EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES
AUDIT COMMITTEE
APRIL 2022 MEETING

11:30 a.m. – 12 p.m. EDT
Friday
April 22, 2022

East Tennessee Room
D.P. Culp Student Center
412 J.L. Seehorn Road
Johnson City, TN

COMMITTEE MEMBERS

Melissa Steagall-Jones, Committee Chair
Dorothy Grisham
Dr. Linda Latimer
Ron Ramsey

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AGENDA

I. Call to Order

II. Roll Call

III. Approval of the Committee Minutes from February 18, 2022 (2 minutes)

IV. Annual Review of Charters – *Lewis* (3 minutes)
   A. Audit Committee Charter
   B. Internal Audit Charter
   C. Compliance Charter

V. Annual Review of Policies – *Lewis* (2.5 minutes)
   A. Internal Audit Policy
   B. Preventing and Reporting Fraud, Waste, and Abuse Policy

VI. Action Item: Revisions to the FY 2021-2022 Audit Plan – *Lewis* (2.5 minutes)

VII. Audit and Investigations Performed February 2022 through March 2022 – *Lewis* (5 minutes)
   A. Men's Soccer Expenditures
   B. FY 2021 Executive Level Audit
   C. Center of Excellence in STEM Education
   D. Memorandum on Investigations
   E. Completed Audit Heat Map

VIII. Recommendation Log Status as of March 31, 2022 – *Lewis* (2.5 minutes)

IX. Quality Assurance and Improvement Program – *Lewis* (7.5 minutes)

X. Review of Audited Financial Statements from the Comptroller of the Treasury – *Lewis* (5 minutes)

XI. Other Business

XII. Executive Session to Discuss Active Audits and Enterprise Risk Management

XIII. Adjournment

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

ACTION ITEM

DATE:	April 22, 2022
ITEM:	Approval of the Minutes of February 18, 2022
COMMITTEE:	Audit Committee
RECOMMENDED ACTION:	Approve
PRESENTED BY:	Rebecca A. Lewis, CPA Chief Audit Executive

The minutes of the February 18, 2022 meeting of the Audit Committee are included in the meeting materials

MOTION: I move that the Board of Trustees adopt the resolution, approving the minutes as outlined in the meeting materials.

> **RESOLVED: The reading of the minutes of the February 18, 2022 meeting of the Audit Committee is omitted, and the minutes are approved as presented in the meeting materials, provided that the Secretary is authorized to make any necessary edits to correct spelling errors, grammatical errors, format errors, or other technical errors subsequently identified.**

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES
AUDIT COMMITTEE

MINUTES

February 18, 2022
Johnson City, Tennessee

The East Tennessee State University Board of Trustees' Audit Committee met on Friday, February 18, 2022, at 11:30 a.m. in the East Tennessee Room of the D.P. Culp Student Center.

I. Call to Order

Committee Chairperson Melissa Steagall-Jones called the meeting to order at 11:30 a.m.

II. Roll Call

Board Secretary Dr. Adam Green led the roll call and confirmed to the Committee Chair that a quorum was present.

Committee members present were:

Board Chair Dr. Linda Latimer
Trustee Ron Ramsey
Committee Chair Melissa Steagall-Jones
Absent: Trustee Dorothy Grisham

Trustees Charles Allen, Janet Ayers, Steven DeCarlo, Dr. Virginia Foley, Kara Gilliam, and Kelly Wolfe also participated in the meeting.

III. Approval of the Audit Committee Minutes from November 19, 2021

The minutes from November 19, 2021, were approved as submitted, with Board Chair Dr. Linda Latimer making the motion and Trustee Ron Ramsey seconding the motion. The motion passed unanimously.

IV. Revisions to the FY 2021-2022 Audit Plan

Rebecca A. Lewis, CPA, Chief Audit Executive, requested approval for three additions to the FY 2021-2022 Audit Plan.

Additions:

- Men's Soccer – At the request of Administration, due to the head coach's resignation.
- Football – At the request of Administration, due to the head coach's resignation.
- FWA 22-04 – Internal Audit received a possible fraud, waste, or abuse concern. Internal Audit will investigate and/or assign to the appropriate authority.

The revisions to the Audit Plan for FY 2021-2022 were approved as presented in the meeting materials, with Trustee Ron Ramsey making the motion and Board Chair Dr. Linda Latimer seconding the motion.

V. Audit Work Performed November 1, 2021, through January 31, 2022

Between November 1, 2021, and January 31, 2022, Internal Audit completed two audit reports and one investigation. Chief Audit Executive Rebecca A. Lewis, CPA, provided an overview of the audit reports and the investigation.

Ms. Lewis delivered her first audit report on women's basketball spending within the Department of Intercollegiate Athletics in accordance with the Annual Audit Plan. The audit was carried out following the resignation of the Women's Basketball Head Coach. The Coach was discovered to have direct control over one institutional index within the Banner system during the audit. This index's operational and travel expenditures were reviewed and tested for compliance with university policies and procedures. All direct payments to the Coach were chosen for testing, as well as a sample of other indirect expenditures, which included not only travel and miscellaneous operating expenses, but also purchasing card (procard) transactions. Based on the results of the testing, it appears that the Coach's expenditures are in accordance with the applicable University policies and procedures. The audit resulted in no observations or findings, and the audit objectives were met.

The second audit report provided by Ms. Lewis was a financial statement audit for WETS-FM Radio, which was conducted by Internal Audit personnel to determine the fair presentation of the financial statements for FY 2021, as required by the Corporation for Public Broadcasting (CPB). The audit report for WETS-FM Radio was issued with an unmodified opinion. Ms. Lewis stated that the financial statements fairly represented the radio station's financial position as of June 30, 2021, and that the audit objectives were met. A summary of WETS-FM Radio's revenues, expenditures, and changes in net position for the year ending June 30, 2021, and June 30, 2020, was included in the meeting materials.

An investigation into the theft of cash and three iPads from Health Services Management was presented to the Committee by Ms. Lewis. The Mobile Alabama Police Department investigated the incident, and the Office of Internal Audit reviewed internal controls. Internal Audit received notification of a break-in at an employee's apartment in Mobile, Alabama, on June 7, 2021. This employee was working on the Health Services Management's Choose Well Evaluation Project, which was taking place in several adjacent states. The employee had between $80 and $100 of an ETSU petty cash fund stolen during the robbery. On June 14, 2021, Internal Audit was notified that three ETSU iPads were also stolen during the break-in. The iPads were valued at $2,370, according to an asset report provided by Procurement and Contract Services. As of yet, there have been no recoveries. According to conversations with Health Services Management Administration, no Personal Private Information (PPI) appears to have been stored on the iPads. Internal Audit concluded that more controls should be considered to improve the security of university-owned assets and cash. The total loss was around $2,500.

VI. Recommendation Log Status as of January 31, 2022

A recommendation log, included in the Board of Trustees meeting materials, listed previous audit recommendations for improving internal controls or procedures. Ms. Lewis explained that appropriate, corrective actions have been taken by management or are progressing in a timely fashion.

VII. Campus Safety and Emergency Overview/Annual Security & Fire Safety Report

ETSU's Chief Operating Officer, Jeremy Ross, provided an overview of staffing and outcomes related to safety and emergency preparedness. The presentation included the following topics:

- Operations and the Department of Emergency Management have been restructured, bringing the total number of full-time employees from zero to four. Existing talents have been used in new ways, allowing them to work together or act as a liaison between different units as well as national state agencies.
- Over 1,000 ETSU faculty and staff across campus have been trained in emergency procedures by the Emergency Management.

- Emergency Management created and implemented new active shooter training and simulation in collaboration with Walters State University, where executive staff and others were present.
- The University's THEC security assessment has been completed. All hazards were examined, and positive responses were received.
- A new Incident Command Center has been established.
- New security cameras have been installed.

The 2022 goals of the Department of Emergency Management include:

- Host the Team Awareness Kit (TAK) server for coordinated emergency response from federal, state, and local partners.
- Begin implementing a federated security ecosystem to incorporate current cameras and update access control.
- Utilize online platforms to more efficiently and effectively train the campus community and use the community as a force multiplier.
- Increase tabletop exercises to determine strengths and weaknesses.
- Increase preparedness through partnerships and training with external partners.

Mason Bowen, Director of Operations for Emergency Management, and Campus Police Chief Cesar Gracia gave an overview of ETSU's 2021 Annual Security & Fire Safety Report, which is published in accordance with the Jeanne Clery Disclosure of Campus Security Policy and Crime Statistics Act. The full report can be found on ETSU's website. Highlights of the overview were:

- Mr. Bowen provided an overview of how ETSU collaborates, plans, and coordinates with our surrounding agencies through the use of Team Awareness Kit technology (TAK). ETSU will soon host a server for the entire region, including fire, EMS, and law enforcement.
- Chief Gracia stated that his team worked closely with the Office of Legal Counsel's Cleary Compliance Coordinator to compile the 2021 Annual Security and Fire Report. They were also able to work with the Campus Security Authority (CSA) to obtain accurate data about campus incidents for the report.

VIII. Other Business

There was no other business to discuss.

IX. Executive Session to Discuss Active Audits, Enterprise Risk Management

The Committee Chair asked the Audit Committee to adjourn to Executive Session to discuss active audits and enterprise risk management.

X. Adjournment

The Audit Committee adjourned at the conclusion of the Executive Session.

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

INFORMATION ITEM

DATE:	April 22, 2022
ITEM:	Annual Review of Charters
COMMITTEE:	Audit Committee
PRESENTED BY:	Rebecca A. Lewis, CPA Chief Audit Executive

Audit Committee Charter – The specifications in TCA § 4-35-103 require that an audit committee develop a charter addressing the committee's purpose, powers, duties, and mission. As outlined in TCA § 4-15-105 the responsibilities of the Audit Committee include "overseeing the university's financial reporting and related disclosures, especially when financial statements are issued; evaluating management's assessment of the body's system of internal controls; formally reiterating, on a regular basis, to the state governing board, council, commission, equivalent body, or management and staff of the agency to which the audit committee is attached, the responsibility of the state governing board, council, commission, equivalent body, or management and staff of the agency for preventing, detecting, and reporting fraud, waste, and abuse; serving as a facilitator of any audits or investigations of the body to which the audit committee is attached, including advising auditors and investigators of any information the audit committee may receive pertinent to audit or investigative matters; informing the comptroller of the treasury of the results of assessment and controls to reduce the risk of fraud; and promptly notifying the comptroller of the treasury of any indications of fraud."

Internal Audit Charter – The Office of Internal Audit adheres to the Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. To that end, the Office of Internal Audit has a charter, which outlines the following, the Office's: purpose; authority and scope; role and responsibility; organizational status/reporting structure; audit standards and ethics; and how often the charter should be reviewed.

Compliance Charter – The Office of University Compliance has a charter, which outlines the following, the Office's: purpose; mission; vision; organizational oversight; authority; coordination with other units; professional standards; and responsibilities.

East Tennessee State University

Audit Committee Charter

I. Purpose and Mission

The Audit Committee, a standing committee of the East Tennessee State University Board of Trustees, provides oversight and accountability on all aspects of university operations. The committee will assist the Board in fulfilling its oversight responsibilities by reporting regularly to the Board about Audit Committee activities and issues that arise with such recommendations as the committee deems appropriate. The Audit Committee will provide for open communications among the Board, university senior management, and the Tennessee Comptroller's Office auditors regarding audit matters.

The Audit Committee will provide oversight in the following areas:

A. Audit engagements with the Tennessee Comptroller's Office, including the integrity of financial statements and compliance with legal and regulatory requirements,
B. Audit engagements with external auditors,
C. Internal Audit administration and activities,
D. Management's internal controls and compliance with laws, regulations, and other requirements,
E. Management's risk and control assessments,
F. The University's Code of Conduct,
G. Fraud, waste, and abuse prevention, detection, and reporting, and
H. Other areas as directed by the Board.

II. Authority

The Audit Committee has the authority to conduct or authorize audits or investigations into any matter within its scope of responsibility. The scope of internal auditing extends to all aspects of institutional operations and beyond fiscal boundaries. The committee is authorized to:

A. Seek any information it requires from employees or external parties. Employees are directed to cooperate with the committee's requests,
B. Have access to all books, records, and physical properties of East Tennessee State University,
C. Meet with Board and institutional officials, external and internal auditors, legal counsel, or others as necessary, and
D. Delegate authority to subcommittees, providing that such decisions by any subcommittee are presented to the full committee at its next scheduled meeting.

III. Responsibilities

The Board employs a person qualified by training and experience to serve as the Chief Internal Auditor, who reports directly to the Audit Committee. The Chief Internal Auditor coordinates audit activities with the Tennessee Comptroller of the Treasury and with any other appropriate external auditors. The Audit Committee facilitates any audit and investigative matters, including advising auditors and investigators of any information the committee may receive pertinent to these matters.

The Audit Committee will carry out the following duties for the Board and will report to the Board about Audit Committee activities and issues that arise with such recommendations as the committee deems appropriate:

A. Tennessee Comptroller's Office Audits (State Auditors)
   1. Understand the scope and approach used by the State Auditors in conducting their examinations,
   2. Review results of the Comptroller's examinations of financial statements and any other matters related to the conduct of the audits,
   3. Review with management and legal counsel any legal matters (including pending litigation) that may have a material impact on the financial statements, and any material reports or inquiries from regulatory or governmental agencies,
   4. Ensure that the Comptroller is notified of any indications of fraud in the manner prescribed by the Comptroller,
   5. Resolve any differences between management and the Comptroller's auditors regarding financial reporting, and
   6. Meet, as needed, with the Comptroller's auditors to discuss any matters that the Audit Committee or State Auditors deem appropriate.

B. External Audits
   1. Understand the scope and approach used by the external auditors in conducting their examinations,
   2. Review results of the external auditors' examinations and any other matters related to the conduct of the external audits, and
   3. Meet, as needed, with the external auditors to discuss any matters that the Audit Committee or external auditors deem appropriate.

C. Internal Audit Activities
   1. Ensure that the Chief Internal Auditor reports directly to the Audit Committee and has direct and unrestricted access to the chair and other committee members,
   2. Review and approve the charter for the East Tennessee State University's Internal Audit department,

3. Review and approve the annual audit plans for East Tennessee State University's Internal Audit department, including management's request for unplanned audits,
4. Receive and review significant results of internal audits performed,
5. Work with East Tennessee State University management and Internal Audit to assist with the resolution of cooperation issues and to ensure the implementation of audit recommendations,
6. Review the results of the year's work with the Chief Internal Auditor, and
7. Assure compliance with *the International Standards for the Professional Practice of Internal Auditing (Standards)*, the Office of Internal Audit must implement and maintain a quality assurance and improvement program that incorporates both internal and external assessments.
   a. Internal assessments are ongoing, internal evaluations of the internal audit activity, coupled with periodic self-assessments and/or reviews.
   b. External assessments enable the internal audit activity to evaluate conformance with the *Standards*; internal audit and audit committee charters; the organization's risk and control assessment; the effective use of resources; and the use of successful practices.
   c. An external assessment must be performed at least every five years by an independent reviewer or review team.
   d. Results of the external assessment will be communicated to the Audit Committee and management.

D. Internal Audit Administration
1. Ensure the Chief Internal Auditor reports functionally to the Audit Committee of the Board and reports to the President for administrative purposes only.
2. Ensure that East Tennessee State University Internal Audit has adequate resources in terms of staff and budget to effectively perform its responsibilities.
3. Review and approve the appointment, compensation, reassignment, or dismissal of the Chief Internal Auditor, and
4. Review and approve the compensation and dismissal of campus internal auditors.

E. Risk, Internal Control and Compliance
2. Consider the effectiveness of the internal control system and compliance with laws and regulations, including computerized information system controls and security,
3. Understand the scope of internal and external auditors' reviews of internal controls over financial reporting,
4. Make recommendations to improve management's internal control and compliance systems to ensure the safeguarding of assets and prevention and detection of errors and fraud. The components of the control system are:
   a. control environment—creating a culture of accountability;
   b. risk assessment—performing analyses of program operations to determine if risks exist;
   c. control activities—taking actions to address identified risk areas;

d. information and communication—using and sharing relevant, reliable, and timely information; and
e. monitoring —tracking improvement initiatives and identifying additional actions needed to further improve program efficiency and effectiveness.

5. Review and evaluate the enterprise risk management process performed by institutional management, and
6. Inform the Comptroller of the Treasury of the results of enterprise risk management process.

F. Fraud

1. Ensure that the Board and the institution have an effective process in place to prevent, detect, and report fraud, waste and abuse.
2. Establish a process for employees, taxpayers and other citizens to confidentially report suspected illegal, improper, wasteful, or fraudulent activity.
3. Inform the Comptroller of the Treasury of assessments of controls to reduce risks of fraud.
4. Promptly report indications of fraud to the Comptroller of the Treasury.
5. Facilitate audit and investigative matters, including advising auditors and investigators of any pertinent information received by the Audit Committee.

G. Other

1. Review and assess the adequacy of the Audit Committee's charter annually -, requesting Board approval for any proposed changes.
2. Ensure there are procedures for the receipt, retention, and treatment of complaints about accounting, internal controls, or auditing matters.
3. Review East Tennessee State University's code of conduct and/or policies regarding employee conduct to ensure that they are easy to access, are widely distributed, are easy to understand and implement, include a confidential mechanism for reporting code violations, are enforced, and include a conflict of interest policy.
4. Review East Tennessee State University's conflict of interest policy to ensure that the term "conflict of interest" is clearly defined, the policy is comprehensive, annual signoff is required, and potential conflicts are adequately resolved and documented.

IV. Independence

Each member should be independent in fact and appearance of any interests that are in conflict with their duties as a Committee member.

Each member shall strictly adhere to the Code of Ethics for Appointed Board Members.

V. Membership

A. Pursuant to TCA § 4-35-104, the Audit Committee shall have at least three members,
B. The Committee and its Chair shall be approved by the Board upon recommendation of the Board Chair,
C. Audit Committee members, including its Chair, shall serve for a two-year term,
D. For good cause, such as the need to ensure continuity in Board leadership during a period of transition in Board membership or in the offices of Governor or President, the Board, on the recommendation of the Chair, may extend the term of the Committee and Committee Chair appointments for up to one year beyond the two year term,
E. Competencies and professional or business expertise of members and previous Board and committee experience of Trustees, together with any special qualifications required by the bylaws for certain committees, will be considered in committee and chair appointments.
F. The Audit Committee shall include at least one member, preferably the chair of the committee, who shall have extensive accounting, auditing, or financial management expertise,
G. Each member of the audit committee should have an adequate background and education to allow a reasonable understanding of the information presented in the financial reports of the university and the comments of auditors with regard to internal control and compliance findings and other issues.
H. The Vice Chair of the Board shall serve as an ex officio member of the Audit Committee but shall not be counted for quorum purposes.
I. The Audit Committee may be composed of one external member and two or more Trustees who satisfy the membership requirements. An external member must have extensive accounting, auditing, or financial management expertise. An external member may not serve as Chair of the Audit Committee.
J. If a vacancy occurs in a committee or chair position prior to expiration of the two-year term, the Board shall appoint a Trustee to fill the remainder of the term, upon the recommendation of the Chair.

VI. Meetings

A. The Audit Committee shall meet as necessary, but at least annually, and also whenever requested by the chair of the Audit Committee or the Comptroller of the Treasury,
B. The Audit Committee may invite Board management, auditors, or others to attend and provide relevant information,
C. Meeting agendas will be provided to members in advance, along with appropriate briefing materials,
D. The Board Secretary or their designee shall take minutes at each meeting of the Audit Committee and maintain approved minutes as the official record of such meeting,
E. A majority of the members of the committee shall constitute a quorum for the transaction of business

F. All meetings of the Audit Committee shall adhere to the Open Meetings Act, Tennessee Code Annotated Title 8, Chapter 44, except that pursuant to TCA § 4-35-108(b), the Audit Committee may hold confidential, nonpublic executive sessions for the sole purpose of discussing the following:
   1. Items deemed not subject to public inspection under Tennessee Code Annotated, Sections 10-7-503 and 10-7-504, and all other matters designated as confidential or privileged under state or federal law,
   2. Litigation,
   3. Audits or investigations,
   4. Information protected by federal law, and
   5. Matters involving information under Tennessee Code Annotated, Section 4-35-107(a), where the informant has requested anonymity.

Approvals

Approved by: Melissa Steagall-Jones Date: 12/1/2020
Melissa Steagall-Jones
Chair of the Audit Committee

Approved by: Scott Niswonger Date: 12/1/2020
Scott Niswonger
Chairman of the Board

East Tennessee State University

Internal Audit Charter

Introduction

East Tennessee State University is governed by a Board of Trustees, consisting of 10 members (the Board) as determined by state law. The Audit Committee is a standing committee of the Board. The Chief Internal Auditor reports functionally to the Audit Committee of the Board and reports to the President for administrative purposes. This reporting structure assures the independence of the internal audit function.

Purpose

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve East Tennessee State University management systems. Internal Audit helps East Tennessee State University accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of management's risk management, control, and governance processes. Internal Audit assists East Tennessee State University's management in the effective discharge of their duties and responsibilities by evaluating activities, recommending improvements and providing other information designed to promote effective controls.

Assurance services involve the internal auditor's objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, system, or other subject matter. The nature and scope of the assurance engagement are determined by the internal auditor. There are generally three parties involved in assurance services: (1) the person or group directly involved with the entity, operation, function, process, system, or other subject matter — the process owner, (2) the person or group making the assessment — the internal auditor, and (3) the person or group using the assessment — the user.

Consulting services are advisory in nature, and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties: (1) the person or group offering the advice — the internal auditor, and (2) the person or group seeking and receiving the advice — the engagement client. When performing consulting services, the internal auditor should maintain objectivity and not assume management responsibility.

East Tennessee State University's management has the primary responsibility for establishing and maintaining a sufficient system of internal controls as well as the enterprise risk management process.

Authority and Scope

Internal Audit's review of operations may include the examination and evaluation of the effectiveness of all aspects of operations at East Tennessee State University. In the course of its work, Internal Audit has full and complete direct access to all East Tennessee State University books, electronic and manual records, physical properties, and personnel information relative to the performance of duties and responsibilities. All documents and information given to Internal Audit during their work will be handled in the same prudent manner that East Tennessee State University expects of the employees normally accountable for them.

Other than its work performed in conjunction with its quality assurance and improvement program, Internal Audit has neither direct responsibility for, nor authority over, any of the activities, functions, or tasks it reviews nor shall their review relieve others of their responsibilities. The internal auditors must maintain a high degree of independence and not be assigned duties or engage in any operations or decision making in any activities that they would normally be expected to review or evaluate as part of the normal audit function.

Role and Responsibility

The role of Internal Audit is to assist members of the organization in the effective discharge of their responsibilities. Meaningful internal auditing requires cooperation among Internal Audit, East Tennessee State University's administration, and the department being audited. In fulfilling their responsibilities, Internal Audit will:

- Comply with auditing standards established by the Institute of Internal Auditors to ensure the effectiveness and quality of the internal audit effort.
- Develop and implement audit plans after consultation with the President and the Audit Committee that respond to both risk and cost effectiveness criteria.
- Review the reliability and integrity of information, and the information technology processes that produce that information.
- Verify compliance with applicable policies, guidelines, laws, and regulations.
- Suggest policies and procedures or improvements to existing policies and procedures where appropriate.
- Provide audit reports that identify internal control issues and make cost-effective recommendations to strengthen control.

- Facilitate the resolution of audit issues with administrators who have the most direct involvement and accountability.

- Review institutional operations (financial and other) on an advisory basis to inform and assist management in the successful execution of their duties.

- Assist with audits or perform certain agreed upon procedures for external parties. External parties include but are not limited to audit offices of federal and state governments and related agencies.

- Review management's risk assessment process and advise management on the reasonableness and propriety of the assessment.

- Promote and evaluate fraud prevention and identification programs and investigate allegations involving fraud, waste, and abuse.

- Demonstrate and promote appropriate ethics and values within the organization.

- Communicate activities and information among the board, internal auditors, external auditors and the administration.

Organizational Status/Reporting Structure

The Chief Internal Auditor reports functionally to the Audit Committee of the Board and reports to the President for administrative purposes.

The internal auditing services provided by Internal Audit are reported directly to the President and the Audit Committee of the Board. All audit work is summarized in timely written reports distributed to management to ensure that the results are given due consideration. In addition to management, reports or summaries are distributed to all members of the Audit Committee and to the State of Tennessee, Comptroller's Office. Management is provided a discussion draft of the audit report prior to the report being issued. Internal Audit is responsible for following up timely on audit findings to ascertain the status of management's corrective actions.

Audit Standards and Ethics

The Internal Audit function adheres to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

Periodic Review of Internal Audit Charter

This charter will be periodically assessed by the Chief Internal Auditor to determine whether the purpose, authority, and responsibilities defined in this charter are adequate to enable the internal auditing activity to accomplish its objectives. The results of the periodic assessment will be communicated to the President and the Audit Committee.

B. Noland

President, East Tennessee State University

12/1/2020

Date

Melissa Steagall-Jones

Chair, ETSU Board of Trustees Audit Committee

12/1/2020

Date

Rebecca Lewis

Chief Internal Auditor, East Tennessee State University

12/1/2020

Date

EAST TENNESSEE STATE UNIVERSITY

OFFICE OF UNIVERSITY COMPLIANCE CHARTER

Purpose

The Office of University Compliance supports East Tennessee State University's (ETSU or University) fundamental commitment to the highest standards of ethics, integrity, and lawful conduct by promoting adherence to all applicable federal, state, and local laws, regulations, standards, and internal policies and protocols.

ETSU established the Office of University Compliance to appropriately prevent, detect, and respond to potential violations of law, policy, and regulatory complaints. This goal is achieved through outreach and education, internal investigations, policy development, and fulfilling all reporting requirements by state and federal agencies. This charter defines and specifies key aspects of the Office of University Compliance.

Mission

The Office of University Compliance seeks to support and enhance East Tennessee State University's vision, mission, and values by providing independent and objective measures to address the University's legal, regulatory, and ethical responsibilities with integrity. The office provides program oversight for Title IX of the Education Amendments, the Americans with Disabilities Act, and Title VI and Title VII of the Civil Rights Act. The office collaborates with campus partners to provide policy development, education, enforcement, and remediation to the University community.

Vision

The Office of University Compliance seeks to develop and promote a culture of compliance to support ETSU's mission of delivering education in a world-class environment.

Organizational Oversight

The Compliance Counsel oversees the Office of University Compliance and reports directly to the University Counsel and the President of the University. To facilitate the duties and independence of the office, the Compliance Counsel has a dotted line relationship with the Office of Internal Audit. The Compliance Counsel oversees the Equity Compliance Officer, who in turn oversees two Assistant Equity Compliance Officers.

The Office of University Compliance staff have organizational independence and objectivity to perform their responsibilities, and all activities of the office shall remain free from influence.

Authority

To meet its responsibilities and maintain independence, the Office of University Compliance, with strict accountability for confidentiality and safeguarding of records and information, is authorized to have full, free, unrestricted access to any and all of the University's records, education records, physical properties, and personnel pertinent to conduct compliance assessments, training, monitoring, and investigations.

The University's administration will ensure that units and personnel cooperate with the Office of University Compliance in carrying out its compliance activities.

Coordination with other Units

The Office of University Compliance collaborates with Internal Audit, Human Resources, Student Life & Enrollment, Athletics, and Public Safety, among other university units, to discuss compliance issues, coordinate efforts, and collaborate on compliance initiatives.

Professional Standards

The compliance function's objective is to establish and promote standards that meet the U.S. Federal Sentencing Guidelines' criteria for an effective compliance program:

1. Compliance standards and procedures to prevent and detect criminal activity;

2. Oversight by high-level personnel, with periodic reporting to the Audit Committee of the Board of Trustees from individuals with operational responsibility;

3. Due care in delegating substantial discretionary authority;

4. Effective communication and training to all levels of employees;

5. Systems for monitoring, auditing, and reporting suspected wrong-doing without fear of reprisal and for periodically evaluating the effectiveness of the compliance and ethics programs;

6. Consistent enforcement of compliance standards including disciplinary mechanisms and appropriate incentives to perform in accordance with the compliance and ethics program; and

7. Reasonable steps to respond to and prevent further similar offenses upon detection of a violation.

Responsibilities

All members of the University community share responsibility for maintaining an environment of accountability and integrity.

- Supervisors must ensure employees have the knowledge and skills to fulfill their obligations. Supervisors must appropriately address or elevate reported violations or similar issues, including by preventing retaliation.
- All employees must obey the laws, regulations, and policies applicable to their university activities, and report illegal or unethical action that comes to their attention.

Members of the University community having responsibility for a specific area of compliance must ensure:

- Oversight of compliance in their specific functional areas;
- Adherence to the University's compliance policies; and
- Implementation of corrective action as necessary, arising from compliance reviews or investigations.

The Compliance Counsel and Equity Compliance Officer are to remain well-informed on the content and operation of the University's compliance program to exercise reasonable oversight of the effectiveness of the program. These responsibilities include:

1. Standards of Conduct/Policies and Procedures: confirming that the University implements policies, procedures, training programs, and internal control systems that are reasonably capable of reducing misconduct and that comply with relevant regulatory requirements.

2. Compliance Roles and Responsibilities: establishing clear compliance roles and responsibilities across the University, including maintaining a professional staff with sufficient size, knowledge, skills, and experience to oversee University compliance.

3. Compliance Oversight: exercising reasonable oversight over compliance activities by requesting and receiving updates from compliance partners.

4. Reporting and Investigative Mechanisms: confirming that the University maintains an effective mechanism for stakeholders to report or seek guidance regarding potential or actual wrongdoing, including performing internal investigations and ethics reviews.

5. Correction and Prevention: working with the University's senior leadership to promote and enforce compliance through appropriate incentives and disciplinary measures.

6. Culture of Integrity and Compliance: promoting the University's culture of integrity and compliance through communication of compliance standards and policies.

7. External Inquiries: overseeing and coordinating external inquiries into compliance with federal and state laws or regulatory bodies, including taking appropriate steps to ensure safe harbor in instances of non-compliance.

A. Leonard — 9/20/19

Compliance Counsel — Date

B Noland — 9-20-19

President — Date

9/20/19

Chair, ETSU Board of Trustees Audit Committee — Date

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

INFORMATION ITEM

DATE:	April 22, 2022
ITEM:	Annual Review of Policies
COMMITTEE:	Audit Committee
PRESENTED BY:	Rebecca A. Lewis, CPA Chief Audit Executive

The Board of Trustees is committed to the responsible stewardship of its resources. Management of the university is responsible for maintaining a work environment that promotes ethical and honest behavior. Additionally, it is the responsibility of management to establish and implement internal control systems and procedures to prevent and detect irregularities, including fraud, waste and abuse. Management at all levels should be aware of the risks and exposures inherent in their areas of responsibility, and should establish and maintain proper internal controls to provide for the security and accountability of all resources entrusted to them.

Internal Audit Policy – addresses staffing, responsibilities of the internal audit function, audit planning and reporting on internal audit activities.

Preventing and Reporting Fraud, Waste, and Abuse – provides the university community with the guidelines on preventing and reporting such activities.

East Tennessee State University Policy

Policy Title: Internal Audit

Policy Type: Finance/Administration **New/revised:** Revised

Old Policy #: 4:01:05:00

Approval level: ☒ Board of Trustees [Select box for appropriate level of anticipated final approval]

☐ President

☐ Vice President

☐ Other (specify here)

Purpose: This policy addresses staffing, responsibilities of the internal audit function, audit planning and reporting on internal audit activities.

Policy:

I. General Statement
   A. The internal audit function contributes to the improvement of the institution's operations by providing objective and relevant assurance regarding risk management, control and governance processes to management and the Board of Trustees.
   B. Management is responsible for evaluating the institution's risks and establishing and maintaining adequate controls and processes.
   C. To provide relevant information, the internal audit activity will consider the goals of the institution, management's risk assessments and other input from management in determining its risk-based audit activities.

II. Internal Audit Standards
   A. Each internal audit function shall adhere to The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics (TCA § 4-3-304(9)). The Institute of Internal Auditors, International Professional Practices Framework (IPPF), incorporates the definition of internal auditing, the *International Standards for the Professional Practice of Internal Auditing (Standards),* Core Principles for the Professional Practice of Internal Auditing and Code of Ethics into one document. It includes the following definition of internal auditing:
      1. Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
   B. Risk is the possibility of an event occurring that will have an impact on the achievement of an institution's goals and objectives.
      1. Risk is measured in terms of the impact an event may have and the likelihood that the event will occur.

2. To optimize the achievement of the institution's goals and objectives, the Board of Trustees and management act to minimize the related risks by implementing reasonable procedures to control and monitor the risks.

C. Governance processes are the combination of processes and structures implemented by the Board of Trustees to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

  1. Examples of such processes include:
     a. The organizational structure within an institution or a department;
     b. Policies, guidelines and procedures instituted by the Board of Trustees or management to direct and control a particular activity such as maintenance fees or hiring practices; and
     c. Preparation and review procedures for preparing reports such as annual financial statements or federal grant or financial aid reports.

D. The IPPF includes attribute standards, which address the expected characteristics of organizations and individuals performing internal audit activities and performance standards, which describe the nature of internal audit activities and establish criteria to evaluate the performance of internal audit activities.

E. To assure compliance with the IIA *Standards*, the Office of Internal Audit must implement and maintain a quality assurance and improvement program that incorporates both internal and external assessments.

  1. Internal assessments are ongoing, internal evaluations of the internal audit activity, coupled with periodic self-assessments and/or reviews.
  2. External assessments enable the internal audit activity to evaluate conformance with the *Standards*; internal audit and audit committee charters; the organization's risk and control assessment; the effective use of resources; and the use of successful practices.
  3. An external assessment must be performed at least every five years by an independent reviewer or review team.
  4. Results of the external assessment will be communicated to the Audit Committee and management.

III. Internal Audit Personnel

A. The university shall employ at least two individuals with full-time responsibility as internal auditors.

B. Internal Audit Staff

  1. Internal audit staff must possess the professional credentials, knowledge, skills, and other competencies needed to perform their individual responsibilities.
  2. The internal audit function collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.
  3. The Chief Internal Auditor must be licensed as a Certified Public Accountant or a Certified Internal Auditor, maintain an active license and annually complete sufficient, relevant continuing professional education to satisfy the requirements for the professional certification held.
  4. Other university auditors should annually complete sufficient, relevant continuing professional education to satisfy the requirements for their related professional certification or, at a minimum, forty hours of relevant continuing professional education annually.

5. The Chief Internal Auditor should communicate concerns to management and the Audit Committee regarding the lack of sufficient resources to complete the objectives of an engagement or the audit plan.
6. Such resources may include the need for additional personnel or personnel with specialized knowledge, such as those with knowledge of fraud, information technology or other technical areas.

C. The appointment of the Chief Internal Auditor as recommended by the President is subject to approval by the Audit Committee (TCA § 49-14-102(a)).

D. Compensation of the Chief Internal Auditor is subject to review by the Audit Committee.

E. The termination or change of status of the Chief Internal Auditor (TCA § 49-14-102(b)) requires a majority vote of the Audit Committee.

IV. Internal Audit Role and Scope

A. Reporting Structure

1. In accordance with TCA § 49-14-102(b) and the Board of Trustees Bylaws, the Chief Internal Auditor reports directly to the Audit Committee.
2. This reporting structure assures the independence of the internal audit function.

B. The internal auditors' responsibilities include:

1. Working with management to assess institutional risks and developing an audit plan that considers the results of the risk assessment.
2. Evaluating institutional controls to determine their effectiveness and efficiency.
3. Coordinating work with external auditors, program reviewers, and consultants.
4. Determining the level of compliance with internal policies and procedures, state and federal laws, and government regulations.
5. Testing the timeliness, reliability, and usefulness of institutional records and reports.
6. Recommending improvements to controls, operations, and risk mitigation resolutions.
7. Assisting the institution with its strategic planning process to include a complete cycle of review of goals and values.
8. Evaluating program performance.
9. Performing consulting services and special requests as directed by the Audit Committee or the institution's President.

C. The scope of internal auditing extends to all aspects of institutional operations and beyond fiscal boundaries. The internal auditor shall have access to all records, personnel, and physical properties relative to the performance of duties and responsibilities.

D. The scope of a particular internal audit activity may be as broad or as restricted as required to meet management needs.

E. Objectivity is essential to the internal audit function. Therefore, internal audit personnel should not be involved in the development and installation of systems and procedures, preparation of records, or any other activities that the internal audit staff may review or appraise. However, internal audit personnel may be consulted on the adequacy of controls incorporated into new systems and procedures or on revisions to existing systems.

F. Management is responsible for identifying, evaluating, and responding to potential risks that may impact the achievement of the institution's objectives. Auditors continually evaluate the risk management, internal control, and governance processes. To facilitate these responsibilities, Internal Audit will receive notices or copies of external audit reviews, program reviews, fiscally related consulting reports, cash shortages, physical property losses, and employee misconduct.

V. Audit Plans and Activity Reports

A. Internal Audit shall develop an annual audit plan using an approved risk assessment methodology.
B. At the beginning of each fiscal year, after consultation with the President and other institution management, Internal Audit will prepare an annual audit plan. The audit plan must be flexible to respond to immediate issues and will be revised for such changes during the year.
C. Audit plans and revisions will be reviewed and approved by the Audit Committee.
D. At the end of each fiscal year, Internal Audit will prepare an annual activity report of all significant audit services performed.
E. Annual activity reports and approved audit plans will be provided to the Comptroller's Office, Division of State Audit.

VI. Audit Engagements

A. Audit engagements will be planned to provide relevant results to management and the Audit Committee regarding the effectiveness and efficiency of processes and controls over operations. To ensure management's expectations are met, auditors will communicate with management regarding the objectives and scope of the engagement.
B. In planning and during the engagement, auditors should consider and be alert to risks that affect the institution's goals and objectives, operations and resources. Auditors should consider risks based on the operations under review, which include but are not limited to the risk of financial misstatements, noncompliance and fraud.
C. An audit work program will be designed to achieve the objectives of the engagement and will include the steps necessary to identify, analyze, evaluate and document the information gathered and the conclusions reached during the engagement.
D. Working papers that are created, obtained or compiled by an internal audit staff are confidential and are not an open record (TCA § 4-3-304(9)).

VII. Communicating Audit Results

A. A written report that documents the objectives, scope, conclusions, and recommendations of the audit will be prepared for audit engagements providing assurance to the Board of Trustees and management. Management will include corrective action for each reported finding.
B. Internal Audit will perform audits to follow-up on findings or recommendations included in internal audit and investigation reports. For these follow-ups, a written report will be prepared for any findings or recommendations that have not been corrected and management will be asked to include a revised corrective action plan. For follow-ups in which corrections have been implemented, a memo will be place in the working paper file documenting the reasons for the closure. In addition, Internal Audit will perform audits to follow-up on findings or recommendations included in State Audit reports and a written report will be prepared. The President, along with the Audit Committee, will be notified at the conclusion of a follow-up audit.
C. A written report that documents the objectives, scope, conclusions and recommendations will be prepared for investigations resulting from allegations or

identification of fraud, waste or abuse. As appropriate in the circumstances, management will include corrective action for each reported finding. In a case where allegations are not substantiated by the review and there are no other operational concerns to report to management regarding the review, the case may be closed by writing a memo to the working paper file documenting the reasons for closing the case.

D. Reports on special studies, consulting services, and other non-routine items should be prepared as appropriate, given the nature of the assignment.
E. All internal audit reports will be signed by the Chief Internal Auditor and transmitted directly to the President in a timely manner.
F. The Chief Internal Auditor will present significant results of internal audit reports to the Audit Committee.
G. The Chief Internal Auditor will provide a copy of each report to the Comptroller's Office, Division of State Audit.

VIII. Exceptions

A. Any exceptions to the policy established herein shall be subject to the approval of the Audit Committee.

East Tennessee State University Policy

Policy Title: Preventing and Reporting Fraud, Waste or Abuse

Policy Type: Finance/Administration **New/revised:** Revised

Old Policy #: 4:01:05:50

Approval level: ☒ Board of Trustees [Select box for appropriate level of anticipated final approval]

☐ President

☐ Vice President

☐ Other (specify here)

Purpose: The Board of Trustees is committed to the responsible stewardship of its resources. Management of the university is responsible for maintaining a work environment that promotes ethical and honest behavior. Additionally, it is the responsibility of management to establish and implement internal control systems and procedures to prevent and detect irregularities, including fraud, waste and abuse. Management at all levels should be aware of the risks and exposures inherent in their areas of responsibility, and should establish and maintain proper internal controls to provide for the security and accountability of all resources entrusted to them.

Definitions:

- Fraud - An intentional act to deceive or cheat, ordinarily for the purpose or result of causing a detriment to another and/or bringing about some benefit to oneself or others. Fraudulent activities may include, but are not limited to the following:
  - Theft, misappropriation, misapplication, destruction, removal, or concealment of any institutional assets or resources, including but not limited to funds, securities, supplies, equipment, real property, intellectual property or data.
  - Improper use or assignment of any institutional assets or resources, including but not limited to personnel, services or property.
  - Improper handling or reporting of financial transactions, including use, acquisitions and divestiture of state property, both real and personal.
  - Authorization or receipt of compensation for hours not worked.
  - Inappropriate or unauthorized use, alteration or manipulation of data, computer files, equipment, software, networks, or systems, including personal or private business use, hacking and software piracy.
  - Forgery or unauthorized alteration of documents.
  - Falsification of reports to management or external agencies.
  - Pursuit of a personal benefit or advantage in violation of the ETSU Conflict of Interest Policy.
  - Concealment or misrepresentation of events or data.
  - Acceptance of bribes, kickbacks or any gift, rebate, money or anything of value whatsoever, or any promise, obligation or contract for future reward, compensation, property or item of value, including intellectual property.

- Waste - Waste involves behavior that is deficient or improper when compared with behavior that a prudent person would consider a reasonable and necessary business practice given the facts and circumstances. Waste is a thoughtless or careless act, resulting in the expenditure, consumption, mismanagement, use, or squandering of institutional assets or resources to the detriment or potential detriment of the institution. Waste may also result from incurring unnecessary expenses due to inefficient or ineffective practices, systems, or controls. Waste does not necessarily involve fraud, violation of laws, regulations, or provisions of a contract or grant agreement.
- Abuse - Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider a reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interest or those of an immediate or close family member or business associate. Abuse does not necessarily involve fraud, violation of laws, regulations, or provisions of a contract or grant agreement. (U.S. Government Accountability Office, Government Auditing Standards, July 2007.)

Policy:

I. Preventing Fraud, Waste or Abuse

   A. Maintaining an Ethical Work Environment

      1. Management is responsible for maintaining a work environment that promotes ethical and honest behavior on the part of all employees, students, contractors, vendors and others.
      2. To do so, management at all levels must behave ethically and communicate to employees and others that they are expected to behave ethically.
      3. Management must demonstrate through words and actions that unethical behavior will not be tolerated.

   B. Implementing Effective Internal Control Systems

      1. Management of the university has the responsibility to establish and implement internal control systems and procedures to prevent and detect irregularities, including fraud, waste and abuse.
      2. Internal controls are processes performed by management and employees to provide reasonable assurance of:
         a. Safeguards over institutional assets and resources, including but not limited to cash, securities, supplies, equipment, property, records, data or electronic systems;
         b. Effective and efficient operations;
         c. Reliable financial and other types of reports; and
         d. Compliance with laws, regulations, contracts, grants and policies.
      3. To determine whether internal controls are effective, management should perform periodic risk and control assessments, which should include the following activities:
         a. Review the operational processes of the unit under consideration.
         b. Determine the potential risk of fraud, waste, or abuse inherent in each process.
         c. Identify the controls included in the process (or controls that could be included) that result in a reduction in the inherent risk.
         d. Assess whether there are internal controls that need to be improved or added to the process under consideration.

        e. Implement controls or improve existing controls that are determined to be the most efficient and effective for decreasing the risk of fraud, waste or abuse.
    4. Most managers will find that processes already include a number of internal controls, but these controls should be monitored or reviewed for adequacy and effectiveness on a regular basis and improved as needed. Typical examples of internal controls may include, but are not limited to:
        a. Adequate separation of duties among employees.
        b. Sufficient physical safeguards over cash, supplies, equipment and other resources.
        c. Appropriate documentation of transactions.
        d. Independent validation of transactions for accuracy and completeness.
        e. Documented supervisory review and approval of transactions or other activities.
        f. Proper supervision of employees, processes, projects or other operational functions.

C. Reviews of Internal Control Systems
    1. Audits or other independent reviews may be performed on various components of the internal control systems.

D. Internal Audit
    1. Internal Audit is responsible for assessing the adequacy and effectiveness of internal controls that are implemented by management and will often recommend control improvements as a result of this assessment.
    2. During an audit of a department or process, Internal Audit will also perform tests designed to detect fraud, waste or abuse that may have occurred.

E. External Audits
    1. The Tennessee Department of Audit, Division of State Audit, performs periodic financial audits of the university.
    2. One purpose of this type audit is to evaluate an institution's internal controls, which will often result in recommendations for control improvements.
    3. State Audit will also perform tests designed to detect fraud, waste or abuse that may have occurred.

F. Other Reviews
    1. Various programs may be subject to audits or reviews by federal, state or other outside agencies based on the type of program, function or funding.
    2. Although audits and reviews may include assessments of internal controls, the primary responsibility for prevention and detection of fraud, waste or abuse belongs to management.
    3. Therefore, management should take steps to review internal controls whether or not audits are to be performed.

II. Reporting Fraud, Waste or Abuse

A. Responsibility for Reporting Fraud, Waste or Abuse
    1. Any official of any agency of the state having knowledge that a theft, forgery, credit card fraud, or any other act of unlawful or unauthorized taking, or abuse of, public money, property, or services, or other shortages of public funds has occurred shall report the information immediately to the office of the Comptroller of the Treasury (TCA § 8-19-501(a)), To ensure compliance with this statute, the university provides a means for employees and others to

report such matters, which are subsequently reported to the Comptroller's Office.

a. Institutional administration with knowledge of fraud, waste or abuse will report such incidents immediately.
b. Others, including institutional management, faculty and staff with a reasonable basis for believing that fraud, waste or abuse has occurred are strongly encouraged to immediately report such incidents (TCA § 8-50-116).
c. Students, citizens and others are also encouraged to report known or suspected acts of fraud, waste or abuse.
d. Although proof of an improper activity is not required at the time the incident is reported, anyone reporting such actions must have reasonable grounds for doing so.
e. Employees with knowledge of matters constituting fraud, waste or abuse, that fail to report it or employees who knowingly make false accusations may be subject to disciplinary action.

B. Protection from Retaliation

1. State law (TCA § 8-50-116) prohibits discrimination or retaliation against employees for reporting allegations of dishonest acts or cooperating with auditors conducting an investigation.
2. The Higher Education Accountability Act of 2004 directs that a person who knowingly and willingly retaliates or takes adverse action of any kind against any person for reporting alleged wrongdoing pursuant to the provisions of this part commits a Class A misdemeanor.

C. Confidentiality of Reported Information

1. According to TCA § 49-14-103, detailed information received pursuant to a report of fraud, waste or abuse or any on-going investigation thereof shall be considered working papers of the internal auditor and shall be confidential.
2. Although every attempt will be made to keep information confidential, circumstances such as an order of a court or subpoena may result in disclosure.
3. Also, if the university has a separate legal obligation to investigate the complaint (e.g. complaints of illegal harassment or discrimination), the university cannot ensure anonymity or complete confidentiality.

D. Methods for Reporting Fraud, Waste or Abuse

1. Any employee who becomes aware of known or suspected fraud, waste or abuse should immediately report the incident to an appropriate departmental official. Incidents should be reported to one of the following officials or offices:
   a. A supervisor or department head;
   b. an institutional official;
   c. University Counsel;
   d. Human Resources;
   e. the institutional internal auditor;
   f. the Tennessee Comptroller of the Treasury’s Hotline for fraud, waste and abuse at 1-800-232-5454.
2. If the incident involves their immediate supervisor, the employee should report the incident to the next highest-level supervisor or one of the officials

or offices listed above. Employees should not confront the suspected individual or initiate an investigation on their own since such actions could compromise the investigation.

3. A department official or other supervisor who receives notice of known or suspected fraud, waste or abuse must immediately report the incident to the following:
   a. President/Chief Financial Officer (or designee)
   b. Internal Audit Office
   c. Department of Public Safety (when appropriate)
4. The President/Vice President or designee receiving such notice will immediately notify the Chief Internal Auditor regarding the acknowledged or suspected fraud or misconduct.
5. The Chief Internal Auditor will notify the Comptroller of the Treasury of instances of fraud, waste, or abuse.
6. After initial notification, the university should refer to applicable policies/guidelines related to institutional losses for additional reporting procedures.

III. Investigations/Actions

A. Cooperation of Employees
   1. Individuals involved with suspected fraud, waste or abuse should assist with and cooperate in any authorized investigation, including providing complete, factual responses to questions and either providing access to or turning over relevant documentation immediately upon request by any authorized person.
   2. The refusal by an employee to provide such assistance may result in disciplinary action.

B. Remedies Available
   1. The university will evaluate the information provided and make a determination concerning external reporting obligations, if any, and the feasibility of pursuing available legal remedies against persons or entities involved in fraud, waste or abuse against the institution.
   2. Remedies include, but are not limited to;
      a. terminating employment,
      b. requiring restitution, and
      c. forwarding information regarding the suspected fraud to appropriate external authorities for criminal prosecution.
   3. In those cases where disciplinary action is warranted, the Office of Human Resources, Office of University Counsel, and other appropriate offices shall be consulted prior to taking such action, and applicable institutional and Board of Trustees policies related to imposition of employee discipline shall be observed.

C. Resignation of Suspected Employee
   1. If the employee suspected of gross misconduct resigns, the investigation will continue despite the resignation.
   2. The employment records must reflect the situation as of the date of the resignation and the outcome of the investigation.

D. Effect on Annual Leave
    1. An employee who is dismissed for gross misconduct or who resigns or retires to avoid dismissal for gross misconduct shall not be entitled to any payment for accrued but unused annual leave at the time of dismissal (TCA § 8-50-807).
E. Student Involvement
    1. Students found to have participated in fraud, waste or abuse as defined by this policy will be subject to disciplinary action pursuant to the student disciplinary policy.
    2. The Vice President of Student Affairs (or designee) will be responsible for adhering to applicable due process procedures and administering appropriate disciplinary action.
F. Confidentiality during Investigation
    1. All investigations will be conducted in as strict confidence as possible, with information sharing limited to persons on a "need to know" basis.
    2. The identities of persons communicating information or otherwise involved in an investigation or allegation of fraud, waste or abuse will not be revealed beyond the university unless necessary to comply with federal or state law, or if legal action is taken.
G. Management's Follow-up Responsibility
    1. Administrators at all levels of management must implement, maintain, and evaluate an effective compliance program to prevent and detect fraud, waste and abuse.
    2. Once such activities have been identified and reported, the overall resolution should include an assessment of how it occurred, an evaluation of what could prevent recurrences of the same or similar conduct, and implementation of appropriate controls, if needed.

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

ACTION ITEM

DATE:	April 22, 2022
ITEM:	Revisions to the FY 2021-2022 Audit Plan
COMMITTEE:	Audit Committee
RECOMMENDED ACTION:	Approve
PRESENTED BY:	Rebecca A. Lewis, CPA Chief Audit Executive

Ms. Lewis will provide a listing of additions and deletions to the fiscal year 2021-2022 audit plan since the last meeting.

Additions

Guest and Group Housing – An audit of guest and group housing was requested by management.

FWA 22-05 – Internal Audit received a possible fraud, waste, or abuse concern. This will be investigated by audit and/or assigned to the appropriate authority.

FWA 22-06 – Internal Audit received a possible fraud, waste, or abuse concern. This will be investigated by audit and/or assigned to the appropriate authority.

Deletions

Football – Internal Audit is changing how it completes audits within Athletics. Rather than conducting an audit at the end of a head coach's tenure, Internal Audit will review a specific risk area and conduct the audit across all sports on an annual basis.

NCAA Compliance – This audit was removed in order to add the Group and Guest Housing Audit.

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

INFORMATION ITEM

DATE:	April 22, 2022
ITEM:	Audits and Investigations Performed
COMMITTEE:	Audit Committee
PRESENTED BY:	Rebecca A. Lewis, CPA Chief Audit Executive

Ms. Lewis will provide an overview of the audits and internal investigations completed during the period February 1, 2022 to March 31, 2022.

Audits

- Men's Soccer – An audit of Men's Soccer Expenditures within the Department of Intercollegiate Athletics was conducted by Internal Audit personnel in accordance with the Annual Audit Plan. At the request of administration, the Office of Internal Audit conducts audits of head coaches at the end of their employment. In October 2021, the Head Coach for the men's soccer team resigned.

- FY 2021 Executive Level Audit – An audit of the Provost/Senior Vice President for Academics was conducted by Internal Audit personnel in accordance with the Annual Audit Plan. At the request of administration, the Office of Internal Audit will conduct an audit of a randomly selected executive level administrator annually. The expenditures reviewed were those under the direct control of the former Vice President.

- Center of Excellence in Math and Science Education (now known as Center of Excellence is STEM Education) - An audit of East Tennessee State University's Center of Excellence in Math and Science Education (CEMSE) was conducted by Internal Audit personnel at the request of the Clemmer College Dean. A comprehensive review of all account indexes within Banner Finance was conducted. Since the audit began the center changed its name as the Center of Excellence in STEM Education (CESE).

Investigations

- Upward Bound (FWA 20-04) – An investigative review into possible inappropriate meal expenses involving the Upward Bound Program was conducted by the Department of Internal Audit. In August 2019, Internal Audit was notified that four individuals allegedly signed the meal money sheet for the summer 2019 trip to Atlanta indicating money was provided, even though they did not go on the trip. Due to concerns over possible forged signatures, Internal Audit conducted an investigation of the last three summer trips for Upward Bound.

East Tennessee State University
Men's Soccer Expenditures
August 1 – October 11, 2021

Key Staff Person: Former Men's Soccer Coach	**Internal Audit:** Internal Auditor

Introduction

An audit of *Men's Soccer Expenditures* within the Department of Intercollegiate Athletics was conducted by Internal Audit personnel in accordance with the Annual Audit Plan. At the request of administration, the Office of Internal Audit conducts audits of head coaches at the end of their employment. In October 2021, the Head Coach (Coach) for the men's soccer team resigned.

Objectives

1. To evaluate the adequacy of the internal controls.
2. To determine compliance with university policies and procedures.
3. To make recommendations for correcting deficiencies or improving operations.

Total Questioned Costs/Losses: None	**Total Recoveries:** N/A

Current Audit Results

During the audit, the Coach had direct control over one institutional index within the Banner Finance System entitled "Men's Soccer". Operational and travel expenditures paid from this index were reviewed and tested for compliance with university policies and procedures. The items selected for testwork included all payments made directly to the Coach, as well as a sample of other expenditures. These included not only travel and miscellaneous operating expenses, but also purchasing card (procard) transactions.

Based on the testing performed, it appears that the expenditures comply with the applicable University policies and procedures.

There were no observations or findings result from this audit. The objectives of the audit were met.

East Tennessee State University
Executive Level Expenditures
Provost/Office of Academics
For the Fiscal Year 2019-2000
Executive Summary

Key Staff Person: Provost/ Senior Vice President for Academics	**Auditor:** Internal Audit Staff member

Introduction

An audit of East Tennessee State University's Provost/Senior Vice President for Academics was conducted by Internal Audit personnel in accordance with the Annual Audit Plan. At the request of administration, the Office of Internal Audit will conduct an audit of a randomly selected executive level administrator annually. The expenditures reviewed were those under the direct control of the former Vice President.

Objectives

1. To evaluate the adequacy of the internal controls.
2. To determine compliance with university policies/procedures and applicable federal regulations.
3. To make recommendations for correcting deficiencies or improving operations.

Total Questioned Costs/Losses: None	**Total Recoveries:** N/A

Conclusions

Operational and travel expenditures paid from the accounts under the direct control of the former Vice President were reviewed and tested for compliance with university policies and procedures. The items tested included all payments made to the former Vice President as well as other travel, meals/entertainment, procard transactions, and miscellaneous operating expenses. There were no findings as a result of this audit.

Based on the testing performed it appears that the expenditures under the control of the former Vice President comply with applicable policies and procedures. The objectives of the audit were met.

East Tennessee State University
Center of Excellence in Math and Science Education
(Now Known as the Center of Excellence in STEM Education)
For the Period July 1, 2017 to January 31, 2020
Executive Summary

Key Staff Person: Center of Excellence in Math and Science Education	**Auditor:** Associate Director, Internal Audit
Introduction An audit of East Tennessee State University's Center of Excellence in Math and Science Education (CEMSE) was conducted by Internal Audit personnel at the request of the Clemmer College Dean. A comprehensive review of all account indexes within Banner Finance was conducted. Since the audit began the center changed its name as the Center of Excellence in STEM Education (CESE).	
Objectives 1. To evaluate the adequacy of the internal controls. 2. To determine compliance with university policies/procedures and applicable federal regulations. 3. To make recommendations for correcting deficiencies or improving operations.	
Total Questioned Costs/Losses: $334.69 (travel) and $786.97 (meals)	**Total Recoveries:** None
Findings and Conclusions Finding 1: The audit revealed one instance in which an employee may have received a reimbursement for personal expenses totaling $ 334.69. This was related to an additional night's stay while traveling. The extra night was questioned by the Fiscal Affairs Coordinator in Clemmer College when approving the travel authorization but no response was provided with the supporting documentation. This expense was reimbursed to the employee. Finding 2: Business meals were reviewed along with other miscellaneous expenditures on a test basis. The audit discovered ten instances (totaling $786.97) where meals were paid in which no one outside of the university was present. According to university policies, business meals with no outside guests are occasionally allowed. The meals in question were primarily business lunches. In addition, six of the ten meals mentioned above were business lunches reimbursed to a faculty member two to seven months after the event occurred. A memo from the faculty indicated the expenses for these meals was incurred prior to funding was available. Management concurs with the findings and is planning to take appropriate steps to help prevent future issues.	

Department of Internal Audit
Box 70566
Johnson City, TN 37614-1707
Telephone: 423/439-6155

MEMORANDUM

TO: ETSU Board of Trustees' Audit Committee

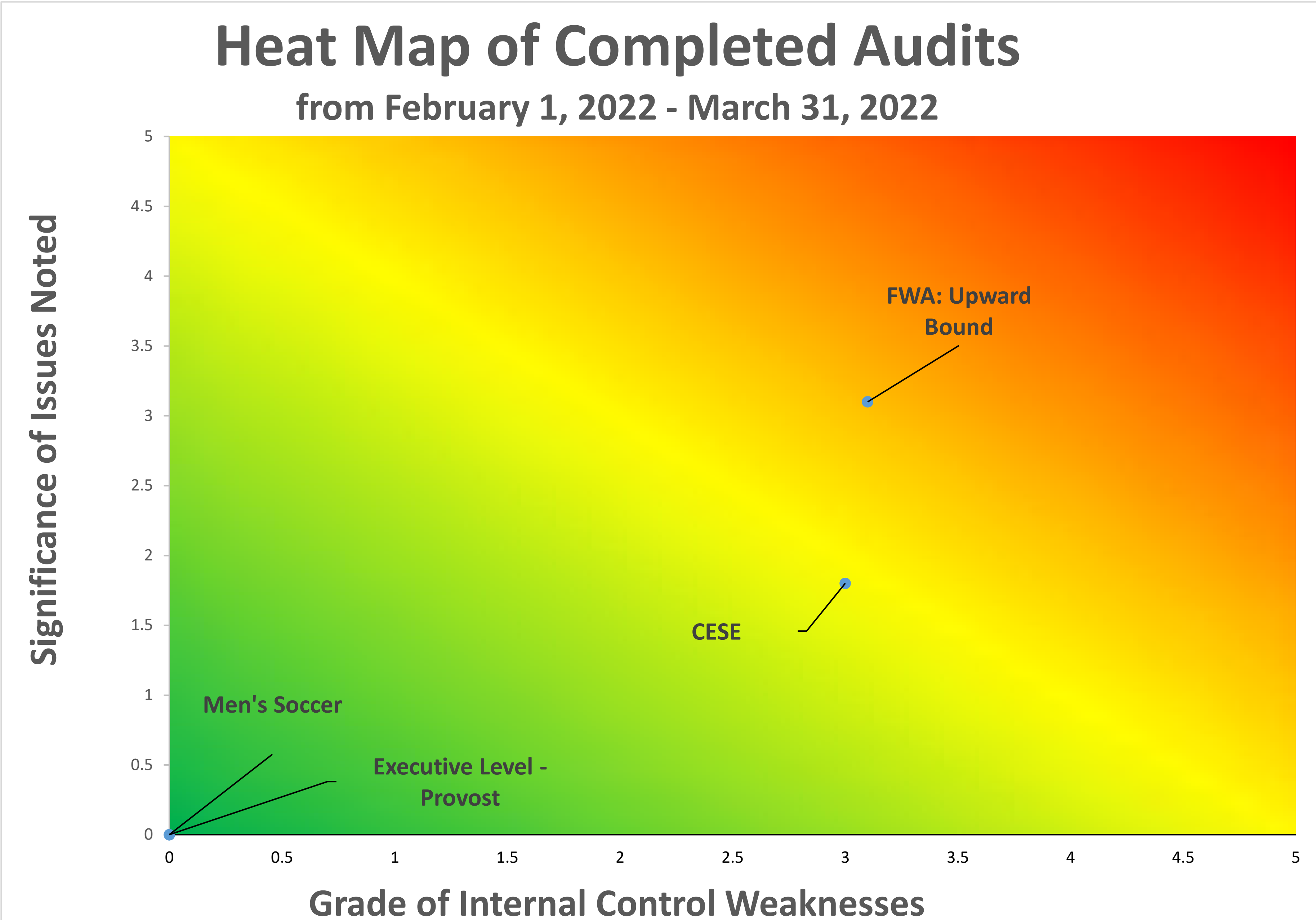
FROM: Becky Lewis, Chief Audit Executive B. Lewis

SUBJECT: Completed Investigations – February 1 to March 31, 2022

DATE: April 22, 2022

Below is a summary of the investigation completed between February 1 and March 31, 2022.

Upward Bound (FWA 20-04): The investigation revealed each individual attending the trip was required to sign a meal form when receiving cash ($200). However, four individuals on these forms did not attend the trip. The Director recalled a shortage of cash was identified when reconciling the unspent funds to the meal forms. Based on interviews and documentation, the evidence indicates that the Director forged the four students' signatures who did not attend the trip rather than reporting an $800 loss. While it is unclear whether the missing $800 was lost or stolen, the individual responsible was not identified. Management plans to strengthen internal controls and procedures to help prevent future instances for occurring.


Heat Map of Completed Audits
from February 1, 2022 - March 31, 2022
Significance of Issues Noted
Grade of Internal Control Weaknesses
0
0.5
1
1.5
2
2.5
3
3.5
4
4.5
5
FWA: Upward Bound
CESE
Men's Soccer
Executive Level - Provost

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

INFORMATION ITEM

DATE:	April 22, 2022
ITEM:	Recommendation Log
COMMITTEE:	Audit Committee
PRESENTED BY:	Rebecca A. Lewis, CPA Chief Audit Executive

Audit reports often contain recommendations to improve internal controls or procedures. For each recommendation, management must respond with a corrective action plan. A follow-up review of these corrective action plans is later performed by Internal Audit. A log is maintained to track the status of prior audit recommendations and is communicated to the Board of Trustees' Audit Committee each meeting.

A copy of the Recommendation Log as of March 31, 2022 is provided for the committee's review.

East Tennessee State University		
Internal Audit Recommendation Log as of March 31, 2022		
Area	**Recommendation**	**Status**
Off Campus Domestic & International Programs	Controls over Off Campus Domestic & International Programs needs improvement.	Green
Johnson City Community Health Centers (JCCHC) - Financial Procedures	Cash receipting procedures need improvement.	Green
Internal Medicine	Current policies and procedures over grants need to be reviewed and strengthened within various academic departments, the Office of Research and Sponsored Programs, and Grant Accounting.	Green
Psychology	Controls over petty cash funds for research projects needs improvement.	Green
	Expenditures made with research funds should agree with the grant agreement and/or approved IRB study.	Green
	Researchers should follow all IRB policies and procedures.	Green
Dependent/Spouse Tuition Discount	Procedures related to dependent/spouse tuition discounts needs improvement.	Green
Human Patient Simulation Laboratory	Procedures related to conflict of interest need improvement.	Green
	Processes related to licensing agreements need improvement.	Green
Ronald E McNair Program	Processes related to documentaiton on tasks completed needs improvement.	Blue
Health Services	Internal controls over the handling and safeguarding of petty cash needs improvement.	Green
College of Nursing	Polices and procedures related to workload and overload pay need improvement.	Green
Upward Bound	Controls over cash given to students and participants for the Upward Bound trips need to be strengthened.	Green
Center of Excellence in STEM Education	Departmental controls over travel need improvement.	Green
	Departmental controls over business meal expenditures need improvement.	Green

Legend:	
Actions completed since previous Audit Committee Meeting	Blue
Actions are progressing in a timely fashion or not yet due	Green
Actions are slightly overdue	Yellow
Actions are significantly overdue	Red

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

INFORMATION ITEM

DATE:	April 22, 2022
ITEM:	Quality Assurance and Improvement Program
COMMITTEE:	Audit Committee
PRESENTED BY:	Rebecca A. Lewis, CPA Chief Audit Executive

State law requires the Office of Internal Audit to follow the International Professional Practices Framework (IPPF) promulgated by the Institute of Internal Auditors (IIA). The IPPF is the internationally recognized authoritative guidance for internal audit professionals worldwide. The mandatory elements of the IPPF are:

- Core Principles for the Professional Practice of Internal Auditing
- Code of Ethics
- *International Standards for the Professional Practice of Internal Auditing*
- Definition of Internal Auditing

The IPPF requires Internal Audit to have an active Quality Assurance and Improvement Program (QAIP), which includes periodic self-assessments and external assessments.

The IPPF requires that an external assessment be performed every five years by a qualified, independent assessor or assessment team from outside the organization. The objective of the assessment is to determine if the internal audit function is conforming with the IPPF's mandatory guidance. External assessments provide the Board of Trustees, executive management, and other stakeholders assurance that Internal Audit is operating as required by the IPPF and potentially highlight opportunities for improvement. The previous external assessment was completed in August 2018 and the next is due in August 2023.

In addition to the external assessment, the Office of Internal Audit typically completes a self-assessment midway through the five years period. Included in your material is our most recent self-assessment.

The IPPF defines two acceptable methods for an external assessment: a full external assessment or a self-assessment with independent validation.

Self-assessment with independent validation: The option allows for internal audit staff to perform an in-depth self-assessment of operations to determine if operations conform to the IPPF mandatory guidance. An external, independent assessor or team performs a site visit to review the self-assessment to determine the conclusions reached are sound. During the site visit, the assessor or team may interview key staff; review audit working papers; and review related polices, charter, and other pertinent documents. At the conclusion, the independent assessor or team provides a written report to the Audit Committee reporting the results of their review. Often, the assessor or team lead is called to present their report directly to the audit committee.

Full external assessment: Unlike the method described above, the assessor or assessment team completes 100 percent of the work needed to determine if the internal audit function is in conformance with the IPPF mandatory guidance.

The self-assessment with external validation is the most common and cost-effective means of completing the required external assessment. Members of the internationally recognized organization, the Association of College and University Auditors (ACUA), often volunteer their time to participate as an external assessor, requiring only to be reimbursed for travel costs associated with the site visit, which normally lasts one week.

The full external assessment option is more expensive and may require the services to be competitively bid.

The last external assessment completed was the self-assessment with independent validation and was issued August 31, 2018.

East Tennessee State University
Office of Internal Audit

Report on Quality Self-Assessment

March 28, 2022

EAST TENNESSEE STATE UNIVERSITY
OFFICE OF INTERNAL AUDIT
REPORT ON QUALITY SELF-ASSESSMENT

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Restriction on Use of Report: *This report is intended solely for the internal use of East Tennessee State University and ETSU's Board of Trustees. It is not intended to be and should not be used for any other purpose. The distribution of the report to external parties must be approved by the Office of Internal Audit and handled in accordance with institutional policies.*

EAST TENNESSEE STATE
UNIVERSITY

March 28, 2022

Dr. Brian Noland, President
East Tennessee State University
Johnson City, Tennessee 37614

Dear Dr. Noland:

In accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*, issued by the Institute of Internal Auditors (IIA), as well as the IIA Definition of Internal Auditing, Code of Ethics, and Core Principles for the Professional Practice of Internal Auditing (Core Principles), we implemented a Quality Assurance and Improvement Program for the Office of Internal Audit. As required by the *Standards*, this program must include periodic external reviews and internal self-assessments, as well as ongoing internal monitoring covering all aspects of the internal audit activity.

The *Standards* require an external quality assurance review be performed every 5 years. Our previous external review report was issued in August 2018, and the next one is scheduled to be completed in August 2023. Standards indicate that this external review can be accomplished by a full external assessment or a self-assessment with independent validation. We have chosen a self-assessment with independent validation.

Accordingly, we performed an internal self-assessment during Fiscal Year 2022. The overall results of our assessment indicate we generally conform to the internal audit charter, IIA's Definition of Internal Auditing, *Standards*, Code of Ethics, and Core Principles. Any opportunities for improvement are noted in this report. The results of this self-assessment are attached and will be provided to the external reviewers for their independent validation.

Sincerely,

Rebecca Lewis

Rebecca Lewis, CPA
Chief Audit Executive

Department of Internal Audit
PO Box 70566 Johnson City, TN 37614-1707 | P 423-439-5356 | F 423-439-5622 | www.etsu.edu

Introduction

The East Tennessee State University (ETSU) Office of Internal Audit conducted a quality self-assessment of the internal audit activity during Fiscal Year 2022. The principal objective of the quality self-assessment was to determine the internal audit activity's conformity to the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* (*Standards*), Definition of Internal Auditing, Core Principle for the Professional Practice of Internal Audit (Core Principles), and Code of Ethics.

Requirements for Quality Assessments

Tennessee Code Annotated Section 4-3-304 (9) required internal audit staffs of higher education institutions comply with the IIA's *Standards*. Those *Standards* require ETSU Internal Audit to have a quality assurance and improvement program, which includes periodic internal and external quality assessments and ongoing internal monitoring for conformance with the *Standards*. External assessments must be performed at least once every five years by a qualified, independent assessor or assessment team from outside the organization. To better prepare for an external quality assessment, the internal audit activity should complete an internal self-assessment prior to undergoing an external quality assessment.

Adherence to the *Standards* is essential for the professional practice of internal auditing. Within The IIA *Standards* are Attribute and Performance Standards. The IIA states that "Standards are the criteria by which the operations of an internal audit department are evaluated and measured. They are intended to represent the practice of internal auditing as it should be."

Procedures Performed

As part of the quality assessment, the Office of Internal Audit prepared a self-study of conformance to the IIA requirements. The Office of Internal Audit also reviewed the risk analysis and audit planning processes, audit tools and methodologies, and engagement and staff management processes.

Opinion as to Conformity to the Standards

The overall opinion is that East Tennessee State University's internal audit activity generally conforms to The IIA's *Standards,* Definition of Internal Auditing, Core Principles, and Code of Ethics. The internal audit activity is well-structured and progressive and audit management is endeavoring to provide useful audit tools and implement appropriate practices. For a detailed list of conformance to individual standards and definitions of generally conforms, partially conforms and does not conform, please see Attachment A.

The quality self-assessment review identified opportunities for further improvement, details of which are provided below.

Observations

The concept of general conformance to the IIA *Standards* recognizes that there may still be room for improvement. Auditors strive for continuous improvement, and Quality Assurance Reviews provide a natural process for identifying those opportunities. The following recommendation has the potential to improve ETSU Internal Audit in relation to the *Standards* but does not change the overall conclusion that ETSU Internal Audit generally complies with the IIA's Definition of Internal Auditing, Code of Ethics, *Standards*, and Core Principles.

Standard 1210 – Proficiency

> "Internal auditors have sufficient knowledge of key IT risks and controls and available technology-based audit techniques to perform their assigned work. Not all internal auditors are expected to have IT auditing experience."

Our internal auditors are lacking in IT auditing experience. We have one Internal Auditor with a dual degree in IT and Accounting and are working on developing him into an IT auditor.

Standard 1220 – Due Professional Care

> "Internal auditors consider the use of technology-based audit and other data analysis techniques."

We do not utilize technology-based audit software. One employee is currently working on a Master's Certificate in Data Analytics.

Standard 2240 – Engagement Supervision

> "The work programs is approved prior to its implementation, and any adjustments are approved promptly."

Currently, we discuss the audit program during the audit planning stage, but no written approval is obtained prior to fieldwork. Our plan is to have the auditors develop the audit program and have it reviewed and approved by the CAE before fieldwork begins.

SUMMARY EVALUATION OF CONFORMANCE TO THE STANDARDS

	GC	PC	DNC	NA
Attribute Standards				
1000 Purpose, Authority and Responsibility	X			
1010 Recognizing Mandatory Guidance in the Internal Audit Charter	X			
1100 Independence and Objectivity	X			
1110 Organizational Independence	X			
1111 Direct Interaction with the Board	X			
1112 Chief Audit Executive Roles Beyond Internal Auditing	X			
1120 Individual Objectivity	X			
1130 Impairments to Independence or Objectivity	X			
1200 Proficiency and Due Professional Care	X			
1210 Proficiency	X			
1220 Due Professional Care	X			
1230 Continuing Professional Development	X			
1300 Quality Assurance and Improvement Program	X			
1310 Requirements of the Quality Assurance and Improvement Program	X			
1311 Internal Assessments	X			
1312 External Assessments	X			
1320 Reporting on Quality Assurance and Improvement Program	X			
1321 Use of “Conforms with the *International Standards for the Professional Practice of Internal Auditing*”	X			
1322 Disclosures of Nonconformance				X
Performance Standards				
2000 Managing the Internal Audit Activity	X			
2010 Planning	X			
2020 Communication and Approval	X			
2030 Resource Management	X			
2040 Policies and Procedures	X			
2050 Coordination and Reliance	X			
2060 Reporting to Senior Management and the Board	X			
2070 External Service Provider and Organizational Responsibility for Internal Auditing	X			
2100 Nature of Work	X			
2110 Governance	X			
2120 Risk Management	X			
2130 Control	X			
2200 Engagement Planning	X			
2201 Planning Considerations	X			
2210 Engagement Objectives	X			
2220 Engagement Scope	X			
2230 Engagement Resource Allocation	X			
2240 Engagement Work Program	X			
2300 Performing the Engagement	X			
2310 Identifying Information	X			
2320 Analysis and Evaluation	X			
2330 Documenting Information	X			
2340 Engagement Supervision	X			

	GC	PC	DNC	NA
2400 Communicating Results	X			
2410 Criteria for Communicating	X			
2420 Quality of Communications	X			
2421 Errors and Omissions	X			
2430 Use of "Conducted in Conformance with the *International Standards for the Professional Practice of Internal Auditing*"	X			
2431 Engagement Disclosure of Nonconformance				X
2440 Disseminating Results	X			
2450 Overall Opinions				X
2500 Monitoring Progress	X			
2600 Communicating the Acceptance of Risks				X
Code of Ethics	X			

Definitions

GC – "Generally Conforms" means the assessor or assessment team has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual standard or elements of the Code of Ethics in all material respects. For the sections and major categories, this means there is general conformity to a majority of the individual Standard or element of the Code of Ethics and at least partial conformity to the others within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, and has not applied them effectively or achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.

PC – "Partially Conforms" means the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standard or elements of the Code of Ethics or a section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.

DNC – "Does Not Conform" means the assessor or assessment team has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many or all of the objectives of the individual standard or element of the Code of Ethics or a section or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.

N/A – "Not Applicable" means that the standards does not apply.

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

INFORMATION ITEM

DATE:	April 22, 2022
ITEM:	Review of Audited Financial Statements from the Comptroller of the Treasury
COMMITTEE:	Audit Committee
PRESENTED BY:	Rebecca A. Lewis, CPA Chief Audit Executive Dr. BJ King, CPA Chief Financial Officer

The Tennessee Comptroller of the Treasury, Division of State Audit, issued a final audit report of ETSU's financial statements for the fiscal year ending June 30, 2021. This report has been mailed to each Trustee and is included in the audit committee material.

TENNESSEE COMPTROLLER OF THE TREASURY

FINANCIAL AND COMPLIANCE AUDIT REPORT

East Tennessee State University

For the Year Ended June 30, 2021

Jason E. Mumpower
Comptroller of the Treasury

THE GREAT SEAL OF THE STATE OF TENNESSEE XVI AGRICULTURE COMMERCE 1796

DIVISION OF STATE AUDIT

Katherine J. Stickel, CPA, CGFM, *Director*

<u>State Agency Audits</u>
Robyn R. Probus, CPA, CFE, CGFM, CGMA
Assistant Director

Bob Hunter, CPA, CGFM
Audit Manager

Joshua Cheasty
In-Charge Auditor

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Trina Weber
Staff Auditors

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Amanda Adams
Assistant Editor

<u>Information Systems</u>
Brent L. Rumbley, CPA, CISA, CFE
Assistant Director

Jeff White, CPA, CISA
Audit Manager

Malik Moughrabi, CPA
In-Charge Auditor

David Njoroge
Staff Auditor

Comptroller of the Treasury, Division of State Audit
Cordell Hull Building
425 Rep. John Lewis Way N.
Nashville, TN 37243
(615) 401-7897

Reports are available at
comptroller.tn.gov/office-functions/state-audit.html

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TENNESSEE COMPTROLLER OF THE TREASURY

JASON E. MUMPOWER
Comptroller

March 3, 2022

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, 2021. 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 internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Findings and Recommendations section of this report. The university's management has responded to the audit findings; the responses are included following the findings. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

Katherine J. Stickel

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

21/082

Audit Report
East Tennessee State University
For the Year Ended June 30, 2021

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State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit

East Tennessee State University

For the Year Ended June 30, 2021

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

East Tennessee State University Did Not Provide Adequate Internal Controls in One Area Reported for the Second Consecutive Audit

East Tennessee State University did not design and monitor effective internal controls in one area. For the second consecutive audit, we found an internal control deficiency related to one of the university's systems. Although management has taken steps to correct this condition, we are reporting an internal control deficiency because corrective action was not sufficient. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated* (page 73).

University Staff Did Not Conduct Proper Collection Procedures on Accounts Receivable

Management did not ensure that university collection procedures for accounts receivable were performed by Bursar's Office and ETSU College of Nursing personnel. Bursar's Office personnel stated that due to staff limitations over the last several years, other, more time-sensitive tasks were performed and took priority over performing collection procedures. College of Nursing personnel stated that the billing department was understaffed and, as a result, delays have occurred in the collections of patient accounts receivable (page 73).

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 Financial Statements

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, 2021, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the East Tennessee State University Foundation and the Medical Education Assistance Corporation, discretely presented component units. Those statements were audited by other auditors, whose reports have been furnished to us. Our opinion, insofar as it relates to the amounts included for these institutions, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment,

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including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the university's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2021; 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.

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, 2021, 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 22, the financial statements of East Tennessee State University Foundation, a discretely presented component unit of East Tennessee State University, include investments valued at $6,367,817.47 (4.6% of net position of the foundation), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers. 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 6 through 16; the schedule of East Tennessee State University's proportionate share of the net pension liability – Closed State and Higher Education Employee Pension Plan within TCRS on page 62; 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 63; the schedule of East Tennessee State University's contributions – Closed State and Higher Education Employee Pension Plan within TCRS on page 64; the schedule of East Tennessee State University's contributions – State and Higher Education Employee Retirement Plan within TCRS on page 65; 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 66; the schedule of East Tennessee State University's contributions - Closed State Employee Group OPEB Plan on page 67; and the schedule of East Tennessee State University's proportionate share of the collective total OPEB liability – Closed Tennessee OPEB Plan on page 68 be presented to supplement the basic financial statements. Such information, 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 69 and 70 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 the 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, 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 10, 2021, 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 10, 2021

EAST TENNESSEE STATE UNIVERSITY
Management's Discussion and Analysis

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, 2021, with comparative information presented for the fiscal year ended June 30, 2020. 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 22 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, 2021, and June 30, 2020.

Summary of Net Position
(in thousands of dollars)

	2021	2020
Assets:		
Current assets	$ 62,618	$ 59,607
Capital assets, net	403,225	402,159
Other assets	178,237	161,836
Total assets	**644,080**	**623,602**
Deferred outflows of resources		
Deferred amount on debt refunding	7,534	5,030
Deferred outflows related to pensions	12,941	13,987
Deferred outflows related to OPEB	6,670	6,030
Total deferred outflows of resources	**27,145**	**25,047**
Liabilities:		
Current liabilities	45,060	54,009
Noncurrent liabilities	240,864	237,784
Total liabilities	**285,924**	**291,793**

Deferred inflows of resources		
Deferred amount on debt refunding	453	75
Deferred inflows related to pensions	705	4,954
Deferred inflows related to OPEB	9,820	9,934
Total deferred inflows of resources	**10,978**	**14,963**
Net position:		
Net investment in capital assets	235,463	232,873
Restricted – expendable	37,200	25,044
Unrestricted	101,660	83,976
Total net position	**$374,323**	**$341,893**

Comparison of Fiscal Year 2021 to Fiscal Year 2020

- Current cash reserves increased $5.2 million from 2020 to 2021. Current accounts receivable decreased a total of $0.4 million during the same period. The largest decrease was a decrease in the amount due from the component units of the university of $1.5 million. This decrease is largely due to a decrease in the transfer of funds to the university by the foundation during the accrual period, as well as an increase in the receipt of outstanding amounts from Medical Education Assistance Corporation prior to June 30 in fiscal year 2021.

- Capital assets, net of depreciation, continued to increase as construction of the Martin Fine Arts Center and a renovation project at the D.P. Culp Center were completed. These projects were completed in fall 2020.

- Other assets increased in fiscal year 2021 due to growth in noncurrent cash during this period. The largest growth occurred in renewal and replacement funds. Noncurrent restricted and retirement of indebtedness funds also increased.

- Deferred outflows of resources increased in fiscal year 2021. The university underwent a refunding of Tennessee State School Bond Authority (TSSBA) bonds in February 2021. The debt refunding allowed the university to refinance 19 bond issuances at lower interest rates. A portion of the refunding resulted in an increase of deferred amount on debt refunding of $2.5 million. This deferred loss will be amortized over the life of the debt. Deferred outflows of resources related to pensions continued to decrease in fiscal year 2021 as the university's proportionate share of deferred outflows of resources related to the Closed State and Higher Education Pension Plan within Tennessee Consolidated Retirement System (TCRS) decreased.

- Current liabilities decreased during fiscal year 2021. Accrued liabilities decreased by $6.7 million mainly from completion of construction related to the Martin Fine Arts Center and the renovation of D.P. Culp Center. Unearned revenue also decreased by $5.2 million in fiscal year 2021. This was mainly due to a reduction in unearned revenue for an Outpatient Drugs Program grant.

- Noncurrent liabilities for fiscal year 2021, increased $3.1 million overall. The university's noncurrent proportionate share of the OPEB liability decreased by $1.99

million. The university's portion of the net pension liability under the Closed State and Higher Education Employee Pension Plan within TCRS increased by $4.8 million during fiscal year 2021. Due to grantors decreased by $416 thousand mainly due to the university returning $516 thousand of Perkins Loan funds to the U.S. Department of Education. The noncurrent portion of the university's liability from compensated absences increased by $1.18 million during fiscal year 2021.

- Deferred inflows of resources decreased mainly because of a reduction in the university's proportionate share of deferred inflows of resources related to pensions.
- Net investment in capital assets increased as construction projects, including the Martin Fine Arts Center and the D.P. Culp Center, were completed during fiscal year 2021.
- Restricted expendable net position increased due to an increase in the net position of Investment in Tennessee Retiree Group Trust of $999 thousand and an increase in restricted funds net position of $9.9 million as the university earned revenue during fiscal year 2021 recorded as unearned revenue in fiscal year 2020.
- Unrestricted net assets increased due to increases in 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 years ended June 30, 2021, and June 30, 2020, follows.

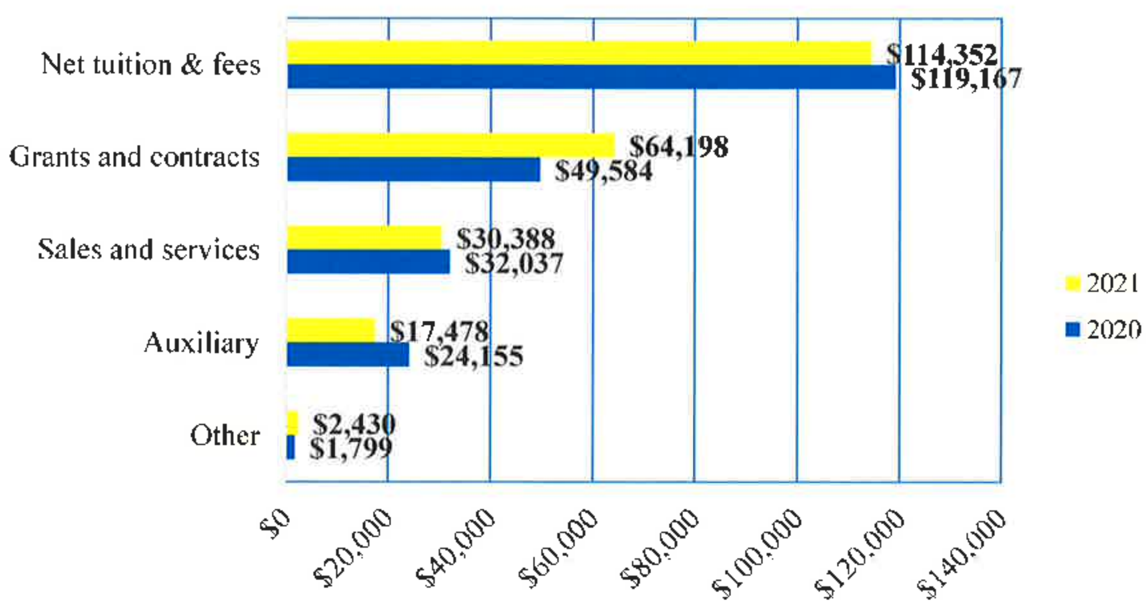
Summary of Revenues, Expenses, and Changes in Net Position
(in thousands of dollars)

	2021	2020
Operating revenues	$ 228,846	$ 226,742
Operating expenses	388,439	395,435
Operating loss	(159,593)	(168,693)
Nonoperating revenues and expenses	183,457	180,450
Income (loss) before other revenues, expenses, gains, or losses	23,864	11,757
Other revenues, expenses, gains, or losses	8,566	14,255
Increase in net position	32,430	26,012
Net position at beginning of year	341,893	315,881
Net position at end of year	**$ 374,323**	**$ 341,893**

Operating Revenues

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

Operating Revenues by Source
(in thousands of dollars)



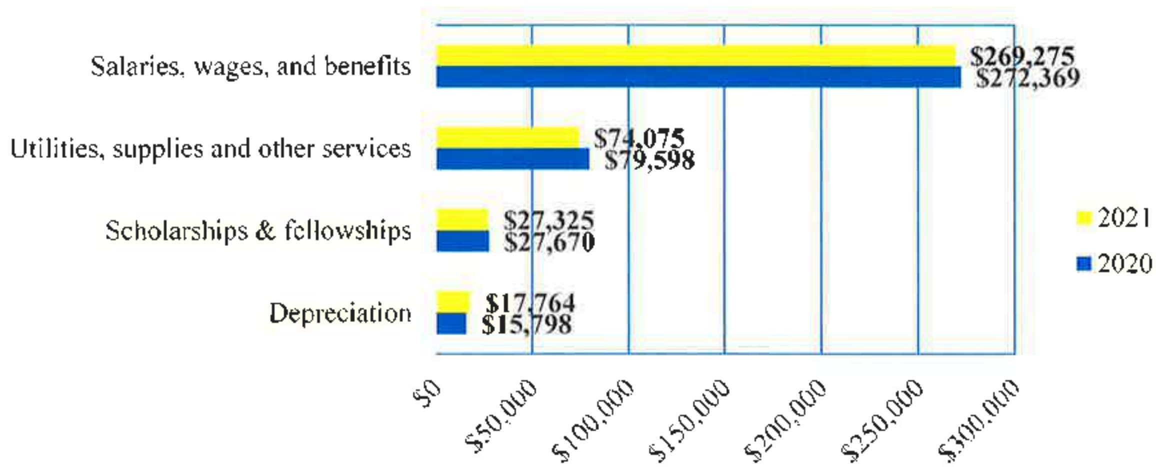
Comparison of Fiscal Year 2021 to Fiscal Year 2020

- Tuition and fees decreased during fiscal year 2021. No fee increase was instituted by the university during the fiscal year. Student enrollment decreased as most classes were moved online in response to the COVID-19 pandemic.
- Grants and contracts increased due to an increase of governmental grants and contracts of $6.7 million in the areas of research and public service as well as an increase in nongovernmental grants of $7.8 million.
- Auxiliary revenues also decreased. Residence halls continued to experience decreasing occupancy during fiscal year 2021 as the university transitioned to an online learning environment in response to the COVID pandemic. Residential life revenues decreased by $4.2 million while food service experienced a decrease of revenues of $2.1 million.

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:

Operating Expenses - Natural Classification
(in thousands of dollars)



Comparison of Fiscal Year 2021 to Fiscal Year 2020

- Salaries, wages, and benefits decreased in fiscal year 2021 due to employee participation in a retirement incentive program implemented by the university. Staff positions had a retirement date effective no later than October 31, 2020, and faculty had a retirement date effective no later than June 30, 2021.

- Utilities, supplies, and other expenses decreased during the fiscal year with a reduction in the use of facilities due to remote work by employees. Travel was significantly curtailed during the fiscal year.

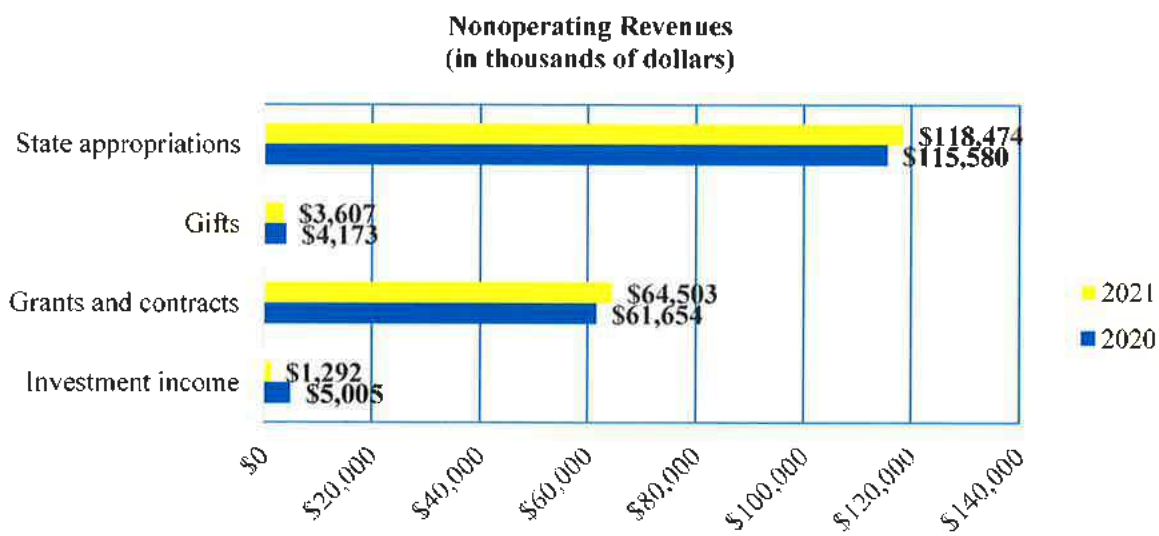
- Depreciation increased as the Martin Fine Arts Center and D.P. Culp Center projects were completed and came on-line.

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)

	2021	2020
State appropriations	$ 118,474	$ 115,580
Gifts	3,607	4,173
Grants and contracts	64,503	61,654
Investment income	1,292	5,005
Interest on capital asset-related debt	(4,344)	(6,230)
Interest on noncapital debt	(67)	(144)
Bond issuance costs	(101)	(296)
Other nonoperating revenues (expenses)	93	708
Total nonoperating revenues(expenses)	**$ 183,457**	**$ 180,450**



Comparison of Fiscal Year 2021 to Fiscal Year 2020

- State appropriations increased in fiscal year 2021 by 2.5% with a $1.1 million state investment in the College of Medicine Pediatrics and a $1.4 million supplemental appropriation for compensation implemented as an employee bonus in June.
- Nonoperating gifts decreased due to a decrease in gifts transferred from the ETSU Foundation.
- Nonoperating grants and contracts increased during fiscal year 2021 due to the additional receipt of Department of Education Higher Education Emergency Relief Fund awards.
- Investment income decreased in fiscal year 2021 as interest rates on investments dropped due to market conditions for investments available to the university.
- Interest on capital asset-related debt decreased because of TSSBA bond refunding that took place in February 2021. The bond refunding resulted in lower interest rates on 19 bonds.
- Other nonoperating revenue decreased in fiscal year 2021 with the reduction in camps, conferences, athletic, and other university activities.

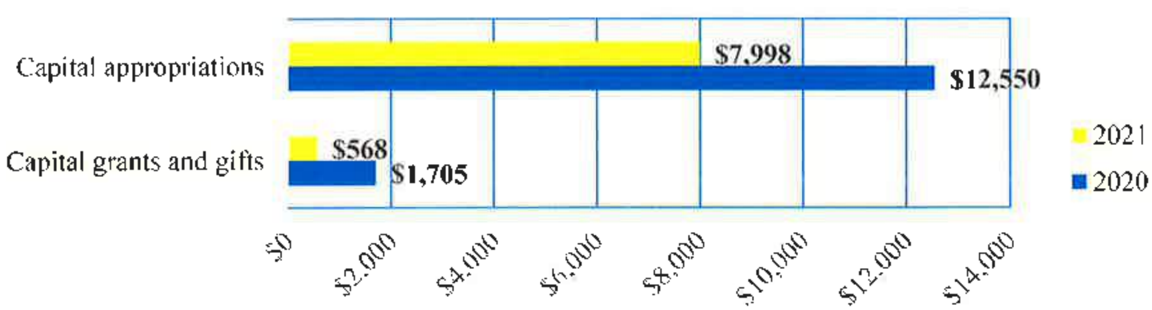
Other Revenues

This category is composed of state appropriations for capital purposes and capital grants and gifts. These amounts were as follows for the last two fiscal years:

Other Revenues
(in thousands of dollars)

	2021	2020
Capital appropriations	$ 7,998	$ 12,550
Capital grants and gifts	568	1,705
Total other revenues	**$ 8,566**	**$ 14,255**

Other Revenues
(in thousands of dollars)



Comparison of Fiscal Year 2021 to Fiscal Year 2020

- Capital appropriations decreased from fiscal year 2020 to fiscal year 2021 due to a decrease in appropriation funded expenditures for capital projects.
- Capital grants and gifts decreased due to a decrease in capital gifts received from the ETSU Foundation.

Capital Assets and Debt Administration

Capital Assets

East Tennessee State University had $403 million invested in capital assets, net of accumulated depreciation of $288 million at June 30, 2021; and $402 million invested in capital assets, net of accumulated depreciation of $272 million at June 30, 2020. Depreciation charges totaled $17.7 million for the year ended June 30, 2021, and $15.8 million for year ended June 30, 2020.

Summary of Capital Assets, Net of Depreciation
(in thousands of dollars)

	2021	2020
Land	$ 19,381	$ 19,381
Land improvements and infrastructure	39,488	39,011
Buildings	325,421	237,496
Equipment	11,893	12,178
Library holdings	262	300
Intangible assets	566	647
Art and historical collections	24	24
Projects in progress	6,190	93,122
Total	**$403,225**	**$402,159**

- Capital assets, net of depreciation, increased from fiscal year 2020 to fiscal year 2021 due to the completion of several projects, including the Martin Fine Arts Center and D.P. Culp renovation.

At June 30, 2021, outstanding commitments under construction contracts totaled $38 million for various renovations and repairs including the D.P. Culp and Stone Hall Renovations, Communication Buildings HVAC System Upgrades, Fine Arts Classroom Building, Valleybrook Building Systems Replacement, and Lamb Hall Renovations. Future state capital outlay appropriations will fund $15.8 million of these costs including $15.6 million for the Lamb Hall renovation.

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

Debt

The university had $176 and $177 million in debt outstanding at June 30, 2021, and June 30, 2020, respectively. The table below summarizes these amounts by type of debt instrument.

Schedule of Outstanding Debt
(in thousands of dollars)

	2021	2020
Bonds	162,028	154,937
Unamortized bond premiums	14,481	21,978
Lease obligations	283	146
Total	**$176,792**	**$177,061**

The TSSBA has 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 $162 million bonds outstanding at June 30, 2021, is $8 million.

The ratings on debt issued by the TSSBA at June 30, 2021, 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 9 to the financial statements.

Economic Factors That Will Affect the Future

The final state budget for the 2022 fiscal year, as proposed by Governor Lee and subsequently approved by the state legislature, provided for an increase of $5.3 million for the university, and $4.5 million for the College of Medicine and Family Medicine units to use. The ETSU Board of Trustees approved a 1.9% tuition and mandatory fee increase effective fall 2021. The increase in appropriations, as well as tuition, will aid in covering salary increases, as well as inflationary increases in operating costs.

The university continues to recover from the economic impact of the coronavirus pandemic. Enrollment of freshman and transfer students has rebounded for fall of 2021. The ETSU Board of Trustees approved new out-of-state tuition rates and corresponding scholarship reductions for fall 2021, and the university is experiencing growth in the number of out-of-state students attending the university.

The campus reverted to on-ground operations for staff and faculty over the summer of 2021, and Housing returned to normal operations. Dining services is experiencing a record enrollment in meal plans with the return of students to campus and the renovations which occurred in the D.P. Culp Center food service areas.

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 upcoming fiscal year.

EAST TENNESSEE STATE UNIVERSITY
Statement of Net Position
June 30, 2021

		Component Units	
	University	East Tennessee State University Foundation	Medical Education Assistance Corporation
Assets			
Current assets:			
Cash and cash equivalents (Notes 2 and 22)	$ 36,408,461.88	$ 810,918.46	$ 22,139,864.00
Short-term investments (Note 22)	-	-	7,368,222.00
Accounts, notes, and grants receivable (net) (Notes 5 and 22)	21,659,400.24	200,000.00	6,772,480.00
Due from State of Tennessee	2,023,401.01	-	-
Due from ETSU	-	-	172,138.00
Due from component units	740,288.73	-	-
Pledges receivable (net) (Note 22)	-	895,044.54	-
Inventories (at lower of cost or market)	205,517.11	-	-
Prepaid expenses	580,572.51	13,333.00	293,985.00
Accrued interest receivable	982,462.52	92,755.12	-
Other assets	17,561.70	-	-
Total current assets	62,617,665.70	2,012,051.12	36,746,689.00
Noncurrent assets:			
Cash and cash equivalents (Notes 2 and 22)	110,872,228.59	18,839,383.08	-
Investments (Notes 3 and 22)	62,268,840.00	115,691,653.60	4,194,290.00
Investment in Tennessee Retiree Group Trust	2,144,413.31	-	-
Accounts, notes, and grants receivable (net) (Note 5)	2,076,102.04	122,726.03	-
Due from State of Tennessee	19,700.00	-	-
Net pension asset (Note 11)	856,288.00	-	-
Pledges receivable (Note 22)	-	1,460,018.77	-
Capital assets (net) (Notes 6 and 22)	403,224,635.55	667,389.24	5,435,443.00
Other assets	-	-	118,105.00
Total noncurrent assets	581,462,207.49	136,781,170.72	9,747,838.00
Total assets	644,079,873.19	138,793,221.84	46,494,527.00
Deferred outflows of resources			
Deferred amount on debt refunding	7,534,664.50	-	-
Deferred outflows related to OPEB (Note 12)	6,669,617.00	-	-
Deferred outflows related to pensions (Note 11)	12,941,180.00	-	-
Total deferred outflows of resources	27,145,461.50	-	-
Liabilities			
Current liabilities:			
Accounts payable (Note 8)	6,653,583.50	83,834.13	468,414.00
Accrued liabilities	4,819,720.94	-	3,887,349.00
Due to State of Tennessee	2,892,705.24	-	-
Due to ETSU	-	93,949.73	646,339.00
Due to MEAC	172,138.00	-	-
Student deposits	642,019.59	-	-
Unearned revenue	17,332,535.94	-	737,279.00
Compensated absences (Notes 9 and 22)	2,966,785.57	-	136,415.00
Accrued interest payable	931,559.87	-	-
Long-term liabilities, current portion (Note 9 and 22)	8,303,613.87	-	133,091.00
Deposits held in custody for others	345,804.76	-	308,401.00
Other liabilities	-	200.00	598,380.00
Total current liabilities	45,060,467.28	177,983.86	6,915,668.00
Noncurrent liabilities:			
Net OPEB liability (Note 12)	18,607,300.00	-	-
Net pension liability (Note 11)	35,180,898.00	-	-
Compensated absences (Notes 9 and 22)	14,227,984.15	-	545,658.00
Long-term liabilities (Note 9 and 22)	168,487,996.17	-	246,090.00
Due to grantors (Note 9)	4,359,362.13	-	-
Total noncurrent liabilities	240,863,540.45	-	791,748.00
Total liabilities	285,924,007.73	177,983.86	7,707,416.00
Deferred inflows of resources			
Deferred amount on debt refunding	453,137.38	-	-
Deferred inflows related to OPEB (Note 12)	9,820,146.00	-	-
Deferred inflows related to pensions (Note 11)	704,883.00	-	-
Total deferred inflows of resources	10,978,166.38	-	-
Net position			
Net investment in capital assets	235,463,653.41	667,389.24	5,056,262.00
Restricted for:			
Nonexpendable:			
Scholarships and fellowships	-	57,643,594.67	-
Research	-	858,338.76	-
Instructional department uses	-	7,921,976.38	-
Other	-	4,803,599.49	-
Expendable:			
Scholarships and fellowships	775,081.83	20,724,048.54	-
Research	140,880.25	3,738,091.83	-
Instructional department uses	406,454.77	6,647,751.89	-
Loans	126,359.36	-	-
Capital projects	1,722,458.75	2,333,430.65	-
Debt service	17,277,793.83	-	-
Pensions	856,288.00	-	-
Other	15,894,625.06	22,480,595.62	-
Unrestricted	101,659,565.32	10,796,420.91	33,730,849.00
Total net position	$ 374,323,160.58	$ 138,615,237.98	$ 38,787,111.00

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, 2021

	University	Component Units: East Tennessee State University Foundation	Component Units: Medical Education Assistance Corporation
Revenues			
Operating revenues:			
Student tuition and fees (Note 13)	$ 114,352,286.34	$ -	$ -
Gifts and contributions	-	5,410,713.51	-
Governmental grants and contracts	33,691,215.66	-	1,131,091.00
Nongovernmental grants and contracts (Note 13)	30,506,265.62	-	-
Sales and services of educational activities (Note 13)	21,728,016.04	-	-
Sales and services of other activities	8,660,481.75	-	-
Net patient revenues (Note 22)	-	-	48,211,102.00
Auxiliary enterprises:			
Residential life (Note 13)	8,851,311.81	-	-
Bookstore	177,787.80	-	-
Food service (Note 13)	4,599,953.48	-	-
Wellness facility	1,428,669.75	-	-
Other auxiliaries (Note 13)	2,420,319.85	-	-
Interest earned on loans to students	140,869.70	-	-
Other operating revenues, foundation revenues including $431,620 from MEAC	2,288,767.57	4,148,876.31	1,022,190.00
Total operating revenues	228,845,945.37	9,559,589.82	50,364,383.00
Expenses			
Operating expenses (Note 17):			
Salaries and wages	196,627,145.19	-	31,878,593.00
Benefits	72,649,205.72	-	2,945,193.00
Utilities, supplies, and other services	74,074,691.07	2,169,764.27	10,062,492.00
Scholarships and fellowships	27,324,750.78	2,724,591.24	-
Depreciation expense	17,763,584.67	41,480.33	534,868.00
Payments to or on behalf of East Tennessee State University (Note 22)	-	1,564,543.55	-
Total operating expenses	388,439,377.43	6,500,379.39	45,421,146.00
Operating income (loss)	(159,593,432.06)	3,059,210.43	4,943,237.00
Nonoperating revenues (expenses)			
State appropriations	118,474,175.00	-	-
Gifts, including $1,357,211.31 from ETSU Foundation and $1,772,636 from MEAC	3,607,274.56	-	-
Grants and contracts	64,503,069.14	-	5,751,173.00
Investment income (net of investment expense for the component units of $415,259)	1,292,024.82	21,672,478.50	141,886.00
Interest on capital asset-related debt	(4,343,910.64)	-	(4,008.00)
Interest on noncapital debt	(66,925.45)	-	-
Bond issuance costs	(101,496.55)	-	-
Payments to or on behalf of East Tennessee State University or ETSU Foundation (Note 22)	-	-	(2,204,256.00)
Other nonoperating revenues (expenses) (Note 19)	93,165.30	-	129,154.00
Net nonoperating revenues (expenses)	183,457,376.18	21,672,478.50	3,813,949.00
Income before other revenues, expenses, gains, or losses	23,863,944.12	24,731,688.93	8,757,186.00
Capital appropriations	7,997,593.11	-	-
Capital grants and gifts, including $207,332.24 from ETSU Foundation	568,572.24	-	-
Additions to permanent endowments	-	1,944,724.42	-
Total other revenues	8,566,165.35	1,944,724.42	-
Increase in net position	32,430,109.47	26,676,413.35	8,757,186.00
Net position - beginning of year	341,893,051.11	111,938,824.63	30,029,925.00
Net position - end of year	$ 374,323,160.58	$ 138,615,237.98	$ 38,787,111.00

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, 2021

Cash flows from operating activities		
Tuition and fees	$	113,466,573.27
Grants and contracts		60,843,388.32
Sales and services of educational activities		22,034,028.38
Sales and services of other activities		8,660,481.75
Payments to suppliers and vendors		(70,956,350.12)
Payments to employees		(198,044,676.46)
Payments for benefits		(76,201,726.78)
Payments for scholarships and fellowships		(27,337,676.03)
Loans issued to students		(102,843.94)
Collection of loans from students		580,837.92
Interest earned on loans to students		566,151.00
Funds disbursed for deposits held for others		(1,771,768.46)
Funds received for deposits held for others		1,568,168.75
Auxiliary enterprise charges:		
Residence halls		8,972,556.54
Bookstore		159,174.79
Food services		4,832,762.12
Wellness facility		1,428,669.75
Other auxiliaries		2,451,157.91
Other receipts (payments)		1,873,097.57
Net cash used for operating activities		(146,977,993.72)
Cash flows from noncapital financing activities		
State appropriations		118,315,000.00
Gifts and grants received for other than capital or endowment purposes		66,634,677.43
Federal student loan receipts		90,396,368.00
Federal student loan disbursements		(90,476,622.25)
Principal paid on noncapital debt		(775,819.37)
Interest paid on noncapital debt		(168,382.68)
Other noncapital financing receipts (payments)		118,348.33
Net cash provided by noncapital financing activities		184,043,569.46
Cash flows from capital and related financing activities		
Capital grants and gifts received		4,290.00
Purchases of capital assets and construction		(3,374,544.07)
Principal paid on capital debt and lease		(7,384,151.35)
Interest paid on capital debt		(5,441,453.33)
Bond issue costs		(101,496.55)
Net cash used for capital and related financing activities		(16,297,355.30)
Cash flows from investing activities		
Proceeds from sales and maturities of investments		39,005,000.00
Income on investments		1,961,806.26
Purchase of investments		(39,651,926.13)
Net cash provided by investing activities		1,314,880.13
Net increase in cash		22,083,100.57
Cash - beginning of year		125,197,589.90
Cash - end of year	$	147,280,690.47

EAST TENNESSEE STATE UNIVERSITY
Statement of Cash Flows (continued)
For the Year Ended June 30, 2021

Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$	(159,593,432.06)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Noncash operating expenses		18,225,673.37
Change in assets, liabilities, deferred outflows, and deferred inflows:		
Receivables, net		3,432,241.57
Inventories		(11,528.20)
Prepaid expenses		(313,329.06)
Accrued interest receivable		425,281.30
Accounts payable		1,335,994.02
Accrued liabilities		(4,687,689.71)
Due to component unit		(75,777.00)
Net pension asset		112,693.00
Deferred outflows of resources		406,594.00
Net pension liability		4,768,513.00
Deferred inflows of resources		(4,363,084.00)
Net OPEB liability		(1,989,407.00)
Unearned revenues		(5,242,614.37)
Student deposits		129,748.90
Compensated absences		603,404.25
Due to grantors		(415,670.00)
Loans to students		477,993.98
Other		(203,599.71)
Net cash used for operating activities	$	(146,977,993.72)

Noncash investing, capital, or financing transactions		
Gifts of capital assets	$	564,282.24
Unrealized losses on investments	$	(624,605.57)
Loss on disposal of capital assets	$	(70,747.40)
Purchases of capital assets and construction with capital appropriations	$	7,694,803.49
Purchases of capital assets and construction with TSSBA proceeds	$	4,365,363.39
Purchase of capital assets with capital lease	$	297,424.35

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 system). 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 had limited oversight responsibilities during the transition period and 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 the donors. Because these restricted resources held by the foundation and the corporation can only be used by, or for the benefit of, the university, these organizations are considered component units of the university and are discretely presented in the university's financial statements. See Note 22 for more detailed information about the component units and how to obtain their reports.

Basis of Presentation

The university and its component units' financial statements have been prepared in 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

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 and 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.

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, and intangible assets, are reported in the statement of net position at historical cost or at acquisition value at date of donation, 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 intangible assets is set at $100,000. The capitalization threshold for art, historical treasures/collections, and similar assets is set at $5,000.

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 the estimated useful lives, which range from 5 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 has been determined on the same basis as it is 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

This classification includes demand deposits and petty cash on hand. At June 30, 2021, cash consisted of $977,627.99 in bank accounts, $55,000.00 of petty cash on hand, $144,536,534.87 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, $1,704,627.61 in LGIP deposits for capital projects, and $6,900 in gift cards reported as cash.

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 *State of Tennessee Treasurer's Report*. That report is available on the state's website at https://treasury.tn.gov.

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 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, 2021, the university had the following investments and maturities.

		Investment Maturities (In Years)	
Investment Type	Fair Value	Less than 1	1 to 5
U.S. agency obligations	$62,268,840	$13,202,840	$49,066,000

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 the policy of its governing board. 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.

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

At June 30, 2021, the university's investments were rated as follows:

		Credit Quality Rating	
Investment Type	Balance	AA	Unrated
LGIP	$146,241,162.48	$ -	$146,241,162.48
U.S. agency obligations	62,268,840.00	62,268,840.00	-
Total	$208,510,002.48	$62,268,840.00	$146,241,162.48

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. The university's 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. The university's policy limits investments in money market mutual funds to not exceed 10% of total investments on the date of acquisition.

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

Issuer	Percentage of Total Investments
	June 30, 2021
Federal Home Loan Mortgage Corporation (FHLMC) obligations	37%
Federal Farm Credit Bank (FFCB) obligations	26%
Federal National Mortgage Association (FNMA) obligations	8%
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 as of June 30, 2021.

	June 30, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)
Assets by Fair Value Level		
Debt securities:		
U.S. agency obligations	$62,268,840	$62,268,840
Total debt securities	$62,268,840	$62,268,840
Total assets at fair value	$62,268,840	$62,268,840

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 at June 30, 2021, included the following:

Student accounts receivable	$ 6,705,214.49
Grants receivable	11,179,729.22
Notes receivable	547,000.47
Clinic receivables	1,158,904.33
Medical Resident Participation Agreement receivable	2,777,206.95
Other receivables	2,224,878.99
Subtotal	24,592,934.45
Less allowance for doubtful accounts	2,420,425.76
Total receivables	$22,172,508.69

Federal Perkins Loan Program funds at June 30, 2021, included the following:

Perkins loans receivable	$3,522,243.29
Less allowance for doubtful accounts	1,959,249.70
Total	$1,562,993.59

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 19,381,320.07	$ -	$ -	$ -	$ 19,381,320.07
Land improvements and infrastructure	76,937,028.83	-	4,064,964.94	-	81,001,993.77
Buildings	432,262,606.57	-	99,147,677.06	-	531,410,283.63
Equipment	46,022,396.75	2,579,368.10	-	830,449.96	47,771,314.89
Library holdings	720,786.37	26,513.93	-	102,052.72	645,247.58
Intangible assets	5,242,145.81	-	-	-	5,242,145.81
Art and historical collections	23,500.00	-	-	-	23,500.00
Projects in progress	93,121,783.92	16,280,769.47	(103,212,642.00)	-	6,189,911.39
Total	673,711,568.32	18,886,651.50	-	932,502.68	691,665,717.14
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	37,925,566.75	3,588,210.32	-	-	41,513,777.07
Buildings	194,766,714.52	11,222,925.27	-	-	205,989,639.79
Equipment	33,844,391.85	2,807,049.83	-	772,908.01	35,878,533.67
Library holdings	420,634.75	64,524.75	-	102,052.72	383,106.78
Intangible assets	4,595,149.78	80,874.50	-	-	4,676,024.28
Total	271,552,457.65	17,763,584.67	-	874,960.73	288,441,081.59
Capital assets, net	$402,159,110.67	$1,123,066.83	$ -	$ 57,541.95	$403,224,635.55

Note 7. Capital Leases

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

In conjunction with the lease, the university entered into a memorandum of agreement with the VA to construct a building (the Basic Science Building) with joint funding from the State of Tennessee and the federal government. In accordance with the memorandum of agreement, the state provided $18 million to the federal government for its share of the total construction costs ($34,195,153.41). The Basic Science Building is included under the provisions of the Enhanced Use Lease Agreement. The university is renovating several other buildings on the VA campus as funds become available.

The university's leasing of the Basic Science Building and the other buildings on the VA campus will constitute a capital lease agreement. The lease term is substantially equal to the estimated useful life of the leased property. Accordingly, the university has capitalized the cost of the buildings at $79,312,881.76. At June 30, 2021, the buildings are reported at $43,370,891.06, net of accumulated depreciation of $35,941,990.70.

The university also has two capital lease agreements for equipment utilized by the information technology department. One lease began in August 2019 and ends in August 2022. The second lease began in July 2020 and ends in June 2024. Asset balances at June 30, 2021, were $354,824.43, net of accumulated depreciation of $137,408.19. The following is a schedule by years of future minimum lease payments under these capital leases, together with the present value of the net minimum lease payments at June 30, 2021.

Year ending June 30	
2022	$146,971.90
2023	78,934.28
2024	78,934.28
Total minimum lease payments	304,840.46
Less amount representing interest	21,462.92
Present value of net minimum lease payments	$283,377.54

Note 8. Accounts Payable

Accounts payable at June 30, 2021, included the following:

Vendors payable	$3,971,893.94
Unapplied student payments	94,343.50
Other payables	2,587,346.06
Total accounts payable	$6,653,583.50

Note 9. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 154,937,305.29	$75,022,982.54	$67,932,885.04	$162,027,402.79	$ 8,168,659.51
Unamortized bond premium	21,978,013.29	-	7,497,183.58	14,480,829.71	-

Capital lease obligations	145,924.10	297,424.35	159,970.91	283,377.54	134,954.36
Subtotal	177,061,242.68	75,320,406.89	75,590,039.53	176,791,610.04	8,303,613.87
Other liabilities:					
Compensated absences	16,591,365.47	7,708,438.68	7,105,034.43	17,194,769.72	2,966,785.57
Due to grantors	4,775,032.13	100,685.00	516,355.00	4,359,362.13	-
Subtotal	21,366,397.60	7,809,123.68	7,621,389.43	21,554,131.85	2,966,785.57
Total long-term liabilities	$ 198,427,640.28	$83,129,530.57	$83,211,428.96	$198,345,741.89	$11,270,399.44

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 10 for further details. The bonded indebtedness with the TSSBA included in long-term liabilities on the statement of net position is shown net of assets held by the authority in the debt service reserve and net of unexpended debt proceeds. There was no debt service reserve or unexpended debt proceeds at June 30, 2021.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2021, are as follows:

Year Ending June 30	Principal	Interest	Total
2022	$ 8,168,659.51	$ 5,219,130.23	$ 13,387,789.74
2023	9,655,875.95	4,651,506.48	14,307,382.43
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
2027-2031	40,268,075.72	14,574,830.39	54,842,906.11
2032-2036	32,900,995.70	9,916,746.43	42,817,742.13
2037-2041	26,428,201.90	5,592,645.52	32,020,847.42
2042-2046	15,211,621.50	1,657,247.47	16,868,868.97
2047-2048	1,472,426.10	74,541.58	1,546,967.68
Total	$162,027,402.79	$53,703,617.21	$215,731,020.00

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, 2021.

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.

Refunding of Debt

On February 24, 2021, the State issued $68,611,669.00 in revenue bonds with interest rates ranging from 0.167 to 2.661 percent to advance refund $59,900,526.31 of outstanding 2012A, 2012C, 2013A, 2014B, and 2015B Series bonds with interest rates ranging from 2.5 to 5 percent. The net proceeds of $68,510,433.44 (after payment of $101,235.56 in underwriter's fees and issuance costs) were deposited with an escrow agent to provide for future debt service payments on the refunded amounts of the bonds. As a result, the refunded portions of the 2012A, 2012C, 2013A, 2014B, and 2015B Series bonds are considered to be defeased and the liability for the refunded portions of the bonds have been removed from the university's long-term liabilities.

Although the advance refunding resulted in the recognition of a deferred loss of $4,596,266.73 to be amortized over the next 1 to 16 years, the university in effect reduced its aggregate debt service payments by $14,068,670.28 over the next 24 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $11,834,203.72.

Note 10. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $162,027,402.79 in revenue bonds issued from August 2012 to February 2021 (see Note 9 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 3.84% of available revenues. The total principal and interest remaining to be paid on the bonds is $215,731,020. Principal and interest paid for the current year and total available revenues were $13,451,018.05 and $350,105,799.78, respectively.

Note 11. 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 are 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, 2021, to the Closed State and Higher Education Employee Pension Plan were $8,757,445, which is 20.23% 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 Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability – At June 30, 2021, the university reported a liability of $35,180,898 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2020, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2020, measurement date, the university's proportion was 2.147389%. The proportion measured as of June 30, 2019, was 2.153601%.

Pension expense – For the year ended June 30, 2021, the university recognized a pension expense of $10,545,983.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2021, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,014,795	$ 319,604
Net difference between projected and actual earnings on pension plan investments	2,186,245	-
Changes in proportion of net pension liability	246,810	265,715
University's contributions subsequent to the measurement date of June 30, 2020	8,757,445	-
Total	$12,205,295	$ 585,319

Deferred outflows of resources, resulting from the university's employer contributions of $8,757,445 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2022. 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 Ended June 30	
2022	$ (733,086)
2023	$ 721,780
2024	$1,372,263
2025	$1,501,574

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, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.25%

Mortality rates were based on customized tables based on actual experience, including a projection of mortality improvement using Scale MP-2019 (static projection to 6 years beyond the valuation date).

The actuarial assumptions used in the June 30, 2020, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. 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, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using 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 future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. 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	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	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 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25%. 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 7.25%, 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 (6.25%) or 1 percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
University's proportionate share of the net pension liability (asset)	$77,977,525	$35,180,898	$(911,405)

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, 2021, the university reported a payable of $96,306.92 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2021.

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 five consecutive years' 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 are 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. University 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, 2021, to the State and Higher Education Employee Retirement Plan were $562,523, which is 1.80% 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, 2021, the university reported an asset of $856,288 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2020, 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, 2020, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2020, measurement date, the university's proportion was 2.431720%. At the June 30, 2019, measurement date, the university's proportion was 2.336161%.

Pension expense – For the year ended June 30, 2021, the university recognized a pension expense of $451,933.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2021, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 60,243	$ 27,054
Net difference between projected and actual earnings on pension plan investments	88,119	-
Change in assumptions	23,897	-
Changes in proportion of net pension asset	1,103	92,510
University's contributions subsequent to the measurement date of June 30, 2020	562,523	-
Total	$735,885	$119,564

Deferred outflows of resources, resulting from the university's employer contributions of $562,523 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2022. 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 Ended June 30	
2022	$ 4,925
2023	$ 15,852
2024	$ 21,843
2025	$ 26,756
2026	$ (4,466)
Thereafter	$(11,112)

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, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4.0%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.25%

Mortality rates were based on customized tables based on actual experience, including a projection of mortality improvement using Scale MP-2019 (static projection to 6 years beyond the valuation date).

The actuarial assumptions used in the June 30, 2020, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. 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, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best estimate of expected 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 future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. 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	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.39%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	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 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25%. 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 7.25%, 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 (6.25%) or 1 percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
University's proportionate share of the net pension liability (asset)	$825,486	$(856,288)	$(2,126,017)

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, 2021, the university reported a payable of $22,891.39 for the outstanding amount of legally required contributions to the pension plan required for the year then ended.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2021, for all state government defined benefit pension plans was $10,997,916.

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 were $8,297,743.83 for the year ended June 30, 2021, and $8,492,427.54 for the year ended June 30, 2020. 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 in which 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, 2021, the university reported a payable of $8,858.31 for the outstanding amount of legally required contributions to the plan required for the year ended June 30, 2021.

Deferred Compensation Plans

Employees are offered three deferred compensation plans. The university, through the State of Tennessee, provides two plans, one established pursuant to the *Internal Revenue Code* (IRC), Section 457, and the other pursuant to IRC, Section 401(k). The third plan is administered by the university and was established in accordance with IRC, 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 401(k), 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 401(k), 403(b), and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 403(b) and the 457 plans is voluntary for employees. 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 Chapter 259 of the 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 in all plans. 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 all three plans.

During the year ended June 30, 2021, contributions totaling $5,081,528.23 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $2,676,935.40 for employer contributions. During the year ended June 30, 2020, contributions totaling $4,732,370.58 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $2,529,351.36 for employer contributions.

At June 30, 2021, the university reported a payable of $165,473.65 for the outstanding amount of legally required contributions to the plan required for the year ended June 30, 2021.

Note 12. 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 Title 8, Chapter 27, Section 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 Title 8, Chapter 27, Section 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 fiscal year ended June 30, 2021, was $137.1 million. The university's share of the ADC was $3,529,725. During the fiscal year, the university contributed $3,529,725 to the OPEB Trust. The Tennessee General Assembly has the authority to change the contribution requirements of the employers 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 $18.61 million. At the June 30, 2020, measurement date, the university's proportion of the collective net OPEB liability was 2.2228309162%. The proportion existing at the prior measurement date was 2.1631101485%. This represents a change in proportion of 0.0597207677% 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, 2020, and a measurement date of June 30, 2020.

OPEB expense – For the year ended June 30, 2021, the university recognized OPEB expense of $787,087.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2021, the university reported deferred outflows of resources and deferred inflows of resources related to OPEB paid by the EGOP from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	$ -	$1,819,059
Changes in assumptions	957,329	4,905,563
Net difference between actual and projected investment earnings	355,952	-
Changes in proportion and differences between benefits paid and proportionate share of benefits paid	1,826,611	3,095,524
Contributions subsequent to the measurement date	3,529,725	-
Total	$6,669,617	$9,820,146

Deferred outflows of resources, resulting from the university's employer contributions of $3,529,725 subsequent to the measurement date, will be recognized as a decrease in the net OPEB liability in the year ending June 30, 2022. 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 Ended June 30	
2022	$(1,305,246)
2023	$(1,305,246)
2024	$(1,305,246)
2025	$(1,309,132)
2026	$(1,288,674)
Thereafter	$ (166,710)

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, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.1%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Healthcare cost trend rates	9.02% for 2021, decreasing annually to an ultimate rate of 4.5% for 2031 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, 2020, valuations were the same as those employed in the July 1, 2017, 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, 2012, through June 30, 2016. 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. The mortality rates employed in this valuation are taken from the RP-2014 Employees and Healthy Participant Mortality Table projected generationally with MP-2016 from the central year for pre-retirement. For post-retirement the tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. 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.

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 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. Title 8, Chapter 27, Section 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	Minimum	Maximum	Target 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, 2020, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
U.S. equity	4.11%
Developed market international equity	5.19%
Emerging market international equity	5.29%
Private equity and strategic lending	4.11%
U.S. fixed income	0.00%
Real estate	3.72%
Cash (government)	(0.69%)

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 Fund's 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 Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in assumptions – The excise tax was removed from the liability calculation, as of the measurement date, due to a change in federal law concerning health benefits provided to employees. Other minor changes include a change in the long-term inflation rate, adjustments to the medical and drug trend rate to reflect more recent experience and a change in the expected per capita health claims. These changes combined to decrease the total OPEB liability.

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 (expressed in thousands):

	1% Decrease (5%)	Current Discount Rate (6%)	1% Increase (7%)
University's proportionate share of the collective net OPEB liability	$20,400	$18,607	$16,945

Sensitivity of 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 (8.02% decreasing to 3.5%) or 1 percentage point higher (10.02% decreasing to 5.5%) than the current healthcare cost trend rate (expressed in thousands):

	1% Decrease (8.02% decreasing to 3.5%)	Healthcare Cost Trend Rates (9.02% decreasing to 4.5%)	1% Increase (10.02% decreasing to 5.5%)
University's proportionate share of the collective net OPEB liability	$16,277	$18,607	$21,303

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 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 Title 8, Chapter 27, Section 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 $159,175 for OPEB as the benefits came due during the reporting period. 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 Title 8, Chapter 27, Part 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. Employers contribute toward employee costs based on their own developed practices.

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 $4,949,937. At the June 30, 2020, measurement date, the proportion of the collective total OPEB liability associated with the university was 2.400635%. This represents a change of 0.035263% from the prior proportion of 2.365372%. 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, 2020, and measurement date of June 30, 2020.

Actuarial assumptions – The total OPEB liability in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.1%
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, 2020, valuations were the same as those employed in the July 1, 2017, 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, 2012, through June 30, 2016. 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. The mortality rates employed in this valuation are taken from the RP-2014 Employees and Healthy Participant Mortality Table projected generationally with MP-2016 from the central year for pre-retirement. For post-retirement the tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. 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.

Discount rate – The discount rate used to measure the total OPEB liability was 2.21%. 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 as shown on the Bond Buyer GO 20-Bond Municipal index.

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 (1.21%) or 1 percentage point higher (3.21%) than the current discount rate. The university does not report a proportionate share of the OPEB liability for employees in the TNP.

	1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
Primary government's proportionate share of the collective total OPEB liability	$5,661,243	$4,949,937	$4,360,802

OPEB expense – For the year ended June 30, 2021, the primary government recognized OPEB expense of $282,368 for employees of the university participating in the TNP.

Total OPEB Expense

The total OPEB expense for the year ended June 30, 2021, was $1,069,455, which consisted of OPEB expense of $787,087 for the EGOP and $282,368 paid by the primary government for the TNP.

Note 13. Revenues

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

Revenue Source	Gross Revenue	Less Scholarship Allowances	Less Uncollectible Debt Adjustments	Net Revenue
Tuition and fees	$173,258,350.66	$57,979,206.66	$926,857.66	$114,352,286.34
Nongovernmental grants and contracts	30,527,024.75	-	20,759.13	30,506,265.62
Sales and services of educational activities	21,530,355.96	-	(197,660.08)	21,728,016.04
Residential life	9,307,397.98	419,734.84	36,351.33	8,851,311.81
Food service	4,617,123.61	-	17,170.13	4,599,953.48
Other auxiliaries	2,431,093.85	-	10,774.00	2,420,319.85
Total	$241,671,346.81	$58,398,941.50	$814,252.17	$182,458,153.14

Note 14. Chairs of Excellence

The university had $38,645,767,99 on deposit at June 30, 2021, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

Note 15. 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 purchases commercial insurance for real property, crime and fidelity coverage on the state's officials and employees, and cyber liability coverage. 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 for the annual aggregate deductible of $7.5 million for perils other than earthquake and flood. Purchased insurance coverage is responsible for losses exceeding the $7.5 million annual aggregate deductible. For earthquake, named storm, wind/hail, and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage was $500 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. 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, 2021, is presented in Tennessee's *Annual Comprehensive Financial Report*, which is available on the state's website at www.tn.gov/finance/rd-doa/fa-accfin-ar.html. At June 30, 2021, the RMF held $234 million in cash designated for payment of claims.

At June 30, 2021, the scheduled coverage for the university was $1,019,239,340 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 16. Commitments and Contingencies

Sick Leave

The university records the cost of sick leave when paid. The dollar amount of unused sick leave was $67,056,048.09 at June 30, 2021.

Operating Leases

The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were $480,969.92 and expenses for personal property were $23,207.84 for the year ended June 30, 2021. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2021, outstanding commitments under construction contracts totaled $37,836,986.28 for the D.P. Culp and Stone Hall Renovations, Communication Buildings HVAC System Upgrades, Fine Arts Classroom Building, Valleybrook Building Systems Replacement, and Lamb Hall Renovations, of which $15,840,879.47 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 17. Natural Classification With Functional Classifications

The university's operating expenses for the year ended June 30, 2021, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$111,926,218.55	$38,602,890.65	$18,449,173.27	$ -	$ -	$168,978,282.47
Research	8,350,988.61	2,626,423.86	3,574,332.87	-	-	14,551,745.34
Public service	16,780,217.40	5,798,037.50	12,979,341.55	-	-	35,557,596.45
Academic support	19,727,159.23	8,339,980.32	5,148,943.10	-	-	33,216,082.65
Student services	13,990,732.58	5,895,655.31	7,083,373.41	-	-	26,969,761.30
Institutional support	15,905,963.12	6,436,148.95	3,326,416.61	-	-	25,668,528.68
Maintenance and operation	7,891,264.68	4,099,672.16	13,034,463.32	-	-	25,025,400.16
Scholarships and fellowships	-	-	-	27,324,750.78	-	27,324,750.78
Auxiliary	2,054,601.02	850,396.97	10,478,646.94	-	-	13,383,644.93
Depreciation	-	-	-	-	17,763,584.67	17,763,584.67
Total	$196,627,145.19	$72,649,205.72	$74,074,691.07	$27,324,750.78	$17,763,584.67	$388,439,377.43

Note 18. Affiliated Entity Not Included

The East Tennessee State University Research Foundation is a private, nonprofit foundation with the university as the sole beneficiary. The 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, 2021, the assets of the foundation totaled $684,676, liabilities were $18,156, and the net position amounted to $666,520.

Note 19. Insurance Recoveries

The university sustained damage to various buildings on campus and some of the equipment they contained due to several unrelated events. The impairment of all assets involved was temporary, and no impairment loss was recognized. An insurance recovery for the capital damage in the amount of $58,603.78 was recorded in fiscal year 2021. The insurance recovery is classified as other nonoperating revenue in the statement of revenues, expenses, and changes in net position.

Note 20. On-Behalf Payments

During the year ended June 30, 2021, the State of Tennessee made payments of $159,175 on behalf of the university for retirees participating in the Closed Tennessee OPEB Plan. The Closed Tennessee Plan is a postemployment benefit healthcare plan and is discussed further in Note 12. The plan is reported in Tennessee's *Annual Comprehensive Financial Report*, which is available on the state's website at http://www.tn.gov/finance/rd-doa/fa-accfin-ar.html.

Note 21. Voluntary Retirement Incentive

The university implemented a Voluntary Retirement Incentive in fiscal year 2021 as a strategy to assist the university in addressing budgetary constraints resulting from the COVID 19 pandemic. The university had 100 employees participate in the Voluntary Retirement Incentive.

Employees participating in the Voluntary Retirement Incentive were provided a one-time lump sum payout equivalent to 40% of base salary if retired by June 30, 2021. Eligible employees were faculty members who had at least ten years of employment at East Tennessee State University as of the retirement date.

As of June 30, 2021, expenses for payout of accrued annual leave, compensatory time, or worked holidays for the Voluntary Retirement Incentive were $788,945.37. As of June 30, 2021, expenditures for lump sum payments for the Voluntary Retirement Incentive were $2,790,467.19.

Note 22. 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, 2021, the foundation made distributions of $1,564,543.55 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Dr. B.J. King, 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, 2021, cash and cash equivalents consisted of $348,250.51 in bank accounts, $18,639,293.82 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, and $662,757.21 in cash held by others.

The LGIP is administered by the State Treasurer and is measured at amortized cost. The fund's required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at https://treasury.tn.gov.

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. 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, 2021, the foundation had the following investments and maturities.

Investment Type	Reported Value	Less than 1	1 to 5	6 to 10	More than 10	Unknown
U.S. government obligations	$8,730,312.60	$ -	$ 2,951,368.50	$ 5,778,944.10	$ -	$ -
U.S. agency obligations	2,152,009.20	-	1,282,248.00	869,761.20	-	-
Corporate bonds	10,540,812.95	2,112,558.00	4,815,314.00	3,612,940.95	-	-
Bond mutual funds	11,573,559.46	-	3,301,037.72	7,127,661.14	268,994.39	875,866.21
Total debt investments	$32,996,694.21	$2,112,558.00	$ 12,349,968.22	$17,389,307.39	$268,994.39	$875,866.21
Non-Fixed Income Investments						
Equity mutual funds	75,994,749.44					
Hedge fund	6,367,817.47					
Cash surrender value of life insurance	332,392.48					
Total investments	$115,691,653.60					

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, 2021, the foundation's investments were rated as follows:

Investment Type	Reported Value	Credit Quality Rating AAA	AA	A	BBB or Less	Unrated
LGIP	$18,639,293.82	$ -	$ -	$ -	$ -	$18,639,293.82
U.S. government obligations	8,730,312.60	-	8,730,312.60	-	-	-
U.S. agency obligations	2,152,009.20	-	2,152,009.20	-	-	-
Corporate bonds	10,540,812.95	-	724,424.95	5,494,160.25	4,322,227.75	-
Bond mutual funds	11,573,559.46	120,583.64	-	-	11,196,233.37	256,742.45
Total	$51,635,988.03	$120,583.64	$11,606,746.75	$5,494,160.25	$15,518,461.12	$18,896,036.27

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, 2021, the foundation had $115,359,261.12 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, 2021:

	Reported Value
U.S. government obligations	$7,769,978.21
U.S. agency obligations	1,915,288.19
Corporate bonds	9,381,323.53
Pooled investment vehicles	71,799,676.11
Hedge fund	6,367,817.47
Deposits held by others	662,757.21
Total	$97,896,840.72

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, 2021, each having a fair value of $1.1654189434, 74,550,089.11 units were owned by permanent endowments, and 4,688,366.64 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, 2021:

	Pooled Assets			Fair
	Fair Value	Cost	Net Gains (Losses)	Value Per Unit
End of year	$115,359,261.12	$97,486,158.51	$17,873,102.61	$1.1654189434
Beginning of year	$97,554,508.68	$97,065,755.55	488,753.13	$1.0632540765
Unrealized net gains			17,384,349.48	
Realized net gains			2,299,210.46	
Total net gains			$19,683,559.94	

The average annual earnings per unit, exclusive of net gains, were $.019 for the year ended June 30, 2021.

Fair Value Measurement

The foundation categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The foundation has the following recurring fair value measurements as of June 30, 2021:

	June 30, 2021	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	$8,730,312.60	$8,730,312.60	$ -	$ -	$ -
U.S. agency obligations	2,152,009.20	2,152,009.20	-	-	-
Corporate bonds	10,540,812.95	10,540,812.95	-	-	-
Bond mutual funds	11,573,559.46	-	-	-	11,573,559.46
Total debt securities	32,996,694.21	21,423,134.75	-	-	11,573,559.46
Equity securities:					
Equity mutual funds	75,994,749.44	-	-	-	75,994,749.44
Total equity securities	75,994,749.44	-	-	-	75,994,749.44
Hedge fund	6,367,817.47	-	-	-	6,367,817.47
Total investments at fair value	**$115,359,261.12**	**$21,423,134.75**	**$ -**	**$ -**	**$93,936,126.37**

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	$11,573,559.46	$ -	Daily	None
Equity mutual funds	75,994,749.44	-	Daily	None
Hedge fund	6,367,817.47	-	Quarterly	91 days

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 at June 30, 2021, are summarized below, net of the allowance for doubtful accounts:

Current pledges	$ 911,588.29
Pledges due in one to five years	1,528,993.39
Subtotal	2,440,581.68
Less allowance for doubtful accounts	(45,787.75)
Less discount to net present value	(39,730.62)
Total pledges receivable, net	$2,355,063.31

Capital Assets

Capital asset activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Buildings	$59,000.00	$696,869.57	$ -	$ -	$755,869.57
Other assets	12,000.00	-	-	-	12,000.00
Total	71,000.00	696,869.57	-	-	767,869.57
Less accumulated depreciation:					
Buildings	59,000.00	41,480.33	-	-	100,480.33
Total	59,000.00	41,480.33	-	-	100,480.33
Capital assets, net	$12,000.00	$655,389.24	$ -	$ -	$667,389.24

Endowments

The ETSU Foundation's endowment consists of 636 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, 2021, net appreciation of $14,251,347.58 is available to be spent, of which $9,107,988.18 is included in restricted net position expendable for scholarships and fellowships, $139,351.55 is included in restricted net position expendable for research, $1,163,534.03 is included in restricted net position expendable for instructional department uses, and $3,840,473.82 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, 2021, MEAC made distributions of $2,204,256 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 Financial Officer, P.O. Box 699, Mountain Home, TN 37684.

Cash

At June 30, 2021, cash consisted of $19,920,957 in bank accounts, $2,600 of petty cash on hand, and $2,216,307 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 fund's required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at https://treasury.tn.gov.

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, 2021, consisted of $8,545,352 of certificates of deposit reported at cost and $3,017,160 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, 2021, 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	$3,017,160	$1,016,720	$2,000,440
Total debt investments	$3,017,160	$1,016,720	$2,000,440

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, 2021, the corporation's investments were rated as follows:

		Credit Quality Rating	
Investment Type	Balance	AA	Unrated
LGIP	$2,216,307	$ -	$2,216,307
U.S. agency obligations	3,017,160	3,017,160	-

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, 2021, 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	34%
Federal National Mortgage Association (FNMA) obligations	66%

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, 2021:

	June 30, 2021	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	$3,017,160	$ -	$3,017,160	$ -	$ -
Total debt securities	$3,017,160	$ -	$3,017,160	$ -	$ -

Receivables

Receivables at June 30, 2021, included the following:

Patient accounts receivable, net	$3,264,985
Other receivables	3,507,495
Total	$6,772,480

Capital Assets

Capital asset activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$ 408,450	$ -	$ -	$ 408,450
Buildings	6,065,891	-	-	6,065,891
Leasehold improvements	769,706	-	-	769,706
Equipment	4,767,591	1,121,577	60,145	5,829,023
Total	12,011,638	1,121,577	60,145	13,073,070

Less accumulated depreciation:				
Buildings	2,040,265	227,912	-	2,268,177
Leasehold improvements	761,205	6,597	-	767,802
Equipment	4,361,434	300,359	60,145	4,601,648
Total	7,162,904	534,868	60,145	7,637,627
Capital assets, net	$4,848,734	$586,709	$ -	$5,435,443

Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$591,038	$ 91,035	$ -	$ 682,073	$136,415
Capital lease obligations	-	411,632	32,451	379,181	133,091
Notes payable	4,896,317	-	4,896,317	-	-
Total long-term liabilities	$5,487,355	$502,667	$4,928,768	$1,061,254	$269,506

Note Payable

On April 20, 2020, MEAC received a loan in the amount of $4,896,317 pursuant to the Paycheck Protection Program under the CARES ACT. Under the terms of the Paycheck Protection Program, the loan was forgiven during the 2021 fiscal year.

Revenues

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

Revenue Source	Gross Revenue	Less Contractual and Other Adjustments	Less Uncollectible Debt Adjustments	Net Revenue
Patient revenues	$90,792,803	$40,238,398	$2,343,303	$48,211,102

Capital Lease Between MEAC and the University

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. The agreement is currently being treated as a capital lease. Because there is no remaining obligation, no capital lease obligation has been reported by MEAC, and no capital lease receivable has been reported by the university.

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

	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
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
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	Contributions as a Percentage of Covered Payroll
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%
2013	8,044,873	8,044,873	-	53,525,437	15.03%
2012	7,674,153	7,674,153	-	51,469,841	14.91%

Notes to Schedule:

Changes of assumptions: In 2017, the following assumptions were changed: decreased inflation rate from 3% to 2.5%; decreased the investment rate of return from 7.5% to 7.25%; decreased the cost-of-living adjustment from 2.5% to 2.25%; and decreased salary growth graded ranges from an average of 4.25% to an average of 4%.

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 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	Contributions as a Percentage of Covered Payroll
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:

Changes of assumptions: In 2017, the following assumptions were changed: decreased inflation rate from 3% to 2.5%; decreased the investment rate of return from 7.5% to 7.25%; decreased the cost-of-living adjustment from 2.5% to 2.25%; and decreased salary growth graded ranges from an average of 4.25% to an average of 4%.

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
2021	2.2228309162%	$18,607,300	$91,650,802	20.30%	25.21%
2020	2.1631101485%	20,596,707	97,220,848	21.19%	18.33%
2019	2.2049885738%	30,544,345	100,835,192	30.29%	N/A
2018	2.0568595285%	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. The transition resulted in a significant increase to the discount rate from 3.6% to 6%.

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 Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered-employee Payroll	Contributions as a Percentage of Covered-employee Payroll
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	Primary Government's Total OPEB Liability Associated With the University	University's Covered-employee Payroll	University's Proportionate Share of the Collective Total OPEB Liability as a Percentage of Its Covered-employee Payroll
2021	0.0%	$4,949,937	$4,949,937	$115,207,941	0.0%
2020	0.0%	4,140,482	4,140,482	120,400,919	0.0%
2019	0.0%	4,261,072	4,261,072	119,545,546	0.0%
2018	0.0%	4,092,142	4,092,142	119,808,196	0.0%

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%.

EAST TENNESSEE STATE UNIVERSITY
Supplementary Schedule of Cash Flows - East Tennessee State University Foundation
For the Year Ended June 30, 2021

Cash flows from operating activities	
Gifts and contributions	$ 6,444,096.34
Payments to suppliers and vendors	(2,456,084.96)
Payments for scholarships and fellowships	(2,724,591.24)
Payments to or on behalf of ETSU	(1,564,543.55)
Other receipts (payments)	4,148,681.31
Net cash provided by operating activities	3,847,557.90
Cash flows from noncapital financing activities	
Private gifts for endowment purposes	1,944,724.42
Net cash provided by noncapital financing activities	1,944,724.42
Cash flows from capital and related financing activities	
Purchases of capital assets and construction	(696,869.57)
Net cash used for capital and related financing activities	(696,869.57)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	39,096,877.56
Income on investments	1,927,918.36
Purchases of investments	(37,218,070.34)
Net cash provided by investing activities	3,806,725.58
Net increase in cash and cash equivalents	8,902,138.33
Cash and cash equivalents - beginning of year	10,748,163.21
Cash and cash equivalents - end of year	$ 19,650,301.54
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 3,059,210.43
Adjustments to reconcile operating income to net cash provided by operating activities:	
Noncash operating expenses	41,480.33
Change in assets and liabilities:	
Pledges receivable, net	1,887,536.03
Other receivables	(322,537.03)
Prepaid expenses	(13,333.00)
Accounts payable	(804,603.86)
Other liabilities	(195.00)
Net cash provided by operating activities	$ 3,847,557.90
Noncash investing, capital, or financing transactions	
Gifts of capital assets	$ 361,240.00
Unrealized gains on investments	$ 17,384,349.48

EAST TENNESSEE STATE UNIVERSITY
Supplementary Schedule of Cash Flows - Medical Education Assistance Corporation
For the Year Ended June 30, 2021

Cash flows from operating activities	
Collections from patient charges	$ 48,136,898.00
Payments to employees	(31,213,185.00)
Payments for benefits	(2,945,193.00)
Payments to suppliers and vendors	(10,694,267.00)
Other receipts (payments)	3,165,299.00
Net cash provided by operating activities	6,449,552.00
Cash flows from noncapital financing activities	
Payments to or on behalf of ETSU or ETSU Foundation	(2,721,522.00)
Net cash used for noncapital financing activities	(2,721,522.00)
Cash flows from capital and related financing activities	
Purchases of capital assets and construction	(709,945.00)
Principal paid on capital lease	(32,451.00)
Interest paid on capital lease	(4,008.00)
Net cash used for capital and related financing activities	(746,404.00)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	7,448,958.00
Income on investments	197,824.00
Purchases of investments	(8,524,618.00)
Other investing receipts (payments)	129,154.00
Net cash used for investing activities	(748,682.00)
Net increase in cash	2,232,944.00
Cash - beginning of year	19,906,920.00
Cash - end of year	$ 22,139,864.00

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 4,943,237.00
Adjustments to reconcile operating income to net cash provided by operating activities:	
Noncash operating expenses	534,868.00
Changes in assets and liabilities:	
Receivables	1,305,768.00
Prepaid expenses	347,603.00
Accounts payable	(628,499.00)
Accrued liabilities	574,373.00
Compensated absences	91,035.00
Deposits held in custody for others	(367,954.00)
Unearned revenue	(172,683.00)
Other	(178,196.00)
Net cash provided by operating activities	$ 6,449,552.00

Noncash investing, capital, or financing transactions	
Forgiveness of Paycheck Protection Program loan	$ 4,896,317.00
Purchase of capital assets with capital lease	$ 411,632.00
Unrealized losses on investments	$ (55,938.00)

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, 2021, 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 10, 2021. 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.

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.

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

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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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, as described below, that we consider to be significant deficiencies.

- East Tennessee State University did not provide adequate internal controls in one area reported for the second consecutive audit.
- University staff did not conduct proper collection procedures on accounts receivable.

These deficiencies are described in the Findings and Recommendations section of this report.

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 Responses to Findings

The university's responses to the findings identified in our audit are included in the Findings and Recommendations section of this report. The university's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on them.

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

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
December 10, 2021

Findings and Recommendations

1. East Tennessee State University did not have adequate internal controls in one area reported for the second consecutive audit

East Tennessee State University did not design and monitor effective internal controls in one area. For the second consecutive audit, we found an internal control deficiency related to one of the university's systems. Although management has taken steps to correct this condition, we are reporting an internal control deficiency because corrective action was not sufficient.

Ineffective design and implementation of internal controls increase the likelihood of errors and unauthorized access to university information. Pursuant to Standard 6.63 of the U.S. Government Accountability Office's *Government Auditing Standards*, we omitted details from this finding because they are confidential under the provisions of Section 10-7-504(i), *Tennessee Code Annotated*. We provided the university with detailed information regarding the specific conditions we identified, as well as the related criteria, causes, and our specific recommendations for improvement.

Recommendation

Management should ensure that this condition is corrected by the prompt development and effective implementation of internal controls in this area. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action when deficiencies occur.

Management's Comment

We concur with the finding and recommendation. The area indicated in the report has undergone review by management. Internal controls are in place to address the conditions reported and monitoring is in place.

2. University staff did not conduct proper collection procedures on accounts receivable

Condition and Criteria

Management did not ensure that university collection procedures for accounts receivable were performed by Bursar's Office and ETSU College of Nursing personnel. We tested a sample of 34 delinquent receivables, which consisted of 32 student accounts receivable and 2 College of Nursing clinic receivables that were more than 90 days old at June 30, 2021. All items in the sample required collection letters and referral to a collection agency.

ETSU's "Collection of Accounts Receivable" policy requires that "collection efforts should begin no later than thirty (30) days after the occurrence of the obligation or other fixed due date." The policy further states that a "minimum of three (3) letters of contact or billing requesting payment should be sent by the department at 30-day intervals once an account becomes delinquent. . . . When the university's established collection efforts for the type of debt have failed to produce payment, these accounts are classified as defaulted. . . . Accounts that are still delinquent 30 days after the final collection letter should be turned over to a collection agency. Receivables less than $100 are not required to be turned over to a collection agency."

- Of 32 student receivables tested, for 25 (78%), a billing letter was issued from one day to 15 months late. For these late billing letters, the average billing letter issuance was three months late.
- Of the 32 student receivables tested, 30 (94%) were either referred to the collection agency late or not at all.
  - For 24 student receivables tested, placement with a collection agency occurred from 4 days to 10 months late. For these receivables, the average time for collection placement was 68 days after the final billing was issued.
  - Six student receivables tested were never placed with a collection agency.

The College of Nursing "Collection Agency Policy" requires that collection efforts begin with a first collection letter mailed 30 days after posting. Further, "the patient will be notified of the impending collection via final notice letters. If the patient has not responded within 10 days of the impending collection final notice letter, the account will be turned over to a collection agency." The policy also states that an account should be turned over to a collection agency when the following conditions are met: "a patient due balance remains after thoroughly working the account; a minimum of 120 days has passed from date of posting; and it is determined that the patient due balance will not be written off." The College of Nursing's Director of Fiscal Affairs stated the minimum amount for collection agency placement is $10.

- For the two delinquent clinic receivables, the initial billing letters were issued 3 months and 14 months late. Further, these accounts were never referred to a collection agency.

Cause

Bursar's Office personnel stated that due to staff limitations over the last several years, other, more time-sensitive tasks were performed and took priority over performing collection procedures. College of Nursing personnel stated that the billing department was understaffed and, as a result, delays have occurred in the collections of patient accounts receivable.

Effect

Not following university collection policies could result in the university being unable to collect funds it is owed in a timely manner or at all. As time passes, the likelihood of collecting past-due accounts decreases. In addition, the university's financial statements might not accurately reflect what the university may reasonably expect to collect.

Recommendation

Management should ensure that staff charged with monitoring and collecting accounts receivable adhere to the written institutional and departmental policies to ensure timely collections.

Management's Comment

We concur with the finding and recommendation.

Management will take several steps to ensure that staff charged with monitoring and collecting accounts receivable adhere to the written institutional and departmental policies to ensure timely collections.

(1) ETSU will implement a new notification process for student receivables. Bursar's Office staff will work with ETSU Information Technology Services (ITS) to automate notifications on a monthly calendar. This will improve timeliness of notification throughout the year and relieve staff from manual processes for notifications.

(2) A schedule for collection account placement by the Bursar's Office will be created. This schedule will improve the timeline for placements with an outside agency after proper notification of the debt.

(3) Management will work to revise the Collection of Accounts Receivable policy to change the dollar threshold for which an account will be referred to a collection agency. The revised policy will incorporate the Tennessee Department of Finance and Administration Policy 23, which states that reasonableness should be used in determining the effort expended in attempting to collect amounts less than $500.

(4) The College of Nursing has added 1.6 full time equivalent positions to the Nursing Billing/Collections Office. The addition of staff will provide the needed personnel for timely assignment of Nursing clinic patient accounts to collections.