AUDIT REPORT

Tennessee Board of Regents
East Tennessee State University

For the Year Ended
June 30, 2011

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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March 8, 2012

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217
and
Dr. Brian Noland, 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, 2011. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The university's administration has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/sds
11/063

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, 2011

AUDIT OBJECTIVES

The objectives of the audit were to consider the university's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

COMPLIANCE FINDINGS

Notifications Required by Federal Regulations Were Not Performed for Perkins Loans in Default Status
The Bursar at East Tennessee State University did not ensure that all notification procedures were performed for Perkins Loans in default status. Required phone calls were not made to borrowers before the accounts were referred to collections. Intent to accelerate letters were not always mailed at least 30 days prior to the effective date of acceleration (page 9).

The Reconciliations of the University's Direct Loan Records to the Direct Loan Servicing System's Records, as Required by Federal Regulations, Were Not Documented
East Tennessee State University's Assistant Director of Financial Aid did not retain documentation of the reconciliations of the university's Direct Loan records with the federal Direct Loan Servicing System's records in the Common Origination and Disbursement system. Without documented reconciliations, the university cannot prove it has met the federal reconciliation requirement, and supervisors cannot review the reconciliations to ensure they have been completed correctly and on a timely basis (page 11).

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, 2011

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

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, 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 Health 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, 2010, through June 30, 2011, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 2011. 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.

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

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

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

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

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 2011, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing opinions on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance and Other Matters

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under generally accepted government auditing standards. Immaterial instances of noncompliance, along with recommendations and management's responses, are included in the Findings and Recommendations section.

Fairness of Financial Statement Presentation

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

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

December 9, 2011

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217
and
Dr. 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, 2011, and have issued our report thereon dated December 9, 2011. 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

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

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

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

Compliance and Other Matters

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

We did, however, note certain immaterial instances of noncompliance that we have included in the Findings and Recommendations section of this report.

We also noted another matter that we reported to the management of East Tennessee State University in a separate letter.

The East Tennessee State University's responses to the findings identified in our audit are included in the Findings and Recommendations section of this report. We did not audit the university's responses, and accordingly, we express no opinion on them.

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

FINDINGS AND RECOMMENDATIONS

1. Notifications required by federal regulations were not performed for Perkins Loans in default status

Finding

East Tennessee State University did not ensure that all notification procedures were performed for Perkins Loans in default status.

According to the *Federal Student Aid Handbook*, volume 6, page 100:

> If [a] borrower does not respond to the final demand letter within 30 days, [the school] must try to contact him or her by telephone before beginning collection procedures. As telephone contact is often very effective in getting the borrower to begin repayment, one call may avoid the more costly procedures of collection.
>
> [The school] may accelerate a loan if the borrower misses a payment or does not file for a deferment, forbearance, or cancellation on time. Acceleration means immediately making payable the entire outstanding balance, including interest and any applicable late charges or collection fees.
>
> Because [loan acceleration] marks a serious stage of default, the borrower should have one last chance to bring his or her account current. For that reason, if the school plans to accelerate the loan, it must send the borrower a written acceleration notice at least 30 days in advance.

For the year ended June 30, 2011, we reviewed the files of 25 students whose Perkins Loans went into default during the fiscal year. We noted the following discrepancies:

- For all 25 of the students tested, neither the Bursar's Office staff nor the university's contracted loan servicing agency made the required phone calls to the borrowers before the accounts were referred to collections.

- For 9 of 25 students tested (36%), neither the Bursar's Office staff nor the loan servicing agency mailed the intent to accelerate letters at least 30 days prior to the effective date of acceleration.

Based on our discussions with the Bursar, the phone calls and loan acceleration letters described above were the responsibility of the loan servicing agency. Loan servicing agency personnel stated that they currently make the required phone calls, but did not do so during the 2011 fiscal year.

Even though the university uses an outside vendor to perform billing procedures, the responsibility for compliance with federal regulations lies with the university. The *Federal Student Aid Handbook*, volume 6, page 108 states:

> Your school may use a contractor for billing or collection, but it is still responsible for complying with due diligence regulations regarding those activities.

Not ensuring that borrowers were adequately notified before being transferred to a collection agency or before loan acceleration could lead to unnecessary collection costs and/or financial hardship for borrowers in default.

Recommendation

The Bursar should ensure that the university follows due diligence procedures regarding Federal Perkins Loans in default status. Specifically, the Bursar should ensure that the university or its designee makes the required phone calls to students before referring loans to collections. In addition, the Bursar should ensure that the university or its designee mails the intent to accelerate letters at least 30 days prior to the effective date of the loan acceleration.

The Bursar should ensure that risks such as those noted in this finding are adequately identified and assessed in the university's risk assessment activities. The Bursar should also identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions timely. The Bursar should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and take prompt action should exceptions occur.

Management's Comment

We concur with the finding and recommendation. The Bursar reviewed the Perkins Loan servicing agreement and modified the terms to include the required due diligence for loans in default status. The loan servicing agreement, as amended, includes the thirty-day preacceleration letter and required telephone call before referral to collections.

ETSU will ensure risks of compliance with loan servicing are included in the university's risk assessment. A staff member in the Bursar's Office has been assigned the responsibility to review compliance and monitor loan servicing by the contractor.

2. <u>The reconciliations of the university's Direct Loan records to the Direct Loan Servicing System's records, as required by federal regulations, were not documented</u>

Finding

East Tennessee State University's Office of Financial Aid did not retain documentation of the reconciliations of the university's Direct Loan records with the federal Direct Loan Servicing System's records in the Common Origination and Disbursement system. According to the *Office of Management and Budget Circular A-133 Compliance Supplement*, part 5,

> Each month, the COD [Common Origination and Disbursement system] provides institutions with a School Account Statement (SAS) data file which consists of a Cash Summary, Cash Detail, and (optional at the request of the school) Loan Detail records. The school is required to reconcile these files to the institution's financial records.

Detailed instructions about the reconciliation process are included in the *Direct Loans School Guide* and yearly training documents provided by the U.S. Department of Education.

The Assistant Director of Financial Aid stated that she prepared these reconciliations but did not retain documentation of them. The Assistant Director was not aware of the need to document these reconciliations, as this was the first year the university administered the Direct Loan program.

Performing monthly reconciliations and retaining all supporting documentation enables financial aid staff to ensure that all Direct Loan funds disbursed to students are received from the U.S. Department of Education and that disbursements to students are made timely and for the correct amounts. Without documented reconciliations, the university cannot prove it has met the federal reconciliation requirement, and supervisors cannot review the reconciliations to ensure they have been completed correctly and on a timely basis.

Recommendation

The Director of Financial Aid should ensure that the required monthly reconciliations are prepared based on instructions in the *Direct Loans School Guide* and yearly training documents. If any items on the School Account Statement do not agree to the institution's financial records, financial aid staff should investigate these differences. In addition, the Director of Financial Aid should ensure that documentation of the reconciliations is retained. The Director of Financial Aid and a member of the Controller's office staff should review the reconciliation each month and at award year end to ensure accuracy and completeness.

The Director of Financial Aid should ensure that risks such as those noted in this finding are adequately identified and assessed in the university's risk assessment activities. The Director should also identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions timely. The Director should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and take prompt action should exceptions occur.

Management's Comment

We concur with the finding and recommendation. Although the Direct Loans reconciliation was performed and exceptions were investigated, the Financial Aid office did not retain copies documenting the activity. Procedures are now in place to document the reconciliation, with appropriate review by the Director of Financial Aid and Financial Services staff.

ETSU will ensure the risks associated with Direct Loan compliance are included in the university's risk assessment activities. The Financial Aid Director and Assistant Directors are responsible for internal controls to prevent and detect exceptions. The Financial Aid Director and Assistant Directors will be responsible for ongoing monitoring for compliance.

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Independent Auditor's Report

December 9, 2011

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217
and
Dr. 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, 2011, as listed in the table of contents. These financial statements are the responsibility of the university's management. Our responsibility is to express opinions on these financial statements, based on our audit. We 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, 2011, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, 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, 2011, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 16 through 35 and the schedule of funding progress on page 69 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 70 and 71 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 by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, 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 9, 2011, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., 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, 2011, with comparative information presented for the fiscal year ended June 30, 2010. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report 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 21 in 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)

	2011	2010
Assets:		
Current assets	$ 50,773	$ 37,761
Capital assets, net	264,784	249,330
Other assets	94,933	93,615
Total assets	**410,490**	**380,706**
Liabilities:		
Current liabilities	34,665	33,897
Noncurrent liabilities	153,121	144,576
Total liabilities	**187,786**	**178,473**
Net assets:		
Invested in capital assets, net of related debt	135,746	127,985
Restricted – nonexpendable	-	40
Restricted – expendable	7,304	7,879
Unrestricted	79,654	66,329
Total net assets	**$222,704**	**$202,233**

Comparison of fiscal year 2011 to fiscal year 2010

- Current assets increased from 2010 to 2011 due to the decreases in bond investments and increases in cash deposits with the State of Tennessee's Local Government Investment Pool (LGIP) due to declining interest rates.

- In 2011, other assets increased due to increases in noncurrent cash and cash equivalents during the fiscal year.

- Capital assets, net of depreciation, increased from 2010 to 2011 due to the completion of the Fossil Site Educational Building, Buc Ridge Apartments Phase III, Pride Walk Phase II, and several renovation projects, including the Lucille Clement dorm renovation, Nell Dossett dorm renovation, HVAC upgrades, and window replacements.

- Current liabilities increased from 2010 to 2011 due to the increases in the current portion of long-term debt related to completed construction projects.

- In 2011, noncurrent liabilities increased due to increases in the university's net liability for other postemployment benefits and increases in long-term liabilities related to construction and renovation of buildings and improvements.

- Invested in capital assets, net of related debt, increased in 2011 due to completion of the capital projects noted above.

- Unrestricted net assets increased from 2010 to 2011 due to increases in discretionary allocations.

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

	2011	2010
Assets:		
Current assets	$ 51	$ 118
Capital assets, net	1,661	1,815
Other assets	75,900	63,465
Total assets	**77,612**	**65,398**
Liabilities:		
Current liabilities	55	92
Total liabilities	**55**	**92**
Net assets:		
Invested in capital assets, net of related debt	1,661	1,815
Restricted – nonexpendable	58,100	47,931
Restricted – expendable	16,526	16,425
Unrestricted	1,270	(865)
Total net assets	**$77,557**	**$65,306**

Comparison of fiscal year 2011 to fiscal year 2010

- Current assets decreased due to a reduction in investment in the State of Tennessee Local Government Investment Pool (LGIP).

- Capital assets and invested in capital assets decreased due to the recording of depreciation and the transfer of completed project assets to the university.

- Investments in long-term securities (other assets) increased due to market conditions.

- Current liabilities decreased due to a decrease in scholarships due to ETSU at June 30.

- 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)

	2011	2010
Assets:		
Current assets	$14,755	$14,748
Capital assets, net	3,061	2,599
Other assets	7,623	7,378
Total assets	**25,439**	**24,725**
Liabilities:		
Current liabilities	4,786	4,965
Noncurrent liabilities	2,010	2,058
Total liabilities	**6,796**	**7,023**
Net assets:		
Invested in capital assets, net of related debt	1,497	1,000
Unrestricted	17,146	16,702
Total net assets	**$18,643**	**$17,702**

Comparison of fiscal year 2011 to fiscal year 2010

- Current assets increased in fiscal year 2011 as a result of an increase in cash.

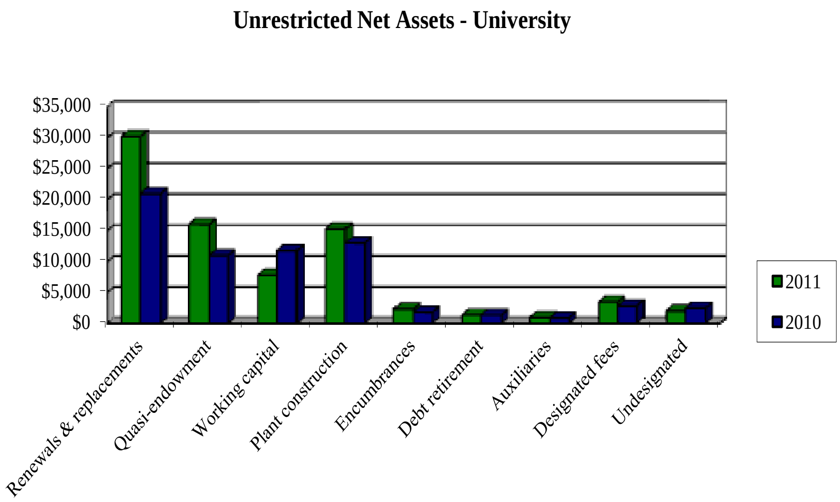
- Other assets increased due to increases in long-term investments due to market conditions.

- Days in accounts receivable were 27 in June 2011 compared to 32 in June 2010.

- Liabilities decreased slightly in fiscal year 2011 due to decreases in accrued compensation and accrued expenses.

- In 2011, net investment in capital assets increased from the prior year due to network upgrades and implementation of an electronic health records system.

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):



<u>Comparison of fiscal year 2011 to fiscal year 2010</u>

- The allocations for renewals and replacements increased due to allocation increases for equipment and computer replacements, College of Pharmacy plant, and student housing renovations.

- The allocation for quasi-endowments increased primarily due to a $5 million increase in the endowment for College of Medicine Clinical Services.

- The allocation for plant construction increased as a result of increases for the student parking garage, baseball stadium, and planned housing renovations.

- The allocation for working capital decreased due to a reduction in accounts receivable caused by the timing of student payments and balance of aid at June 30, 2011, and a reduction in amounts due from primary government for State Fiscal Stabilization funds.

- 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)

	2011	2010
Operating revenues:		
Net tuition and fees	$ 70,466	$ 66,948
Grants and contracts	38,768	40,519
Auxiliary	17,843	15,873
Other	28,399	25,699
Total operating revenues	**155,476**	**149,039**
Operating expenses	297,594	281,743
Operating income (loss)	**(142,118)**	**(132,704)**
Nonoperating revenues and expenses:		
State appropriations	98,631	85,946
Gifts	3,450	4,180
Grants and contracts	60,287	60,652
Investment income	1,298	2,221
Other nonoperating revenues (expenses)	(5,791)	(15,689)
Total nonoperating revenues and expenses	**157,875**	**137,310**

Income (loss) before other revenues, expenses, gains, or losses	**15,757**	**4,606**
Other revenues, expenses, gains, or losses:		
Capital appropriations	1,629	2,899
Capital grants and gifts	3,085	333
Total other revenues, expenses, gains, or losses	**4,714**	**3,232**
Increase in net assets	**20,471**	**7,838**
Net assets at beginning of year	202,233	194,395
Net assets at end of year	**$222,704**	**$202,233**

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

	2011	2010
Operating revenues and expenses:		
Operating revenues	$2,939	$ 5,175
Operating expenses	4,615	5,581
Operating income (loss)	**(1,676)**	**(406)**
Nonoperating revenues and expenses:		
Investment income	11,639	5,341
Other nonoperating revenues (expenses)	(741)	(36)
Total nonoperating revenues and expenses	**10,898**	**5,305**
Income (loss) before other revenues, expenses, gains, or losses	**9,222**	**4,899**
Other revenues, expenses, gains, or losses:		
Capital grants and gifts	601	1,724
Additions to permanent endowments	2,428	1,838
Total other revenues, expenses, gains, or losses	**3,029**	**3,562**
Increase in net assets	**12,251**	**8,461**
Net assets at beginning of year	65,306	56,845
Net assets at end of year	**$77,557**	**$65,306**

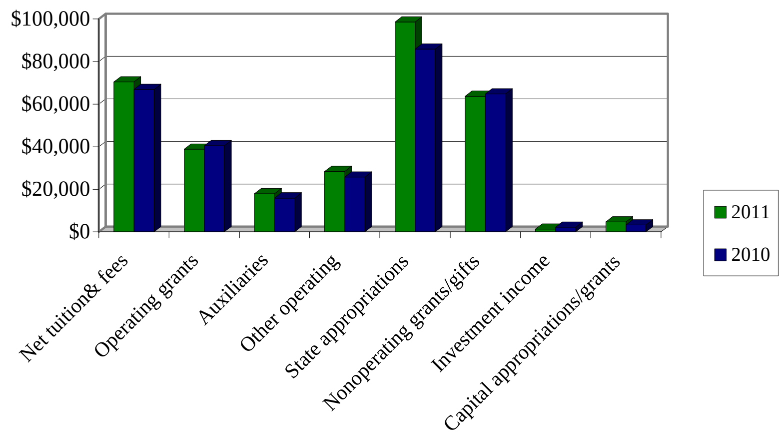
MEAC
Condensed Statements of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

	2011	**2010**
Operating revenues and expenses:		
Operating revenues	$39,568	$39,274
Operating expenses	36,272	36,048
Operating income (loss)	**3,296**	**3,226**
Nonoperating revenues and expenses:		
Investment income	256	177
Payments to ETSU and ETSU Foundation	(2,520)	(2,785)
Other nonoperating revenues (expenses)	(91)	(100)
Total nonoperating revenues and expenses	**(2,355)**	**(2,708)**
Increase in net assets	**941**	**518**
Net assets at beginning of year	17,702	17,184
Net assets at end of year	**$18,643**	**$17,702**

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, 2011, and June 30, 2010. Amounts are presented in thousands of dollars.

Revenues by Source - University



Comparison of fiscal year 2011 to fiscal year 2010

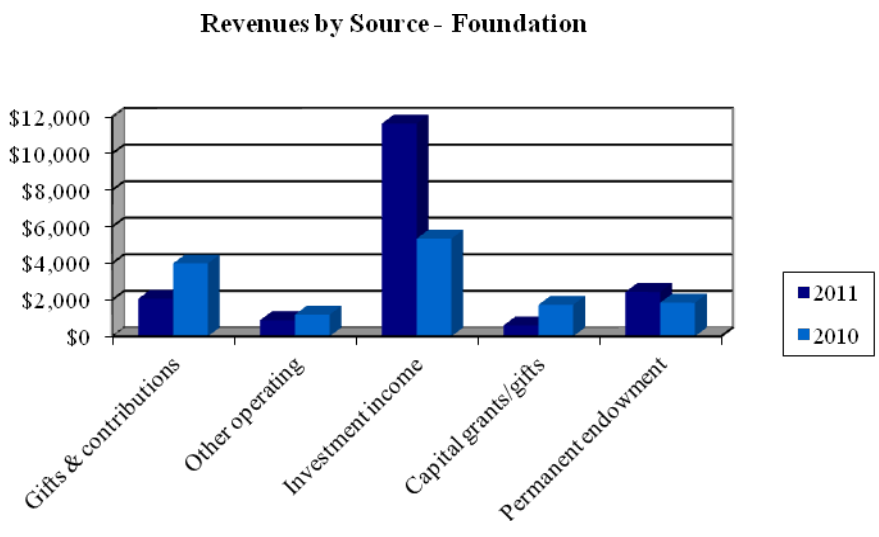
- Tuition and fees increased in 2011 due to an average 6.7% fee increase and a 3.8% increase in enrollment.
- Operating grants decreased with the end of one large private grant and a reduction in some contracted medical services.
- Auxiliaries revenue increased due to an increased number of dormitory rooms and increased rates.
- Other operating revenues increased due to a lease agreement for two FCC call signs.
- Noncapital state appropriations increased with one time funding for Maintenance of Effort for American Recovery and Reinvestment Act funds.
- Nonoperating grants and gifts decreased as a result of the reduction of American Recovery and Reinvestment Act State Fiscal Stabilization Funds, as funds were exhausted.

- Investment income decreased with the continued decline in interest rates for bond investments.

- Capital appropriations, gifts, and grants increased primarily due to capital transfers from the ETSU Foundation, several capital grants through the American Recovery and Reinvestment Act, and a Tennessee Department of Transportation grant for the Gray Fossil Site.

- 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, 2011, and June 30, 2010. Amounts are presented in thousands of dollars.



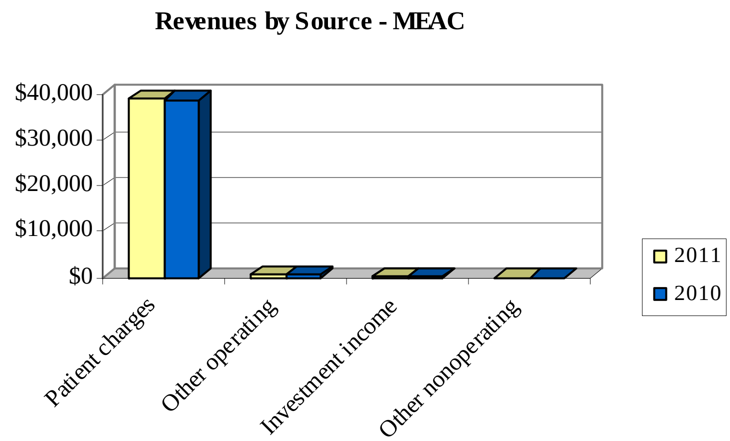
Comparison of fiscal year 2011 to fiscal year 2010

- Operating revenues decreased due to several large gifts that were received in fiscal year 2010 for the Colleges of Pharmacy and Nursing and a general decrease in overall giving due to economic conditions.

- Investment income increased due to increases in unrealized gains due to market conditions and the change from significant unrealized losses in the prior year.

- Capital grants and gifts decreased due to the Valleybrook facility that was received in fiscal year 2010.

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, 2011, and June 30, 2010. Amounts are presented in thousands of dollars.



Comparison of fiscal year 2011 to fiscal year 2010

- Net operating revenues increased 0.75% in fiscal year 2011.

- Patient service revenue was static in 2011. The practice saw increased productivity but lower reimbursement rates from insurance providers.

- Interest income increased significantly in 2011 due to higher cash and investment balances.

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

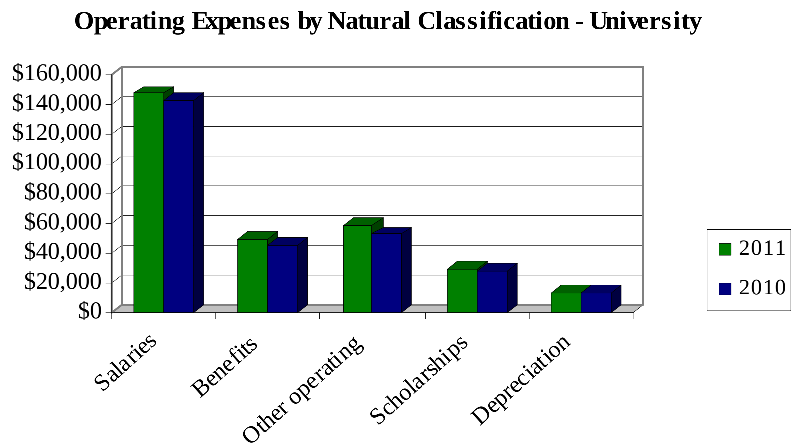
	2011	2010
Salaries	$147,213	$142,670
Benefits	49,365	45,492
Other operating	58,125	52,660
Scholarships	29,603	27,829
Depreciation	13,288	13,092
Total expenses	**$297,594**	**$ 281,743**

Foundation
Natural Classification

	2011	2010
Other operating	$1,511	$2,237
Scholarships	1,469	1,319
Depreciation	33	-
Payments to or on behalf of ETSU	1,602	2,025
Total expenses	**$4,615**	**$5,581**

MEAC
Natural Classification

	2011	2010
Salaries	$23,732	$23,780
Benefits	2,341	2,209
Other operating	9,809	9,777
Depreciation	390	282
Total expenses	**$36,272**	**$36,048**



Comparison of fiscal year 2011 to fiscal year 2010

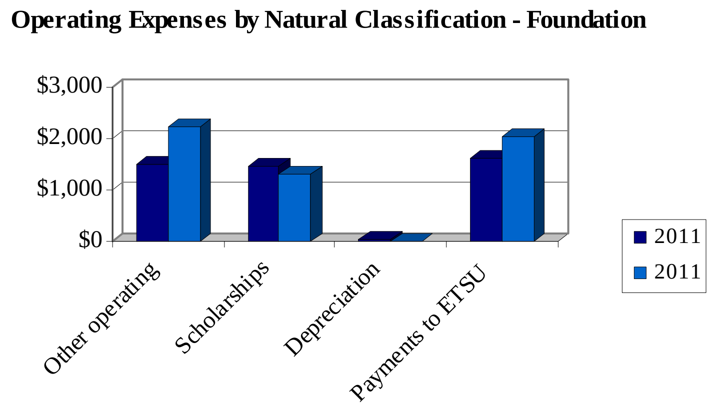
- Salaries increased primarily due to increases in instructional costs with enrollment increases.

- Benefits increased over the prior year as a result of two months of health insurance reductions by the State of Tennessee in fiscal year 2010 and the increase in health insurance in 2011.

- Other operating expenses increased with increases in professional and administrative services, utilities costs, supplies, and travel.

- Scholarships increased along with increased enrollment.

- Depreciation expense increased from 2010 to 2011 with the completion of construction projects, most notably the Fossil Site Educational Building and Buc Ridge Apartments Phase III.



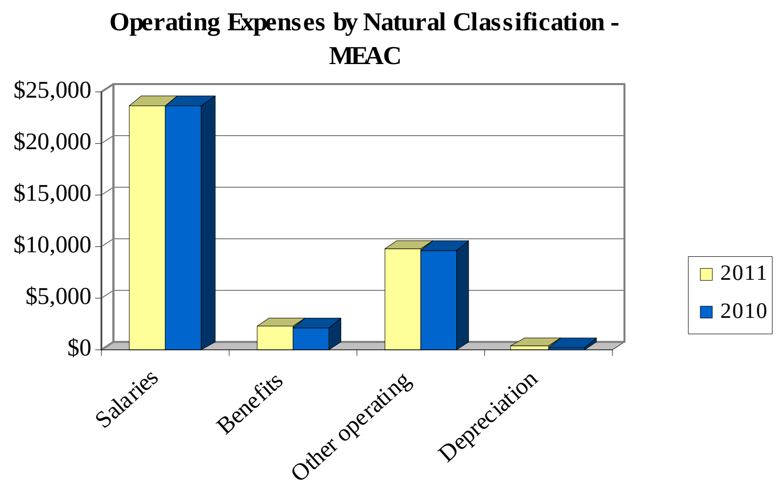
Comparison of fiscal year 2011 to fiscal year 2010

- Other operating expenses decreased due to a reduction in in-kind gifts and related in-kind expenses.

- Expenditures for scholarships increased slightly due to new scholarship availability.

- Depreciation increased from fiscal year 2010 to 2011 due to the gift of the Valleybrook facility, which was on the foundation's books at June 30, 2011, but has since been transferred to the university.

- Payments to ETSU decreased primarily due to reductions in transfers to the university's College of Nursing programs.



Comparison of fiscal year 2011 to fiscal year 2010

- In fiscal year 2011, physician compensation increased 1.88% over the prior year. As a result of decreased staffing, non-physician compensation decreased 3.52% in 2011.

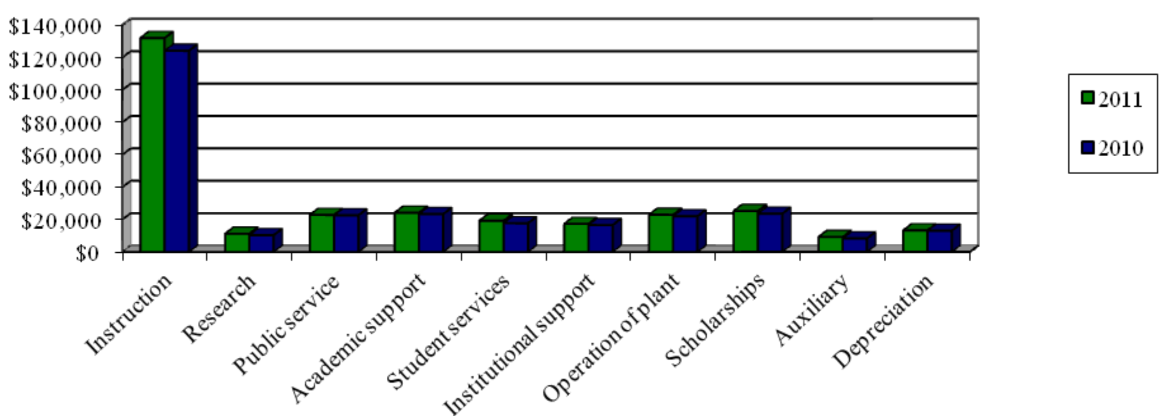
- The expenses for medical supplies and occupancy remained consistent with the prior year. Professional liability (malpractice) insurance costs decreased slightly from the prior year.

Program Classification
University
(in thousands of dollars)

	2011	2010
Instruction	$132,016	$124,158
Research	11,238	10,301
Public service	22,859	22,585
Academic support	24,161	23,356
Student services	19,269	17,713
Institutional support	17,325	16,589
Operation and maintenance of plant	22,930	22,024
Scholarships	25,274	23,599

Auxiliary	9,234	8,326
Depreciation	13,288	13,092
Total expenses	**$297,594**	**$281,743**

Operating Expenses by Program Classification - University



Comparison of fiscal year 2011 to fiscal year 2010

- Instruction is the largest expenditure area for the university. Increases in instruction were largely due to the increase in enrollment.
- Expenditures in other areas did not change materially from 2010 to 2011.

Capital Assets and Debt Administration

Capital Assets

The university had $265 million invested in capital assets, net of accumulated depreciation of $162 million at June 30, 2011; and $249 million invested in capital assets, net of accumulated depreciation of $150 million at June 30, 2010. Depreciation charges totaled $13 million for both the years ended June 30, 2011, and June 30, 2010. Details of these assets are shown below.

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

	2011	2010
Land	$ 15,761	$ 15,571
Land improvements & infrastructure	21,301	22,035
Buildings	195,171	186,032
Equipment	11,827	10,777
Library holdings	3,121	3,589
Intangible assets	2,221	2,642
Projects in progress	15,382	8,684
Total capital assets, net	**$264,784**	**$249,330**

Comparison of fiscal year 2011 to fiscal year 2010

- In 2011, capital assets increased from the completion of the Fossil Site Educational Building, Buc Ridge Apartments Phase III, and several renovation projects.

At June 30, 2011, and June 30, 2010, the foundation had $1,661,153 and $1,815,030, respectively, invested in capital assets, net of accumulated depreciation. Depreciation charges totaled $33,333 for fiscal year 2011. There were no depreciation charges for fiscal year 2010. Details of these assets are shown below.

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

	2011	2010
Land	$ 685	$ 685
Buildings	967	1,000
Equipment	9	9
Projects in progress	-	121
Total capital assets, net	**$1,661**	**$1,815**

Comparison of fiscal year 2011 to fiscal year 2010

- Decreases in fiscal year 2011 are due to the transfer of completed project assets to the university and increases in accumulated depreciation.

MEAC had $3,060,607 in capital assets, net of accumulated depreciation at June 30, 2011; and $2,598,622 in capital assets, net of accumulated depreciation at June 30, 2010. Depreciation charges totaled $390 thousand for the current fiscal year and $282 thousand for the prior year. Details of these assets are shown below.

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

	2011	2010
Land	$ 18	$ 18
Buildings	1,918	1,877
Equipment	1,125	704
Total capital assets, net	**$3,061**	**$2,599**

- In 2011, net investment in capital assets increased from the prior year due to network upgrades and implementation of an electronic health records system.

See Notes 5 and 21 for additional details on capital assets.

Debt

The university had $129 million and $121 million in debt outstanding at June 30, 2011, and June 30, 2010, respectively. The table below summarizes these amounts by type of debt instrument.

University
Outstanding Debt Schedule
(in thousands of dollars)

	2011	2010
Commercial paper	$ 18,649	$ 8,929
Loans	1,238	1,399
Bonds	109,151	111,017
Total debt	**$129,038**	**$121,345**

Comparison of fiscal year 2011 to fiscal year 2010

- ♦ In 2011, 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's. 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, 2011.

MEAC
Outstanding Debt Schedule
(in thousands of dollars)

	2011	2010
Notes	$1,564	$1,598
Total debt	**$1,564**	**$1,598**

Comparison of fiscal year 2011 to fiscal year 2010

- ♦ MEAC has one note payable for its medical office space in Kingsport, which has a declining balance due. This note was refinanced during the 2011 fiscal year to take advantage of current interest rates.

Economic Factors That Will Affect the Future

The economic outlook for the State of Tennessee has improved during fiscal year 2011. For fiscal year 2012, the university appropriation was reduced by an additional 2%, bringing total reductions over the past four years to approximately 35%. However, for fiscal year 2012, the state did provide partial funding for a 1.6% across the board salary increase. The Tennessee Board of Regents (TBR) approved an average increase in fees of 8.8%, which funded the TBR's share of the 1.6% salary increase and provided funding for an additional 1.4% salary increase for a total of a 3% across the board increase. This was the first salary increase in four years.

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.

Exhibit A

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

		Component Units	
	East Tennessee State University	East Tennessee State University Foundation	Medical Education Assistance Corporation
ASSETS			
Current assets:			
Cash and cash equivalents (Notes 2, 3, and 21)	$ 27,960,127.77	$ 31,489.53	$ 5,399,474.00
Short-term investments (Note 21)	-	-	5,285,019.00
Accounts, notes, and grants receivable (net) (Note 4)	21,155,186.17	-	3,705,649.00
Due from primary government	121,916.27	-	-
Pledges receivable (net) (Note 21)	-	1,225.25	-
Inventories	380,654.99	-	-
Prepaid expenses and deferred charges	495,900.26	-	364,490.00
Accrued interest receivable	649,202.29	18,561.10	-
Other assets	9,691.70	-	-
Total current assets	50,772,679.45	51,275.88	14,754,632.00
Noncurrent assets:			
Cash and cash equivalents (Notes 2, 3, and 21)	45,664,154.23	4,452,713.13	-
Investments (Notes 3 and 21)	43,111,180.00	69,995,009.50	5,000,000.00
Accounts, notes, and grants receivable (net) (Note 4)	6,131,775.12	-	-
Pledges receivable (net) (Note 21)	-	1,182,250.65	-
Capital assets (net) (Notes 5 and 21)	264,783,747.36	1,661,152.67	3,060,607.00
Prepaid expenses and deferred charges	-	-	2,623,509.00
Other assets	26,347.56	269,845.60	-
Total noncurrent assets	359,717,204.27	77,560,971.55	10,684,116.00
Total assets	410,489,883.72	77,612,247.43	25,438,748.00
LIABILITIES			
Current liabilities:			
Accounts payable (Note 7)	3,401,813.83	55,282.34	769,872.00
Accrued liabilities	5,757,383.59	-	3,068,286.00
Student deposits	722,995.30	-	-
Deferred revenue (Note 8)	14,136,690.62	-	-
Compensated absences (Notes 8 and 21)	2,777,313.64	-	156,433.00
Accrued interest payable	952,038.48	-	-
Long-term liabilities, current portion (Notes 8 and 21)	4,217,502.43	-	36,278.00
Deposits held in custody for others	2,698,611.54	-	462,241.00
Other liabilities	-	-	293,362.00
Total current liabilities	34,664,349.43	55,282.34	4,786,472.00
Noncurrent liabilities:			
Deferred revenue (Note 8)	2,623,510.53	-	-
Compensated absences (Notes 8 and 21)	7,228,499.80	-	481,971.00
Long-term liabilities (Notes 8 and 21)	124,820,611.50	-	1,527,600.00
Due to grantors (Note 8)	7,422,286.34	-	-
Net OPEB obligation (Notes 8 and 13)	11,026,114.76	-	-
Total noncurrent liabilities	153,121,022.93	-	2,009,571.00
Total liabilities	187,785,372.36	55,282.34	6,796,043.00
NET ASSETS			
Invested in capital assets, net of related debt	135,745,633.43	1,661,152.67	1,496,729.00
Restricted for:			
Nonexpendable:			
Scholarships and fellowships	-	44,295,187.52	-
Research	-	684,838.82	-
Instructional department uses	-	5,806,533.75	-
Other	-	7,313,303.74	-
Expendable:			
Scholarships and fellowships	493,325.81	3,057,670.06	-
Research	263,127.31	262,619.02	-
Instructional department uses	262,538.76	3,112,531.20	-
Loans	916,474.53	-	-
Capital projects	-	276,437.44	-
Debt service	3,733,695.12	-	-
Other	1,635,241.69	9,816,551.87	-
Unrestricted (Note 10)	79,654,474.71	1,270,139.00	17,145,976.00
Total net assets	$ 222,704,511.36	$ 77,556,965.09	$ 18,642,705.00

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

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

		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 $38,981,751.16)	$ 70,465,642.01	$ -	$ -
Gifts and contributions	-	2,056,552.81	-
Governmental grants and contracts	31,925,601.49	-	-
Nongovernmental grants and contracts	6,842,272.16	-	-
Sales and services of educational departments	26,575,174.75	-	-
Patient charges	-	-	39,023,582.00
Auxiliary enterprises:			
Residential life (net of scholarship allowances of $150,684.45; all residential life revenues are used as security for revenue bonds; see Note 8)	13,590,272.22	-	-
Bookstore	629,456.25	-	-
Food service	623,127.45	-	-
Wellness facility (all revenues are used as security for revenue bonds; see Note 8)	1,269,854.87	-	-
Other auxiliaries	1,730,454.76	-	-
Interest earned on loans to students	76,122.49	-	-
Other operating revenues (foundation revenues include $429,488.00 from MEAC)	1,747,710.51	882,755.51	544,772.00
Total operating revenues	155,475,688.96	2,939,308.32	39,568,354.00
EXPENSES			
Operating expenses (Note 17):			
Salaries and wages	147,213,147.40	-	23,732,154.00
Benefits	49,365,112.41	-	2,341,174.00
Utilities, supplies, and other services	58,124,655.54	1,510,472.94	9,808,362.00
Scholarships and fellowships	29,602,937.76	1,469,158.90	-
Depreciation expense	13,287,731.72	33,333.33	390,304.00
Payments to or on behalf of East Tennessee State University (Note 21)	-	1,601,970.06	-
Total operating expenses	297,593,584.83	4,614,935.23	36,271,994.00
Operating income (loss)	(142,117,895.87)	(1,675,626.91)	3,296,360.00
NONOPERATING REVENUES (EXPENSES)			
State appropriations	98,631,379.00	-	-
Gifts (university gifts include $825,210.92 from ETSU Foundation and $2,090,315.00 from MEAC)	3,450,369.46	-	-
Grants and contracts	60,286,530.23	-	-
Investment income (for the component units, net of investment expense of $112,266.00)	1,298,190.88	11,639,019.57	255,553.00
Interest on capital asset-related debt	(5,399,551.79)	-	(101,025.00)
Payments to or on behalf of East Tennessee State University or East Tennessee State University Foundation (Note 21)	-	-	(2,519,803.00)
Bond issuance costs	(57,132.48)	-	-
Other nonoperating revenues (expenses)	(334,755.28)	(740,911.09)	9,305.00
Net nonoperating revenues (expenses)	157,875,030.02	10,898,108.48	(2,355,970.00)
Income before other revenues, expenses, gains, or losses	15,757,134.15	9,222,481.57	940,390.00
Capital appropriations	1,629,017.44	-	-
Capital gifts and grants (university gifts include $776,759.14 from ETSU Foundation)	3,084,910.79	601,254.21	-
Additions to permanent endowments	-	2,427,409.14	-
Total other revenues	4,713,928.23	3,028,663.35	-
Increase in net assets	20,471,062.38	12,251,144.92	940,390.00
NET ASSETS			
Net assets - beginning of year	202,233,448.98	65,305,820.17	17,702,315.00
Net assets - end of year	$ 222,704,511.36	$ 77,556,965.09	$ 18,642,705.00

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, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 72,584,322.70
Grants and contracts	40,363,616.55
Sales and services of educational activities	27,060,596.84
Payments to suppliers and vendors	(56,785,960.63)
Payments to employees	(147,679,262.96)
Payments for benefits	(47,550,141.99)
Payments for scholarships and fellowships	(29,580,366.89)
Loans issued to students	(1,462,956.50)
Collection of loans from students	1,746,956.49
Interest earned on loans to students	148,144.63
Auxiliary enterprise charges:	
Residence halls	13,556,609.15
Bookstore	653,361.16
Food services	627,358.47
Wellness facility	1,269,854.87
Other auxiliaries	1,714,847.69
Other receipts	1,821,110.96
Net cash used by operating activities	(121,511,909.46)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	98,488,273.00
Gifts and grants received for other than capital or endowment purposes	65,272,060.85
Federal student loan receipts	83,009,211.46
Federal student loan disbursements	(83,088,919.93)
Changes in deposits held for others	430,179.15
Net cash provided by noncapital financing activities	164,110,804.53
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	13,694,866.18
Capital appropriations	1,629,017.44
Capital grants and gifts received	2,308,151.65
Purchases of capital assets and construction	(28,059,907.40)
Principal paid on capital debt	(6,001,736.29)
Interest paid on capital debt	(5,394,899.50)
Bond issue costs paid on new debt issue	(57,132.48)
Other capital and related financing payments	(162,133.46)
Net cash used by capital and related financing activities	(22,043,773.86)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	47,000,000.00
Income on investments	1,400,678.40
Purchases of investments	(41,002,172.22)
Net cash provided by investing activities	7,398,506.18
Net increase in cash	27,953,627.39
Cash - beginning of year	45,670,654.61
Cash - end of year	$ 73,624,282.00

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

Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(142,117,895.87)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense		13,287,731.72
Other adjustments		149,379.00
Change in assets and liabilities:		
Receivables, net		5,623,005.87
Inventories		19,195.58
Prepaid expenses and deferred charges		(191,556.97)
Other assets		72,022.14
Accounts payable		(350,652.21)
Accrued liabilities		101,828.14
Net OPEB obligation		1,728,483.28
Deferred revenue		491,972.68
Deposits		(45,937.20)
Compensated absences		(636,886.06)
Due to grantors		73,400.45
Loans to students		283,999.99
Net cash used by operating activities	$	(121,511,909.46)
Noncash investing, capital, or financing transactions		
Gifts of capital assets	$	776,759.14
Unrealized gains on investments	$	4,217.78
Loss on disposal of capital assets	$	(54,751.98)

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 significant financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report.*

The financial statements present only that portion of the Tennessee Board of Regents' activities that is attributable to the transactions of 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 21 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:

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

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

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

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the university and the amount that is paid by the student and/or third parties making payments on the 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, 2011, cash consists of $4,712,434.32 in bank accounts, $41,000.00 of petty cash on hand, $65,129,121.07 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, $3,733,026.61 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 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 investment policy and 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* (as amended), 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, 2011, the university had the following investments and maturities.

Investment Type	Fair Value	Investment Maturities (in Years) 1 to 5
U. S. agency obligations	$43,111,180.00	$43,111,180.00

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 or trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

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

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

		Credit Quality Rating	
Investment Type	Fair Value	AAA	Unrated
LGIP	$68,862,147.68	$ -	$68,862,147.68
U.S. agency obligations	43,111,180.00	43,111,180.00	-
Total	$111,973,327.68	$43,111,180.00	$68,862,147.68

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, 2011
Federal Home Loan Bank (FHLB) obligations	82%
Federal National Mortgage Association (FNMA)	18%

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2011
Student accounts receivable	$8,341,035.11
Grants receivable	9,979,973.29
Notes receivable	170,388.40
State appropriation receivable	182,200.00
Other receivables	5,641,270.81
Subtotal	24,314,867.61
Less allowance for doubtful accounts	3,112,768.24
Total receivables	$21,202,099.37

Federal Perkins Loan Program funds included the following:

	June 30, 2011
Perkins Loans receivable	$7,962,957.43
Less allowance for doubtful accounts	1,878,095.51
Total	$6,084,861.92

NOTE 5. CAPITAL ASSETS

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 15,571,461.80	$ 189,545.00	$ -	$ -	$ 15,761,006.80
Land improvements and infrastructure	35,140,540.02	-	811,748.60	-	35,952,288.62
Buildings	296,096,217.92	-	17,424,746.24	-	313,520,964.16
Equipment	31,099,007.61	3,245,794.71	-	1,731,861.90	32,612,940.42
Library holdings	8,570,679.92	426,847.99	-	-	8,997,527.91
Intangible assets	4,433,400.78	-	-	-	4,433,400.78
Projects in progress	8,683,652.94	24,934,298.23	(18,236,494.84)	-	15,381,456.33
Total	399,594,960.99	28,796,485.93	-	1,731,861.90	426,659,585.02
Less accum. depreciation/amortization:					
Land improvements and infrastructure	13,105,136.70	1,546,258.72	-	-	14,651,395.42
Buildings	110,065,023.22	8,285,044.48	-	-	118,350,067.70
Equipment	20,321,870.35	2,140,914.41	-	1,677,109.92	20,785,674.84
Library holdings	4,981,572.76	894,692.10	-	-	5,876,264.86
Intangible assets	1,791,612.83	420,822.01	-	-	2,212,434.84
Total	150,265,215.86	13,287,731.72	-	1,677,109.92	161,875,837.66
Capital assets, net	$249,329,745.13	$15,508,754.21	$ -	$ 54,751.98	$264,783,747.36

NOTE 6. CAPITAL LEASES

The university has entered into an Enhanced Use Lease Agreement with the United States Department of Veterans Affairs (VA) 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

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, 2011, the buildings are reported at $38,309,536.81, net of accumulated depreciation of $13,122,576.46.

NOTE 7. ACCOUNTS PAYABLE

Accounts payable included the following:

	June 30, 2011
Vendors payable	$3,227,606.37
Unapplied student payments	1,750.00
Other payables	172,457.46
Total accounts payable	$3,401,813.83

NOTE 8. LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Loan	$ 1,398,847.88	$ -	$ 160,902.08	$ 1,237,945.80	$ 172,406.59
TSSBA debt:					
Bonds	111,016,815.91	2,005,211.63	3,871,334.21	109,150,693.33	4,045,095.84
Commercial paper	8,929,320.25	11,689,654.55	1,969,500.00	18,649,474.80	-
Subtotal	121,344,984.04	13,694,866.18	6,001,736.29	129,038,113.93	4,217,502.43
Other liabilities:					
Deferred revenue	16,366,303.63	14,038,615.46	13,644,717.94	16,760,201.15	14,136,690.62
Compensated absences	10,642,699.50	5,259,018.73	5,895,904.79	10,005,813.44	2,777,313.64
Due to grantors	7,348,885.89	73,544.00	143.55	7,422,286.34	-
Net OPEB obligation	9,297,631.48	1,728,483.28	-	11,026,114.76	-
Subtotal	43,655,520.50	21,099,661.47	19,540,766.28	45,214,415.69	16,914,004.26
Total long-term liabilities	$165,000,504.54	$34,794,527.65	$25,542,502.57	$174,252,529.62	$21,131,506.69

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 $260,919.72, and a due date of January 1, 2017. The balance owed by the university was $1,237,945.80 at June 30, 2011.

Debt service requirements to maturity for the loan payable at June 30, 2011, are as follows:

Year Ending June 30	Principal	Interest	Total
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	212,094.83	48,824.75	260,919.58
2016	227,259.77	33,659.96	260,919.73
2017	243,508.84	17,410.88	260,919.72
	$1,237,945.80	$327,572.41	$1,565,518.21

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 $4,228,545.00 at June 30, 2011.

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

Year Ending June 30	Principal	Interest	Total
2012	$ 4,045,095.84	$ 5,183,770.45	$ 9,228,866.29
2013	4,098,626.03	5,043,169.15	9,141,795.18
2014	4,270,445.95	4,859,498.80	9,129,944.75
2015	4,412,992.62	4,695,971.91	9,108,964.53
2016	4,349,850.68	4,515,167.24	8,865,017.92
2017-2021	24,900,869.48	19,496,814.25	44,397,683.73
2022-2026	25,978,496.15	13,407,395.42	39,385,891.57
2027-2031	17,430,577.55	7,758,005.43	25,188,582.98
2032-2036	14,598,583.81	3,796,910.46	18,395,494.27

2037-2039	5,065,155.22	644,336.16	5,709,491.38
	$109,150,693.33	$69,401,039.27	$178,551,732.60

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 $18,649,474.80 at June 30, 2011.

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

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

NOTE 9. ENDOWMENTS

During the 2011 fiscal year, the university, with the permission of the Tennessee Board of Regents, transferred its true endowment funds totaling $40,039.45 to the East Tennessee State University Foundation.

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, 2011
Working capital	$ 7,823,265.95
Encumbrances	2,363,461.71
Designated fees	3,508,703.09
Auxiliaries	955,999.46
Quasi-endowment	16,007,263.10
Plant construction	15,297,598.10
Renewal and replacement of equipment	30,199,287.25
Debt retirement	1,416,545.20
Undesignated	2,082,350.85
Total	$79,654,474.71

NOTE 11. PLEDGED REVENUES

The university has pledged certain revenues and fees, including state appropriations, to repay $109,150,693.33 in revenue bonds issued from April 18, 2002, to September 1, 2010 (see Note 8 for further details). 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 3.12% of available revenues. The total principal and interest remaining to be paid on the bonds is $178,551,732.60. Principal and interest paid for the current year and total available revenues were $8,355,663.56 and $267,475,139.86, 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.state.tn.us/TCRS-AnnualReport-2011.pdf.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 14.91% of annual covered payroll. Contribution requirements for the university are established and may be amended by the TCRS' Board of Trustees. The university's contributions to TCRS for the years ended June 30, 2011, 2010, and 2009, were $7,186,330.71, $6,074,138.11, and $6,187,232.82. 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 contributions made by the university to the plans were $7,834,914.78 for the year ended June 30, 2011, and $6,902,619.24 for the year ended June 30, 2010. Contributions met the requirements for each year.

NOTE 13. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible university retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-101, *Tennessee Code Annotated.* Prior to reaching age 65, retirees may participate in the State Employee Group Plan. In previous fiscal years, prior to reaching age 65, all members had the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. However, as of January 1, 2011, the insurance plan structure was changed and as a result, all members now have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits. Subsequent to age 65, retirees who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the university's eligible retirees; see Note 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 are subsidized 80%; 25 years, 70%; and 20 years, 60%. Retirees who are 65 years of age or older have flat rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; 25 years, $37.50; and 20 years, $25.

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

Annual required contribution (ARC)	$4,070,000.00
Interest on the net OPEB obligation	418,393.41
Adjustment to the ARC	(396,301.59)
Annual OPEB cost	4,092,091.82
Amount of contribution	(2,363,608.54)
Increase (decrease) in net OPEB obligation	1,728,483.28
Net OPEB obligation – beginning of year	9,297,631.48
Net OPEB obligation – end of year	$11,026,114.76

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2011	State Employee Group Plan	$4,092,091.82	57.8%	$11,026,114.76
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

Funded Status and Funding Progress

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

Actuarial valuation date	July 1, 2010
Actuarial accrued liability (AAL)	$39,835,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$39,835,000.00
Actuarial value of assets as a percentage of the AAL	0%
Covered payroll (active plan members)	$100,388,162.00
UAAL as percentage of covered payroll	39.7%

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

Actuarial Methods and Assumptions

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

In the July 1, 2010, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10 percent in fiscal year 2011. The rate is decreased to 9.5 percent in fiscal year 2012, and then reduced by decrements of .5 percent per year to an ultimate rate of 5 percent in fiscal year 2021. All rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

NOTE 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, 2011, and June 30, 2010, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html. Since the university participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated,* Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated,* Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2011, the Risk Management Fund held $118.1 million in cash and cash equivalents designated for payment of claims.

At June 30, 2011, the scheduled coverage for the university was $814,712,595 for buildings and $166,377,723 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 $49,012,026.31 at June 30, 2011.

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 $468,898.08 for the year ended June 30, 2011. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2011, outstanding commitments under construction contracts totaled $9,469,355.28 for new campus apartments, housing renovations, and various other projects, of which $687,562.37 will be funded by future state capital outlay appropriations.

Litigation

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

NOTE 16. CHAIRS OF EXCELLENCE

The university had $21,956,244.57 on deposit at June 30, 2011, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

NOTE 17. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 87,844,091.38	$26,039,251.97	$15,873,128.39	$2,259,200.87	$ -	$132,015,672.61
Research	5,680,238.57	1,567,797.08	3,894,571.74	95,265.01	-	11,237,872.40
Public service	11,727,152.84	4,363,783.00	6,650,827.13	117,594.27	-	22,859,357.24
Academic support	14,246,194.23	5,545,780.67	4,005,655.14	363,534.57	-	24,161,164.61
Student services	9,049,966.23	3,300,110.72	5,097,380.32	1,820,913.25	-	19,268,370.52
Institutional support	11,290,902.48	4,648,879.42	1,218,011.99	166,757.76	-	17,324,551.65
Operation & maintenance of plant	5,487,976.51	3,323,197.32	14,119,152.41	-	-	22,930,326.24
Scholarships & fellowships	12,130.00	10.08	662,223.25	24,600,005.30	-	25,274,368.63
Auxiliary	1,874,495.16	576,302.15	6,603,705.17	179,666.73	-	9,234,169.21
Depreciation	-	-	-	-	13,287,731.72	13,287,731.72
Total	$147,213,147.40	$49,365,112.41	$58,124,655.54	$29,602,937.76	$13,287,731.72	$297,593,584.83

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, 2011, the assets of the Research Foundation totaled $2,862,399.00, liabilities were $421,085.00, and the net assets amounted to $2,441,314.00.

NOTE 19. ON-BEHALF PAYMENTS

During the year ended June 30, 2011, the State of Tennessee made payments of $149,379.00 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 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. SUBSEQUENT EVENT

In June 2010, the ETSU Foundation received a gift of property that was valued at $1,685,000. In July 2011, this property was transferred to ETSU in accordance with ETSU Foundation policy. Since the deed was not signed until July 2011, the property is reflected in the ETSU Foundation financial statements for fiscal year 2011. Depreciation on the property was $33,333.33, and the net book value that will transfer to the university in fiscal year 2012 is $1,651,666.67, of which $685,000.00 is land and $966,666.67 is the building.

NOTE 21. 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, 2011, the foundation made distributions of $1,601,970.06 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, 2011, cash and cash equivalents consisted of $134,428.09 in bank accounts, $3,588,355.70 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $761,418.87 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 investment policy and required risks 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.

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, 2011, 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	$ 1,001,213.00	$ -	$ 1,001,213.00	$ -	$ -	$ -
Corporate bonds	3,095,158.96	-	3,095,158.96	-	-	-
Bond mutual funds	18,045,047.16	1,962,168.00	6,738,986.16	4,548,113.00	4,795,780.00	-
Equity mutual funds	47,853,590.38	-	-	-	-	47,853,590.38
Total	$69,995,009.50	$1,962,168.00	$10,835,358.12	$4,548,113.00	$4,795,780.00	$47,853,590.38

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 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 A as rated by Moody's and A as rated by Standard and Poor's.

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

		Credit Quality Rating				
Investment Type	Fair Value	AAA	AA	A	BBB or Less	Unrated
LGIP	$ 3,588,355.70	$ -	$ -	$ -	$ -	$ 3,588,355.70
U. S. agency obligations	1,001,213.00	1,001,213.00	-	-	-	-
Corporate bonds	3,095,158.96	-	-	3,095,158.96	-	-
Bond mutual funds	18,045,047.16	11,797,967.16	1,647,785.00	2,254,463.00	2,344,832.00	-
Total	$25,729,774.82	$12,799,180.16	$1,647,785.00	$5,349,621.96	$2,344,832.00	$ 3,588,355.70

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

	June 30, 2011
LGIP	$ 761,418.87
U.S. agency obligations	1,001,213.00
Corporate bonds	3,095,158.96
Mutual funds	53,988,800.53
	$58,846,591.36

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, 2011, had a fair value of $1.0877576324 each. A total of 51,486,391.54 units were owned by endowments, and 724,636.95 units were owned by quasi-endowments.

The following tabulation summarizes changes in relationships between cost and fair values of the pooled assets:

FY 2011

	Pooled Assets		Net Gains	Fair Value
	Fair Value	Cost	(Losses)	Per Unit
End of year	$69,995,009.50	$66,052,783.03	$3,942,226.47	$1.0877576324
Beginning of year	$56,761,301.84	$62,599,131.45	(5,837,829.61)	$0.9527461873
Unrealized net gains			9,780,056.08	
Realized net gains			254,252.23	
Total net gains			$10,034,308.31	

The average annual earnings per unit, exclusive of net gains, were $.024 for the year ended June 30, 2011.

Pledges Receivable

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

	June 30, 2011
Current pledges	$ 322,602.80
Pledges due in one to five years	893,127.22
Subtotal	1,215,730.02
Less discounts to net present value	(32,254.12)
Total pledges receivable, net	$1,183,475.90

Capital Assets

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

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$ 685,000.00	$ -	$ -	$ 685,000.00
Buildings	1,059,000.00	-	-	1,059,000.00

Equipment	9,486.00	-	-	9,486.00
Projects in progress	120,544.29	635,254.26	755,798.55	-
Total	1,874,030.29	635,254.26	755,798.55	1,753,486.00
Less accum. depreciation:				
Buildings	59,000.00	33,333.33	-	92,333.33
Total accum. depreciation	59,000.00	33,333.33	-	92,333.33
Capital assets, net	$1,815,030.29	$601,920.93	$755,798.55	$1,661,152.67

Endowments

The ETSU Foundation's endowment consists of 449 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

<u>Return objectives and risk parameters</u> - 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 seven percent annually. Actual returns in any given year may vary from this amount.

<u>Strategies employed for achieving objectives</u> - 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.

<u>Spending policy and how the investment objectives relate</u> - 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, 2011, net appreciation of $7,786,840.16 is available to be spent, of which $4,706,156.33 is included in restricted net assets expendable for scholarships and fellowships, $72,442.74 is included in restricted net assets expendable for research, $572,511.64 is included in restricted net assets expendable for instructional departmental uses, and $2,435,729.45 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, 2011, MEAC made distributions of $2,090,315 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, 2011, cash consisted of $5,051,908 in bank accounts, $2,300 of petty cash on hand, and $345,266 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 investment policy and required risks 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.

Investments

The corporation is authorized to invest funds in accordance with its board of directors' policies. The corporation's investments at June 30, 2011, 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, 2011, MEAC had no rated investments, as deposits in LGIP are unrated.

Capital Assets

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

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$ 18,150	$ -	$ -	$ 18,150
Leasehold improvements	439,617	96,608	-	536,225
Buildings	1,908,526	24,957	-	1,933,483
Equipment	3,247,325	730,724	93,000	3,885,049
Total	5,613,618	852,289	93,000	6,372,907
Less accumulated depreciation:				
Leasehold improvements	311,024	30,274	-	341,298
Buildings	160,628	50,493	-	211,121
Equipment	2,543,344	309,537	93,000	2,759,881
Total accumulated depreciation	3,014,996	390,304	93,000	3,312,300
Capital assets, net	$2,598,622	$461,985	$ -	$3,060,607

Long-term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Note payable	$1,598,098	$ -	$34,220	$1,563,878	$ 36,278
Compensated absences	618,395	20,009	-	638,404	156,433
Total long-term liabilities	$2,216,493	$20,009	$34,220	$2,202,282	$192,711

Note Payable

MEAC borrowed funds in 2007 to purchase medical office space located in Kingsport, Tennessee. The original note was refinanced through a note modification agreement in 2011 to take advantage of the current interest rate environment. The note bears a fixed interest rate of 5.99% for five years. The payment is due in full on January 28, 2016. The balance owed was $1,563,878 at June 30, 2011.

Debt service requirements associated with the note payable are as follows:

Year Ending June 30	Principal	Interest	Total
2012	$ 36,275	$ 93,985	$ 130,260
2013	37,006	93,254	130,260
2014	39,093	91,167	130,260
2015	44,376	85,884	130,260
2016	1,407,128	86,840	1,493,968
Total	$1,563,878	$451,130	$2,015,008

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, 2010	State Employee Group Plan	$ -	$39,835,000.00	$39,835,000.00	0%	$100,388,162.00	39.7%
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%

The amount reported here for covered payroll relates to the fiscal year in which the valuations were performed.

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, 2011

CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$	2,003,982.25
Payments to suppliers and vendors		(1,761,331.54)
Payments for scholarships and fellowships		(1,475,375.60)
Payments to or on behalf of East Tennessee State University		(825,210.92)
Other receipts		882,755.51
Net cash used by operating activities		(1,175,180.30)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes		2,427,409.14
Net cash provided by noncapital financing activities		2,427,409.14
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts received		601,254.21
Purchases of capital assets and construction		(635,254.26)
Net cash used by capital and related financing activities		(34,000.05)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		8,514,832.28
Income on investments		1,884,607.68
Purchases of investments		(11,991,482.90)
Net cash used by investing activities		(1,592,042.94)
Net decrease in cash and cash equivalents		(373,814.15)
Cash and cash equivalents - beginning of year		4,858,016.81
Cash and cash equivalents - end of year	$	4,484,202.66
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(1,675,626.91)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense		33,333.33
Change in assets and liabilities:		
Receivables, net		503,626.87
Accounts payable		(36,513.59)
Net cash used by operating activities	$	(1,175,180.30)
Noncash investing, capital, or financing transactions		
Gifts of capital assets	$	450,000.00
Unrealized gains on investments	$	9,780,056.08
Transfer of capital asset to institution	$	(776,759.14)

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
SUPPLEMENTARY INFORMATION
SCHEDULE OF CASH FLOWS - MEDICAL EDUCATION ASSISTANCE CORPORATION
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES		
Collections from patient charges	$	37,282,087.00
Payments to suppliers and vendors		(7,324,243.00)
Payments to employees		(23,739,879.00)
Payments for benefits		(2,341,174.00)
Other receipts		254,598.00
Net cash provided by operating activities		4,131,389.00
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments to or on behalf of East Tennessee State University or East Tennessee State University Foundation		(2,519,803.00)
Net cash used by noncapital financing activities		(2,519,803.00)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets and construction		(852,288.00)
Principal paid on capital debt		(34,220.00)
Interest paid on capital debt		(101,025.00)
Net cash used by capital and related financing activities		(987,533.00)
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments		255,553.00
Proceeds from sales and maturities of investments		1,069,465.00
Other investing receipts		9,305.00
Net cash provided by investing activities		1,334,323.00
Net increase in cash		1,958,376.00
Cash - beginning of year		3,441,098.00
Cash - end of year	$	5,399,474.00
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	3,296,360.00
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense		390,304.00
Bad debt expense		2,235,421.00
Change in assets and liabilities:		
Receivables, net		(1,999,115.00)
Prepaid expenses and deferred charges		323,305.00
Accounts payable		(37,969.00)
Accrued liabilities		(4,080.00)
Compensated absences		20,009.00
Deposits held in custody for others		106,012.00
Other liabilities		(198,858.00)
Net cash provided by operating activities	$	4,131,389.00