

# AUDIT REPORT

Tennessee Board of Regents  
East Tennessee State University

For the Year Ended  
June 30, 2006



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY

Department of Audit  
Division of State Audit



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STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY

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

John G. Morgan  
Comptroller

March 29, 2007

The Honorable Phil Bredesen, Governor  
and

Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

and

The Honorable Charles W. Manning, Chancellor  
Tennessee Board of Regents  
1415 Murfreesboro Road, Suite 350  
Nashville, Tennessee 37217

and

Dr. 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, 2006. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

A handwritten signature in black ink that reads "John G. Morgan".

John G. Morgan  
Comptroller of the Treasury

JGM/sds  
06/103

State of Tennessee

# **A u d i t   H i g h l i g h t s**

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**East Tennessee State University**  
For the Year Ended June 30, 2006

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## **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, 2006**

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

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**INTRODUCTION**

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**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.

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## AUDIT SCOPE

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The audit was limited to the period July 1, 2005, through June 30, 2006, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the year ended June 30, 2006, and for comparative purposes, the year ended June 30, 2005. 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*.

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## OBJECTIVES OF THE AUDIT

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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.**

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## **PRIOR AUDIT FINDINGS**

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There were no findings in the prior audit report.

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## **OBSERVATIONS AND COMMENTS**

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### **MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT**

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

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

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

### **FRAUD CONSIDERATIONS**

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, promulgated by the American Institute of Certified Public Accountants, requires

auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

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

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## RESULTS OF THE AUDIT

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### AUDIT CONCLUSIONS

#### Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 2006, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 17, 2006

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

Dear Mr. Morgan:

We have audited the financial statements of East Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component units as of and for the year ended June 30, 2006, and have issued our report thereon dated November 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. During the year ended June 30, 2006, the university implemented GASB Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

**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 over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or

The Honorable John G. Morgan  
November 17, 2006  
Page Two

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

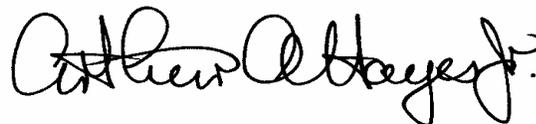
### **Compliance and Other Matters**

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

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

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

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized, cursive script.

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 17, 2006

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

Dear Mr. Morgan:

We have audited the accompanying basic financial statements of 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, 2006, and June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the university's management. Our responsibility is to express opinions on these financial statements, based on our audits. We 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 other auditors 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 auditors.

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

During the year ended June 30, 2006, the university implemented GASB Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. During the year ended June 30, 2005, the university implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*.

The management's discussion and analysis on pages 10 through 27 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 64 and 65 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 17, 2006  
Page Three

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2006, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." The signature is written in a cursive style with a large, prominent initial "A".

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, 2006, with comparative information presented for the fiscal years ended June 30, 2005, and June 30, 2004. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with 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 16 to the financial statements. Information and analysis regarding the component units is 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)**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Assets:</b>			
Current assets	\$ 36,056	\$ 33,534	\$ 30,209
Capital assets, net	176,423	157,237	153,738
Other assets	57,428	56,061	54,548
<b>Total assets</b>	<u>269,907</u>	<u>246,832</u>	<u>238,495</u>
<b>Liabilities:</b>			
Current liabilities	21,947	21,738	19,367
Noncurrent liabilities	57,271	47,802	43,115
<b>Total liabilities</b>	<u>79,218</u>	<u>69,540</u>	<u>62,482</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	134,154	123,711	123,518
Restricted – expendable	4,859	6,227	6,613
Restricted – nonexpendable	39	39	39
Unrestricted	51,637	47,315	45,843
<b>Total net assets</b>	<u>\$190,689</u>	<u>\$177,292</u>	<u>\$176,013</u>

Material university assets consist of cash and cash equivalents; accounts, notes and grants receivable; investments; and capital assets. In 2006, current cash and cash equivalents increased and current investments decreased due to decreases in short-term investments in certificates of deposit. Current and noncurrent accounts receivable increased due to increases in grants and contracts receivable. Prepaid expenses (classified as current assets) decreased due to decreases in deferred charges for summer school. Capital assets increased due to the completion of renovations to the Davis Apartments and Roy S. Nicks Hall. A capital gift was also received from the ETSU Foundation. Construction in progress increased due to a new student apartment complex, the forensic pathology building, and the fossil site project. In 2005, current investments increased due to increases in short-term investments in certificates of deposit. Prepaid expenses 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.

Material university liabilities include long-term TSSBA debt, compensated absences, and deferred revenue. In 2006, accounts payable increased with construction in progress for the new dormitory, the forensic pathology building, and the fossil site project. Accrued liabilities decreased due to decreases in accrued payroll and benefits payable at year end. Changes occurred in the current and noncurrent portions of compensated absences due to a change in the calculation for the current portion of the liability. Deferred revenue increased due to increases in grants and contracts and student maintenance fees. Long-term liabilities increased primarily due to additional bonds for the renovation of dormitories, energy performance enhancements, and a new administrative software system. In 2005, 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.

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Assets:</b>			
Current assets	\$ 612	\$ 554	\$ 105
Capital assets, net	1,688	363	249
Other assets	55,883	46,514	28,142
<b>Total assets</b>	58,183	47,431	28,496
<b>Liabilities:</b>			
Current liabilities	51	159	54
<b>Total liabilities</b>	51	159	54
<b>Net assets:</b>			
Invested in capital assets, net of related debt	1,688	363	249
Restricted – expendable	12,445	10,131	5,102
Restricted – nonexpendable	43,149	35,927	22,456
Unrestricted	850	851	635
<b>Total net assets</b>	\$58,132	\$47,272	\$28,442

For the foundation, material assets consist of cash and cash equivalents, investments, and pledges receivable. In 2006, increases in other assets were due to increases in restricted and endowment fund investments. This is due in part to a gift of \$2 million in 2006. Capital assets increased due to the receipt of a gift of property. 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.

The only liability of the foundation is accounts payable.

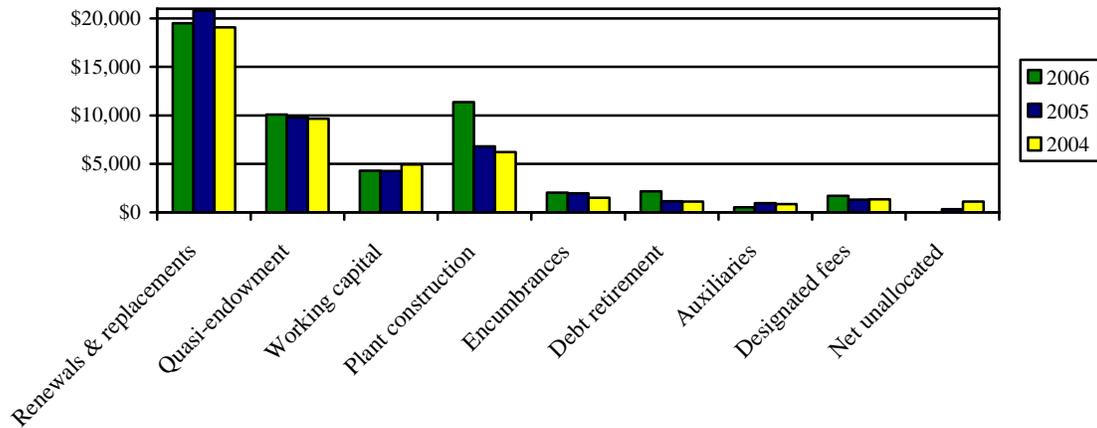
**Medical Education Assistance Corporation**  
**Statements of Net Assets**  
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Assets:</b>			
Current assets	\$11,860	\$8,313	\$7,450
Capital assets, net	639	790	852
Other assets	4,343	6,398	6,488
<b>Total assets</b>	<u>16,842</u>	<u>15,501</u>	<u>14,790</u>
<b>Liabilities:</b>			
Current liabilities	4,124	4,158	4,140
Noncurrent liabilities	428	389	351
<b>Total liabilities</b>	<u>4,552</u>	<u>4,547</u>	<u>4,491</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	639	790	852
Unrestricted	11,651	10,164	9,447
<b>Total net assets</b>	<u><u>\$12,290</u></u>	<u><u>\$10,954</u></u>	<u><u>\$10,299</u></u>

For MEAC, material assets consist of cash and cash equivalents, patient accounts receivable, capital assets, and investments. In 2006, increases in current assets can be found in short-term investments primarily as a result of current year operating income. Decreases in net capital assets are due to the retirement of obsolete assets. In 2005, increases in current assets can also 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 decrease in liabilities in 2006 is primarily due to the recognition of deferred revenue in the form of a one-time payment from Blue Cross Blue Shield. In 2005, 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):

**Unrestricted Net Assets -  
University**



The allocation for plant construction increased significantly in 2006 due to continuing construction for several projects on campus. Other allocations remained relatively unchanged.

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

The statement of revenues, expenses, and changes in net assets presents the operating results of the university, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to accounting principles generally accepted in the United States of America.

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Operating revenues:</b>			
Net tuition and fees	\$46,340	\$43,274	\$41,842
Grants and contracts	31,070	30,005	32,145
Auxiliary	9,209	8,530	8,050
Other	21,256	19,846	20,158
<b>Total operating revenues</b>	<u>107,875</u>	<u>101,655</u>	<u>102,195</u>
Operating expenses	232,692	217,878	202,350
<b>Operating loss</b>	<u>(124,817)</u>	<u>(116,223)</u>	<u>(100,155)</u>
<b>Nonoperating revenues and expenses:</b>			
State appropriations	86,173	84,359	80,403
Gifts	3,308	1,920	1,383
Grants and contracts	27,654	26,147	16,275
Investment income	3,055	2,195	1,198
Other revenues and expenses	(1,818)	(1,748)	(1,692)
<b>Total nonoperating revenues and expenses</b>	<u>118,372</u>	<u>112,873</u>	<u>97,567</u>
<b>Loss before other revenues, expenses, gains, or losses</b>	<u>(6,445)</u>	<u>(3,350)</u>	<u>(2,588)</u>
<b>Other revenues, expenses, gains, or losses:</b>			
Capital appropriations	15,155	3,858	2,515
Capital grants and gifts	4,687	771	2,373
<b>Total other revenues, expenses, gains, or losses</b>	<u>19,842</u>	<u>4,629</u>	<u>4,888</u>
<b>Increase in net assets</b>	<u>13,397</u>	<u>1,279</u>	<u>2,300</u>
<b>Net assets at beginning of period</b>	177,292	176,013	173,289
Prior period adjustment	-	-	424
<b>Net assets at end of year</b>	<u>\$190,689</u>	<u>\$177,292</u>	<u>\$176,013</u>

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Operating revenues:</b>			
Gifts and contributions	\$7,855	\$6,798	\$1,964
Endowment income per spending plan	898	517	320
Other operating revenues	254	302	425
<b>Total operating revenues</b>	<u>9,007</u>	<u>7,617</u>	<u>2,709</u>
Operating expenses	<u>8,328</u>	<u>3,161</u>	<u>4,805</u>
<b>Operating income (loss)</b>	<u>679</u>	<u>4,456</u>	<u>(2,096)</u>
<b>Nonoperating revenues and expenses:</b>			
Gifts	605	516	361
Investment income	4,108	3,307	3,798
Other revenues and expenses	(114)	552	-
<b>Total nonoperating revenues and expenses</b>	<u>4,599</u>	<u>4,375</u>	<u>4,159</u>
<b>Income before other revenues, expenses, gains, or losses</b>	<u>5,278</u>	<u>8,831</u>	<u>2,063</u>
<b>Other revenues, expenses, gains, or losses:</b>			
Capital grants and gifts	2,362	99	286
Additions to permanent endowments	3,220	9,900	1,043
<b>Total other revenues, expenses, gains, or losses</b>	<u>5,582</u>	<u>9,999</u>	<u>1,329</u>
<b>Increase in net assets</b>	<u>10,860</u>	<u>18,830</u>	<u>3,392</u>
<b>Net assets at beginning of period</b>	<u>47,272</u>	<u>28,442</u>	<u>25,050</u>
<b>Net assets at end of year</b>	<u>\$58,132</u>	<u>\$47,272</u>	<u>\$28,442</u>

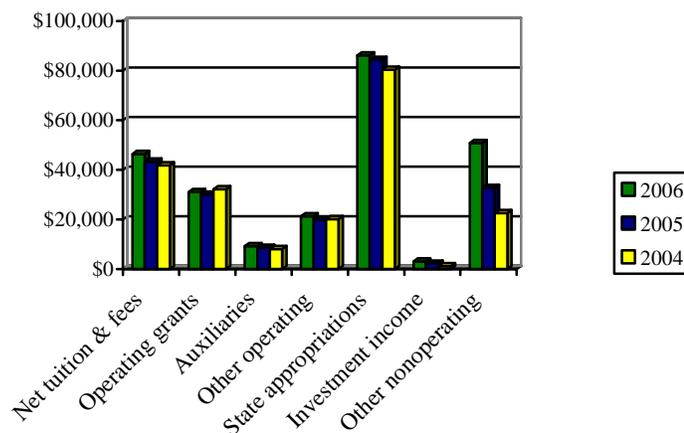
**MEAC**  
**Statements of Revenues, Expenses, and Changes in Net Assets**  
**(in thousands of dollars)**

	<u>2006</u>		<u>2005</u>		<u>2004</u>
<b>Operating revenues:</b>					
Patient charges	\$ 31,792		\$ 29,991		\$ 28,823
Other operating revenues	124		64		88
<b>Total operating revenues</b>	<u>31,916</u>		<u>30,055</u>		<u>28,911</u>
Operating expenses	<u>29,269</u>		<u>27,835</u>		<u>27,094</u>
<b>Operating income</b>	<u>2,647</u>		<u>2,220</u>		<u>1,817</u>
<b>Nonoperating revenues and expenses:</b>					
Investment income	470		355		122
Other revenues and expenses	(1,781)		(1,920)		(1,334)
<b>Total nonoperating revenues and expenses</b>	<u>(1,311)</u>		<u>(1,565)</u>		<u>(1,212)</u>
<b>Income before other revenues, expenses, gains, or losses</b>	<u>1,336</u>		<u>655</u>		<u>605</u>
<b>Other revenues, expenses, gains, or losses</b>	<u>-</u>		<u>-</u>		<u>-</u>
<b>Increase in net assets</b>	<u>1,336</u>		<u>655</u>		<u>605</u>
<b>Net assets at beginning of period</b>	<u>10,954</u>		<u>10,299</u>		<u>9,694</u>
<b>Net assets at end of year</b>	<u>\$12,290</u>		<u>\$10,954</u>		<u>\$10,299</u>

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, 2006; June 30, 2005; and June 30, 2004. Amounts are presented in thousands of dollars.

### Revenues by Source - University

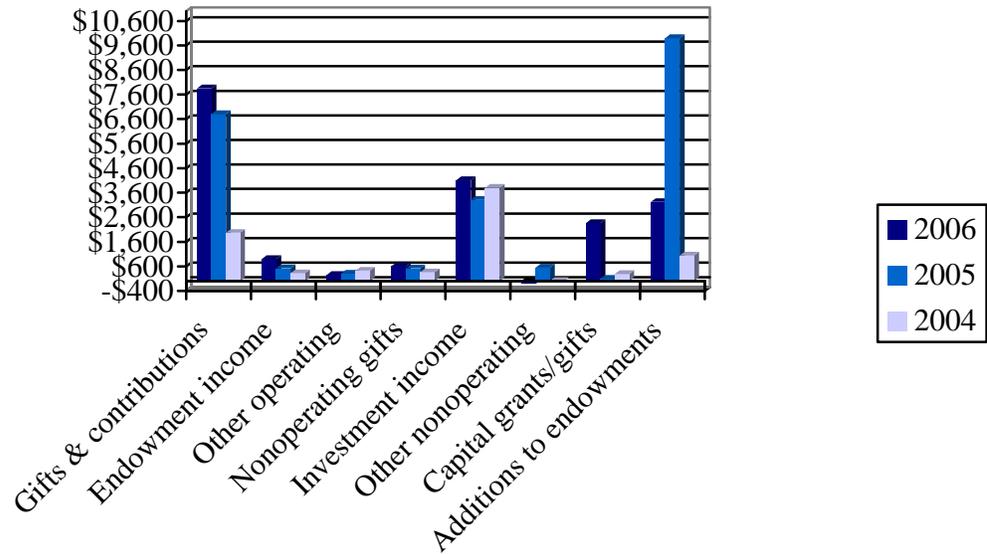


For all fiscal years depicted, ETSU's revenue is primarily attributed to state appropriations, tuition and fees, and grants and contracts.

Tuition and fees increased in 2006 due to a 9.7% fee increase. Both operating and nonoperating grants and contracts increased due to increases in the Tennessee Lottery Scholarship program, as well as Pell grants, contracts with Veteran's Affairs, the fossil site construction project, and the forensic renovation project. Interest on student loans (classified as other operating revenue above) increased with a corresponding decrease in the amounts due to grantors for federal loan funds. Other operating revenues also increased due to increases in parking and testing/licensing revenue. Nonoperating gifts increased due to increases in transfers from the ETSU Foundation, including a transfer of \$850,000 for the College of Pharmacy. Investment income increased due to increases in investments and interest rates. Capital appropriations and capital gifts increased with ongoing construction projects and the transfer of a capital asset (the Carillon Tower) from the ETSU Foundation. 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 construction project. Investment income also rose in 2005. Additionally, capital appropriations increased as several capital projects began.

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, 2006; June 30, 2005; and June 30, 2004. Amounts are presented in thousands of dollars.

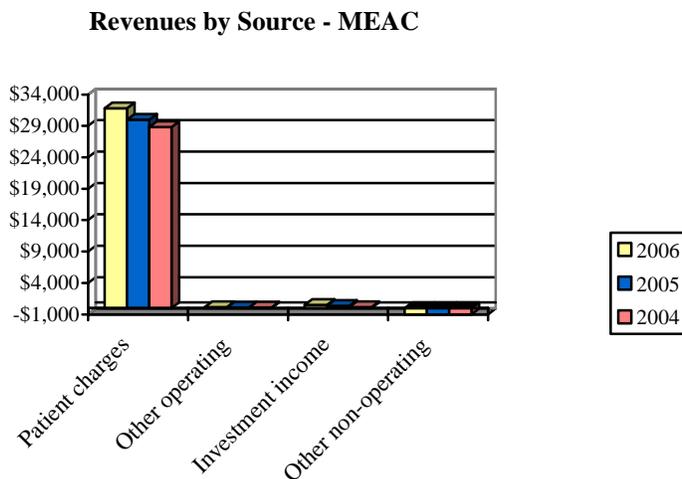
### Revenues by Source - Foundation



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

In 2006, the increase in operating expenses is primarily due to a large increase in in-kind gifts of property from the estate of James H. Quillen which is also reflected in the increase in capital grants and gifts. This category was further increased due to the transfer of funds to East Tennessee State University for expenses related to the opening of the College of Pharmacy. The increase in scholarships is the result of the first award of scholarships from the endowment established by the Quillen estate. Unrealized gains increased due to good stock market performance. The nonoperating expense is the result of the transfer of the Carillon Tower to East Tennessee State University. The decrease in additions to permanent endowments is a result of a one-time gift to the endowment fund in 2005. 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.

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 year ended June 30, 2006, June 30, 2005, and June 30, 2004. Amounts are presented in thousands of dollars



For all fiscal years, MEAC's income is primarily attributable to patient charges. Gross patient service revenues continue to increase steadily. Net operating revenues increased 6% in fiscal year 2006 and 4% in 2005. Patient service revenues increased primarily due to increased productivity with a 1% increase in patient encounters in 2006. Interest income increased 32% in 2006 as a result of rising interest rates and converting excess cash reserves from money market accounts to certificates of deposit. In 2005, reimbursable losses decreased, causing a decrease in other operating revenues. Interest income increased 191% over 2004 as a result of rising interest rates and converting excess cash reserves from money market accounts to certificates of deposit.

### 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).

<b>Natural Classification</b>			
<b>University</b>			
<b>(in thousands of dollars)</b>			
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Salaries	\$ 123,449	\$ 118,356	\$ 112,137
Benefits	36,127	35,292	31,241
Other operating	49,114	42,270	40,040
Scholarships	14,732	13,623	10,710
Depreciation	9,270	8,337	8,222
Total expenses	<u>\$ 232,692</u>	<u>\$ 217,878</u>	<u>\$ 202,350</u>

**Foundation  
Natural Classification  
(in thousands of dollars)**

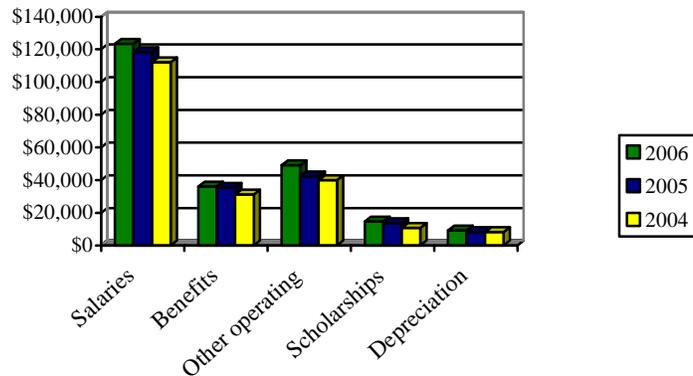
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Other operating	\$ 4,340	\$ 1,766	\$ 2,376
Scholarships	853	584	733
Depreciation	3	3	3
Payments to or on behalf of ETSU	3,132	808	1,693
<b>Total expenses</b>	<b>\$ 8,328</b>	<b>\$ 3,161</b>	<b>\$ 4,805</b>

**MEAC  
Natural Classification  
(in thousands of dollars)**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Salaries	\$19,458	\$18,756	\$17,787
Benefits	1,922	1,974	1,955
Other operating	7,659	6,825	7,035
Depreciation	231	280	317
<b>Total expenses</b>	<b>\$29,270</b>	<b>\$27,835</b>	<b>\$27,094</b>

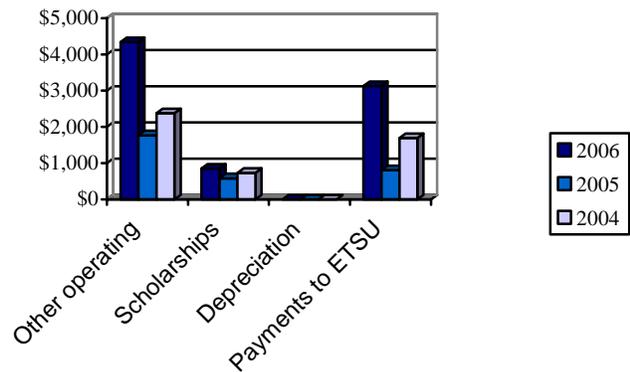
For all fiscal years depicted below, the majority of expenses are attributed to salaries and benefits. Amounts are presented in thousands of dollars.

**Operating Expenses by Natural Classification - University**



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. Amounts are presented in thousands of dollars.

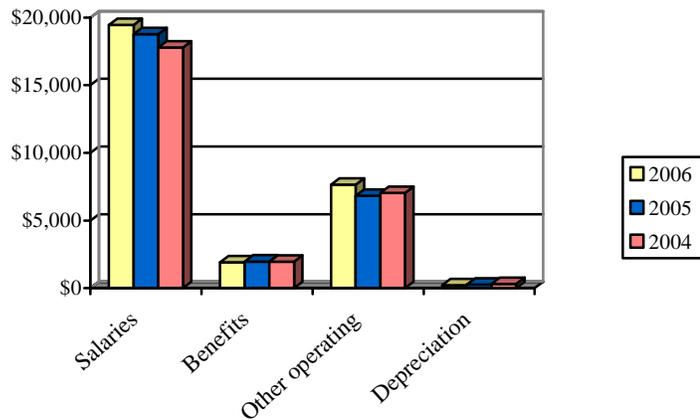
**Operating Expenses by Natural Classification -  
Foundation**



In 2006, 52% of the foundation’s operating expenses were in the other operating expense category. The foundation made a payment to ETSU of \$850,000 for the establishment of the College of Pharmacy. During fiscal years 2005 and 2004, 56% and 50%, respectively, of the foundation’s 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 all fiscal years depicted below, the majority of expenses for the MEAC are attributed to salaries and benefits and other operating expenses. Amounts are presented in thousands of dollars.

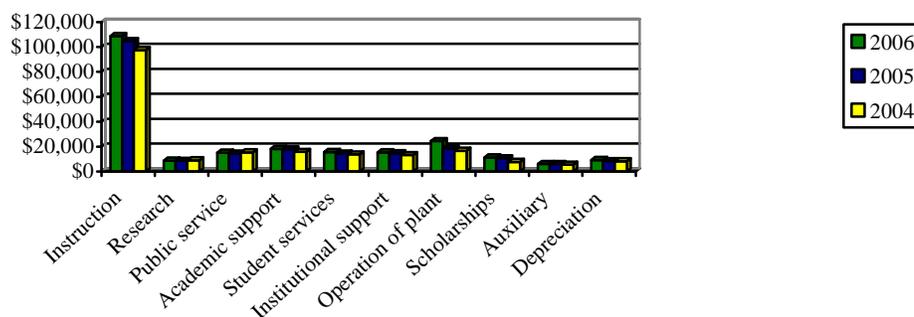
**Operating Expenses by Natural Classification -  
MEAC**



**Program Classification**  
**University**  
(in thousands of dollars, including graphic illustration below)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Instruction	\$108,727	\$104,685	\$ 97,433
Research	8,690	8,583	8,929
Public service	15,158	14,409	15,361
Academic support	18,090	17,718	15,697
Student services	15,656	14,392	13,654
Institutional support	15,380	14,631	13,162
Operation and maintenance of plant	24,398	18,485	16,644
Scholarships	11,261	10,595	7,731
Auxiliary	6,062	6,043	5,518
Depreciation	9,270	8,337	8,221
<b>Total expenses</b>	<b>\$232,692</b>	<b>\$217,878</b>	<b>\$202,350</b>

**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 2006 or 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 2006 and 2005, 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)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Cash provided (used) by</b>			
Operating activities	\$(117,898)	\$(103,219)	\$(90,613)
Noncapital financing activities	115,347	113,463	99,173
Capital and related financing activities	(1,683)	(5,884)	(5,195)
Investing activities	13,197	(11,414)	(23,468)
<b>Net increase (decrease) in cash</b>	<u>8,963</u>	<u>(7,054)</u>	<u>(20,103)</u>
<b>Cash, beginning of year</b>	<u>26,521</u>	<u>33,575</u>	<u>53,678</u>
<b>Cash, end of year</b>	<u><u>\$35,484</u></u>	<u><u>\$26,521</u></u>	<u><u>\$33,575</u></u>

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 2006, cash used by operating activities increased due to increases in expenditures for grants and contracts, and increases in student scholarships and loans. The most significant change in noncapital financing is seen in the elimination of the bank repurchase agreement at June 30, 2006, and the increase in gifts from the ETSU Foundation. Capital financing activities show increases in proceeds from debt, capital appropriations, and increases in capital grants and gifts. Investing activities increased due to investment earnings. In 2005, cash used by operating activities increased due to increases in expenditures for grants and contracts and increases in student scholarships and loans. The most significant change in noncapital financing was seen 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.

The cash position of the university increased by \$8,963,000 during the fiscal year ended June 30, 2006.

## **Capital Assets and Debt Administration**

### *Capital Assets*

At June 30, 2006, the university had \$176.4 million in capital assets, net of accumulated depreciation. Depreciation for fiscal year 2006 was \$9.2 million. Buildings increased due to the completion of renovations to dormitories, Roy S. Nicks Hall, and a family medicine building. The new administrative system went into production on two modules, and the expenses were capitalized as software. Projects in progress consist of new dormitory construction, the fossil site and museum, and the forensic pathology building. Details of these assets are shown below.

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 the completion of steam line replacements and electrical system

upgrades. Buildings increased due to the completion of a new student apartment complex. Projects in progress consisted of the old library renovation, new dormitory construction, the fossil site and museum, and the new administrative software system.

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Land	\$23,613	\$23,517	\$23,517
Land improvements & infrastructure	12,663	12,824	11,200
Buildings	106,562	98,405	98,050
Equipment	7,697	7,585	6,997
Library holdings	6,109	6,816	7,452
Software	2,080	-	-
Projects in progress	17,699	8,090	6,522
Total	<u>\$176,423</u>	<u>\$157,237</u>	<u>\$153,738</u>

At June 30, 2006, and June 30, 2005, the foundation had \$1,688,000 and \$363,000, respectively, invested in capital assets, net of accumulated depreciation. Depreciation charges totaled \$3,000 for both fiscal years. Details of these assets are shown below.

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Land	\$1,429	\$ -	\$225
Buildings	250	12	15
Equipment	9	9	9
Projects in progress	-	342	-
Total	<u>\$1,688</u>	<u>\$363</u>	<u>\$249</u>

In 2006, the foundation received a gift of property which will be sold and the proceeds placed in an endowment. In 2005, land held for investment purposes by the foundation was sold. Construction in progress consists of the Carillon Tower, which was transferred to the university in 2006.

At June 30, 2006, and June 30, 2005, MEAC had \$638,656 and \$789,875, respectively, invested in capital assets, net of accumulated depreciation. Depreciation charges totaled \$231,121 for the current fiscal year, and \$279,884 for the 2005 fiscal year. Details of these assets are shown below.

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Land	\$18	\$48	\$48
Buildings	185	253	284
Equipment	436	489	520
Total	<u>\$639</u>	<u>\$790</u>	<u>\$852</u>

In fiscal year 2006, net investment in capital assets decreased due to the sale of a facility, retirement of obsolete assets, and decreased asset purchases. There were no material changes in capital assets for MEAC during fiscal years 2005 and 2004.

More detailed information about university and component unit capital assets is shown in Notes 5 and 16, respectively.

*Debt*

At June 30, 2006, and June 30, 2005, the university had \$42 million and \$33 million, respectively, in debt outstanding. The table below summarizes these amounts by type of debt instrument.

<b>University</b>			
<b>Outstanding Debt Schedule</b>			
<b>(in thousands of dollars)</b>			
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Bonds	\$ 32,928	\$ 26,612	\$27,324
Notes	300	350	400
Loans	1,942	2,056	2,162
Commercial paper	7,099	4,508	333
Total debt	<u>\$42,269</u>	<u>\$33,526</u>	<u>\$30,219</u>

The increase in debt for the university in 2006 is primarily related to bonds payable for dormitory renovations, energy performance enhancements, and administrative software, and commercial paper for construction of a new dormitory, soccer facility renovations, and student center renovations. The increase in 2005 is related to commercial paper for dormitory renovations, construction of a new dorm, and acquisition of the new administrative software system.

The Tennessee State School Bond Authority (TSSBA) must authorize all capital long-term debt on behalf of the university. More detailed information about the university's long-term liabilities is presented in Note 7 to the financial statements.

## **Economic Factors That Will Affect the Future**

The economic outlook for the State of Tennessee continues to improve. While the university continues to lag behind the Tennessee Higher Education Commission funding formula recommendations, for the 2007 fiscal year, the state provided new appropriations of \$1.9 million for the academic campus, \$500,000 for the Quillen College of Medicine, and \$100,000 for the family practice centers. The state mandated a 2% across-the-board salary increase that must be paid from these funds; however, this still provided the university with the first increase for operating purposes it has received in many years. This increase has allowed the university to limit the fee increase for fiscal year 2007 to 4.1%—the lowest increase in a decade.

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 of the university during the 2007 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, 2006, AND JUNE 30, 2005**

	East Tennessee State University		Component Units			
			East Tennessee State University Foundation		Medical Education Assistance Corporation	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents (Notes 2, 3, and 16)	\$ 16,837,850.56	\$ 7,579,098.59	\$ 467,893.77	\$ 357,800.39	\$ 3,877,851.00	\$ 2,887,882.00
Short-term investments (Notes 3 and 16)	2,010,000.00	12,010,000.00	-	-	4,000,000.00	2,000,000.00
Accounts, notes, and grants receivable (net) (Note 4)	15,715,369.54	12,232,329.82	37,807.23	38,307.58	3,745,297.00	3,237,774.00
Pledges receivable (net) (Note 16)	-	-	106,526.91	158,353.53	-	-
Inventories	479,540.60	518,464.26	-	-	-	-
Prepaid expenses and deferred charges	347,524.41	674,464.47	-	-	237,109.00	187,085.00
Accrued interest receivable	653,739.14	507,297.13	-	-	-	-
Other assets	12,131.70	12,131.70	-	-	-	-
Total current assets	<u>36,056,155.95</u>	<u>33,533,785.97</u>	<u>612,227.91</u>	<u>554,461.50</u>	<u>11,860,257.00</u>	<u>8,312,741.00</u>
Noncurrent assets:						
Cash and cash equivalents (Notes 2, 3, and 16)	18,645,950.01	18,942,024.59	2,263,445.66	1,991,924.64	-	-
Investments (Notes 3 and 16)	28,368,851.27	28,608,265.71	48,442,802.37	40,248,995.98	4,000,000.00	6,000,000.00
Accounts, notes, and grants receivable (net) (Note 4)	10,413,206.91	8,510,949.34	-	-	343,365.00	398,165.00
Pledges receivable (net) (Note 16)	-	-	4,989,268.16	4,122,189.02	-	-
Capital assets (net) (Notes 5 and 16)	176,423,185.17	157,237,292.28	1,687,536.00	363,361.16	638,656.00	789,875.00
Other assets	-	-	187,519.81	150,629.41	-	-
Total noncurrent assets	<u>233,851,193.36</u>	<u>213,298,531.92</u>	<u>57,570,572.00</u>	<u>46,877,100.21</u>	<u>4,982,021.00</u>	<u>7,188,040.00</u>
Total assets	<u>269,907,349.31</u>	<u>246,832,317.89</u>	<u>58,182,799.91</u>	<u>47,431,561.71</u>	<u>16,842,278.00</u>	<u>15,500,781.00</u>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable	5,624,441.25	3,643,082.21	51,291.96	159,535.15	528,360.00	499,699.00
Accrued liabilities	5,313,092.42	6,083,317.23	-	-	2,756,661.00	2,685,629.00
Student deposits	466,558.34	510,362.16	-	-	-	-
Deferred revenue	7,193,607.63	5,895,177.76	-	-	140,000.00	280,000.00
Compensated absences (Notes 7 and 16)	115,503.05	1,178,827.48	-	-	107,139.00	97,170.00
Accrued interest payable	374,729.27	307,996.87	-	-	-	-
Long-term liabilities, current portion (Note 7)	1,676,202.46	1,155,024.90	-	-	-	-
Deposits held in custody for others	1,182,812.66	1,185,120.27	-	-	365,313.00	437,172.00
Other liabilities	-	1,779,267.96	-	-	226,332.00	158,679.00
Total current liabilities	<u>21,946,947.08</u>	<u>21,738,176.84</u>	<u>51,291.96</u>	<u>159,535.15</u>	<u>4,123,805.00</u>	<u>4,158,349.00</u>
Noncurrent liabilities:						
Compensated absences (Notes 7 and 16)	9,274,988.42	7,824,666.58	-	-	428,554.00	388,679.00
Long-term liabilities (Note 7)	40,593,277.20	32,371,391.89	-	-	-	-
Due to grantors (Note 7)	7,403,103.35	7,605,974.67	-	-	-	-
Total noncurrent liabilities	<u>57,271,368.97</u>	<u>47,802,033.14</u>	<u>-</u>	<u>-</u>	<u>428,554.00</u>	<u>388,679.00</u>
Total liabilities	<u>79,218,316.05</u>	<u>69,540,209.98</u>	<u>51,291.96</u>	<u>159,535.15</u>	<u>4,552,359.00</u>	<u>4,547,028.00</u>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	134,153,705.51	123,710,875.49	1,687,536.00	363,361.16	638,656.00	789,875.00
Restricted for:						
Nonexpendable:						
Scholarships and fellowships	39,475.27	39,290.41	33,793,542.79	28,692,779.29	-	-
Other	-	-	9,355,114.09	7,233,637.14	-	-
Expendable:						
Scholarships and fellowships	977,131.69	20,910.28	958,936.40	1,031,759.51	-	-
Research	694,358.89	354,676.27	1,046,346.51	1,128,125.54	-	-
Instructional department uses	135,404.39	145,467.94	7,549,550.52	5,375,683.92	-	-
Loans	1,872,117.50	1,639,594.39	-	-	-	-
Debt service	214,902.01	3,080,210.60	-	-	-	-
Other	965,309.72	985,868.47	2,890,344.89	2,595,175.44	-	-
Unrestricted (Note 9)	<u>51,636,628.28</u>	<u>47,315,214.06</u>	<u>850,136.75</u>	<u>851,504.56</u>	<u>11,651,263.00</u>	<u>10,163,878.00</u>
Total net assets	<u>\$ 190,689,033.26</u>	<u>\$ 177,292,107.91</u>	<u>\$ 58,131,507.95</u>	<u>\$ 47,272,026.56</u>	<u>\$ 12,289,919.00</u>	<u>\$ 10,953,753.00</u>

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, 2006, AND JUNE 30, 2005**

	East Tennessee State University		Component Units			
			East Tennessee State University Foundation		Medical Education Assistance Corporation	
	Year Ended June 30, 2006	Year Ended June 30, 2005	Year Ended June 30, 2006	Year Ended June 30, 2005	Year Ended June 30, 2006	Year Ended June 30, 2005
<b>REVENUES</b>						
Operating revenues:						
Student tuition and fees (net of scholarship allowances of \$18,162,896.0 for the year ended June 30, 2006, and \$15,314,656.36 for the year ended June 30, 2005)	\$ 46,339,689.61	\$ 43,274,050.90	\$ -	\$ -	\$ -	\$ -
Gifts and contributions	-	-	7,854,981.02	6,798,575.70	-	-
Endowment income per spending plan	-	-	898,197.99	516,558.14	-	-
Governmental grants and contract:	24,507,816.72	24,827,690.91	-	-	-	-
Nongovernmental grants and contract:	6,561,841.90	5,177,155.10	-	-	-	-
Sales and services of educational department:	19,002,825.61	18,102,257.43	-	-	-	-
Patient charges	-	-	-	-	31,792,080.00	29,990,964.00
Auxiliary enterprises						
Residential life (net of scholarship allowances of \$38,623.38 for the year ended June 30, 2006, and \$128,614.45 for the year ended June 30, 2005; all residential life revenues are used as security for revenue bonds; see Note 7)	6,988,731.72	6,396,145.27	-	-	-	-
Bookstore	502,663.99	502,023.57	-	-	-	-
Food service	427,436.56	383,382.99	-	-	-	-
Center for physical activities (all revenues are used as security for revenue bonds; see Note 7)	908,297.69	872,946.79	-	-	-	-
Other auxiliaries	382,090.35	376,222.92	-	-	-	-
Interest earned on loans to students	767,828.01	334,285.93	-	-	-	-
Other operating revenues	1,485,788.13	1,407,989.72	254,680.17	302,061.19	124,823.00	64,085.00
Total operating revenues	<u>107,875,010.29</u>	<u>101,654,151.53</u>	<u>9,007,859.18</u>	<u>7,617,195.03</u>	<u>31,916,903.00</u>	<u>30,055,049.00</u>
<b>EXPENSES</b>						
Operating expenses (Note 15):						
Salaries and wages	123,448,614.30	118,356,404.22	-	-	19,458,140.00	18,755,651.00
Benefits	36,127,237.91	35,292,292.93	-	-	1,921,908.00	1,973,739.00
Utilities, supplies, and other service:	49,113,788.04	42,269,629.87	4,339,582.87	1,766,509.00	7,658,546.00	6,825,665.00
Scholarships and fellowships:	14,732,118.00	13,622,563.76	853,490.65	583,641.73	-	-
Depreciation expense	9,270,171.26	8,336,397.75	2,950.00	2,950.00	231,121.00	279,884.00
Payments to or on behalf of East Tennessee State University (Note 16)	-	-	3,132,085.12	807,692.59	-	-
Total operating expenses	<u>232,691,929.51</u>	<u>217,877,288.53</u>	<u>8,328,108.64</u>	<u>3,160,793.32</u>	<u>29,269,715.00</u>	<u>27,834,939.00</u>
Operating income (loss)	<u>(124,816,919.22)</u>	<u>(116,223,137.00)</u>	<u>679,750.54</u>	<u>4,456,401.71</u>	<u>2,647,188.00</u>	<u>2,220,110.00</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
State appropriations	86,172,623.01	84,358,985.99	-	-	-	-
Gifts (university gifts include \$2,068,109.34 from ETSU Foundation and \$1,240,245.00 from MEAC in 2006 and \$608,924.94 from ETSU Foundation and \$1,310,810.00 from MEAC in 2005)						
Grants and contracts	3,308,354.34	1,919,734.94	604,415.00	516,220.00	-	-
Investment income (for the component units, net of investment expenses of \$91,752.00 in 2006 and \$89,808.00 in 2005)	27,654,193.26	26,147,193.43	-	-	-	-
Interest on capital asset-related debt	3,055,265.09	2,194,757.20	4,107,941.05	3,306,979.24	470,481.00	355,154.00
Bond issuance costs	(1,681,984.21)	(1,565,603.33)	-	-	-	-
Payments to or on behalf of East Tennessee State University or East Tennessee State University Foundation (Note 16)	(73,727.01)	-	-	-	-	-
Other nonoperating revenues (expenses)	-	-	-	-	(1,844,660.00)	(1,827,030.00)
Net nonoperating revenues	<u>(62,702.21)</u>	<u>(182,489.91)</u>	<u>(114,148.34)</u>	<u>551,465.00</u>	<u>63,157.00</u>	<u>(93,484.00)</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>118,372,022.27</u>	<u>112,872,578.32</u>	<u>4,598,207.71</u>	<u>4,374,664.24</u>	<u>(1,311,022.00)</u>	<u>(1,565,360.00)</u>
Capital appropriations	<u>(6,444,896.95)</u>	<u>(3,350,558.68)</u>	<u>5,277,958.25</u>	<u>8,831,065.95</u>	<u>1,336,166.00</u>	<u>654,750.00</u>
Capital gifts and grants (university gifts include \$1,063,975.78 from ETSU Foundation in 2006 and \$198,767.65 from ETSU Foundation in 2005)	15,154,698.22	3,858,151.52	-	-	-	-
Additions to permanent endowment:	4,687,124.08	770,980.12	2,361,413.47	99,107.08	-	-
Total other revenues	-	-	3,220,109.67	9,899,948.02	-	-
Increase in net assets	<u>19,841,822.30</u>	<u>4,629,131.64</u>	<u>5,581,523.14</u>	<u>9,999,055.10</u>	<u>-</u>	<u>-</u>
NET ASSETS	<u>13,396,925.35</u>	<u>1,278,572.96</u>	<u>10,859,481.39</u>	<u>18,830,121.05</u>	<u>1,336,166.00</u>	<u>654,750.00</u>
Net assets - beginning of year	177,292,107.91	176,013,534.95	47,272,026.56	28,441,905.51	10,953,753.00	10,299,003.00
Net assets - end of year	<u>\$ 190,689,033.26</u>	<u>\$ 177,292,107.91</u>	<u>\$ 58,131,507.95</u>	<u>\$ 47,272,026.56</u>	<u>\$ 12,289,919.00</u>	<u>\$ 10,953,753.00</u>

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, 2006, AND JUNE 30, 2005**

	Year Ended <u>June 30, 2006</u>	Year Ended <u>June 30, 2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 46,610,724.34	\$ 43,291,531.83
Grants and contracts	28,537,238.71	31,376,900.65
Sales and services of educational activities	19,229,230.16	18,635,979.99
Payments to suppliers and vendors	(48,892,063.03)	(41,690,564.61)
Payments to employees	(123,725,706.19)	(117,291,530.79)
Payments for benefits	(36,220,551.70)	(34,254,372.04)
Payments for scholarships and fellowships	(14,584,099.26)	(13,710,595.44)
Loans issued to students and employees	(1,866,713.35)	(2,904,786.16)
Collection of loans from students and employees	1,892,284.52	2,670,393.16
Interest earned on loans to students	719,126.42	296,088.25
Auxiliary enterprise charges:		
Residence halls	6,908,363.11	6,549,901.93
Bookstore	499,694.14	507,309.82
Food services	428,914.66	407,282.98
Center for physical activities	908,297.69	872,946.79
Other auxiliaries	373,697.91	377,575.86
Other receipts	1,282,916.81	1,646,861.22
Net cash used by operating activities	<u>(117,898,645.06)</u>	<u>(103,219,076.56)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	86,166,423.01	84,438,923.51
Gifts and grants received for other than capital or endowment purposes	30,962,547.60	28,066,928.37
Federal student loan receipts	42,602,213.57	38,552,151.57
Federal student loan disbursements	(42,547,003.65)	(38,456,208.00)
Changes in deposits held for others	(57,517.53)	190,645.12
Net cash balance implicitly financed	(1,779,267.96)	670,892.80
Net cash provided by noncapital financing activities	<u>115,347,395.04</u>	<u>113,463,333.37</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from capital debt	17,254,132.48	4,972,732.81
Capital appropriations	15,154,698.22	3,858,151.52
Capital grants and gifts received	3,761,888.30	572,212.47
Purchases of capital assets and construction	(27,653,682.27)	(11,839,209.54)
Principal paid on capital debt and leases	(8,511,069.61)	(1,665,808.05)
Interest paid on capital debt and leases	(1,615,251.81)	(1,567,747.14)
Bond issue costs paid on new debt issue	(73,727.01)	51,283.26
Other capital and related payments	-	(265,654.23)
Net cash used by capital and related financing activities	<u>(1,683,011.70)</u>	<u>(5,884,038.90)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	17,565,536.72	1,933,741.06
Income on investments	3,244,985.99	2,402,052.31
Purchase of investments	(7,613,583.60)	(15,750,000.00)
Net cash provided (used) by investing activities	<u>13,196,939.11</u>	<u>(11,414,206.63)</u>
Net increase (decrease) in cash and cash equivalents	8,962,677.39	(7,053,988.72)
Cash and cash equivalents - beginning of year	26,521,123.18	33,575,111.90
Cash and cash equivalents - end of year	<u>\$ 35,483,800.57</u>	<u>\$ 26,521,123.18</u>

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

	Year Ended <u>June 30, 2006</u>	Year Ended <u>June 30, 2005</u>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>		
Operating loss	\$ (124,816,919.22)	\$ (116,223,137.00)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	9,270,171.26	8,336,397.75
Change in assets and liabilities:		
Receivables, net	(5,404,668.46)	2,451,443.83
Inventories	38,923.66	24,116.16
Prepaid expenses and deferred charges	387,091.75	(331,425.51)
Other assets	(48,701.59)	(38,197.68)
Accounts payable	1,981,359.04	195,440.85
Accrued liabilities	(770,224.81)	1,318,748.52
Deferred revenue	1,298,429.87	122,537.39
Deposits	(43,803.82)	119,148.72
Compensated absences	386,997.41	801,371.91
Due to grantors	(202,871.32)	238,871.50
Loans to students and employees	25,571.17	(234,393.00)
Net cash used by operating activities	<u>\$ (117,898,645.06)</u>	<u>\$ (103,219,076.56)</u>
<b>Noncash transactions</b>		
Gifts of capital assets	\$ 910,235.78	\$ 198,767.65
Unrealized losses on investments	(287,461.32)	(207,993.23)
Loss on disposal of capital assets	(62,702.21)	(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, 2006, and June 30, 2005**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

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

The East Tennessee State University Foundation and the Medical Education Assistance Corporation are considered component units of the university. Although the university does not control the timing or amount of receipts from these organizations, the majority of resources, or income thereon, that these organizations hold and invest are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation and the corporation can only be used by, or for the benefit of, the university, these organizations are considered component units of the university and are discretely presented in the university's financial statements. See Note 16 for more detailed information about the component units and how to obtain their reports.

**Basis of Presentation**

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental colleges and universities engaged in business-type activities as prescribed by the Governmental Accounting Standards Board (GASB).

**Basis of Accounting**

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

**Tennessee Board of Regents  
East Tennessee State University  
Notes to the Financial Statements (Cont.)  
June 30, 2006, and June 30, 2005**

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Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The university has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The university has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

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

All other activity is nonoperating in nature and includes (1) state appropriations for operations; (2) investment income; (3) bond issuance costs; (4) interest on capital asset-related debt; (5) certain grants and contracts; and (6) gifts and nonexchange transactions.

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

**Cash Equivalents**

This classification includes instruments that are readily convertible to known amounts of cash and have original maturities of three months or less.

**Inventories**

Inventories are valued at the lower of cost or market. 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.

**Tennessee Board of Regents  
East Tennessee State University  
Notes to the Financial Statements (Cont.)  
June 30, 2006, and June 30, 2005**

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**Capital Assets**

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

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

These assets, with the exception of land, are depreciated 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

**Tennessee Board of Regents  
East Tennessee State University  
Notes to the Financial Statements (Cont.)  
June 30, 2006, and June 30, 2005**

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

**Scholarship Discounts and Allowances**

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

**NOTE 2. CASH AND CASH EQUIVALENTS**

At June 30, 2006, cash and cash equivalents consisted of \$10,447,619.00 in bank accounts, \$32,000.00 of petty cash on hand, \$24,817,390.26 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$186,791.31 in LGIP deposits for capital projects. 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.

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.

**Tennessee Board of Regents  
East Tennessee State University  
Notes to the Financial Statements (Cont.)  
June 30, 2006, and June 30, 2005**

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**NOTE 3. INVESTMENTS**

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

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

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

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>		
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 5</u>
U. S. agencies	\$28,368,851.27	\$11,226,395.00	\$17,142,456.27
Other investments:			
Certificates of deposit	<u>2,010,000.00</u>		
Total	<u>\$30,378,851.27</u>		

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

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>		
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 5</u>
U. S. agencies	\$28,608,265.71	\$7,558,313.75	\$21,049,951.96
Repurchase agreements	6,284,000.00	6,284,000.00	
Other investments:			
Certificates of deposit	12,010,000.00		
Less amounts reported as cash and cash equivalents:	<u>6,284,000.00</u>		
Total	<u>\$40,618,265.71</u>		

**Tennessee Board of Regents  
East Tennessee State University  
Notes to the Financial Statements (Cont.)  
June 30, 2006, and June 30, 2005**

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

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

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

<u>Investment Type</u>	<u>Credit Quality Rating</u>		
	<u>Fair Value</u>	<u>AAA</u>	<u>Unrated</u>
LGIP	\$24,817,390.26	\$ -	\$24,817,390.26
U. S. agencies	<u>28,368,851.27</u>	<u>28,368,851.27</u>	<u>-</u>
Total	<u>\$53,186,241.53</u>	<u>\$28,368,851.27</u>	<u>\$24,817,390.26</u>

**Tennessee Board of Regents  
East Tennessee State University  
Notes to the Financial Statements (Cont.)  
June 30, 2006, and June 30, 2005**

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

<u>Investment Type</u>	<u>Credit Quality Rating</u>		
	<u>Fair Value</u>	<u>AAA</u>	<u>Unrated</u>
LGIP	\$19,344,822.59	\$ -	\$19,344,822.59
U. S. agencies	<u>28,608,265.71</u>	<u>28,608,265.71</u>	<u>-</u>
Total	<u>\$47,953,088.30</u>	<u>\$28,608,265.71</u>	<u>\$19,344,822.59</u>

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

<u>Issuer</u>	<u>Percentage of Total Investments</u>	
	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Federal Home Loan Mortgage Corporation (FHLM) obligations	12.7%	8.4%
Federal Home Loan Banks (FHLB) obligations	67.7%	40.1%
Federal National Mortgage Association (FNMA) obligations	13.0%	12.4%

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**NOTE 4. RECEIVABLES**

Receivables included the following:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Student accounts receivable	\$ 4,762,444.42	\$ 4,536,443.60
Grants receivable	10,417,977.35	6,987,564.26
Notes receivable	474,372.35	441,048.36
State appropriation receivable	216,000.00	209,800.00
Other receivables	<u>4,293,467.86</u>	<u>2,620,535.16</u>
Subtotal	20,164,261.98	14,795,391.38
Less allowance for doubtful accounts	<u>2,096,395.60</u>	<u>2,187,132.93</u>
Total receivables	<u>\$18,067,866.38</u>	<u>\$12,608,258.45</u>

Federal Perkins Loan Program funds included the following:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Perkins loans receivable	\$ 9,488,759.06	\$ 9,478,222.06
Less allowance for doubtful accounts	<u>1,428,048.99</u>	<u>1,343,201.35</u>
Total	<u>\$ 8,060,710.07</u>	<u>\$ 8,135,020.71</u>

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**NOTE 5. CAPITAL ASSETS**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$23,516,501.74	\$96,260.00	\$ -	\$ -	\$23,612,761.74
Land improvements and infrastructure	19,931,736.45	822,759.54	-	-	20,754,495.99
Buildings	179,965,977.72	-	12,932,243.44	-	192,898,221.16
Equipment	26,076,525.12	1,838,754.72	-	1,327,528.28	26,587,751.56
Library holdings	15,245,639.17	908,917.63	-	1,596,563.12	14,557,993.68
Software	-	-	2,310,833.76	-	2,310,833.76
Projects in progress	<u>8,090,358.31</u>	<u>24,852,074.47</u>	<u>(15,243,077.20)</u>	-	<u>17,699,355.58</u>
 Total	 <u>272,826,738.51</u>	 <u>28,518,766.36</u>	 <u>-</u>	 <u>2,924,091.40</u>	 <u>298,421,413.47</u>
 Less accum. depreciation:					
Land improvements and infrastructure	7,107,706.68	984,058.00	-	-	8,091,764.68
Buildings	81,560,860.11	4,775,472.84	-	-	86,336,332.95
Equipment	18,491,135.72	1,664,101.35	-	1,264,826.07	18,890,411.00
Library holdings	8,429,743.72	1,615,455.69	-	1,596,563.12	8,448,636.29
Software	<u>-</u>	<u>231,083.38</u>	<u>-</u>	<u>-</u>	<u>231,083.38</u>
 Total accum. depreciation	 <u>115,589,446.23</u>	 <u>9,270,171.26</u>	 <u>-</u>	 <u>2,861,389.19</u>	 <u>121,998,228.30</u>
 Capital assets, net	 <u>\$157,237,292.28</u>	 <u>\$19,248,595.10</u>	 <u>\$ -</u>	 <u>\$ 62,702.21</u>	 <u>\$176,423,185.17</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
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	<u>6,521,817.17</u>	<u>8,170,863.55</u>	<u>(6,602,322.41)</u>	<u>-</u>	<u>8,090,358.31</u>
<b>Total</b>	<u>264,605,161.20</u>	<u>12,069,755.23</u>	<u>-</u>	<u>3,848,177.92</u>	<u>272,826,738.51</u>
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	<u>8,342,086.59</u>	<u>1,684,220.25</u>	<u>-</u>	<u>1,596,563.12</u>	<u>8,429,743.72</u>
<b>Total accum. depreciation</b>	<u>110,867,353.23</u>	<u>8,336,397.75</u>	<u>-</u>	<u>3,614,304.75</u>	<u>115,589,446.23</u>
<b>Capital assets, net</b>	<u>\$153,737,807.97</u>	<u>\$3,733,357.48</u>	<u>\$ -</u>	<u>\$ 233,873.17</u>	<u>\$157,237,292.28</u>

**NOTE 6. 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, including land and several 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

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(\$34,195,153.41.) The Basic Science Building is also included under the provisions of the Enhanced Use Lease Agreement.

During the 2006 fiscal year, the university completed renovation of another leased building (Building 2) on the VA campus. The total capitalized cost of the renovation was \$771,184.63.

The university's leasing of the Basic Science Building and the other buildings on the VA campus 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 buildings at \$34,966,338.04. At June 30, 2006, the buildings are reported at \$29,596,752.77, net of accumulated depreciation of \$5,369,585.27. At June 30, 2005, the Basic Science Building is reported at \$29,920,759.25, net of accumulated depreciation of \$4,274,394.16.

**NOTE 7. LONG-TERM LIABILITIES**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
Notes	\$350,000.00	\$ -	\$50,000.04	\$299,999.96	\$50,000.00
Loans	2,055,936.97	-	113,920.22	1,942,016.75	122,065.51
TSSBA debt:					
Bonds	26,612,108.20	7,252,380.20	935,896.16	32,928,592.24	1,504,136.95
Commercial paper	<u>4,508,371.62</u>	<u>10,001,752.28</u>	<u>7,411,253.19</u>	<u>7,098,870.71</u>	<u>-</u>
Subtotal	<u>33,526,416.79</u>	<u>17,254,132.48</u>	<u>8,511,069.61</u>	<u>42,269,479.66</u>	<u>1,676,202.46</u>
Other liabilities:					
Compensated absences	9,003,494.06	5,859,616.24	5,472,618.83	9,390,491.47	115,503.05
Due to grantors	<u>7,605,974.67</u>	<u>-</u>	<u>202,871.32</u>	<u>7,403,103.35</u>	<u>-</u>
Subtotal	<u>16,609,468.73</u>	<u>5,859,616.24</u>	<u>5,675,490.15</u>	<u>16,793,594.82</u>	<u>115,503.05</u>
Total long-term liabilities	<u>\$50,135,885.52</u>	<u>\$23,113,748.72</u>	<u>\$14,186,559.76</u>	<u>\$59,063,074.48</u>	<u>\$1,791,705.51</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
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
TSSBA debt:					
Bonds	27,323,816.93	797,780.87	1,509,489.60	26,612,108.20	991,104.68
Commercial paper	<u>333,419.68</u>	<u>4,174,951.94</u>	<u>-</u>	<u>4,508,371.62</u>	<u>-</u>
Subtotal	<u>30,219,492.03</u>	<u>4,972,732.81</u>	<u>1,665,808.05</u>	<u>33,526,416.79</u>	<u>1,155,024.90</u>
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	<u>7,367,103.17</u>	<u>238,871.50</u>	<u>-</u>	<u>7,605,974.67</u>	<u>-</u>
Subtotal	<u>15,569,225.32</u>	<u>5,511,928.29</u>	<u>4,471,684.88</u>	<u>16,609,468.73</u>	<u>1,178,827.48</u>
Total long-term liabilities	<u>\$45,788,717.35</u>	<u>\$10,484,661.10</u>	<u>\$6,137,492.93</u>	<u>\$50,135,885.52</u>	<u>\$2,333,852.38</u>

**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 \$299,999.96 at June 30, 2006, and \$350,000.00 at June 30, 2005.

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Debt service requirements to maturity for notes payable at June 30, 2006, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$50,000.00	\$12,180.00	\$62,180.00
2008	50,000.00	10,150.00	60,150.00
2009	50,000.00	8,120.00	58,120.00
2010	50,000.00	6,090.00	56,090.00
2011	50,000.00	4,060.00	54,060.00
2012	<u>49,999.96</u>	<u>2,030.00</u>	<u>52,029.96</u>
	<u>\$299,999.96</u>	<u>\$42,630.00</u>	<u>\$342,629.96</u>

**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 \$1,942,016.75 at June 30, 2006, and \$2,055,936.97 at June 30, 2005.

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Debt service requirements to maturity for loans payable at June 30, 2006, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	160,902.09	100,017.64	260,919.73
2012 – 2016	994,436.60	310,161.53	1,304,598.13
2017	<u>243,509.17</u>	<u>17,410.88</u>	<u>260,920.05</u>
	<u>\$1,942,016.75</u>	<u>\$928,100.07</u>	<u>\$2,870,116.82</u>

**TSSBA Debt - Bonds**

Bonds, with interest rates ranging from 3.0% to 5.5%, were issued by the Tennessee State School Bond Authority (TSSBA). The 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 included in long-term liabilities on the statement of net assets is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was \$21,191.24 at June 30, 2006, and \$77,149.75 at June 30, 2005. Unexpended debt proceeds were \$17,564.80 at June 30, 2006, and \$41,025.81 at June 30, 2005.

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$1,504,136.95	\$1,490,496.44	\$2,994,633.39
2008	1,518,081.60	1,453,174.19	2,971,255.79
2009	1,602,147.42	1,388,754.21	2,990,901.63
2010	1,668,662.10	1,325,088.80	2,993,750.90
2011	1,317,555.57	1,256,144.43	2,573,700.00
2012-2016	6,691,388.61	5,433,316.00	12,124,704.61
2017-2021	7,188,345.74	3,885,874.32	11,074,220.06
2022-2026	5,574,344.17	2,222,847.23	7,797,191.40
2027-2031	4,379,302.07	1,052,047.30	5,431,349.37
2032-2034	1,484,628.01	106,987.14	1,591,615.15
	<u>\$32,928,592.24</u>	<u>\$19,614,730.06</u>	<u>\$52,543,322.30</u>

**TSSBA Debt - Commercial Paper**

The Tennessee State School Bond Authority issues commercial paper to finance the costs of various capital projects during their construction phase. When projects are placed in service, long-term, fixed-rate debt is issued by TSSBA to finance the project over its useful payback period and the commercial paper is redeemed. The amount issued for projects at the university was \$7,098,870.71 at June 30, 2006, and \$4,508,371.62 at June 30, 2005.

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

More detailed information regarding the bonds and commercial paper can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report may be obtained by writing to the Director of

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Bond Finance, Suite 1600, James K. Polk Building, Nashville, Tennessee 37243-0273, or by calling (615) 401-7872.

**NOTE 8. ENDOWMENTS**

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

The university chooses to spend only a portion of the investment income each year. Under the spending plan established by the university, the total income has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount determined using the spending plan exceeds the investment income.

The university's endowment and quasi-endowment assets are invested to produce only interest income. For the fiscal year ended June 30, 2006, the university's endowments and quasi-endowments earned interest income totaling \$393,254.85. The university retained \$256,664.03 for expenditure in future years, of which \$184.86 is restricted to specific purposes. For the fiscal year ended June 30, 2005, the university's endowments and quasi-endowments earned 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.

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**NOTE 9. 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:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Working capital	\$ 4,275,952.71	\$ 4,256,593.71
Encumbrances	2,028,133.49	1,963,960.48
Designated fees	1,705,175.42	1,298,395.40
Auxiliaries	534,100.93	937,831.66
Quasi-endowment	10,089,664.46	9,793,185.29
Plant construction	11,352,352.52	6,801,240.00
Renewal and replacement of equipment	19,494,527.46	20,797,240.27
Debt retirement	2,156,721.29	1,142,310.72
Unreserved/undesignated	<u>-</u>	<u>324,456.53</u>
Total	<u>\$51,636,628.28</u>	<u>\$47,315,214.06</u>

**NOTE 10. PENSION PLANS**

**A. Defined Benefit Plans**

**1. Tennessee Consolidated Retirement System**

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the

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Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 10.31% of annual covered payroll. Contribution requirements for the university are established and may be amended by the TCRS' Board of Trustees. The university's contributions to TCRS for the years ended June 30, 2006, 2005, and 2004 were \$3,989,407.94, \$3,840,331.45, and \$2,414,168.28. 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 \$5,977,432.97 for the year ended June 30, 2006, and \$6,124,665.17 for the year ended June 30, 2005. Contributions met the requirements for each year.

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**NOTE 11. 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 12. INSURANCE-RELATED ACTIVITIES**

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The Risk Management Fund is also responsible for claims for damages to state-owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from \$25,000 per occurrence, depending on the type of coverage, to an aggregate of \$7.5 million.

The university participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2006, and June 30, 2005, are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee

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Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140. Since the university participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2006, the Risk Management Fund held \$133.2 million in cash and cash equivalents designated for payment of claims. At June 30, 2005, the Risk Management fund held \$114.4 million in cash and cash equivalents designated for payment of claims.

At June 30, 2006, the scheduled coverage for the university was \$462,485,400 for buildings and \$104,823,200 for contents. At June 30, 2005, the scheduled coverage for the university was \$448,647,400 for buildings and \$100,567,400 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 13. 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 \$40,881,928.62 at June 30, 2006, and \$42,832,078.70 at June 30, 2005.

Operating Leases - The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were \$431,370.20 for the year ended June 30, 2006. There were no leases involving personal property.

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June 30, 2006, and June 30, 2005**

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Comparative amounts for the year ended June 30, 2005, were \$121,000.00 for real property and \$146,284.19 for personal property. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2006, outstanding commitments under construction contracts totaled \$23,430,437.37 for the Fossil Site Visitor Center project, the Forensic Pathology Renovation project, the new Dormitory Construction project, the Innovation Center Expansion project, the Pharmacy College Renovation project, the Housing Renovations project, the Soccer Field Construction project, the Utility Upgrades project, and various other projects, of which \$2,332,068.17 will be funded by future state capital outlay appropriations.

Contract - In December 2004, the Tennessee Board of Regents system entered into a contract with SungardSCT for the purchase of a comprehensive enterprise resource planning system. The contract includes a multi-year phase-in of administrative software for financial, human resource, and student systems. The university's outstanding liability for this contract is estimated as \$2,364,147.23 at June 30, 2006.

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

Sciquest - During the 2006 fiscal year, the university entered into a contract with Sciquest through its contract with SungardSCT for the purchase of an e-procurement system. The contract includes implementation and training as well as yearly fees for Sciquest to host the e-procurement system. The university's outstanding liability for this contract is estimated as \$1,042,177.40

**NOTE 14. CHAIRS OF EXCELLENCE**

The university had \$20,364,559.80 on deposit at June 30, 2006, and \$19,831,952.92 on deposit at June 30, 2005, with the State Treasurer for the university's Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

**Tennessee Board of Regents  
East Tennessee State University  
Notes to the Financial Statements (Cont.)  
June 30, 2006, and June 30, 2005**

**NOTE 15. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS**

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

<u>Functional Classification</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Natural Classification</u>			<u>Total</u>
			<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	
Instruction	\$74,709,233.84	\$19,829,610.91	\$12,219,054.87	\$1,969,143.03	\$ -	\$108,727,042.65
Research	4,127,907.31	1,028,329.75	3,494,843.80	38,895.90	-	8,689,976.76
Public service	8,107,880.74	2,459,444.20	4,546,622.19	44,388.22	-	15,158,335.35
Academic support	11,177,273.59	3,411,795.31	3,125,488.57	375,301.31	-	18,089,858.78
Student services	7,510,359.37	2,391,091.94	4,320,296.14	1,434,017.15	-	15,655,764.60
Institutional support	10,990,610.18	3,974,260.71	320,716.90	94,557.07	-	15,380,144.86
Operation & maintenance of plant	5,650,596.12	2,716,254.85	16,027,425.21	3,957.98	-	24,398,234.16
Scholarships & fellowships	861.80	5,030.74	664,805.17	10,590,350.15	-	11,261,047.86
Auxiliary	1,173,891.35	311,419.50	4,394,535.19	181,507.19	-	6,061,353.23
Depreciation	-	-	-	-	9,270,171.26	9,270,171.26
<b>Total</b>	<b><u>\$123,448,614.30</u></b>	<b><u>\$36,127,237.91</u></b>	<b><u>\$49,113,788.04</u></b>	<b><u>\$14,732,118.00</u></b>	<b><u>\$9,270,171.26</u></b>	<b><u>\$232,691,929.51</u></b>

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East Tennessee State University  
Notes to the Financial Statements (Cont.)  
June 30, 2006, and June 30, 2005**

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

<u>Functional Classification</u>	<u>Natural Classification</u>					<u>Total</u>
	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	
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
<b>Total</b>	<u>\$118,356,404.22</u>	<u>\$35,292,292.93</u>	<u>\$42,269,629.87</u>	<u>\$13,622,563.76</u>	<u>\$8,336,397.75</u>	<u>\$217,877,288.53</u>

**NOTE 16. 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.

**Tennessee Board of Regents  
East Tennessee State University  
Notes to the Financial Statements (Cont.)  
June 30, 2006, and June 30, 2005**

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During the year ended June 30, 2006, the foundation made distributions of \$3,132,085.12 to or on behalf of the university for both restricted and unrestricted purposes. During the year ended June 30, 2005, the foundation made distributions of \$807,692.59 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, P. O. Box 70601, Johnson City, Tennessee 37614.

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, 2006, cash and cash equivalents consisted of \$234,012.62 in bank accounts, \$2,039,953.21 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$457,373.60 in cash held by others. At June 30, 2005, cash and cash equivalents consisted of \$151,635.94 in bank accounts, \$370.00 of petty cash on hand, \$2,181,546.76 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$16,172.33 in cash held by stockbrokers.

As described above, the foundation has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The Pooled Investment Fund's investment policy and custodial credit risk 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, 14<sup>th</sup> Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37242-0298, 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.

**Tennessee Board of Regents  
East Tennessee State University  
Notes to the Financial Statements (Cont.)  
June 30, 2006, and June 30, 2005**

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>				<u>No Maturity Date</u>
		<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>	
U. S. agencies	\$7,880,755.00	\$ -	\$ 7,880,755.00	\$ -	\$ -	\$ -
Mutual funds	<u>40,562,047.37</u>	<u>1,163,450.33</u>	<u>3,566,644.46</u>	<u>3,037,392.02</u>	<u>2,553,383.39</u>	<u>30,241,177.17</u>
Total	<u>\$48,442,802.37</u>	<u>\$1,163,450.33</u>	<u>\$11,447,399.46</u>	<u>\$3,037,392.02</u>	<u>\$2,553,383.39</u>	<u>\$30,241,177.17</u>

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			<u>No Maturity Date</u>
		<u>1 to 5</u>	<u>6 to 10</u>		
U. S. agencies	\$7,929,062.98	\$7,929,062.98	\$ -	\$ -	
Corporate bonds	4,030,009.00	-	4,030,009.00	-	
Mutual funds	28,283,029.00				
Corporate stocks	<u>6,895.00</u>				
Total	<u>\$40,248,995.98</u>				

**Interest rate risk** - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. In order to reduce its exposure to interest rate risk, the foundation will set limits regarding the weighted average maturity for each direct investment pool. In the case of U.S. agency and federal securities, the weighted average of all investments should be less than three years.

**Credit risk** - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Securities are rated using Standard and Poor's, Moody's, and/or Fitch and are presented below using the Standard and Poor's rating scale. The foundation policy is to limit all direct investments to securities with an investment rating of no less than Aaa as rated by Moody's and AAA as rated by Standard and Poor's.

**Tennessee Board of Regents  
East Tennessee State University  
Notes to the Financial Statements (Cont.)  
June 30, 2006, and June 30, 2005**

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>			
		<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Unrated</u>
LGIP	\$2,039,953.21	\$ -	\$ -	\$ -	\$2,039,953.21
U. S. agencies	7,880,755.00	7,880,755.00	-	-	-
Mutual funds	<u>10,320,870.20</u>	<u>9,759,085.03</u>	<u>83,227.43</u>	<u>478,557.74</u>	<u>-</u>
Total	<u>\$20,241,578.41</u>	<u>\$17,639,840.03</u>	<u>\$83,227.43</u>	<u>\$478,557.74</u>	<u>\$2,039,953.21</u>

At June 30, 2005, the foundation's investments were rated as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	
		<u>AAA</u>	<u>Unrated</u>
LGIP	\$2,181,546.76	\$ -	\$2,181,546.76
U. S. agencies	7,929,062.98	7,929,062.98	-
Corporate bonds	<u>4,030,009.00</u>	<u>4,030,009.00</u>	<u>-</u>
Total	<u>\$14,140,618.74</u>	<u>\$11,959,071.98</u>	<u>\$2,181,546.76</u>

The foundation's investments in mutual funds at June 30, 2005, were unrated.

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

	<u>Carrying Value June 30, 2006</u>	<u>Carrying Value June 30, 2005</u>
U. S. agencies	\$7,297,642.47	\$7,012,404.00
Mutual funds	36,412,059.99	25,452,429.00
Corporate bonds	<u>-</u>	<u>3,564,110.00</u>
	<u>\$43,709,702.46</u>	<u>\$36,028,943.00</u>

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, 2006, each having a fair value of \$1.1170340537, 37,612,843.67 units were owned by endowments, and 616,759.42 units were owned by quasi-endowments. Of the total units at June 30, 2005, each having a fair value of

**Tennessee Board of Regents  
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Notes to the Financial Statements (Cont.)  
June 30, 2006, and June 30, 2005**

\$1.1059392790, 31,645,424.94 units were owned by endowments, and 552,368.01 units were owned by quasi-endowments.

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

FY 2006

	<u>Pooled Assets</u>		Net Gains (Losses)	Fair Value Per Unit
	<u>Fair Value</u>	<u>Cost</u>		
End of year	\$48,442,802.37	\$44,904,219.08	\$3,538,583.29	\$1.1170340537
Beginning of year	\$40,242,100.98	\$38,774,010.31	<u>(1,468,090.67)</u>	\$1.1059392790
Unrealized net gains			2,070,492.62	
Realized net gains			<u>1,776,228.03</u>	
Total net gains			<u>\$3,846,720.65</u>	

The average annual earnings per unit, exclusive of net gains, were \$.026 for the year ended June 30, 2006.

FY 2005

	<u>Pooled Assets</u>		Net Gains (Losses)	Fair Value Per Unit
	<u>Fair Value</u>	<u>Cost</u>		
End of year	\$40,242,100.98	\$38,774,010.31	\$1,468,090.67	\$1.1059392790
Beginning of year	\$25,048,219.00	\$23,980,243.00	<u>(1,067,976.00)</u>	\$1.1017071580
Unrealized net gains			400,114.67	
Realized net gains			<u>2,653,278.17</u>	
Total net gains			<u>\$3,053,392.84</u>	

The average annual earnings per unit, exclusive of net gains, were \$.023 for the year ended June 30, 2005.

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

**Tennessee Board of Regents  
East Tennessee State University  
Notes to the Financial Statements (Cont.)  
June 30, 2006, and June 30, 2005**

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Current pledges	\$1,117,744.33	\$821,136.39
Pledges due in one to five years	3,874,007.46	3,179,641.80
Pledges due after five years	<u>675,545.18</u>	<u>802,515.00</u>
Subtotal	5,667,296.97	4,803,293.19
Less discounts to net present value	<u>571,501.90</u>	<u>522,750.64</u>
Total pledges receivable, net	<u>\$5,095,795.07</u>	<u>\$4,280,542.55</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ -	\$1,429,200.00	\$ -	\$ -	\$1,429,200.00
Buildings	59,000.00	840,000.00	-	600,000.00	299,000.00
Equipment	9,486.00	-	-	-	9,486.00
Projects in progress	<u>342,075.16</u>	<u>459,084.38</u>	-	<u>801,159.54</u>	-
Total	<u>410,561.16</u>	<u>2,728,284.38</u>	-	<u>1,401,159.54</u>	<u>1,737,686.00</u>
Less accum. depreciation:					
Buildings	<u>47,200.00</u>	<u>2,950.00</u>	-	-	<u>50,150.00</u>
Total accum. depreciation	<u>47,200.00</u>	<u>2,950.00</u>	-	-	<u>50,150.00</u>
Capital assets, net	<u>\$363,361.16</u>	<u>\$2,725,334.38</u>	\$ -	<u>\$1,401,159.54</u>	<u>\$1,687,536.00</u>

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East Tennessee State University  
Notes to the Financial Statements (Cont.)  
June 30, 2006, and June 30, 2005**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$225,000.00	\$ -	\$ -	\$225,000.00	\$ -
Buildings	59,000.00	-	-	-	59,000.00
Equipment	9,486.00	-	-	-	9,486.00
Projects in progress	<u>-</u>	<u>523,880.90</u>	<u>-</u>	<u>181,805.74</u>	<u>342,075.16</u>
Total	<u>293,486.00</u>	<u>523,880.90</u>	<u>-</u>	<u>406,805.74</u>	<u>410,561.16</u>
Less accum. depreciation:					
Buildings	<u>44,250.00</u>	<u>2,950.00</u>	<u>-</u>	<u>-</u>	<u>47,200.00</u>
Total accum. depreciation	<u>44,250.00</u>	<u>2,950.00</u>	<u>-</u>	<u>-</u>	<u>47,200.00</u>
Capital assets, net	<u>\$249,236.00</u>	<u>\$520,930.90</u>	<u>\$ -</u>	<u>\$406,805.74</u>	<u>\$363,361.16</u>

**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 departmental 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, 2006, MEAC made distributions of \$1,240,245 to or on behalf of the university 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. Complete financial

**Tennessee Board of Regents  
East Tennessee State University  
Notes to the Financial Statements (Cont.)  
June 30, 2006, and June 30, 2005**

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statements for MEAC can be obtained from Russell Lewis, Executive Director, P. O. Box 699, Mountain Home, Tennessee 37684.

Cash – At June 30, 2006, cash consisted of \$2,768,506.00 in bank accounts, \$2,135.00 of petty cash on hand, and \$1,107,210.00 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 2005, cash consisted of \$2,625,268.00 in bank accounts, \$2,185.00 of petty cash on hand, and \$260,429.00 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer.

As described above, the corporation has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The Pooled Investment Fund's investment policy and custodial credit risk 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, 14<sup>th</sup> Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37242-0298, 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, 2006, and June 30, 2005, consisted of certificates of deposit with original maturities greater than three months.

**Credit risk** – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. MEAC has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations. At June 30, 2006, and June 30, 2005, MEAC had no rated investments, as deposits in LGIP are unrated.

**Tennessee Board of Regents  
East Tennessee State University  
Notes to the Financial Statements (Cont.)  
June 30, 2006, and June 30, 2005**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 48,328	\$ -	\$30,178	\$ 18,150
Leasehold improvements	385,451	19,621	97,508	307,564
Buildings	308,265	1,815	123,104	186,976
Equipment	<u>2,835,613</u>	<u>151,148</u>	<u>24,339</u>	<u>2,962,422</u>
Total	<u>3,577,657</u>	<u>172,584</u>	<u>275,129</u>	<u>3,475,112</u>
Less accumulated depreciation:				
Leasehold improvements	362,087	17,320	93,251	286,156
Buildings	79,055	9,283	64,859	23,479
Equipment	<u>2,346,640</u>	<u>204,519</u>	<u>24,338</u>	<u>2,526,821</u>
Total accumulated depreciation	<u>2,787,782</u>	<u>231,122</u>	<u>182,448</u>	<u>2,836,456</u>
Capital assets, net	<u>\$ 789,875</u>	<u>\$ (58,538)</u>	<u>\$ 92,681</u>	<u>\$ 638,656</u>

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

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

**Tennessee Board of Regents  
East Tennessee State University  
Notes to the Financial Statements (Cont.)  
June 30, 2006, and June 30, 2005**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Compensated absences	\$485,849	\$49,844	\$ -	\$535,693	\$107,139

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

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

MEAC has no other long-term liabilities.

**NOTE 17. AFFILIATED ENTITY NOT INCLUDED**

The East Tennessee State University Research Foundation is a private, nonprofit foundation with the university as the sole beneficiary. The foundation's financial transactions are not included in the university's financial report. As reported in the Research Foundation's most recently audited financial report, at June 30, 2006, the assets of the Research Foundation totaled \$1,093,365.97, liabilities were \$254,391.83, and the net assets amounted to \$838,974.14.

UNAUDITED

**TENNESSEE BOARD OF REGENTS  
MEDICAL EDUCATION ASSISTANCE CORPORATION  
SUPPLEMENTARY INFORMATION  
STATEMENTS OF CASH FLOWS - COMPONENT UNIT  
FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005**

	<u>Year Ended June 30, 2006</u>	<u>Year Ended June 30, 2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Collections from patient charges	\$ 29,398,653.00	\$ 28,662,824.00
Payments to suppliers and vendors	(5,877,756.00)	(5,608,621.00)
Payments to employees	(19,337,264.00)	(18,634,764.00)
Payments for benefits	(1,921,908.00)	(1,973,739.00)
Other receipts	64,368.00	54,779.00
Net cash provided by operating activities	<u>2,326,093.00</u>	<u>2,500,479.00</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Other noncapital financing payments	<u>(1,844,660.00)</u>	<u>(1,827,030.00)</u>
Net cash used by noncapital financing activities	<u>(1,844,660.00)</u>	<u>(1,827,030.00)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from sales of capital assets	160,500.00	-
Purchase of capital assets and construction	(172,584.00)	(317,700.00)
Interest paid on capital debt and leases	<u>(9,361.00)</u>	<u>(2,762.00)</u>
Net cash used by capital and related activities	<u>(21,445.00)</u>	<u>(320,462.00)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Rental income	4,700.00	9,000.00
Proceeds from sales and maturities of investments	-	1,100,000.00
Income on investments	470,481.00	355,154.00
Purchase of investments	-	(2,000,000.00)
Other investing receipts	<u>54,800.00</u>	<u>90,670.00</u>
Net cash provided (used) by investing activities	<u>529,981.00</u>	<u>(445,176.00)</u>
Net increase (decrease) in cash and cash equivalents	989,969.00	(92,189.00)
Cash and cash equivalents - beginning of year	<u>2,887,882.00</u>	<u>2,980,071.00</u>
Cash and cash equivalents - end of year	<u>\$ 3,877,851.00</u>	<u>\$ 2,887,882.00</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 2,647,188.00	\$ 2,220,110.00
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	231,121.00	279,884.00
Change in assets and liabilities:		
Receivables, net	(579,382.00)	(47,688.00)
Prepaid expenses and deferred charges	(50,024.00)	(83,502.00)
Accounts payable	28,661.00	62,029.00
Deferred revenues	(140,000.00)	(70,000.00)
Compensated absences	120,876.00	120,887.00
Other	67,653.00	18,759.00
Net cash provided by operating activities	<u>\$ 2,326,093.00</u>	<u>\$ 2,500,479.00</u>

UNAUDITED

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

	Year Ended June 30, 2006	Year Ended June 30, 2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Gifts and contributions	\$ 4,503,664.08	\$ 2,509,326.28
Endowment income per spending plan	898,197.99	516,558.14
Payments to suppliers and vendors	(1,805,545.45)	(1,582,127.18)
Payments for scholarships and fellowships	(853,490.65)	(468,130.17)
Payments on to or on behalf of East Tennessee State University	(2,436,641.77)	(810,531.70)
Other receipts	254,680.17	302,061.19
Net cash provided by operating activities	560,864.37	467,156.56
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Gifts and grants received for other than capital or endowment purposes	604,415.00	516,220.00
Private gifts for endowment purposes	3,220,109.67	9,899,948.02
Other noncapital financing receipts	448,961.26	750,000.00
Net cash provided by noncapital financing activities	4,273,485.93	11,166,168.02
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital grants and gifts received	92,213.47	99,107.08
Purchases of capital assets and construction	(459,084.38)	(325,113.25)
Net cash used by capital and related financing activities	(366,870.91)	(226,006.17)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	8,977,638.86	15,073,174.93
Income on investments	2,037,448.78	2,928,317.88
Purchases of investments	(15,100,952.63)	(29,866,941.72)
Net cash used by investing activities	(4,085,864.99)	(11,865,448.91)
Net increase (decrease) in cash and cash equivalents	381,614.40	(458,130.50)
Cash and cash equivalents - beginning of year	2,349,725.03	2,807,855.53
Cash and cash equivalents - end of year	\$ 2,731,339.43	\$ 2,349,725.03
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 679,750.54	\$ 4,456,401.71
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	2,950.00	2,950.00
Loss on disposal of capital assets	801,159.54	-
Change in assets and liabilities:		
Receivables, net	(814,752.52)	(4,097,207.92)
Accounts payable	(108,243.19)	105,012.77
Net cash provided by operating activities	\$ 560,864.37	\$ 467,156.56
<b>Noncash transactions</b>		
Gifts in-kind	\$ 2,536,064.42	\$ 192,321.81
Unrealized gains on investments	2,070,492.62	398,439.61
Loss on disposal of capital assets	(801,159.54)	(181,805.74)