AUDIT REPORT

Tennessee Board of Regents
East Tennessee State University

For the Year Ended
June 30, 2005

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

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

John G. Morgan
Comptroller

February 28, 2006

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. Paul E. Stanton, President
East Tennessee State University
Campus Box 70734
Johnson City, Tennessee 37614-0734

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, East Tennessee State University, for the year ended June 30, 2005. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/sds
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State of Tennessee

Audit Highlights

Comptroller of the Treasury | Division of State Audit

Financial and Compliance Audit
East Tennessee State University
For the Year Ended June 30, 2005

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
East Tennessee State University
For the Year Ended June 30, 2005

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Tennessee Board of Regents
East Tennessee State University
For the Year Ended June 30, 2005

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, East 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

East Tennessee State University was established by an act of the General Assembly in 1909 as East Tennessee State Normal School. In 1924, the name was changed to East Tennessee State Teachers College; in 1930, to State Teachers College, Johnson City; and in 1943, to East Tennessee State College. In 1963, by an act of the General Assembly, East Tennessee College was granted university status, and its name was changed to East Tennessee State University.

The university has ten colleges and schools: the College of Arts and Sciences, the College of Business and Technology, the College of Education, the College of Medicine, the College of Nursing, the College of Pharmacy, the College of Public and Allied Health, the Honors College, the School of Continuing Studies, and the School of Graduate Studies. East Tennessee State University is officially authorized to grant 12 undergraduate and 22 graduate degrees.

ORGANIZATION

The governance of East Tennessee State University is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the university is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 2004, through June 30, 2005, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the year ended June 30, 2005, and for comparative purposes, the year ended June 30, 2004. East Tennessee State University is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the university's internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

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

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the institution. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the department 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, and not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

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

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, 2005, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

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

Fairness of Financial Statement Presentation

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

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

November 18, 2005

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

Dear Mr. Morgan:

We have audited the financial statements of East Tennessee State University, an institution of the Tennessee Board of Regents, a component unit of the State of Tennessee, and its discretely presented component units as of and for the year ended June 30, 2005, and have issued our report thereon dated November 18, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. During the year ended June 30, 2005, the university implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the university's financial statements are free of material misstatement, we performed tests of the university's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

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

November 18, 2005

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

Dear Mr. Morgan:

We have audited the accompanying basic financial statements of East Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 2005, and June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the university's management. Our responsibility is to express opinions on these financial statements, based on our audits. We did not audit the financial statements of the East Tennessee State University Foundation and the Medical Education Assistance Corporation, discretely presented component units of the university. Those financial statements were audited by another auditor whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the East Tennessee State University Foundation and the Medical Education Assistance Corporation, is based on the reports of the other auditor.

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

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

In our opinion, based on our audits and the reports of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tennessee Board of Regents, East Tennessee State University, and its discretely presented component units as of June 30, 2005, and June 30, 2004, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2005, the university implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*. During the year ended June 30, 2004, the university implemented GASB Statement 39, *Determining Whether Certain Organizations Are Component Units.*

The management's discussion and analysis on pages 10 through 26 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on pages 66 and 67 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

The Honorable John G. Morgan
November 18, 2005
Page Three

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2005, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

Management's Discussion and Analysis

This section of East 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, 2005, with comparative information presented for the fiscal years ended June 30, 2004, and June 30, 2003. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with them. The financial statements, notes, and this discussion are the responsibility of management.

The university has two discretely presented component units, the East Tennessee State University Foundation and the Medical Education Assistance Corporation (MEAC). More detailed information about the university's component units is presented in Note 18 of the financial statements. Information and analysis regarding the component units are also included in this section.

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 East Tennessee State University as a whole and present a long-term view of the university's finances.

The Statement of Net Assets

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

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

East Tennessee State University
Statements of Net Assets
(in thousands of dollars)

	2005	2004	2003
Assets:			
Current assets	$ 33,534	$ 30,209	$46,428
Capital assets, net	157,237	153,738	150,913
Other assets	56,061	54,548	34,400
Total Assets	246,832	238,495	231,741
Liabilities:			
Current liabilities	21,738	19,367	17,506
Noncurrent liabilities	47,802	43,115	40,946
Total Liabilities	69,540	62,482	58,452
Net Assets:			
Invested in capital assets, net of related debt	123,711	123,518	123,106
Restricted – expendable	6,227	6,613	14,086
Restricted – nonexpendable	39	39	39
Unrestricted	47,315	45,843	36,058
Total Net Assets	$177,292	$176,013	$173,289

Material assets consist of cash and cash equivalents; accounts, notes, and grants receivable; investments; and capital assets. In 2005, current investments increased due to increases in short-term investments in certificates of deposit. Prepaid expenses (classified as current assets) increased due to increases in deferred charges for summer school. Investments increased with an offsetting decrease in cash and cash equivalents. Capital assets increased with construction in progress for the renovation of a dormitory and a new administrative software system. The construction costs to date for these projects are $1.8 million and $1.5 million, respectively. In 2004, decreases in current assets are due to an offsetting increase in investments that are classified as noncurrent. Capital assets increased due to the capitalization of a capital gift from the ETSU Foundation of $1.3 million and construction in progress for a new student apartment complex of $3.5 million.

Material liabilities include long-term liabilities, compensated absences, deferred revenue, accrued liabilities, and amounts due to grantors. In 2005, the noncurrent portion of long-term liabilities increased with an increase in commercial paper of approximately $4 million for dormitory renovation, construction of a new dormitory, and the purchase of the new administrative software system. Accrued liabilities increased due to increases in accrued payroll and benefits payable at year end. Student deposits for on-campus housing increased at year end. Deposits held in custody for others increased over the amounts recorded at year end 2004. In 2004, both the current and noncurrent portion of long-term liabilities increased primarily due to additional bonds of $3.6 million for the construction of a new student apartment complex.

East Tennessee State University Foundation
Statements of Net Assets
(in thousands of dollars)

	2005	2004	2003
Assets:			
Current assets	$ 554	$ 105	$ 27
Capital assets, net	363	249	822
Other assets	46,514	28,142	24,325
Total Assets	47,431	28,496	25,174
Liabilities:			
Current liabilities	159	54	124
Noncurrent liabilities	-	-	-
Total Liabilities	159	54	124
Net Assets:			
Invested in capital assets, net of related debt	363	249	822
Restricted – expendable	10,131	5,102	5,760
Restricted – nonexpendable	35,927	22,456	18,438
Unrestricted	851	635	30
Total Net Assets	$47,272	$28,442	$25,050

For the foundation, material assets consist of investments, pledges receivable, and cash and cash equivalents. In 2005, the foundation received a single cash gift of $9 million for a scholarship endowment. Also, pledges receivable increased by approximately $4 million due to pledges for the new College of Pharmacy. In 2004, increases in current assets are due to increases in cash and accounts receivable. Capital assets decreased due to the transfer of the golf practice facility and building to the university in the current year. Other assets increased primarily due to increases in investments.

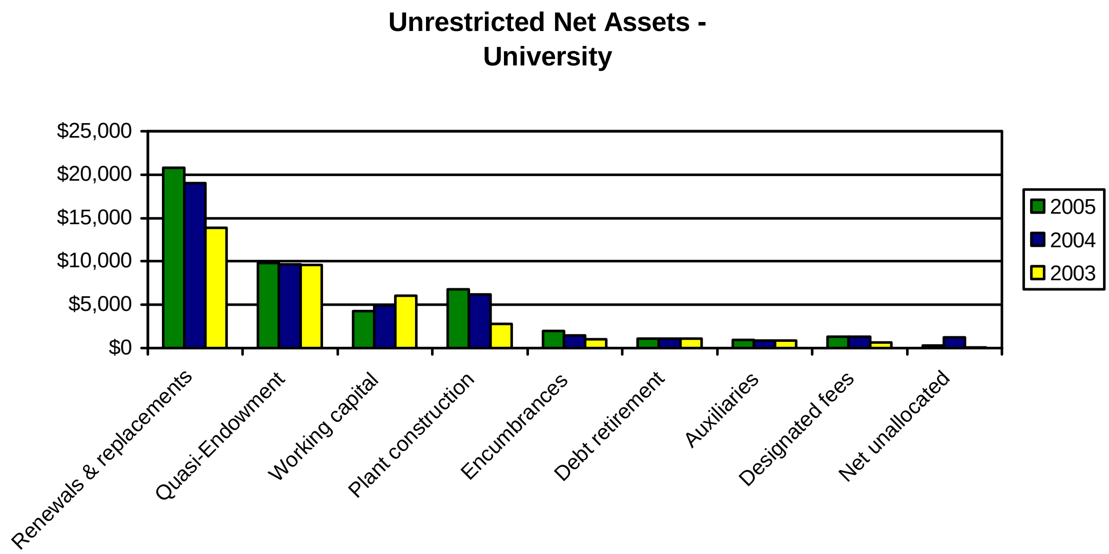
The only liability of the foundation is accounts payable.

Medical Education Assistance Corporation
Statements of Net Assets
(in thousands of dollars)

	2005	2004	2003
Assets:			
Current assets	$8,313	$7,450	$11,758
Capital assets, net	790	852	960
Other assets	6,398	6,488	523
Total Assets	15,501	14,790	13,241
Liabilities:			
Current liabilities	4,158	4,140	3,235
Noncurrent liabilities	389	351	312
Total Liabilities	4,547	4,491	3,547
Net Assets:			
Invested in capital assets, net of related debt	790	852	960
Unrestricted	10,164	9,447	8,734
Total Net Assets	$10,954	$10,299	$ 9,694

For MEAC, material assets consist of cash and cash equivalents, patient accounts receivable, capital assets, and notes receivable. Increases in current assets can be found in short-term investments primarily as a result of current year operating income. Net capital assets decreased due to the retirement of obsolete assets that were not fully depreciated. Days in patient accounts receivable (classified as current assets) are 39 compared to 42 last year and a national mean of 59. Material liabilities include accrued compensation, accounts payable, and deferred revenue. The majority of the increase in liabilities from fiscal year 2004 is found in accrued compensation and related liabilities. In 2004, current liabilities for MEAC increased due to contractual expenses with Blue Cross Blue Shield that will pay out over the next year. The increase in noncurrent liabilities is due to increases in the long-term portion of compensated absences.

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



There were no significant increases or decreases in allocated fund balances in 2005. In 2004, the primary increase that occurred in unrestricted net assets occurred in the plant construction category. The increase is due to funds allocated for construction of a new student apartment complex and other ongoing construction projects.

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.

University
Statements of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

	2005	2004	2003
Operating revenues:			
Net tuition and fees	$43,274	$41,842	$36,204
Grants and contracts	30,005	32,145	43,071
Auxiliary	8,530	8,050	7,409
Other	19,846	20,158	18,127
Total operating revenues	101,655	102,195	104,811
Operating expenses	217,878	202,350	198,587
Operating loss	(116,223)	(100,155)	(93,776)
Nonoperating revenues and expenses:			
State appropriations	84,359	80,403	80,791
Gifts	1,920	1,383	455
Grants and contracts	26,147	16,275	8,543
Investment income	2,195	1,198	1,716
Other revenues and expenses	(1,748)	(1,692)	(1,488)
Total nonoperating revenues and expenses	112,873	97,567	90,017
Loss before other revenues, expenses, gains, or losses	(3,350)	(2,588)	(3,759)
Other revenues, expenses, gains, or losses:			
Capital appropriations	3,858	2,515	1,587
Capital grants and gifts	771	2,373	168
Other	-	-	(405)
Total other revenues, expenses, gains, or loses	4,629	4,888	1,350
Increase (decrease) in net assets	1,279	2,300	(2,409)
Net assets at beginning of period	176,013	173,289	177,324
Prior period adjustment	-	424	(1,626)
Net assets at end of year	$177,292	$176,013	$173,289

Foundation
Statements of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

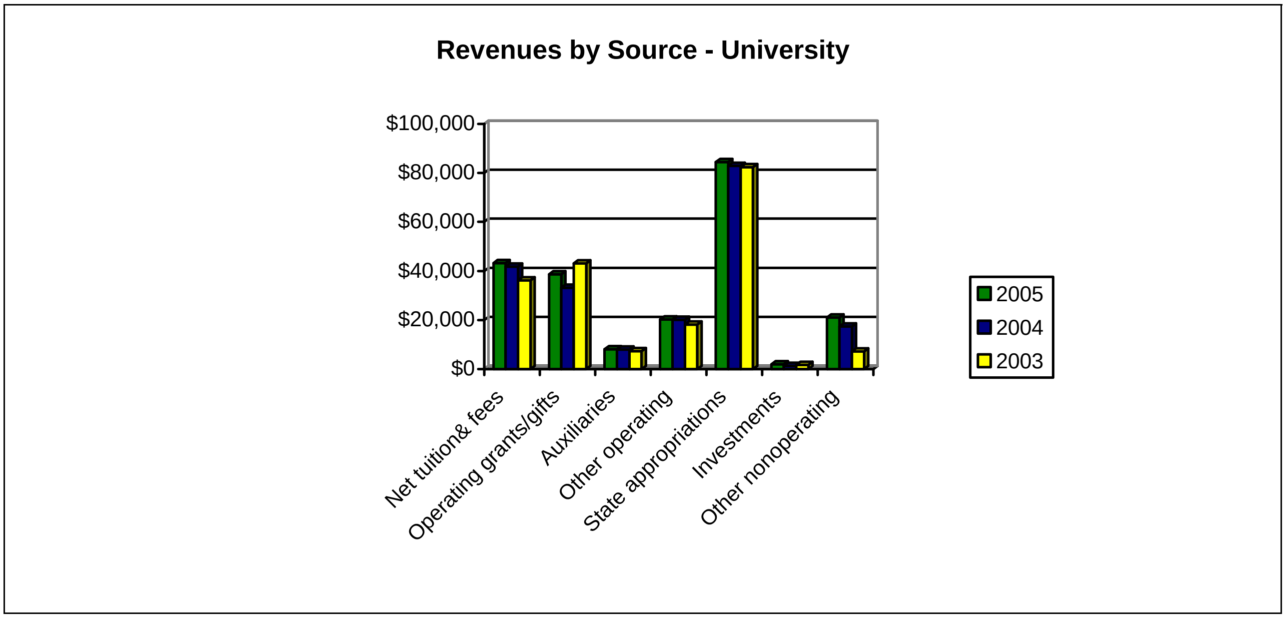
	2005	2004	2003
Operating revenues:			
Gifts and contributions	$6,798	$1,964	$4,172
Endowment income per spending plan	517	320	31
Other operating revenues	302	425	997
Total operating revenues	7,617	2,709	5,200
Operating expenses	3,161	4,805	5,904
Operating income (loss)	4,456	(2,096)	(704)
Nonoperating revenues and expenses:			
Gifts	516	361	644
Investment income	3,307	3,798	(195)
Other revenues and expenses	552	-	(38)
Total nonoperating revenues and expenses	4,375	4,159	411
Income (loss) before other revenues, expenses, gains, or losses	8,831	2,063	(293)
Other revenues, expenses, gains, or losses:			
Capital grants and gifts	99	286	1,247
Additions to permanent endowments	9,900	1,043	2,082
Total other revenues, expenses, gains, or losses	9,999	1,329	3,329
Increase (decrease) in net assets	18,830	3,392	3,036
Net assets at beginning of period	28,442	25,050	22,014
Net assets at end of year	$47,272	$28,442	$25,050

MEAC
Statements of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

	2005	2004	2003
Operating revenues:			
Patient charges	$29,991	$28,823	$26,575
Other operating revenues	64	88	346
Total operating revenues	30,055	28,911	26,921
Operating expenses	27,835	27,094	27,237
Operating income (loss)	2,220	1,817	(316)
Nonoperating revenues and expenses:			
Investment income	355	122	175
Other revenues and expenses	(1,920)	(1,334)	(10)
Total nonoperating revenues and expenses	(1,565)	(1,212)	165
Income (loss) before other revenues, expenses, gains, or losses	655	605	(151)
Other revenues, expenses, gains, or losses	-	-	-
Increase (decrease) in net assets	655	605	(151)
Net assets at beginning of period	10,299	9,694	9,845
Net assets at end of year	$10,954	$10,299	$9,694

Revenues

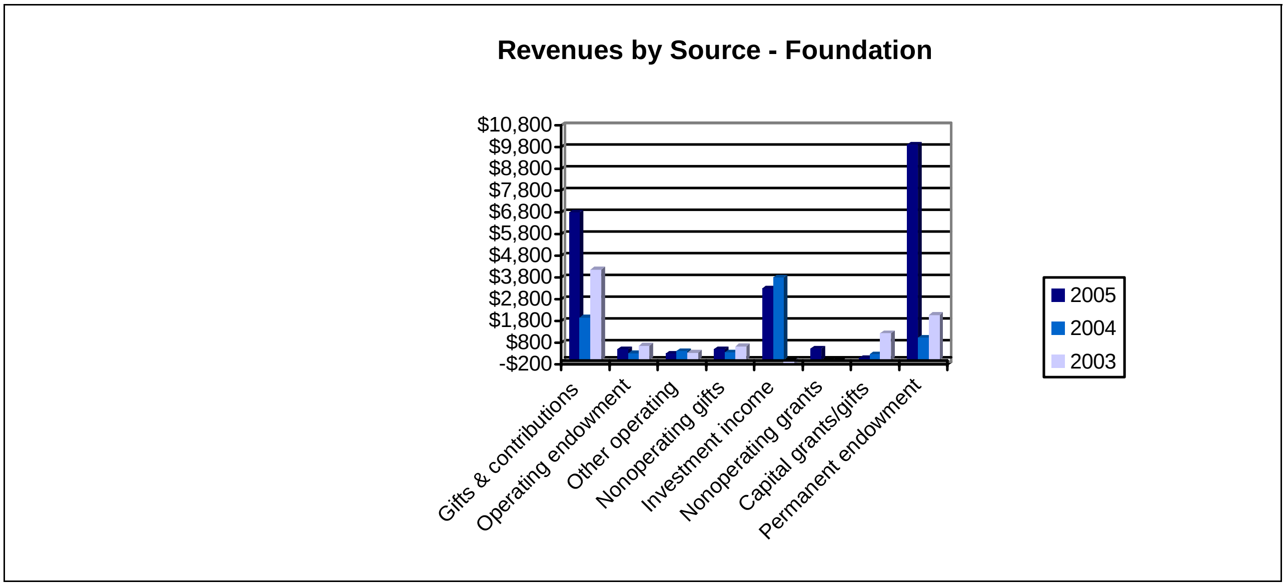
The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the university's operating activities for the years ended June 30, 2005; June 30, 2004; and June 30, 2003. Amounts are presented in thousands of dollars.



For all fiscal years depicted, ETSU's revenue is primarily attributed to state appropriations, tuition and fees, and grants and contracts.

Tuition and fees increased by 7% in 2005. Certain operating and nonoperating grants and contracts increased due to the new Tennessee Lottery Scholarship program, as well as increases in Graduate Medical Education funds, Pell grants, and the fossil site. Investment income also rose in the current year. Capital appropriations increased as several capital projects began during the year. In 2004, the increase in tuition and fees for the university is primarily due to a 14% increase in fees for the 2004 academic year. Operating grants and contracts decreased and nonoperating grants and contracts increased because Pell grants ($8,938,984) and SEOG grants ($656,347) were reclassified from operating grants and contracts to nonoperating revenue. Additionally, the university implemented a student athletic fee beginning in the 2004 academic year, generating $1.19 million in other operating revenues. Capital appropriations increased due to ongoing projects to upgrade infrastructure on campus. These projects include a steam line replacement, electrical upgrade, and capital maintenance projects. Capital grants and gifts for 2004 included gifts from the ETSU Foundation of the golf practice facility and building valued at $1.28 million.

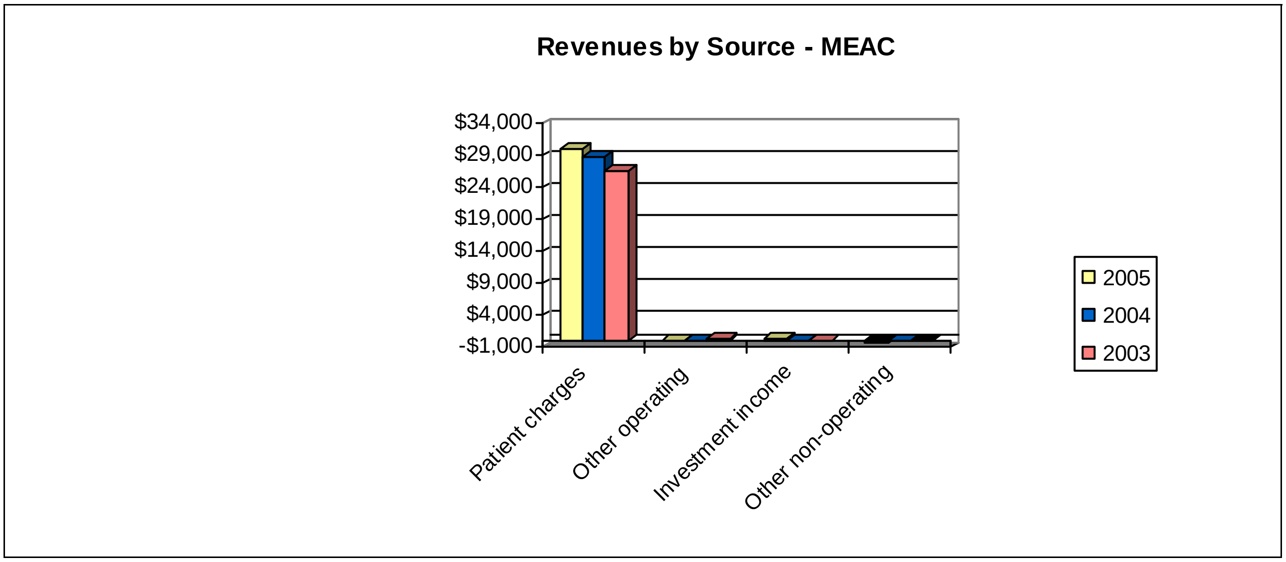
The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the foundation's operating activities for the years ended June 30, 2005; June 30, 2004; and June 30, 2003. Amounts are presented in thousands of dollars.



For all fiscal years depicted, the foundation's revenue is primarily attributed to investment income, and gifts and contributions.

In 2005, the foundation operating revenue and permanent endowments increased due to gifts for the new College of Pharmacy and the one-time donation to the scholarship endowment. Additionally, investment income decreased due to interest rate decreases and less capital gains realized. In 2004, the reduction in operating revenues for the foundation occurred as a result of a significant decrease in in-kind gifts. This is reflected in a corresponding decrease in operating expenses. The increase in investment income is the result of significant gains in the market for investments. The large capital grant in 2004 was related to funding for the golf practice facility and building which was completed in 2005 and transferred to the university. The $2 million addition to permanent endowments for 2004 was boosted by a $1 million gift from a single donor. The donation was a one-time gift.

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the MEAC's operating activities for the years ended June 30, 2005; June 30, 2004; and June 30, 2003. Amounts are presented in thousands of dollars.



For all fiscal years, MEAC's income is primarily attributable to patient charges. Gross patient service revenues remained relatively constant compared to prior year. Net operating revenues increased 4% in fiscal year 2005. Income received from outside sources for clinics operated by the Corporation under management agreements is the major component of other operating revenues. MEAC receives a management fee for operating the clinics and also is reimbursed for any operating losses. The losses from these clinics decreased in fiscal year 2005; therefore, other income decreased accordingly. Interest income increased 192% versus the prior year as a result of rising interest rates and converting excess cash reserves from money market accounts to certificates of deposit.

In 2004, patient charges increased due to an increase in the number of patient encounters over the prior year. The decrease in investment income correlates to the decrease in investments.

Expenses

Operating expenses for the university can be displayed in two formats, natural classification and functional classification. Both formats are displayed below (in thousands of dollars).

Natural Classification
University
(in thousands of dollars)

	2005	2004	2003
Salaries	$ 118,356	$ 112,137	$ 110,853
Benefits	35,292	31,241	30,172
Other operating	42,270	40,040	38,472
Scholarships	13,623	10,710	10,899
Depreciation	8,337	8,222	8,191
Total expenses	$ 217,878	$ 202,350	$ 198,587

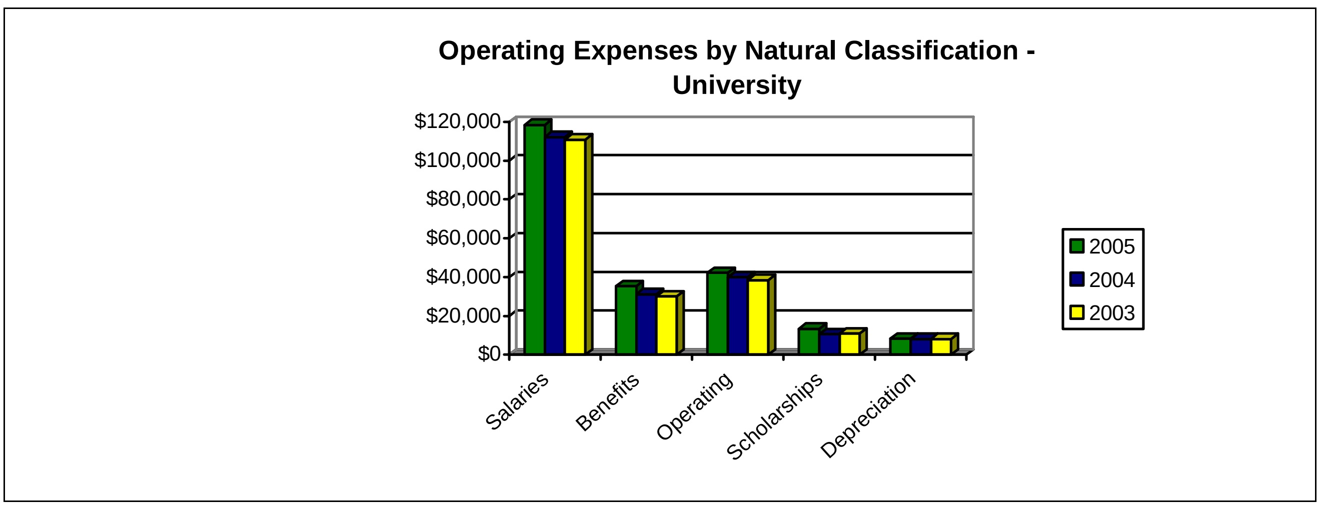
Foundation
Natural Classification
(in thousands of dollars)

	2005	2004	2003
Other operating	$ 1,766	$ 2,376	$ 4,465
Scholarships	584	733	981
Depreciation	3	3	3
Payments to or on behalf of ETSU	808	1,693	455
Total expenses	$ 3,161	$ 4,805	$ 5,904

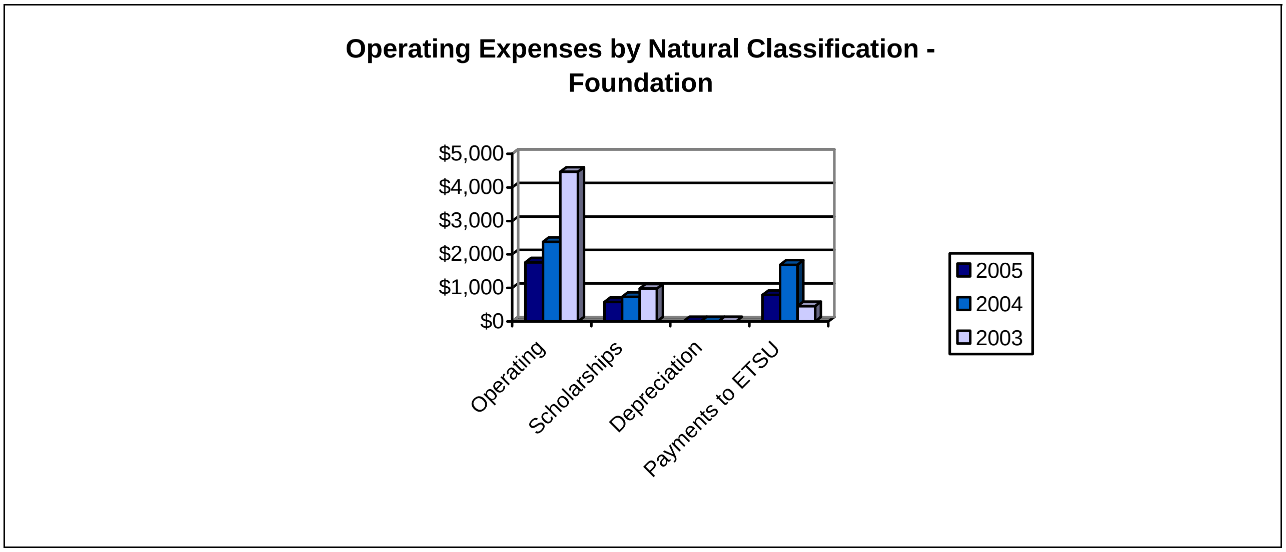
MEAC
Natural Classification
(in thousands of dollars)

	2005	2004	2003
Salaries	$18,756	$17,787	$17,543
Benefits	1,974	1,955	1,939
Other operating	6,825	7,035	6,766
Depreciation	280	317	345
Payments to or on behalf of ETSU and ETSU Foundation	-	-	644
Total expenses	$27,835	$27,094	$27,237

For all fiscal years depicted below, the majority of expenses are attributed to salaries and benefits.

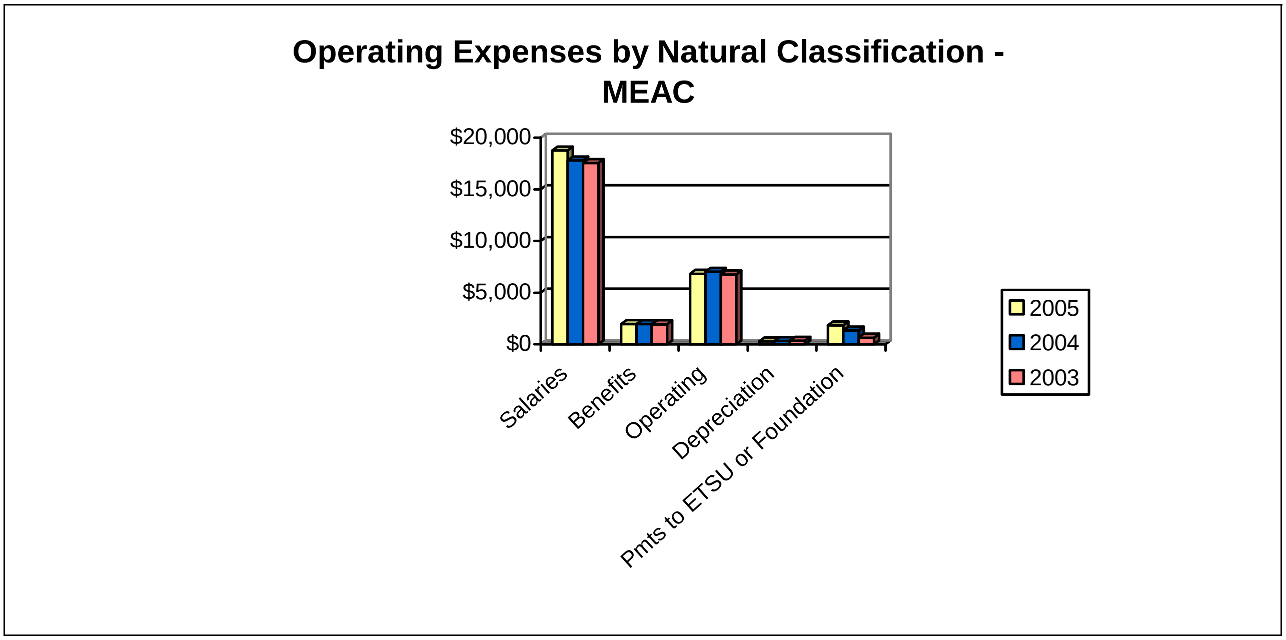


For all fiscal years shown below, the majority of expenses for the foundation are attributed to other operating expenses and payments to or on the behalf of ETSU. This is depicted graphically below.



During fiscal years 2005 and 2004, 55% and 50%, respectively, of the foundation operating expenses were in the other operating expense category. This is primarily due to recording of expenses for in-kind gifts of software, supplies, and other services. For fiscal year 2003, other operating expenses accounted for 76% of the total. The reduction was due to in-kind gifts reducing by $2.1 million in fiscal year 2004. This reduction was primarily due to new rules for recording in-kind gifts as well as one-time in-kind gifts received during fiscal year 2003.

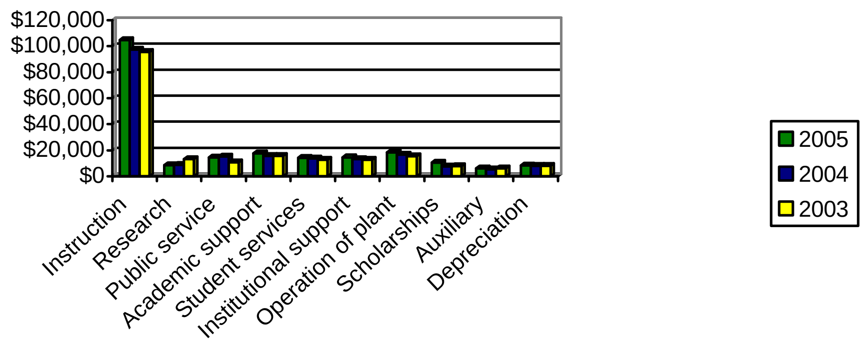
For all fiscal years depicted below, the majority of expenses for the MEAC are attributed to salaries and benefits and operating expenses.



Program Classification
University
(in thousands of dollars)

	2005	2004	2003
Instruction	$104,685	$ 97,433	$ 95,655
Research	8,583	8,929	13,188
Public service	14,409	15,361	10,740
Academic support	17,718	15,697	15,794
Student services	14,392	13,654	12,667
Institutional support	14,631	13,162	12,678
Operation and maintenance of plant	18,485	16,644	15,548
Scholarships	10,595	7,731	7,939
Auxiliary	6,043	5,518	6,187
Depreciation	8,337	8,221	8,191
Total expenses	$217,878	$202,350	$198,587

Operating Expenses by Functional Classification - University



Instruction is the largest expense area for the university. Expenses in other areas did not change materially in fiscal year 2005. In fiscal year 2004, research expenses decreased and public service expenses increased by approximately $5 million each due to a reclassification of grant accounts related to human services from research to public service. The function of the grants had changed over time and the reclassification properly reflects the change in the focus of the grants.

For fiscal years 2005 and 2004, approximately one-half of operating expenses by function is attributable to instruction. The remainder is attributed to the remaining nine functional areas.

The Statement of Cash Flows

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

University
Statements of Cash Flows
(in thousands of dollars)

	2005	2004	2003
Cash provided (used) by			
Operating activities	$(103,219)	$(90,613)	$(83,979)
Noncapital financing activities	113,463	99,173	88,016
Capital and related financing activities	(5,884)	(5,195)	(6,670)
Investing activities	(11,414)	(23,468)	2,118
Net increase (decrease) in cash	(7,054)	(20,103)	(515)
Cash, beginning of year	33,575	53,678	54,193
Cash, end of year	$26,521	$33,575	$53,678

Material sources of cash for the university included state appropriations, tuition and fees, and grants and contracts. Material uses of cash were for payments to suppliers and vendors, payments to employees, and payments for scholarships and fellowships. In 2005, cash used by operating activities increased due to increases in expenditures for grants and contracts, increases in student scholarships and loans, and residence hall revenues. The most significant change in noncapital financing is seen in the change in deposits held for others which increased in 2005. Capital financing activities show increases in proceeds from debt, capital appropriations, and increases in capital projects spending. Investing activities increased due to investment earnings. In 2004, cash used by operating activities increased primarily due to reclassification of cash provided by PELL and SEOG grants to nonoperating grants and contracts and an increase in payments to suppliers. Cash provided by noncapital financing activities increased because of the reclassification of PELL and SEOG grants from operating to nonoperating grants. Cash used by capital and related financing activities decreased due to an increase in state appropriations for capital projects and proceeds from capital debt.

The cash position of the university decreased by approximately $7,054,000 during the fiscal year ended June 30, 2005, due to increases in investments for the university.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2005, the university had $157.2 million in capital assets, net of accumulated depreciation. Depreciation for fiscal year 2005 was $8.3 million. Land improvements and infrastructure increased due to completion of steam line replacements and electrical system upgrades. Buildings increased due to the completion of a new student apartment complex. Projects in progress increases consist of the old library renovation, new dormitory construction, the fossil site and museum, and the new administrative software system. Details of these assets are shown below.

At June 30, 2004, the university had $153.7 million invested in net capital assets. Depreciation charges totaled $8.2 million for the current fiscal year. The increase in land improvements and infrastructure results from the capitalization of improvements to campus chillers and fire and energy management systems, as well as the capitalization of the foundation gift of the golf practice facility. The increase in projects in progress represents the ongoing construction of a new student apartment complex and other capital projects. All remaining depreciable categories decreased due to the recording of depreciation with no significant additions to capital assets.

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

	2005	2004	2003
Land	$23,517	$23,517	$23,486
Land improvements & infrastructure	12,824	11,200	10,142
Buildings	98,405	98,050	101,229
Equipment	7,585	6,997	7,082
Library holdings	6,816	7,452	7,882
Projects in progress	8,090	6,522	1,091
Total	$157,237	$153,738	$150,912

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

	2005	2004	2003
Land	$ -	$225	$229
Buildings	12	15	18
Equipment	9	9	9
Projects in progress	342	-	566
Total	$363	$249	$822

In 2005, land held for investment purposes by the foundation was sold. Construction in progress consists of a carillon that will be transferred to the university after completion. In 2004, the foundation capital assets decreased due to the transfer of the golf practice facility and building that was under construction at June 30, 2003. The building and practice facility were transferred to the university during fiscal year 2004.

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

	2005	2004	2003
Land	$48	$48	$48
Buildings	253	284	322
Equipment	489	520	590
Total	$790	$852	$960

There were no material changes in capital assets for MEAC during fiscal years 2005 and 2004.

The university has planned capital expenditures to renovate the old library at a cost of $11 million and the construction of a new dormitory at a cost of $20 million. The library renovation is being funded by state appropriations and the construction of the dormitory is to be funded by Tennessee State School Bond Authority bonds. More detailed information about the university's capital assets is presented in Note 6 to the financial statements.

Debt

At June 30, 2005, and June 30, 2004, the university had $33 million and $30 million, respectively, in debt outstanding. The table below summarizes these amounts by type of debt instrument.

University
Outstanding Debt Schedule
(in thousands of dollars)

	2005	2004	2003
Commercial paper	$ 4,508	$333	$ -
Notes	350	400	450
Loans	2,056	2,162	2,261
Bonds	26,612	27,324	25,095
Total Debt	$33,526	$30,219	$27,806

The increase in debt for the university in 2005 is related to commercial paper for dormitory renovations, construction of a new dorm, and acquisition of a new administrative software system. In 2004, the increase in debt for the university is related to the bonds for construction of a new student apartment complex.

The Tennessee State School Bond Authority (TSSBA) must authorize all capital long-term debt on behalf of the university. TSSBA currently is rated as AA- by Standard & Poor. More detailed information about the university's long-term liabilities is presented in Note 8 to the financial statements.

Economic Factors That Will Affect the Future

The economic outlook for the State of Tennessee continues to improve; however, the university continues to lag behind the Tennessee Higher Education Commission funding formula recommendations. While improvements to higher education appropriations are a high priority, funding issues regarding TennCare and other priorities have limited the state's ability to increase funding for higher education. For fiscal year 2005-06, the university received funding for approximately two-thirds of an across the board salary increase of 3%. There were no additional funds approved for operating increases. To help with this area, as well as funding the remaining salary increase, the Tennessee Board of Regents authorized a 9.7% fee increase for fiscal year 2005-06 for the Academic Campus and 8% for the Quillen College of Medicine.

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

Requests for Information

This financial report is designed to provide a general overview of the university'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 information should be directed to Dr. David Collins, Vice President for Business and Finance, P. O. Box 70601, Johnson City, TN 37614.

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENTS OF NET ASSETS
JUNE 30, 2005, AND JUNE 30, 2004

	East Tennessee State University		Component Units: East Tennessee State University Foundation		Component Units: Medical Education Assistance Corporation	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
ASSETS						
Current assets:						
Cash and cash equivalents (Notes 2, 3, and 18)	$ 7,579,098.59	$ 12,617,653.27	$ 357,800.00	$ 46,351.00	$ 2,887,882.00	$ 2,980,071.00
Short-term investments (Notes 3, 4, and 18)	12,010,000.00	2,010,000.00	-	-	2,000,000.00	1,100,000.00
Accounts, notes, and grants receivable (net) (Notes 5 and 18)	12,232,329.82	14,278,885.29	196,660.00	58,187.00	3,237,774.00	3,266,291.00
Inventories	518,464.26	542,580.42	-	-	-	-
Prepaid expenses and deferred charges	674,464.47	342,935.94	-	-	187,085.00	103,583.00
Accrued interest receivable	507,297.13	405,565.66	-	-	-	-
Other assets	12,131.70	12,131.70	-	-	-	-
Total current assets	33,533,785.97	30,209,752.28	554,460.00	104,538.00	8,312,741.00	7,449,945.00
Noncurrent assets:						
Cash and cash equivalents (Notes 2, 3, and 18)	18,942,024.59	20,957,458.63	1,991,925.00	2,761,504.00	-	-
Investments (Note 4)	28,608,265.71	24,828,962.50	40,248,996.00	25,056,790.00	6,000,000.00	6,000,000.00
Accounts, notes, and grants receivable (net) (Notes 5 and 18)	8,510,949.34	8,761,382.22	4,122,189.00	183,234.00	398,165.00	488,835.00
Capital assets (net) (Notes 6 and 18)	157,237,292.28	153,737,807.97	363,361.00	249,236.00	789,875.00	851,780.00
Other assets	-	-	150,629.00	141,126.00	-	-
Total noncurrent assets	213,298,531.92	208,285,611.32	46,877,100.00	28,391,890.00	7,188,040.00	7,340,615.00
Total assets	246,832,317.89	238,495,363.60	47,431,560.00	28,496,428.00	15,500,781.00	14,790,560.00
LIABILITIES						
Current liabilities:						
Accounts payable	3,643,082.21	3,447,641.36	159,533.00	54,522.00	499,699.00	437,670.00
Accrued liabilities	6,083,317.23	4,764,568.71	-	-	2,685,629.00	2,611,780.00
Student deposits	510,362.16	391,213.44	-	-	-	-
Deferred revenue	5,895,177.76	5,772,640.37	-	-	280,000.00	350,000.00
Compensated absences (Notes 8 and 18)	1,178,827.48	1,073,493.75	-	-	97,170.00	87,761.00
Accrued interest payable	307,996.87	310,140.68	-	-	-	-
Long-term liabilities, current portion (Note 8)	1,155,024.90	1,600,160.82	-	-	-	-
Deposits held in custody for others	1,185,120.27	898,531.58	-	-	-	-
Other liabilities	1,779,267.96	1,108,375.16	-	-	595,851.00	653,297.00
Total current liabilities	21,738,176.84	19,366,765.87	159,533.00	54,522.00	4,158,349.00	4,140,508.00
Noncurrent liabilities:						
Compensated absences (Notes 8 and 18)	7,824,666.58	7,128,628.40	-	-	388,679.00	351,049.00
Long-term liabilities (Note 8)	32,371,391.89	28,619,331.21	-	-	-	-
Due to grantors (Note 8)	7,605,974.67	7,367,103.17	-	-	-	-
Total noncurrent liabilities	47,802,033.14	43,115,062.78	-	-	388,679.00	351,049.00
Total liabilities	69,540,209.98	62,481,828.65	159,533.00	54,522.00	4,547,028.00	4,491,557.00
NET ASSETS						
Invested in capital assets, net of related debt	123,710,875.49	123,518,315.94	363,361.00	249,236.00	789,875.00	851,780.00
Restricted for:						
Nonexpendable:						
Scholarships and fellowships	39,290.41	39,199.18	28,692,779.00	16,236,688.00	-	-
Other	-	-	7,233,637.00	6,219,100.00	-	-
Expendable:						
Scholarships and fellowships	20,910.28	33,839.48	1,031,760.00	1,006,173.00	-	-
Research	354,676.27	371,575.52	1,128,126.00	4,100.00	-	-
Instructional department uses	145,467.94	144,089.73	5,375,684.00	1,903,831.00	-	-
Loans	1,639,594.39	1,876,941.78	-	-	-	-
Debt service	3,080,210.60	3,125,388.30	-	-	-	-
Other	985,868.47	1,061,170.14	2,595,175.00	2,187,734.00	-	-
Unrestricted (Note 10)	47,315,214.06	45,843,014.88	851,505.00	635,044.00	10,163,878.00	9,447,223.00
Total net assets	$ 177,292,107.91	$ 176,013,534.95	$ 47,272,027.00	$ 28,441,906.00	$ 10,953,753.00	$ 10,299,003.00

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

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005, AND JUNE 30, 2004

	East Tennessee State University		Component Units: East Tennessee State University Foundation		Component Units: Medical Education Assistance Corporation	
	Year Ended June 30, 2005	Year Ended June 30, 2004	Year Ended June 30, 2005	Year Ended June 30, 2004	Year Ended June 30, 2005	Year Ended June 30, 2004
REVENUES						
Operating revenues:						
Student tuition and fees (net of scholarship allowances of $15,314,656.36 for the year ended June 30, 2005, and $11,338,384.80 for the year ended June 30, 2004)	$ 43,274,050.90	$ 41,842,296.14	$ -	$ -	$ -	$ -
Gifts and contributions	-	-	6,798,576.00	1,964,242.00	-	-
Endowment income per spending plan	-	-	516,558.00	320,373.00	-	-
Governmental grants and contracts	24,827,690.91	25,116,920.40	-	-	-	-
Nongovernmental grants and contracts	5,177,155.10	7,028,473.40	-	-	-	-
Sales and services of educational departments	18,102,257.43	18,023,340.46	-	-	-	-
Patient charges	-	-	-	-	29,990,964.00	28,822,633.00
Auxiliary enterprises:						
Residential life (net of scholarship allowances of $128,614.45 for the year ended June 30, 2005, and $122,261.16 for the year ended June 30, 2004; all residential life revenues are used as security for revenue bonds; see Note 8)	6,396,145.27	5,809,560.56	-	-	-	-
Bookstore	502,023.57	529,144.89	-	-	-	-
Food service	383,382.99	384,150.49	-	-	-	-
Center for physical activities (all revenues are used as security for revenue bonds; see Note 8)	872,946.79	851,005.88	-	-	-	-
Other auxiliaries	376,222.92	476,273.48	-	-	-	-
Interest earned on loans to students	334,285.93	137,528.15	-	-	-	-
Other operating revenues	1,407,989.72	1,996,437.28	302,061.00	424,809.00	64,085.00	88,412.00
Total operating revenues	101,654,151.53	102,195,131.13	7,617,195.00	2,709,424.00	30,055,049.00	28,911,045.00
EXPENSES						
Operating expenses (Note 16):						
Salaries and wages	118,356,404.22	112,138,208.33	-	-	18,755,651.00	17,787,047.00
Benefits	35,292,292.93	31,241,370.86	-	-	1,973,739.00	1,954,786.00
Utilities, supplies, and other services	42,269,629.87	40,039,533.70	1,766,509.00	2,376,709.00	6,825,665.00	7,035,070.00
Scholarships and fellowships	13,622,563.76	10,710,189.48	583,642.00	732,675.00	-	-
Depreciation expense	8,336,397.75	8,221,419.15	2,950.00	2,950.00	279,884.00	317,340.00
Payments to or on behalf of East Tennessee State University	-	-	807,693.00	1,693,169.00	-	-
Total operating expenses	217,877,288.53	202,350,721.52	3,160,794.00	4,805,503.00	27,834,939.00	27,094,243.00
Operating income (loss)	(116,223,137.00)	(100,155,590.39)	4,456,401.00	(2,096,079.00)	2,220,110.00	1,816,802.00
NONOPERATING REVENUES (EXPENSES)						
State appropriations	84,358,985.99	80,402,767.42	-	-	-	-
Gifts (university gifts include $608,924.94 from ETSU Foundation and $1,310,810.00 from MEAC in 2005 and $403,500.07 from ETSU Foundation and $980,022.00 from MEAC in 2004)	1,919,734.94	1,383,522.07	516,220.00	360,620.00	-	-
Grants and contracts	26,147,193.43	16,275,242.14	-	-	-	-
Investment income (for the component units, net of investment expense of $89,808.00 in 2005 and $87,641.00 in 2004)	2,194,757.20	1,197,970.12	3,306,979.00	3,798,867.00	355,154.00	121,681.00
Interest on capital asset-related debt	(1,565,603.33)	(1,437,762.23)	-	-	-	-
Bond issuance costs	-	(55,277.97)	-	-	-	-
Payments to or on behalf of East Tennessee State University or East Tennessee State University Foundation	-	-	-	-	(1,827,030.00)	(1,340,642.00)
Other nonoperating revenues (expenses)	(182,489.91)	(199,208.20)	551,465.00	-	(93,484.00)	7,108.00
Net nonoperating revenues	112,872,578.32	97,567,253.35	4,374,664.00	4,159,487.00	(1,565,360.00)	(1,211,853.00)
Income (loss) before other revenues, expenses, gains, or losses	(3,350,558.68)	(2,588,337.04)	8,831,065.00	2,063,408.00	654,750.00	604,949.00
Capital appropriations	3,858,151.52	2,515,566.21	-	-	-	-
Capital gifts and grants (university gifts include $198,767.65 from ETSU Foundation in 2005 and $1,289,669.00 from ETSU Foundation in 2004)	770,980.12	2,373,166.01	99,108.00	284,809.00	-	-
Additions to permanent endowments	-	-	9,899,948.00	1,043,519.00	-	-
Total other revenues	4,629,131.64	4,888,732.22	9,999,056.00	1,328,328.00	-	-
Increase in net assets	1,278,572.96	2,300,395.18	18,830,121.00	3,391,736.00	654,750.00	604,949.00
NET ASSETS						
Net assets - beginning of year	176,013,534.95	173,713,139.77	28,441,906.00	25,050,170.00	10,299,003.00	9,694,054.00
Net assets - end of year	$ 177,292,107.91	$ 176,013,534.95	$ 47,272,027.00	$ 28,441,906.00	$ 10,953,753.00	$ 10,299,003.00

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

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005, AND JUNE 30, 2004

	Year Ended June 30, 2005	Year Ended June 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 43,291,531.83	$ 42,407,598.58
Grants and contracts	31,376,900.65	31,280,591.22
Sales and services of educational activities	18,635,979.99	19,058,880.17
Payments to suppliers and vendors	(41,690,564.61)	(39,274,884.68)
Payments to employees	(117,291,530.79)	(112,195,139.00)
Payments for benefits	(34,254,372.04)	(31,616,743.78)
Payments for scholarships and fellowships	(13,710,595.44)	(10,717,107.99)
Loans issued to students and employees	(2,904,786.16)	(2,258,757.77)
Collection of loans from students and employees	2,670,393.16	2,467,304.50
Interest earned on loans to students	296,088.25	123,207.97
Auxiliary enterprise charges:		
Residence halls	6,549,901.93	5,742,569.78
Bookstore	507,309.82	515,419.17
Food services	407,282.98	360,252.31
Center for physical activities	872,946.79	851,005.88
Other auxiliaries	377,575.86	602,672.06
Other receipts	1,646,861.22	2,040,335.09
Net cash used by operating activities	(103,219,076.56)	(90,612,796.49)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	84,438,923.51	80,304,229.90
Gifts and grants received for other than capital or endowment purposes	28,066,928.37	17,658,764.21
Federal student loan receipts	38,552,151.57	35,982,594.07
Federal student loan disbursements	(38,456,208.00)	(35,889,561.71)
Changes in deposits held for others	190,645.12	8,749.33
Net cash balance implicitly financed	670,892.80	1,108,375.16
Net cash provided by noncapital financing activities	113,463,333.37	99,173,150.96
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	4,972,732.81	3,928,252.03
Capital appropriations	3,858,151.52	2,515,566.21
Capital grants and gifts received	572,212.47	955,580.04
Purchases of capital assets and construction	(11,839,209.54)	(9,262,654.97)
Principal paid on capital debt and leases	(1,665,808.05)	(1,515,470.65)
Interest paid on capital debt and leases	(1,567,747.14)	(1,415,995.17)
Bond issue costs paid on new debt issue	51,283.26	(55,277.97)
Other capital and related payments	(265,654.23)	(344,435.96)
Net cash used by capital and related financing activities	(5,884,038.90)	(5,194,436.44)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,933,741.06	2,010,000.00
Income on investments	2,402,052.31	1,531,546.52
Purchase of investments	(15,750,000.00)	(27,010,000.00)
Net cash used by investing activities	(11,414,206.63)	(23,468,453.48)
Net decrease in cash and cash equivalents	(7,053,988.72)	(20,102,535.45)
Cash and cash equivalents - beginning of year	33,575,111.90	53,677,647.35
Cash and cash equivalents - end of year	$ 26,521,123.18	$ 33,575,111.90

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005, AND JUNE 30, 2004

	Year Ended June 30, 2005	Year Ended June 30, 2004
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (116,223,137.00)	$ (100,155,590.39)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	8,336,397.75	8,221,419.15
Change in assets and liabilities:		
Receivables, net	2,451,443.83	301,968.99
Inventories	24,116.16	104,656.13
Prepaid expenses and deferred charges	(331,425.51)	(23,842.00)
Other assets	(38,197.68)	344,770.54
Accounts payable	195,440.85	601,542.23
Accrued liabilities	1,318,748.52	(357,973.10)
Deferred revenue	122,537.39	198,472.26
Deposits	119,148.72	4,798.87
Compensated absences	801,371.91	(105,463.71)
Due to grantors	238,871.50	43,897.81
Loans to students and employees	(234,393.00)	208,546.73
Net cash used by operating activities	$ (103,219,076.56)	$ (90,612,796.49)
Non-cash transactions		
Gifts of capital assets	$ 198,767.65	$ 1,417,585.97
Unrealized losses on investments	(207,993.23)	-
Loss on disposal of capital assets	(233,873.17)	-

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

Tennessee Board of Regents
East Tennessee State University
Notes to the Financial Statements
June 30, 2005, and June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Basis of Presentation

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

Basis of Accounting

For financial statement purposes, the university is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant interfund transactions have been eliminated.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards

Board. The university has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The university has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

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

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

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

Inventories

Inventories are valued at the lower of cost or market. Items are maintained on an average cost or first-in, first-out basis.

Compensated Absences

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

Capital Assets

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

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

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

Net Assets

The university's net assets are classified as follows:

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

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

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

Unrestricted net assets – Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the university, and may be used at the discretion of the university to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the university and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the university's financial statements. To the extent that revenues from such programs 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, 2005, cash and cash equivalents consisted of $20,826.55 in bank accounts, $30,000.00 of petty cash on hand, $19,344,822.59 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, $735,474.04 in LGIP deposits for capital projects, $106,000.00 on deposit with the State Treasurer, and $6,284,000.00 in overnight repurchase agreements. At June 30, 2004, cash and cash equivalents consisted of $25,148.02 in bank accounts, $30,000.00 of petty cash on hand, $27,733,933.35 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, $195,030.53 in LGIP deposits for capital projects, $106,000.00 on deposit with the State Treasurer, and $5,485,000.00 in overnight repurchase agreements.

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

NOTE 3. DEPOSITS

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

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

At June 30, 2005, the carrying amount of the university's deposits in financial institutions participating in the collateral pool was $12,031,151.91, and the bank balance including accrued interest was $13,474,672.09. The bank balance was insured. At June 30, 2004, the carrying amount of the university's deposits in financial institutions participating in the collateral pool was $12,032,702.94, and the bank balance including accrued interest was $13,574,323.72. The bank balance was insured.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 115%, 100%, or 90% of the uninsured deposits at financial institutions participating in the collateral pool and 105% of the uninsured deposits at all other financial institutions. The pledge level for financial institutions participating in the collateral pool is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

At June 30, 2005, the carrying amount of the university's deposits was $12,032,826.55, and the bank balance including accrued interest was $13,476,346.73. The bank balance was insured.

For the year ended June 30, 2004, deposits with financial institutions are required to be categorized to indicate the level of risk assumed by the university. Category 1 consists of deposits that are insured or collateralized with securities held by the university or by its agent in the university's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the university's name. Category 3 deposits are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the university's name.

At June 30, 2004, the carrying amount of the university's deposits was \$12,035,148.02 and the bank balance including accrued interest was \$13,576,768.80. Of the bank balance, all was insured and was therefore category 1.

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

NOTE 4. INVESTMENTS

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

All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase. Certificates of deposit have been included with other deposits in Note 3 to determine the custodial credit risk.

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

		Investment Maturities (in Years)	
Investment Type	Fair Value	Less than 1	1 to 5
Federal Home Loan Mortgage Corporation (FHLM) obligations	$3,958,756.00	$1,979,600.00	$1,979,156.00
Federal Home Loan Bank (FHLB) obligations	18,806,968.71	3,723,048.75	15,083,919.96
Federal National Mortgage Association (FNMA) obligations	5,842,541.00	1,855,665.00	3,986,876.00
Repurchase agreements	6,284,000.00	6,284,000.00	-
Certificates of deposit	12,010,000.00		
Amount reported as cash and cash equivalents	(6,284,000.00)		
	$40,618,265.71		

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 changes arising from increasing interest rates.

Credit risk - The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. The university has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations. At June 30, 2005, the university's investments were rated as follows by nationally recognized statistical rating organizations:

Investment Type	Moody's	Standard and Poor's	Fitch	Fair Value
State of Tennessee Local Government Investment Pool	Unrated	Unrated	Unrated	$19,344,822.59
Federal Home Loan Mortgage Corporation (FHLM) obligations	Aaa	AAA	Unrated	3,958,756.00
Federal Home Loan Bank (FHLB) obligations	Aaa	AAA	Unrated	18,806,968.71
Federal National Mortgage Association (FNMA) obligations	Aaa	AAA	Unrated	5,842,541.00

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, 2005, the university had no uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the university's name

Concentration of credit risk - The university places no limit on the amount the university may invest in any one issuer. At June 30, 2005, more than 5% of the university's investments were invested in the following single issuers:

Issuer	Percentage of Total Investments
Federal Home Loan Mortgage Corporation (FHLM) obligations	8.4%
Federal Home Loan Banks (FHLB) obligations	40.1%
Federal National Mortgage Association (FNMA) obligations	12.4%

Foreign currency risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The university places no limit on the amount the university may invest in foreign currency. At June 30, 2005, the university had no exposure to foreign currency risk.

The university's investments at June 30, 2004, are categorized below to indicate the level of risk assumed by the university at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the university or its agent in the university's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the university's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the university's name.

Category 1:	
Repurchase agreements	$5,485,000.00
Category 3:	
U.S. government securities	14,828,962.50
Certificates of deposit classified as investments	12,010,000.00
Amount classified as cash equivalents	(5,485,000.00)
Total	$26,838,962.50

The university's investments in overnight repurchase agreements at June 30, 2004, are reported as category 1. These amounts are insured via the bank collateral pool administered by the State Treasurer.

Investments of endowment and similar funds are composed of the following:

	June 30, 2005	June 30, 2004
Certificates of Deposit	$2,010,000.00	$2,010,000.00

NOTE 5. RECEIVABLES

Receivables included the following:

	June 30, 2005	June 30, 2004
Student accounts receivable	$4,536,443.60	$4,657,785.39
Grants receivable	6,987,564.26	8,349,588.96
Notes receivable	441,048.36	482,371.33
State appropriation receivable	209,800.00	230,000.00
Other receivables	2,620,535.16	3,138,491.91
Subtotal	14,795,391.38	16,858,237.59
Less allowance for doubtful accounts	2,187,132.93	1,635,690.48
Subtotal	$12,608,258.45	$15,222,547.11

Federal Perkins Loan Program funds included the following:

Perkins loans receivable	$ 9,478,222.06	$ 9,020,490.84
Less allowance for doubtful accounts	1,343,201.35	1,202,770.44
Subtotal	$ 8,135,020.71	$ 7,817,720.40
Total receivables	$20,743,279.16	$23,040,267.51

NOTE 6. CAPITAL ASSETS

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$23,516,501.74	$ -	$ -	$ -	$23,516,501.74
Land improvements and infrastructure	17,359,943.25	398,597.90	2,173,195.30	-	19,931,736.45
Buildings	175,388,019.30	148,831.31	4,429,127.11	-	179,965,977.72
Equipment	26,024,422.02	2,303,717.90	-	2,251,614.80	26,076,525.12
Library holdings	15,794,457.72	1,047,744.57	-	1,596,563.12	15,245,639.17
Projects in progress	6,521,817.17	8,170,863.55	(6,602,322.41)	-	8,090,358.31
Total	264,605,161.20	12,069,755.23	-	3,848,177.92	272,826,738.51

Less accum. depreciation:					
Land improvements and infrastructure	6,159,675.38	948,031.30	-	-	7,107,706.68
Buildings	77,338,023.87	4,222,836.24	-	-	81,560,860.11
Equipment	19,027,567.39	1,481,309.96	-	2,017,741.63	18,491,135.72
Library holdings	8,342,086.59	1,684,220.25	-	1,596,563.12	8,429,743.72
Total accum. depreciation	110,867,353.23	8,336,397.75	-	3,614,304.75	115,589,446.23
Capital assets, net	$153,737,807.97	$3,733,357.48	$ -	$ 233,873.17	$157,237,292.28

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$23,486,301.74	$ -	$30,200.00	$ -	$23,516,501.74
Land improvements and infrastructure	15,485,586.75	554,083.21	1,320,273.29	-	17,359,943.25
Buildings	174,400,929.14	937,252.40	49,837.76	-	175,388,019.30
Equipment	24,974,507.54	1,613,327.17	-	563,412.69	26,024,422.02
Library holdings	16,047,212.49	1,305,314.08	-	1,558,068.85	15,794,457.72
Projects in progress	1,091,043.45	6,831,084.77	(1,400,311.05)	-	6,521,817.17
Total	255,485,581.11	11,241,061.63	-	2,121,481.54	264,605,161.20
Less accum. depreciation:					
Land improvements and infrastructure	5,343,546.58	816,128.80	-	-	6,159,675.38
Buildings	73,172,260.51	4,165,763.22	-	(.14)	77,338,023.87
Equipment	17,892,101.26	1,504,274.46	-	368,808.33	19,027,567.39
Library holdings	8,164,902.77	1,735,252.67	-	1,558,068.85	8,342,086.59
Total accum. depreciation	104,572,811.12	8,221,419.15	-	1,926,877.04	110,867,353.23
Capital assets, net	$150,912,769.99	$3,019,642.48	$ -	$ 194,604.50	$153,737,807.97

NOTE 7. CAPITAL LEASES

The university has entered into an Enhanced Use Lease Agreement with the United States Department of Veteran's Affairs for certain real property and buildings at the Veteran's Affairs Medical Center in Johnson City, Tennessee. The lease is for a period of 35 years. In lieu of lease payments, the university has assumed responsibility for all capital and recurring costs of maintaining the property covered by the agreement.

In conjunction with the lease, the university entered into a memorandum of agreement with the Department of Veteran's Affairs to construct a new building (the Basic Science Building) with joint funding from the State of Tennessee and the federal government. In accordance with the memorandum of agreement, the state provided $18 million to the federal government for its share of the total construction costs ($34,195,153.41.) The Basic Science Building is included under the provisions of the Enhanced Use Lease Agreement.

The university's leasing of the Basic Science Building will constitute a capital lease agreement. The lease term is substantially equal to the estimated useful life of the leased property. Accordingly, the university has capitalized the cost of the building at $34,195,153.41. At June 30, 2005, the building is reported at $29,920,759.25, net of accumulated depreciation of $4,274,394.16. At June 30, 2004, the building is reported at $30,989,357.79, net of accumulated depreciation of $3,205,795.62.

NOTE 8. LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Notes	$ 400,000.00	$ -	$ 50,000.00	$ 350,000.00	$ 50,000.00
Loans	2,162,255.42	-	106,318.45	2,055,936.97	113,920.22
Bonds	27,323,816.93	797,780.87	1,509,489.60	26,612,108.20	991,104.68
Commercial paper	333,419.68	4,174,951.94	-	4,508,371.62	-
Subtotal	30,219,492.03	4,972,732.81	1,665,808.05	33,526,416.79	1,155,024.90
Other liabilities:					
Compensated absences	8,202,122.15	5,273,056.79	4,471,684.88	9,003,494.06	1,178,827.48
Due to grantors	7,367,103.17	238,871.50	-	7,605,974.67	-
Subtotal	15,569,225.32	5,511,928.29	4,471,684.88	16,609,468.73	1,178,827.48
Total long-term liabilities	$45,788,717.35	$10,484,661.10	$6,137,492.93	$50,135,885.52	$2,333,852.38

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Notes	$ 450,000.00	$ -	$ 50,000.00	$ 400,000.00	$ 50,000.00
Loans	2,261,479.36	-	99,223.94	2,162,255.42	106,318.45
Bonds	25,095,231.29	3,594,832.35	1,366,246.71	27,323,816.93	1,443,842.37
Commercial paper	-	333,419.68	-	333,419.68	-
Subtotal	27,806,710.65	3,928,252.03	1,515,470.65	30,219,492.03	1,600,160.82
Other liabilities:					
Compensated absences	8,307,585.86	4,552,833.18	4,658,296.89	8,202,122.15	1,073,493.75
Due to grantors	7,323,205.36	43,897.81	-	7,367,103.17	-
Subtotal	15,630,791.22	4,596,730.99	4,658,296.89	15,569,225.32	1,073,493.75
Total long-term liabilities	$43,437,501.87	$8,524,983.02	$6,173,767.54	$45,788,717.35	$2,673,654.57

Notes Payable

The Tennessee Board of Regents, on behalf of the university, borrowed funds for the renovation of the Memorial Athletic Medical Center ("BucSports"). The note bears an annually adjusted interest rate equal to the average Local Government Investment Pool rate for the previous year, a face amount of $500,000.00, a minimum annual debt service of $50,000.00 plus interest, with payments due annually to 2012. The balance owed by the university was $350,000.00 at June 30, 2005, and $400,000.00 at June 30, 2004.

Debt service requirements to maturity for notes payable at June 30, 2005, are as follows:

Year Ending June 30	Principal	Interest	Total
2006	50,000.00	7,210.00	57,210.00
2007	50,000.00	6,180.00	56,180.00
2008	50,000.00	5,150.00	55,150.00
2009	50,000.00	4,120.00	54,120.00
2010	50,000.00	3,090.00	53,090.00
2011 – 2012	100,000.00	3,090.00	103,090.00
	$350,000.00	$28,840.00	$378,840.00

Loans Payable

The Tennessee General Assembly earmarked in Section 41, Item 41 of Chapter 563 of the Public Acts of 1989 the amount of $3,000,000 from the funds appropriated in Section 1, Title 111-25 of Chapter 563 of the Public Acts of 1989 for the East Tennessee State University Clinical Education Facility. These funds were intended to be an interest-bearing loan from the General Fund to the Tennessee Board of Regents on behalf of East Tennessee State University. The loan bears an interest rate of 7.15%, has a principal amount of $3,000,000.00, a minimum annual debt service of $260,919.72 and a due date of January 1, 2017. The balance owed by the university was $2,055,936.97 at June 30, 2005, and $2,162,255.42 at June 30, 2004.

Debt service requirements to maturity for all loans payable at June 30, 2005, are as follows:

Year Ending June 30	Principal	Interest	Total
2006	113,920.22	146,999.50	260,919.72
2007	122,065.51	138,854.21	260,919.72
2008	130,793.20	130,126.53	260,919.73
2009	140,144.91	120,774.82	260,919.73
2010	150,165.27	110,754.46	260,919.73
2011 – 2015	928,078.92	376,519.21	1,304,598.13
2016 – 2017	470,768.94	51,070.84	521,839.78
	$2,055,936.97	$1,075,099.57	$3,131,036.54

Bonds Payable

Bond issues, with interest rates ranging from 3.0% to 5.5% for Tennessee State School Bond Authority bonds, are due serially to 2034 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations. The bonded indebtedness with the Tennessee State School Bond Authority reported on the statement of net assets is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was $77,149.75 at June 30, 2005, and $76,933.55 at June 30, 2004. Unexpended debt proceeds were $41,025.81 at June 30, 2005, and $783,416.88 at June 30, 2004.

Debt service requirements to maturity for bonds payable at June 30, 2005, are as follows:

Year Ending June 30	Principal	Interest	Total
2006	$991,104.68	$1,230,290.93	$2,221,395.61
2007	982,254.45	1,212,182.21	2,194,436.66
2008	1,025,538.60	1,170,433.97	2,195,972.57
2009	1,088,917.42	1,125,715.73	2,214,633.15
2010	1,133,877.10	1,082,579.50	2,216,456.60
2011-2015	5,133,249.91	4,744,053.89	9,877,303.80
2016-2020	4,885,140.90	3,591,265.97	8,476,406.87
2021-2025	4,794,613.93	2,304,361.36	7,098,975.29
2026-2030	4,162,995.56	1,260,027.83	5,423,023.39
2031-2034	2,414,415.65	229,323.98	2,643,739.63
	$26,612,108.20	$17,950,235.37	$44,562,343.57

Commercial paper

The Tennessee State School Bond Authority also authorized the issuance of commercial paper to finance the costs of various capital projects. The amount issued for projects at the university was $4,508,371.62 at June 30, 2005, and $333,419.68 at June 30, 2004.

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

NOTE 9. 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's endowment and quasi-endowment assets are invested to produce only interest income. For the fiscal year ended June 30, 2005, the university's endowments and quasi-endowments earned interest income totaling $193,672.93. The university retained $89,968.98 for expenditure in future years, of which $91.23 is restricted to specific purposes. For the fiscal year ended June 30, 2004, the university's endowments and quasi-endowments earned interest income totaling $85,960.73. The university retained $25,090.78 for expenditure in future years, of which $46.06 is restricted to specific purposes.

NOTE 10. UNRESTRICTED NET ASSETS

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

	June 30, 2005	June 30, 2004
Working capital	$4,256,593.71	$4,962,245.61
Encumbrances	1,963,960.48	1,506,192.01
Designated fees	1,298,395.40	1,338,536.44
Auxiliaries	937,831.66	857,815.50
Quasi-endowment	9,793,185.29	9,663,307.54
Plant construction	6,801,240.00	6,221,700.95
Renewal and replacement of equipment	20,797,240.27	19,062,455.63
Debt retirement	1,142,310.72	1,111,967.27
Unreserved/undesignated	324,456.53	1,118,793.93
Total	$47,315,214.06	$45,843,014.88

NOTE 11. PENSION PLANS

A. Defined Benefit Plans

Tennessee Consolidated Retirement System

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 10.54% 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, 2005, 2004, and 2003 were $3,840,331.45, $2,414,168.28, and $2,372,506.81. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The university contributes to three defined contribution plans: Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the

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

Funding Policy - Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans was $6,124,665.17 for the year ended June 30, 2005, and $5,912,048.14 for the year ended June 30, 2004. Contributions met the requirements for each year.

NOTE 12. OTHER POST-EMPLOYMENT BENEFITS

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

NOTE 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 Risk Management Fund is also responsible for claims for damages to state owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from $25,000 per occurrence, depending on the type of coverage, to an aggregate of $7.5 million.

The university participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2005, and June 30, 2004, are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140. Since the university participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2005, the Risk Management Fund held $114.4 million in cash and cash equivalents designated for payment of claims. At June 30, 2004, the Risk Management fund held $101.1 million in cash and cash equivalents designated for payment of claims.

At June 30, 2005, the scheduled coverage for the university was $448,647,400 for buildings and $100,567,400 for contents. At June 30, 2004, the scheduled coverage for the university was $429,950,000 for buildings and $100,598,043 for contents.

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

NOTE 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 $42,832,078.70 at June 30, 2005, and $41,019,508.32 at June 30, 2004.

Operating Leases - The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were $121,000.00 and for personal property were $146,284.19 for the year ended June 30, 2005. Comparative amounts for the year ended June 30, 2004, were $187,018.31 and $138,289.83. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2005, outstanding commitments under construction contracts totaled $13,426,505.29 for renovations, fire alarm upgrades, steamline repairs, roofing, handicap accessibility projects, the Fossil site project, and HVAC replacements, of which $8,103,026.81 will be funded by future state capital outlay appropriations.

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

Contracts – In December 2004, the Tennessee Board of Regents system entered into a contract with Sundgard SCT for the purchase of a comprehensive enterprise resource planning system. The contract includes a multi-year phase-in of administrative software for financial, human resource, and student systems. The institution's outstanding liability for this contract is estimated as $3,567,754.00 at June 30, 2005.

NOTE 15. CHAIRS OF EXCELLENCE

The university had $19,831,952.92 on deposit at June 30, 2005, and $19,327,047.91 on deposit at June 30, 2004, with the State Treasurer for the university's Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

NOTE 16. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$71,258,094.48	$19,326,871.38	$12,230,656.25	$1,869,476.58	$ -	$104,685,098.69
Research	4,224,172.73	1,022,952.33	3,293,745.45	42,111.66	-	8,582,982.17
Public service	8,064,504.16	2,419,892.72	3,889,266.85	35,776.65	-	14,409,440.38
Academic support	10,594,109.85	3,349,608.60	3,445,471.15	328,299.93	-	17,717,489.53
Student services	7,000,018.75	2,313,028.83	3,735,709.10	1,343,451.18	-	14,392,207.86
Institutional support	10,512,331.41	3,924,195.46	76,524.15	117,432.03	-	14,630,483.05
Operation & maintenance of plant	5,577,054.41	2,659,062.88	10,247,624.62	1,114.86	-	18,484,856.77
Scholarships & fellowships	870.00	6,964.44	807,862.61	9,779,243.85	-	10,594,940.90
Auxiliary	1,125,248.43	269,716.29	4,542,769.69	105,657.02	-	6,043,391.43
Depreciation	-	-	-	-	8,336,397.75	8,336,397.75
Total	$118,356,404.22	$35,292,292.93	$42,269,629.87	$13,622,563.76	$8,336,397.75	$217,877,288.53

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

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$67,044,582.71	$17,189,729.00	$11,677,012.54	$1,521,882.09	$ -	$97,433,206.34
Research	4,334,669.59	936,964.51	3,616,612.23	41,139.26	-	8,929,385.59
Public service	8,680,524.28	2,528,571.93	4,110,953.34	41,037.23	-	15,361,086.78
Academic support	9,568,486.41	2,765,808.45	3,049,379.88	312,751.58	-	15,696,426.32
Student services	6,606,734.58	2,153,695.47	3,489,783.46	1,403,337.12	-	13,653,550.63
Institutional support	9,537,988.26	3,164,470.82	335,954.01	123,925.48	-	13,162,338.57
Operation & maintenance of plant	5,338,465.40	2,252,001.19	9,052,159.04	1,507.15	-	16,644,132.78
Scholarships & fellowships	4,476.00	6,155.47	523,397.28	7,197,059.03	-	7,731,087.78
Auxiliary	1,022,281.10	243,974.02	4,184,281.92	67,550.54	-	5,518,087.58
Depreciation	-	-	-	-	8,221,419.15	8,221,419.15
Total	$112,138,208.33	$31,241,370.86	$40,039,533.70	$10,710,189.48	$8,221,419.15	$202,350,721.52

NOTE 17. PRIOR-YEAR RESTATEMENT

In 2004, the Medical Education Assistance Corporation (MEAC), a component unit of the university, reported some payments for physician services which were reimbursed to the university as operating salaries and wages. This has been reclassified as a nonoperating payment to the university. Because of this reclassification, ETSU has restated the receipt of these payments from operating to nonoperating on the university statements as well. Additionally, MEAC reclassified investments in certificates of deposit with maturities greater than 12 months to noncurrent assets. Additionally, current accounts receivable, deferred revenue, and other liabilities were reclassified on the statement of net assets. The following table details the restated amounts.

	ETSU Amounts Restated		
	Original Amount	Increase/ (Decrease)	Restated Amount
Statement of Revenues, Expenses, and Changes in Net Assets			
Nongovernmental grants and contracts	8,008,495.40	(980,022.00)	7,028,473.40
Nonoperating gifts	403,500.07	980,022.00	1,383,522.07
Statement of Cash Flows			
Operating activities – grants and contracts	32,260,613.22	(980,022.00)	31,280,591.22
Noncapital financing activities – gifts	16,678,742.21	980,022.00	17,658,764.21

	MEAC Component Unit Amounts Restated		
	Original Amount	Increase/ (Decrease)	Restated Amount
Statement of Net Assets			
Current assets:			
Short term investments	7,100,000.00	(6,000,000.00)	1,100,000.00
Accounts, notes, and grants receivable	2,752,914.00	513,377.00	3,266,291.00
Noncurrent assets:			
Investments	-	6,000,000.00	6,000,000.00
Current liabilities:			
Accrued liabilities	3,101,700.33	(489,920.00)	2,611,780.00
Deferred revenue	-	350,000.00	350,000.00
Other liabilities	-	653,297.00	653,297.00
Statement of Revenues, Expenses, and Changes in Net Assets			
Operating:			
Salaries and wages	18,767,069.00	(980,022.00)	17,787,047.00
Payments to or on behalf of ETSU or ETSU Foundation	360,620.00	(360,620.00)	-
Nonoperating:			
Payments to or on behalf of ETSU or ETSU Foundation	-	1,340,642.00	1,340,642.00

NOTE 18. COMPONENT UNITS

East Tennessee State University Foundation

The East Tennessee State University Foundation is a legally separate, tax-exempt organization supporting East 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 30-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.

During the year ended June 30, 2005, the foundation made distributions of $807,693 to or on behalf of the university for both restricted and unrestricted purposes. During the year ended June 30, 2004, the foundation made distributions of $1,693,169 to or on behalf of the university for both restricted and unrestricted purposes.

Complete financial statements for the foundation can be obtained from Dr. David D. Collins, Vice President for Business and Finance, ETSU, P. O. Box 70601, Johnson City, Tennessee 37614.

<u>Cash and cash equivalents</u> – 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, 2005, cash and cash equivalents consisted of $151,636 in bank accounts, $370 of petty cash on hand, $2,181,547 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $16,172 in cash held by stockbrokers. At June 30, 2004, cash and cash equivalents consisted of $196,219 in bank accounts, $370 of petty cash on hand, $1,573,425 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $1,037,841 in cash held by stockbrokers.

Deposits – At June 30, 2005, the carrying amount of the foundation's deposits was $151,636, and the bank balance including accrued interest was $6,941. All funds were insured.

For the year ended June 30, 2004, deposits with financial institutions are required to be categorized to indicate the level of risk assumed by the foundation. Category 1 consists of deposits that are insured or collateralized with securities held by the foundation or by its agent in the foundation's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the foundation's name. Category 3 deposits are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the foundation's name.

At June 30, 2004, the carrying amount of the foundation's deposits was $196,219, and the bank balance including accrued interest was $92,306. The entire bank balance was category 1.

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

Investments – The foundation is authorized to invest funds in accordance with its board of directors' policies. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

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

		Investment Maturities (in Years)	
Investment Type	Fair Value	1 to 5	6 to 10
Federal Home Loan Bank (FHLB) obligations	$6,939,063	$6,939,063	$ -
Federal National Mortgage Association (FNMA) obligations	990,000	990,000	-
Corporate bonds	4,030,009	-	4,030,009
Mutual funds	28,283,029		
Corporate stocks	6,895		
Total	$40,248,996		

Interest rate risk – The foundation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value changes arising from increasing interest rates.

Credit risk – The foundation has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations. At June 30, 2005, the foundation's investments were rated as follows by nationally recognized statistical rating organizations:

Investment Type	Moody's	Standard and Poor's
Federal Home Loan Bank (FHLB) obligations	Aaa	AAA
Federal National Mortgage Association (FNMA) obligations	Aaa	AAA
Corporate bonds	Aaa	AAA

The foundation's investments in mutual funds are unrated.

Custodial credit risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The foundation does not have a policy for custodial credit risk. At June 30, 2005, the foundation had no uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the foundation's name.

Concentration of credit risk – The foundation places no limit on the amount it may invest in any one issuer. At June 30, 2005, more than 5% of the foundation's investments were invested in the following single issuers:

Issuer	Percentage of Total Investments
Federal Home Loan Bank (FHLB) obligations	17%

Foreign currency risk – The foundation places no limit on the amount it may invest in foreign currency. At June 30, 2005, the foundation had no exposure to foreign currency risk.

The foundation's investments at June 30, 2004, are categorized below to indicate the level of risk assumed by the foundation at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the foundation or its agent in the foundation's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the foundation's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the foundation's name.

	June 30, 2004
Category 1:	
Corporate stocks	$14,927,788
Category 2:	
Corporate stocks	5,129,553
Category 3:	
U.S. government securities	4,999,449
Total	$25,056,790

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

	Carrying Value June 30, 2005	Carrying Value June 30, 2004
Federal Home Loan Bank (FHLB) obligations	$6,136,856	$3,997,503
Federal National Mortgage Association (FNMA) obligations	875,548	-
Federal Home Loan Mortgage Corporation (FHLMC) obligations	-	1,001,946
Mutual funds	25,452,429	15,730,926
Corporate bonds	3,564,110	-
	$36,028,943	$20,730,375

Assets of endowments are pooled on a fair value basis, with each individual fund subscribing to or disposing of units on the basis of the fair value per unit at the beginning of the calendar quarter within which the transaction takes place. Of the total units at June 30, 2005, each having a fair value of $1.1059392790, 31,645,425 units were owned by endowments, and 552,368 units were owned by quasi-endowments. Of the total units at June 30, 2004, each having a fair value of $1.1017071580, 20,444,128 units were owned by endowments, and 482,179 units were owned by quasi-endowments.

The following tabulations summarize changes in relationships between cost and fair values of the pooled assets:

FY 2005

	Pooled Assets Fair Value	Pooled Assets Cost	Net Gains (Losses)	Fair Value Per Unit
End of year	$40,242,101	$38,774,010	$1,468,091	$1.1059392790
Beginning of year	$25,048,219	$23,980,243	1,067,976	$1.1017071580
Unrealized net gains			400,115	
Realized net gains			2,653,278	
Total net gains			$3,053,393	

The average annual earnings per unit, exclusive of net gains, were $.023 for the year.

FY 2004

	Pooled Assets Fair Value	Pooled Assets Cost	Net Gains (Losses)	Fair Value Per Unit
End of year	$25,048,219	$23,980,243	$1,067,976	$1.10171580
Beginning of year	$17,019,832	$18,825,021	(1,805,189)	$.08418500206
Unrealized net gains			2,873,165	
Realized net gains			808,950	
Total net gains			$3,682,115	

The average annual earnings per unit, exclusive of net gains, were $.017 for the year.

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

	June 30, 2005	June 30, 2004
Current pledges	$821,136	$77,484
Pledges due in one to five years	3,179,642	111,704
Pledges due after five years	802,515	2,155
Subtotal	4,803,293	191,343
Less discounts to net present value	522,751	7,728
Total pledges receivable, net	$4,280,542	$183,615

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$225,000	$ -	$ -	$225,000	$ -
Buildings	59,000	-	-	-	59,000
Equipment	9,486	-	-	-	9,486
Projects in progress	-	523,881	-	181,806	342,075
Total	293,486	523,881	-	406,806	410,561
Less accumulated depreciation	44,250	2,950	-	-	47,200
Capital assets, net	$249,236	$520,931	$ -	$406,806	$363,361

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$228,500	$ -	$ -	$ 3,500	$225,000
Buildings	59,000	-	-	-	59,000
Equipment	9,486	-	-	-	9,486
Projects in progress	565,821	718,504	-	1,284,325	-
Total	862,807	718,504	-	1,287,825	293,486
Less accumulated depreciation	41,300	2,950	-	-	44,250
Capital assets, net	$821,507	$715,554	$ -	$1,287,825	$249,236

Medical Education Assistance Corporation

The Medical Education Assistance Corporation (MEAC) is a legally separate, tax-exempt organization supporting East Tennessee State University. MEAC acts primarily as a physicians' practice group to supplement the resources that are available to the university in support of its medical programs. The 15-member board of MEAC is self-perpetuating and consists of the department chairs from Quillen College of Medicine, a representative from East Tennessee State University's Business and Finance Department, a representative from the Tennessee Board of Regents, and at-large faculty from the Quillen College of Medicine. Although the university does not control the timing or amount of receipts from MEAC, the residual income that MEAC earns is restricted to supporting medical education. Because these restricted resources held by MEAC can only be used by, or for the benefit of the university, MEAC is considered a component unit of the university and is discretely presented in the university's financial statements.

During the year ended June 30, 2005, MEAC made distributions of $516,200 to the ETSU Foundation for both restricted and unrestricted purposes. During the year ended June 30, 2004, MEAC made distributions of $360,620 to the ETSU Foundation for both restricted and unrestricted purposes. During the year ended June 30, 2005, MEAC made distributions of $1,310,810 to or on behalf of the university for both restricted and unrestricted purposes. During the year ended June 30, 2004, MEAC made distributions of $980,022 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for MEAC can be obtained from Russell Lewis, Executive Director, P. O. Box 699, Mountain Home, Tennessee 37684.

Cash – This classification includes demand deposits and petty cash on hand. At June 30, 2005, cash consisted of $2,625,268 in bank accounts, $2,185 of petty cash on hand, and $260,429 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 2004, cash consisted of $2,711,911 in bank accounts, $2,215 of petty cash on hand, and $265,945 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer.

Deposits – At June 30, 2005, the carrying amount of the corporation's deposits was $10,625,268, and the bank balance including accrued interest was $10,625,268. Of the bank balance, $10,625,268 was collateralized with securities held by the pledging financial institution's trust department or agent in the corporation's name.

For the year ended June 30, 2004, deposits with financial institutions are required to be categorized to indicate the level of risk assumed by the corporation. Category 1 consists of deposits that are insured or collateralized with securities held by the corporation or by its agent in the corporation's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the corporation's name. Category 3 deposits are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the corporation's name.

At June 30, 2004, the carrying amount of the corporation's deposits was $9,811,911, and the bank balance including accrued interest was $10,325,939. The entire bank balance was category 2.

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

Investments – The corporation is authorized to invest funds in accordance with its board of directors' policies. The corporation's investments at June 30, 2005, and June 30, 2004, consisted of certificates of deposit with original maturities greater than three months. Certificates of deposit have been included with other deposits above to determine the custodial credit risk.

Interest rate risk – MEAC does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value changes arising from increasing interest rates. At June 30, 2005, MEAC had no investments subject to interest rate risk.

Credit risk – MEAC has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations. As of June 30, 2005, MEAC did not have any rated investments.

Concentration of credit risk – MEAC places no limit on the amount it may invest in any one issuer.

Foreign currency risk – MEAC places no limit on the amount it may invest in foreign currency. As of June 30, 2005, MEAC has no exposure to foreign currency risk.

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 48,328	$ -	$ -	$ -	$ 48,328
Leasehold improvements	385,451	-	-	-	385,451
Buildings	300,072	8,193	-	-	308,265
Equipment	3,266,719	309,507	-	740,613	2,835,613
Total	4,000,570	317,700	-	740,613	3,577,657
Less accumulated depreciation:					
Leasehold improvements	335,735	26,352	-	-	362,087
Buildings	65,800	13,255	-	-	79,055
Equipment	2,747,255	240,277	-	640,892	2,346,640
Total accumulated depreciation	3,148,790	279,884	-	640,892	2,787,782
Capital assets, net	$ 851,780	$ 37,816	$ -	$ 99,721	$ 789,875

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 48,328	$ -	$ -	$ -	$ 48,328
Leasehold improvements	385,451	-	-	-	385,451
Buildings	286,682	13,390	-	-	300,072
Equipment	3,089,613	195,862	-	18,756	3,266,719
Total	3,810,074	209,252	-	18,756	4,000,570
Less accumulated depreciation:					
Leasehold improvements	297,683	38,052	-	-	335,735
Buildings	52,773	13,027	-	-	65,800
Equipment	2,499,748	266,261	-	18,754	2,747,255
Total accumulated depreciation	2,850,204	317,340	-	18,754	3,148,790
Capital assets, net	$ 959,870	($108,088)	$ -	$ 2	$ 851,780

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$438,810	$47,039	$ -	$485,849	$97,170

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$389,692	$49,118	$ -	$438,810	$87,761

Restatement of prior year – A restatement of fiscal year 2004 amounts is described in Note 17.

NOTE 19. AFFILIATED ENTITY NOT INCLUDED

The East Tennessee State University Research Foundation was incorporated on July 10, 2002, as a nonprofit corporation with the university as the sole beneficiary. The first activity for the Research Foundation occurred in November 2002. The corporation is controlled by a board independent of the institution. As reported on its most recently prepared unaudited financial reports, at June 30, 2005, the assets of the Research Foundation totaled $1,010,665.89, liabilities were $5,493.60, and the net assets amounted to $1,005,172.29.

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
SUPPLEMENTARY INFORMATION
STATEMENTS OF CASH FLOWS-EAST TENNESSEE STATE UNIVERSITY FOUNDATION
FOR THE YEARS ENDED JUNE 30, 2005, AND JUNE 30, 2004

	Year Ended June 30, 2005	Year Ended June 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 2,509,326.00	$ 1,740,971.00
Endowment income per spending plan	516,558.00	320,373.00
Payments to suppliers and vendors	(1,582,127.00)	(2,158,148.00)
Payments for scholarships and fellowships	(468,130.00)	(751,904.00)
Payments to or on behalf of East Tennessee State University	(810,532.00)	(415,931.00)
Other receipts	302,061.00	424,809.00
Net cash provided (used) by operating activities	467,156.00	(839,830.00)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gifts and grants received for other than capital or endowment purposes	516,220.00	360,620.00
Private gifts for endowment purposes	9,899,948.00	1,043,519.00
Other noncapital financing receipts	750,000.00	100.00
Net cash provided by noncapital financing activities	11,166,168.00	1,404,239.00
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts received	99,107.00	284,809.00
Purchases of capital assets and construction	(325,113.00)	(718,504.00)
Net cash used by capital and related financing activities	(226,006.00)	(433,695.00)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	15,073,176.00	4,577,351.00
Income on investments	2,928,318.00	869,046.00
Purchases of investments	(29,866,942.00)	(9,732,573.00)
Net cash used by investing activities	(11,865,448.00)	(4,286,176.00)
Net decrease in cash and cash equivalents	(458,130.00)	(4,155,462.00)
Cash and cash equivalents - beginning of year	2,807,855.00	6,963,317.00
Cash and cash equivalents - end of year	$ 2,349,725.00	$ 2,807,855.00
Reconciliation of operating income (loss) to net cash used by operating activities:		
Operating income (loss)	$ 4,456,401.00	$ (2,096,079.00)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	2,950.00	2,950.00
Other adjustments	-	1,289,669.00
Change in assets and liabilities:		
Receivables, net	(4,097,208.00)	33,676.00
Accounts payable	105,013.00	(70,046.00)
Net cash provided (used) by operating activities	$ 467,156.00	$ (839,830.00)
Noncash Transactions		
Gifts in-kind	$ 192,322.00	$ 232,168.00
Unrealized gains on investments	$ 398,440.00	$ 2,873,165.00
Loss on disposal of capital assets	$ 181,806.00	$ 1,289,669.00

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
SUPPLEMENTARY INFORMATION
STATEMENTS OF CASH FLOWS-MEDICAL EDUCATION ASSISTANCE CORPORATION
FOR THE YEARS ENDED JUNE 30, 2005, AND JUNE 30, 2004

	Year Ended June 30, 2005	Year Ended June 30, 2004	
CASH FLOWS FROM OPERATING ACTIVITIES			
Collections from patient charges	$ 28,662,824.00	$ 27,625,337.00	
Payments to suppliers and vendors	(5,608,621.00)	(5,444,515.00)	
Payments to employees	(18,634,764.00)	(17,756,493.00)	
Payments for benefits	(1,973,739.00)	(1,954,786.00)	
Other receipts	63,779.00	110,998.00	
Net cash provided by operating activities	2,509,479.00	2,580,541.00	(1)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Other noncapital financing payments	(1,827,030.00)	(1,340,642.00)	
Net cash used by noncapital financing activities	(1,827,030.00)	(1,340,642.00)	(1)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from sales of capital assets	-	275.00	
Purchases of capital assets and construction	(317,700.00)	(209,252.00)	
Interest paid on capital debt and leases	(2,762.00)	(2,166.00)	
Net cash used by capital and related financing activities	(320,462.00)	(211,143.00)	
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	1,100,000.00	202,406.00	
Income on investments	355,154.00	121,681.00	
Purchases of investments	(2,000,000.00)	(7,100,000.00)	
Other investing receipts	90,670.00	34,817.00	
Net cash used by investing activities	(454,176.00)	(6,741,096.00)	
Net decrease in cash and cash equivalents	(92,189.00)	(5,712,340.00)	
Cash and cash equivalents - beginning of year	2,980,071.00	8,692,411.00	
Cash and cash equivalents - end of year	$ 2,887,882.00	$ 2,980,071.00	
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$ 2,220,110.00	$ 1,816,802.00	(1)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	279,884.00	317,340.00	
Other adjustments	9,000.00	9,000.00	
Change in assets and liabilities:			
Receivables, net	(47,688.00)	(100,406.00)	
Prepaid expenses and deferred charges	(83,502.00)	106,986.00	
Accounts payable	62,029.00	88,013.00	
Deferred revenues	(70,000.00)	350,000.00	
Compensated absences	120,887.00	30,554.00	
Other	18,759.00	(37,748.00)	
Net cash provided by operating activities	$ 2,509,479.00	$ 2,580,541.00	(1)

Noncash Transactions

Loss on disposal of capital assets	$ -	$ 18,755.00

Note:

(1) These amounts have been restated from the prior year. In 2004, MEAC reported $1,340,642.00 of payments for physician services which were reimbu to ETSU as operating expenses. These amounts have been reclassified as a nonoperating payment to the university.