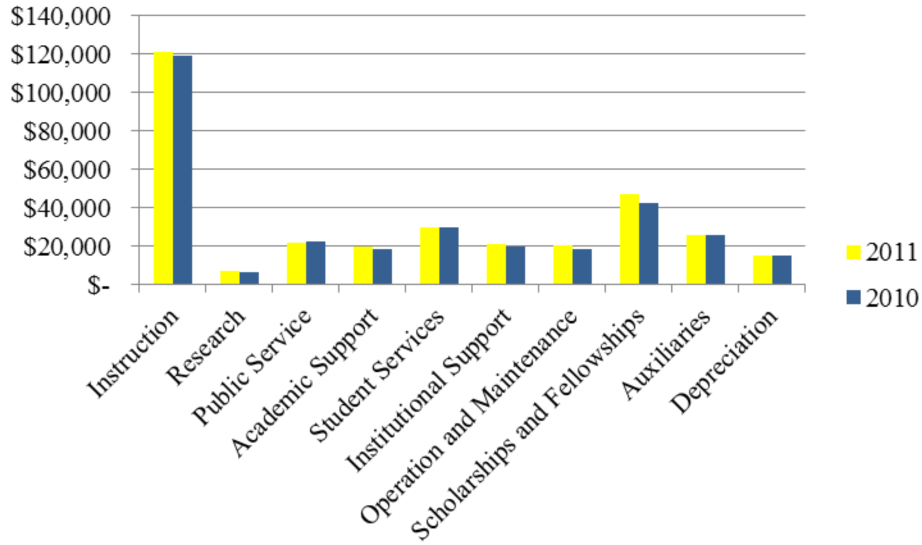
- Other operating expenses increased as a result of more maintenance-type capital project expenses during the fiscal year. Projects with these type of expenses were for roof replacements, desktop computer replacements, HVAC system updates, and various other non-capitalized activities. Many of these projects were funded with federal stimulus dollars received through the state.

- Scholarship expenses increased due to increased funding from the Tennessee Education Lottery Scholarship (TELS) program and federal scholarship award programs.

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

	2011	2010
Instruction	$ 121,151	$ 119,267
Research	6,984	6,291
Public service	21,637	22,397
Academic support	19,713	18,386
Student services	29,859	29,882
Institutional support	21,203	19,849
Operation and maintenance	20,766	18,553
Scholarships and fellowships	47,208	42,593
Auxiliaries	26,109	25,558
Depreciation	15,045	15,160
Total	$ 329,675	$ 317,936

Expenses by Program Classification (University)



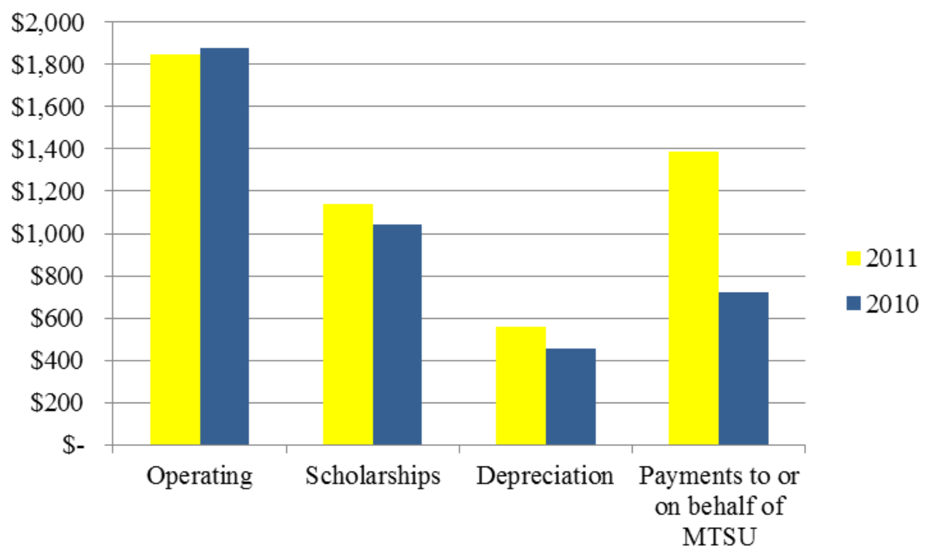
The university had the following significant changes in program expenses between fiscal years:

- Operation and maintenance of plant increased as a result of the explanation provided above for the increase in other operating expenses.
- Scholarship expenses increased due to increased funding from the TELS program and federal scholarship award programs.
- Expenses in other areas remained relatively unchanged.

Component Unit
Natural Classification
(in thousands of dollars)

	2011	2010
Operating	$ 1,799	$ 1,880
Scholarships	1,137	1,043
Depreciation	555	455
Payments to or on behalf of MTSU	1,388	722
Total	$ 4,879	$ 4,100

Expenses by Natural Classification (Component Unit)



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

- Payments to or on behalf of MTSU for the component unit fluctuate from year to year based on the amount of requests received from university departments to purchase items to support university functions. With permanent reductions in departmental base budgets based on anticipated future state funding, departments had to turn to the MTSU Foundation for additional support during the fiscal year.

- Expenses in other areas remained relatively unchanged.

Capital Assets and Debt Administration

Capital Assets - University

Middle Tennessee State University had $361.0 million invested in capital assets, net of accumulated depreciation of $188.8 million at June 30, 2011; and $312.1 million invested in capital assets, net of accumulated depreciation of $176.2 million at June 30, 2010. Depreciation charges totaled $15.0 million and $15.2 million for the years ended June 30, 2011, and June 30, 2010, respectively. Details of these assets are shown below.

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

	2011	2010
Land	$ 12,344	$ 11,609
Land improvements and infrastructure	17,123	18,866
Buildings	170,705	178,391
Equipment	18,854	14,739
Library holdings	8,448	8,832
Intangible assets	2,201	2,357
Projects in progress	131,288	77,319
Total	$ 360,963	$ 312,113

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

- Buildings decreased during the year due to recording depreciation on existing buildings. There were no buildings purchased or completed during the year; however, several buildings are nearing completion in the upcoming fiscal year.
- The university's Aerospace Department purchased a 360 degree wrap-around tower simulator and radar simulators for approximately $3 million causing the increase in the equipment category. This purchase allows the university to be one of only thirty-five schools in the nation to participate in the Federal Aviation Administration's Air Traffic - Collegiate Training Initiative (AT-CTI) program designed to prepare young men and women to attend an FAA training academy.

- Projects in progress increased for the year mainly as a result of activity on the following projects: new student union building, college of education building, university housing renovations, dairy farm improvements, phase I of the parking and transportation project, an energy management system, an interoperable digital radio system, and additional campus lighting.

The university expects to make major capital expenditures during the upcoming fiscal year for the following projects: continued renovation to the university's housing facilities, construction of a new student union facility, design and construction of a student services building, and construction of two parking garages. The above projects will be funded through the issuance of Tennessee State School Bond Authority (TSSBA) commercial paper. In addition, the following projects will be funded from capital appropriations: completion of new academic facilities for the College of Education and Behavioral Science and updates to the university's underground electrical systems. The request for construction funding for the new science building remains a top capital priority for the university. Planning and design funding of the science building was appropriated in 2007-08, and the construction documents are now complete. Commencement of construction will require future capital appropriations from the state.

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

Capital Assets - Component Unit

The component unit had $18.6 million invested in capital assets, net of accumulated depreciation of $4.9 million at June 30, 2011; and $19.0 million invested in capital assets, net of accumulated depreciation of $4.4 million at June 30, 2010. Depreciation charges totaled $.6 million and $.5 million for the years ended June 30, 2011, and June 30, 2010, respectively. Details of these assets are shown below.

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

	2011	2010
Land	$ 2,341	$ 2,302
Land improvements and infrastructure	724	775
Buildings	15,488	15,918
Equipment	5	6
Total	$ 18,558	$ 19,001

Categories presented on the Schedule of Capital Assets for the component unit remained relatively unchanged between fiscal years.

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

Debt

The university had $192.6 million and $170.5 million in debt outstanding at June 30, 2011, and June 30, 2010, 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)

	2011	2010
TSSBA bonds	$ 147,158	$ 132,839
TSSBA commercial paper	45,392	35,167
General obligation commercial paper	-	2,543
Total debt	$ 192,550	$ 170,549

TSSBA converted commercial paper to bonds during the fiscal year for the renovations to the Corlew and Cummings housing facilities project. Additional commercial paper was issued on behalf of the university for the following major projects: renovations of various university housing facilities, construction of a new Student Union facility, purchase of an air traffic control simulator, and design on new university parking garages.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2011, were as follows: Fitch rating of AA, Moody's rating of Aa2, and Standard & Poor's rating of AA.

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

Economic Factors that Will Affect the Future

The university's appropriation for 2011-12 will decrease over $26 million from appropriations received in 2010-11. This is a result of receiving non-recurring operating appropriations in the amount of $17.6 million, along with $5.5 million under the Maintenance of Effort state funded program, in the 2010-11 fiscal year.

The State of Tennessee will participate in the American Recovery and Reinvestment Act of 2009 by receiving State Fiscal Stabilization Funds through September 2011. The university is expected to receive $1.8 million under this federal program for previously committed capital projects.

The Tennessee Board of Regents approved a 9.8% tuition increase for the university at its June 2011 meeting. New revenue generated from this increase will first be used to cover fixed cost increases such as utilities, scholarship increases, faculty promotions, and increased fringe benefits costs. Additional revenue will then be used for new initiatives that have been designed to position the university for the future.

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

Requests for Information

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

Exhibit A

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENTS OF NET ASSETS
JUNE 30, 2011

	Middle Tennessee State University	Component Unit Middle Tennessee State University Foundation
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 18)	$ 66,031,295.73	$ 768,102.24
Accounts, notes, and grants receivable (net) (Note 4)	19,473,748.80	-
Due from primary government	2,545,751.14	-
Pledges receivable (net) (Note 18)	-	435,566.82
Inventories	2,467,958.53	-
Prepaid expenses and deferred charges	2,225,201.47	28,501.99
Accrued interest receivable	22,252.70	20,501.38
Total current assets	92,766,208.37	1,252,672.43
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 18)	89,532,828.41	16,375,068.74
Investments (Notes 3 and 18)	769,618.20	37,343,638.22
Accounts, notes, and grants receivable (net) (Note 4)	2,769,581.62	-
Pledges receivable (net) (Note 18)	-	872,968.07
Capital assets (net) (Notes 5 and 18)	360,962,722.73	18,558,101.54
Total noncurrent assets	454,034,750.96	73,149,776.57
Total assets	546,800,959.33	74,402,449.00
LIABILITIES		
Current liabilities:		
Accounts payable (Note 6)	8,530,665.06	473,917.29
Accrued liabilities	15,780,883.84	-
Student deposits	783,692.46	-
Deferred revenue	10,814,795.68	-
Compensated absences (Note 7)	1,751,609.78	-
Accrued interest payable	1,232,069.31	-
Long-term liabilities, current portion (Note 7)	7,757,661.14	-
Deposits held in custody for others	832,077.55	-
Total current liabilities	47,483,454.82	473,917.29
Noncurrent liabilities:		
Net OPEB obligation (Notes 7 and 12)	10,022,577.66	-
Compensated absences (Note 7)	4,516,556.39	-
Long-term liabilities (Note 7)	186,673,803.07	-
Due to grantors (Note 7)	2,554,812.66	-
Total noncurrent liabilities	203,767,749.78	-
Total liabilities	251,251,204.60	473,917.29
NET ASSETS		
Invested in capital assets, net of related debt	172,778,968.23	18,558,101.54
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	10,900.00	26,230,254.87
Research	-	949,078.35
Instructional department uses	-	2,613,563.45
Other	804,166.32	25,245.99
Expendable:		
Scholarships and fellowships (Note 8)	67,022.61	11,130,372.71
Research	558,516.16	113,834.35
Instructional department uses	149,041.39	6,022,591.28
Loans (Note 8)	1,878,532.62	-
Capital projects	-	3,703,621.67
Debt service	214,700.39	-
Other	2,371,920.73	4,180,992.14
Unrestricted (Note 9)	116,715,986.28	400,875.36
Total net assets	$ 295,549,754.73	$ 73,928,531.71

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

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

	Middle Tennessee State University	Component Unit Middle Tennessee State University Foundation
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $52,991,037.99)	$ 110,694,573.41	$ -
Gifts and contributions	-	8,159,346.08
Endowment income	-	1,256,302.45
Governmental grants and contracts	30,131,992.42	-
Nongovernmental grants and contracts	647,287.80	16,872.00
Sales and services of educational departments	13,645,531.78	-
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $4,376,478.26; all residential life revenues are used as security for revenue bonds; see Note 7)	9,146,229.98	-
Bookstore (net of scholarship allowances of $3,122,543.47; all bookstore revenues are used as security for revenue bonds; see Note 7)	6,519,708.09	-
Food service	1,196,751.67	-
Wellness facility (net of scholarship allowances of $977,331.52; all wellness facility revenues are used as security for revenue bonds; see Note 7)	2,045,474.43	-
Other auxiliaries	11,567,166.88	-
Interest earned on loans to students	98,377.03	-
Other operating revenues	940,971.25	58,975.33
Total operating revenues	186,634,064.74	9,491,495.86
EXPENSES		
Operating expenses (Note 16):		
Salaries and wages	141,305,907.89	-
Benefits	47,230,391.20	-
Utilities, supplies, and other services	78,884,800.33	1,798,974.33
Scholarships and fellowships	47,208,327.71	1,136,654.65
Depreciation expense	15,045,113.82	555,474.44
Payments to or on behalf of MTSU (Note 18)	-	1,388,047.59
Total operating expenses	329,674,540.95	4,879,151.01
Operating income (loss)	(143,040,476.21)	4,612,344.85
NONOPERATING REVENUES (EXPENSES)		
State appropriations	100,986,209.00	-
Gifts, including $1,191,108.59 from component unit	1,244,280.59	-
Grants and contracts	89,604,472.95	-
Investment income (net of investment expense of $9,594.84 for the university and $114,931.96 for the component unit)	1,095,315.46	4,053,785.93
Interest on capital asset-related debt	(7,215,772.86)	-
Bond issuance costs	(230,769.10)	-
Other nonoperating revenues (expenses)	(1,003,320.41)	(58,849.88)
Net nonoperating revenues	184,480,415.63	3,994,936.05
Income before other revenues, expenses, gains, or losses	41,439,939.42	8,607,280.90
Capital appropriations	12,031,166.24	-
Capital grants and gifts, including $196,939.00 from component unit	236,939.00	148,000.00
Additions to permanent endowments	-	746,877.58
Total other revenues	12,268,105.24	894,877.58
Increase in net assets	53,708,044.66	9,502,158.48
NET ASSETS		
Net assets - beginning of year	241,841,710.07	64,426,373.23
Net assets - end of year	$ 295,549,754.73	$ 73,928,531.71

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

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$	110,690,319.97
Grants and contracts		31,781,021.96
Sales and services of educational activities		13,279,982.08
Payments to suppliers and vendors		(75,092,217.08)
Payments to employees		(141,457,931.53)
Payments for benefits		(47,863,425.84)
Payments for scholarships and fellowships		(47,208,327.71)
Loans issued to students		(113,358.49)
Collection of loans from students		168,801.35
Interest earned on loans to students		100,531.46
Auxiliary enterprise charges:		
Residence halls		8,748,091.84
Bookstore		6,540,929.78
Food services		1,272,199.37
Wellness facility		2,045,474.43
Other auxiliaries		11,388,554.96
Other receipts (payments)		694,676.78
Net cash used by operating activities		(125,024,676.67)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations		100,867,500.00
Gifts and grants received for other than capital or endowment purposes, including $1,191,108.59 from component unit		90,891,680.44
Federal student loan receipts		109,202,574.12
Federal student loan disbursements		(108,778,629.52)
Changes in deposits held for others		34,139.78
Net cash provided by noncapital financing activities		192,217,264.82
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt		37,959,551.12
Capital appropriations		12,031,166.24
Capital grants and gifts received, including $87,000.00 from component unit		127,000.00
Purchase of capital assets and construction		(64,671,681.57)
Principal paid on capital debt		(13,977,966.09)
Interest paid on capital debt		(7,220,605.89)
Bond issuance costs		(230,769.10)
Other capital and related financing receipts (payments)		(116,760.14)
Net cash used by capital and related financing activities		(36,100,065.43)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		215,449.15
Income on investments		1,020,838.86
Purchase of investments		(198,836.50)
Net cash provided by investing activities		1,037,451.51
Net increase in cash and cash equivalents		32,129,974.23
Cash and cash equivalents - beginning of year		123,434,149.91
Cash and cash equivalents - end of year	$	155,564,124.14

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(143,040,476.21)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense		15,045,113.82
Other adjustments (Note 17)		140,709.00
Change in assets and liabilities:		
Receivables, net		145,323.01
Inventories		(31,262.77)
Prepaid/deferred items		247,282.70
Other assets		2,154.43
Accounts payable		3,193,176.03
Accrued liabilities		(1,000,073.17)
Deferred revenue		455,879.88
Deposits		(127,486.33)
Compensated absences		142,118.04
Due to grantors		(149,846.75)
Loans to students		(47,288.35)
Net cash used by operating activities	$	(125,024,676.67)
Noncash investing, capital, and financing activities		
Gifts in-kind - capital	$	119,438.00
Unrealized gains on investments	$	77,997.03
Loss on disposal of capital assets	$	(907,149.28)
Trade-in allowance	$	20,589.00

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

Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The university is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides significant financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

The financial statements present only that portion of the Tennessee Board of Regents' activities that is attributable to the transactions of Middle Tennessee State University.

The Middle Tennessee State University Foundation is considered a component unit of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements. See Note 18 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

The university's 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 intangible assets, 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 intangible assets is set at $100,000.

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

Net Assets

The university's net assets are classified as follows:

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

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

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

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

auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the university and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs are recorded as either operating or nonoperating revenues in the university's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the university has recorded a scholarship discount and allowance.

NOTE 2. CASH AND CASH EQUIVALENTS

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2011, cash and cash equivalents consisted of $53,091,295.31 in bank accounts, $101,905.00 of petty cash on hand, $91,189,067.54 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, $11,147,308.17 in LGIP deposits for capital projects, and $34,548.12 in a money market account.

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

NOTE 3. INVESTMENTS

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

At June 30, 2011, 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
Corporate bonds	$ 202,091.00	$ -	$ 100,131.00	$ 50,970.50	$ 50,989.50	$ -
Mutual bond funds	274,504.84	-	-	-	-	274,504.84
Mutual equity funds	293,022.36	-	-	-	-	293,022.36
Total	$ 769,618.20	$ -	$ 100,131.00	$ 50,970.50	$ 50,989.50	$ 567,527.20

Interest Rate Risk

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; banker's acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool (LGIP). The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. Securities are rated using Standard and Poor's, Moody's, and/or Fitch and are presented below using the Standard and Poor's rating scale.

Tennessee Board of Regents policy restricts investments in banker's acceptances and commercial paper. The policy requires that prime banker's acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term debt rating by a majority of the ratings services that have rated the issuer. Prime banker's acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible, the original maturity must not be more than 270 days, and it must 1) arise out of the current shipment of goods between countries or with the United States, or 2) arise out of storage within the United States of goods under contract of sale or expected to move into the channel or trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

The policy requires that prime commercial paper shall be limited to that of corporations that meet the following criteria: 1) Senior long-term debt, if any, should have a minimum rating of A1 or equivalent, and short-term debt should have a minimum rating of A1 or equivalent, as provided by a majority of the rating services that rate the issuer. If there is no long-term debt rating, the short-term debt rating must be A1 by all rating services (minimum of two). 2) The rating should be based on the merits of the issuer or guarantee by a nonbank. 3) A financial review should be made to ascertain the issuer's financial strength to cover the debt. 4) Commercial paper of a banking institution should not be purchased. Prime commercial paper shall not have a maturity that exceeds 270 days.

At June 30, 2011, the university's investments were rated as follows:

		Credit Quality Rating			
Investment Type	Fair Value	AA-	A	A-	Unrated
LGIP	$102,336,375.71	$ -	$ -	$ -	$102,336,375.71
Corporate bonds	202,091.00	100,131.00	50,989.50	50,970.50	-
Mutual bond funds	274,504.84	-	-	-	274,504.84
Total	$102,812,971.55	$ 100,131.00	$ 50,989.50	$ 50,970.50	$102,610,880.55

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, 2011, the university had $769,618.20 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.

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2011
Student accounts receivable	$ 6,863,662.37
Grants receivable	10,209,088.06
Notes receivable	245,464.07
State appropriation receivable	353,100.00
Other receivables	3,556,382.39
Subtotal	21,227,696.89
Less allowance for doubtful accounts	(1,753,948.09)
Total receivables	$19,473,748.80

Federal Perkins Loan Program funds included the following:

	June 30, 2011
Perkins loans receivable	$ 3,535,788.93
Less allowance for doubtful accounts	(766,207.31)
Total	$ 2,769,581.62

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 11,609,247.20	$ 735,000.00	$ -	$ -	$ 12,344,247.20
Land improvements and infrastructure	41,362,292.72	-	-	-	41,362,292.72
Buildings	290,651,033.00	215,000.00	-	889,500.00	289,976,533.00
Equipment	44,452,868.27	7,894,664.75	-	2,469,444.88	49,878,088.14
Library holdings	18,647,839.54	1,646,743.22	-	-	20,294,582.76
Intangible assets	4,269,300.27	-	342,125.00	-	4,611,425.27
Projects in progress	77,319,083.87	54,310,801.60	(342,125.00)	-	131,287,760.47
Total	488,311,664.87	64,802,209.57	-	3,358,944.88	549,754,929.56
Less accumulated depreciation/ amortization:					
Land improvements and infrastructure	22,495,820.76	1,743,650.35	-	-	24,239,471.11
Buildings	112,260,411.46	7,054,953.04	-	44,378.12	119,270,986.38
Equipment	29,714,140.14	3,717,808.48	-	2,407,417.49	31,024,531.13
Library holdings	9,815,758.80	2,030,769.97	-	-	11,846,528.77
Intangible assets	1,912,757.46	497,931.98	-	-	2,410,689.44
Total	176,198,888.62	15,045,113.82	-	2,451,795.61	188,792,206.83
Capital assets, net	$312,112,776.25	$ 49,757,095.75	$ -	$ 907,149.27	$360,962,722.73

NOTE 6. ACCOUNTS PAYABLE

Accounts payable included the following:

	June 30, 2011
Vendors payable	$ 8,185,125.26
Unapplied student payments	292,790.58
Other payables	52,749.22
Total accounts payable	$ 8,530,665.06

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$132,838,813.61	$ 21,463,459.45	$ 7,144,575.92	$147,157,697.14	$ 7,757,661.14
Unamortized bond premium	-	1,980,617.87	99,030.89	1,881,586.98	-
Commercial paper	35,167,483.04	36,957,765.97	26,733,068.92	45,392,180.09	-
General obligation debt:					
Commercial paper	2,542,613.42	290,776.75	2,833,390.17	-	-
Subtotal	170,548,910.07	60,692,620.04	36,810,065.90	194,431,464.21	7,757,661.14
Other liabilities:					
Compensated absences	6,126,048.13	3,279,083.59	3,136,965.55	6,268,166.17	1,751,609.78
Due to grantors	2,704,659.41	410,950.00	560,796.75	2,554,812.66	-
Net OPEB obligation	8,370,476.42	1,652,101.24	-	10,022,577.66	-
Subtotal	17,201,183.96	5,342,134.83	3,697,762.30	18,845,556.49	1,751,609.78
Total long-term liabilities	$187,750,094.03	$ 66,034,754.87	$ 40,507,828.20	$213,277,020.70	$ 9,509,270.92

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 2% to 5.5%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2038 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations; see Note 10 for further details. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the statement of net assets is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was $7,288,940.36 at June 30, 2011. Unexpended debt proceeds were $709,651.94 at June 30, 2011.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2011, are as follows:

Year Ending June 30	Principal	Interest	Total
2012	$ 7,757,661.14	$ 7,170,533.59	$ 14,928,194.73
2013	7,885,938.12	6,893,920.82	14,779,858.94
2014	7,998,668.47	6,545,780.08	14,544,448.55
2015	8,192,971.62	6,202,099.23	14,395,070.85
2016	8,383,267.30	5,855,691.68	14,238,958.98
2017 – 2021	44,676,434.31	23,161,255.19	67,837,689.50
2022 – 2026	40,625,972.23	12,444,736.47	53,070,708.70
2027 – 2031	16,405,701.92	3,939,374.73	20,345,076.65
2032 – 2036	4,259,166.44	1,285,843.50	5,545,009.94
2037 – 2038	971,915.59	171,446.60	1,143,362.19
Total	$ 147,157,697.14	$ 73,670,681.89	$ 220,828,379.03

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 $45,392,180.09 at June 30, 2011.

For the commercial paper program, the Tennessee State School Bond Authority maintains an interest rate reserve fund. The university contributes amounts to the reserve fund based on the amounts drawn. The principal of the reserve will be contributed to pay off notes or credited back to the university when the notes are converted to bonds. The interest earned on the reserve is used to pay interest due during the month.

More detailed information regarding the bonds and commercial paper can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report is available on the state's website at www.comptroller1.state.tn.us/tssba/cafr.asp.

NOTE 8. ENDOWMENTS

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

The university chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the university, all interest earnings have been authorized for expenditure. At June 30, 2011, net appreciation of $6,363.58 is available to be spent, of which $22.44 is included in restricted net assets expendable for scholarships and fellowships, and $6,341.14 is included in restricted net assets expendable for loans.

NOTE 9. UNRESTRICTED NET ASSETS

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

	June 30, 2011
Working capital	$ 4,332,183.71
Encumbrances	1,613,204.50
Designated fees	1,814,172.96
Auxiliaries	5,523,905.23
Plant construction	39,434,062.58
Renewal and replacement of equipment	49,532,534.82
Debt retirement	865,520.37
Undesignated	13,600,402.11
Total	$116,715,986.28

NOTE 10. PLEDGED REVENUES

The university has pledged certain revenues and fees, including state appropriations, to repay $147,157,697.14 in revenue bonds issued from June 1976 to September 2010 (see Note 7 for further detail). Proceeds from the bonds provided financing for the following projects: construction of a cogeneration plant; the Wood/Stegall development facility; a printing services building; Greek Row housing; demolition at 1403 East Main Street; a chiller conversion project; dormitory and family housing upgrades; student health, wellness, and recreation facility upgrades; purchase of the Woodfin property; purchase of Steinway pianos; purchase of a new fleet of airplanes for the Aerospace Department; energy savings and performance contracts; parking and transportation projects; football stadium enhancements; baseball stadium improvements; and purchase of the Ingram Building. The bonds are payable through 2038. Annual principal and interest payments on the bonds are expected to require less than 6.6% of available revenues. The total principal and interest remaining to be paid on the bonds is $220,828,379.03. Principal and interest paid for the current year and total available revenues were $21,292,769.84 and $323,206,003.44, respectively.

NOTE 11. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report is available on the state's website at http://www.state.tn.us/treasury/tcrs/index.html.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 14.91% 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, 2011, 2010, and 2009 were $6,714,529.05, $5,982,087.97, and $6,254,322.27. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans

Plan Description - The university contributes to three defined contribution plans: Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA-CREF), ING Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, 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 contributions made by the university to the plans were $7,885,925.09 for the year ended June 30, 2011, and $7,188,747.29 for the year ended June 30, 2010. Contributions met the requirements for each year.

NOTE 12. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible university retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-101, *Tennessee Code Annotated*. Prior to reaching age 65, retirees may participate in the State Employee Group Plan. In previous fiscal years, prior to reaching the age of 65, all members had the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. However, as of January 1, 2011, the insurance plan structure was changed and as a result, all members now have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits. Subsequent to age 65, retirees 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 17. The plans are reported in the State of Tennessee's *Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

Special Funding Situation

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

Funding Policy

The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, retirees in the State Employee Group Plan pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service are subsidized 80%; 25 years, 70%; and 20 years, 60%. Retirees who are 65 years of age or older have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; 25 years, $37.50; and 20 years, $25.

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

Annual required contribution (ARC)	$ 3,890,000.00
Interest on the net OPEB obligation	376,671.44
Adjustment to the ARC	(356,782.59)
Annual OPEB cost	3,909,888.85
Amount of contribution	(2,257,787.61)
Increase in net OPEB obligation	1,652,101.24
Net OPEB obligation – beginning of year	8,370,476.42
Net OPEB obligation – end of year	$ 10,022,577.66

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2011	State Employee Group Plan	$3,909,888.85	57.7%	$10,022,577.66
June 30, 2010	State Employee Group Plan	$4,299,921.48	41.6%	$8,370,476.42
June 30, 2009	State Employee Group Plan	$4,924,653.67	42.8%	$5,859,034.64

Funded Status and Funding Progress

The funded status of the university's portion of the State Employee Group Plan as of July 1, 2010, was as follows:

	State Employee Group Plan
Actuarial valuation date	July 1, 2010
Actuarial accrued liability (AAL)	$35,594,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$35,594,000.00
Actuarial value of assets as a percentage of the AAL	0.0%
Covered payroll (active plan members)	$110,803,754.02
UAAL as percentage of covered payroll	32.1%

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

Actuarial Methods and Assumptions

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

In the July 1, 2010, 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 10 percent in fiscal year 2011. The rate decreased to 9.5 percent in fiscal year 2012, and then reduced by decrements of 0.5 percent per year to an ultimate rate of 5 percent in fiscal year 2021. All 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 13. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The amounts of settlements have 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, 2011, and June 30, 2010, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html. Since the university participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated,* Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated,* Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2011, the Risk Management Fund held $107.6 million in cash and cash equivalents designated for payment of claims.

At June 30, 2011, the scheduled coverage for the university was $863,668,685.00 for buildings and $308,337,796.00 for contents.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The university participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on estimates of the ultimate cost of claims, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 14. COMMITMENTS AND CONTINGENCIES

Sick Leave

The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $54,351,162.99 at June 30, 2011.

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 $468,357.24 and for personal property were $47,064.35 for the year ended June 30, 2011. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2011, outstanding commitments under construction contracts totaled $40,671,309.31 for major projects including parking and transportation improvements; concrete industry projects; life safety renovations; MT Boulevard; campus lighting; Tucker Theatre renovations; energy system modernization; underground electrical update; the College of Education building; systems replacement; dorm renovations; Livestock Center updates; mitigation plan; roof replacements for several buildings; safety code corrections; improvements to the dairy farm; steam line replacement; mass communication renovations; physical plant upgrades; ADA adaptations; Todd Hall air quality upgrades; envelope repair for several buildings; the conference center; the new parking garages; science facilities improvements; and the new Student Union, of which $3,843,490.98 will be funded by future state capital outlay appropriations.

Litigation

The university is involved in several lawsuits, which are not expected to have a material effect on the accompanying financial statements. However, in November 2011, the university received an unfavorable judgment in a lawsuit. As a result, the plaintiff was awarded $3 million. As MTSU plans to appeal this judgment, the loss or the range of the possible loss cannot be estimated at this time.

NOTE 15. CHAIRS OF EXCELLENCE

The university had $23,198,031.74 on deposit at June 30, 2011, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

NOTE 16. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses for the year ended June 30, 2011, are as follows:

Functional Classification	Natural Classification: Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 81,204,151.36	$ 24,675,596.38	$ 15,271,574.22	$ -	$ -	$ 121,151,321.96
Research	3,749,188.01	988,140.59	2,246,107.48	-	-	6,983,436.08
Public service	7,707,337.81	2,793,326.95	11,136,407.79	-	-	21,637,072.55
Academic support	13,747,954.38	5,113,477.43	851,881.66	-	-	19,713,313.47
Student services	13,184,466.70	4,677,593.79	11,997,105.57	-	-	29,859,166.06
Institutional support	10,733,242.05	4,560,870.57	5,908,917.11	-	-	21,203,029.73
Maintenance & operation	4,377,533.87	1,995,291.49	14,392,562.54	-	-	20,765,387.90
Scholarships & fellowships	-	-	-	47,208,327.71	-	47,208,327.71
Auxiliary	6,602,033.71	2,426,094.00	17,080,243.96	-	-	26,108,371.67
Depreciation	-	-	-	-	15,045,113.82	15,045,113.82
Total	$ 141,305,907.89	$ 47,230,391.20	$ 78,884,800.33	$ 47,208,327.71	$ 15,045,113.82	$ 329,674,540.95

NOTE 17. ON-BEHALF PAYMENTS

During the year ended June 30, 2011, the State of Tennessee made payments of $140,709.00 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 12. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

NOTE 18. COMPONENT UNIT

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

The foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards. 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 adjustments, 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, 2011, the foundation made distributions of $1,388,047.59 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Joe Bales, Vice President for Development and University Relations, MTSU, 1301 East Main Street, Murfreesboro, TN 37132.

Fair Value Measurements

The foundation reports certain assets at fair value. Fair value has been determined using quoted prices in active markets for identical assets that are accessible at the measurement date (Level 1), inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset (Level 2), or significant unobservable inputs (Level 3). The following table categorizes the recurring fair value measurements for assets at June 30, 2011.

	Total Fair Value at June 30, 2011	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Cash equivalents	$ 1,157,581.88	$ 1,157,581.88	$ -	$ -
Investments	37,343,638.22	21,376,936.56	2,312,076.41	13,654,625.25
Pledges receivable	1,308,534.89	-	-	1,308,534.89
Total assets	$ 39,809,754.99	$ 22,534,518.44	$ 2,312,076.41	$ 14,963,160.14

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

	Beginning Balance	Total Gains/(Losses), Realized and Unrealized	Purchases, Issuances, and Settlements	Transfers In/(Out) of Level 3	Ending Balance
Assets:					
Investments	$ 10,379,808.32	$ 1,091,993.89	$ 4,172,673.04	$ (1,989,850.00)	$ 13,654,625.25
Pledges receivable	1,266,971.59	41,563.30	-	-	1,308,534.89
Total assets	$ 11,646,779.91	$ 1,133,557.19	$ 4,172,673.04	$ (1,989,850.00)	$ 14,963,160.14

All gains and losses, both realized and unrealized, have been reported on the statement of revenues, expenses, and changes in net assets as investment income. Of this total, $4,505,777.05 is attributable to the change in unrealized gains or losses relating to those assets still held at June 30, 2011.

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, 2011, totaled $9,695,729.37.

Investments

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

Investments held at June 30, 2011, were as follows:

	Cost	Fair Value
U. S. Treasury	$ 1,431,846.90	$ 1,622,577.08
Certificates of deposit	77,212.00	77,299.35
Corporate stocks	3,001,160.92	3,438,988.16
Bonds	1,316,597.50	1,815,996.00
Mutual equity funds	8,139,126.67	12,805,454.42
Mutual bond funds	3,531,710.77	3,509,916.90
Cash surrender value of life insurance	N/A	418,781.06
Real estate investment trust	2,500,000.00	2,580,574.25
Alternative investments	7,519,169.00	11,074,051.00
Total investments	$ 27,516,823.76	$ 37,343,638.22

Alternative investments - The foundation has investments in offshore hedge fund-of-funds. The estimated fair value of these assets is $11,074,051.00 at June 30, 2011.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2011. Because these investments are not readily marketable, the estimated value is subject to uncertainty, and therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques. Each offshore hedge fund-of-funds owned by the foundation has an annual independent CPA firm audit. Hedge fund values are determined by using monthly reports received directly from the hedge fund-of-funds managers, as well as from the foundation's registered investment advisors and/or investment custodian.

Pledges Receivable

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

	June 30, 2011
Current pledges	$ 435,566.82
Pledges due in one to five years	793,624.02
Pledges due after five years	79,955.55
Subtotal	1,309,146.39
Less discount to net present value	(611.50)
Total pledges receivable, net	$ 1,308,534.89

Capital Assets

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 2,301,571.29	$ 156,825.99	$ -	$ 117,200.00	$ 2,341,197.28
Improvements and infrastructure	1,009,439.46	-	-	-	1,009,439.46
Buildings	20,068,664.80	436,772.38	-	370,556.78	20,134,880.40
Equipment	5,976.12	109,939.00	-	109,939.00	5,976.12
Total	23,385,651.67	703,537.37	-	597,695.78	23,491,493.26
Less accumulated depreciation:					
Improvements and infrastructure	234,613.72	50,471.98	-	-	285,085.70
Buildings	4,150,043.08	504,404.85	-	6,888.92	4,647,559.01
Equipment	149.40	597.61	-	-	747.01
Total	4,384,806.20	555,474.44	-	6,888.92	4,933,391.72
Capital assets, net	$ 19,000,845.47	$ 148,062.93	$ -	$ 590,806.86	$ 18,558,101.54

Endowment

The Middle Tennessee State University Foundation's endowment consists of approximately 550 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law - The Board of Trustees of the Middle Tennessee State University Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as requiring the preservation of the fair value of the original gift, as of the gift date, of the endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Middle Tennessee State University Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment; (2) the original value of subsequent gifts to the permanent endowment; (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund; and (4) the portion of the investment return that is added to the fund's principal. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the foundation and the endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the foundation; and (7) the investment policies of the foundation.

Composition of Endowment by Net Asset Class
As of June 30, 2011

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$ 29,818,142.66	$ 4,674,299.68	$ (22,381.21)	$ 34,470,061.13
Board-designated endowment funds	-	5,958,878.64	128,188.62	6,087,067.26
Total funds	$ 29,818,142.66	$ 10,633,178.32	$ 105,807.41	$ 40,557,128.39

Changes in Endowment Net Assets
For the Fiscal Year Ended June 30, 2011

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net assets, beginning of year	$ 28,757,024.86	$ 2,885,493.03	$ 129,955.30	$ 31,772,473.19
Net asset adjustment	-	1,275,615.92	(363,263.37)	912,352.55
Endowment net assets after adjustment	28,757,024.86	4,161,108.95	(233,308.07)	32,684,825.74
Investment return:				
Investment income	54,907.65	523,439.97	3,941.51	582,289.13
Net appreciation (realized and unrealized)	-	4,382,634.25	338,834.18	4,721,468.43
Total investment return	54,907.65	4,906,074.22	342,775.69	5,303,757.56
Contributions	894,877.58	3,080,451.79	-	3,975,329.37
Expenses	(59,837.00)	(323,488.90)	(1,110.36)	(384,436.26)
Appropriations of endowment assets for expenditure	-	(1,253,752.60)	(2,549.85)	(1,256,302.45)
Other changes:				
Transfers	171,169.57	62,784.86	-	233,954.43
Endowment net assets, end of year	$ 29,818,142.66	$ 10,633,178.32	$ 105,807.41	$ 40,557,128.39

Return objectives and risk parameters - The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that provide for adequate long-term purchasing power preservation, as well as current scholarship and other institutional support as appropriate. The foundation expects its endowment funds, over time, to provide an average rate of return of approximately 9 percent annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives - To satisfy its long-term rate-of-return objectives, the foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk restraints.

Spending policy and how the investment objectives relate - The foundation has a policy of appropriating for distribution each year 4.5% of the three-year rolling average total fair market value of the endowment. Payout policy is determined by the foundation year-to-year, and in a year of significantly declining investment values, the board may choose to not make an annual payout to preserve the future purchasing and payout power of the endowment. In establishing this policy, the foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the foundation expects the current spending policy to allow its endowment to grow at an average of 3.5 percent annually. This is consistent with the foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
July 1, 2010	State Employee Group Plan	$0.00	$35,594,000	$35,594,000	0.00	$110,803,754	32.12%
July 1, 2009	State Employee Group Plan	$0.00	$38,764,000	$38,764,000	0.00	$117,734,804	32.92%
July 1, 2007	State Employee Group Plan	$0.00	$42,876,000	$42,876,000	0.00	$113,201,926	37.88%

The amount reported here for covered payroll relates to the fiscal year in which the valuations were performed, with the exception of the July 1, 2010, actuarial valuation. The covered payroll date for the July 1, 2010, actuarial valuation is July 1, 2009.

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
SUPPLEMENTARY INFORMATION
SCHEDULE OF CASH FLOWS - COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$	7,865,128.00
Grants and contracts		16,872.00
Payments to suppliers and vendors		(1,667,231.82)
Payments for scholarships and fellowships		(1,136,654.65)
Payments to MTSU		(1,278,108.59)
Other receipts (payments)		58,975.33
Net cash provided by operating activities		3,858,980.27
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes		999,532.36
Net cash provided by noncapital financing activities		999,532.36
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of capital assets		428,370.42
Purchase of capital assets and construction		(555,537.37)
Net cash used by capital and related financing activities		(127,166.95)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		12,211,541.89
Income on investments		590,007.94
Purchases of investments		(14,814,014.73)
Other investing receipts (payments)		(6,352.44)
Net cash used by investing activities		(2,018,817.34)
Net increase in cash and cash equivalents		2,712,528.34
Cash and cash equivalents - beginning of year		14,430,642.64
Cash and cash equivalents - end of year	$	17,143,170.98
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	4,612,344.85
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense		555,474.44
Endowment income per spending plan		(1,256,302.45)
Changes in assets and liabilities:		
Receivables, net		(294,218.08)
Prepaid/deferred items		(28,501.99)
Accounts payable		160,244.50
Other		109,939.00
Net cash provided by operating activities	$	3,858,980.27
Noncash investing, capital, and financing activities		
Unrealized losses on investments	$	4,508,683.51
Loss on disposal of capital assets	$	(52,497.44)
Capital assets transferred to MTSU	$	(109,939.00)