AUDIT REPORT

Tennessee Board of Regents
East Tennessee State University

For the Year Ended
June 30, 2007

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

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

John G. Morgan
Comptroller

February 5, 2008

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

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, East Tennessee State University, for the year ended June 30, 2007. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/sds
07/108

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, 2007

AUDIT OBJECTIVES

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

AUDIT FINDINGS

The audit report contains no findings.

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
East Tennessee State University
For the Year Ended June 30, 2007

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Tennessee Board of Regents
East Tennessee State University
For the Year Ended June 30, 2007

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

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

The university has ten colleges and schools: the College of Arts and Sciences, the College of Business and Technology, the College of Education, the College of Medicine, the College of Nursing, the College of Pharmacy, the College of Public and Allied Health, the Honors College, the School of Continuing Studies, and the School of Graduate Studies. East Tennessee State University is officially authorized to grant 12 undergraduate and 24 graduate degrees.

ORGANIZATION

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

AUDIT SCOPE

The audit was limited to the period July 1, 2006, through June 30, 2007, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the year ended June 30, 2007, and for comparative purposes, the year ended June 30, 2006. East Tennessee State University is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, it included tests of compliance with applicable

federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the institution. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the 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, 2007, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Consideration of internal control over financial reporting disclosed no significant deficiencies or material weaknesses.

Compliance

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

Fairness of Financial Statement Presentation

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

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

December 7, 2007

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

Dear Mr. Morgan:

We have audited the financial statements of East Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component units as of and for the year ended June 30, 2007, and have issued our report thereon dated December 7, 2007. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the university's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the university's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the university's financial statements that is more than inconsequential will not be prevented or detected by the university's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

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

Compliance and Other Matters

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

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

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

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

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

December 7, 2007

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

Dear Mr. Morgan:

We have audited the accompanying basic financial statements of East Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 2007, and June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the university's management. Our responsibility is to express opinions on these financial statements, based on our audits. We did not audit the financial statements of the East Tennessee State University Foundation and the Medical Education Assistance Corporation, discretely presented component units of the university. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the East Tennessee State University Foundation and the Medical Education Assistance Corporation, is based on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of many agencies, commissions, and component units of the State of Tennessee; managing the state's debt; and making loans to the state’s colleges and universities from debt proceeds. Some of the boards on which the Comptroller of the Treasury serves as a member per state statutes include the State Building Commission and the Tennessee Higher Education Commission.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tennessee Board of Regents, East Tennessee State University, and its discretely presented component units as of June 30, 2007, and June 30, 2006, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management’s discussion and analysis on pages 9 through 32 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2007, on our consideration of the university’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

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, 2007, with comparative information presented for the fiscal years ended June 30, 2006, and June 30, 2005. 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 accompanying 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 information about the university's component units is presented in Note 16 to the financial statements. Information and analysis regarding the component units is also included in this section.

Using This Annual Report

This report consists of three basic financial statements. The statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows provide information on East Tennessee State University as a whole and present a long-term view of the university's finances.

The Statement of Net Assets

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

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

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

	2007	2006	2005
Assets:			
Current assets	$ 43,912	$ 36,056	$ 33,534
Capital assets, net	201,880	176,423	157,237
Other assets	50,938	57,428	56,061
Total assets	**296,730**	**269,907**	**246,832**
Liabilities:			
Current liabilities	23,639	21,947	21,738
Noncurrent liabilities	75,157	57,271	47,802
Total liabilities	**98,796**	**79,218**	**69,540**
Net assets:			
Invested in capital assets, net of related debt	139,476	134,154	123,711
Restricted – nonexpendable	40	39	39
Restricted – expendable	6,159	4,859	6,227
Unrestricted	52,259	51,637	47,315
Total net assets	**$197,934**	**$190,689**	**$177,292**

Comparison of FY 2007 to FY 2006

- Current assets increased from 2006 to 2007 due to the resident's receivable for Family Medicine and the College of Medicine, a receivable to the Perkins loan fund, a receivable from First Tennessee Bank, and the timing of the application of financial aid for the College of Medicine at year end.

- In 2007, other assets decreased due to decreases in long-term investments and plant fund cash.

- Net capital assets increased from 2006 to 2007 as a result of the completion of the Forensic Pathology building and Gray Fossil Site.

- In 2007, current liabilities increased primarily due to a shift in the recording of current and noncurrent liabilities for compensated absences and increases in deferred revenue due to a later summer start date for the College of Medicine.

- Noncurrent liabilities increased substantially with the debt related to the construction projects for the renovation of Roy Nicks Hall and Davis Apartments.

- Restricted net assets increased from 2006 to 2007 due to increases in allocations for debt service related to construction projects.

Comparison of FY 2006 to FY 2005

- In 2006, current cash and cash equivalents increased and current investments decreased due to decreases in short-term investments in certificates of deposit. Current and noncurrent accounts receivable increased due to increases in grants and contracts receivable. Prepaid expenses (classified as current assets above) decreased due to decreases in deferred charges for summer school.

- Net capital assets increased from 2005 to 2006 due to the completion of the renovations of Davis Apartments and Roy S. Nicks Hall, a capital gift from the ETSU Foundation, and construction in progress for a new student apartment complex, the forensic pathology building, and the fossil site project.

- Current liabilities increased from 2005 to 2006 as a result of accounts payable with construction in progress for the new dormitory, forensic pathology building, and fossil site project.

- Noncurrent liabilities increased from 2005 to 2006 primarily due to additional bonds for the renovation of dormitories, energy performance enhancements, and a new administrative software system.

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

	2007	2006	2005
Assets:			
Current assets	$591	$ 612	$ 554
Capital assets, net	378	1,688	363
Other assets	67,321	55,883	46,514
Total assets	**68,290**	**58,183**	**47,431**
Liabilities:			
Current liabilities	106	51	159
Total liabilities	**106**	**51**	**159**
Net assets:			
Invested in capital assets, net of related debt	378	1,688	363
Restricted – nonexpendable	53,620	43,149	35,927
Restricted – expendable	12,535	12,445	10,131
Unrestricted	1,651	850	851
Total net assets	**$68,184**	**$58,132**	**$47,272**

Comparison of FY 2007 to FY 2006

- In 2007, noncurrent assets (classified as other assets above) increased due to a large increase in the foundation's investment in the Local Government Investment Pool as a result of the sale of property as well as other large gifts received. Noncurrent assets also increased due to the recording of stock from the estate of James H. Quillen. The increase in investments is primarily from an increase in the market value of investments.

- Net capital assets decreased from 2006 to 2007 as a result of the sale of investment property.

- In 2007, current liabilities increased with deferred revenue related to gifts received for the athletic program.

- Unrestricted net assets increased due to unrealized capital gains.

Comparison of FY 2006 to FY 2005

- In 2006, increases in other assets were due to increases in restricted and endowment fund investments. This is due in part to a gift of $2 million in 2006.

- Capital assets increased in 2006 due to the receipt of a gift of property.

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

	2007	2006	2005
Assets:			
Current assets	$15,127	$11,860	$8,313
Capital assets, net	723	639	790
Other assets	3,266	4,343	6,398
Total assets	**19,116**	**16,842**	**15,501**
Liabilities:			
Current liabilities	4,584	4,124	4,158
Noncurrent liabilities	436	428	389
Total liabilities	**5,020**	**4,552**	**4,547**
Net assets:			
Invested in capital assets, net of related debt	723	639	790
Unrestricted	13,373	11,651	10,164
Total net assets	**$14,096**	**$12,290**	**$10,954**

Comparison of FY 2007 to FY 2006

- Current assets increased from 2006 to 2007 as a result of current year operating income, increases in accounts receivable, and the reclassification of investments from noncurrent to current assets.

- Net capital assets increased from 2006 to 2007 as a result of higher equipment purchases and lower depreciation expense than the prior year.

- In 2007, current liabilities increased because of an increase in accrued compensation due to a higher incentive payout in the current year, and also, physician salaries increased over the prior year.

- Noncurrent liabilities increased in 2007 due to increases in the long-term portion of compensated absences.

Comparison of FY 2006 to FY 2005

- Current assets increased from 2005 to 2006 due to current year operating income.

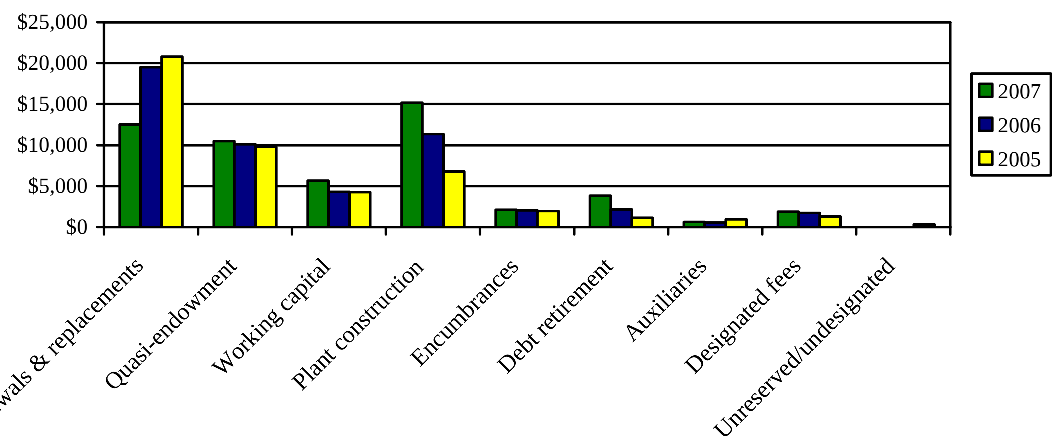
- Decreases in net capital assets from 2005 to 2006 are due to the retirement of obsolete assets.

- Current liabilities decreased in 2006 primarily due to the recognition of deferred revenue in the form of a one-time payment from Blue Cross/Blue Shield.

- Noncurrent liabilities increased in 2006 due to increases in the long-term portion of compensated absences.

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

Unrestricted Net Assets - University



- ♦ The allocations for plant construction and debt retirement increased significantly in 2007 and in 2006 due to continuing construction for several projects on campus. Other allocations remained relatively unchanged.

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

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

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

	2007	2006	2005
Operating revenues:			
Net tuition and fees	$48,896	$46,340	$43,274
Grants and contracts	33,310	31,070	30,005
Auxiliary	9,752	9,209	8,530
Other	22,177	21,256	19,846
Total operating revenues	**114,135**	**107,875**	**101,655**
Operating expenses	244,550	232,692	217,878
Operating loss	**(130,415)**	**(124,817)**	**(116,223)**
Nonoperating revenues and expenses:			
State appropriations	91,709	86,173	84,359
Gifts	2,938	3,308	1,920
Grants and contracts	31,170	27,654	26,147
Investment income	3,991	3,055	2,195
Other revenues and expenses	(2,608)	(1,818)	(1,748)
Total nonoperating revenues and expenses	**127,200**	**118,372**	**112,873**
Loss before other revenues, expenses, gains, or losses	**(3,215)**	**(6,445)**	**(3,350)**

Other revenues, expenses, gains, or losses:			
Capital appropriations	4,500	15,155	3,858
Capital grants and gifts	5,960	4,687	771
Total other revenues, expenses, gains, or losses	**10,460**	**19,842**	**4,629**
Increase in net assets	**7,245**	**13,397**	**1,279**
Net assets at beginning of year	190,689	177,292	176,013
Net assets at end of year	**$197,934**	**$190,689**	**$177,292**

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

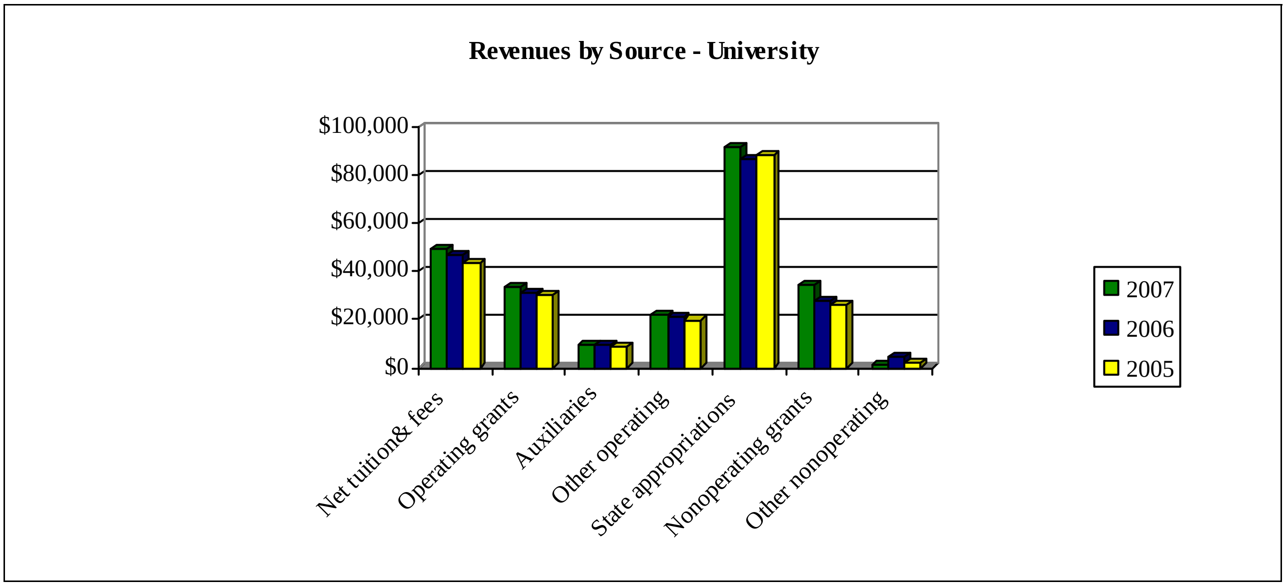
	2007	2006	2005
Operating revenues and expenses:			
Operating revenues	4,290	9,007	7,617
Operating expenses	4,986	8,328	3,161
Operating income (loss)	**(696)**	**679**	**4,456**
Nonoperating revenues and expenses:			
Gifts	370	605	516
Investment income	6,198	4,108	3,307
Other revenues and expenses	261	(114)	552
Total nonoperating revenues and expenses	**6,829**	**4,599**	**4,375**
Income before other revenues, expenses, gains, or losses	**6,133**	**5,278**	**8,831**
Other revenues, expenses, gains, or losses:			
Capital grants and gifts	479	2,362	99
Additions to permanent endowments	3,440	3,220	9,900
Total other revenues, expenses, gains, or losses	**3,919**	**5,582**	**9,999**
Increase in net assets	**10,052**	**10,860**	**18,830**
Net assets at beginning of year	58,132	47,272	28,442
Net assets at end of year	**$68,184**	**$58,132**	**$47,272**

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

	2007	2006	2005
Operating revenues and expenses:			
Operating revenues	$34,473	$ 31,916	$ 30,055
Operating expenses	31,802	29,269	27,835
Operating income	**2,671**	**2,647**	**2,220**
Nonoperating revenues and expenses:			
Investment income	636	470	355
Other revenues and expenses	(1,501)	(1,781)	(1,920)
Total nonoperating revenues and expenses	**(865)**	**(1,311)**	**(1,565)**
Income before other revenues, expenses, gains, or losses	**1,806**	**1,336**	**655**
Increase in net assets	**1,806**	**1,336**	**655**
Net assets at beginning of year	12,290	10,954	10,299
Net assets at end of year	**$14,096**	**$12,290**	**$10,954**

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, 2007; June 30, 2006; and June 30, 2005. Amounts are presented in thousands of dollars.



Comparison of FY 2007 to FY 2006

- Tuition and fees increased in 2007 due to a 4.1% fee increase.
- Both operating and nonoperating grants and contracts continued to rise due to increases in Tennessee Lottery Scholarship program, as well as Pell grants, and fossil site construction.
- Other operating revenue increased as a result of a short term loan from the university to the Perkins Loan Fund.
- Non-capital state appropriations increased by $5.5 million from 2006 to 2007.

Comparison of FY 2006 to FY 2005

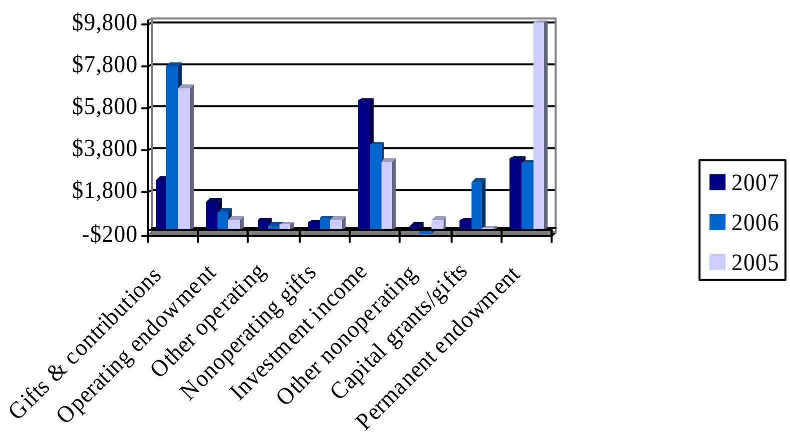
- Tuition and fees increased in 2006 due to a 9.7% fee increase.
- In fiscal year 2006, both operating and nonoperating grants and contracts increased due to increases in the Tennessee Lottery Scholarship program, as well as Pell grants, contracts with Veterans Affairs, the fossil site construction project, and the forensic renovation project. Interest on student loans (classified as other operating revenues above) increased with a corresponding decrease in the amounts due to grantors for federal loan funds.

- Nonoperating gifts increased due to increases in transfers from the ETSU Foundation, including a transfer of $850,000 for the College of Pharmacy.

- Other nonoperating revenues increased due to increases in investments and interest rates. Capital appropriations and capital gifts increased with ongoing construction projects and the transfer of a capital project (the Carillon Tower) from the ETSU Foundation.

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the foundation's operating activities for the years ended June 30, 2007; June 30, 2006; and June 30, 2005. Amounts are presented in thousands of dollars.

Revenues by Source - Foundation



<u>Comparison of FY 2007 to FY 2006</u>

- The decrease in gifts and contributions from 2006 to 2007 is the result of a reduction in gifts for the new College of Pharmacy as well as a decrease in in-kind gifts.

- Investment income increased from 2006 to 2007 due to improving market conditions for investments.

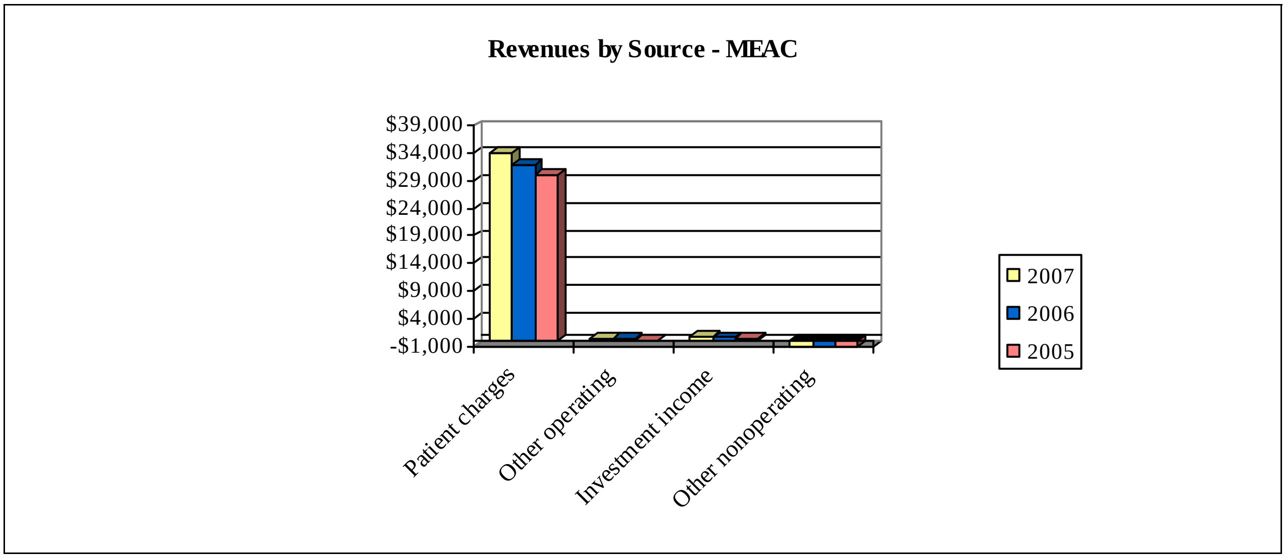
- Increases in other nonoperating revenues reflect an increase in unrealized gains for the year as well as the gain on the sale from the Brumit farm which was received by the foundation as an estate gift.

- Capital grants and gifts decreased from 2006 to 2007 due to the large gift of property received from the estate of James H. Quillen during 2006.

Comparison of FY 2006 to FY 2005

- Operating revenue increased from 2005 to 2006 due to increased giving related to the new College of Pharmacy.
- Capital grants and gifts increased from 2005 to 2006 as a result of in-kind gifts of property from the estate of James H. Quillen.
- The decrease in additions to permanent endowments between 2005 and 2006 was due to a one time gift of $9 million from the estate of James H. Quillen received in 2005.

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the MEAC's operating activities for the year ended June 30, 2007; June 30, 2006; and June 30, 2005. Amounts are presented in thousands of dollars.



Comparison of FY 2007 to FY 2006

- Net operating revenues increased 8% in fiscal year 2007. Patient service revenue increased in 2007 primarily due to increased productivity. The gross collection rate remained constant at 51% of gross charges.

- Interest income increased 35% in 2007 as a result of rising interest rates.

Comparison of FY 2006 to FY 2005

- Net operating revenues increased 6% in fiscal year 2006. Patient service revenues increased primarily due to increased productivity with a 1% increase in patient encounters.

- Interest income increased 32% as a result of rising interest rates and converting excess cash reserves from money market accounts to certificates of deposit

Expenses

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

University
Natural Classification
(in thousands of dollars)

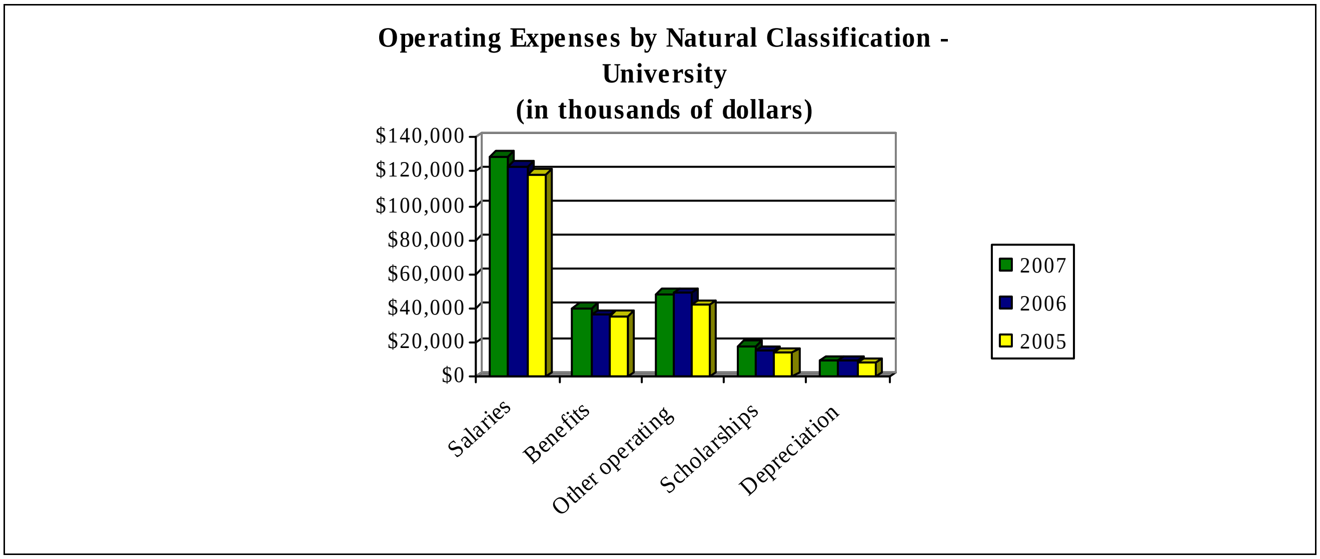
	2007	**2006**	**2005**
Salaries	$ 129,142	$ 123,449	$ 118,356
Benefits	40,209	36,127	35,292
Other operating	48,190	49,114	42,270
Scholarships	17,783	14,732	13,623
Depreciation	9,226	9,270	8,337
Total expenses	**$ 244,550**	**$ 232,692**	**$ 217,878**

Foundation
Natural Classification
(in thousands of dollars)

	2007	2006	2005
Other operating	$ 2,110	$ 4,340	$ 1,766
Scholarships	805	853	584
Depreciation	3	3	3
Payments to ETSU	2,068	3,132	808
Total expenses	**$ 4,986**	**$ 8,328**	**$ 3,161**

MEAC
Natural Classification
(in thousands of dollars)

	2007	2006	2005
Salaries	$20,779	$19,458	$18,756
Benefits	1,810	1,922	1,974
Other operating	8,989	7,658	6,825
Depreciation	224	231	280
Total expenses	**$31,802**	**$29,269**	**$27,835**

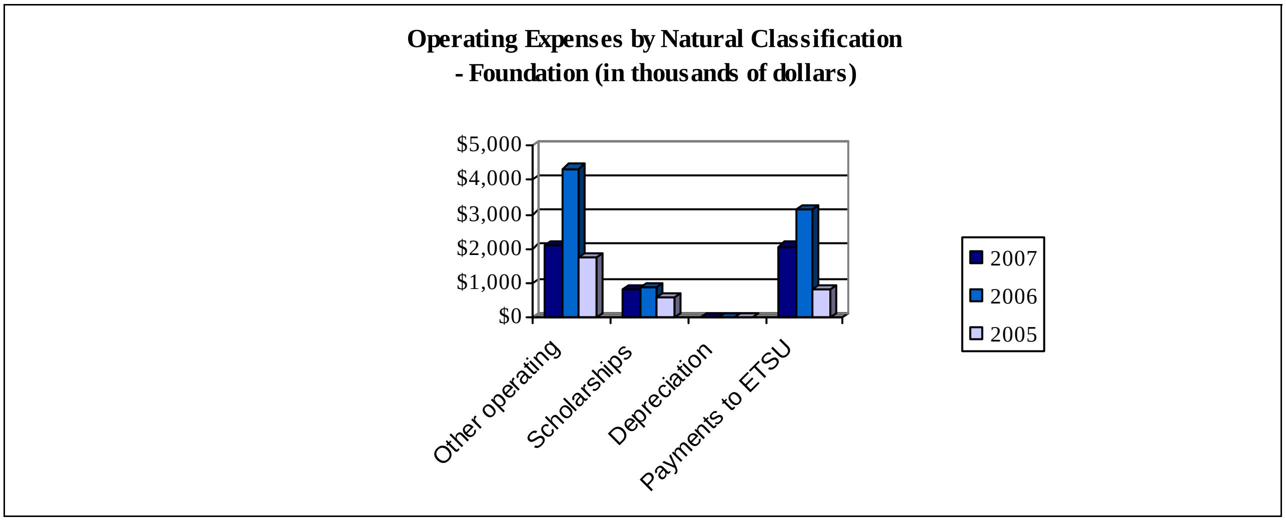


Comparison of FY 2007 to FY 2006

- Salaries increased due to a 2% across-the-board pay raise and an ETSU bonus paid in the fall.
- Benefits increased as a result of increases in TCRS contributions and increases in the state health insurance premiums.
- Other operating expenses decreased slightly primarily due to reductions in maintenance and repairs.
- Scholarships increased along with increased enrollment and the use of the Tennessee Education Lottery Scholarship.

Comparison of FY 2006 to FY 2005

- Salaries increased from 2005 to 2006 due to a 3% across the board pay raise.
- During 2006 benefits increased as a result of increases in the state group insurance premiums and increases in TCRS rates.
- Growth in scholarships reflects the continued increase in funding provided through the Tennessee Education Lottery Scholarship program.



Comparison of FY 2007 to FY 2006

- Other operating expenses decreased during 2007 as a result of decreases in gifts in-kind revenues and expenditures.

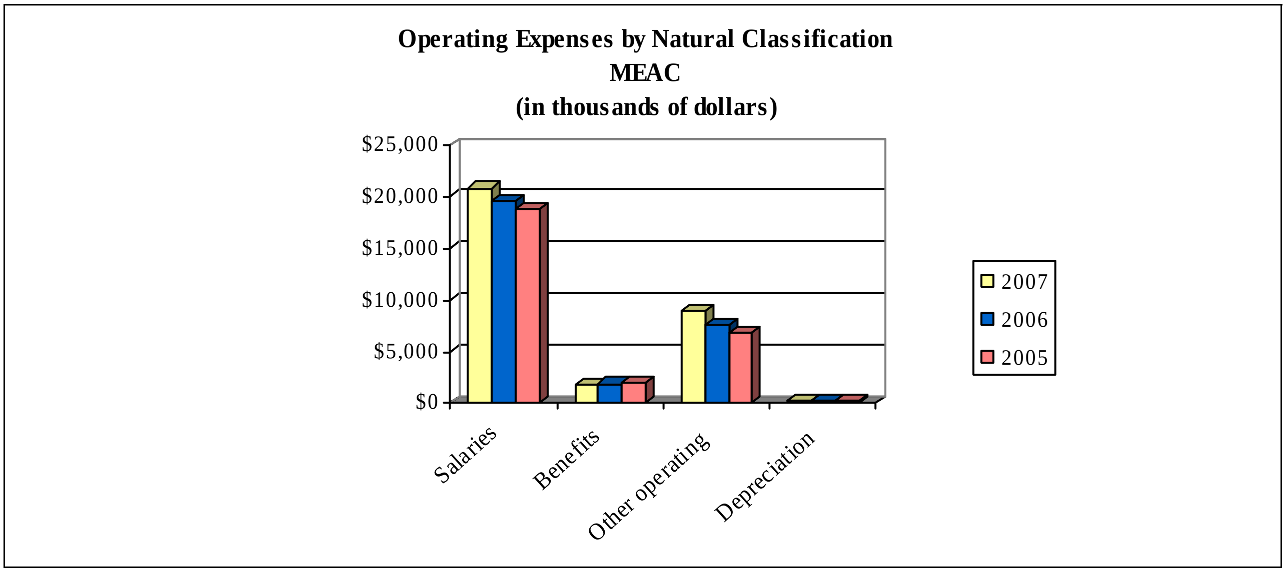
- Payments to ETSU decreased due to a reduction in donations flowing through to the university.

Comparison of FY 2006 to FY 2005

- In 2006, the increase in other operating expenses is primarily due to a large increase in in-kind gifts of property from the estate of James H. Quillen which is also reflected in the increase in capital grants and gifts. This category was further increased due to the transfer of funds to East Tennessee State University for expenses related to the opening of the College of Pharmacy.

- The increase in scholarships is the result of the first award of scholarships from the endowment established by the Quillen estate. Unrealized gains increased due to good stock market performance.

- The increase in payments to or on behalf of ETSU reported is the result of the transfer of a capital project (the Carillon Tower) to East Tennessee State University and a payment of $850,000 to ETSU to be used to help fund the establishment of the College of Pharmacy.



Comparison of FY 2007 to FY 2006

- In fiscal year 2007, physician compensation increased 7% over the prior year. As a result of increased staffing and salary increases, non-physician compensation increased 7% in 2007.

- Supplies expense increased steadily in 2007, while expenses for malpractice insurance and purchased services remained consistent with prior year.

Comparison of FY 2006 to FY 2005

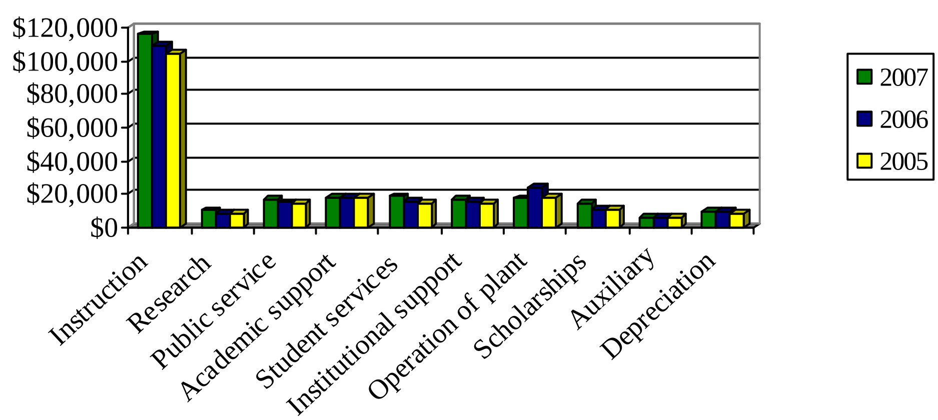
- Physician compensation increased 5% in fiscal year 2006 over prior year. As a result of salary increases, non-physician compensation increased 2% in 2006.

- Professional liability (malpractice) insurance costs remained constant in fiscal years 2006 and 2005.

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

	2007	2006	2005
Instruction	$115,796	$108,727	$104,685
Research	10,364	8,690	8,583
Public service	16,805	15,158	14,409
Academic support	18,001	18,090	17,718
Student services	18,661	15,656	14,392
Institutional support	16,925	15,380	14,631
Operation and maintenance of plant	17,558	24,398	18,485
Scholarships	14,629	11,261	10,595
Auxiliary	6,585	6,062	6,043
Depreciation	9,226	9,270	8,337
Total expenses	**$244,550**	**$232,692**	**$217,878**

Operating Expenses by Program Classification - University



Comparison of FY 2007 to FY 2006

- Instruction is the largest expenditure area for the university. Increases in instruction were due in part to the 2% across-the-board pay raise and a bonus paid in the fall of 2006.

- Decreases in operation of plant are due to reductions in maintenance and repairs as new construction continues.

- Expenditures in other areas did not change materially from 2006 to 2007.

Comparison of FY 2006 to FY 2005

- Increases in instruction were due in part to the 3% across-the-board pay raise.

- Expenditures in other areas did not change materially in fiscal year 2006.

The Statement of Cash Flows

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

University
Condensed Statements of Cash Flows
(in thousands of dollars)

	2007	2006	2005
Cash provided (used) by			
Operating activities	$(128,071)	$(117,898)	$(103,219)
Noncapital financing activities	126,010	115,347	113,463
Capital and related financing activities	(6,681)	(1,683)	(5,884)
Investing activities	7,491	13,197	(11,414)
Net increase (decrease) in cash	**(1,251)**	**8,963**	**(7,054)**
Cash, beginning of year	35,484	26,521	33,575
Cash, end of year	**$34,233**	**$35,484**	**$26,521**

Comparison of FY 2007 to FY 2006

- The cash position of the university decreased by $1,251,000 during the fiscal year ended June 30, 2007.

- In 2007, cash used by operating activities increased due to increases in expenditures for grants and contracts, and increases in student scholarships and loans.

- During 2007, cash provided by noncapital financing activities increased due to increases in Federal student loan receipts and gifts from the ETSU Foundation.

- Cash used by capital financing activities increased from 2006 to 2007 due to increasing capital construction projects.

Comparison of FY 2006 to FY 2005

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

- In 2006, cash used by operating activities increased due to increases in expenditures for grants and contracts, and increases in student scholarships.

- The most significant change in noncapital financing is seen in the elimination of the bank repurchase agreement at June 30, 2006, and the increase in gifts from the ETSU Foundation.

- Capital financing activities show increases in proceeds from debt, capital appropriations, and increases in capital grants and gifts.

- Investing activities increased due to investment earnings.

Capital Assets and Debt Administration

Capital Assets

The university had $201.8 million in capital assets, net of accumulated depreciation at June 30, 2007; $176.4 million in capital assets, net of accumulated depreciation at June 30, 2006; and $157.2 million in capital assets, net of accumulated depreciation at June 30, 2005. Depreciation charges totaled $9.2 million, $9.2 million, and $8.3 million for the years ended June 30, 2007; June 30, 2006; and June 30, 2005, respectively. Details of these assets are shown below and in Note 5.

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

	2007	2006	2005
Land	$ 23,844	$ 23,613	$ 23,517
Land improvements & infrastructure	14,550	12,663	12,824
Buildings	110,270	106,562	98,405
Equipment	8,090	7,697	7,585
Library holdings	5,559	6,109	6,816
Software	3,030	2,080	-
Projects in progress	36,537	17,699	8,090
Total capital assets, net	**$201,880**	**$176,423**	**$157,237**

- In 2007, buildings increased from the capitalization of the Forensic Pathology building. Construction in progress continues for the new dormitory which will be occupied in fall 2007. Software increased along with the implementation of the new administrative system.

- In 2006, buildings increased due to the completion of renovations to dormitories, Roy S. Nicks Hall, and a family medicine building. The new administrative system went into production on two modules, and expenses were capitalized as software. Projects in progress consist of new dormitory construction, the fossil site and museum, and the forensic pathology building.

The foundation had $378 thousand in capital assets, net of accumulated depreciation at June 30, 2007; $1.6 million in capital assets, net of accumulated depreciation at June 30, 2006; and $363 thousand in capital assets, net of accumulated depreciation at June 30, 2005. Depreciation charges totaled $3 thousand, $3 thousand, and $3 thousand for the years ended June 30, 2007; June 30, 2006; and June 30, 2005, respectively. Details of these assets are shown below and in Note 16.

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

	2007	2006	2005
Land	$ 49	$1,429	$ -
Buildings	246	250	12
Equipment	9	9	9
Projects in progress	74	-	342
Total capital assets, net	**$378**	**$1,688**	**$363**

- The decrease in land from 2006 to 2007 is due to property that was transferred to the foundation from the estate of James H. Quillen that was sold. The proceeds were placed in an endowment.

- In 2007, construction in progress consists of a new Alumni Walkway funded by donations and matched by foundation unrestricted funds. The Walkway will be transferred to the university upon its completion.

- In 2006, the foundation received the gift of land described above which was sold and the proceeds placed in an endowment. Construction in progress in 2005 was the Carillon Tower that was transferred to the university in 2006.

MEAC had $723 thousand in capital assets, net of accumulated depreciation at June 30, 2007; $639 thousand in capital assets, net of accumulated depreciation at June 30, 2006; and $790 thousand in capital assets, net of accumulated depreciation at June 30, 2005. Depreciation charges totaled $223 thousand, $231 thousand, and $280 thousand for the years ended June 30, 2007; June 30, 2006; and June 30, 2005, respectively. Details of these assets are shown below and in Note 16.

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

	2007	2006	2005
Land	$18	$18	$48
Buildings and leasehold improvements	172	185	253
Equipment	533	436	489
Total capital assets, net	**$723**	**$639**	**$790**

- In 2007, net investment in capital assets increased due to more equipment purchases than in the prior year and decreased depreciation expense.

- In 2006, net investment in capital assets decreased due to the sale of a facility, retirement of obsolete assets, and decreased asset purchases.

Debt

The university had $62 million, $42 million, and $33 million in debt outstanding at June 30, 2007; June 30, 2006; and June 30, 2005, respectively. The table below summarizes these amounts by type of debt instrument.

University
Outstanding Debt Schedule
(in thousands of dollars)

	2007	**2006**	**2005**
Commercial paper	$29,059	$ 7,099	$ 4,508
Notes	250	300	350
Loans	1,820	1,942	2,056
Bonds	31,274	32,928	26,612
Total debt	**$62,403**	**$42,269**	**$33,526**

- In 2007, commercial paper increased related to the new dormitory, the student center renovations, and the new soccer facility.

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

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

Economic Factors That Will Affect The Future

The economic outlook for the State of Tennessee continues to improve. While the university continues to lag behind the Tennessee Higher Education Commission funding formula recommendations, for the 2008 fiscal year, the state provided new appropriations of $3.4 million for the Academic campus, $1.5 million for the Quillen College of Medicine, and $373,000 for the Family Practice Centers. These funds provided for a 3% across-the-board salary increase as well as contributing to a significant increase in operating funds of the university. In addition, the College of Medicine received a special appropriation of $1.4 million to be used to pay for increased utilities cost for the Stanton Gerber Basic Science Building. The Tennessee Board of Regents has also mandated a 6% fee increase. This, along with the 4.1% increase for the 2007 fiscal year, is the lowest increase in the past decade.

The university has completed a new 542 bed residence facility, which is the largest on the university campus, that will be open for fall 2007. Enrollment remains strong. It currently appears the university will have a significant increase of approximately 500 students for fiscal year 2008.

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

Requests for Information

This financial report is designed to provide a general overview of the university's finances for all those with an interest in the university's finances. Questions concerning any of the information provided in this report or requests for additional information should be directed to Dr. David Collins, Vice President for Finance and Administration, P. O. Box 70601, Johnson City, TN 37614.

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENTS OF NET ASSETS
JUNE 30, 2007, AND JUNE 30, 2006

	East Tennessee State University		Component Units: East Tennessee State University Foundation		Component Units: Medical Education Assistance Corporation	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
ASSETS						
Current assets:						
Cash and cash equivalents (Notes 2, 3, and 16)	$ 19,440,574.98	$ 16,837,850.56	$ 481,711.51	$ 467,893.77	$ 5,647,875.00	$ 3,877,851.00
Short-term investments (Notes 3 and 16)	10,000.00	2,010,000.00	-	-	5,000,000.00	4,000,000.00
Accounts, notes, and grants receivable (net) (Note 4)	22,681,385.10	15,715,369.54	42,835.01	37,807.23	4,270,892.00	3,745,297.00
Pledges receivable (net) (Note 16)	-	-	66,042.07	106,526.91	-	-
Inventories	464,459.69	479,540.60	-	-	-	-
Prepaid expenses and deferred charges	595,014.02	347,524.41	-	-	208,277.00	237,109.00
Accrued interest receivable	708,717.01	653,739.14	-	-	-	-
Other assets	12,131.70	12,131.70	-	-	-	-
Total current assets	43,912,282.50	36,056,155.95	590,588.59	612,227.91	15,127,044.00	11,860,257.00
Noncurrent assets:						
Cash and cash equivalents (Notes 2, 3, and 16)	14,792,074.59	18,645,950.01	10,053,835.28	2,263,445.66	-	-
Investments (Notes 3 and 16)	26,849,118.39	28,368,851.27	52,354,642.80	48,442,802.37	3,000,000.00	4,000,000.00
Accounts, notes, and grants receivable (net) (Note 4)	9,296,327.50	10,413,206.91	-	-	265,919.00	343,365.00
Pledges receivable (net) (Note 16)	-	-	4,203,370.74	4,989,268.16	-	-
Capital assets (net) (Notes 5 and 16)	201,879,882.04	176,423,185.17	378,190.10	1,687,536.00	723,116.00	638,656.00
Other assets	-	-	709,313.10	187,519.81	-	-
Total noncurrent assets	252,817,402.52	233,851,193.36	67,699,352.02	57,570,572.00	3,989,035.00	4,982,021.00
Total assets	296,729,685.02	269,907,349.31	68,289,940.61	58,182,799.91	19,116,079.00	16,842,278.00
LIABILITIES						
Current liabilities:						
Accounts payable	5,205,437.70	5,624,441.25	79,220.70	51,291.96	730,236.00	528,360.00
Accrued liabilities	3,794,199.96	5,313,092.42	-	-	2,978,577.00	2,756,661.00
Student deposits	519,021.09	466,558.34	-	-	-	-
Deferred revenue	8,192,888.35	7,193,607.63	27,040.00	-	74,750.00	140,000.00
Compensated absences (Notes 7 and 16)	2,406,569.37	115,503.05	-	-	109,041.00	107,139.00
Accrued interest payable	452,371.86	374,729.27	-	-	-	-
Long-term liabilities, current portion (Note 7)	1,698,874.80	1,676,202.46	-	-	-	-
Deposits held in custody for others	1,369,303.95	1,182,812.66	-	-	395,091.00	365,313.00
Other liabilities	-	-	-	-	296,787.00	226,332.00
Total current liabilities	23,638,667.08	21,946,947.08	106,260.70	51,291.96	4,584,482.00	4,123,805.00
Noncurrent liabilities:						
Compensated absences (Notes 7 and 16)	7,049,498.88	9,274,988.42	-	-	436,162.00	428,554.00
Long-term liabilities (Note 7)	60,704,528.83	40,593,277.20	-	-	-	-
Due to grantors (Note 7)	7,403,076.59	7,403,103.35	-	-	-	-
Total noncurrent liabilities	75,157,104.30	57,271,368.97	-	-	436,162.00	428,554.00
Total liabilities	98,795,771.38	79,218,316.05	106,260.70	51,291.96	5,020,644.00	4,552,359.00
NET ASSETS						
Invested in capital assets, net of related debt	139,476,478.41	134,153,705.51	378,190.10	1,687,536.00	723,116.00	638,656.00
Restricted for:						
Nonexpendable:						
Scholarships and fellowships	39,725.58	39,475.27	38,213,860.59	33,793,542.79	-	-
Research	-	-	620,925.00	-	-	-
Instructional department uses	-	-	5,034,795.07	-	-	-
Other	-	-	9,749,921.91	9,355,114.09	-	-
Expendable:						
Scholarships and fellowships	216,837.39	977,131.69	1,334,418.73	958,936.40	-	-
Research	96,387.40	694,358.89	912,009.60	1,046,346.51	-	-
Instructional department uses	318,116.45	135,404.39	1,727,003.82	7,549,550.52	-	-
Loans	2,208,852.84	1,872,117.50	-	-	-	-
Capital projects	-	-	518,799.52	-	-	-
Debt service	2,528,347.07	214,902.01	-	-	-	-
Other	790,294.38	965,309.72	8,042,960.66	2,890,344.89	-	-
Unrestricted (Note 9)	52,258,874.12	51,636,628.28	1,650,794.91	850,136.75	13,372,319.00	11,651,263.00
Total net assets	$ 197,933,913.64	$ 190,689,033.26	$ 68,183,679.91	$ 58,131,507.95	$ 14,095,435.00	$ 12,289,919.00

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

Exhibit B

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	East Tennessee State University		Component Units: East Tennessee State University Foundation		Component Units: Medical Education Assistance Corporation	
	Year Ended June 30, 2007	Year Ended June 30, 2006	Year Ended June 30, 2007	Year Ended June 30, 2006	Year Ended June 30, 2007	Year Ended June 30, 2006
REVENUES						
Operating revenues:						
Student tuition and fees (net of scholarship allowances of $20,595,872.73 for the year ended June 30, 2007, and $18,162,896.01 for the year ended June 30, 2006)	$ 48,895,922.21	$ 46,339,689.61	$ -	$ -	$ -	$ -
Gifts and contributions	-	-	2,437,371.48	7,854,981.02	-	-
Endowment income per spending plan	-	-	1,378,945.79	898,197.99	-	-
Governmental grants and contracts	25,280,895.86	24,507,816.72	-	-	-	-
Nongovernmental grants and contracts	8,029,053.72	6,561,841.90	-	-	-	-
Sales and services of educational departments	20,288,155.32	19,002,825.61	-	-	-	-
Patient charges	-	-	-	-	34,194,291.00	31,792,080.00
Auxiliary enterprises:						
Residential life (net of scholarship allowances of $93,303.19 for the year ended June 30, 2007, and $38,623.38 for the year ended June 30, 2006; all residential life revenues are used as security for revenue bonds; see Note 7)	7,161,234.54	6,988,731.72	-	-	-	-
Bookstore	499,999.97	502,663.99	-	-	-	-
Food service	431,515.62	427,436.56	-	-	-	-
Wellness facility (all revenues are used as security for revenue bonds; see Note 7)	940,302.95	908,297.69	-	-	-	-
Other auxiliaries	719,129.02	382,090.35	-	-	-	-
Interest earned on loans to students	140,186.91	767,828.01	-	-	-	-
Other operating revenues	1,748,645.59	1,485,788.13	473,827.68	254,680.17	278,504.00	124,823.00
Total operating revenues	114,135,041.71	107,875,010.29	4,290,144.95	9,007,859.18	34,472,795.00	31,916,903.00
EXPENSES						
Operating expenses (Note 15):						
Salaries and wages	129,142,293.74	123,448,614.30	-	-	20,778,531.00	19,458,140.00
Benefits	40,209,469.29	36,127,237.91	-	-	1,810,154.00	1,921,908.00
Utilities, supplies, and other services	48,189,697.37	49,113,788.04	2,110,170.33	4,339,582.87	8,990,099.00	7,658,546.00
Scholarships and fellowships	17,783,113.42	14,732,118.00	805,455.64	853,490.65	-	-
Depreciation expense	9,225,936.45	9,270,171.26	2,950.00	2,950.00	223,779.00	231,121.00
Payments to or on behalf of East Tennessee State University (Note 16)	-	-	2,067,568.15	3,132,085.12	-	-
Total operating expenses	244,550,510.27	232,691,929.51	4,986,144.12	8,328,108.64	31,802,563.00	29,269,715.00
Operating income (loss)	(130,415,468.56)	(124,816,919.22)	(695,999.17)	679,750.54	2,670,232.00	2,647,188.00
NONOPERATING REVENUES (EXPENSES)						
State appropriations	91,708,600.00	86,172,623.01	-	-	-	-
Gifts (university gifts include $1,820,413.43 from ETSU Foundation and $1,117,593.00 from MEAC in 2007 and $2,068,109.34 from ETSU Foundation and $1,240,245.00 from MEAC in 2006)	2,938,005.43	3,308,354.34	370,126.00	604,415.00	-	-
Grants and contracts	31,170,056.53	27,654,193.26	-	-	-	-
Investment income (for the component units, net of investment expense of $91,752.00 in 2006)	3,991,517.54	3,055,265.09	6,197,932.66	4,107,941.05	636,166.00	470,481.00
Interest on capital asset-related debt	(2,164,059.83)	(1,681,984.21)	-	-	-	-
Bond issuance costs	(212,805.02)	(73,727.01)	-	-	-	-
Payments to or on behalf of East Tennessee State University or East Tennessee State University Foundation (Note 16)	-	-	-	-	(1,487,719.00)	(1,844,660.00)
Other nonoperating revenues (expenses)	(230,940.75)	(62,702.21)	261,344.55	(114,148.34)	(13,163.00)	63,157.00
Net nonoperating revenues	127,200,373.90	118,372,022.27	6,829,403.21	4,598,207.71	(864,716.00)	(1,311,022.00)
Income (loss) before other revenues, expenses, gains, or losses	(3,215,094.66)	(6,444,896.95)	6,133,404.04	5,277,958.25	1,805,516.00	1,336,166.00
Capital appropriations	4,499,615.06	15,154,698.22	-	-	-	-
Capital gifts and grants (university gifts include $247,154.72 from ETSU Foundation in 2007 and $1,063,975.78 from ETSU Foundation in 2006)	5,960,359.98	4,687,124.08	478,657.59	2,361,413.47	-	-
Additions to permanent endowments	-	-	3,440,110.33	3,220,109.67	-	-
Total other revenues	10,459,975.04	19,841,822.30	3,918,767.92	5,581,523.14	-	-
Increase in net assets	7,244,880.38	13,396,925.35	10,052,171.96	10,859,481.39	1,805,516.00	1,336,166.00
NET ASSETS						
Net assets - beginning of year	190,689,033.26	177,292,107.91	58,131,507.95	47,272,026.56	12,289,919.00	10,953,753.00
Net assets - end of year	$ 197,933,913.64	$ 190,689,033.26	$ 68,183,679.91	$ 58,131,507.95	$ 14,095,435.00	$ 12,289,919.00

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

Exhibit C

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 46,939,041.71	$ 46,610,724.34
Grants and contracts	30,628,877.45	28,537,238.71
Sales and services of educational activities	19,529,191.55	19,229,230.16
Payments to suppliers and vendors	(47,643,330.99)	(48,892,063.03)
Payments to employees	(129,087,591.46)	(123,725,706.19)
Payments for benefits	(41,733,222.98)	(36,220,551.70)
Payments for scholarships and fellowships	(17,767,044.64)	(14,584,099.26)
Loans issued to students and employees	(2,790,604.41)	(1,866,713.35)
Collection of loans from students and employees	2,265,236.93	1,892,284.52
Interest earned on loans to students	105,342.75	719,126.42
Auxiliary enterprise charges:		
Residence halls	7,179,331.76	6,908,363.11
Bookstore	506,069.38	499,694.14
Food services	431,294.54	428,914.66
Wellness facility	940,302.95	908,297.69
Other auxiliaries	677,593.80	373,697.91
Other receipts	1,748,618.83	1,282,916.81
Net cash used by operating activities	(128,070,892.83)	(117,898,645.06)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	91,715,400.00	86,166,423.01
Gifts and grants received for other than capital or endowment purposes	34,108,061.96	30,962,547.60
Federal student loan receipts	48,146,589.51	42,602,213.57
Federal student loan disbursements	(45,617,618.05)	(42,547,003.65)
Changes in deposits held for others	(2,342,480.17)	(57,517.53)
Net cash balance implicitly financed	-	(1,779,267.96)
Net cash provided by noncapital financing activities	126,009,953.25	115,347,395.04
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	22,337,421.48	17,254,132.48
Capital appropriations	4,499,615.06	15,154,698.22
Capital grants and gifts received	5,504,535.47	3,761,888.30
Purchases of capital assets and construction	(34,101,273.87)	(27,653,682.27)
Principal paid on capital debt and leases	(2,203,497.51)	(8,511,069.61)
Interest paid on capital debt and leases	(2,086,417.24)	(1,615,251.81)
Bond issue costs paid on new debt issue	(212,805.02)	(73,727.01)
Other capital and related payments	(418,906.50)	-
Net cash used by capital and related financing activities	(6,681,328.13)	(1,683,011.70)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	15,270,058.16	17,565,536.72
Income on investments	3,633,724.35	3,244,985.99
Purchase of investments	(11,412,665.80)	(7,613,583.60)
Net cash provided by investing activities	7,491,116.71	13,196,939.11
Net increase (decrease) in cash and cash equivalents	(1,251,151.00)	8,962,677.39
Cash and cash equivalents - beginning of year	35,483,800.57	26,521,123.18
Cash and cash equivalents - end of year	$ 34,232,649.57	$ 35,483,800.57

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (130,415,468.56)	$ (124,816,919.22)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	9,225,936.45	9,270,171.26
Change in assets and liabilities:		
Receivables, net	(5,330,568.67)	(5,404,668.46)
Inventories	15,080.91	38,923.66
Prepaid expenses and deferred charges	(185,058.80)	387,091.75
Other assets	(34,844.16)	(48,701.59)
Accounts payable	(419,003.55)	1,981,359.04
Accrued liabilities	(1,518,892.46)	(770,224.81)
Deferred revenue	999,280.72	1,298,429.87
Deposits	52,462.75	(43,803.82)
Compensated absences	65,576.78	386,997.41
Due to grantors	(26.76)	(202,871.32)
Loans to students and employees	(525,367.48)	25,571.17
Net cash used by operating activities	$ (128,070,892.83)	$ (117,898,645.06)
Noncash transactions		
Gifts in-kind	$ 115,141.99	$ -
Gifts of capital assets	428,164.51	910,235.78
Unrealized losses on investments	337,659.48	(287,461.32)
Loss on disposal of capital assets	(250,808.90)	(62,702.21)
Transfer of land from Tennessee Board of Regents / Tennessee Department of Transportation	27,660.00	-

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

Tennessee Board of Regents
East Tennessee State University
Notes to the Financial Statements
June 30, 2007, and June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

Basis of Presentation

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

Basis of Accounting

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

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

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

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

Net Assets

The university's net assets are classified as follows:

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

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

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

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

Scholarship Discounts and Allowances

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

NOTE 2. CASH

At June 30, 2007, cash consisted of $3,764,330.71 in bank accounts, $37,000.00 of petty cash on hand, $24,220,389.22 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $6,210,929.64 in LGIP deposits for capital projects. At June 30, 2006, cash consisted of $10,447,619.00 in bank accounts, $32,000.00 of petty cash on hand, $24,817,390.26 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $186,791.31 in LGIP deposits for capital projects.

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

NOTE 3. INVESTMENTS

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

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

At June 30, 2007, the university had the following investments and maturities.

		Investment Maturities (in Years)	
Investment Type	Fair Value	Less than 1	1 to 5
U. S. agency obligations	$26,849,118.39	$9,817,273.25	$17,031,845.14
Other investments:			
Certificates of deposit	10,000.00		
Total	$26,859,118.39		

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

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

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

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

At June 30, 2007, the university's investments were rated as follows:

		Credit Quality Rating	
Investment Type	Fair Value	AAA	Unrated
LGIP	$24,220,389.22	$ -	$24,220,389.22
U. S. agency obligations	26,849,118.39	26,849,118.39	-
Total	$51,069,507.61	$26,849,118.39	$24,220,389.22

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

		Credit Quality Rating	
Investment Type	Fair Value	AAA	Unrated
LGIP	$24,817,390.26	$ -	$24,817,390.26
U. S. agency obligations	28,368,851.27	28,368,851.27	-
Total	$53,186,241.53	$28,368,851.27	$24,817,390.26

Concentration of credit risk – The 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 total investments on the date of acquisition and limits the combined amount of banker's acceptances and commercial paper to not exceed 35% of total investments at 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. TBR policy limits investments in money market mutual funds to not exeed 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, 2007	June 30, 2006
Federal Home Loan Mortgage Corporation (FHLM) obligations	21.6%	12.7%
Federal Home Loan Banks (FHLB) obligations	63.5%	67.7%
Federal National Mortgage Association (FNMA) obligations	14.8%	13.0%

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2007	June 30, 2006
Student accounts receivable	$6,750,421.96	$4,762,444.42
Grants receivable	13,927,538.58	10,417,977.35
Notes receivable	579,964.48	474,372.35
State appropriation receivable	209,200.00	216,000.00
Other receivables	3,958,068.99	4,293,467.86
Subtotal	25,425,194.01	20,164,261.98
Less allowance for doubtful accounts	1,930,765.04	2,096,395.60
Total receivables	$23,494,428.97	$18,067,866.38

Federal Perkins Loan Program funds included the following:

	June 30, 2007	June 30, 2006
Perkins loans receivable	$ 10,097,671.22	$ 9,488,759.06
Less allowance for doubtful accounts	1,614,387.59	1,428,048.99
Total	$ 8,483,283.63	$ 8,060,710.07

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$23,612,761.74	$230,979.79	$ -	$ -	$23,843,741.53
Land improvements and infrastructure	20,754,495.99	-	2,954,202.79	-	23,708,698.78
Buildings	192,898,221.16	-	8,742,733.00	-	201,640,954.16
Equipment	26,587,751.56	2,103,177.13	-	-	28,690,928.69
Library holdings	14,557,993.68	923,184.09	-	2,476,877.41	13,004,300.36
Software	2,310,833.76	1,329,381.39	-	-	3,640,215.15
Projects in progress	17,699,355.58	30,650,745.48	(11,696,935.79)	116,140.31	36,537,024.96
Total	298,421,413.47	35,237,467.88	-	2,593,017.72	331,065,863.63
Less accum. depreciation:					
Land improvements and infrastructure	8,091,764.68	1,067,057.41	-	-	9,158,822.09
Buildings	86,336,332.95	5,034,608.11	-	-	91,370,941.06
Equipment	18,890,411.00	1,271,640.78	-	(438,694.25)	20,600,746.03
Library holdings	8,448,636.29	1,473,837.73	-	2,476,877.41	7,445,596.61
Software	231,083.38	378,792.42	-	-	609,875.80
Total accum. depreciation	121,998,228.30	9,225,936.45	-	2,038,183.16	129,185,981.59
Capital assets, net	$176,423,185.17	$26,011,531.43	$ -	$554,834.56	$201,879,882.04

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

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

NOTE 6. CAPITAL LEASES

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

In conjunction with the lease, the university entered into a memorandum of agreement with the Department of Veteran's Affairs to construct a new building (the Basic Science Building) with joint funding from the State of Tennessee and the federal government. In accordance with the memorandum of agreement, the state provided

$18 million to the federal government for its share of the total construction costs ($34,195,153.41.) The Basic Science Building is also included under the provisions of the Enhanced Use Lease Agreement.

The university is renovating several other buildings on the VA campus as funds become available. During the 2007 fiscal year, the university completed renovation on Building 6 to be used for forensics. The total capitalized cost of the renovation was $5,904,002.41.

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 $41,809,364.46. At June 30, 2007, the buildings are reported at $35,115,129.03, net of accumulated depreciation of $6,694,235.43. At June 30, 2006, the buildings are reported at $29,596,752.77, net of accumulated depreciation of $5,369,585.27.

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Notes	$299,999.96	$ -	$50,000.08	$249,999.88	$50,000.00
Loans	1,942,016.75	-	122,065.51	1,819,951.24	130,793.20
TSSBA debt:					
Bonds	32,928,592.24	-	1,654,782.11	31,273,810.13	1,518,081.60
Commercial paper	7,098,870.71	22,337,421.48	376,649.81	29,059,642.38	-
Subtotal	42,269,479.66	22,337,421.48	2,203,497.51	62,403,403.63	1,698,874.80
Other liabilities:					
Compensated absences	9,390,491.47	3,867,959.47	3,802,382.69	9,456,068.25	2,406,569.37
Due to grantors	7,403,103.35	-	26.76	7,403,076.59	-
Subtotal	16,793,594.82	3,867,959.47	3,802,409.45	16,859,144.84	2,406,569.37
Total long-term liabilities	$59,063,074.48	$26,205,380.95	$6,005,906.96	$79,262,548.47	$4,105,444.17

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

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

Notes Payable

The Tennessee Board of Regents, on behalf of the university, borrowed funds for the renovation of the Memorial Athletic Medical Center ("BucSports"). The note bears an annually adjusted interest rate equal to the average Local Government Investment Pool rate for the previous year, a face amount of $500,000.00, a minimum annual debt service of $50,000.00 plus interest with payments due annually to 2012. The balance owed by the university was $249,999.88 at June 30, 2007, and $299,999.96 at June 30, 2006.

Debt service requirements to maturity for notes payable at June 30, 2007, are as follows:

Year Ending June 30	Principal	Interest	Total
2008	$50,000.00	$12,500.00	$62,500.00
2009	50,000.00	10,000.00	60,000.00
2010	50,000.00	7,500.00	57,500.00
2011	50,000.00	5,000.00	55,000.00
2012	49,999.88	2,500.00	52,499.88
	$249,999.88	$37,500.00	$287,499.88

Loans Payable

The Tennessee General Assembly earmarked in Section 41, Item 41 of Chapter 563 of the Public Acts of 1989 the amount of $3,000,000.00 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 $1,819,951.24 at June 30, 2007, and $1,942,016.75 at June 30, 2006.

Debt service requirements to maturity for loans payable at June 30, 2007, are as follows:

Year Ending June 30	Principal	Interest	Total
2008	$130,793.20	$130,126.53	$260,919.73
2009	140,144.91	120,774.82	260,919.73
2010	150,165.27	110,754.46	260,919.73
2011	160,902.09	100,017.64	260,919.73
2012	172,406.59	88,513.14	260,919.73
2013 - 2017	1,065,539.18	239,059.27	1,304,598.45
	$1,819,951.24	$789,245.86	$2,609,197.10

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 3.0% to 5.5%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2034 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the statement of net assets is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was $21,941.24 at June 30, 2007, and $21,941.24 at June 30, 2006. Unexpended debt proceeds were $17,564.80 at June 30, 2007, and $17,564.80 at June 30, 2006.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2007, are as follows:

Year Ending June 30	Principal	Interest	Total
2008	$1,518,081.60	$1,431,783.93	$2,949,865.53
2009	1,602,147.42	1,367,363.95	2,969,511.37
2010	1,668,662.10	1,303,698.53	2,972,360.63
2011	1,295,614.33	1,234,754.15	2,530,368.48
2012	1,350,226.59	1,182,260.86	2,532,487.45
2013-2017	6,644,495.77	5,029,981.16	11,674,476.93
2018-2022	7,136,949.13	3,443,066.56	10,580,015.69
2023-2027	4,999,470.61	1,885,285.80	6,884,756.41
2028-2032	4,569,773.31	798,025.94	5,367,799.25
2033-2034	488,389.27	33,464.04	521,853.31
	$31,273,810.13	$17,709,684.92	$48,983,495.05

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 $29,059,642.38 at June 30, 2007, and $7,098,870.71 at June 30, 2006.

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.

Of the $29,059,642.38 balance owned at June 30, 2007, it is the university's plan to refinance $29,059,642.38 with long-term bonds. In accordance with Financial Accounting Standards Board Statement No. 6, *Classification of Short-term Obligations Expected to be Refinanced*, this agreement meets the criteria of a refinancing agreement, thus $29,059,642.38 of the commercial paper payable is classified as a long-term liability.

More detailed information regarding the bonds and commercial paper can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report may be obtained by writing to the Director of Bond Finance, Suite 1600, James K. Polk Building, Nashville, Tennessee 37243-0273, or by calling (615) 401-7872.

NOTE 8. ENDOWMENTS

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

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

The university's endowment and quasi-endowment assets are invested to produce only interest income. For the fiscal year ended June 30, 2007, the university's endowments and quasi-endowments earned interest income totaling $517,447.32. The university retained $418,883.32 for expenditure in future years, of which $250.31 is restricted to specific purposes. For the fiscal year ended June 30, 2006, the university's endowments and quasi-endowments earned interest income totaling $393,254.85. The university retained $256,664.03 for expenditure in future years, of which $184.86 is restricted to specific purposes.

NOTE 9. UNRESTRICTED NET ASSETS

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

	June 30, 2007	June 30, 2006
Working capital	$5,660,197.65	$4,275,952.71
Encumbrances	2,091,945.70	2,028,133.49
Designated fees	1,857,862.51	1,705,175.42
Auxiliaries	619,966.83	534,100.93
Quasi-endowment	10,508,297.47	10,089,664.46
Plant construction	15,188,261.00	11,352,352.52
Renewal and replacement of equipment	12,502,523.43	19,494,527.46
Debt retirement	3,829,819.53	2,156,721.29
Unreserved/undesignated	-	-
Total	$52,258,874.12	$51,636,628.28

NOTE 10. 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 may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 13.66% 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, 2007, 2006, and 2005 were $6,057,796.51, $3,989,407.94, and $3,840,331.45. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The university contributes to three defined contribution plans: Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated.* State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans was $6,316,304.76 for the year ended June 30, 2007, and $5,977,432.97 for the year ended June 30, 2006. Contributions met the requirements for each year.

NOTE 11. OTHER POST-EMPLOYMENT BENEFITS

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

NOTE 12. INSURANCE-RELATED ACTIVITIES

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

The university participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2007, and June 30, 2006, are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee

Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140. Since the university participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated,* Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2007, the Risk Management Fund held $116.7 million in cash and cash equivalents designated for payment of claims. At June 30, 2006, the Risk Management fund held $133.2 million in cash and cash equivalents designated for payment of claims.

At June 30, 2007, the scheduled coverage for the university was $619,994,200 for buildings and $158,196,200 for contents. At June 30, 2006, the scheduled coverage for the university was $462,485,400 for buildings and $104,823,200 for contents.

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

NOTE 13. COMMITMENTS AND CONTINGENCIES

Sick Leave - The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $43,190,934.77 at June 30, 2007, and $40,881,928.62 at June 30, 2006.

Operating Leases - The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were $378,320.20 for the year ended June 30, 2007, and $431,370.20 for the year ended June 30, 2006. There were no leases involving personal property in either year. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2007, outstanding commitments under construction contracts totaled $29,899,594.58 for the new dormitory construction project, the Culp Systems renovation project, the pharmacy college renovation project, the housing renovations project, the soccer field construction project, the main campus apartments phase II project, and various other projects, of which $1,809,449.75 will be funded by future state capital outlay appropriations.

Contract - In December 2004, the Tennessee Board of Regents system entered into a contract with SungardSCT for the purchase of a comprehensive enterprise resource planning system. The contract includes a multi-year phase-in of administrative software for financial, human resource, and student systems. The university's outstanding liability for this contract is estimated as $1,693,879.81 at June 30, 2007, and $2,364,147.23 at June 30, 2006.

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

NOTE 14. CHAIRS OF EXCELLENCE

The university had $22,860,905.29 on deposit at June 30, 2007, and $20,364,559.80 on deposit at June 30, 2006, with the State Treasurer for the university's Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

NOTE 15. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses by functional classification for the year ended June 30, 2007, are as follows:

Functional Classification	Salaries	Benefits	Natural Classification Other Operating	Scholarships	Depreciation	Total
Instruction	$78,396,244.45	$22,063,360.30	$13,570,369.16	$1,765,768.14	$ -	$115,795,742.05
Research	4,509,764.39	1,057,740.68	4,738,291.17	58,492.48	-	10,364,288.72
Public service	8,107,607.17	3,447,435.54	5,236,381.30	13,114.88	-	16,804,538.89
Academic support	11,549,455.39	3,259,097.84	2,986,198.19	206,676.32	-	18,001,427.74
Student services	7,978,365.17	2,843,691.83	6,370,893.97	1,468,283.90	-	18,661,234.87
Institutional support	11,577,567.18	4,561,035.70	716,096.76	70,624.83	-	16,925,324.47
Operation & maintenance of plant	5,843,418.60	2,630,272.38	9,084,299.02	-	-	17,557,990.00
Scholarships & fellowships	8,387.00	173.94	501,497.56	14,119,102.30	-	14,629,160.80
Auxiliary	1,171,484.39	346,661.08	4,985,670.24	81,050.57	-	6,584,866.28
Depreciation	-	-	-	-	9,225,936.45	9,225,936.45
Total	$129,142,293.74	$40,209,469.29	$48,189,697.37	$17,783,113.42	$9,225,936.45	$244,550,510.27

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

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

NOTE 16. COMPONENT UNITS

East Tennessee State University Foundation

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

During the year ended June 30, 2007, the foundation made distributions of $2,067,568.15 to or on behalf of the university for both restricted and unrestricted purposes. During the year ended June 30, 2006, the foundation made distributions of $3,132,085.12 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Dr. David D. Collins, Vice President for Business and Finance, P. O. Box 70601, Johnson City, Tennessee 37614.

Cash and cash equivalents - In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2007, cash and cash equivalents consisted of $121,513.79 in bank accounts, $8,277,465.72 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $2,136,567.28 in cash held by others. At June 30, 2006, cash and cash equivalents consisted of $234,012.62 in bank accounts, $2,039,953.21 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $457,373.60 in cash held by others.

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, 2007, 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	$5,011,833.00	$3,996,163.00	$1,015,670.00	$ -	$ -	$ -
Bond mutual funds	10,714,880.96	1,354,039.08	3,057,859.02	3,679,559.08	2,623,423.78	-
Equity mutual funds	36,627,928.84	-	-	-	-	36,627,928.84
Total	$52,354,642.80	$5,350,202.08	$4,073,529.02	$3,679,559.08	$2,623,423.78	$36,627,928.84

At June 30, 2006, 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	$7,880,755.00	$ -	$ 7,880,755.00	$ -	$ -	$ -
Bond mutual funds	10,320,870.20	1,163,450.33	3,566,644.46	3,037,392.02	2,553,383.39	-
Equity mutual funds	30,241,177.17	-	-	-	-	30,241,177.17
Total	$48,442,802.37	$1,163,450.33	$11,447,399.46	$3,037,392.02	$2,553,383.39	$30,241,177.17

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

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

At June 30, 2007, the foundation's investments were rated as follows:

		Credit Quality Rating			
Investment Type	Fair Value	AAA	AA	A	Unrated
LGIP	$8,277,465.72	$ -	$ -	$ -	$8,277,465.72
U. S. agency obligations	5,011,833.00	5,011,833.00	-	-	-
Bond mutual funds	10,714,880.96	9,668,274.95	118,687.28	927,918.73	-
Total	$24,004,179.68	$14,680,107.95	$118,687.28	$927,918.73	$8,277,465.72

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

		Credit Quality Rating			
Investment Type	Fair Value	AAA	AA	A	Unrated
LGIP	$2,039,953.21	$ -	$ -	$ -	$2,039,953.21
U. S. agency obligations	7,880,755.00	7,880,755.00	-	-	-
Bond mutual funds	10,320,870.20	9,759,085.03	83,227.43	478,557.74	-
Total	$20,241,578.41	$17,639,840.03	$83,227.43	$478,557.74	$2,039,953.21

Concentration of credit risk – Foundation policy requires that, with the exception of federal securities, the foundation should have no investments in funds whose securities exceed 5% of the total portfolio.

At June 30, 2007, more than 5% of the foundation's investments were invested in the following single issuers:

Issuer	Percentage of Total Investments
Federal Home Loan Banks (FHLB)	5.7%

At June 30, 2006, more than 5% of the foundation's investments were invested in the following single issuers:

Issuer	Percentage of Total Investments
Federal Home Loan Banks (FHLB)	12.2%

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

	Carrying Value June 30, 2007	Carrying Value June 30, 2006
LGIP	$6,940,212.69	$ -
U.S. agency obligations	5,011,833.00	7,297,642.47
Mutual funds	41,913,618.46	36,412,059.99
	$53,865,664.15	$43,709,702.46

Assets of endowments are pooled on a fair value basis, with each individual fund subscribing to or disposing of units on the basis of the fair value per unit at the beginning of the calendar quarter within which the transaction takes place. Of the total units at June 30, 2007, each having a fair value of $1.1495561238, 40,907,605 units were owned by endowments, and 703,845 units were owned by quasi-endowments. Of the total units at June 30, 2006, each having a fair value of $1.1170340537, 37,812,844 units were owned by endowments, and 616,759 units were owned by quasi-endowments.

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

FY 2007

	Pooled Assets		Net Gains	Fair Value
	Fair Value	Cost	(Losses)	Per Unit
End of year	$52,354,642.80	$44,368,639.02	$7,986,003.78	$1.1495561238
Beginning of year	$48,442,802.37	$44,904,219.08	3,538,583.29	$1.1170340537
Unrealized net gains			4,447,465.00	
Realized net gains			1,506,994.48	
Total net gains			$5,954,459.48	

The average annual earnings per unit, exclusive of net gains, were $.041 for the year ended June 30, 2007.

FY 2006

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

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

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

	June 30, 2007	June 30, 2006
Current pledges	$1,203,321.47	$1,117,744.33
Pledges due in one to five years	3,127,433.93	3,874,007.46
Pledges due after five years	692,665.32	675,545.18
Subtotal	5,023,420.72	5,667,296.97
Less discounts to net present value	754,007.91	571,501.90
Total pledges receivable, net	$4,269,412.81	$5,095,795.07

Capital assets - Capital asset activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$1,429,200.00	$ -	$1,380,000.00	$49,200.00
Buildings	299,000.00	-	-	299,000.00
Equipment	9,486.00	-	-	9,486.00
Projects in progress	-	73,604.10	-	73,604.10
Total	1,737,686.00	73,604.10	1,380,000.00	431,290.10

Less accum. depreciation:				
Buildings	50,150.00	2,950.00	-	53,100.00
Total accum. depreciation	50,150.00	2,950.00	-	53,100.00
Capital assets, net	$1,687,536.00	$70,654.10	$1,380,000.00	$378,190.10

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

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

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

The foundation chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, an amount equal to 2%, 3%, or 4%, depending on amount of reserves, of a three year moving average of market values has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income.

At June 30, 2007, net appreciation of $1,386,946.79 is available to be spent, of which $972,379.33 is included in restricted net assets expendable for scholarships and fellowships, $16,386.71 is included in restricted net assets available for research, $132,872.35 is included in restricted net assets expendable for instructional departmental uses, and $257,308.40 is included in restricted net assets expendable for other purposes. At June 30, 2006, net appreciation of $898,197.99 is available to be spent, of which $734,963.34 is included in restricted net assets expendable for scholarships and fellowships, $24,581.79 is included in restricted net assets expendable for instructional departmental uses, and $138,652.86 is included in restricted net assets expendable for other purposes.

Medical Education Assistance Corporation

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

During the year ended June 30, 2007, MEAC made distributions of $1,117,593.00 to or on behalf of the university for both restricted and unrestricted purposes. During the year ended June 30, 2006, MEAC made distributions of $1,240,245 to or on behalf of the university for both restricted and unrestricted purposes. 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, 2007, cash consisted of $3,730,724.00 in bank accounts, $2,085.00 of petty cash on hand, and $1,915,066.00 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 2006, cash consisted of $2,768,506.00 in bank accounts, $2,135.00 of petty cash on hand,

and $1,107,210.00 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer.

As described above, the corporation has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The Pooled Investment Fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37242-0298, or by calling (615) 741-2140.

Investments – The corporation is authorized to invest funds in accordance with its board of directors' policies. The corporation's investments at June 30, 2007, and June 30, 2006, 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, 2007, and June 30, 2006, MEAC had no rated investments, as deposits in LGIP are unrated.

Capital assets – Capital asset activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$ 18,150	$ -	$ -	$ 18,150
Leasehold improvements	307,564	-	-	307,564
Buildings	186,976	-	-	186,976
Equipment	2,962,422	308,239	413,078	2,857,583
Total	3,475,112	308,239	413,078	3,370,273
Less accumulated depreciation:				
Leasehold improvements	286,156	7,673	-	293,829
Buildings	23,479	5,100	-	28,579
Equipment	2,526,821	211,006	413,078	2,324,749

Total accumulated depreciation	2,836,456	223,779	413,078	2,647,157
Capital assets, net	$ 638,656	$ 84,460	$ -	$ 723,116

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

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

Long-term liabilities – Long-term liabilities activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$535,693	$9,510	$ -	$545,203	$109,041

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

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

MEAC has no other long-term liabilities.

NOTE 17. AFFILIATED ENTITY NOT INCLUDED

The East Tennessee State University Research Foundation is a private, nonprofit foundation with the university as the sole beneficiary. The foundation's financial transactions are not included in the university's financial report. As reported in the Research Foundation's most recently audited financial report, at June 30, 2007, the assets of the Research Foundation totaled $1,014,230.15, liabilities were $751,076.29, and the net assets amounted to $263,153.86.

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY FOUNDATION
SUPPLEMENTARY INFORMATION
STATEMENTS OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 2,024,867.73	$ 4,503,664.08
Endowment income per spending plan	1,378,945.79	898,197.99
Payments to suppliers and vendors	(1,301,072.84)	(1,805,545.45)
Payments for scholarships and fellowships	(805,455.64)	(853,490.65)
Payments to or on behalf of East Tennessee State University	(2,069,737.97)	(2,436,641.77)
Other receipts	473,827.68	254,680.17
Net cash provided (used) by operating activities	(298,625.25)	560,864.37
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gifts and grants received for other than capital or endowment purposes	370,126.00	604,415.00
Private gifts for endowment purposes	3,440,110.33	3,220,109.67
Other noncapital financing receipts	1,964,478.34	448,961.26
Net cash provided by noncapital financing activities	5,774,714.67	4,273,485.93
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts received	120,657.59	92,213.47
Purchases of capital assets and construction	(73,604.10)	(459,084.38)
Net cash provided (used) by capital and related financing activities	47,053.49	(366,870.91)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	6,352,643.45	8,977,638.86
Income on investments	1,745,484.39	2,037,448.78
Purchases of investments	(5,817,063.39)	(15,100,952.63)
Net cash provided (used) by investing activities	2,281,064.45	(4,085,864.99)
Net increase (decrease) in cash and cash equivalents	7,804,207.36	381,614.40
Cash and cash equivalents - beginning of year	2,731,339.43	2,349,725.03
Cash and cash equivalents - end of year	$ 10,535,546.79	$ 2,731,339.43
Reconciliation of operating income(loss) to net cash provided (used) by operating activities		
Operating income (loss)	$ (695,999.17)	$ 679,750.54
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	2,950.00	2,950.00
Loss on disposal of capital assets	-	801,159.54
Change in assets and liabilities:		
Receivables, net	826,382.26	(814,752.52)
Accounts payable	27,928.74	(108,243.19)
Deposits	27,040.00	-
Other	(486,927.08)	-
Net cash provided (used) by operating activitie	$ (298,625.25)	$ 560,864.37
Noncash transaction		
Gifts in-kind	$ 778,998.93	$ 2,536,064.42
Unrealized gains on investments	4,447,420.49	2,070,492.62
Loss on disposal of capital assets	-	(801,159.54)

TENNESSEE BOARD OF REGENTS
MEDICAL EDUCATION ASSISTANCE CORPORATION
SUPPLEMENTARY INFORMATION
STATEMENTS OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Collections from patient charges	$ 31,414,062.00	$ 29,398,653.00
Payments to suppliers and vendors	(6,263,028.00)	(5,877,756.00)
Payments to employees	(20,556,070.00)	(19,337,264.00)
Payments for benefits	(1,801,191.00)	(1,921,908.00)
Other receipts	126,088.00	64,368.00
Net cash provided by operating activities	2,919,861.00	2,326,093.00
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Other noncapital financing payments	(1,487,719.00)	(1,844,660.00)
Net cash used by noncapital financing activities	(1,487,719.00)	(1,844,660.00)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sales of capital assets	-	160,500.00
Purchase of capital assets and construction	(308,239.00)	(172,584.00)
Interest paid on capital debt and leases	(13,643.00)	(9,361.00)
Net cash used by capital and related activities	(321,882.00)	(21,445.00)
CASH FLOWS FROM INVESTING ACTIVITIES		
Rental income	480.00	4,700.00
Income on investments	636,166.00	470,481.00
Other investing receipts	23,118.00	54,800.00
Net cash provided by investing activities	659,764.00	529,981.00
Net increase in cash and cash equivalents	1,770,024.00	989,969.00
Cash and cash equivalents - beginning of year	3,877,851.00	2,887,882.00
Cash and cash equivalents - end of year	$ 5,647,875.00	$ 3,877,851.00
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 2,670,232.00	$ 2,647,188.00
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	223,779.00	231,121.00
Change in assets and liabilities:		
Receivables, net	(441,489.00)	(579,382.00)
Prepaid expenses and deferred charges	28,832.00	(50,024.00)
Accounts payable	201,876.00	28,661.00
Deferred revenues	(65,250.00)	(140,000.00)
Compensated absences	231,426.00	120,876.00
Other	70,455.00	67,653.00
Net cash provided by operating activities	$ 2,919,861.00	$ 2,326,093.00