AUDIT REPORT

Tennessee Board of Regents
East Tennessee State University

For the Year Ended
June 30, 2010

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee
Comptroller
of the Treasury

Arthur A. Hayes, Jr., CPA, JD, CFE
Director

Edward Burr, CPA
Assistant Director

Robert D. Hunter, Jr., CPA
Audit Manager

Walter F. Bond, CPA
In-Charge Auditor

Justin Daniel
Oluchi Ogbonnaya
Emily Uptain
Michael Wilbanks, CFE
Staff Auditors

Gerry Boaz, CPA
Technical Manager

Amy Brack
Editor

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

Financial/compliance audits of colleges and universities are available online at
www.comptroller1.state.tn.us/RA_SA/.
For more information about the Comptroller of the Treasury, please visit our website at
www.tn.gov/comptroller/.

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

April 5, 2011

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 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, 2010. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/sds
10/063

State of Tennessee

Audit Highlights

Comptroller of the Treasury Division of State Audit

Financial and Compliance Audit
East Tennessee State University
For the Year Ended June 30, 2010

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, 2010

TABLE OF CONTENTS

TABLE OF CONTENTS (CONT.)

Tennessee Board of Regents
East Tennessee State University
For the Year Ended June 30, 2010

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

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

The university has 11 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 Health, the College of Clinical and Rehabilitative Sciences, 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 25 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 Executive Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the university is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 2009, through June 30, 2010, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 2010. East Tennessee State University is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

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

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

4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDING

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The university filed its report with the Department of Audit on June 1, 2010. A follow-up of the prior audit finding was conducted as part of the current audit. The current audit disclosed that the university has corrected the previous audit finding concerning the need for improved review procedures to prevent errors in the preparation of the university's financial statements.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

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

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

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 2010, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing opinions on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance and Other Matters

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

Fairness of Financial Statement Presentation

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

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

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

December 14, 2010

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 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:

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, 2010, and have issued our report thereon dated December 14, 2010. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

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

Independent Auditor's Report

December 14, 2010

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 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:

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 year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the university's management. Our responsibility is to express opinions on these financial statements, based on our audit. We 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of East Tennessee State University, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only East Tennessee State University. They do not purport to, and do not, present fairly the financial position of the Tennessee Board of Regents, as of June 30, 2010, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of East Tennessee State University, and its discretely presented component units as of June 30, 2010, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 11 through 31 and the schedule of funding progress on page 66 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on pages 67 and 68 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated December 14, 2010, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

Tennessee Board of Regents
East Tennessee State University
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, 2010, with comparative information presented for the fiscal year ended June 30, 2009. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report and the audited financial statements and notes. 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 discussion about the university's component units is presented in Note 20 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
Condensed Statements of Net Assets
(in thousands of dollars)

	2010	2009
Assets:		
Current assets	$ 37,761	$ 66,900
Capital assets, net	249,330	253,024
Other assets	93,615	54,458
Total assets	**380,706**	**374,382**
Liabilities:		
Current liabilities	33,897	45,291
Noncurrent liabilities	144,576	134,696
Total liabilities	**178,473**	**179,987**
Net assets:		
Invested in capital assets, net of related debt	127,985	138,748
Restricted – nonexpendable	40	40
Restricted – expendable	7,879	5,772
Unrestricted	66,329	49,835
Total net assets	**$202,233**	**$194,395**

Comparison of fiscal year 2010 to fiscal year 2009

- Current assets decreased from 2009 to 2010 due to the increase in bond investments and decrease in cash deposits with the State of Tennessee's Local Government Investment Pool (LGIP), due to declining interest rates on LGIP investments during the fiscal year.

- In 2010, other assets increased due to increases in bond investments during the fiscal year.

- Capital assets, net of depreciation, decreased from 2009 to 2010 due to the transfer of 30 acres at no cost to the City of Johnson City, creating a reduction in land of $9 million. Also, depreciation expense increased significantly due to recent building additions.

- Current liabilities decreased from 2009 to 2010 due to the recording of $5.5 million in State Fiscal Stabilization Funds that were held by the university but due to the state at June 30, 2009. The funds were returned to the State Treasury on July 13, 2009.

Additionally, in June 2009, ETSU began electronic invoicing with three of our largest vendors, which has increased efficiencies and lowered levels of accounts payable at June 30, 2010.

- Decreases in other current liabilities were primarily due to accrued liabilities of $2.5 million in 2009 for the payout of the university's voluntary buyout plan.

- In 2010, noncurrent liabilities increased due to increases in the university's net OPEB obligation and increases in long-term liabilities.

- Invested in capital assets, net of related debt, decreased in 2010 due to the transfer of land to the City of Johnson City.

- Restricted net assets increased from 2009 to 2010 due to increases in debt service requirements for the Culp Center renovations, baseball stadium, and the Center for Physical Activity.

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

	2010	2009
Assets:		
Current assets	$ 118	$ 26
Capital assets, net	1,815	251
Other assets	63,465	56,627
Total assets	**65,398**	**56,904**
Liabilities:		
Current liabilities	92	59
Total liabilities	**92**	**59**
Net assets:		
Invested in capital assets, net of related debt	1,815	251
Restricted – nonexpendable	47,931	43,502
Restricted – expendable	16,425	14,855
Unrestricted	(865)	(1,763)
Total net assets	**$65,306**	**$56,845**

Comparison of fiscal year 2010 to fiscal year 2009

- Current assets increased due to market gains.

- Capital assets and invested in capital assets, net of related debt, increased due to a gift of land and buildings from Eastman Chemical Company. This property is being leased to ETSU to be used for educational purposes.

- Investments in long-term cash and securities (included in other assets above) increased due to improved market conditions.

- Other assets also decreased by a lesser amount due to payments on existing pledges for the College of Pharmacy and final disposal of assets held by the Quillen Estate.

- Current liabilities increased due to an increase in scholarships due to ETSU at June 30, 2010.

- Nonexpendable net assets and unrestricted net assets increased due to market gains.

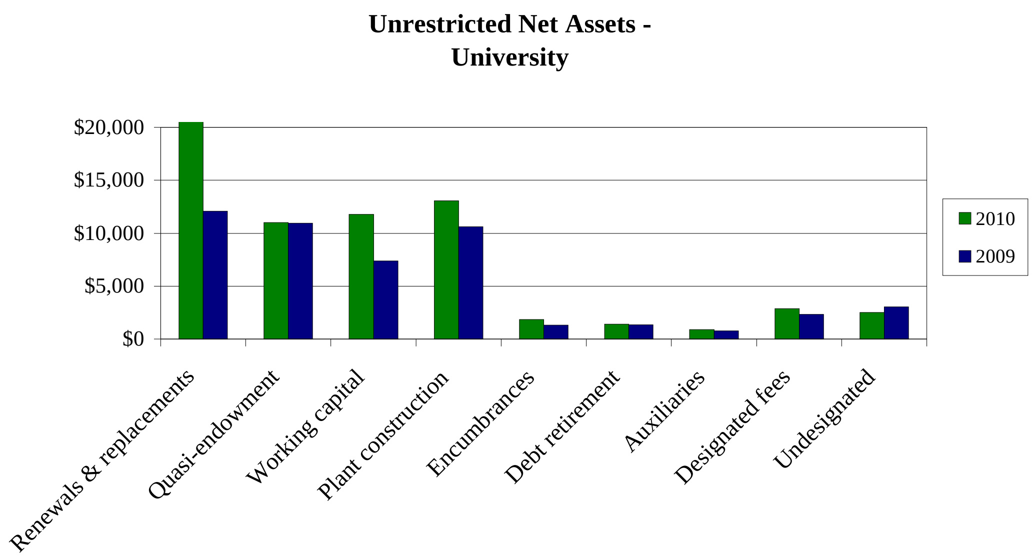
Medical Education Assistance Corporation
Condensed Statements of Net Assets
(in thousands of dollars)

	2010	**2009**
Assets:		
Current assets	$14,748	$15,346
Capital assets, net	2,599	2,322
Other assets	7,378	6,015
Total assets	**24,725**	**23,683**
Liabilities:		
Current liabilities	4,965	4,456
Noncurrent liabilities	2,058	2,043
Total liabilities	**7,023**	**6,499**
Net assets:		
Invested in capital assets, net of related debt	1,000	693
Unrestricted	16,702	16,491
Total net assets	**$17,702**	**$17,184**

Comparison of fiscal year 2010 to fiscal year 2009

- Current assets decreased in fiscal year 2010 as a result of a decrease in cash.
- Other assets increased due to an increase in long-term investments due to improving market conditions.
- Days in accounts receivable were 32 in June 2010 compared to 35 in June 2009.
- Liabilities increased in fiscal year 2010 due to increases in accrued compensation and accounts payable.

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



Comparison of fiscal year 2010 to fiscal year 2009

- The allocations for renewals and replacements increased due to allocation increases for College of Medicine equipment, College of Pharmacy plant, Family Practice plant evaluation and development, housing renovations, and parking upgrades.

- The allocation for working capital increased as a result of amounts due from primary government for State Fiscal Stabilization funds, and increases in accounts receivable.

- 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.

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

	2010	2009
Operating revenues:		
Net tuition and fees	$ 66,948	$ 59,480
Grants and contracts	40,519	42,005
Auxiliary	15,873	13,825
Other	25,699	25,292
Total operating revenues	**149,039**	**140,602**
Operating expenses	281,743	286,904
Operating income (loss)	**(132,704)**	**(146,302)**
Nonoperating revenues and expenses:		
State appropriations	85,946	92,402
Gifts	4,180	3,417
Grants and contracts	60,652	40,088
Investment income	2,221	2,327
Other revenues and expenses	(15,689)	(3,677)
Total nonoperating revenues and expenses	**137,310**	**134,557**
Income (loss) before other revenues, expenses gains, or losses	**4,606**	**(11,745)**
Other revenues, expenses, gains, or losses:		
Capital appropriations	2,899	6,691
Capital grants and gifts	333	801
Other	-	(453)
Total other revenues, expenses, gains, or losses	**3,232**	**7,039**
Increase (decrease) in net assets	**7,838**	**(4,706)**
Net assets at beginning of year	194,395	199,101
Net assets at end of year	**$202,233**	**$194,395**

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

	2010	2009
Operating revenues and expenses:		
Operating revenues	$ 5,175	$ 3,939
Operating expenses	5,581	5,758
Operating income (loss)	**(406)**	**(1,819)**
Nonoperating revenues and expenses:		
Gifts	-	872
Investment income (loss)	5,341	(11,613)
Other revenues and expenses	(36)	(345)
Total nonoperating revenues and expenses	**5,305**	**(11,086)**
Income (loss) before other revenues, expenses, gains, or losses	**4,899**	**(12,905)**
Other revenues, expenses, gains, or losses:		
Capital grants and gifts	1,724	52
Additions to permanent endowments	1,838	1,962
Total other revenues, expenses, gains, or losses	**3,562**	**2,014**
Increase (decrease) in net assets	**8,461**	**(10,891)**
Net assets at beginning of year	56,845	67,736
Net assets at end of year	**$65,306**	**$56,845**

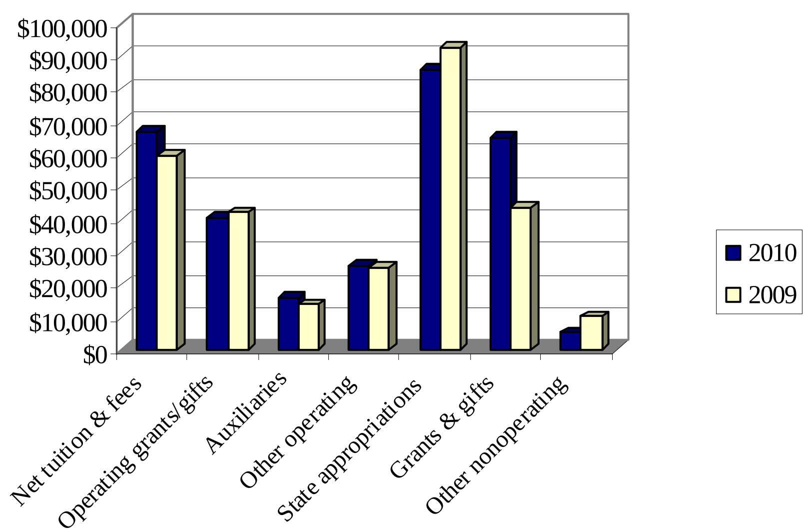
MEAC
Condensed Statements of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

	2010	2009
Operating revenues and expenses:		
Operating revenues	$39,274	$38,010
Operating expenses	36,048	34,511
Operating income (loss)	**3,226**	**3,499**
Nonoperating revenues and expenses:		
Investment income	177	387
Other revenues and expenses	(2,885)	(2,425)
Total nonoperating revenues and expenses	**(2,708)**	**(2,038)**
Increase in net assets	**518**	**1,461**
Net assets at beginning of year	17,184	15,723
Net assets at end of year	**$17,702**	**$17,184**

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, 2010, and June 30, 2009. Amounts are presented in thousands of dollars.

Revenues by Source - University



Comparison of fiscal year 2010 to fiscal year 2009

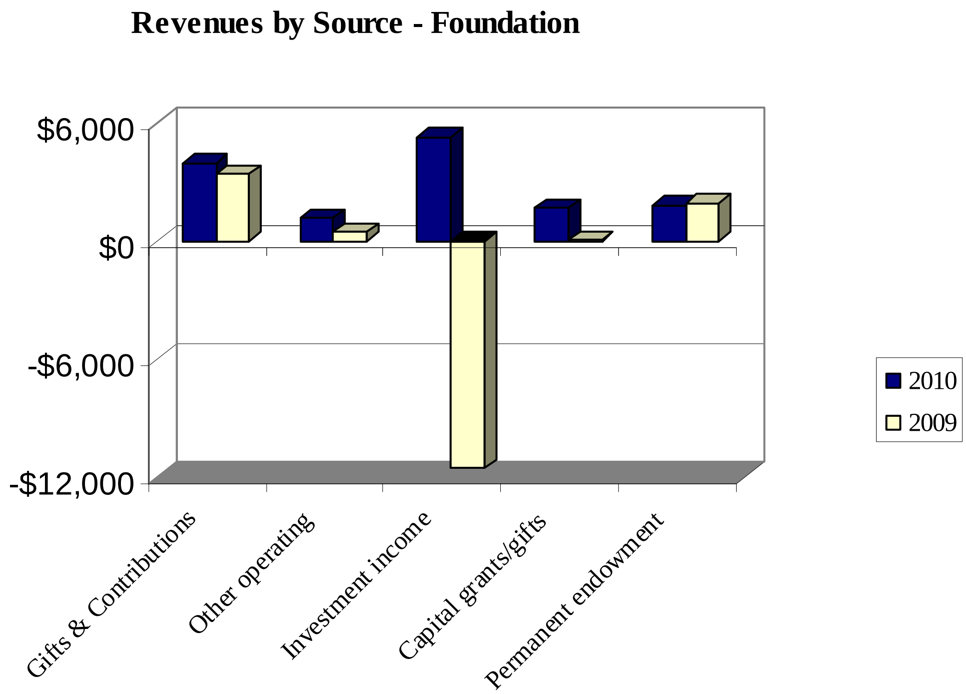
- Tuition and fees increased in 2010 due to an average 6.4% fee increase and a 5.5% increase in enrollment.

- Noncapital state appropriations decreased by $6.4 million from 2009 to 2010 as a result of operating reductions.

- Nonoperating grants and gifts increased as a result of increased funds from the PELL awards, the Tennessee Education Lottery Scholarship, and American Recovery and Reinvestment Act State Fiscal Stabilization Funds.

- Other categories remained relatively unchanged.

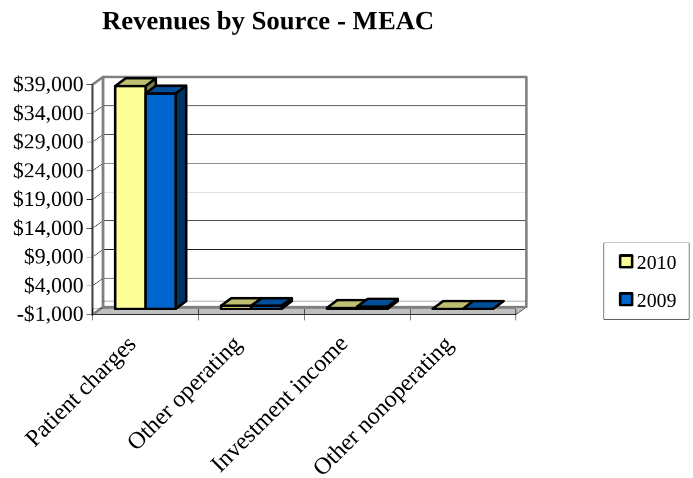
The following is a graphic illustration of foundation revenues by source (both operating and nonoperating), which were used to fund the foundation's operating activities for the years ended June 30, 2010, and June 30, 2009. Amounts are presented in thousands of dollars.



Comparison of fiscal year 2010 to fiscal year 2009

- Operating revenues increased due to proceeds from two large one-time gifts as well as a general increase in giving for operating purposes.
- Investment income increased due to increases in unrealized gains due to market conditions and the change from significant unrealized losses in the prior year.
- Additions to permanent endowment decreased slightly due to reduced giving for endowments.

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund MEAC's operating activities for the years ended June 30, 2010, and June 30, 2009. Amounts are presented in thousands of dollars.



Comparison of fiscal year 2010 to fiscal year 2009

- Net operating revenues increased 3.3% in fiscal year 2010.
- Patient service revenue increased in 2010 primarily due to increased productivity.
- Interest income decreased significantly in 2010 due to lower interest rates.

Expenses

Operating expenses for the university can be displayed in two formats, natural classification and program classification. Both formats are displayed below (in thousands of dollars). Component unit expenses are also presented below by natural classification (in thousands of dollars).

University
Natural Classification

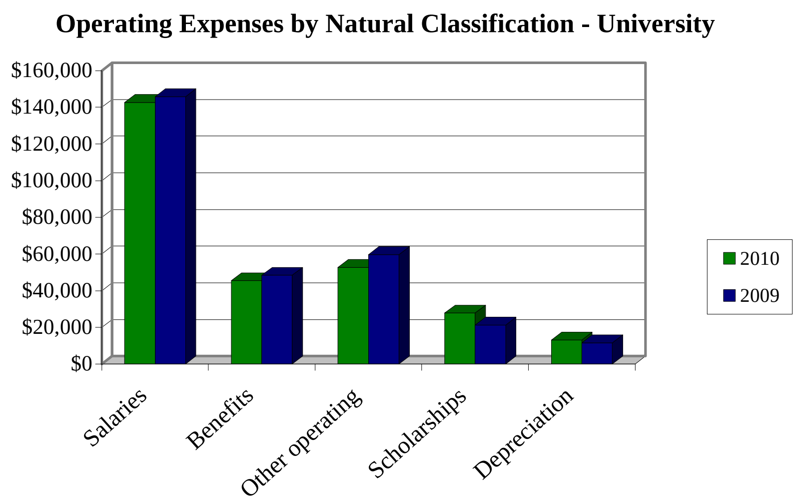
	2010	2009
Salaries	$ 142,670	$ 145,895
Benefits	45,492	48,453
Other operating	52,660	59,686
Scholarships	27,829	21,336
Depreciation	13,092	11,534
Total expenses	**$281,743**	**$ 286,904**

Foundation
Natural Classification

	2010	2009
Other operating	$2,237	$ 2,047
Scholarships	1,319	1,269
Depreciation	-	3
Payments to or on behalf of ETSU	2,025	2,439
Total expenses	**$ 5,581**	**$ 5,758**

MEAC
Natural Classification

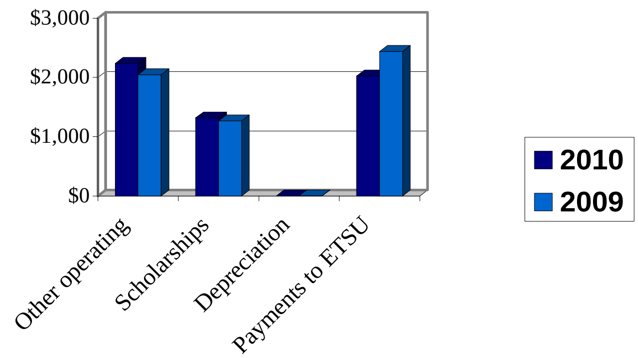
	2010	2009
Salaries	$23,780	$22,643
Benefits	2,209	2,098
Other operating	9,777	9,529
Depreciation	282	241
Total expenses	**$36,048**	**$34,511**



Comparison of fiscal year 2010 to fiscal year 2009

- Salaries decreased due to the voluntary buyout program in fiscal year 2009. Some positions were left unfilled and others were rehired at entry level.
- Benefits decreased as a result of two months of health insurance reductions by the State of Tennessee.
- Other operating expenses decreased primarily due to decreases in professional and administrative services and reduced costs for motor pool.
- Scholarships increased along with increased enrollment.
- Depreciation expense increased from 2009 to 2010 with the completion of construction projects, most notably the Centennial Hall dormitory.

Operating Expenses by Natural Classification - Foundation

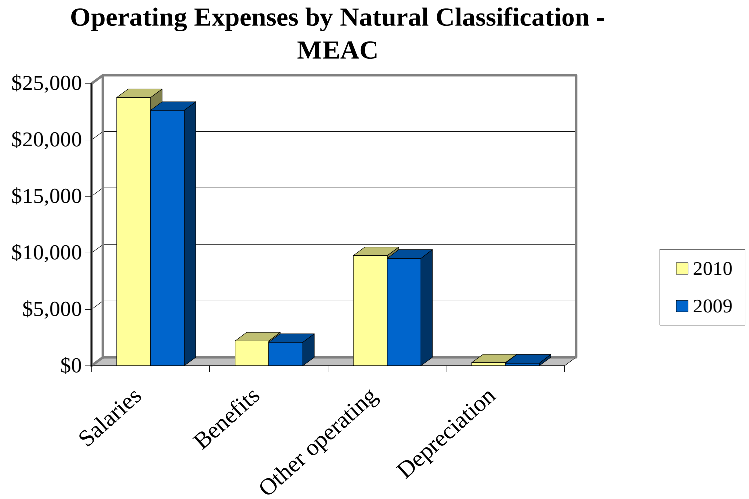


Comparison of fiscal year 2010 to fiscal year 2009

- Other operating expenses increased 9% during 2010 over 2009 due to increases in expenses for utilities and supplies.

- Expenses for scholarships increased by 4% due to increased enrollment at ETSU.

- Payments to ETSU were reduced by 17% in 2010 to help compensate for a $10 million decrease in foundation net assets in 2009.



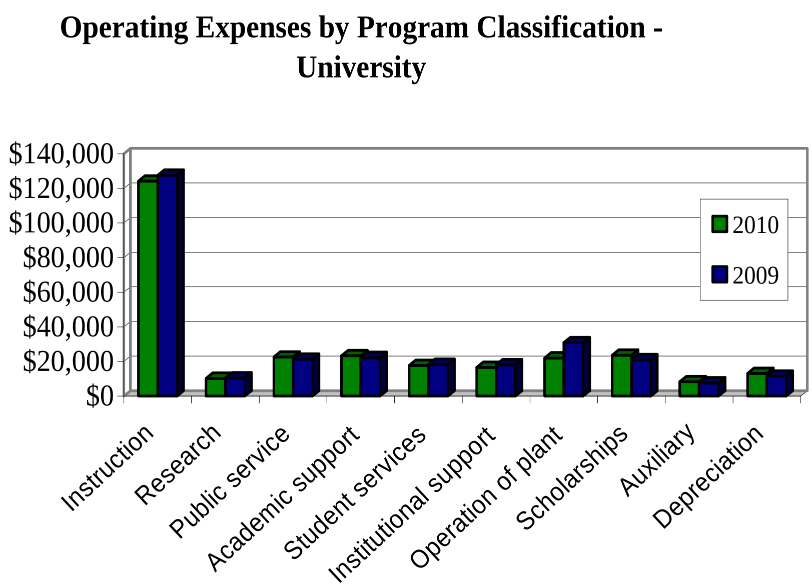
Comparison of fiscal year 2010 to fiscal year 2009

- In fiscal year 2010, physician compensation increased 9% over the prior year.

- The expenses for medical supplies and occupancy remained consistent with the prior year. Professional liability (malpractice) insurance costs decreased slightly from the prior year.

Program Classification
University
(in thousands of dollars)

	2010	2009
Instruction	$124,158	$127,619
Research	10,301	10,497
Public service	22,585	21,380
Academic support	23,356	22,327
Student services	17,713	18,343
Institutional support	16,589	18,065
Operation and maintenance of plant	22,024	30,848
Scholarships	23,599	18,630
Auxiliary	8,326	7,661
Depreciation	13,092	11,534
Total expenses	**$281,743**	**$286,904**



<u>Comparison of fiscal year 2010 to fiscal year 2009</u>

- Instruction is the largest expenditure area for the university. Decreases in instruction were largely due to the voluntary buyout program in fiscal year 2009.
- Decreases in operation of plant are due to reductions in wages and benefits due to the voluntary buyout program in fiscal year 2009.
- Depreciation expense increased from 2009 to 2010 with the completion of construction projects, most notably the new dormitory, Centennial Hall.
- Expenditures in other areas did not change materially from 2009 to 2010.

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.

Capital Assets and Debt Administration

Capital Assets

The university had $249 million invested in capital assets, net of accumulated depreciation of $150 million at June 30, 2010; and $253 million invested in capital assets, net of accumulated depreciation of $143 million at June 30, 2009. Depreciation charges totaled $13 million and $11.5 million for the years ended June 30, 2010, and June 30, 2009, respectively. Details of these assets are shown below.

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

	2010	**2009**
Land	$15,571	$ 24,571
Land improvements & infrastructure	22,035	20,397
Buildings	186,032	162,552
Equipment	10,777	9,642
Library holdings	3,589	4,244
Intangible assets	2,642	3,017
Projects in progress	8,684	28,601
Total capital assets, net	**$249,330**	**$253,024**

Comparison of fiscal year 2010 to fiscal year 2009

- In 2010, capital assets decreased from the transfer of the 30-acre Armory property to the City of Johnson City. Construction was completed for a new dormitory, Centennial Hall, which was placed in use in fall 2009.

At June 30, 2010, and June 30, 2009, the foundation had $1,815,000 and $251,000, respectively, invested in capital assets, net of accumulated depreciation. There were no depreciation charges for fiscal year 2010, and depreciation charges totaled $3,000 for fiscal year 2009. Details of these assets are shown below.

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

	2010	2009
Land	$ 685	$ 1
Buildings	1,000	241
Equipment	9	9
Projects in progress	121	-
Total capital assets, net	**$1,815**	**$251**

Comparison of fiscal year 2010 to fiscal year 2009

- Increases in fiscal year 2010 are due to a gift of land and property to the foundation by Eastman Chemical Company on June 29. This property is being leased to East Tennessee State University to be used for educational purposes.

MEAC had $2,598,622 in capital assets, net of accumulated depreciation at June 30, 2010; and $2,322,275 in capital assets, net of accumulated depreciation at June 30, 2009. Depreciation charges totaled $282 thousand for the current fiscal year and $241 thousand for the prior year. Details of these assets are shown below.

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

	2010	2009
Land	$ 18	$ 18
Buildings	1,877	1,800
Equipment	704	504
Total capital assets, net	**$2,599**	**$2,322**

- In 2010, net investment in capital assets remained consistent with the prior year.

More detailed information about the capital assets of the college and its component units is presented in Notes 5 and 20 to the financial statements.

Debt

The university had $121 million and $114 million in debt outstanding at June 30, 2010, and June 30, 2009, respectively. The table below summarizes these amounts by type of debt instrument.

University
Outstanding Debt Schedule
(in thousands of dollars)

	2010	**2009**
Commercial paper	$ 8,929	$ 2,003
Notes	-	150
Loans	1,399	1,549
Bonds	111,017	110,574
Total debt	**$121,345**	**$114,276**

Comparison of fiscal year 2010 to fiscal year 2009

- In 2010, commercial paper increased related to Buc Ridge apartments and housing renovations.

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

The ETSU Foundation had no outstanding debt at June 30, 2010.

MEAC
Outstanding Debt Schedule
(in thousands of dollars)

	2010	**2009**
Notes	$1,598	$1,629
Total debt	**$1,598**	**$1,629**

Comparison of fiscal year 2010 to fiscal year 2009

- MEAC has one note payable for the Kingsport facility, which has a declining balance due.

Economic Factors That Will Affect the Future

The economic outlook for the State of Tennessee has improved minimally in recent months but remains poor. For fiscal year 2011, the state reduced the university appropriation an additional 7.5%, bringing total reductions over the past three years to 32.3%. The university will continue to receive federal stimulus and state maintenance of effort (MOE) dollars to temporarily offset these reductions. These funds will amount to $41,903,300 for the three-year period ending June 30, 2011. These funds will allow the university to make reductions over a two-year period that will enable it to be in a position to operate at the expected reduced level of appropriations beginning with fiscal year 2012.

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 future fiscal years.

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 Finance and Administration, P.O. Box 70601, Johnson City, TN 37614.

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENTS OF NET ASSETS
JUNE 30, 2010

	East Tennessee State University	Component Units: East Tennessee State University Foundation	Component Units: Medical Education Assistance Corporation
ASSETS			
Current assets:			
Cash and cash equivalents (Notes 2, 3, and 20)	$ 7,391,591.71	$ 91,795.93	$ 3,441,098.00
Short-term investments (Note 20)	-	-	7,000,000.00
Accounts, notes, and grants receivable (net) (Note 4)	26,968,227.59	-	4,000,668.00
Due from primary government	1,873,022.43	-	-
Pledges receivable (net) (Note 20)	-	4,594.18	-
Inventories	399,850.57	-	-
Prepaid expenses and deferred charges	264,162.68	-	305,806.00
Accrued interest receivable	854,277.29	21,206.25	-
Other assets	9,691.70	-	-
Total current assets	37,760,823.97	117,596.36	14,747,572.00
Noncurrent assets:			
Cash and cash equivalents (Notes 2, 3, and 20)	38,279,062.90	4,766,220.88	-
Investments (Notes 3 and 20)	49,104,790.00	56,761,301.84	4,354,484.00
Accounts, notes, and grants receivable (net) (Note 4)	6,232,012.56	-	18,505.00
Pledges receivable (net) (Note 20)	-	1,682,508.59	-
Capital assets (net) (Notes 5 and 20)	249,329,745.13	1,815,030.29	2,598,622.00
Prepaid expenses and deferred charges	-	-	3,005,498.00
Other assets	-	254,958.14	-
Total noncurrent assets	342,945,610.59	65,280,019.74	9,977,109.00
Total assets	380,706,434.56	65,397,616.10	24,724,681.00
LIABILITIES			
Current liabilities:			
Accounts payable (Note 7)	3,752,466.04	91,795.93	1,198,681.00
Accrued liabilities	5,655,555.45	-	2,930,906.00
Student deposits	768,932.50	-	-
Deferred revenue (Note 8)	13,644,717.94	-	-
Compensated absences (Notes 8 and 20)	2,777,318.86	-	123,679.00
Accrued interest payable	947,386.19	-	-
Long-term liabilities, current portion (Notes 8 and 20)	4,002,862.14	-	35,147.00
Deposits held in custody for others	2,348,140.86	-	356,229.00
Other liabilities	-	-	320,057.00
Total current liabilities	33,897,379.98	91,795.93	4,964,699.00
Noncurrent liabilities:			
Deferred revenue (Note 8)	2,721,585.69	-	-
Compensated absences (Notes 8 and 20)	7,865,380.64	-	494,716.00
Long-term liabilities (Notes 8 and 20)	117,342,121.90	-	1,562,951.00
Due to grantors (Note 8)	7,348,885.89	-	-
Net OPEB obligation (Notes 8 and 13)	9,297,631.48	-	-
Total noncurrent liabilities	144,575,605.60	-	2,057,667.00
Total liabilities	178,472,985.58	91,795.93	7,022,366.00
NET ASSETS			
Invested in capital assets, net of related debt	127,984,761.09	1,815,030.29	1,000,524.00
Restricted for:			
Nonexpendable:			
Scholarships and fellowships	40,031.45	37,440,387.18	-
Research	-	588,646.70	-
Instructional department uses	-	4,886,335.17	-
Other	-	5,015,959.65	-
Expendable:			
Scholarships and fellowships	228,209.57	3,307,206.48	-
Research	164,878.36	223,272.99	-
Instructional department uses	287,369.88	3,211,767.99	-
Loans	1,205,452.60	-	-
Capital projects	-	377,508.45	-
Debt service	4,027,446.90	-	-
Other	1,966,111.00	9,304,619.35	-
Unrestricted (Note 10)	66,329,188.13	(864,914.08)	16,701,791.00
Total net assets	$ 202,233,448.98	$ 65,305,820.17	$ 17,702,315.00

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

Exhibit B

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

		Component Units	
	East Tennessee State University	East Tennessee State University Foundation	Medical Education Assistance Corporation
REVENUES			
Operating revenues:			
Student tuition and fees (net of scholarship allowances of $33,637,830.77)	$ 66,947,997.05	$ -	$ -
Gifts and contributions	-	3,988,535.05	-
Governmental grants and contracts	32,066,090.52	-	-
Nongovernmental grants and contracts	8,452,408.06	-	-
Sales and services of educational departments	24,234,135.90	-	-
Patient charges	-	-	38,754,706.00
Auxiliary enterprises:			
Residential life (net of scholarship allowances of $209,087.21; all residential life revenues are used as security for revenue bonds; see Note 8)	11,564,092.61	-	-
Bookstore	710,795.58	-	-
Food service	568,457.37	-	-
Wellness facility (all revenues are used as security for revenue bonds; see Note 8)	1,296,115.70	-	-
Other auxiliaries	1,733,316.62	-	-
Interest earned on loans to students	250,165.14	-	-
Other operating revenues (foundation revenues include $824,446.00 from MEAC)	1,215,034.49	1,187,684.60	519,341.00
Total operating revenues	149,038,609.04	5,176,219.65	39,274,047.00
EXPENSES			
Operating expenses (Note 17):			
Salaries and wages	142,669,684.40	-	23,779,595.00
Benefits	45,492,405.31	-	2,209,578.00
Utilities, supplies, and other services	52,659,451.08	2,237,761.16	9,776,710.00
Scholarships and fellowships	27,829,539.32	1,318,818.00	-
Depreciation expense	13,091,932.55	-	281,680.00
Payments to or on behalf of East Tennessee State University (Note 20)	-	2,024,822.50	-
Total operating expenses	281,743,012.66	5,581,401.66	36,047,563.00
Operating income (loss)	(132,704,403.62)	(405,182.01)	3,226,484.00
NONOPERATING REVENUES (EXPENSES)			
State appropriations	85,946,234.50	-	-
Gifts (university gifts include $1,997,480.81 from ETSU Foundation and $1,960,690.00 from MEAC)	4,180,381.16	-	-
Grants and contracts	60,651,548.85	-	-
Investment income (for the component units, net of investment expense of $106,246.00)	2,221,328.19	5,340,490.70	177,826.00
Interest on capital asset-related debt	(5,598,801.96)	-	(102,969.00)
Payments to or on behalf of East Tennessee State University or East Tennessee State University Foundation (Note 20)	-	-	(2,785,136.00)
Bond issuance costs	(9,487.71)	-	-
Other nonoperating revenues (expenses)	(10,080,227.85)	(35,797.30)	2,580.00
Net nonoperating revenues (expenses)	137,310,975.18	5,304,693.40	(2,707,699.00)
Income (loss) before other revenues, expenses, gains, or losses	4,606,571.56	4,899,511.39	518,785.00
Capital appropriations	2,898,855.30	-	-
Capital gifts and grants (university gifts include $27,341.69 from ETSU Foundation)	333,062.99	1,723,891.97	-
Additions to permanent endowments	-	1,837,830.92	-
Other	-	-	-
Total other revenues	3,231,918.29	3,561,722.89	-
Increase (decrease) in net assets	7,838,489.85	8,461,234.28	518,785.00
NET ASSETS			
Net assets - beginning of year	194,394,959.13	56,844,585.89	17,183,530.00
Net assets - end of year	$ 202,233,448.98	$ 65,305,820.17	$ 17,702,315.00

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

Exhibit C

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$	64,480,528.12
Grants and contracts		38,836,136.08
Sales and services of educational activities		24,060,681.85
Payments to suppliers and vendors		(57,077,954.17)
Payments to employees		(144,546,870.27)
Payments for benefits		(41,884,722.66)
Payments for scholarships and fellowships		(27,861,482.31)
Loans issued to students		(943,185.25)
Collection of loans from students		1,507,793.94
Interest earned on loans to students		163,317.47
Auxiliary enterprise charges:		
Residence halls		11,650,915.22
Bookstore		710,814.63
Food services		572,340.63
Wellness facility		1,296,115.70
Other auxiliaries		1,720,652.99
Other receipts		1,123,543.74
Net cash used by operating activities		(126,191,374.29)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations		85,811,131.00
Gifts and grants received for other than capital or endowment purposes		60,047,582.26
Federal student loan receipts		82,769,629.63
Federal student loan disbursements		(81,819,152.38)
Changes in deposits held for others		142,419.24
Net cash provided by noncapital financing activities		146,951,609.75
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt		11,396,362.53
Capital appropriations		2,898,855.30
Capital grants and gifts received		305,721.30
Purchases of capital assets and construction		(18,385,392.90)
Principal paid on capital debt		(4,327,403.70)
Interest paid on capital debt		(5,655,630.57)
Other capital and related financing payments		(769,095.40)
Net cash used by capital and related financing activities		(14,536,583.44)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		16,000,000.00
Income on investments		2,049,364.64
Purchase of investments		(48,996,916.67)
Net cash used by investing activities		(30,947,552.03)
Net increase (decrease) in cash		(24,723,900.01)
Cash - beginning of year		70,394,554.62
Cash - end of year	$	45,670,654.61

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(132,704,403.62)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense		13,091,932.55
Other adjustments		43,870.75
Change in assets and liabilities:		
Receivables, net		(4,319,421.65)
Inventories		32,957.12
Prepaid expenses and deferred charges		1,074,411.62
Other assets		(86,847.67)
Accounts payable		(3,339,578.71)
Accrued liabilities		(1,370,003.94)
Net OPEB obligation		2,617,909.46
Deferred revenue		(1,917,958.52)
Deposits		(231,836.31)
Compensated absences		352,985.94
Loans to students		564,608.69
Net cash used by operating activities	$	(126,191,374.29)
Noncash investing, capital, or financing transactions		
Gifts of capital assets	$	27,341.69
Unrealized gains on investments		80,287.50
Loss on disposal of capital assets		(9,101,789.33)

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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 20 for more detailed information about the component units and how to obtain their reports.

Basis of Presentation

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

Basis of Accounting

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

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

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

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

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

Inventories

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

Compensated Absences

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

Capital Assets

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

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

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

Net Assets

The university's net assets are classified as follows:

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

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

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

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the university and the amount that is paid by the student and/or third parties making payments on the students' 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

This classification includes demand deposits and petty cash on hand. At June 30, 2010, cash consists of $5,388,341.52 in bank accounts, $40,000.00 of petty cash on hand, $39,055,823.72 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, $1,177,789.37 in LGIP deposits for capital projects, and $8,700.00 held by the State Treasurer for the benefit of the university.

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.

The LGIP is part of the State Pooled Investment Fund. The fund's required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at http://www.tn.gov/treasury/ or by calling (615) 741-2956.

NOTE 3. INVESTMENTS

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

As of June 30, 2010, the university had the following investments and maturities.

Investment Type	Fair Value	Investment Maturities (In Years) 1 to 5
U. S. agency obligations	$49,104,790.00	$49,104,790.00

Interest rate risk

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

Credit risk

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

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

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

At June 30, 2010, the university's investments were rated as follows:

		Credit Quality Rating	
Investment Type	Fair Value	AAA	Unrated
LGIP	$40,233,613.09	$ -	$40,233,613.09
U. S. agency obligations	49,104,790.00	49,104,790.00	-
Total	$89,338,403.09	$49,104,790.00	$40,233,613.09

Concentration of credit risk

Tennessee Board of Regents (TBR) policy restricts investments in banker's acceptances, commercial paper, and money market mutual funds. The policy limits banker's acceptances to not exceed 20% of the total investments on the date of acquisition and limits the combined amount of banker's acceptances and commercial paper to not exceed 35% of the total investments at the date of acquisition. The amount invested in any one bank shall not exceed 5% of total investments on the date of acquisition. Additionally, no more than 5% of total investments at the date of acquisition may be invested in the commercial paper of a single issuer. The policy further limits the total holdings of an issuer's commercial paper to not more than 2% of the issuing corporation's total outstanding commercial paper. Tennessee Board of Regents policy limits investments in money market mutual funds to not exceed 10% of total investments on the date of acquisition. More than 5% of the university's investments were invested in the following single issuers:

Issuer	Percentage of Total Investments
	June 30, 2010
Federal Home Loan Mortgage Corporation (FHLM) obligations	75.5%
Federal Home Loan Bank (FHLB) obligations	24.5%

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2010
Student accounts receivable	$ 8,319,238.53
Grants receivable	11,238,811.66
Notes receivable	429,428.60
State appropriation receivable	188,473.00
Other receivables	9,520,302.06
Subtotal	29,696,253.85
Less allowance for doubtful accounts	2,664,320.04
Total receivables	$27,031,933.81

Federal Perkins Loan Program funds included the following:

	June 30, 2010
Perkins loans receivable	$8,066,795.84
Less allowance for doubtful accounts	1,898,489.50
Total	$6,168,306.34

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 24,571,461.80	$ -	$ -	$9,000,000.00	$ 15,571,461.80
Land improvements and infrastructure	31,964,432.67	-	3,176,107.35	-	35,140,540.02
Buildings	265,366,600.62	-	31,574,456.33	844,839.03	296,096,217.92
Equipment	30,172,824.94	3,187,309.71	-	2,261,127.04	31,099,007.61
Library holdings	10,498,584.38	438,229.30	-	2,366,133.76	8,570,679.92
Intangible assets	4,392,037.57	41,363.21	-	-	4,433,400.78
Projects in progress	28,601,434.21	14,832,782.41	(34,750,563.68)	-	8,683,652.94
Total	395,567,376.19	18,499,684.63	-	14,472,099.83	399,594,960.99
Less accum. depreciation/amortization:					
Land improvements and infrastructure	11,567,748.74	1,537,387.96	-	-	13,105,136.70
Buildings	102,814,282.46	8,095,579.79	-	844,839.03	110,065,023.22
Equipment	20,531,727.54	1,949,480.52	-	2,159,337.71	20,321,870.35
Library holdings	6,254,353.58	1,093,352.94	-	2,366,133.76	4,981,572.76
Intangible assets	1,375,481.49	416,131.34	-	-	1,791,612.83
Total	142,543,593.81	13,091,932.55	-	5,370,310.50	150,265,215.86
Capital assets, net	$253,023,782.38	$ 5,407,752.08	$ -	$9,101,789.33	$249,329,745.13

During the year, the university transferred 30 acres of land, valued at $9,000,000 on the university's general ledger, to the City of Johnson City. This transfer is shown in other nonoperating revenues (expenses) on the statement of revenues, expenses, and changes in net assets.

NOTE 6. CAPITAL LEASES

The university has entered into an Enhanced Use Lease Agreement with the United States Department of Veterans Affairs for certain real property, including land and several buildings, at the Veterans 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 Veterans Affairs to construct a new building (the Basic Science Building) with joint funding from the State of Tennessee and the federal government. In accordance with the memorandum of agreement, the state provided $18 million to the federal government for its share of the total construction costs ($34,195,153.41). The Basic Science Building is also included under the provisions of the Enhanced Use Lease Agreement.

The university is renovating several other buildings on the VA campus as funds become available. During the 2010 fiscal year, the university completed renovations on Building 119. The total capitalized cost of these renovations during fiscal year 2010 was $834,053.17.

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 $51,432,113.27. At June 30, 2010, the buildings are reported at $39,972,988.96, net of accumulated depreciation of $11,459,124.31.

NOTE 7. ACCOUNTS PAYABLE

Accounts payable included the following:

	June 30, 2010
Vendors payable	$1,949,916.13
Unapplied student payments	1,656,089.17
Other payables	146,460.74
Total accounts payable	$3,752,466.04

NOTE 8. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Note	$ 150,000.00	$ -	$ 150,000.00	$ -	$ -
Loan	1,549,013.14	-	150,165.26	1,398,847.88	160,902.09
TSSBA debt:					
Bonds	110,573,869.62	4,470,184.73	4,027,238.44	111,016,815.91	3,841,960.05
Commercial paper	2,003,142.45	6,926,177.80	-	8,929,320.25	-
Subtotal	114,276,025.21	11,396,362.53	4,327,403.70	121,344,984.04	4,002,862.14
Other liabilities:					
Deferred revenue	18,382,337.30	13,448,567.63	15,464,601.30	16,366,303.63	13,644,717.94
Compensated absences	10,289,713.56	5,971,878.42	5,618,892.48	10,642,699.50	2,777,318.86
Due to grantor	7,440,376.64	-	91,490.75	7,348,885.89	-
Net OPEB obligation	6,679,722.02	2,617,909.46	-	9,297,631.48	-
Subtotal	42,792,149.52	22,038,355.51	21,174,984.53	43,655,520.50	16,422,036.80
Total long-term liabilities	$157,068,174.73	$33,434,718.04	$25,502,388.23	$165,000,504.54	$20,424,898.94

Note 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 had 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 university chose to pay off the loan’s $150,000 balance during the 2010 fiscal year.

Loan 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 $260,919.22, and a due date of January 1, 2017. The balance owed by the university was $1,398,847.88 at June 30, 2010.

Debt service requirements to maturity for the loan payable at June 30, 2010, are as follows:

Year Ending June 30	Principal	Interest	Total
2011	$ 160,902.09	$100,017.64	$ 260,919.73
2012	172,406.59	88,513.14	260,919.73
2013	184,733.66	76,186.07	260,919.73
2014	197,942.11	62,977.61	260,919.72
2015	212,094.47	48,824.75	260,919.22
2016 - 2017	470,768.96	51,070.84	521,839.80
	$1,398,847.88	$427,590.05	$1,826,437.93

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 2.0% to 5.0%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially until 2039 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations; see Note 11 for further details. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the statement of net assets is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was $4,093,707.22 at June 30, 2010. Capitalized interest was $24,018.85 at June 30, 2010.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2010, are as follows:

Year Ending June 30	Principal	Interest	Total
2011	$ 3,795,999.96	$ 5,246,736.49	$ 9,042,736.45
2012	3,962,328.24	5,106,121.94	9,068,450.18
2013	4,014,203.03	4,967,175.99	8,981,379.02
2014	4,184,334.55	4,785,194.10	8,969,528.65
2015	4,325,158.92	4,623,389.43	8,948,548.35
2016-2020	23,376,774.44	20,240,611.76	43,617,386.20
2021-2025	25,607,235.83	14,422,115.41	40,029,351.24
2026-2030	18,876,657.48	8,648,043.75	27,524,701.23
2031-2035	14,926,620.24	4,520,283.72	19,446,903.96
2036-2039	7,947,503.22	1,126,852.95	9,074,356.17
	$111,016,815.91	$73,686,525.54	$184,703,341.45

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 $8,929,320.25 at June 30, 2010.

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

More detailed information regarding the bonds and commercial paper can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report is available on the state's website at http://tn.gov/comptroller/bf/tssbacafr.htm.

NOTE 9. 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 total 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's donor-restricted endowments are invested to produce only interest income. Under the spending plan established by the university, the total income has been authorized for expenditure. However, based on the university's needs for scholarship funding, the university chooses to spend only a portion of the interest income each year. The remaining amount, if any, is retained to be used in future years.

At June 30, 2010, net appreciation of $12,178.84 is available to be spent, all of which is included in restricted net assets expendable for scholarships and fellowships.

NOTE 10. UNRESTRICTED NET ASSETS

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

	June 30, 2010
Working capital	$ 11,790,453.49
Encumbrances	1,859,776.45
Designated fees	2,863,500.04
Auxiliaries	888,802.28
Quasi-endowment	10,988,083.21
Plant construction	13,053,062.89
Renewal and replacement of equipment	20,978,621.38
Debt retirement	1,401,355.07
Undesignated	2,505,533.32
Total	$66,329,188.13

NOTE 11. PLEDGED REVENUES

The university has pledged certain revenues and fees, including state appropriations, to repay $111,016,815.91 in revenue bonds issued from June 16, 1976, to April 15, 2009. Proceeds from the bonds provided financing for construction and renovation projects. The bonds are payable through 2039. Annual principal and interest payments on the bonds are expected to require 4.5% of available revenues. The total principal and interest remaining to be paid on the bonds is $184,703,341.45. Principal and interest paid for the current year and total available revenues were $9,505,331.69 and $211,467,958.16, respectively.

NOTE 12. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

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

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

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 13.02% 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, 2010, 2009, and 2008, were $6,074,138.11, $6,187,232.82, and $6,372,126.18, respectively. 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), ING Life and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated.* State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans was $6,902,619.24 for the year ended June 30, 2010, and $6,767,617.57 for the year ended June 30, 2009. Contributions met the requirements for each year.

NOTE 13. OTHER POST-EMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible university retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-101, *Tennessee Code Annotated.* Prior to reaching age 65, retirees may participate in the State Employee Group Plan. Members of this plan have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. The POS and HMO options will no longer be available to members after January 1, 2011. Subsequent to age 65, retirees who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the university's eligible retirees; see Note 19. The plans are reported in the State of Tennessee's *Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

Special Funding Situation

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

Funding Policy

The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, retirees in the State Employee Group Plan pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 20 years but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium.

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

Annual required contribution (ARC)	$4,486,000.00
Interest on the net OPEB obligation	300,587.49
Adjustment to the ARC	(284,715.99)
Annual OPEB cost	4,501,871.50
Amount of contribution	(1,883,962.04)
Increase (decrease) in net OPEB obligation	2,617,909.46
Net OPEB obligation – beginning of year	6,679,722.02
Net OPEB obligation – end of year	$9,297,631.48

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2010	State Employee Group Plan	$4,501,871.50	41.8%	$9,297,631.48
June 30, 2009	State Employee Group Plan	$5,360,000.02	39.8%	$6,679,722.02
June 30, 2008	State Employee Group Plan	$5,295,000.00	34.8%	$3,454,735.00

Funded Status and Funding Progress

The funded status of the university's portion of the State Employee Group Plan as of July 1, 2009, was as follows:

Actuarial valuation date	July 1, 2009
Actuarial accrued liability (AAL)	$44,411,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$44,411,000.00
Actuarial value of assets as a percentage of the AAL	0%
Covered payroll (active plan members)	$99,072,828.00
UAAL as percentage of covered payroll	44.9%

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

Actuarial Methods and Assumptions

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

In the July 1, 2009, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6 percent initially, increased to 10 percent in the second year and then reduced by decrements to an ultimate rate of 5 percent in fiscal year 2021. All rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

NOTE 14. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The amount of settlements have not exceeded insurance coverage for each of the past three fiscal years. The Risk Management Fund is also responsible for claims for damages to state-owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from $25,000 per occurrence, depending on the type of coverage, to an aggregate of $5 million.

The university participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2010, and June 30, 2009, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at http://tn.gov/finance/act/cafr.html. Since the university participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated,* Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated,* Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2010, the Risk Management Fund held $114.5 million in cash and cash equivalents designated for payment of claims.

At June 30, 2010, the scheduled coverage for the university was $669,613,600 for buildings and $164,764,900 for contents.

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

NOTE 15. 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 $47,661,886.77 at June 30, 2010.

Operating Leases

The university has entered into various operating leases for buildings. Such leases will probably continue to be required. Expenses under operating leases for real property were $383,920.09 for the year ended June 30, 2010. All operating leases are cancelable at the lessee's option.

On June 29, 2010, the East Tennessee State University Foundation received a gift of property from Tennessee Eastman Company consisting of 72,000 square feet in office and lab space as well as 24,500 square feet of storage facilities sitting on 144 acres in Gray, Tennessee. The foundation has leased the facilities to ETSU at no cost in return for ETSU being responsible for all operating costs of the facilities, estimated to be $350,000 to $500,000 per year.

Construction in Progress

At June 30, 2010, outstanding commitments under construction contracts totaled $18,208,526.35 for new campus apartments, housing renovations, and various other projects, of which $489,731.45 will be funded by future state capital outlay appropriations.

Litigation

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

NOTE 16. CHAIRS OF EXCELLENCE

The university had $19,565,312.02 on deposit at June 30, 2010, 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 these financial statements.

NOTE 17. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses by functional classification for the year ended June 30, 2010, are as follows:

Functional Classification	Salaries	Benefits	Other Operating	Natural Classification Scholarships	Depreciation	Total
Instruction	$ 84,276,839.23	$23,864,333.05	$13,753,803.58	$2,262,959.56	$ -	$124,157,935.42
Research	4,912,152.33	1,569,215.95	3,721,624.99	97,479.65	-	10,300,472.92
Public service	12,250,846.60	3,936,133.82	6,310,012.43	87,493.44	-	22,584,486.29
Academic support	14,074,100.27	5,309,675.97	3,597,094.97	375,537.95	-	23,356,409.16
Student services	8,661,753.88	2,994,008.83	4,424,000.85	1,632,846.90	-	17,712,610.46
Institutional support	11,205,386.57	4,373,292.33	837,469.44	172,963.70	-	16,589,112.04
Operation & maintenance of plant	5,367,045.15	2,906,763.81	13,750,651.58	-	-	22,024,460.54
Scholarships & fellowships	12,690.00	36.34	529,044.22	23,057,374.72	-	23,599,145.28
Auxiliary	1,908,870.37	538,945.21	5,735,749.02	142,883.40	-	8,326,448.00
Depreciation	-	-	-	-	13,091,932.55	13,091,932.55
Total	$142,669,684.40	$45,492,405.31	$52,659,451.08	$27,829,539.32	$13,091,932.55	$281,743,012.66

NOTE 18. 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 considered material to the university's financial statements and therefore are not included in the university's financial report. As reported in the Research Foundation's most recently audited financial report, at June 30, 2010, the assets of the Research Foundation totaled $3,277,226.00, liabilities were $577,844.25, and the net assets amounted to $2,699,381.75.

NOTE 19. ON-BEHALF PAYMENTS

During the year ended June 30, 2010, the State of Tennessee made payments of $142,298.59 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 13. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

NOTE 20. COMPONENT UNITS

East Tennessee State University Foundation

The East Tennessee State University Foundation is a legally separate, tax-exempt organization supporting East Tennessee State University. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the university in support of its programs. The 30-member board of the foundation is self-perpetuating and consists of graduates and friends of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements.

During the year ended June 30, 2010, the foundation made distributions of $2,024,822.50 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 Finance and Administration, P. O. Box 70601, Johnson City, TN 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, 2010, cash and cash equivalents consisted of $92,465.33 in bank accounts, $4,012,494.48 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $753,057.00 in cash held by others.

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 State Pooled Investment Fund. The fund's required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at http://www.tn.gov/treasury or by calling (615) 741-2956.

Investments

The foundation is authorized to invest funds in accordance with its board of directors' policies. All investments permitted to be reported at fair value under GASB

Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

At June 30, 2010, the foundation had the following investments and maturities.

		Investment Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10	No Maturity Date
U. S. agency obligations	$ 6,514,353.00	$ -	$ 6,514,353.00	$ -	$ -	$ -
Bond mutual funds	15,584,020.99	359,034.00	5,382,766.99	4,636,940.00	5,205,280.00	-
Equity mutual funds	34,662,927.85	-	-	-	-	34,662,927.85
Total	$56,761,301.84	$359,034.00	$11,897,119.99	$4,636,940.00	$5,205,280.00	$34,662,927.85

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. 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's 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.

At June 30, 2010, the foundation's investments were rated as follows:

		Credit Quality Rating				
Investment Type	Fair Value	AAA	AA	A	BBB or Less	Unrated
LGIP	$ 4,012,494.48	$ -	$ -	$ -	$ -	$ 4,012,494.48
U. S. agency obligations	6,514,353.00	6,514,353.00	-	-	-	-
Bond mutual funds	15,584,020.99	10,713,206.99	767,542.00	2,082,806.00	2,020,466.00	-
Total	$26,110,868.47	$17,227,559.99	$767,542.00	$ 2,082,806.00	$2,020,466.00	$ 4,012,494.48

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

	June 30, 2010
LGIP	$ 753,057.00
U.S. agency obligations	6,514,353.00
Mutual funds	41,312,923.60
	$48,580,333.60

Assets of endowment funds 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. The units at June 30, 2010, had a fair value of $0.9527461873 each. A total of 51,207,238.97 units were owned by endowments, and 699,849.27 units were owned by quasi-endowments.

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

FY 2010

	Pooled Assets		Net Gains	Fair Value
	Fair Value	Cost	(Losses)	Per Unit
End of year	$56,761,301.84	$62,599,131.45	($5,837,829.61)	$0.9527461873
Beginning of year	$47,937,395.58	$61,211,687.38	(13,274,291.80)	$0.7073797138
Unrealized net gains			7,436,462.19	
Realized net losses			(3,527,341.98)	
Total net gain			$3,909,120.21	

The average annual earnings per unit, exclusive of net gains, were $.022 for the year ended June 30, 2010.

Pledges Receivable

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

	June 30, 2010
Current pledges	$ 611,704.17
Pledges due in one to five years	1,122,768.29
Subtotal	1,734,472.46
Less discounts to net present value	(47,369.69)
Total pledges receivable, net	$1,687,102.77

Capital Assets

Capital asset activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$ 1,200.00	$ 685,000.00	$ 1,200.00	$ 685,000.00
Buildings	299,000.00	1,000,000.00	240,000.00	1,059,000.00
Equipment	9,486.00	-	-	9,486.00
Projects in progress	-	138,818.91	18,274.62	120,544.29
Total	309,686.00	1,823,818.91	259,474.62	1,874,030.29
Less accum. depreciation:				
Buildings	59,000.00	-	-	59,000.00
Total accum. depreciation	59,000.00	-	-	59,000.00
Capital assets, net	$250,686.00	$1,823,818.91	$259,474.62	$1,815,030.29

Endowments

The ETSU Foundation's endowment consists of 424 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law - The Board of Directors of the ETSU Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as requiring preservation of the historical dollar value of the original gift. As a result of this interpretation, the ETSU Foundation classifies as restricted nonexpendable net assets (a) the original value of gifts donated to the nonexpendable endowment, (b) the original value of subsequent gifts to the nonexpendable endowment, (c) accumulations to the nonexpendable endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, and (d) funds added should funds in the reserve account at June 30 exceed 20% of the nonexpendable net assets (total net assets less reserves). The remaining portion of the donor-restricted endowment fund that is not classified in restricted nonexpendable net assets is classified as restricted expendable net assets until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the foundation and the endowment fund
3. General economic conditions
4. The possible effect of inflation or deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the foundation
7. The investment policies of the foundation

Return objectives and risk parameters - The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for donor-specified periods as well as board-designated funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that over the long-term, will achieve a total return equivalent to or greater than the foundation's financial requirements over the time horizon. The foundation expects its endowment funds, over time, to provide an average rate of return of approximately 7 percent annually. Actual returns in any given year may vary from this amount.

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

Spending policy and how the investment objectives relate - The foundation has a policy of appropriating for distribution each year 2 to 4 percent of the average quarterly balance for the three preceding calendar years depending on the amount of reserve for each endowment. In establishing this policy, the foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the foundation expects the current spending policy to allow its endowment to grow at an average of 3 percent annually. This is consistent with the foundation’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

At June 30, 2010, net appreciation of $7,415,328.15 is available to be spent, of which $5,162,439.08 is included in restricted net assets expendable for scholarships and fellowships, $80,338.66 is included in restricted net assets expendable for research, $635,763.13 is included in restricted net assets expendable for instructional departmental uses, and $1,536,787.28 is included in restricted net assets expendable for other purposes.

Medical Education Assistance Corporation

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, 2010, MEAC made distributions of $1,960,690.00 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for MEAC can be obtained from Russell Lewis, Executive Director, P.O. Box 699, Mountain Home, Tennessee 37684.

Cash

At June 30, 2010, cash consisted of $2,833,893.00 in bank accounts, $2,050.00 of petty cash on hand, and $605,155.00 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 State Pooled Investment Fund. The fund's required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at http://www.tn.gov/treasury/ or by calling (615) 741-2956.

Investments

The corporation is authorized to invest funds in accordance with its board of directors' policies. The corporation's investments at June 30, 2010, 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, 2010, MEAC had no rated investments, as deposits in LGIP are unrated.

Capital Assets

Capital asset activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$ 18,151	$ -	$ -	$ 18,151
Leasehold improvements	302,857	136,759	-	439,616
Buildings	1,908,746	6,530	6,750	1,908,526
Equipment	2,862,685	418,337	33,698	3,247,324
Total	5,092,439	561,626	40,448	5,613,617
Less accumulated depreciation:				
Leasehold improvements	296,970	14,055	-	311,025
Buildings	114,492	49,284	3,150	160,626
Equipment	2,358,701	218,341	33,698	2,543,344
Total accumulated depreciation	2,770,163	281,680	36,848	3,014,995
Capital assets, net	$2,322,276	$279,946	$ 3,600	$2,598,622

Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Note payable	$1,629,744	$ -	$31,646	$1,598,098	$ 35,147
Compensated absences	558,643	59,752	-	618,395	123,679
Total long-term liabilities	$2,188,387	$59,752	$31,646	$2,216,493	$158,826

Note Payable

MEAC has an obligation to the Bank of Tennessee bearing interest at 6.25%. The loan is payable in monthly installments of $11,169, including interest. Principal and interest payments for the years following June 30, 2010, with a balloon payment due at maturity in September 2012, are as follows:

Year Ending June 30	Principal	Interest	Total
2011	$ 35,147	$ 98,886	$ 134,033
2012	37,408	96,625	134,033
Due September 12, 2012	1,525,543	69,960	1,595,503
Total	$1,598,098	$265,471	$1,863,569

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
July 1, 2009	State Employee Group Plan	$ -	$44,411,000.00	$44,411,000.00	0%	$99,072,828.00	44.9%
July 1, 2007	State Employee Group Plan	$ -	$47,831,000.00	$47,831,000.00	0%	$97,727,873.49	48.9%

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
SUPPLEMENTARY INFORMATION
SCHEDULE OF CASH FLOWS - EAST TENNESSEE STATE UNIVERSITY FOUNDATION
FOR THE YEAR ENDED JUNE 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$	5,090,294.23
Payments to suppliers and vendors		(1,790,578.38)
Payments for scholarships and fellowships		(1,312,601.30)
Payments to or on behalf of East Tennessee State University		(2,024,822.50)
Other receipts		1,187,684.60
Net cash provided by operating activities		1,149,976.65
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes		1,837,830.92
Other noncapital financing receipts		216,716.98
Net cash provided by noncapital financing activities		2,054,547.90
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts received		38,891.97
Purchases of capital assets and construction		(138,818.91)
Net cash used by capital and related financing activities		(99,926.94)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		19,347,182.11
Income on investments		(2,109,254.13)
Purchases of investments		(20,734,626.18)
Net cash used by investing activities		(3,496,698.20)
Net decrease in cash and cash equivalents		(392,100.59)
Cash and cash equivalents - beginning of year		5,250,117.40
Cash and cash equivalents - end of year	$	4,858,016.81
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$	(405,182.01)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Change in assets and liabilities:		
Receivables, net		1,047,463.77
Accounts payable		32,885.47
Other		474,809.42
Net cash provided by operating activities	$	1,149,976.65
Noncash investing, capital, or financing transactions		
Gifts of capital assets	$	1,703,274.62
Unrealized gains on investments		7,436,462.00
Loss on disposal of capital assets		(259,475.00)

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
SUPPLEMENTARY INFORMATION
SCHEDULE OF CASH FLOWS - MEDICAL EDUCATION ASSISTANCE CORPORATION
FOR THE YEAR ENDED JUNE 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES		
Collections from patient charges	$	36,778,601.00
Payments to suppliers and vendors		(7,433,287.00)
Payments to employees		(23,662,703.00)
Payments for benefits		(2,209,578.00)
Other receipts		301,683.00
Net cash provided by operating activities		3,774,716.00
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments to or on behalf of East Tennessee State University or East Tennessee State University Foundation		(2,785,136.00)
Net cash used by noncapital financing activities		(2,785,136.00)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of capital assets		4,800.00
Purchase of capital assets and construction		(561,626.00)
Principal paid on capital debt		(31,647.00)
Interest paid on capital debt		(102,969.00)
Net cash used by capital and related financing activities		(691,442.00)
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments		177,826.00
Purchase of investments		(5,554,484.00)
Other investing receipts		178,450.00
Net cash used by investing activities		(5,198,208.00)
Net decrease in cash		(4,900,070.00)
Cash - beginning of year		8,341,168.00
Cash - end of year	$	3,441,098.00
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	3,226,484.00
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense		281,680.00
Change in assets and liabilities:		
Receivables, net		(116,736.00)
Prepaid expenses and deferred charges		(176,367.00)
Accounts payable		490,782.00
Deferred revenues		(18,470.00)
Compensated absences		116,892.00
Other		(29,549.00)
Net cash provided by operating activities	$	3,774,716.00