TENNESSEE COMPTROLLER OF THE TREASURY

FINANCIAL AND COMPLIANCE AUDIT REPORT

East Tennessee State University

For the Year Ended June 30, 2023

Jason E. Mumpower
Comptroller of the Treasury

DIVISION OF STATE AUDIT

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TENNESSEE COMPTROLLER OF THE TREASURY

JASON E. MUMPOWER
Comptroller

February 26, 2024

The Honorable Bill Lee, Governor
Members of the General Assembly
Dr. Brian Noland, President

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of East Tennessee State University, an institution of the State University and Community College System of Tennessee, for the year ended June 30, 2023. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

Consideration of the internal control over financial reporting and tests of compliance disclosed a deficiency, which is detailed in the Finding and Recommendation section of this report. The university's management has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit

23/061

Audit Report

East Tennessee State University

For the Year Ended June 30, 2023

Contents

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EAST TENNESSEE STATE UNIVERSITY

AUDIT HIGHLIGHTS

For the Year Ended June 30, 2023

East Tennessee State University's Mission

ETSU provides a student-centered community of learning, reflecting high standards and promoting a balance of liberal arts and professional preparation, and continuous improvement. The university conducts a wide array of educational and research programs and clinical services including a comprehensive Academic Health Sciences Center. Education is the university's highest priority, and the institution is committed to increasing the level of educational attainment in the state and region based on core values where:

People come first, are treated with dignity and respect, and are encouraged to achieve their full potential;
Relationships are built on honesty, integrity, and trust; diversity of people and thought is respected;
Excellence is achieved through teamwork, leadership, creativity, and a strong work ethic;
Efficiency is achieved through wise use of human and financial resources; and
Commitment to intellectual achievement is embraced.

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Finding

Management needs to improve financial statement preparation and review procedures to prevent errors in its financial statements

East Tennessee State University's procedures for preparing and reviewing its financial statements and the accompanying notes to the financial statements were not adequate to ensure the accuracy, proper classification, and disclosure of information (page 86).

Prior Audit Findings

The findings from the prior audit concerning the need to conduct proper collection procedures on accounts receivable and the need to monitor the eligibility of Title IV financial aid recipients were resolved and were not repeated.

Jason E. Mumpower
Comptroller

Independent Auditor's Report

The Honorable Bill Lee, Governor
Members of the General Assembly
Dr. Brian Noland, President

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of East Tennessee State University, an institution of the State University and Community College System of Tennessee, 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, 2023, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of East Tennessee State University and its discretely presented component units as of June 30, 2023; and the respective changes in financial position and ,where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of the East Tennessee State University Foundation and the Medical Education Assistance Corporation, discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the university and its discretely presented component units are based solely on the reports of the other auditors.

Basis of Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibility for the Audit of the Financial Statements section of our report. We are required to be independent of the university and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Cordell Hull Building | 425 Rep. John Lewis Way N. | Nashville, Tennessee 37243

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the university's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks; such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the university's internal control; accordingly, no such opinion is expressed;
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; and

- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the university's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matters

As discussed in Note 1, the financial statements of East Tennessee State University, an institution of the State University and Community College System of Tennessee, are intended to present the financial position, the changes in financial position, and the cash flows of only East Tennessee State University. They do not purport to, and do not, present fairly the financial position of the State University and Community College System of Tennessee as of June 30, 2023, and the changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the university implemented Governmental Accounting Standards Board Statement 96, *Subscription-Based Information Technology Arrangements*, during the year ended June 30, 2023. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 17; the schedule of East Tennessee State University's proportionate share of the net pension liability (asset) – Closed State and Higher Education Employee Pension Plan within TCRS on page 74; the schedule of East Tennessee State University's proportionate share of the net pension asset – State and Higher Education Employee Retirement Plan within TCRS on page 75; the schedule of East Tennessee State University's contributions – Closed State and Higher Education Employee Pension Plan within TCRS on page 76; the schedule of East Tennessee State University's Contributions – State and Higher Education Employee Retirement Plan within TCRS on page 77; the schedule of East Tennessee State University's proportionate share of the collective total/net OPEB liability – Closed State Employee Group OPEB Plan on page 78; the schedule of East Tennessee State University's contributions – Closed State Employee Group OPEB Plan on page 79; and the schedule of East Tennessee State University's proportionate share of the collective total OPEB liability – Closed Tennessee OPEB Plan on page 80 be presented to supplement the basic financial statements. Such information is the responsibility of management, and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United

States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the university's basic financial statements. The supplementary schedules of cash flows for both the East Tennessee State University Foundation and the Medical Education Assistance Corporation on pages 81 and 82 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary schedules of cash flows for both component units are the responsibility of the university's management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit and the procedures performed as described above and the reports of the other auditors, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2023, on our consideration of the university's internal control over financial reporting and on 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* in considering the university's internal control over financial reporting and compliance.

Katherine J. Stickel

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
December 20, 2023

Introduction

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, 2023, with comparative information presented for the fiscal year ended June 30, 2022. 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, the audited financial statements, and the notes to the financial statements. 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 24 to the financial statements. This discussion and analysis focuses on the university and does not include the foundation or MEAC.

Overview of the Financial Statements

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The financial statements are presented on a consolidated basis to focus on the university as a whole. The full scope of the university's activities is considered to be a single business-type activity, and accordingly, is reported within a single column in the basic financial statements.

The university's financial report includes the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. Notes to the financial statements are also presented to provide additional information that is essential to a full understanding of the financial statements.

The Statement of Net Position

The statement of net position is a point-in-time financial statement. The statement of net position presents the financial position of the university at the end of the fiscal year. To aid the reader in determining the university's ability to meet immediate and future obligations, the statement includes all assets, liabilities, deferred outflows/inflows of resources, and net position of the university and segregates the assets and liabilities into current and noncurrent components. Current assets are those that are available to satisfy current liabilities, inclusive of assets that will be converted to cash within one year. Current liabilities are those that will be paid within one year. The statement of net position is prepared under the accrual basis of accounting; assets and liabilities are recognized when goods or services are provided or received despite when cash is actually exchanged. From the data presented, readers of the statement are able to determine the assets available to continue the operations of the university. They are also able to determine how much the university owes vendors, lenders, and others. Net position represents the difference between the university's assets and liabilities, along with the difference between deferred outflows and deferred inflows of resources, and is one indicator of the university's current financial condition.

The statement of net position also indicates the availability of net position for expenditure by the university. Net position is divided into three major categories. The first category, net investment in capital assets, represents the university's total investment in property, plant, and equipment, net of outstanding debt obligations and deferred outflows/inflows of resources related to these capital assets. To the extent debt or deferred inflows of resources have been incurred but not yet expended for capital assets, such amounts are not included. The next category is restricted net position, which is subdivided into two categories, nonexpendable and expendable. Nonexpendable restricted net position includes endowment and similar resources whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity. Expendable restricted net position is 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 resources. The final category is unrestricted net position. Unrestricted net position is available to the university for any lawful purpose of the university.

The following table summarizes the university's assets, liabilities, deferred outflows/inflows of resources, and net position at June 30, 2023, and June 30, 2022.

Summary of Net Position
(in thousands of dollars)

		2023		2022
Assets:				
Current assets	$	103,119	$	82,792
Capital assets, net		428,508		410,145
Other assets		218,625		207,189
Total Assets		750,252		700,126
Deferred Outflows of Resources				
Deferred amount on debt refunding		4,775		6,080
Deferred outflows related to pensions		29,060		28,227
Deferred outflows related to OPEB		7,144		7,258
Total Deferred Outflows of Resources		40,979		41,565
Liabilities:				
Current liabilities		54,789		50,863
Noncurrent liabilities		206,269		193,419
Total Liabilities		261,058		244,282
Deferred Inflows of Resources				
Deferred amount on debt refunding		55		77
Deferred amount related to pensions		2,761		49,246
Deferred amount related to OPEB		7,182		9,471
Other deferred inflows of resources		251		294
Total Deferred Inflows of Resources		10,249		59,088
Net Position:				
Net investment in capital assets		275,418		249,228
Restricted - expendable		59,511		47,758
Unrestricted		184,995		141,335
Total Net Position	$	519,924	$	438,321

Comparison of Fiscal Year 2023 to Fiscal Year 2022

- Current cash reserves increased $18.8 million from 2022 to 2023 due to increased state appropriations for the ERP implementation, as well as funding for BlueSky and for the Nursing Center. Current accounts receivable increased by a total of $2 million during the same time period.

- Capital assets, net of depreciation, increased by $18.4 million due mainly to increases in construction. Capital assets also experienced an increase as the university implemented GASB statement 96, *Subscription-Based Information Technology Arrangements (SBITAs),* in fiscal year 2023 and recorded SBITA assets totaling $8.7 million net of depreciation.

- Other assets increased in 2023 due mainly to a $25.4 million increase in noncurrent restricted and plant fund cash netted with a $14 million decrease in the college's net pension asset as a result of the university's proportionate share related to the Closed State and Higher Education Pension Plan within TCRS.

- Current liabilities experienced an increase of $3.9 million during 2023. Unearned revenue increased $1.2 million primarily due to an increase of grant and contract funds received by the university which were not expended and therefore earned during the year. The current portion of long-term debt also increased by $920 thousand due to the implementation of GASB 96 for SBITAs.

- As to noncurrent liabilities, during 2023, the university's portion of the net pension liability under the Closed State and Higher Education Employee Pension Plan within TCRS increased by $23.5 million during 2023 as the plan experienced a net pension liability.

- Deferred inflows of resources decreased by $49 million as a result of a decrease in the university's proportionate share of deferred inflows of resources related to pensions.

- Net investment in capital assets increased as renovation projects including Brown Hall began during 2023 in addition to the implemented GASB 96, *Subscription-Based Information Technology Arrangements (SBITAs)* which resulted in the recognition of SBITA assets.

- Restricted expendable net position decreased due to a decrease in amounts restricted for pensions. Amounts restricted for capital projects increased due to unspent capital appropriations restricted for the university's new ERP system.

- Unrestricted net assets increased due to increases in education and general funds as well as renewal and replacement funds in anticipation of future projects.

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

The statement of revenues, expenses, and changes in net position presents the results of operations for the fiscal year. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received. The statement indicates whether the university's financial condition has improved or deteriorated during the fiscal year. The statement presents the revenues received by the university, both operating and nonoperating; the expenses paid by the university, both operating and nonoperating; and any other revenues, expenses, gains, or losses received or spent by the university.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the university. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the university. Nonoperating revenues are revenues received for which goods and services are not provided directly to the payor. Although East Tennessee State University is dependent upon state appropriations and gifts to fund educational and general operations, under GASB standards these funding sources are reported as nonoperating revenues, as is investment income. As a result, the university has historically reported an excess of operating expenses over operating revenues, resulting in an operating loss. Therefore, the "increase in net position" is more indicative of overall financial results for the year.

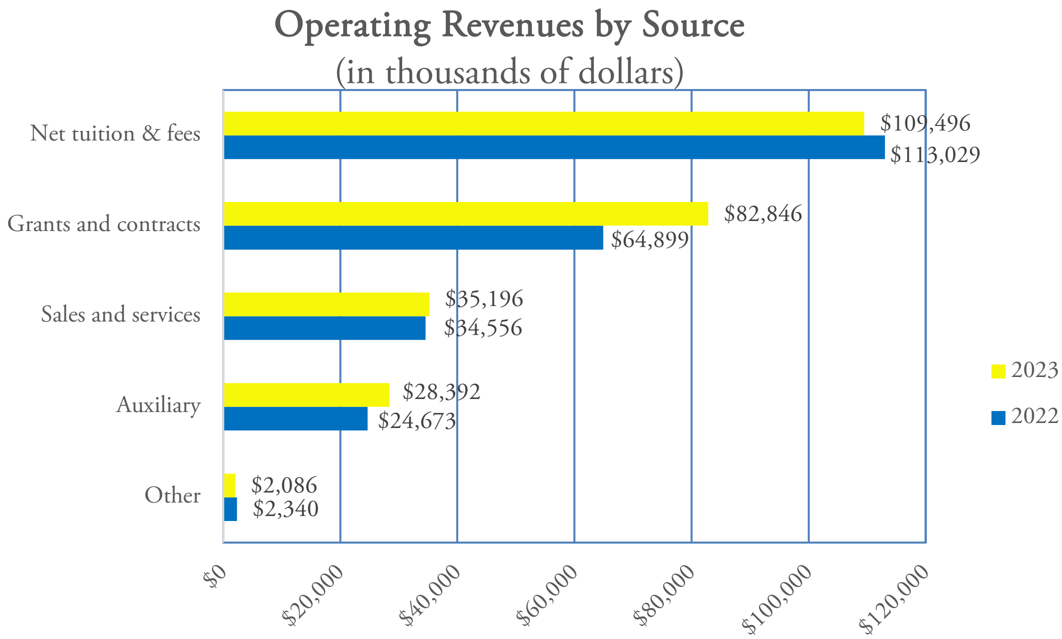
A summary of the university's revenues, expenses, and changes in net position for the year ended June 30, 2023, and June 30, 2022, follows.

Summary of Revenues, Expenses, and Changes in Net Position
(in thousands of dollars)

	2023	2022
Operating revenues	$ 258,016	$ 239,497
Operating expenses	436,283	409,506
Operating income (loss)	(178,267)	(170,009)
Nonoperating revenues and expenses	243,065	216,175
Income (loss) before other revenues, expenses, gains, or losses	64,798	46,166
Other revenues, expenses, gains, or losses	16,805	17,832
Increase in net position	81,603	63,998
Net position at beginning of year	438,321	374,323
Net position at end of year	$ 519,924	$ 438,321

Operating Revenues

The following summarizes the operating revenues by source that were used to fund operating activities for the last two fiscal years:



Comparison of Fiscal Year 2023 to Fiscal Year 2022

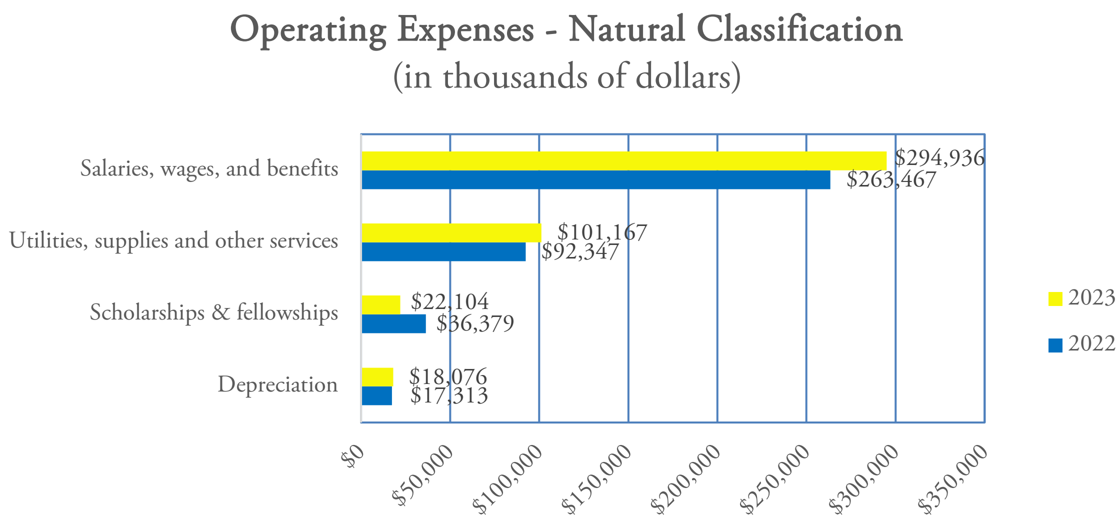
- Tuition and fees, net of scholarship discounts and allowances, decreased slightly during 2023 primarily due to a fee reduction granted to out-of-state students from bordering counties. This plan was instituted in the 2021 fiscal year and should be beneficial in the long term.

- Grants and contracts increased mainly due to an increase in nongovernmental grants and contracts. Additional amounts were received under several private grants and contracts.

- Auxiliary revenues also increased as the university experienced near full capacity in the residence halls. Residential life revenues increased by $2.1 million and food service revenues increased by $1.5 million in 2023.

Operating Expenses

Operating expenses may be reported by nature or function. The university has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net position and has displayed the functional classification in the notes to the financial statements. The following summarizes the operating expenses by natural classifications for the last two fiscal years:



Comparison of Fiscal Year 2023 to Fiscal Year 2022

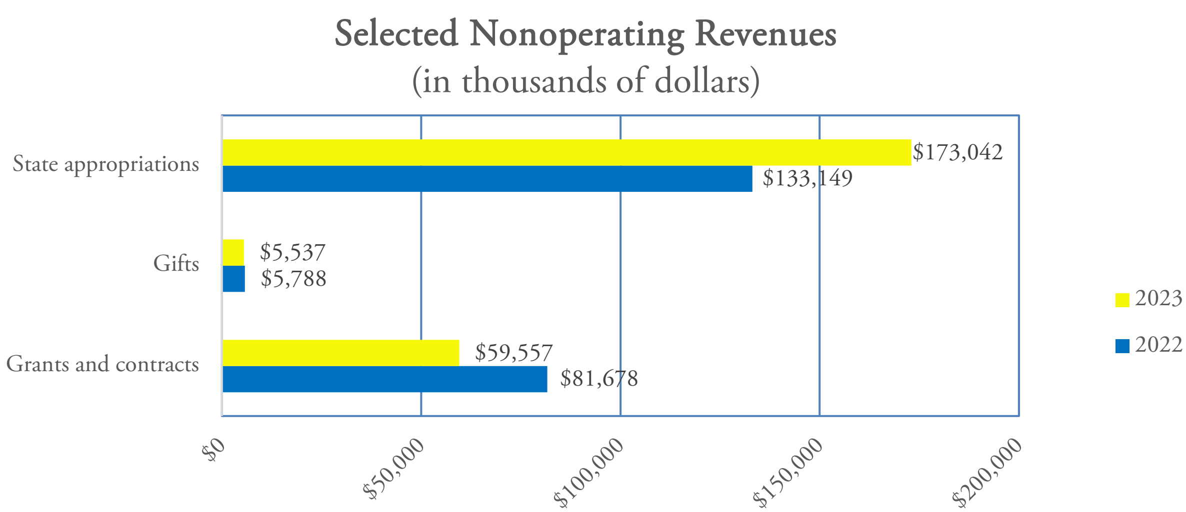
- Salaries, wages, and benefits increased in 2023 mainly due to the impact of pension and other post-employment benefit adjustments for the university's proportionate shares in the State of Tennessee plans of $10.8 million.
- Utilities, supplies, and other expenses increased by $8.8 million, primarily due to inflationary increases including supplies and travel.
- Scholarships decreased primarily due to the $15.8 million in HEERF scholarships awarded in 2022.
- Depreciation and amortization expense increased slightly as new assets were added due to the implementation of GASB 96 for SBITAs.

Nonoperating Revenues and Expenses

Certain revenue sources that the university relies on to provide funding for operations, including state noncapital appropriations, certain gifts and grants, and investment income, are defined by the GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the university's nonoperating revenues and expenses for the last two fiscal years:

Nonoperating Revenues (Expenses)
(in thousands of dollars)

	2023	2022
State appropriations	$ 173,042	$ 133,149
Gifts	5,537	5,788
Grants and contracts	59,557	81,678
Investment income	9,587	(951)
Interest on capital asset-related debt	(4,608)	(4,655)
Interest on noncapital debt	(23)	(52)
Other nonoperating revenues (expenses)	(27)	1,218
Total nonoperating revenues(expenses)	**$ 243,065**	**$ 216,175**



Comparison of Fiscal Year 2023 to Fiscal Year 2022

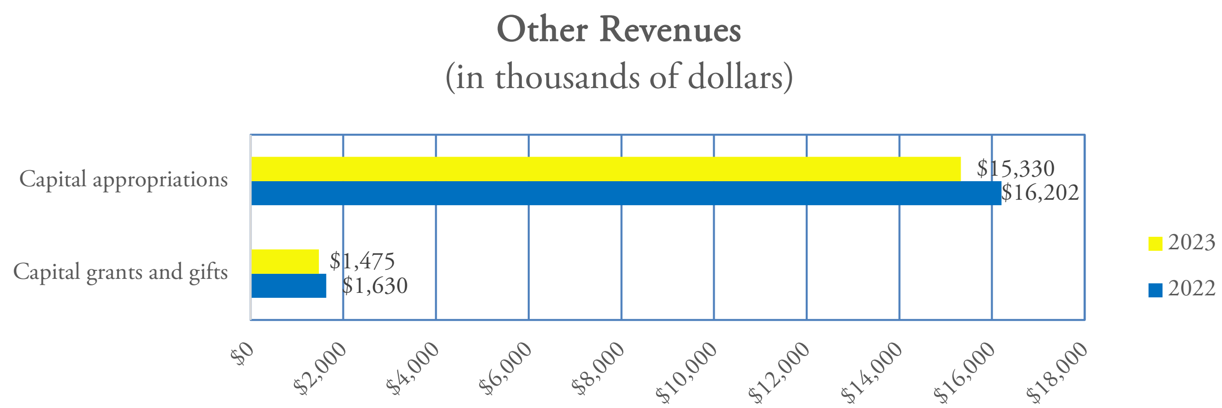
- State appropriations increased in fiscal year 2023 including an increase of $10 million for main campus, a $4 million increase for the College of Medicine/Family Medicine units, $20 million in ERP funding, and non-recurring appropriations for the BlueSky initiative and the Nursing Center.
- Nonoperating grants and contracts decreased due mainly to the utilization of Department of Education Higher Education Emergency Relief Fund awards totaling $16.8 million in 2022.
- Investment income increased in 2023 due to a significant increase in interest rates experienced by the investments of the university and significant unrealized gains.

Other Revenues

This category is composed of State appropriations for capital purposes, capital grants and gifts, and additions to permanent endowments. These amounts were as follows for the last two fiscal years:

Other Revenues
(in thousands of dollars)

	2023	2022
Capital appropriations	$15,330	$16,202
Capital grants and gifts	1,475	1,630
Total other revenues	**$16,805**	**$17,832**



Comparison of Fiscal Year 2023 to Fiscal Year 2022

- Capital projects continued to be funded with state appropriations from 2022 to 2023 with appropriation funded expenditures for capital projects including Brown Hall, the Integrated Health Services Building, and the Academic Building, as well as multiple building roof replacements, HVAC and Steam Line Repairs, and exterior building improvements.

Capital Assets and Debt Administration

Capital Assets

East Tennessee State University had $429 million invested in capital assets, net of accumulated depreciation of $318 million at June 30, 2023; and $410 million invested in capital assets, net of accumulated depreciation of $303 million at June 30, 2022. Depreciation charges totaled $18 million and $17.3 million for the years ended June 30, 2023, and June 30, 2022, respectively.

Schedule of Capital Assets, Net of Depreciation

(in thousands of dollars)

	2023	2022
Land	$ 19,381	$ 19,381
Land improvements and infrastructure	34,523	36,239
Buildings	309,860	315,094
Equipment	11,482	11,462
Library holdings	212	235
Art and historical collections	23	24
Intangible assets		
Software	404	485
Right-to-use - buildings	680	1,277
SBITA in progress	6,355	-
SBITAs	2,331	-
Projects in progress	43,257	25,948
Total	$ 428,508	$ 410,145

- Capital assets, net of depreciation, increased from 2022 to 2023 due to increases in construction as campus renovations continued for Lamb Hall and began for Brown Hall, the Integrated Health Services Building, and the Academic Building, as well as multiple building roof replacements, HVAC and Steam Line Repairs, and exterior building improvements.

- Capital assets also experienced an increase as the university implemented GASB 96, *Subscription-Based Information Technology Arrangements (SBITAs),* in fiscal year 2023 and recorded assets for SBITAs.

At June 30, 2023, outstanding commitments under construction contracts totaled $13 million for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $48 thousand of these costs.

More detailed information about the university's capital assets is presented in Note 6 to the financial statements.

Debt

The university had $158 and $168 million in debt outstanding at June 30, 2023, and June 30, 2022, respectively. The table below summarizes these amounts by type of debt instrument.

Schedule of Outstanding Debt

(in thousands of dollars)

	2023	2022
Notes payable	$ 76	$ 148
TSSBA Bonds	144,203	153,859
Unamortized bond premium	11,625	12,985
Lease liability	698	1,295
SBITA liability	1,792	-
Total	$ 158,394	$ 168,287

The TSSBA issued bonds with interest rates ranging from 0.167% to 5% due serially to 2048 on behalf of East Tennessee State University. The university is responsible for the debt service of these bonds. The current portion of the $144 million of bonds outstanding at June 30, 2023, is $9.5 million.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2023, were as follows:

Fitch	AA+
Moody's Investor Service	Aa1
Standard & Poor's	AA+

More information about the university's long-term liabilities is presented in Note 10 to the financial statements.

Economic Factors That Will Affect the Future

The final state budget for fiscal year 2023 provides over $10 million in recurring state funding for the main campus and an additional $2.5 million for the College of Pharmacy. The College of Medicine/Family Medicine units will receive over $5 million in recurring funding. The increase in appropriations, in conjunction with increases in student enrollment, will aid in covering salary increases, as well as inflationary increases in operating costs.

Enrollment of first-time freshman students increased by 4.1% for fall 2024 while total undergraduate student headcount continued to increase. The auxiliary unit Housing is at 100% capacity at the start of the fall semester, and campus meal plans participation is up over 262, a record level.

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

EAST TENNESSEE STATE UNIVERSITY
Statement of Net Position
June 30, 2023

	University	Component Units: East Tennessee State University Foundation	Component Units: Medical Education Assistance Corporation
Assets			
Current assets:			
Cash and cash equivalents (Notes 2 and 24)	$ 71,838,331.70	$ 1,708,035.00	$ 11,138,825.00
Short-term investments (Note 24)	-	-	3,700,472.00
Accounts, notes, and grants receivable (net) (Notes 5 and 24)	23,893,127.40	167,104.00	7,215,889.00
Due from State of Tennessee	3,047,977.91	-	-
Due from component units	3,325,699.63	-	-
Pledges receivable (net) (Note 24)	-	1,286,335.00	-
Inventories	202,689.41	-	-
Prepaid expenses	584,459.73	88,500.00	241,299.00
Accrued interest receivable	164,566.42	-	-
Leases receivable (Notes 5, 7, and 24)	44,294.92	136,086.00	265,912.00
Other assets	17,561.70	-	-
Total current assets	103,118,708.82	3,386,060.00	22,562,397.00
Noncurrent assets:			
Cash and cash equivalents (Notes 2 and 24)	153,435,130.11	15,937,004.00	-
Investments (Notes 3, 4, and 24)	59,488,292.00	126,518,387.00	18,031,860.00
Investment in Tennessee Retiree Group Trust	3,608,006.47	-	-
Accounts, notes, and grants receivable (net) (Notes 5 and 24)	1,245,253.39	-	-
Pledges receivable (net) (Note 24)	-	944,935.00	-
Capital assets (net) (Notes 6 and 24)	428,508,482.17	9,652,690.00	10,269,998.00
Net pension asset (Note 13)	640,008.72	-	-
Leases receivable (Notes 5, 7, and 24)	208,315.88	3,222,178.00	907,183.00
Total noncurrent assets	647,133,488.74	156,275,194.00	29,209,041.00
Total assets	750,252,197.56	159,661,254.00	51,771,438.00
Deferred outflows of resources			
Deferred amount on debt refunding	4,775,394.47	-	-
Deferred outflows related to pensions (Note 13)	29,060,419.62	-	-
Deferred outflows related to OPEB (Note 15)	7,143,674.00	-	-
Total deferred outflows of resources	40,979,488.09	-	-
Liabilities			
Current liabilities:			
Accounts payable (Note 9)	7,146,004.93	193,723.00	410,586.37
Accrued liabilities	6,182,465.53	-	3,797,105.00
Due to State of Tennessee	3,827,418.78	-	-
Due to ETSU	-	2,133,040.00	1,192,659.63
Student deposits	854,136.69	-	-
Lease liability (Notes 7 and 24)	228,495.12	118,029.00	475,370.00
SBITA liability (Notes 8 and 24)	920,396.06	-	1,417,618.00
Unearned revenue	20,504,353.96	-	-
Compensated absences (Notes 10 and 24)	3,842,825.28	-	123,332.00
Accrued interest payable	773,388.36	-	-
Long-term liabilities, current portion (Notes 10 and 24)	9,552,915.70	143,839.00	-
Deposits held in custody for others	956,714.24	-	299,524.00
Other liabilities	-	20,126.00	492,609.00
Total current liabilities	54,789,114.65	2,608,757.00	8,208,804.00
Noncurrent liabilities:			
Lease liability (Notes 7 and 24)	469,419.01	2,327,286.00	920,775.00
SBITA liability (Notes 8 and 24)	871,425.58	-	734,903.00
Due to grantors (Note 10)	3,198,670.13	-	-
Compensated absences (Notes 10 and 24)	14,844,323.52	-	493,329.00
Long-term liabilities (Notes 10 and 24)	146,350,418.57	3,065,372.00	-
Net pension liability (Note 13)	23,470,097.00	-	-
Net OPEB liability (Note 15)	16,955,369.00	-	-
Other liabilities	109,094.69	-	-
Total noncurrent liabilities	206,268,817.50	5,392,658.00	2,149,007.00
Total liabilities	261,057,932.15	8,001,415.00	10,357,811.00
Deferred inflows of resources			
Deferred amount on debt refunding	55,212.21	-	-
Deferred inflows related to pensions (Note 13)	2,761,456.00	-	-
Deferred inflows related to OPEB (Note 15)	7,181,942.00	-	-
Other deferred inflows of resources (Notes 11 and 24)	251,314.00	3,167,819.00	1,156,497.00
Total deferred inflows of resources	10,249,924.21	3,167,819.00	1,156,497.00
Net position			
Net investment in capital assets	275,417,821.91	3,998,164.00	6,721,332.00
Restricted for:			
Nonexpendable:			
Scholarships and fellowships	-	58,130,862.00	-
Research	-	746,944.00	-
Instructional department uses	-	7,725,214.00	-
Other	-	4,353,246.00	-
Expendable:			
Scholarships and fellowships	1,030,778.62	26,876,631.00	-
Research	122,573.28	7,012,389.00	-
Instructional department uses	671,101.59	7,410,921.00	-
Capital projects	14,667,300.69	3,744,709.00	-
Debt service	14,237,814.76	-	-
Pension	640,008.72	-	-
Other	28,141,468.00	20,107,214.00	-
Unrestricted	184,994,961.72	8,385,726.00	33,535,798.00
Total net position	519,923,829.29	$ 148,492,020.00	$ 40,257,130.00

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

EAST TENNESSEE STATE UNIVERSITY
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2023

	University	East Tennessee State University Foundation (Component Units)	Medical Education Assistance Corporation (Component Units)
Revenues			
Operating revenues:			
Student tuition and fees (Note 16)	$ 109,495,568.78	$ -	$ -
Gifts and contributions	-	10,070,225.00	-
Governmental grants and contracts	39,498,734.38	-	-
Nongovernmental grants and contracts (Note 16)	43,347,215.38	-	988,735.00
Sales and services of educational activities (Note 16)	22,779,868.51	-	-
Sales and services of other activities	12,416,585.15	-	-
Net patient revenues	-	-	50,904,187.00
Auxiliary enterprises:			
Residential life (Note 16)	15,496,293.46	-	-
Bookstore	200,409.93	-	-
Food service (Note 16)	8,580,783.38	-	-
Wellness facility	1,471,593.12	-	-
Other auxiliaries (Note 16)	2,643,224.51	-	-
Interest earned on loans to students	15,928.19	-	-
Other operating revenues, foundation revenues including $257,772 from MEAC	2,070,087.38	2,711,517.00	1,051,621.00
Total operating revenues	258,016,292.17	12,781,742.00	52,944,543.00
Expenses			
Operating expenses (Note 20):			
Salaries and wages	217,007,105.28	-	35,665,063.00
Benefits	77,929,141.62	-	3,536,967.00
Utilities, supplies, and other services	101,167,003.07	4,178,357.81	8,632,280.00
Scholarships and fellowships	22,103,929.29	3,521,505.63	-
Depreciation expense	18,076,356.56	421,661.00	2,425,568.00
Payments to or on behalf of East Tennessee State University (Note 24)	-	4,991,738.56	-
Total operating expenses	436,283,535.82	13,113,263.00	50,259,878.00
Operating income (loss)	(178,267,243.65)	(331,521.00)	2,684,665.00
Nonoperating revenues (expenses)			
State appropriations	173,042,245.62	-	-
Gifts (including $3,516,872.49 from ETSU Foundation and $1,963,368 from MEAC)	5,536,605.49	-	-
Grants and contracts	59,556,520.08	-	-
Investment income (expense) (net of investment expense of $414,136 for the component units)	9,587,497.77	14,798,416.00	262,470.00
Interest on capital asset-related debt	(4,608,576.33)	(102,088.00)	(58,186.00)
Interest on noncapital debt	(22,719.56)	-	-
Payments to or on behalf of ETSU or ETSU Foundation (Note 24)	-	-	(2,221,140.00)
Other nonoperating revenues (expenses)	(27,019.37)	-	228,862.00
Total nonoperating revenues (expenses)	243,064,553.70	14,696,328.00	(1,787,994.00)
Income before other revenues, expenses, gains, or losses	64,797,310.05	14,364,807.00	896,671.00
Capital appropriations	15,330,437.34	-	-
Capital grants and gifts (including $1,474,866.07 from ETSU Foundation)	1,474,866.07	-	-
Additions to permanent endowments	-	6,207,923.00	-
Total other revenues	16,805,303.41	6,207,923.00	-
Increase in net position	81,602,613.46	20,572,730.00	896,671.00
Net position - beginning of year	438,321,215.83	127,919,290.00	39,360,459.00
Net position - end of year	$ 519,923,829.29	$ 148,492,020.00	$ 40,257,130.00

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

EAST TENNESSEE STATE UNIVERSITY
Statement of Cash Flows
For the Year Ended June 30, 2023

		Year Ended June 30, 2023
Cash flows from operating activities		
Tuition and fees	$	108,657,820.58
Grants and contracts		82,440,684.94
Sales and services of educational activities		21,642,009.42
Sales and services of other activities		12,414,969.24
Payments to suppliers and vendors		(99,943,425.23)
Payments to employees		(215,808,098.88)
Payments for benefits		(82,127,244.29)
Payments for scholarships and fellowships		(22,099,810.40)
Loans issued to students		(169,112.74)
Collection of loans from students		599,649.45
Interest earned on loans to students		482,331.55
Funds received for deposits held for others		9,363,534.52
Funds disbursed for deposits held for others		(8,887,720.08)
Auxiliary enterprise charges:		
Residential life		15,570,719.46
Bookstore		176,404.55
Food services		8,536,567.34
Wellness facilities		1,471,593.12
Other auxiliaries		2,642,251.11
Other receipts (payments)		1,656,302.60
Net cash used for operating activities		(163,380,573.74)
Cash flows from noncapital financing activities		
State appropriations		166,149,600.50
Gifts and grants received for other than capital or endowment purposes		65,093,125.57
Federal student loan receipts		79,488,323.00
Federal student loan disbursements		(79,889,281.28)
Principal paid on noncapital debt		(598,989.10)
Interest paid on noncapital debt		(89,046.87)
Other noncapital financing receipts (payments)		357,190.59
Net cash provided by noncapital financing activities		230,510,922.41
Cash flows from capital and related financing activities		
Capital grants and gifts received		985,317.40
Purchase of capital assets and construction		(17,134,663.96)
Principal paid on capital debt		(10,865,370.45)
Interest paid on capital debt		(4,651,595.23)
Other capital and related financing receipts (payments)		(252,610.80)
Net cash used for capital and related financing activities		(31,918,923.04)
Cash flows from investing activities		
Proceeds from sales and maturities of investments		7,000,000.00
Income on investments		9,471,637.01
Purchase of investments		(7,528,194.43)
Net cash provided by investing activities		8,943,442.58
Net increase in cash and cash equivalents		44,154,868.21
Cash and cash equivalents - beginning of year		181,118,593.60
Cash and cash equivalents - end of year	$	225,273,461.81

EAST TENNESSEE STATE UNIVERSITY
Statement of Cash Flows (continued)
For the Year Ended June 30, 2023

		Year Ended June 30, 2023
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$	(178,267,243.65)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Noncash operating expenses		18,558,838.24
Other adjustments		(1,615.91)
Change in assets, liabilities, and deferrals:		
Receivables, net		(1,799,987.21)
Inventories		6,476.48
Prepaid items		(225,927.47)
Net pension asset		14,000,767.28
Accrued interest receivable		466,403.36
Deferred outflows of resources		6,155,239.94
Accounts payable		(721,553.92)
Accrued liabilities		1,083,920.95
Unearned revenue		1,179,644.07
Student deposits		104,108.81
Compensated absences		928,010.05
Net pension liability		23,470,097.00
Net OPEB liability		(9,897.00)
Deferred inflows of resources		(48,773,444.00)
Due to grantors		(412,937.00)
Loans to students		430,536.71
Other		447,989.53
Net cash used for operating activities	$	(163,380,573.74)
Noncash investing, capital, or financing transactions		
Gifts of capital assets	$	489,548.67
Unrealized gains on investments	$	66,052.31
Gain (loss) on disposal of capital assets	$	(384,210.24)
Purchase of capital assets and construction with capital appropriations	$	14,837,282.69
Acquisition of right-to-use SBITA assets through incurrence of liability	$	3,246,740.14

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The university is a part of the State University and Community College System of Tennessee. The Focus on College and University Success Act of 2016 removed the six universities from the governance of the Tennessee Board of Regents, but they remain part of the system. The universities have their own local governing boards that provide governance, approve policies, set tuition and fee rates, and hire presidents. The system has continuing oversight responsibilities in the areas of budget approval and institutional debt. This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides significant financial support; the system is discretely presented in Tennessee's *Annual Comprehensive Financial Report*. That report is available at https://www.tn.gov/finance/rd-doa/fa-accfin-ar.html.

The financial statements present only that portion of the system's activities that is attributable to the transactions of East Tennessee State University.

The East Tennessee State University Foundation and the Medical Education Assistance Corporation are considered component units of the university. Although the university does not control the timing or amount of receipts from these organizations, the majority of resources, or income thereon, that these organizations hold and invest are restricted to the activities of the university by their donors. Because these restricted resources held by the foundation and 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 24 for more detailed information about the component units.

Basis of Presentation

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

Basis of Accounting

In May 2020, the GASB issued Statement 96, *Subscription-Based Information Technology Arrangements* (SBITAs). This statement requires recognition of a right-to-use subscription asset, initially measured as the sum of the initial subscription liability amount, payments made to the vendor before the commencement of the subscription term, and capitalizable implementation costs. The subscription asset is then amortized over the subscription term. The university implemented this standard as of July 1, 2022.

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 of the provider's eligibility requirements have been met. All significant internal activity has been eliminated.

The university has classified its revenues and expenses as either operating or nonoperating according to the following criteria: Operating revenues and expenses are those that have the characteristics of exchange transactions. Operating revenues include (1) tuition and fees, net of scholarship discounts and allowances; (2) certain federal, state, local, and private grants and contracts; (3) sales and services of auxiliary enterprises, net of scholarship discounts and allowances; and (4) interest on institutional loans. Operating expenses include (1) salaries and wages; (2) employee benefits; (3) utilities, supplies, and other services; (4) scholarships and fellowships; and (5) depreciation.

Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts, contributions, and other activities that are defined as nonoperating by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* such as state appropriations and investment income.

When both restricted and unrestricted resources are available for use, it is the university's policy to determine which to use first, depending upon existing facts and circumstances.

Cash Equivalents

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

Inventories

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

Compensated Absences

The university's employees accrue annual and sick leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time.

The amount of the liabilities for annual leave and compensatory time and their related benefits are reported in the statement of net position. There is no liability for unpaid accumulated sick leave since the university's policy is to pay this only if the employee is sick or upon death.

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, works of art, historical treasures/collections, intangible assets, and lease assets, are reported in the statement of net position at historical cost or at acquisition value at date of donation or the present value of lease payments plus other associated lease costs less accumulated depreciation/amortization. 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. The capitalization threshold for art, historical treasures/collections, and similar assets is set at $5,000. The capitalization threshold for leased assets is set at $100,000. The capitalization threshold for SBITAs is set at $60,000.

These assets, with the exception of works of art and historical treasures/collections deemed inexhaustible and land, are depreciated/amortized using the straight-line method over their estimated useful lives, which range from 1+ to 60 years.

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plans' fiduciary net positions have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

Other Postemployment Benefits

For purposes of measuring the net other postemployment benefits (OPEB) liability, as well as deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the Closed Employee Group OPEB Plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the State of Tennessee Postemployment Benefits Trust. For this purpose, benefits are recognized when due and payable in accordance with the benefit terms of the Closed Employee Group OPEB Plan. Investments are reported at fair value.

Net Position

The university's net position is classified as follows:

Net investment in capital assets – This represents the university's total investment in capital assets, net of accumulated depreciation and net of outstanding debt obligations and deferred outflows/inflows of resources 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 net investment in capital assets.

Nonexpendable restricted net position – Nonexpendable restricted net position consists 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 position – Expendable restricted net position includes resources that the university is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

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

Note 2. Cash and Cash Equivalents

In addition to demand deposits and petty cash on hand, this classification includes instruments that are readily convertible to known amounts of cash and that have original maturities of three months or less. At June 30, 2023, cash and cash equivalents consisted of $7,967,122.27 in bank accounts; $55,000 of petty cash on hand; $6,900 of gift cards on hand; $216,253,983.72 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, and $990,455.82 in LGIP deposits for capital projects.

The LGIP is administered by the State Treasurer. The LGIP is part of the State Pooled Investment Fund and is measured at amortized cost. LGIP investments are not rated by nationally recognized statistical ratings organizations. The fund's required risk disclosures are presented in the financial statements for the State Pooled Investment Fund. That report is available on the state's website at https://treasury.tn.gov/Explore-Your-TN-Treasury/About-the-Treasury/Department-Reports.

LGIP deposits for capital projects – Payments related to the university's capital projects are made by the State of Tennessee's Department of Finance and Administration. The university's estimated local share of the cost of each project is held in a separate LGIP account. As expenses are incurred, funds are withdrawn from the LGIP account by the system 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 system releases any remaining funds.

Note 3. Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended, and GASB Statement 72, *Fair Value Measurement and Application*, as amended, investments are reported at fair value, including those with a maturity date of one year or less at the time of purchase, unless otherwise noted.

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.

At June 30, 2023, the university had the following debt investments and maturities:

		Investment Maturities (in Years)	
Investment Type	Fair Value	Less than 1	1 to 5
U.S. agencies	$ 59,488,292	$ 26,660,820	$ 32,827,472
Total debt investments	$ 59,488,292	$ 26,660,820	$ 32,827,472

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. Securities are rated by Standard and Poor's, Moody's Investors Service, and/or Fitch Ratings and are presented below using the Standard and Poor's rating scale.

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

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

At June 30, 2023, the university's investments were rated as follows:

		Credit Quality Rating	
Investment Type	Fair Value	AA	Unrated
LGIP (amortized cost)	$ 217,244,439.54	$ -	$ 217,244,439.54
U.S. Agency obligations	59,488,292.00	59,488,292.00	-
Total	$ 276,732,731.54	$ 59,488,292.00	$ 217,244,439.54

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the university's investment in a single issuer. Tennessee Board of Regents policy restricts investments in bankers' acceptances, commercial paper, and money market mutual funds. The policy limits bankers' acceptances to not exceed 20% of the total investments on the date of acquisition and limits the combined amount of bankers' acceptances and commercial paper to not exceed 35% of the total investments at the date of acquisition. The amount invested in any one bank shall not exceed 5% of total investments on the date of acquisition. Additionally, no more than 5% of total investments at the date of acquisition may be invested in the commercial paper of a single issuer. The policy further limits the total holdings of an issuer's commercial paper to not more than 2% of the issuing corporation's total outstanding commercial paper. Tennessee Board of Regents policy limits investments in money market mutual funds to not exceed 10% of total investments on the date of acquisition.

More than 5% of the university's investments were invested in the following single issuers:

Issuer	Percentage of Total Investments
Federal Home Loan Mortgage Corporation (FHLMC) obligations	16%
Federal Farm Credit Bank (FFCB) obligations	40%
Federal National Mortgage Association (FNMA) obligations	15%
Federal Home Loan Bank (FHLB) obligations	29%

Note 4. Fair Value Measurement

The university categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The university has the following recurring fair value measurements:

Assets by fair value level	June 30, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)
Debt securities:		
U.S. agencies	$ 59,488,292	$ 59,488,292
Total debt securities	59,488,292	59,488,292
Total assets at fair value	$ 59,488,292	$ 59,488,292

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Note 5. Receivables

Receivables included the following:

		June 30, 2023
Student accounts receivable	$	6,606,925.78
Grants receivable		11,232,699.79
Notes receivable		416,719.06
Clinic receivables		1,347,316.29
Leases receivable		252,610.80
Medical resident participation agreement receivable		4,309,744.24
Other receivables		2,396,681.00
Subtotal		26,562,696.96
Less allowance for doubtful accounts		2,069,481.26
Total receivables	$	24,493,215.70

Federal Perkins Loan Program funds included the following:

		June 30, 2023
Perkins loans receivable	$	968,879.58
Less allowance for doubtful accounts		71,103.69
Total	$	897,775.89

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2023, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 19,381,320.07	$ -	$ -	$ -	$ 19,381,320.07
Land improvements and infrastructure	81,001,993.77	-	1,613,594.55	-	82,615,588.32
Buildings	532,097,466.72	181,295.00	5,520,522.19	-	537,799,283.91
Equipment	47,364,602.60	2,571,414.12	-	3,280,443.57	46,655,573.15
Library holdings	539,101.75	27,592.25	-	59,838.27	506,855.73
Art and historical treasures	23,500.00	-	-	-	23,500.00
Intangible assets					
Software	5,242,145.81	-	-	-	5,242,145.81
Right-to-use – buildings	1,505,800.11	-	-	431,346.02	1,074,454.09
SBITA assets - software	3,100,957.31	145,782.82	-	-	3,246,740.13
Subscription asset-development in progress	-	6,355,002.41	-	-	6,355,002.41
Projects in progress	25,948,593.93	24,442,130.43	(7,134,116.74)	-	43,256,607.62
Total	716,205,482.07	33,723,217.03	-	3,771,627.86	746,157,071.24
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	44,762,780.82	3,329,737.89	-	-	48,092,518.71
Buildings	217,003,782.43	10,934,863.85	-	-	227,938,646.28
Equipment	35,902,558.49	2,476,060.22	-	3,204,634.02	35,173,984.69
Library holdings	304,361.82	50,685.59	-	59,838.27	295,209.14
Intangible assets					
Software	4,756,898.78	80,874.50	-	-	4,837,773.28
Right-to-use – buildings	229,267.79	288,080.36	-	122,945.33	394,402.82
SBITA assets - software	-	916,054.15	-	-	916,054.15
Total	302,959,650.13	18,076,356.56	-	3,387,417.62	317,648,589.07
Capital assets, net	$ 413,245,831.94	$ 15,646,860.47	$ -	$ 384,210.24	$ 428,508,482.17

Note 7. Leases

Leases Receivable

The university leases property to a third party, the terms of which expire in the 2029 fiscal year. Revenue recognized under the lease contract during the year ended June 30, 2023, was $49,615.91, which includes both lease revenue and interest.

Lease Liabilities

Lease assets are reported with capital assets, and lease liabilities are reported separately on the statement of net position.

The university has four on-going leases for building space at June 30, 2023, the terms of which expire in various years through 2028.

The following is a schedule by year of payments under the leases as of June 30, 2023:

Year Ending June 30	Principal	Interest	Total
2024	$ 228,495.12	$ 10,059.95	$ 238,555.07
2025	233,078.46	6,039.86	239,118.32
2026	143,100.01	2,474.20	145,574.21
2027	53,286.97	1,132.67	54,419.64
2028	39,953.57	340.74	40,294.31
Total	$ 697,914.13	$ 20,047.42	$ 717,961.55

Note 8. Subscription-based Information Technology Arrangements

Subscription-based Information Technology Arrangements (SBITA) assets are reported with capital assets, and SBITA liabilities are reported separately in the statement of net position.

The university has entered into subscription-based arrangements for various types of software, the terms of which expire in various years through 2027.

SBITA liability activity for the university for the year ended June 30, 2023, is summarized below:

	Beginning Balance	Additions	Remeasurements	Reductions	Ending Balance	Current Portion
SBITA liabilities	$ 3,100,957.31	$ 145,782.82	$ -	$ 1,454,918.49	$ 1,791,821.64	$ 920,396.06

The following is a schedule by year of payments under the subscription arrangements as of June 30, 2023:

Year Ending June 30	Principal	Interest	Total
2024	$ 920,396.06	$ 39,096.12	$ 959,492.18
2025	612,106.47	15,532.17	627,638.64
2026	230,060.94	3,860.03	233,920.97
2027	29,258.17	2.38	29,260.55
Total	$ 1,791,821.64	$ 58,490.70	$ 1,850,312.34

The university has a subscription asset in progress totaling $6,355,002.41 at June 30, 2023. The university is scheduled to begin use of a new Enterprise Resource Planning (ERP) system on July 1, 2024.

Note 9. Accounts Payable

Accounts payable included the following:

	June 30, 2023
Vendors payable	$ 5,635,390.17
Unapplied student payments	126,100.68
Other payables	1,384,514.08
Total accounts payable	$ 7,146,004.93

Note 10. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2023, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Notes	$ 148,423.18	$ -	$ 72,910.38	$ 75,512.80	$ 75,512.80
TSSBA debt:					
Bonds	153,858,743.28	-	9,655,875.95	144,202,867.33	9,477,402.90
Unamortized bond premium	12,985,072.78	-	1,360,118.64	11,624,954.14	-
Subtotal	166,992,239.24	-	11,088,904.97	155,903,334.27	9,552,915.70
Other liabilities:					
Compensated absences	17,759,138.74	2,511,855.50	1,583,845.44	18,687,148.80	3,842,825.28
Due to grantors	3,611,607.13	-	412,937.00	3,198,670.13	-
Subtotal	21,370,745.87	2,511,855.50	1,996,782.44	21,885,818.93	3,842,825.28
Total long-term liabilities	$ 188,362,985.11	$ 2,511,855.50	$ 13,085,687.41	$ 177,789,153.20	$ 13,395,740.98

Notes Payable

The university has a note payable for equipment utilized by the information technology department. The note has an imputed interest rate of 4.13%, a minimum annual debt service of $78,934.28, and a maturity date of June 2024. The balance owed by the university was $75,512.80 on June 30, 2023.

Debt service requirements to maturity for the note payable at June 30, 2023, are as follows:

Year Ending June 30	Principal	Interest	Total
2024	$ 75,512.80	$ 3,421.48	$ 78,934.28
Total	$ 75,512.80	$ 3,421.48	$ 78,934.28

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 0.167% to 5%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2048 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations; see Note 12 for further details.

Debt service requirements to maturity for the university portion of TSSBA bonds at June 30, 2023, are as follows:

Year Ending June 30	Principal	Interest	Total
2024	$ 9,477,402.90	$ 4,315,235.36	$ 13,792,638.26
2025	9,135,896.24	4,007,567.38	13,143,463.62
2026	9,308,247.27	3,694,166.37	13,002,413.64
2027	9,305,969.01	3,404,867.96	12,710,836.97
2028	8,629,889.84	3,146,017.42	11,775,907.26
2029–2033	36,042,234.17	12,478,097.17	48,520,331.34
2034–2038	31,387,084.60	8,238,781.62	39,625,866.22
2039–2043	22,251,892.30	3,899,381.09	26,151,273.39
2044-2048	8,664,251.00	648,866.14	9,313,117.14
Total	$ 144,202,867.33	$ 43,832,980.51	$ 188,035,847.84

TSSBA Debt – Revolving Credit Facility

The Tennessee State School Bond Authority (TSSBA) obtains loans from the revolving credit facility to finance the costs of various capital projects during the construction phase. When projects are placed in service, TSSBA issues long-term, fixed-rate debt to finance the project over its useful payback period and repays the revolving credit facility debt. No loans from the revolving credit facility were outstanding at June 30, 2023.

More detailed information regarding the bonds and revolving credit facility can be found in the notes to the financial statements in the financial report for the TSSBA. That report is available on the state's website at https://www.comptroller.tn.gov/boards/tennessee-state-school-bond-authority/investor-information/tssba-financial-reports.html.

Note 11. Deferred Inflows of Resources Other Than Pensions or OPEB

The university has other deferred inflows of resources related to leased property in which the university is the lessor. The total amount of other deferred inflows of resources was $251,314 at June 30, 2023.

Note 12. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $144,202,867.33 in revenue bonds issued from August 2012 to February 2023 (see Note 10 for further detail). Proceeds from the bonds provided financing for construction and renovation projects. The bonds are payable through 2048. Annual principal and interest payments on the bonds are expected to require 2.79% of available revenues. The total principal and interest remaining to be paid on the bonds at June 30, 2023, is $188,035,847.84. Principal and interest paid for fiscal year 2023 and total available revenues were $11,713,810.86 and $420,031,933.87, respectively.

Note 13. Pension Plans

Defined Benefit Plans

Closed State and Higher Education Employee Pension Plan

General Information About the Pension Plan

Plan description – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent-defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34–37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies.

Benefits provided – Title 8, Chapters 34–37, *Tennessee Code Annotated*, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of member's highest compensation for 5 consecutive years (up to Social Security integration level)	x	1.50%	x	Years of Service Credit	x	105%

Plus:

Average of member's highest compensation for 5 consecutive years (over the Social Security integration level)	x	1.75%	x	Years of Service Credit	x	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with 5 years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest.

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The university's employees are noncontributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by the university for the year ended June 30, 2023, to the Closed State and Higher Education Employee Pension Plan were $8,971,195. Additional contributions of $6,874,032.62 were made to the pension plan by the State of Tennessee on behalf of the university. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability – At June 30, 2023, the university reported a liability of $23,470,097 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The university's proportion of the net pension liability was based on a projection of the university's contributions during the year ended June 30, 2022, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June

30, 2022, measurement date, the university's proportion was 1.970025%. The proportionate share from the prior year's measurement date of June 30, 2021, was 2.050998%.

Pension expense – For the year ended June 30, 2023, the university recognized pension expense of $6,358,884.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2023, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fiscal Year 2023	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 4,540,194.00	$ 1,397,087.00
Net difference between projected and actual earnings on pension plan investments	335,188.00	-
Changes in assumptions	6,367,509.00	-
Changes in proportion of net pension asset	-	1,023,853.00
Contributions subsequent to the measurement date	15,845,227.62	-
Total	$ 27,088,118.62	$ 2,420,940.00

Deferred outflows of resources, resulting from the contributions of $15,845,227.62 subsequent to the measurement date, will be recognized as a reduction in net pension liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2024	$ 4,349,134
2025	$ (19,375)
2026	$ (3,396,739)
2027	$ 7,888,931

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension liability as of the June 30, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.125%

Mortality rates were based on actuarial experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2022, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2016, through June 30, 2020. As a result of the 2020 actuarial experience study, investment and demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2020, actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.25%. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	4.88%	31%
Developed market international equity	5.37%	14%
Emerging market international equity	6.09%	4%
Private equity and strategic lending	6.57%	20%
U.S. fixed income	1.20%	20%

Real estate	4.38%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 6.75% based on a blending of the factors described above.

Discount rate – The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability to changes in the discount rate – The following presents the university's proportionate share of the net pension liability calculated using the discount rate of 6.75%, as well as what the university's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
University's proportionate share of the net pension liability (asset)	$68,846,386	$23,470,097	($14,632,854)

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies.

Payable to the Pension Plan

At June 30, 2023, the university reported a payable of $763,626.39 for the outstanding amount of legally required contributions to the pension plan required for the years then ended.

State and Higher Education Employee Retirement Plan

General Information About the Pension Plan

Plan description – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Pension Plan was closed effective June 30, 2014, and covers employees hired before July 1, 2014. Employees hired after June 30, 2014, are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under Title 8, Chapters 34–37, *Tennessee Code Annotated*.

Benefits provided – Title 8, Chapters 34–37, *Tennessee Code Annotated,* establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and years of service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula multiplying the member's highest 5 consecutive year average compensation by 1% multiplied by the member's years of service credit. A reduced early retirement is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which a member's age and years of service credit total 80. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of their salary to the State and Higher Education Employee Retirement Plan. The higher education institutions make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the State and Higher

Education Employee Retirement Plan are required to be paid. Employer contributions by the university for the year ended June 30, 2023, to the State and Higher Education Employee Retirement Plan were $1,122,758, which is 2.48% of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset – At June 30, 2023, the university reported an asset of $640,008.72 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2022, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The university's proportion of the net pension asset was based on a projection of the university's contributions during the year ended June 30, 2022, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2022, measurement date, the university's proportion was 2.566320%. The proportionate share from the prior year's measurement date of June 30, 2021, was 2.468283%.

Pension expense – For the year ended June 30, 2023, the university recognized a pension expense of $762,175.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2023, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fiscal Year 2023	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 118,181	$ 217,302
Net difference between projected and actual earnings on pension plan investments	196,179	-
Changes in assumptions	534,632	-
Changes in proportion of net pension asset	551	123,214
Contributions subsequent to the measurement date	1,122,758	-
Total	$ 1,972,301	$ 340,516

Deferred outflows of resources, resulting from the university's employer contributions of $1,122,758 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30		
2024	$	30,344
2025	$	35,528
2026	$	2,594
2027	$	332,814
2028	$	47,589
Thereafter	$	60,158

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension liability as of the June 30, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.125%

Mortality rates were based on actual experience, including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2022, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2016, through June 30, 2020. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2020, actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.25%. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	4.88%	31%
Developed market international equity	5.37%	14%
Emerging market international equity	6.09%	4%
Private equity and strategic lending	6.57%	20%
U.S. fixed income	1.20%	20%
Real estate	4.38%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 6.75% based on a blending of the factors described above.

Discount rate – The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension asset to changes in the discount rate – The following presents the university's proportionate share of the net pension asset calculated using the discount rate of 6.75%, as well as what the university's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
University's proportionate share of the net pension liability (asset)	$2,610,789	($640,008.72)	($3,082,005)

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies.

Payable to the Pension Plan

At June 30, 2023, the university reported a payable of $304,685.84 for the outstanding amount of legally required contributions to the pension plan required for the years then ended.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2023, for all state and local government defined benefit pension plans was $7,121,059.

Defined Contribution Plans

Optional Retirement Plans

Plan description – The university contributes to the Optional Retirement Plan (ORP). The ORP, administered by the Tennessee Treasury Department, is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 25, Part 2, *Tennessee Code Annotated*. This statute also sets out the plan provisions. The plan provisions are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

Funding policy – For employees employed prior to July 1, 2014, 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. For employees hired after June 30, 2014, plan members will contribute 5% to the ORP and the university will contribute 9% of the employee's base salary. Pension expense equaled the required contributions made to the ORP and was $8,787,118.21 for the year ended June 30, 2023, and $8,347,375.87 for the year ended June 30, 2022. Contributions met the requirements for each year.

Members are immediately 100% vested in the employer contributions made pursuant to the ORP. The Treasury Department has selected three investment vendors who offer a variety of investment products, and members are responsible for selecting how the contributions are invested. Each member makes the decision when to reallocate future contributions or when to transfer funds from one investment product to another. Funds are held by the investment vendor in the name of the member, not in the name of the State of Tennessee. The State of Tennessee has no discretion over these funds other than to make the initial contributions.

Payable to the plan – At June 30, 2023, the university reported a payable of $77,661.62 for the outstanding amount of legally required contributions to the plan required for the year then ended.

Deferred Compensation Plan

The university, through the State of Tennessee, provides a deferred compensation plan pursuant to the Internal Revenue Code (IRC), Section 401(k). The plan is outsourced to a third-party vendor, and the administrative costs assessed by the vendor of this plan are the responsibility of plan participants. Section 401(k) plan assets remain the property of the contributing employees, and they are not presented in the accompanying financial statements. Section 401(k) establishes participation, contribution, and withdrawal provisions for the plan. The university provides up to a $50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of Public Acts of 2013, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan if they elect to be in the TCRS pension plan. Employees contribute 2% of their salary, with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Employees are immediately vested in both the employee and employer contributions to the plan. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for the plan.

During the year ended June 30, 2023, contributions totaling $5,424,576.29 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $4,618,111.37 for employer contributions. During the year ended June 30, 2022, contributions totaling $5,195,467.05 were made by employees participating in the 401(k) plan, with contributions of $2,992,223.10 made by the university.

At June 30, 2023, the university reported a payable of $887,499.40 for the outstanding amount of legally required contributions to the plan required for the year then ended.

Note 14. Other Employee Benefits

Deferred Compensation Plans

Employees are offered two deferred compensation plans that are not considered pension plans. The university, through the State of Tennessee, provides a plan pursuant to the Internal Revenue Code (IRC), Section 457, and another is administered by the university and was established in accordance with IRS, Section 403(b). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 403(b) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. Sections 403(b) and 457 establish participation, contribution, and withdrawal provisions for the plans.

Note 15. Other Postemployment Benefits

Closed State Employee Group OPEB Plan

General Information About the OPEB Plan

Plan description – Employees of the university who were hired prior to July 1, 2015, and choose coverage, are provided with pre-65 retiree health insurance benefits through the Closed State Employee Group OPEB Plan (EGOP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The employers participating in this plan include the State of Tennessee (primary government), the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee, and the institutions that make up the State University and Community College System. The State of Tennessee Postemployment Benefits Trust (OPEB Trust) was established to accumulate resources to pay for the retiree benefits of EGOP participants. The OPEB Trust prepares a stand-alone financial report that can be found at https://www.tn.gov/finance/rd-doa/opeb22121.html.

Benefits provided – The EGOP is offered to provide health insurance coverage to eligible retired and disabled participants and is the only postemployment benefit provided to eligible pre-65 participants. Benefits are established and amended by an insurance committee created by Section 8-27-201, *Tennessee Code Annotated*. All retirees and disabled employees of the primary government and certain component units, who are eligible and choose coverage, and who have not yet reached the age of 65, are enrolled in this plan. All members have the option of choosing between the premier preferred provider organization (PPO) plan, the standard PPO plan, or the wellness health savings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members receive the same plan benefits as active employees, at a blended premium rate that considers the cost of active and retired employees. This creates an implicit subsidy for the retirees. The retirees' cost is then directly subsidized, by the employers, based on years of service. Therefore, retirees with 30 years of service are subsidized 80%; 20 but less than 30 years, 70%; and less than 20 years, 60%.

Contributions – Annually, an insurance committee, created in accordance with Section 8-27-201, *Tennessee Code Annotated*, establishes the required contributions to the plan by member employees through the premiums established to approximate claims cost for the year. Pre-age 65 retired members of the EGOP pay a premium based on a blended rate that considers the cost of active and retired employees as well as their individual years of service. Therefore, retirees pay either 20%, 30%, 40%, or 100% of the appropriate premium rate. These payments are deposited into the OPEB Trust. Employers contribute to the OPEB Trust based on an actuarially determined contribution (ADC) rate calculated in a manner to meet the funding goals of the state. The total ADC rate for plan employers for the year ended June 30, 2023, was $115.7 million. The university's share of the ADC was $3,063,815 for 2023. For the year ended June 30, 2023, the university contributed $3,063,815 to the OPEB Trust. The Tennessee General Assembly has the authority to change the contribution requirements of the employees participating in the EGOP.

Net OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

Proportionate share – The university's proportionate share of the collective net OPEB liability related to the EGOP was $16,955,369 at June 30, 2023. At the June 30, 2022, measurement date, the university's proportion of the collective net OPEB liability was 2.394901%. The proportion existing at the prior measurement date was 2.379314%. This resulted in a change in proportion of 0.015587% between the current and prior measurement dates. The university's proportion of the collective net OPEB liability was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2022, and a measurement date of June 30, 2022.

OPEB expense – For the year ended June 30, 2023, the university recognized OPEB expense of $879,472.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2023, the university reported deferred outflows of resources and deferred inflows of resources related to OPEB paid by the EGOP from the following sources:

Fiscal Year 2023	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 1,565,088
Net difference between actual and projected investment earnings	996,719	-
Changes in assumptions	852,380	3,735,262
Changes in proportion and differences between benefits paid and proportionate share of benefits paid	2,230,760	1,881,592
Contributions subsequent to the measurement date	3,063,815	-
Total	$ 7,143,674	$ 7,181,942

Deferred outflows of resources, resulting from the university's employer contributions of $3,063,815 subsequent to the measurement date, will be recognized as a decrease in net OPEB liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30	
2024	$ (1,152,681)
2025	$ (1,156,864)
2026	$ (1,130,976)
2027	$ 425,675
Thereafter	$ (87,237)

In the table above, positive amounts will increase OPEB expense, while negative amounts will decrease OPEB expense.

Actuarial assumptions – The collective total OPEB liability in the June 30, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Healthcare cost trend rates	8.37% for 2023, decreasing annually to an ultimate rate of 4.50% for 2030 and later years
Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation, a weighted average has been used with weights derived from the current distribution of members among plans offered.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2022, valuations were the same as those employed in the July 1, 2021, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS) for Group I employees. These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2016, through June 30, 2020. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. For pre-retirement non-disabled general employees, the mortality rates employed in this valuation are taken from the PUB-2010 Headcount-Weighted Employee mortality table projected generationally with MP-2020 from 2010. Post-retirement tables are Headcount-Weighted Below Median Healthy Annuitant and adjusted with a 6% load for males and a 14% load for females, projected generationally from 2010 with MP-2020. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender-distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load, projected generationally from 2018 with MP-2020.

Long-term expected rate of return – The long-term expected rate of return of 6% on OPEB Trust investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Section 8-27-802, *Tennessee Code Annotated*, establishes the responsibility of the trustees to adopt written investment policies authorizing how assets in the OPEB Trust may be invested and reinvested by the State Treasurer. The treasurer may invest trust assets in any security or investment in which the Tennessee Consolidated Retirement System (TCRS) is permitted to invest, provided that investments by the OPEB Trust shall be governed by the investment policies and guidelines adopted by the trustees. Any changes to the investment policy will be the responsibility of the established trustees. The OPEB Trust investment policy target asset allocation and allocation range for each major asset class is summarized in the following table:

Asset Class	Allocation Range Minimum	Allocation Range Maximum	Total Allocation
Equities	25%	80%	53%
Fixed income and short-term securities	20%	50%	25%
Real estate	0%	20%	10%
Private equity and strategic lending	0%	20%	7%
Cash and cash equivalents	0%	25%	5%
			100%

The best estimates of geometric real rates of return for each major asset class included in the target asset allocation as of June 30, 2022, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
U.S. equity	4.89%
Developed market international equity	5.38%
Emerging markets equity	5.97%
U.S. fixed income	2.74%
Real Estate	4.79%
Private equity and strategic lending	5.18%
Cash (government)	1.17%

Discount rate – The discount rate used to measure the total OPEB liability was 6%. This is the same rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the ADC rates. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on these assumptions, the OPEB Trust fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on OPEB Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in assumptions – The medical and drug trend rate assumptions were updated to reflect more recent experience and a change in expected per capita health claims to reflect more recent information as of the measurement date. These changes decreased the liability by 2.57%.

Changes in benefit terms – Tennessee highway patrol members who retire with at least 25 years of service shall receive 80% of the schedule premium, regardless of the date of hire. Also, any commissioned member of the Tennessee Wildlife Resources Agency or Tennessee Bureau of Investigation who retires with at least 25 years of service shall receive 80% of the schedule premium.

Sensitivity of the proportionate share of the collective net OPEB liability to changes in the discount rate – The following presents the university's proportionate share of the collective net OPEB liability of the EGOP, as well as what the proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (5%) or 1 percentage point higher (7%) than the current rate:

	1% Decrease (5%)	Current Discount Rate (6%)	1% Increase (7%)
University's proportionate share of the collective net OPEB liability	$18,886,810	$16,955,369	$15,153,010

Sensitivity of the proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rate – The following presents the university's proportionate share of the collective net OPEB liability of the EGOP, as well as what the proportionate share of the collective net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (7.37% decreasing to 3.5%) or 1 percentage point higher (9.37% decreasing to 5.5%) than the current rate:

	1% Decrease (7.37% decreasing to 3.5%)	Healthcare Cost Trend Rates (8.37% decreasing to 4.5%)	1% Increase (9.37% decreasing to 5.5%)
University's proportionate share of the collective net OPEB liability	$14,506,618	$16,955,369	$19,772,715

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the State of Tennessee's *Annual Comprehensive Financial Report* found at http://www.tn.gov/finance/rd-doa/fa-accfin-ar.html.

Closed Tennessee OPEB Plan

General Information About the OPEB Plan

Plan description – Employees of the university who were hired prior to July 1, 2015, and choose coverage, are provided with post-65 retiree health insurance benefits through the Closed Tennessee OPEB Plan (TNP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be a multiple-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). However, for accounting purposes, this plan will be treated as a single-employer plan. This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The State of Tennessee (primary government), as well as the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee, and the other institutions that make up the State University and Community College System, also participate in this plan. This plan also serves eligible post-65 retirees of employers who participate in the state-administered Teacher Group Insurance and Local Government Group Insurance Plans.

Benefits provided – The TNP is offered to help fill most of the coverage gaps created by Medicare and is the only postemployment benefit provided to eligible post-65 retired and disabled employees of participating employers. This plan does not include pharmacy. In accordance with Section 8-27-209, *Tennessee Code Annotated*, benefits are established and amended by cooperation of insurance committees created by Sections 8-27-201, 301, and 701, *Tennessee Code Annotated*. Retirees and disabled employees of the state, component units, local education agencies, and certain local governments, who have reached the age of 65, are Medicare-eligible, and also receive a benefit from the Tennessee Consolidated Retirement System, may participate in this plan. All plan members receive the same plan benefits at the same premium rates. Many retirees receive direct subsidies toward their premium cost; however, participating employers determine their own policy in this regard. The primary government contributes to the premiums of component unit retirees based on years of service. Therefore, retirees with 30 years of service receive $50 per month; 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25. The university does not provide any subsidies for retirees in the TNP. The primary government paid $164,813 for OPEB as the benefits came due during the fiscal year ended June 30, 2023. This plan is funded on a pay-as-you-go basis, and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement 75.

In accordance with Section 8-27-209, *Tennessee Code Annotated*, the state insurance committees established by Sections 8-27-201, 301, and 701, *Tennessee Code Annotated,* determine the required payments to the plan by member employers and employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs are allocated to plan participants.

Total OPEB Liability and OPEB Expense

Proportionate share – The primary government is entirely responsible for the TNP OPEB liability associated with the university's employees. The primary government's proportionate share of the total OPEB liability associated with the university was $3,824,711 at June 30, 2023. At the June 30, 2022, measurement date, the proportion of the collective total OPEB liability associated with the university was 2.541723%. This represents a change of (0.048292)% from the prior proportion of 2.590015%. The proportion of the collective total OPEB liability associated with the university was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2022, and a measurement date of June 30, 2022.

Actuarial assumptions – The total OPEB liability in the June 30, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Healthcare cost trend rates	The premium subsidies provided to retirees in the Closed Tennessee OPEB Plan are assumed to remain unchanged for the entire projection; therefore, trend rates are not applicable.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2022, valuations were the same as those employed in the July 1, 2021, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS) for Group I employees. These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2016, through June 30, 2020. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. For pre-retirement non-disabled general employees, the mortality rates employed in this valuation are taken from the PUB-2010 Headcount-Weighted Employee mortality table projected generationally with MP-2020 from 2010. Post-retirement tables are Headcount-Weighted Below Median Healthy Annuitant and adjusted with a 6% load for males and a 14% load for females, projected generationally from 2010 with MP-2020. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender-distinct table published in IRS Ruling 96-7 for disabled lives with a 10% load, projected generationally from 2018 with MP-2020.

Discount rate – The discount rate used to measure the total OPEB liability was 3.54%. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Bond Buyer GO 20-Bond Municipal Bond index.

Changes in assumptions – The discount rate was changed from 2.16% to 3.54% as of June 30, 2022. This change in assumption decreased the total OPEB liability by 14.6%.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate – The following presents the primary government's proportionate share of the university's related collective total OPEB liability, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.54%) or 1 percentage point higher (4.54%) than the current rate. The university does not report a proportionate share of the OPEB liability for employees in the TNP.

	1% Decrease (2.54%)	Current Discount Rate (3.54%)	1% Increase (4.54%)
Primary government's proportionate share of the collective total OPEB liability	$4,284,313	$3,824,711	$3,436,195

OPEB expense – For the year ended June 30, 2023, the primary government recognized OPEB expense of $69,976 for employees of the university participating in the TNP.

Total OPEB Expense

The total OPEB expense for the year ended June 30, 2023, was $949,448, which consisted of OPEB expense of $879,472 for the EGOP and $69,976 paid by the primary government for the TNP.

Note 16. Revenues

A summary of adjustments and allowances by revenue classification is presented as follows:

Fiscal Year 2023 Revenue Source	Gross Revenue	Less Scholarship Allowances	Less Uncollectible Debts/Adjustments	Net Revenue
Operating revenues:				
Tuition and fees	$ 163,564,792.93	$ 53,416,340.71	$ 652,883.44	$ 109,495,568.78
Nongovernmental grants and contracts	43,392,965.81	-	45,750.43	43,347,215.38
Sales and services of educational activities	22,869,206.81	-	89,338.30	22,779,868.51
Residential life	15,974,088.25	463,395.40	14,399.39	15,496,293.46
Food services	8,587,765.04	-	6,981.66	8,580,783.38
Other auxiliaries	2,640,353.25	-	(2,871.26)	2,643,224.51
Total	$ 257,029,172.09	$ 53,879,736.11	$ 806,481.96	$ 202,342,954.02

Note 17. Insurance-related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, medical malpractice liability, and workers' compensation. By statute, the maximum liability for general liability, automobile liability, and medical malpractice liability is $300,000 per person and $1,000,000 per occurrence. 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 (RMF). The state self-insures against property and cyber liability losses through the RMF and the State of Tennessee Captive Insurance Company (TCIC). The state purchases commercial insurance for real property and crime and fidelity coverage on the state's officials and employees above the limits of the RMF and TCIC. For property coverage, the deductible for an individual state agency is the first $25,000 to $75,000 of losses based on a tiered deductible system that accounts for averaged losses over a three-year period, and the type of loss. The RMF is responsible for property losses of $2.5 million per occurrence for all perils. The TCIC is responsible for property losses in excess of the RMF limits up to an annual aggregate of $25 million. Purchased insurance coverage is responsible for losses exceeding these limits to the maximum insurance coverage of $600 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in the New Madrid Zone. For cyber coverage, the RMF is responsible for $1.5 million per occurrence. The TCIC is responsible for losses in excess of the RMF limits up to an aggregate of $10 million. Settled claims resulting from these risks have not exceeded maximum commercial insurance coverage in any of the three past fiscal years.

The university participates in the RMF. 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. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2023, is presented in Tennessee's *Annual Comprehensive Financial Report,* which is available on the state's website at https://www.tn.gov/finance/rd-doa/fa-accfin-ar.html. At June 30, 2023, the Risk Management Fund held $254 million in cash designated for payment of claims.

At June 30, 2023, the scheduled coverage for the university was $1,301,406,739 for buildings and $198,028,200 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, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

Note 18. Commitments and Contingencies

Sick Leave

The university records the cost of sick leave when paid. The dollar amount of unused sick leave was $74,633,194.98 at June 30, 2023.

Construction in Progress

At June 30, 2023, outstanding commitments under construction contracts totaled $13,382,716.24, of which $48,935.96 will be funded by future state capital outlay appropriations

Litigation

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

Note 19. Chairs of Excellence

The university had $37,775,154.65 on deposit at June 30, 2023, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in these financial statements.

Note 20. Natural Classification With Functional Classifications

The university's operating expenses for the year ended June 30, 2023, are as follows:

Functional Classification	Natural Classification					
	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 113,348,150.37	$ 39,002,528.07	$ 23,397,521.99	$ -	$ -	$ 175,748,200.43
Research	12,450,923.32	3,681,456.72	6,874,189.07	-	-	23,006,569.11
Public service	23,593,133.27	8,113,665.52	19,338,032.67	-	-	51,044,831.46
Academic support	21,266,450.73	8,454,118.41	5,814,041.26	-	-	35,534,610.40
Student services	16,848,071.38	6,883,973.32	9,193,485.22	-	-	32,925,529.92
Institutional support	18,491,369.43	6,842,652.51	3,886,585.17	-	-	29,220,607.11
Maintenance and operation	8,435,046.61	3,915,198.71	18,255,727.20	-	-	30,605,972.52
Scholarships and fellowships	6,201.09	8,055.00	10,380.38	22,103,929.29	-	22,128,565.76
Auxiliary	2,567,759.08	1,027,493.36	14,397,040.11	-	-	17,992,292.55
Depreciation	-	-	-	-	18,076,356.56	18,076,356.56
Total	$ 217,007,105.28	$ 77,929,141.62	$ 101,167,003.07	$ 22,103,929.29	$ 18,076,356.56	$ 436,283,535.82

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling $772,273.85 for the year ended June 30, 2023, were reallocated from academic support to the other functional areas.

Note 21. Affiliated Entity Not Included

The East Tennessee State University Research Foundation is a private, nonprofit foundation with the university as the sole beneficiary. The Research Foundation is controlled by a board independent of the university. The financial records, investments, and other financial transactions are handled external to the university, and these amounts are not included in the university's financial report. As reported in the foundation's most recently audited financial report, at June 30, 2023, the assets of the foundation totaled $942,802, liabilities were $17,898, and the net position amounted to $924,904.

Note 22. On-behalf Payments

During the year ended June 30, 2023, the State of Tennessee made payments of $164,813 on behalf of the university for retirees participating in the Closed Tennessee OPEB Plan. The Closed Tennessee OPEB Plan is a postemployment benefit healthcare plan and is discussed further in Note 15. The plan is reported in Tennessee's *Annual Comprehensive Financial Report*, which is available on the state's website at https://www.tn.gov/finance/rd-doa/fa-accfin-ar.html.

The State of Tennessee also made payments of $6,874,032.62 on behalf of the university for retirees participating in the Closed State and Higher Education Employee Pension Plan. The Closed State and Higher Education Employee Pension Plan is a defined benefit pension plan with membership in the Tennessee Consolidated Retirement System and is discussed further in Note 13. The TCRS issues a publicly available financial report that can be obtained at https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies.

Note 23. Voluntary Retirement Incentive

The university's Gatton College of Pharmacy implemented a Voluntary Faculty Buyout Program as a strategy to assist the college in addressing declining revenue from decreased enrollment over the past few years. The college had five employees participate in the Voluntary Faculty Buyout Program.

Employees participating in the Voluntary Faculty Buyout Program were provided a one-time lump sum payout equivalent to 100% of base salary, plus one year of the university portion of the employee's health insurance election, plus the employee' next longevity payment, and payment for any unused annual leave up to the maximum allowed by law if separated by October 31, 2022. Eligible employees were faculty members with at least seven years of employment at East Tennessee State University as of the separation date.

As of June 30, 2023, expenditures for lump sum payouts for the Voluntary Faculty Buyout Program were $852,919.79 and were paid out in fiscal year 2023.

Note 24. 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 21-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, 2023, the foundation made distributions of $4,991,738.56 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Ms. Christina Graham, ETSU Chief Financial Officer, P.O. Box 70601, Johnson City, TN 37614.

Cash and Cash Equivalents

In addition to demand deposits and petty cash on hand, this classification includes instruments that are readily convertible to known amounts of cash and that have original maturities of three months or less. At June 30, 2023, cash and cash equivalents consisted of $930,720 in bank accounts; $15,795,730 in the Local Government Investment Pool (LGIP) administered by the State Treasurer; and $918,589 in cash held by others.

The LGIP is administered by the State Treasurer and is measured at amortized cost. The LGIP is part of the State Pooled Investment Fund. The fund's required risk disclosures are presented in the financial statements for the State Pooled Investment Fund. That report is available on the state's website at https://treasury.tn.gov/Explore-Your-TN-Treasury/About-the-Treasury/Department-Reports.

Investments

The foundation is authorized to invest funds in accordance with its board of directors' policies. In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended, and GASB Statement 72, *Fair Value Measurement and*

Application, as amended, investments are reported at fair value, including those with a maturity date of one year or less at the time of purchase, unless otherwise noted. All investments are valued at fair value except insurance contracts, which are valued at cash surrender value. The foundation is authorized to invest funds in accordance with its board of directors' policies.

As of June 30, 2023, the foundation had the following fixed income investments and maturities.

Investment Type	Reported Value	Less than 1	1 to 5	6 to 10	More than 10	Unknown
U.S. government obligations	$ 5,607,309.00	$ -	$ 4,610,618	$ 996,691	$ -	$ -
U.S. agency obligations	1,514,791	-	1,514,791	-	-	-
Corporate bonds	11,079,734	149,100	5,260,180	4,822,854	847,600	-
Bond mutual funds	13,011,775	-	7,638,336	4,833,730	87,020	452,689
Total debt investments	$31,213,609	$149,100	$ 19,023,925	$10,653,275	$934,620	$452,689
Non-fixed income investments						
Equity mutual funds	88,797,490					
Balanced asset fund	6,106,789					
Cash surrender value of life insurance	400,499					
Total investments	$126,518,387					

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 the exposure to interest rate risk, the foundation will set limits regarding the weighted average maturity for each direct investment pool. In the case of 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 Investor Service, and/or Fitch Ratings and are presented below using the Standard and Poor's rating scale. The foundation's policy is that positions in debt securities owned by the foundation should not be below investment grade, and the foundation's investment advisors have discretion to invest in bond funds that they deem appropriate for the foundation's investment portfolio.

At June 30, 2023, the foundation's investments were rated as follows:

		Credit Quality Rating				
Investment Type	Reported Value	AAA	AA	A	BBB or Less	Unrated
LGIP	$15,795,730	$ -	$ -	$ -	$ -	$15,795,730
U.S. government obligations	5,607,309	-	5,607,309	-	-	-
U.S. agency obligations	1,514,791	-	1,514,791	-	-	-

Corporate bonds	11,079,734	335,015	141,384	6,078,727	4,524,608	-
Bond mutual funds	13,011,775	3,681,939	-	-	9,020,764	309,072
Total	$47,009,339	$4,016,954	$7,263,484	$6,078,727	$13,545,372	$16,104,802

Custodial credit risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The foundation does not have a policy for custodial credit risk. At June 30, 2023, the foundation had $126,117,888 of uninsured and unregistered investments for which the securities are held by the counterparty.

Investments of the foundation's endowment and similar funds are composed of the following at June 30, 2023:

	Reported Value
U.S. government obligations	$5,158,725
U.S. agency obligations	1,393,607
Corporate bonds	10,193,355
Pooled investment vehicles	78,060,941
Balanced asset fund	6,106,789
Deposits held by others	918,588
Total	$101,832,005

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 March 31, 2023, each having a fair value of $1.0961648602, 82,188,950 units were owned by permanent endowments, and 4,460,981 units were owned by quasi-endowments.

The following tabulations summarize changes in relationships between cost and fair values of the pooled assets for the year ended June 30, 2023:

	Pooled Assets			
	Fair Value	Cost	Net Gains (Losses)	Fair Value Per Unit
End of year	$126,117,888	$115,557,724	$ 10,560,164	$1.0961648602
Beginning of year	$102,346,067	$102,968,946	(622,879)	$1.1704668948
Unrealized net gains			11,183,043	
Realized net gains			(623,678)	
Total net gains			$10,559,365	

The average annual earnings per unit, exclusive of net gains, were $0.036 for the year ended June 30, 2023.

Fair Value Measurement

The foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The foundation has the following recurring fair value measurements as of June 30, 2023:

	June 30, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at the Net Asset Value (NAV)
Investments by fair value level:					
Debt securities:					
U.S. government obligations	$ 5,607,309	$ 5,607,309	$ -	$ -	$ -
U.S. agency obligations	1,514,791	1,514,791	-	-	-
Corporate bonds	11,079,734	11,079,734	-	-	-
Bond mutual funds	13,011,775	-	-	-	13,011,775
Total debt securities	$ 31,213,609	$ 18,201,834	$ -	$ -	$ 13,011,775
Other investments:					
Equity mutual funds	88,797,490	-	-	-	88,797,490
Balanced asset fund	6,106,789	-	-	-	6,106,789
Total other investments	94,904,279	-	-	-	94,904,279
Total investments at fair value	$ 126,117,888	$ 18,201,834	$ -	$ -	$ 107,916,054

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

The valuation method for assets measured at the net asset value per share (or its equivalent) is presented on the following table.

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Assets Measured at the NAV				
Bond mutual funds	$13,011,775	$ -	Daily	None
Equity mutual funds	88,797,490	-	Daily	None
Balanced asset fund	6,106,789	-	Daily	None

The above assets are valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

Pledges Receivable

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

		June 30, 2023
Current pledges	$	1,305,816
Pledges due in one to five years		1,004,810
Subtotal		2,310,626
Less allowance for doubtful accounts		(36,082)
Less discount to net present value		(43,274)
Total pledges receivable, net	$	2,231,270

Capital Assets

Capital asset activity for the year ended June 30, 2023, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 2,421,900	$ -	$ -	$ -	$ 2,421,900
Leasehold improvements	755,869	-	-	-	755,869
Buildings	4,468,284	-	-	-	4,468,284
Right to use - buildings	2,689,048	-	-	-	2,689,048
Other assets	12,000	-	-	-	12,000
Projects in progress	55,125	73,500	-	-	128,625
Total	10,402,226	73,500	-	-	10,475,726
Less accumulated depreciation/amortization:					
Leasehold improvements	200,033	99,553	-	-	299,586
Buildings	111,707	223,414	-	-	335,121
Right to use - buildings	89,635	98,694	-	-	188,329
Total	401,375	421,661	-	-	823,036
Capital assets, net	$ 10,000,851	$ (348,161)	$ -	$ -	$ 9,652,690

In 2022, the foundation implemented the guidance in GASB Statement 87, *Leases*, and recognized the value of a building leased for the foundation's operations.

The foundation had leased space in a building from R & G Ventures, GP, to use as a headquarters for the foundation's advancement department. The lease went into effect on January 31, 2021, and will continue until January 31, 2028. The foundation plans to exercise the purchase option at the end of the initial lease term for $1,900,000. The intangible right-to-use asset is being amortized over 30 years, the term of the foundation's standard depreciable life for buildings and leasehold improvements.

Leases

Leases receivable – The foundation, as a lessor, has entered into lease agreements involving building space of a property acquired by the foundation on December 6, 2021. The property is leased to various businesses for their operations under leases with renewal options which expire in various years through 2052. Minimum annual rental payments increase with the exercise of lease renewal options. Additionally, certain lease agreements include additional rental payments for allocated common area maintenance and rental payments equal to a percentage of the lessee's gross sales. These additional payments are not included in the measurement of the lease receivable because they are not fixed in substance. The total amount of inflows of resources, including lease revenue, interest revenue, and other lease-related inflows recognized during the fiscal year was $818,349. This total includes $145,986 of variable and other payments not previously included in the measurement of the lease receivable. The total amount of lease-related deferred inflows of resources at June 30, 2023, was $3,167,819.

Lease liabilities – The foundation, as a lessee, has entered into a lease agreement with R&G Ventures, GP, for space in the Model Mill Building to be used as a headquarters for the foundation's advancement department. The lease went into effect on January 31, 2021, and will continue until January 31, 2028, with renewal options for three separate successive terms of five years. The lease also includes a purchase option for $1,900,000 eligible any period subsequent to the initial lease term. The lease requires minimum monthly lease payments of $13,333, plus charges for additional rent. The foundation will continue making payments on the lease until the end of the initial rental period at which point the foundation is reasonably certain to exercise the purchase option. For purposes of discounting future payments on the lease, the foundation used its estimated incremental borrowing rate of 1.75%.

The following is a schedule by year of payments under this lease as of June 30, 2023:

Year Ending June 30		Principal		Interest		Total
2024	$	118,029	$	41,967	$	159,996
2025		120,226		39,770		159,996
2026		122,347		37,649		159,996
2027		124,505		35,491		159,996
2028		1,960,208		19,790		1,979,998
Total	$	2,445,315	$	174,667	$	2,619,982

Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2023, was as follows:

		Beginning Balance		Additions		Reductions		Ending Balance		Current Portion
Payables:										
Notes	$	3,350,576	$	-	$	141,365	$	3,209,211	$	143,839
Total long-term liabilities	$	3,350,576	$	-	$	141,365	$	3,209,211	$	143,839

Notes payable – The foundation's long-term debt consists of a note payable entered into to finance the purchase of University Plaza. The note issued on December 6, 2021, bears interest at 1.75% with principal and interest payments due in annual installments of $200,000. The note matures on December 6, 2041, and is secured by real estate. The balance owed by the foundation was $3,209,211 at June 30, 2023.

Debt service requirements to maturity for the note payable at June 30, 2023, are as follows:

Year Ending June 30		Principal		Interest		Total
2024	$	143,839	$	56,161	$	200,000
2025		146,356		53,644		200,000
2026		148,917		51,083		200,000
2027		151,523		48,477		200,000
2028		154,175		45,825		200,000
Thereafter		2,464,401		335,599		2,800,000
Total	$	3,209,211	$	590,789	$	3,800,000

Endowments

The ETSU Foundation's endowment consists of 675 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. As required by generally accepted accounting principles, net position associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

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

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

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

At June 30, 2023, net appreciation of $13,723,924 is available to be spent, of which $8,706,252 is included in restricted net position expendable for scholarships and fellowships, $130,122 is included in restricted net position expendable for research, $1,102,475 is included in restricted net position expendable for instructional department uses, and $3,785,075 is included in restricted net position 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 education programs. The 13-member board of MEAC is self-perpetuating and consists of the department chairs from Quillen College of Medicine, a representative from East Tennessee State University's Office of the President, a representative from the East Tennessee State University Board of Trustees, and three 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, 2023, MEAC made distributions of $2,221,140 to or on behalf of ETSU or the ETSU Foundation for both restricted and unrestricted purposes. Complete financial statements for MEAC can be obtained from Russell Lewis, Chief Executive Officer, P.O. Box 699, Mountain Home, TN 37684.

Cash

At June 30, 2023, cash consisted of $8,832,523 in bank accounts, $2,550 of petty cash on hand, and $2,303,752 in the Local Government Investment Pool (LGIP) administered by the State Treasurer.

The LGIP is administered by the State Treasurer and is measured at amortized cost. The LGIP is part of the State Pooled Investment Fund. The fund's required risk disclosures are presented in the financial statements for the State Pooled Investment Fund. That report is available on the state's website at https://treasury.tn.gov/Explore-Your-TN-Treasury/About-the-Treasury/Department-Reports.

Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, as amended, and GASB Statement 72, *Fair Value Measurement and Application,* as amended, investments are reported at fair value, including those with a maturity date of one year or less at the time of purchase, unless otherwise noted. The corporation is authorized to invest funds in accordance with its board of directors' policies. The corporation's investments at June 30, 2023, consisted of $13,900,037 of certificates of deposit reported at cost and $7,832,295 of U.S. agency obligations reported at fair value. The certificates of deposit and U.S. agency obligations had original maturities greater than three months.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. MEAC 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.

At June 30, 2023, MEAC had the following debt investments and maturities:

		Investment Maturities (in Years)	
Investment Type	Fair Value	Less than 1	1 to 5
U.S. agency obligations	$ 7,832,295	$ -	$ 7,832,295
Total debt investments	$ 7,832,295	$ -	$ 7,832,295

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Securities are rated below using the Standard and Poor's rating scale. MEAC has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations.

At June 30, 2023, the corporation's investments were rated as follows:

Investment Type	Balance	Credit Quality Rating AA	Unrated
LGIP (amortized cost)	$ 2,303,752	$ -	$ 2,303,752
U.S. agency obligations	7,832,295	7,832,295	-

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the corporation's investment in a single issuer. The corporation places no limit on the amount it may invest in any one issuer.

At June 30, 2023, more than 5% of the corporation's investments were invested in the following single issuers:

Issuer	Percentage of Total Investments
Federal Home Loan Bank (FHLB) obligations	49.7%
Federal Farm Credit Bank (FCCB) obligations	12.5%
Federal Home Loan Mortgage Corporation (FHLMC) obligations	37.7%

Fair Value Measurement

MEAC categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. MEAC has the following recurring fair value measurements as of June 30, 2023:

	June 30, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at the Net Asset Value (NAV)
Assets by fair value level:					
Debt securities:					
U.S. agency obligations	$ 7,832,295	$ -	$ 7,832,295	$ -	$ -
Total debt securities	$ 7,832,295	$ -	$ 7,832,295	$ -	$ -

Receivables

Receivables at June 30, 2023, included the following:

Patient accounts receivable, net	$3,291,090
Leases receivable	1,173,095
Other receivables	3,924,799
Total	$8,388,984

Capital Assets

Capital asset activity for the year ended June 30, 2023, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 408,450	$ -	$ -	$ -	$ 408,450
Leasehold improvements	769,706	-	-	142,826	626,880
Buildings	5,260,759	283,188	-	-	5,543,947
Equipment	4,557,201	417,490	-	98,860	4,875,831
Intangible assets:					
Right-to-use - vehicles	11,227	-	-	-	11,227
Right-to-use - buildings	3,346,350	960,768	-	-	4,307,118
Right-to-use - equipment	777,888	-	-	-	777,888
SBITA assets - software	-	3,514,645	-	-	3,514,645
Total	15,131,581	5,176,091	-	241,686	20,065,986
Less accumulated depreciation/amortization:					
Leasehold improvements	769,072	632	-	142,824	626,880
Buildings	1,270,635	235,689	-	-	1,506,324
Equipment	3,877,732	298,168	-	93,453	4,082,447
Intangible assets:					
Right-to-use - leased assets	1,689,258	486,965	-	-	2,176,223
SBITA assets - software	-	1,404,114	-	-	1,404,114
Total	7,606,697	2,425,568	-	236,277	9,795,988
Capital assets, net	$ 7,524,884	$ 2,750,523	$ -	$ 5,409	$ 10,269,998

In 2008, MEAC entered into an agreement to lease a clinical education building from the university for 30 years at a rate equivalent to the cost of construction of the building, which was $2,942,254. The entire lease obligation was paid in 2009 upon the completion of construction. Because there is no remaining obligation, no lease liability has been reported by MEAC, and no lease receivable has been reported by the university. Title can never pass to MEAC as the building was built on state property. The amount is reported above in right to use assets – buildings above.

Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2023, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$ 667,149	$ -	$ 50,488	$ 616,661	$123,332
Total long-term liabilities	$ 667,149	$ -	$ 50,488	$ 616,661	$123,332

Leases

Leases receivable – MEAC leases real property to East Tennessee State University. The two leases call for monthly payments averaging $12,844 through 2028. The lease receivables have been measured using a discount rate of 4%. Revenue recognized under these lease contracts during the year ended June 30, 2023, was $158,635, which includes both lease revenue and interest.

Lease liability – MEAC leases facilities and equipment under long-term lease agreements. In accordance with GASB Statement 87, *Leases*, MEAC has recognized an intangible right-to-use lease asset and a lease liability for any item with a lease agreement that is longer than one year and has a net present value of lease payments greater than $5,000. Monthly principal and interest payments under these leases range from $115 to $3,424. No leases have a stated interest rate, and therefore, MEAC used its estimated incremental borrowing rate of 4% to impute interest.

The following is a schedule by year of payments under the leases as of June 30, 2023:

Year Ending June 30	Principal	Interest	Total
2024	$ 475,370	$ 39,895	$ 515,265
2025	311,525	28,409	339,934
2026	234,514	21,703	256,217
2027	200,997	16,558	217,555
2028	173,739	10,568	184,307
Total	$ 1,396,145	$ 117,133	$ 1,513,278

Subscription-based Information Technology Arrangement ("SBITA") Liability

MEAC has entered into subscription-based arrangements for various types of software, the terms of which expire in various years through 2025. Variable payments of certain SBITAs are based upon billing information and number of seats. Terms and conditions of variable payments include that if the percentage of collections fee does not meet or exceed the monthly minimum, MEAC will be invoiced for the monthly minimum as set forth in the agreement. Variable payments are not included in the SBITA liability because they are not fixed in substance. During the year ended June 30, 2023, MEAC recognized $104,767 of operating expense for the variable payments not previously included in the measurement of the subscription liability.

The following is a schedule by year of payments under the subscription arrangements as of June 30, 2023:

Year Ending June 30	Principal	Interest	Total
2024	$ 1,417,618	$ 60,379	$ 1,477,997
2025	734,903	9,596	744,499
Total	$ 2,152,521	$ 69,975	$ 2,222,496

EAST TENNESSEE STATE UNIVERSITY
Required Supplementary Information
Schedule of East Tennessee State University's Proportionate Share of the Net Pension Liability (Asset)
Closed State and Higher Education Employee Pension Plan Within TCRS

	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2023	1.970025%	$ 23,470,097	$ 41,091,224	57.12%	93.80%
2022	2.050998%	(12,548,992)	43,290,288	28.99%	103.30%
2021	2.147389%	35,180,898	47,530,893	74.02%	90.58%
2020	2.153601%	30,412,385	48,552,102	62.64%	91.67%
2019	2.184743%	35,292,595	50,556,513	69.81%	90.26%
2018	2.113662%	37,826,081	50,712,584	74.59%	88.88%
2017	2.121410%	38,706,509	51,794,799	74.73%	87.96%
2016	2.069473%	26,681,350	54,038,562	49.37%	91.26%
2015	2.041149%	14,082,883	55,762,565	25.26%	95.11%

1) To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information is available.

EAST TENNESSEE STATE UNIVERSITY
Required Supplementary Information
Schedule of East Tennessee State University's Proportionate Share of the Net Pension Asset
State and Higher Education Employee Retirement Plan Within TCRS

	Proportion of the Net Pension Asset	Proportionate Share of the Net Pension Asset	Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2023	2.566320%	$ 640,009	$ 37,448,653	1.71%	104.81%
2022	2.468283%	2,091,784	31,251,008	6.69%	121.71%
2021	2.431720%	856,288	27,834,900	3.08%	112.90%
2020	2.336161%	968,981	21,915,711	4.42%	122.36%
2019	2.197890%	847,796	16,399,694	5.17%	132.39%
2018	2.094340%	434,336	11,157,589	3.89%	131.51%
2017	2.054754%	173,103	6,330,672	2.73%	130.56%
2016	2.184792%	60,758	2,379,157	2.55%	142.55%

1) To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information is available.

EAST TENNESSEE STATE UNIVERSITY
Required Supplementary Information
Schedule of East Tennessee State University's Contributions
Closed State and Higher Education
Employee Pension Plan Within TCRS

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a Percentage of Covered Payroll
2023	$ 8,971,195	$ 15,845,228	$ (6,874,033)	$ 41,012,864	38.63%
2022	8,423,702	13,348,765	(4,925,063)	41,091,224	32.49%
2021	8,757,445	8,757,445	-	43,290,288	20.23%
2020	9,344,941	9,344,941	-	47,530,893	19.66%
2019	9,337,610	9,337,610	-	48,552,102	19.23%
2018	9,540,014	9,540,014	-	50,556,513	18.87%
2017	7,617,033	7,617,033	-	50,712,584	15.02%
2016	7,784,757	7,784,757	-	51,794,799	15.03%
2015	8,121,767	8,121,767	-	54,038,562	15.03%
2014	8,381,113	8,381,113	-	55,762,565	15.03%

Notes to Schedule:

1) To correspond with the reporting date, the amounts presented were determined as of June 30 of the stated fiscal year.

2) Additional contributions were made to the plan by the State of Tennessee on behalf of the university for the year ended June 30, 2022, and the year ended June 30, 2023.

EAST TENNESSEE STATE UNIVERSITY
Required Supplementary Information
Schedule of East Tennessee State University's Contributions
State and Higher Education
Employee Retirement Plan Within TCRS

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a Percentage of Covered Payroll
2023	$ 1,122,758	$ 1,122,758	$ -	$ 45,282,457	2.48%
2022	696,398	696,398	-	37,448,653	1.86%
2021	562,523	562,523	-	31,251,008	1.80%
2020	481,545	481,545	-	27,834,900	1.73%
2019	363,782	363,782	-	21,915,711	1.66%
2018	630,229	630,229	-	16,399,694	3.84%
2017	430,143	430,143	-	11,157,589	3.86%
2016	244,997	244,997	-	6,330,672	3.87%
2015	92,133	92,133	-	2,379,157	3.87%

Notes to Schedule:

1) This is a 10-year schedule; however, contributions to this plan began in 2015. Years will be added to this schedule in future years until 10 years of information is available.

2) To correspond with the reporting date, the amounts presented were determined as of June 30 of the stated fiscal year.

EAST TENNESSEE STATE UNIVERSITY
Required Supplementary Information
Schedule of East Tennessee State University's Proportionate Share of the Collective Total/Net OPEB Liability
Closed State Employee Group OPEB Plan

	University's Proportion of the Collective Total/Net OPEB Liability	University's Proportionate Share of the Collective Total/Net OPEB Liability	University's Covered-employee Payroll	University's Proportionate Share of the Collective Total/Net OPEB Liability as a Percentage of Its Covered-employee Payroll	OPEB Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2023	2.394901%	$ 16,955,369	$ 76,587,702	22.14%	38.59%
2022	2.379314%	16,965,266	84,894,802	19.98%	38.52%
2021	2.222831%	18,607,300	91,650,802	20.30%	25.21%
2020	2.163110%	20,596,707	97,220,848	21.19%	18.33%
2019	2.204989%	30,544,345	100,835,192	30.29%	N/A
2018	2.056860%	27,614,178	101,025,263	27.33%	N/A

1) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

2) The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

3) During fiscal year 2019, the plan transitioned from a pay-as-you-go OPEB plan to a prefunding arrangement where assets are accumulated in a qualifying trust and benefits are paid from that trust. This change was reflected in the June 30, 2020, reporting period due to the one-year lookback on OPEB measurement.

4) The OPEB liability measured as of June 30, 2019, was measured with a 6% discount rate. This was a significant increase from the rate used in prior years and was due to the OPEB plan's transition from pay-as-you-go funding to a prefunding arrangement through a qualifying trust.

EAST TENNESSEE STATE UNIVERSITY
Required Supplementary Information
Schedule of East Tennessee State University's Contributions
Closed State Employee Group OPEB Plan

	Actuarially Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered-employee Payroll	Contributions as a Percentage of Covered-employee Payroll
2023	$ 3,063,815	$ 3,063,815	$ -	$ 78,756,920	3.89%
2022	3,272,022	3,272,022	-	76,587,702	4.27%
2021	3,529,725	3,529,725	-	84,894,802	4.16%
2020	3,445,774	3,445,774	-	91,650,802	3.76%
2019	2,805,846	2,805,846	-	97,220,848	2.89%

1) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

2) Actuarially determined contribution rates are determined based on valuations as of June 30 two years prior to the fiscal year-end in which the contributions are reported.

EAST TENNESSEE STATE UNIVERSITY
Required Supplementary Information
Schedule of East Tennessee State University's Proportionate Share of the Collective Total OPEB Liability
Closed Tennessee OPEB Plan

	University's Proportion of the Collective Total OPEB Liability	Primary Government's Proportionate Share of the Collective Total OPEB Liability	University's Covered-employee Payroll	University's Proportionate Share of the Collective Total OPEB Liability as a Percentage of Its Covered-employee Payroll
2023	0.00%	$ 3,824,711	$ 98,963,284	0.00%
2022	0.00%	4,603,827	105,450,267	0.00%
2021	0.00%	4,949,937	115,207,941	0.00%
2020	0.00%	4,140,482	120,400,919	0.00%
2019	0.00%	4,261,072	119,545,546	0.00%
2018	0.00%	4,092,142	119,808,196	0.00%

1) There are no assets accumulating in a trust that meets the criteria in paragraph 4 of GASB Statement 75 related to this OPEB plan.

2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

3) The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

4) Change of assumptions: In 2021, the discount rate changed from 3.51% to 2.21%.

Supplementary Information
EAST TENNESSEE STATE UNIVERSITY FOUNDATION
Supplementary Schedule of Cash Flows - Component Unit
For the Year Ended June 30, 2023

		Year Ended June 30, 2023
Cash flows from operating activities		
Gifts and contributions	$	11,061,121.00
Payments to suppliers and vendors		(4,539,054.60)
Payments for scholarships and fellowships		(3,525,683.84)
Payments to or on behalf of ETSU		(4,991,738.56)
Other receipts (payments)		2,564,838.00
Net cash provided by operating activities		569,482.00
Cash flows from noncapital financing activities		
Private gifts for endowment purposes		6,207,923.00
Net cash provided by noncapital financing activities		6,207,923.00
Cash flows from capital and related financing activities		
Purchases of capital assets		(73,500.00)
Principal paid on capital debt		(267,265.00)
Interest paid on capital debt		(102,088.00)
Other capital and related financing receipts (payments)		(350.00)
Net cash used for capital and related financing activities		(443,203.00)
Cash flows from investing activities		
Proceeds from sales and maturities of investments		12,076,792.00
Income on investments		4,244,365.00
Purchases of investments		(25,289,248.00)
Net cash used for investing activities		(8,968,091.00)
Net decrease in cash and cash equivalents		(2,633,889.00)
Cash and cash equivalents - beginning of year		20,278,928.00
Cash and cash equivalents - end of year	$	17,645,039.00
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$	(331,521.00)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Noncash operating expenses		421,661.00
Change in assets, liabilities, and deferrals:		
Receivables, net		1,191,234.00
Prepaid expenses		(88,500.00)
Accounts payable		(421,554.00)
Deferred inflows of resources		(204,430.00)
Other liabilities		2,592.00
Net cash provided by operating activities	$	569,482.00
Noncash investing activities		
Unrealized gains on investments	$	11,183,043.00

Supplementary Information
MEDICAL EDUCATION ASSISTANCE CORPORATION
Supplementary Schedule of Cash Flows - Component Unit
For the Year Ended June 30, 2023

		Year Ended June 30, 2023
Cash flows from operating activities		
Collections from patient charges	$	50,422,572.00
Payments to employees		(35,523,849.00)
Payments for benefits		(3,587,456.00)
Payments to suppliers and vendors		(8,608,436.00)
Other receipts (payments)		2,746,955.00
Net cash provided by operating activities		5,449,786.00
Cash flows from noncapital financing activities		
Contributions to ETSU		(1,963,368.00)
Contributions to ETSU Foundation		(257,772.00)
Net cash used for noncapital financing activities		(2,221,140.00)
Cash flows from capital and related financing activities		
Purchases of capital assets		(708,611.00)
Principal paid on capital debt		(1,745,960.00)
Interest paid on capital debt		(146,058.00)
Net cash used for capital and related financing activities		(2,600,629.00)
Cash flows from investing activities		
Proceeds from sales and maturities of investments		12,063,074.00
Income on investments		427,565.00
Purchases of investments		(24,163,837.00)
Other investing receipts (payments)		250,778.00
Net cash used for investing activities		(11,422,420.00)
Net decrease in cash and cash equivalents		(10,794,403.00)
Cash and cash equivalents - beginning of year		21,933,228.00
Cash and cash equivalents - end of year	$	11,138,825.00
Reconciliation of operating gain to net cash provided by operating activities:		
Operating gain	$	2,684,665.00
Adjustments to reconcile operating gain to net cash provided by operating activities:		
Noncash operating expenses		5,466,632.00
Change in assets, liabilities, and deferrals:		
Receivables, net		(3,503,975.00)
Prepaid expenses		125,282.00
Accounts payable		(100,991.00)
Accrued liabilities		141,614.00
Compensated absences		(50,489.00)
Deposits held in custody for others		(33,258.00)
Other		720,306.00
Net cash provided by operating activities	$	5,449,786.00
Noncash investing, capital, or financing activities		
Unrealized loss on investments	$	(190,603.00)
Acquisition of right-to-use SBITA assets through incurrence of liability	$	3,514,645.00
Acquisition of right-to-use assets through incurrence of lease liability	$	960,768.00

Jason E. Mumpower
Comptroller

Independent Auditor's 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*

The Honorable Bill Lee, Governor
Members of the General Assembly
Dr. Brian Noland, President

We have audited the financial statements of East Tennessee State University, an institution of the State University and Community College System of Tennessee, 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, 2023, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated December 20, 2023. We conducted our audit in accordance with the 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. Our report includes a reference to other auditors who audited the financial statements of East Tennessee State University Foundation and the Medical Education Assistance Corporation, as described in our report on East Tennessee State University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the university's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the university's internal control. Accordingly, we do not express an opinion on the effectiveness of the university's internal control.

Cordell Hull Building | 425 Rep. John Lewis Way N. | Nashville, Tennessee 37243

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified the following deficiency in internal control that we consider to be a material weakness:

- Management needs to improve financial statement preparation and review procedures to prevent errors in its financial statements.

This deficiency is described in the Finding and Recommendation section of this report.

Report on Compliance and Other Matters

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

East Tennessee State University's Response to the Finding

The university's response to the finding identified in our audit is included in the Finding and Recommendation section of this report. The university's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
December 20, 2023

Finding and Recommendation

Finding

Management needs to improve financial statement preparation and review procedures to prevent errors in its financial statements

Condition

East Tennessee State University's (ETSU) procedures for preparing and reviewing its financial statements and the accompanying notes to the financial statements were not adequate to ensure the accuracy, proper classification, and disclosure of information.

Criteria

Management is responsible for the preparation and fair presentation of the university's financial statements and accompanying notes in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal controls relevant to the recording of financial transactions and the preparation and fair presentation of financial statements free of material misstatements.

Section 9-18-102, *Tennessee Code Annotated*, states,

> (a) Each agency of state government and institution of higher education . . . shall establish and maintain internal controls, which shall provide reasonable assurance that:
>
> (1) Obligations and costs are in compliance with applicable law;
>
> (2) Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
>
> (3) Revenues and expenditures are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets.

Cause

Due to unexpected changes in personnel at the end of the period under audit, management incurred a delay in the start and completion of the financial statements. The Associate Vice President for

Financial Services/Comptroller left university employment on July 11, 2023. The new Comptroller assumed the position on August 14, 2023. After the personnel changes, management recognized that the former Associate Vice President had performed most of the financial statement preparation in the past, and staff within the Department of Financial Services had not been fully trained on the year-end process, including how to prepare the financial statements. In addition, errors unrelated to year-end procedures were noted as caused by human error.

Effect

This weakness resulted in the following material reporting errors in the university's 2023 financial statements:

- On the statement of net position, cash and cash equivalents were overstated by $5,878,972.
    - Management did not recognize reductions in Local Government Investment Pool (LGIP) cash restricted for capital projects totaling $4,856,069 in the general ledger. The locally funded expenditure amounts were mistakenly reported as being funded by state capital appropriations. Therefore, cash and capital appropriations were overstated by $4,856,069.
    - We also noted another cash overstatement when reviewing the bank reconciliation totaling $766,862. Management did not report the cash deducted from the bank balance as a reduction in the ledger balance.
    - A third overstatement totaling $256,041 resulted from an error in preparing a journal entry. The journal entry was incorrectly prepared as a part of the bank reconciliation process.
- Capital appropriations were also overstated and accounts payable were understated by $843,964 as other locally funded expenditures not yet withdrawn from restricted LGIP cash were incorrectly reported as being funded by capital appropriations.
- Noncurrent long-term liabilities were overstated by $62,044 and current long-term liabilities were understated by $62,044 due to management reporting the current portion of a note payable liability as noncurrent.
- The noncurrent compensated absences liability was overstated by $475,214, and the current compensated absences liability was understated by $475,214. Management incorrectly used prior year percentages to calculate current and noncurrent compensated absences.
- Contributions to the State and Higher Education Employee Retirement Plan subsequent to the June 30, 2022, measurement date totaling $1,122,758 were reported as fringe benefits instead of deferred outflows related to pensions. This error resulted in an understatement of deferred outflows related to pensions and an overstatement of benefits expense.

- Capital assets were overstated, and utilities, supplies, and other expenses were understated by $1,066,111 as expenses were incorrectly capitalized in the general ledger.
- Management did not identify five subscription-based information technology arrangements (SBITAs) when implementing GASB Statement 96, Subscription-Based Information Technology Arrangements. As a result, capital assets and SBITA liabilities were understated by $940,319 and $928,583, respectively. The statements and associated notes were not corrected, as the university's Chief Financial Officer deemed the amounts immaterial. Because the adjustment was below materiality, our opinion is not modified with respect to this matter.
- In Note 9 to the financial statements, Accounts Payable, vendor payables were overstated by $1,694,255, unapplied student payments were understated by $309,719, and other payables were understated by $1,384,536.
- In Note 10 to the financial statements, Long-term Liabilities, management did not properly report the debt service requirements for its Tennessee State School Bond Authority debt. The requirements for the first four years were reported and then the requirements for the five-year periods thereafter. GASB Codification 1500, paragraph 129, requires disclosure of the "principal and interest requirements to maturity, presented separately, for each of the five subsequent fiscal years and in five-year increments thereafter."
- In Note 18 to the financial statements, Commitments and Contingencies, outstanding commitments under construction contracts were reported at $43,629,898 instead of the correct amount of $13,382,716. The amount to be funded by future capital appropriations was reported as $13,978,351 instead of the correct amount of $48,936.
- In Note 19 to the financial statements, Chairs of Excellence, management overstated the balance on deposit with the State Treasurer by $70,297. Management incorrectly included transactions occurring after the June 30, 2023, fiscal year-end.
- In Note 20 to the financial statements, Natural Classification with Functional Classifications, we noted that management included $4,631,296 of nonoperating interest expense in other operating expenses (utilities, supplies, and other expenses). The note should address only operating expenses.

We recommended correcting entries. Except in one instance as noted above, management agreed to post all entries to the financial statements and notes for the audit report.

Recommendation

The Chief Financial Officer should ensure that staff members accounting for university transactions and preparing the statements have adequate knowledge of reporting requirements to perform their responsibilities and that they perform their duties with appropriate care and attention. The financial statement review process should be thorough enough to detect misstatements such as the ones described above.

Management should ensure staff preparing bank reconciliations are adequately trained. Management should also ensure that staff prepare necessary ledger adjustments at year-end to reflect bank and LGIP transactions not yet reported in the general ledger. Management should carefully review the bank reconciliations and any necessary entries to ensure cash balances are fairly stated.

Management's Comment

ETSU concurs with the finding and recommendation. Management believes this is an isolated incident due to recent turnover in staffing. Management has implemented procedures to train current staff on daily and year-end processes. Both internal and external training measures are being used to ensure all staff have adequate knowledge of reporting requirements to perform their responsibilities and more than one employee can complete most tasks. Standard operating procedures are being documented for all functions to ensure business continuity. Management also added control activities to mitigate the risk of financial statement errors, including adding additional documentation requirements for bank reconciliations, and additional review steps for the financial statements and notes. Automation measures for bank reconciliations are being developed with the implementation of the new ERP system. Management recognizes that some of these financial statement errors outlined in this report were not material errors; however, management will work to implement procedures to improve all errors.