TENNESSEE COMPTROLLER OF THE TREASURY

FINANCIAL AND COMPLIANCE AUDIT REPORT

East Tennessee State University

For the Year Ended June 30, 2022

Jason E. Mumpower
Comptroller of the Treasury

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TENNESSEE COMPTROLLER OF THE TREASURY

Tennessee Comptroller of the Treasury

Jason E. Mumpower
Comptroller

February 8, 2023

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, 2022. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

Consideration of the internal control over financial reporting and tests of compliance disclosed 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 each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

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

23/005

Audit Report
East Tennessee State University
For the Year Ended June 30, 2022

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The opinions on the financial statements are unmodified.

Audit Findings

University staff did not conduct proper collection procedures on accounts receivable*
As noted in the prior audit, management did not ensure that university collection procedures for accounts receivable were performed timely by Bursar's Office and ETSU College of Nursing personnel (page 77).

The ETSU Office of Financial Aid and Scholarships did not adequately monitor the eligibility of Title IV financial aid recipients
East Tennessee State University's Office of Financial Aid and Scholarships did not adequately monitor the eligibility of Title IV financial aid recipients. We reviewed the entire population of students enrolled at ETSU who received Title IV student financial assistance during the 2021-2022 award year. The population we reviewed also included students in the university's Colleges of Medicine and Pharmacy. A total of 8,036 students were tested (7,593 enrolled at ETSU, 222 enrolled at the College of Medicine, and 221 enrolled at the College of Pharmacy). Of the 7,593 students at ETSU, 13 students (0.17%) received excess financial aid based on their eligibility, resulting in overpayments totaling $77,329. We did not identify errors for the College of Medicine or the College of Pharmacy (page 79).

* This finding is repeated from the prior audit.

JASON E. MUMPOWER
Comptroller

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of East Tennessee State University, an institution of the State University and Community College System of Tennessee, which is a component unit of the State of Tennessee, and its discretely presented component units as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of East Tennessee State University and its discretely presented component units as of June 30, 2022; and the respective changes in financial position and ,where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Basis of Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

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

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the university's internal control. Accordingly, no such opinion is expressed.

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the university's ability to continue as a going concern for a reasonable period of time.

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

Emphasis of Matters

As discussed in Note 1, the financial statements of East Tennessee State University, an institution of the State University and Community College System of Tennessee, are intended to present the financial position, the changes in financial position, and the cash flows of only East Tennessee State University. They do not purport to, and do not, present fairly the financial position of the State University and Community College System of Tennessee, as of June 30, 2022, and the changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the university implemented Governmental Accounting Standards Board Statement (GASBS) 87, *Leases*, during the year ended June 30, 2022. 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 (asset) – Closed State and Higher Education Employee Pension Plan within TCRS on page 66, 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 67, the schedule of East Tennessee State University's contributions – Closed State and Higher Education Employee Pension Plan within TCRS on page 68, the schedule of East Tennessee State University's contributions – State and Higher Education Employee Retirement Plan within TCRS on page 69, 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 70, the schedule of East Tennessee State University's contributions – Closed State Employee Group OPEB Plan on page 71, and the schedule of East Tennessee State University's proportionate share of the collective total OPEB liability – Closed Tennessee OPEB Plan on page 72 be presented to supplement the basic financial statements. Such information is the responsibility of management, and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the university's basic financial statements. The supplementary schedules of cash flows for both the East Tennessee State University Foundation and the Medical Education Assistance Corporation on pages 73 and 74 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2022, 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, CPA, CGFM, Director
Division of State Audit
December 20, 2022

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, 2022, with comparative information presented for the fiscal year ended June 30, 2021. 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, 2022, and June 30, 2021.

Summary of Net Position
(in thousands of dollars)

	2022	2021
Assets:		
Current assets	$ 82,792	$ 62,618
Capital assets, net	410,145	403,225
Other assets	207,189	178,237
Total assets	**700,126**	**644,080**
Deferred outflows of resources		
Deferred amount on debt refunding	6,080	7,534
Deferred outflows related to pensions	28,227	12,941
Deferred outflows related to OPEB	7,258	6,670
Total deferred outflows of resources	**41,565**	**27,145**
Liabilities:		
Current liabilities	50,863	45,060
Noncurrent liabilities	193,419	240,864
Total liabilities	**244,282**	**285,924**

Deferred inflows of resources		
Deferred amount on debt refunding	77	453
Deferred inflows related to pensions	49,246	705
Deferred inflows related to OPEB	9,471	9,820
Other deferred inflows of resources	294	-
Total deferred inflows of resources	**59,088**	**10,978**
Net position:		
Net investment in capital assets	249,228	235,463
Restricted – expendable	47,758	37,200
Unrestricted	141,335	101,660
Total net position	**$438,321**	**$374,323**

Comparison of Fiscal Year 2022 to Fiscal Year 2021

- Current cash reserves increased $16.6 million from 2021 to 2022. Current accounts receivable increased by a total of $4.1 million during the same time period. The largest increase was an increase in receivables from the primary government of $1.5 million and an increase in the amount due from the component units of the university of $2.4 million. The receivables from the primary government increased mainly due to a $1.4 million TennCare graduate medical education payment not received by June 30, 2022. Amounts due to the university at June 30, 2022, from the ETSU Foundation increased as there was additional support for athletics as compared to the prior year.

- Capital assets, net of depreciation, increased by $6.9 million due to increases in construction as campus renovations began for Lamb Hall and College of Medicine Building 2. Capital assets also experienced an increase as the university implemented GASB Statement 87, *Leases*, in fiscal year 2022 and recorded lease assets for buildings totaling $1.3 million, net of depreciation.

- Other assets increased in 2022 as a result of a growth in noncurrent cash during this time period. The largest growth occurred in renewal and replacement funds as well as retirement of indebtedness funds. Net pension asset increased in 2022 as a result of the university's proportionate share related to the Closed State and Higher Education Pension Plan within TCRS, which previously experienced a net pension liability.

- Deferred outflows of resources increased in 2022 by $14.4 million. The largest increase is in deferred outflows of resources related to pensions, which increased as the university's proportionate share of deferred outflows of resources related to the Closed State and Higher Education Pension Plan within TCRS increased.

- Current liabilities experienced an increase of $5.8 million during 2022. Unearned revenue increased $2 million due to an increase of grant and contract funds received by the university, which were not expended and therefore earned during the year. The current portion of long-term debt increased by $1.7 million due to an increase in the current portion of bonds payable of $ 1.5 million, as well as the implementation of GASB 87 for leases resulting in a current liability of $275 thousand.

- ♦ As to noncurrent liabilities, during 2022, the university's noncurrent proportionate share of the OPEB liability decreased by $1.6 million. The university's portion of the net pension liability under the Closed State and Higher Education Employee Pension Plan within TCRS decreased by $35 million during 2022, as the plan experienced a net pension asset. Amounts due to grantors decreased by $748 thousand as a result of the university returning Perkins Loan funds to the U.S. Department of Education. Long-term liabilities decreased by $11.3 million, which includes a decrease of $8.5 million in bonds and a decrease of $1.5 million in unamortized bond premiums.

- ♦ Deferred inflows of resources increased by $48 million as a result of an increase in the university's proportionate share of deferred inflows of resources related to pensions.

- ♦ Net investment in capital assets increased as renovation projects, including Lamb Hall and College of Medicine Building 2, began during 2022 in addition to the implemented GASB Statement 87, *Leases*, which resulted in the recognition of lease assets – buildings.

- ♦ Restricted expendable net position increased mainly due to an increase in amounts restricted for pensions.

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

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

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

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

A summary of the university's revenues, expenses, and changes in net position for the years ended June 30, 2022, and June 30, 2021, follows.

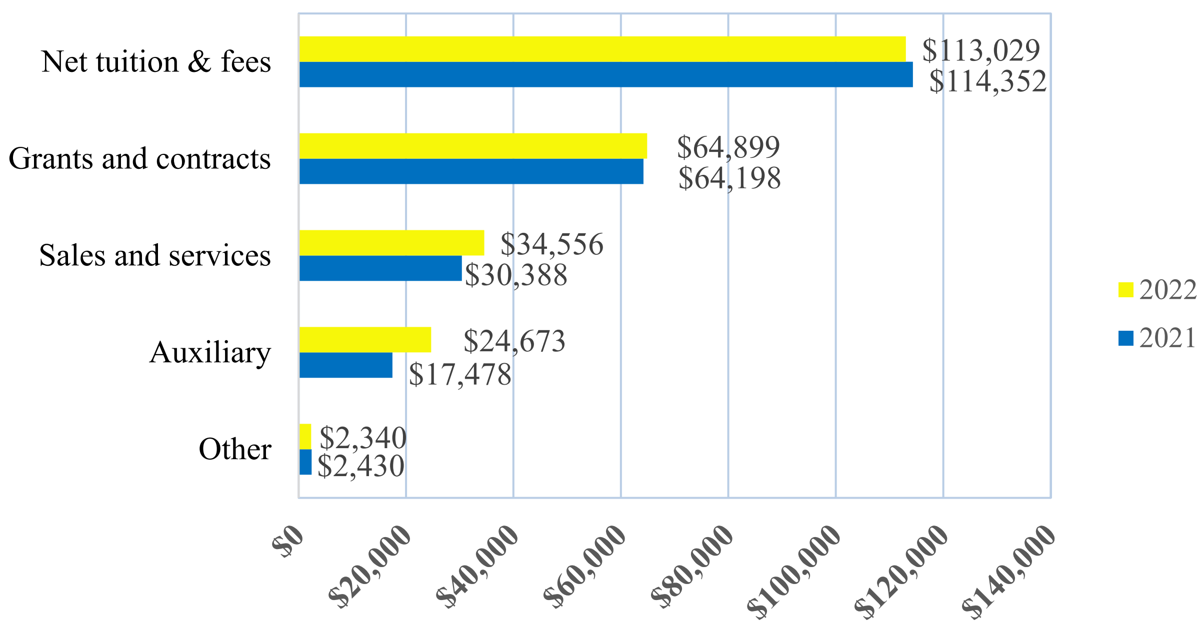
Summary of Revenues, Expenses, and Changes in Net Position
(in thousands of dollars)

	2022	2021
Operating revenues	$ 239,497	$ 228,846
Operating expenses	409,506	388,439
Operating loss	(170,009)	(159,593)
Nonoperating revenues and expenses	216,175	183,457
Income (loss) before other revenues, expenses, gains, or losses	46,166	23,864
Other revenues, expenses, gains, or losses	17,832	8,566
Increase in net position	63,998	32,430
Net position at beginning of year	374,323	341,893
Net position at end of year	**$ 438,321**	**$ 374,323**

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 2022 to Fiscal Year 2021

- Tuition and fees decreased slightly during 2022. No fee increase was instituted by the university during the fiscal year 2022, and the university did not experience a growth in enrollment.

- Grants and contracts increased mainly due to an increase in governmental grants and contracts, while private grants decreased during the year.

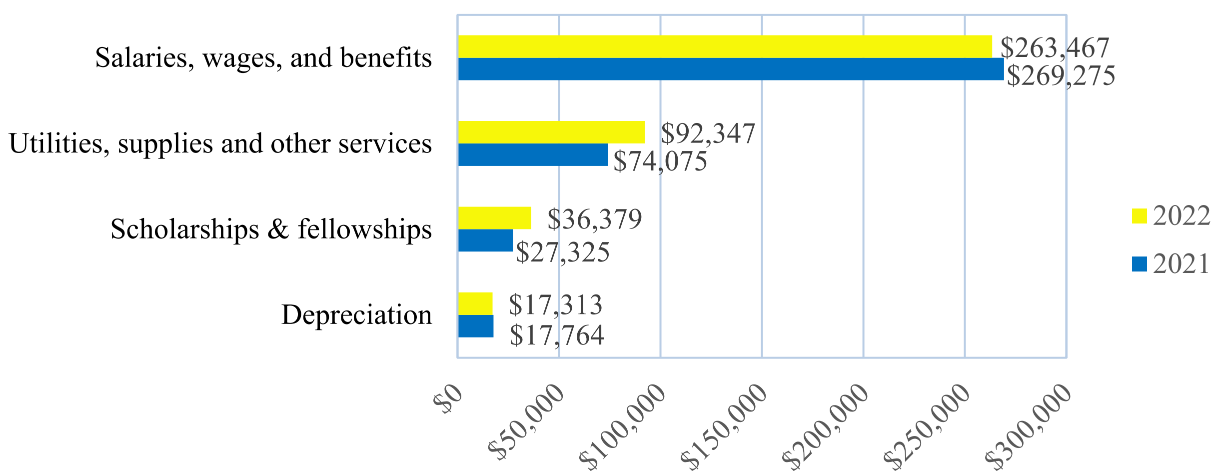
- Sales and services of other activities increased in 2022 due to an increase of $1.5 million in revenues generated by athletic events, as the university was able to resume in-person events after the COVID pandemic.

- Auxiliary revenues also increased as the university transitioned back to on-campus learning after the COVID pandemic. Residential life revenues increased by $4.5 million, and food service revenues increased by $2.5 million in 2022 as a result of the return of students to campus.

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 2022 to Fiscal Year 2021

- Salaries, wages, and benefits decreased in 2022 mainly due to the impact of pension and other postemployment benefit adjustments for the university's proportionate shares in the State of Tennessee plans of $5.1 million.

- Utilities, supplies, and other services increased by $18.3 million after experiencing decreases during 2021 with students and employees returning to campus. Travel expenses increased as travel restrictions were lifted, and personnel were able to resume travel. Operating supplies and utility costs increased as students and employees returned to campus from remote work and learning environments.

- Scholarships increased by $9 million for 2022 from the previous year.

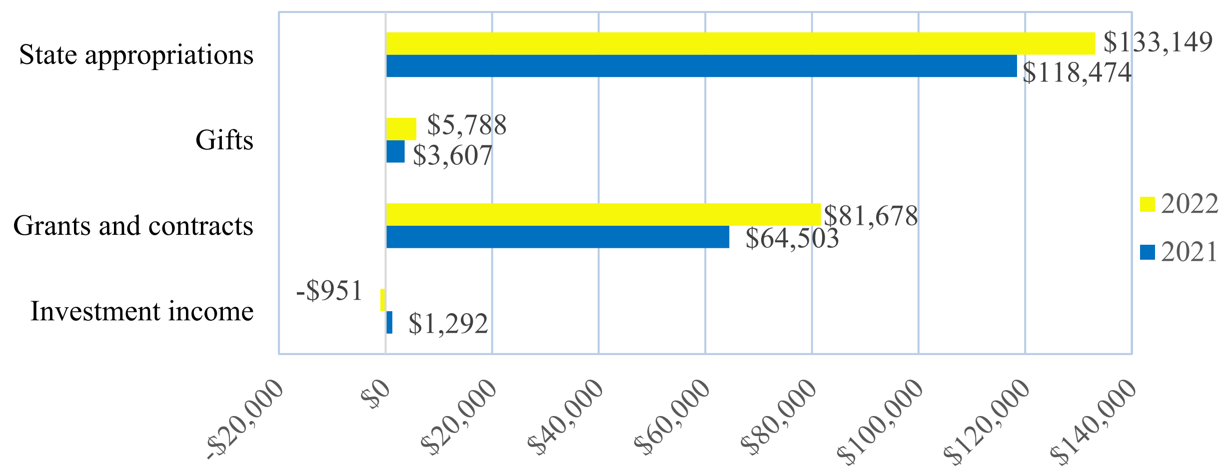
Nonoperating Revenues and Expenses

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

Nonoperating Revenues (Expenses)
(in thousands of dollars)

	2022	2021
State appropriations	$ 133,149	$ 118,474
Gifts	5,788	3,607
Grants and contracts	81,678	64,503
Investment income	(951)	1,292
Interest on capital asset-related debt	(4,655)	(4,344)
Interest on noncapital debt	(52)	(67)
Bond issuance costs	-	(101)
Other nonoperating revenues (expenses)	1,218	93
Total nonoperating revenues (expenses)	**$ 216,175**	**$ 183,457**

Nonoperating Revenues
(in thousands of dollars)



Comparison of Fiscal Year 2022 to Fiscal Year 2021

- State appropriations increased in fiscal year 2022 including an increase of $5 million for the main campus and a $4 million increase for the College of Medicine/Family Medicine units.

- Nonoperating gifts increased in 2022 due to an increase in gifts transferred from the ETSU Foundation during the year.

- Nonoperating grants and contracts increased during 2022 due to continued utilization of Department of Education Higher Education Emergency Relief Fund awards totaling $16.8 million.

- Investment income decreased in 2022 due to unrealized losses experienced by the investments of the university due to market conditions.

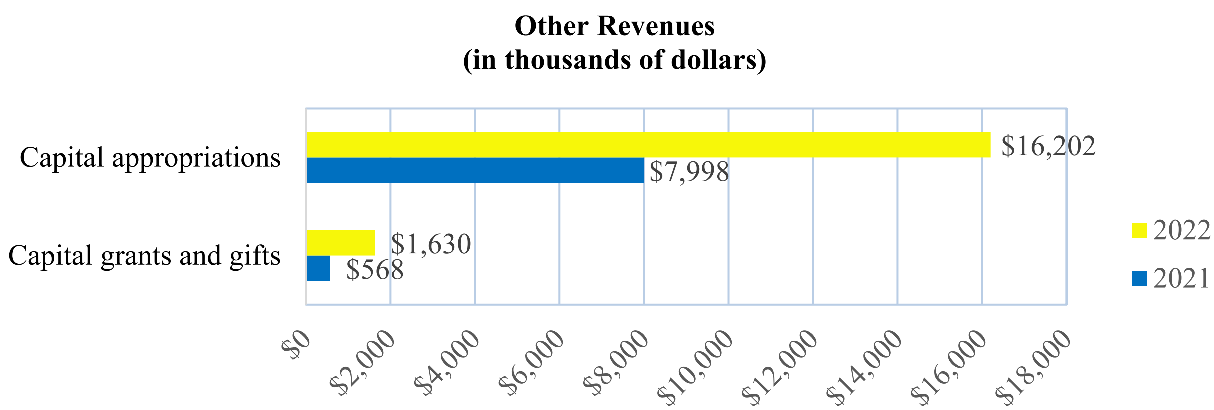
- Other nonoperating revenue increased in 2022 as the university received reimbursement from a settlement from the construction of the Martin Fine Arts Center.

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)

	2022	2021
Capital appropriations	$ 16,202	$ 7,998
Capital grants and gifts	1,630	568
Total other revenues	**17,832**	**$ 8,566**



Comparison of Fiscal Year 2022 to Fiscal Year 2021

- Capital appropriations increased from 2021 to 2022 due to an increase in appropriation funded expenditures for capital projects including the Lamb Hall renovations as well as multiple building roof replacements and exterior building improvements.

- Capital grants and gifts increased due to an increase in capital gifts received from the ETSU Foundation for the Lamb Hall renovations and baseball hitting facilities.

Capital Assets and Debt Administration

Capital Assets

East Tennessee State University had $410 million invested in capital assets, net of accumulated depreciation of $303 million at June 30, 2022; and $403 million invested in capital assets, net of accumulated depreciation of $288 million at June 30, 2021. Depreciation charges totaled $17.3 million for the year ended June 30, 2022, and $17.7 million for year ended June 30, 2021.

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

	2022	2021
Land	$ 19,381	$ 19,381
Land improvements & infrastructure	36,239	39,488
Buildings	315,094	325,421
Equipment	11,462	11,893

Library holdings	235	262
Software	485	566
Art and historical collections	24	24
Lease assets – buildings	1,277	-
Projects in progress	25,948	6,190
Total	**$410,145**	**$403,225**

- ♦ Capital assets, net of depreciation, increased from 2021 to 2022 due to increases in construction as campus renovations began for Lamb Hall and College of Medicine Building 2. Capital assets also experienced an increase as the university implemented GASB 87, *Leases*, in fiscal year 2022 and recorded lease assets for buildings.

At June 30, 2022, outstanding commitments under construction contracts totaled $19 million for various renovations and repairs for the D.P. Culp and Stone Hall Renovation projects, Valleybrook Building Systems Replacement project, and Lamb Hall Renovations project. Future state capital outlay appropriations will fund $15 million of these costs, including $8.9 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 $168 and $176 million in debt outstanding at June 30, 2022, and June 30, 2021, respectively. The table below summarizes these amounts by type of debt instrument.

Schedule of Outstanding Debt
(in thousands of dollars)

	2022	**2021**
Notes payable	$ 148	$ 283
Bonds	153,859	162,028
Unamortized bond premiums	12,985	14,481
Lease obligation – building	1,295	-
Total	**$168,287**	**$176,792**

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 $154 million of bonds outstanding at June 30, 2022, is $9.6 million.

The ratings on debt issued by the Tennessee State School Bond Authority 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 fiscal year 2023 provides over $10 million in recurring state funding for the main campus and a $1 million non-recurring appropriation for the BlueSky Tennessee Institute for computer science. The College of Medicine/Family Medicine units will receive over $4 million in recurring funding. The increase in appropriations, in conjunction with increases in student enrollment, will aid in covering salary increases, as well as inflationary increases in operating costs.

The university continues to rebound from the economic impact of the coronavirus pandemic. Enrollment of first-time freshman students increased by 10.8% for fall 2022, while total undergraduate student headcount increased by 2.3%. The auxiliary unit Housing is at 100% capacity at the start of the fall semester, and campus meal plan participation is up over 250%, a record level.

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

EAST TENNESSEE STATE UNIVERSITY
Statement of Net Position
June 30, 2022

	University	Component Units: East Tennessee State University Foundation	Component Units: Medical Education Assistance Corporation
Assets			
Current assets:			
Cash and cash equivalents (Notes 2 and 22)	$ 53,025,023.91	$ 950,700.62	$ 21,933,228.00
Short-term investments (Note 22)	-	-	7,783,399.00
Accounts, notes, and grants receivable (net) (Notes 5 and 22)	21,865,826.87	128,945.83	6,752,978.00
Leases receivable (Notes 5, 7, and 22)	43,606.39	131,640.89	127,010.00
Due from State of Tennessee	3,542,607.68	-	-
Due from ETSU	-	-	66,055.00
Due from component units	3,141,624.40	-	-
Pledges receivable (net) (Note 22)	-	1,538,418.99	-
Inventories (at lower of cost or market)	209,165.89	-	-
Prepaid expenses	358,532.26	-	366,581.00
Accrued interest receivable	587,905.14	-	-
Other assets	17,561.70	-	-
Total current assets	82,791,854.24	2,749,706.33	37,029,251.00
Noncurrent assets:			
Cash and cash equivalents (Notes 2 and 22)	128,093,569.69	19,328,226.70	-
Investments (Notes 3, 4, and 22)	59,735,600.00	102,725,713.17	1,943,818.00
Investment in Tennessee Retiree Group Trust	2,760,076.12	-	-
Accounts, notes, and grants receivable (net) (Notes 5 and 22)	1,707,211.56	-	-
Leases receivable (Notes 5, 7, and 22)	252,611.25	3,301,956.15	474,292.00
Net pension asset (Note 12)	14,640,776.00	-	-
Pledges receivable (Note 22)	-	1,872,727.75	-
Capital assets (net) (Notes 6 and 22)	410,144,874.63	10,000,850.64	7,524,884.00
Total noncurrent assets	617,334,719.25	137,229,474.41	9,942,994.00
Total assets	700,126,573.49	139,979,180.74	46,972,245.00
Deferred outflows of resources			
Deferred amount on debt refunding	6,079,722.46	-	-
Deferred outflows related to OPEB (Note 13)	7,257,809.00	-	-
Deferred outflows related to pensions (Note 12)	28,227,492.00	-	-
Total deferred outflows of resources	41,565,023.46	-	-
Liabilities			
Current liabilities:			
Accounts payable (Note 8)	7,801,503.84	143,754.98	511,577.00
Accrued liabilities	5,207,639.19	-	3,655,490.00
Due to State of Tennessee	2,820,656.09	-	-
Due to ETSU	-	2,604,562.40	537,062.00
Due to MEAC	66,055.00	-	-
Student deposits	750,027.88	-	-
Unearned revenue	19,324,709.89	-	-
Compensated absences (Notes 9 and 22)	3,200,374.39	-	133,430.00
Accrued interest payable	806,852.78	-	-
Lease liability (Notes 7 and 22)	274,986.47	115,926.63	354,805.00
Long-term liabilities, current portion (Notes 9 and 22)	9,728,786.33	141,364.92	-
Deposits held in custody for others	881,858.08	-	332,782.00
Other liabilities	-	17,533.72	493,956.00
Total current liabilities	50,863,449.94	3,023,142.65	6,019,102.00
Noncurrent liabilities:			
Net OPEB liability (Note 13)	16,965,266.00	-	-
Compensated absences (Notes 9 and 22)	14,558,764.35	-	533,720.00
Lease liability (Notes 7 and 22)	1,019,572.68	2,455,288.21	464,408.00
Long-term liabilities (Notes 9 and 22)	157,263,452.91	3,209,211.34	-
Due to grantors (Note 9)	3,611,607.13	-	-
Total noncurrent liabilities	193,418,663.07	5,664,499.55	998,128.00
Total liabilities	244,282,113.01	8,687,642.20	7,017,230.00
Deferred inflows of resources			
Deferred amount on debt refunding	77,123.59	-	-
Deferred inflows related to OPEB (Note 13)	9,470,524.00	-	-
Deferred inflows related to pensions (Note 12)	49,246,318.00	-	-
Other deferred inflows (Notes 10 and 22)	294,302.52	3,372,248.87	594,556.00
Total deferred inflows of resources	59,088,268.11	3,372,248.87	594,556.00
Net position			
Net investment in capital assets	249,228,289.65	4,079,059.54	6,705,671.00
Restricted for:			
Nonexpendable:			
Scholarships and fellowships	-	51,841,220.16	-
Research	-	743,078.54	-
Instructional department uses	-	7,312,206.32	-
Other	-	4,245,019.54	-
Expendable:			
Scholarships and fellowships	986,971.17	20,169,007.77	-
Research	111,068.77	5,479,771.90	-
Instructional department uses	215,391.75	6,768,558.16	-
Capital projects	1,017,849.06	3,799,221.22	-
Debt service	13,535,895.61	-	-
Pensions	14,640,776.00	-	-
Other	17,250,362.79	20,206,513.56	-
Unrestricted	141,334,611.03	3,275,632.96	32,654,788.00
Total net position	$ 438,321,215.83	$ 127,919,289.67	$ 39,360,459.00

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, 2022

	University	Component Units: East Tennessee State University Foundation	Component Units: Medical Education Assistance Corporation
Revenues			
Operating revenues:			
Student tuition and fees (Note 14)	$ 113,028,949.06	$ -	$ -
Gifts and contributions	-	9,100,821.37	-
Governmental grants and contracts	37,623,522.01	-	-
Nongovernmental grants and contracts (Note 14)	27,276,161.75	-	1,434,366.00
Sales and services of educational activities (Note 14)	22,787,766.46	-	-
Sales and services of other activities (Note 14)	11,768,435.40	-	-
Net patient revenues (Note 22)	-	-	47,992,834.00
Auxiliary enterprises:			
Residential life (Note 14)	13,353,048.72	-	-
Bookstore	211,205.03	-	-
Food service (Note 14)	7,078,442.71	-	-
Wellness facility	1,459,740.19	-	-
Other auxiliaries (Note 14)	2,570,284.52	-	-
Interest earned on loans to students	127,220.75	-	-
Other operating revenues, foundation revenues including $385,000 from MEAC	2,212,500.26	2,875,933.72	1,029,382.00
Total operating revenues	239,497,276.86	11,976,755.09	50,456,582.00
Expenses			
Operating expenses (Note 18):			
Salaries and wages	200,485,997.39	-	33,841,735.00
Benefits	62,980,958.96	-	3,133,063.00
Utilities, supplies, and other services	92,347,382.24	3,592,169.38	10,111,239.00
Scholarships and fellowships	36,379,232.77	2,963,034.31	-
Depreciation expense	17,312,676.97	300,894.86	939,950.00
Payments to or on behalf of East Tennessee State University (Note 22)	-	5,126,450.49	-
Total operating expenses	409,506,248.33	11,982,549.04	48,025,987.00
Operating income (loss)	(170,008,971.47)	(5,793.95)	2,430,595.00
Nonoperating revenues (expenses)			
State appropriations	133,149,376.46	-	-
Gifts, including $3,939,307.64 from ETSU Foundation and $2,048,781 from MEAC	5,788,458.97	-	-
Grants and contracts	81,678,341.95	-	463,651.00
Investment income (net of investment expense for the component units of $446,354.57)	(951,490.57)	(13,219,799.83)	18,302.00
Interest on capital asset-related debt and leases	(4,655,461.33)	(45,912.85)	(38,312.00)
Interest on noncapital debt	(52,162.85)	-	-
Payments to or on behalf of East Tennessee State University or ETSU Foundation (Note 22)	-	-	(2,433,781.00)
Other nonoperating revenues (expenses)	1,218,214.13	-	132,893.00
Net nonoperating revenues (expenses)	216,175,276.76	(13,265,712.68)	(1,857,247.00)
Income before other revenues, expenses, gains, or losses	46,166,305.29	(13,271,506.63)	573,348.00
Capital appropriations	16,202,082.02	-	-
Capital grants and gifts, including $1,187,142.85 from ETSU Foundation	1,629,667.94	-	-
Additions to permanent endowments	-	2,575,558.32	-
Total other revenues	17,831,749.96	2,575,558.32	-
Increase in net position	63,998,055.25	(10,695,948.31)	573,348.00
Net position - beginning of year	374,323,160.58	138,615,237.98	38,787,111.00
Net position - end of year	$ 438,321,215.83	$ 127,919,289.67	$ 39,360,459.00

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, 2022

Cash flows from operating activities		
Tuition and fees	$	114,536,050.23
Grants and contracts		65,430,940.65
Sales and services of educational activities		22,307,605.80
Sales and services of other activities		11,766,146.08
Payments to suppliers and vendors		(90,992,909.39)
Payments to employees		(199,947,543.58)
Payments for benefits		(75,808,791.88)
Payments for scholarships and fellowships		(36,372,695.66)
Loans issued to students		(173,842.27)
Collection of loans from students		531,081.06
Interest earned on loans to students		456,762.46
Funds disbursed for deposits held for others		(10,665,611.42)
Funds received for deposits held for others		10,765,280.21
Auxiliary enterprise charges:		
Residence halls		13,690,351.45
Bookstore		223,389.81
Food services		7,161,888.81
Wellness facility		1,459,740.19
Other auxiliaries		2,557,381.56
Other receipts (payments)		1,464,745.26
Net cash used for operating activities		(161,610,030.63)
Cash flows from noncapital financing activities		
State appropriations		128,062,200.00
Gifts and grants received for other than capital or endowment purposes		84,019,969.20
Federal student loan receipts		81,710,347.00
Federal student loan disbursements		(81,273,962.47)
Principal paid on noncapital debt		(568,619.41)
Interest paid on noncapital debt		(118,237.09)
Other noncapital financing receipts (payments)		1,364,625.00
Net cash provided by noncapital financing activities		213,196,322.23
Cash flows from capital and related financing activities		
Capital grants and gifts received		1,187,142.85
Purchases of capital assets and construction		(6,889,849.99)
Principal paid on capital debt and leases		(7,946,235.42)
Interest paid on capital debt and leases		(5,130,922.40)
Net cash used for capital and related financing activities		(18,779,864.96)
Cash flows from investing activities		
Proceeds from sales and maturities of investments		20,000,000.00
Income on investments		1,683,784.86
Purchase of investments		(20,652,308.37)
Net cash provided by investing activities		1,031,476.49
Net increase in cash		33,837,903.13
Cash - beginning of year		147,280,690.47
Cash - end of year	$	181,118,593.60

EAST TENNESSEE STATE UNIVERSITY
Statement of Cash Flows (continued)
For the Year Ended June 30, 2022

Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$	(170,008,971.47)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Noncash operating expenses		22,988,734.57
Change in assets, liabilities, deferred outflows, and deferred inflows:		
Receivables, net		(945,003.20)
Inventories		(3,648.78)
Prepaid expenses		222,040.25
Accrued interest receivable		329,167.51
Accounts payable		1,147,920.34
Accrued liabilities		387,918.25
Due to component unit		(106,083.00)
Net pension asset		(13,784,488.00)
Deferred outflows of resources		(15,874,504.46)
Net pension liability		(35,180,898.00)
Deferred inflows of resources		48,486,115.52
Net OPEB liability		(1,642,034.00)
Unearned revenues		1,992,173.95
Student deposits		108,008.29
Compensated absences		564,369.02
Due to grantors		(747,755.00)
Loans to students		357,238.79
Other		99,668.79
Net cash used for operating activities	$	(161,610,030.63)

Noncash investing, capital, or financing transactions		
Gifts of capital assets	$	442,525.09
Unrealized losses on investments	$	(2,456,410.42)
Loss on disposal of capital assets	$	(146,410.87)
Purchases of capital assets and construction with capital appropriations	$	15,613,200.88
Acquisition of right to use assets through incurrence of lease liability	$	1,505,800.11

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 has continuing oversight responsibilities in the areas of budget approval and institutional debt. This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides significant financial support; the system is discretely presented in Tennessee's *Annual Comprehensive Financial Report*. That report is available at https://www.tn.gov/finance/rd-doa/fa-accfin-ar.html.

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

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

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

In June 2017, the GASB issued Statement 87, *Leases*. This statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The university implemented this standard as of July 1, 2021.

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, intangible assets, and lease assets, are reported in the statement of net position at historical cost or at acquisition value at date of donation, or the present value of lease payments plus other associated lease costs less accumulated depreciation/amortization. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

A capitalization threshold of $100,000 is used for buildings, and $50,000 is used for infrastructure. Equipment is capitalized when the unit acquisition cost is $5,000 or greater. The capitalization threshold for additions and improvements to buildings and land is set at $50,000. The capitalization threshold for art, historical treasures/collections, and similar assets is set at $5,000. The capitalization threshold for software, an intangible asset, is set at $100,000. The capitalization threshold for leased assets, also intangible assets, is set at $100,000.

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 of the assets or life of the lease agreement, which range from 1 to 60 years.

Pensions

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

Other Postemployment Benefits

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

Net Position

The university's net position is classified as follows:

Net investment in capital assets – This represents the university's total investment in capital assets, net of accumulated depreciation and net of outstanding debt obligations and deferred outflows/inflows of resources related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

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

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

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

Scholarship Discounts and Allowances

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

Note 2. Cash

This classification includes demand deposits and petty cash on hand. At June 30, 2022, cash consisted of $14,478,584.60 in bank accounts, $55,000 of petty cash on hand, $6,900 of gift cards on hand, $165,570,473.42 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, and $1,007,635.58 in LGIP deposits for capital projects.

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

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

Note 3. Investments

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

Interest Rate Risk

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

At June 30, 2022, the university had the following debt investments and maturities:

		Investment Maturities (In Years)	
Investment Type	Fair Value	Less than 1	1 to 5
U.S. agency obligations	$59,735,600	$6,894,510	$52,841,090

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 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, 2022, the university's investments were rated as follows:

		Credit Quality Rating	
Investment Type	Balance	AA	Unrated
LGIP	$166,578,109	$ -	$166,578,109
U.S. agency obligations	59,735,600	59,735,600	-
Total	$226,313,709	$59,735,600	$166,578,109

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 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 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, 2022
Federal Home Loan Mortgage Corporation (FHLMC) obligations	16%
Federal Farm Credit Bank (FFCB) obligations	45%
Federal National Mortgage Association (FNMA) obligations	15%
Federal Home Loan Bank (FHLB) obligations	24%

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, 2022:

	June 30, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)
Assets by Fair Value Level		
Debt securities:		
U.S. agency obligations	$59,735,600	$59,735,600
Total debt securities	$59,735,600	$59,735,600
Total assets at fair value	$59,735,600	$59,735,600

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, 2022, included the following:

Student accounts receivable	$ 5,486,795.72
Grants receivable	11,360,239.86
Notes receivable	615,903.42
Clinic receivables	1,113,412.80
Leases receivable	296,217.64
Medical resident participation agreement receivable	3,444,940.55
Other receivables	2,640,857.00
Subtotal	24,958,366.99
Less allowance for doubtful accounts	2,220,461.03
Total receivables	$22,737,905.96

Federal Perkins Loan Program funds at June 30, 2022, included the following:

Perkins loans receivable	$ 2,558.810.08
Less allowance for doubtful accounts	1,427,459.97
Total	$1,131,350.11

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2022, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 19,381,320.07	$ -	$ -	$ -	$ 19,381,320.07
Land improvements and infrastructure	81,001,993.77	-	-	-	81,001,993.77
Buildings	531,410,283.63	-	687,183.09	-	532,097,466.72
Equipment	47,771,314.89	2,401,151.83	-	2,807,864.12	47,364,602.60
Library holdings	645,247.58	26,509.35	-	132,655.18	539,101.75
Intangible assets:					
Software	5,242,145.81	-	-	-	5,242,145.81
Right-to-use buildings	1,018,259.66	487,540.45	-	-	1,505,800.11
Art and historical collections	23,500.00	-	-	-	23,500.00
Projects in progress	6,189,911.39	20,445,865.63	(687,183.09)	-	25,948,593.93
Total	692,683,976.80	23,361,067.26	-	2,940,519.30	713,104,524.76

Less accumulated depreciation/amortization:					
Land improvements and infrastructure	41,513,777.07	3,249,003.75	-	-	44,762,780.82
Buildings	205,989,639.79	11,014,142.64	-	-	217,003,782.43
Equipment	35,878,533.67	2,685,478.07	-	2,661,453.25	35,902,558.49
Library holdings	383,106.78	53,910.22	-	132,655.18	304,361.82
Intangible assets:					
Software	4,676,024.28	80,874.50	-	-	4,756,898.78
Right-to-use – buildings	-	229,267.79	-	-	229,267.79
Total	288,441,081.59	17,312,676.97	-	2,794,108.43	302,959,650.13
Capital assets, net	$404,242,895.21	$ 6,048,390.29	$ -	$(146,410.87)	$410,144,874.63

Note 7. Leases

Lease Receivable

The university leases property to a third party, the terms of which expire in 2028. Revenue recognized under the lease contract during the year ended June 30, 2022, was $50,289.32, which includes both lease revenue and interest.

Lease Liabilities

The university leases buildings, the terms of which expire in various years through 2028.

The following is a schedule by year of payments under the leases as of June 30, 2022:

Year Ending June 30	Principal	Interest	Total
2023	$274,986.47	$20,323.17	$295,309.64
2024	280,378.86	15,487.23	295,866.09
2025	285,960.02	10,473.34	296,433.36
2026	208,580.18	5,844.41	214,424.59
2027	128,310.63	3,166.88	131,477.51
2028	116,342.99	990.97	117,333.96
Total	$1,294,559.15	$56,286.00	$ 1,350,845.15

Note 8. Accounts Payable

Accounts payable at June 30, 2022, included the following:

Vendors payable	$6,693,965.26
Unapplied student payments	53,700.71
Other payables	1,053,837.87
Total accounts payable	$7,801,503.84

Note 9. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2022, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Notes	$ 283,377.54	$ -	$ 134,954.36	$ 148,423.18	$ 72,910.38
TSSBA debt:					
Bonds	162,027,402.79	-	8,168,659.51	153,858,743.28	9,655,875.95
Unamortized bond premium	14,480,829.71	-	1,495,756.93	12,985,072.78	-
Subtotal	176,791,610.04	-	9,799,370.80	166,992,239.24	9,728,786.33
Other liabilities:					
Compensated absences	17,194,769.72	9,346,256.54	8,781,887.52	17,759,138.74	3,200,374.39
Due to grantors	4,359,362.13	-	747,755.00	3,611,607.13	-
Subtotal	21,554,131.85	9,346,256.54	9,529,642.52	21,370,745.87	3,200,374.39
Total long-term liabilities	$ 198,345,741.89	$9,346,256.54	$19,329,013.32	$188,362,985.11	$12,929,160.72

Notes Payable

The university has a note payable for equipment utilized by the information technology department. The note has an imputed interest rate of 4.13%, a minimum annual debt service of $78,934.28, and a maturity date of June 2024. The balance owed by the university was $148,423.18 at June 30, 2022.

Debt service requirements to maturity for notes payable at June 30, 2022, are as follows:

Year Ending June 30	Principal	Interest	Total
2023	$72,910.38	$6,023.90	$78,934.28
2024	75,512.80	3,421.48	78,934.28
Total	$148,423.18	$9,445.38	$157,868.56

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 11 for further details.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2022, are as follows:

Year Ending June 30	Principal	Interest	Total
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	9,305,969.01	3,404,867.96	12,710,836.97
2028-2032	38,182,063.71	13,480,414.43	51,662,478.14
2033-2037	32,215,617.20	9,086,016.80	41,301,634.00
2038-2042	24,200,763.50	4,732,356.04	28,933,119.54
2043-2047	11,622,289.10	1,093,490.70	12,715,779.80
2048	754,618.40	18,865.45	773,483.85
Total	$153,858,743.28	$48,484,486.97	$202,343,230.25

TSSBA Debt – Revolving Credit Facility

The Tennessee State School Bond Authority (TSSBA) receives 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, 2022.

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

Note 10. Other Deferred Inflows of Resources

The university has other deferred inflows of resources related to leased property in which the university is the lessor. The total amount of other deferred inflows of resources was $294,302.52 at June 30, 2022.

Note 11. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $153,858,743.28 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 3.63% of available revenues. The total principal and interest remaining to be paid on the bonds is $202,343,230.25. Principal and interest paid for the current year and total available revenues were $13,259,754.12 and $365,083,138.58, respectively.

Note 12. 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.

<u>Contributions</u> – 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, 2022, to the Closed State and Higher Education Employee Pension Plan were $8,423,702. Additional contributions of $4,925,063 were made to the pension plan by the State of Tennessee on behalf of the university. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense (Negative Pension Expense), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset – At June 30, 2022, the university reported an asset of $12,548,992 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2021, 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, 2021, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2021, measurement date, the university's proportion was 2.050998%. The proportion measured as of June 30, 2020, was 2.147389%.

Pension expense – For the year ended June 30, 2022, the university recognized a negative pension expense of ($1,922,896).

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2022, 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	$ 269,706	$ 3,061,649
Net difference between projected and actual earnings on pension plan investments	-	43,554,109
Changes in assumptions	13,258,456	-
Changes in proportion of net pension liability	-	1,099,423
Contributions subsequent to the measurement date of June 30, 2021	13,348,765	-
Total	$ 26,876,927	$ 47,715,181

Deferred outflows of resources, resulting from employer contributions of $13,348,765 subsequent to the measurement date, will be recognized as a reduction in net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2023	$ (6,374,684)
2024	$ (5,747,435)
2025	$(10,315,364)
2026	$(11,749,536)

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, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on customized tables based on actual experience, including a projected mortality improvement using Scale MP-2020 (generational projection).

The actuarial assumptions used in the June 30, 2021, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2016, through June 30, 2020. As a result of the 2020 actuarial experience study, investment and demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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

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

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

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

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

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
University's proportionate share of the net pension liability	$33,146,604	$(12,548,992)	$(50,910,834)

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, 2022, the university reported a payable of $90,259.54 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2022.

State and Higher Education Employee Retirement Plan

General Information About the Pension Plan

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

Benefits provided – Title 8, Chapters 34–37, *Tennessee Code Annotated,* establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and years of service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula multiplying the member's highest 5 consecutive 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, 2022, to the State and Higher Education Employee Retirement Plan were $696,398, which is 1.86% 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, 2022, the university reported an asset of $2,091,784 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2021, 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, 2021, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2021, measurement date, the university's proportion was 2.468283%. At the June 30, 2020, measurement date, the university's proportion was 2.431720%.

Pension expense – For the year ended June 30, 2022, the university recognized a pension expense of $257,793.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2022, 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	$ 52,082	$ 246,920
Net difference between projected and actual earnings on pension plan investments	-	1,191,531
Changes in assumptions	601,258	-
Changes in proportion of net pension asset	827	92,686
University's contributions subsequent to the measurement date of June 30, 2021	696,398	-
Total	$1,350,565	$1,531,137

Deferred outflows of resources, resulting from the university's employer contributions of $696,398 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2023	$(252,372)
2024	$(246,291)
2025	$(241,304)
2026	$(272,991)
2027	$ 44,614
Thereafter	$ 91,374

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, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on customized tables based on actual experience, including projected mortality improvement using Scale MP-2020 (generational projection).

The actuarial assumptions used in the June 30, 2021, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2016, through June 30, 2020. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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

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

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

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

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

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
University's proportionate share of the net pension asset	$323,191	$(2,091,784)	$(3,917,556)

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, 2022, the university reported a payable of $31,949.38 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2022.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2022, for all state government defined benefit pension plans was $(1,665,103).

Defined Contribution Plans

Optional Retirement Plans

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

Funding policy – For employees employed prior to July 1, 2014, plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. For employees hired after June 30, 2014, plan members will contribute 5% to the ORP, and the university will contribute 9% of the employee's base salary. Pension expense equaled the required contributions made to the ORP and was $8,347,375.87 for the year ended June 30, 2022, and $8,297,743.83 for the year ended June 30, 2021. 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, 2022, the university reported a payable of $8,921.46 for the outstanding amount of legally required contributions to the plan required for the year then ended.

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, 2022, contributions totaling $5,195,467.05 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $2,992,223.10 for employer contributions. 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.

At June 30, 2022, the university reported a payable of $168,641.39 for the outstanding amount of legally required contributions to the plan required for the year ended June 30, 2022.

Note 13. 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 year ended June 30, 2022, was $126.3 million. The university's share of the ADC was $3,272,022. During the fiscal year, the university contributed $3,272,022 to the OPEB Trust. The Tennessee General Assembly has the authority to change the contribution requirements of the employees participating in the EGOP.

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

Proportionate share – The university's proportionate share of the collective net OPEB liability related to the EGOP was $16,965,266. At the June 30, 2021, measurement date, the university's proportion of the collective net OPEB liability was 2.379314%. The proportion existing at the prior measurement date was 2.222831%. This resulted in a change in proportion of 0.156483% 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, 2021, and a measurement date of June 30, 2021.

OPEB expense – For the year ended June 30, 2022, the university recognized OPEB expense of $692,173.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2022, 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
Differences between expected and actual experience	$ -	$ 1,621,145
Changes in assumptions	1,121,066	4,186,352
Net difference between actual and projected investment earnings	-	1,174,469
Changes in proportion and differences between benefits paid and proportionate share of benefits paid	2,864,721	2,488,558
Contributions subsequent to the measurement date	3,272,022	-
Total	$ 7,257,809	$ 9,470,524

Deferred outflows of resources, resulting from the university's employer contributions of $3,272,022 subsequent to the measurement date, will be recognized as a decrease in net OPEB liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30	
2023	$(1,420,731)
2024	$(1,420,730)
2025	$(1,424,891)
2026	$(1,399,492)
2027	$ 148,654
Thereafter	$ 32,453

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, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Healthcare cost trend rates	7.36% for 2022, decreasing annually to an ultimate rate of 4.50% for 2029 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, 2021, valuations were the same as those employed in the July 1, 2021, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS) for Group I employees. These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2016, through June 30, 2020. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. For pre-retirement non-disabled general employees, the mortality rates employed in this valuation are taken from the PUB-2010 Headcount-Weighted Employee mortality table projected generationally with MP-2020 from

2010. Post-retirement tables are Headcount-Weighted Below Median Healthy Annuitant and adjusted with a 6% load for males and a 14% load for females, projected generationally from 2010 with MP-2020. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender-distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load, projected generationally from 2018 with MP-2020.

Long-term expected rate of return – The long-term expected rate of return of 6% on OPEB Trust investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. 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:

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

The best estimates of geometric real rates of return for each major asset class included in the target asset allocation as of June 30, 2021, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
U.S. equity	4.10%
Developed market international equity	4.81%
Emerging market international equity	5.33%
Private equity and strategic lending	3.71%
U.S. fixed income	0.32%
Real estate	2.91%
Cash (government)	(0.22%)

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

Changes in assumptions – The long-term inflation rate was increased from 2.1% to 2.25%. Other changes in assumptions include changes made to the medical and drug trend rates, and coverage and acceptance rates to reflect more recent experience and subsidy amounts. Also, changes in retirement, withdrawal and mortality rates were made to match those provided by TCRS. The net change in liability as a result of these changes is not considered significant.

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

	1% Decrease (5%)	Current Discount Rate (6%)	1% Increase (7%)
University's proportionate share of the collective net OPEB liability	$18,916,216	$16,965,266	$15,149,260

Sensitivity of the proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rate – The following presents the university's proportionate share of the collective net OPEB liability of the EGOP, as well as what the proportionate share of the collective net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (6.36% decreasing to 3.5%) or 1 percentage point higher (8.36% decreasing to 5.5%) than the current rate:

	1% Decrease (6.36% decreasing to 3.5%)	Healthcare Cost Trend Rates (7.36% decreasing to 4.5%)	1% Increase (8.36% decreasing to 5.5%)
University's proportionate share of the collective net OPEB liability	$14,476,174	$16,965,266	$19,840,320

<u>OPEB plan fiduciary net position</u> – 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

<u>Plan description</u> – 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.

<u>Benefits provided</u> – 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 $162,113 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 towards 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 $4,603,827. At the June 30, 2021, measurement date, the proportion of the collective total OPEB liability associated with the university was 2.590015%. This represents a change of 0.18938% from the prior proportion of 2.400635%. 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, 2021, and a measurement date of June 30, 2021.

Actuarial assumptions – The total OPEB liability in the June 30, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

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

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

Discount rate – The discount rate used to measure the total OPEB liability was 2.16%. 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/Aa2 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 (1.16 %) or 1 percentage point higher (3.16%) than the current rate. The university does not report a proportionate share of the OPEB liability for employees in the TNP.

	1% Decrease (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
Primary government's proportionate share of the collective total OPEB liability	$5,206,135	$4,603,827	$4,098,526

OPEB expense – For the year ended June 30, 2022, the primary government recognized OPEB expense of $228,688 for employees of the university participating in the TNP.

Total OPEB Expense

The total OPEB expense for the year ended June 30, 2022, was $920,861, which consisted of OPEB expense of $692,173 for the EGOP and $228,688 paid by the primary government for the TNP.

Note 14. Revenues

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

Revenue Source	Gross Revenue	Less Scholarship Allowances	Less Uncollectible Debts/Adjustments	Net Revenue
Operating revenues:				
Tuition and fees	$168,331,190.48	$54,307,969.03	$994,272.39	$113,028,949.06
Nongovernmental grants and contracts	27,201,994.81	-	(74,166.94)	27,276,161.75
Sales and services of educational activities	22,757,091.35	-	(30,675.11)	22,787,766.46
Sales and services of other activities	11,729,137.92	-	(39,297.48)	11,768,435.40
Residential life	13,760,116.20	524,774.25	(117,706.77)	13,353,048.72
Food service	7,057,696.53	-	(20,746.18)	7,078,442.71
Other auxiliaries	2,560,541.78	-	(9,742.74)	2,570,284.52
Total	$253,397,769.07	$54,832,743.28	$701,937.17	$197,863,088.62

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 is $600 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in the New Madrid Zone. 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, 2022, 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, 2022, the RMF held $245 million in cash designated for payment of claims.

At June 30, 2022, 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 $71,072,756.08 at June 30, 2022.

Construction in Progress

At June 30, 2022, outstanding commitments under construction contracts totaled $19,087,913.54 for the D.P. Culp and Stone Hall Renovation projects, Valleybrook Building Systems Replacement project, and Lamb Hall Renovations project, of which $3,836,968.64 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. Chairs of Excellence

The university had $34,158,832.97 on deposit at June 30, 2022, 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 18. Natural Classification With Functional Classifications

The university's operating expenses for the year ended June 30, 2022, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$110,395,188.98	$33,529,582.08	$18,568,964.23	$ -	$ -	$162,493,735.29
Research	9,846,820.28	3,195,920.61	3,960,232.76	-	-	17,002,973.65
Public service	18,886,088.74	6,442,901.63	15,719,283.50	-	-	41,048,273.87
Academic support	19,803,075.33	6,129,034.15	5,778,135.27	-	-	31,710,244.75
Student services	15,422,994.54	5,394,904.10	10,156,805.92	-	-	30,974,704.56
Institutional support	16,247,877.33	4,884,102.08	7,456,657.85	-	-	28,588,637.26
Maintenance and operation	7,688,070.02	2,703,218.47	17,892,323.03	-	-	28,283,611.52
Scholarships and fellowships	-	-	-	36,379,232.77	-	36,379,232.77
Auxiliary	2,195,882.17	701,295.84	12,814,979.68	-	-	15,712,157.69
Depreciation	-	-	-	-	17,312,676.97	17,312,676.97
Total	$200,485,997.39	$62,980,958.96	$92,347,382.24	$36,379,232.77	$17,312,676.97	$409,506,248.33

Note 19. 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, 2022, the assets of the foundation totaled $837,909, liabilities were $10,982, and the net position amounted to $826,927.

Note 20. On-behalf Payments

During the year ended June 30, 2022, the State of Tennessee made payments of $162,113 on behalf of the university for retirees participating in the Closed Tennessee OPEB Plan. The Closed Tennessee OPEB Plan is a postemployment benefit healthcare plan and is discussed further in Note 13. 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.

The State of Tennessee also made payments of $4,925,063 on behalf of the university for retirees participating in the Closed State and Higher Education Employee Pension Plan. The Closed State and Higher Education Employee Pension Plan is a defined benefit pension plan with membership in the Tennessee Consolidated Retirement System and is discussed further in Note 12. The TCRS issues a publicly available financial report that can be obtained at https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies.

Note 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, expenditures 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 payouts for the Voluntary Retirement Incentive were $2,790,467.19. Final payments of $120,308.37 were paid out in FY22.

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, 2022, the foundation made distributions of $5,126,450.49 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, 2022, cash and cash equivalents consisted of $717,761.65 in bank accounts, $19,127,027.56 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, and $434,138.11 in cash held by others.

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

Investments

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, 2022, 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	$ 5,132,037.00	$522,659.30	$ 3,812,217.21	$ 797,160.49	$ -	$ -
U.S. agency obligations	1,720,497.40	150,451.50	795,064.00	774,981.90	-	-
Corporate bonds	9,962,829.60	653,294.74	3,913,313.72	4,605,620.74	790,600.40	-
Bond mutual funds	11,014,186.80	-	5,593,665.97	4,829,844.37	86,781.46	503,895.00
Total debt investments	$27,829,550.80	$1,326,405.54	$ 14,114,260.90	$11,007,607.50	$877,381.86	$503,895.00
Non-Fixed Income Investments						
Equity mutual funds	69,400,285.31					
Goldman Sachs Strategic Factor Allocation Fund	5,116,231.01					
Cash surrender value of life insurance	379,646.05					
Total investments	$102,725,713.17					

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. In order to reduce 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, 2022, the foundation's investments were rated as follows:

				Credit Quality Rating		
Investment Type	Reported Value	AAA	AA	A	BBB or Less	Unrated
LGIP	$19,127,027.56	$ -	$ -	$ -	$ -	$19,127,027.56
U.S. government obligations	5,132,037.00	-	5,132,037.00	-	-	-
U.S. agency obligations	1,720,497.40	-	1,720,497.40	-	-	-
Corporate bonds	9,962,829.60	344,995.28	144,253.25	6,115,035.67	3,358,545.40	-
Bond mutual funds	11,014,186.80	2,982,307.49	-	-	7,865,503.89	166,375.42
Total	$46,956,578.36	$3,327,302.77	$6,996,787.65	$6,115,035.67	$11,224,049.29	$19,293,402.98

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, 2022, the foundation had $102,346,067.12 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, 2022:

	Reported Value
U.S. government obligations	$4,721,474.04
U.S. agency obligations	1,582,857.61
Corporate bonds	9,165,803.23
Pooled investment vehicles	66,774,780.37
Goldman Sachs Strategic Factor Allocation Fund	5,116,231.01
Deposits held by others	434,138.11
Total	$87,795,284.37

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, 2022, each having a fair value of $1.1704668948, 77,864,462.27 units were owned by permanent endowments, and 4,774,252.63 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, 2022:

	Pooled Assets			
	Fair Value	Cost	Net Gains (Losses)	Fair Value Per Unit
End of year	$102,346,067.12	$102,968,945.53	$ (622,878.41)	$1.1704668948
Beginning of year	$115,359,261.12	$ 97,486,158.51	17,873,102.61	$1.1654189434
Unrealized net losses			(18,495,981.02)	
Realized net gains			2,878,102.42	
Total net losses			$(15,617,878.60)	

The average annual earnings per unit, exclusive of net gains, were $0.021 for the year ended June 30, 2022.

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, 2022:

Investments by Fair Value Level	June 30, 2022	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)
Debt securities:					
U.S. government obligations	$5,132,037.00	$5,132,037.00	$ -	$ -	$ -
U.S. agency obligations	1,720,497.40	1,720,497.40	-	-	-
Corporate bonds	9,962,829.60	9,962,829.60	-	-	-
Bond mutual funds	11,014,186.80	-	-	-	11,014,186.80
Total debt securities	27,829,550.80	16,815,364.00	-	-	11,014,186.80
Equity securities:					
Equity mutual funds	69,400,285.31	-	-	-	69,400,285.31
Total equity securities	69,400,285.31	-	-	-	69,400,285.31
Goldman Sachs Strategic Factor Allocation Fund	5,116,231.01	-	-	-	5,116,231.01
Total investments at fair value	**$102,346,067.12**	**$16,815,364.00**	**$ -**	**$ -**	**$85,530,703.12**

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	$11,014,186.80	$ -	Daily	None
Equity mutual funds	69,400,285.31	-	Daily	None
Goldman Sachs Fund	5,116,231.01	-	Daily	None

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

Pledges Receivable

Pledges receivable at June 30, 2022, are summarized below, net of the allowance for doubtful accounts:

Current pledges	$ 1,559,073.99
Pledges due in one to five years	2,004,183.04
Pledges due after five years	27,200.00
Subtotal	3,590,457.03
Less allowance for doubtful accounts	(56,467.69)
Less discount to net present value	(122,842.60)
Total pledges receivable, net	$ 3,411,146.74

Capital Assets

Capital asset activity for the year ended June 30, 2022, was as follows:

	Beginning Balance	Additions	Transfers	Ending Balance
Land	$ -	$2,421,899.53	$ -	$ 2,421,899.53
Leasehold improvements	755,869.57	-	-	755,869.57
Buildings	-	4,468,284.05	-	4,468,284.05
Right-to-use – buildings	2,689,047.68	-	-	2,689,047.68
Other assets	12,000.00	-	-	12,000.00
Projects in progress	-	55,125.00	-	55,125.00
Total	3,456,917.25	6,945,308.58	$ -	10,402,225.83
Less accumulated depreciation/amortization:				
Leasehold improvements	100,480.33	99,552.80	-	200,033.13
Buildings	-	111,707.10	-	111,707.10
Right-to-use – buildings	-	89,634.96	-	89,634.96
Total	100,480.33	300,894.86	-	401,375.19
Capital assets, net	$3,356,436.92	$6,644,413.72	$ -	$10,000,850.64

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

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

Leases

Leases Receivable – The foundation, as a lessor, has entered into lease agreements involving building space of a property acquired by the foundation on December 6, 2021. The property is leased to various businesses for their operations under leases with renewal options which expire in various years through 2052. Minimum annual rental payments increase with the exercise of lease renewal options. Additionally, certain lease agreements include additional rental payments for allocated common area maintenance and rental payments equal to a percentage of the lessee's gross sales. These additional payments are not included in the measurement of the lease receivable because they are not fixed in substance. The total amount of inflows of resources, including lease revenue, interest revenue, and other lease-related inflows recognized during the fiscal year was $391,825.28. This total includes $90,095.49 of variable and other payments not previously included in the measurement of the lease receivable. The total amount of lease-related deferred inflows of resources at June 30, 2022, are $3,372,248.87.

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

The following is a schedule by year of payments under this lease as of June 30, 2022:

Year Ending June 30	Principal	Interest	Total
2023	$ 115,926.63	$ 44,069.37	$ 159,996.00
2024	117,971.69	42,024.31	159,996.00
2025	120,052.84	39,943.16	159,996.00
2026	122,170.70	37,825.30	159,996.00
2027	124,325.92	35,670.08	159,996.00
2028	1,970,767.06	22,563.94	1,993,331.00
Total	$2,571,214.84	$222,096.16	$2,793,311.00

Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2022, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Notes	$ -	$ 3,350,576.26	$ -	$ 3,350,576.26	$ 141,364.92
Total long-term liabilities	$ -	$ 3,350,576.26	$ -	$ 3,350,576.26	$ 141,364.92

Notes payable – The foundation's long-term debt consists of a note payable entered into to finance the purchase of University Plaza. The note issued on December 6, 2021, bears interest at 1.75% with principal and interest payments due in annual installments of $200,000. The note matures on December 6, 2041, and is secured by real estate. The balance owed by the foundation was $3,350,576.26 at June 30, 2022.

Debt service requirements to maturity for the note payable at June 30, 2022, are as follows:

Year Ending June 30	Principal	Interest	Total
2023	$ 141,364.92	$ 58,635.08	$ 200,000.00
2024	143,838.80	56,161.20	200,000.00
2025	146,355.98	53,644.02	200,000.00
2026	148,917.21	51,082.79	200,000.00
2027	151,523.26	48,476.74	200,000.00
Thereafter	2,618,576.09	381,423.91	3,000,000.00
Total	$ 3,350,576.26	$ 649,423.74	$ 4,000,000.00

Endowments

The ETSU Foundation's endowment consists of 660 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, 2022, net appreciation of $14,633,863.99 is available to be spent, of which $9,333,106.64 is included in restricted net position expendable for scholarships and fellowships, $142,910.46 is included in restricted net position expendable for research, $1,259,272.25 is included in restricted net position expendable for instructional department uses, and $3,898,574.64 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, 2022, MEAC made distributions of $2,433,781 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, 2022, cash consisted of $19,709,879 in bank accounts, $2,450 of petty cash on hand, and $2,220,899 in the Local Government Investment Pool (LGIP) administered by the State Treasurer.

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

Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, as amended, and GASB Statement 72, *Fair Value Measurement and Application,* as amended, investments are reported at fair value, including those with a maturity date of one year or less at the time of purchase, unless otherwise noted. The corporation is authorized to invest funds in accordance with its board of directors' policies. The corporation's investments at June 30, 2022, consisted of $6,361,141 of certificates of deposit reported at cost and $3,366,076 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, 2022, 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	$3,366,076	$3,366,076	$ -
Total debt investments	$3,366,076	$3,366,076	$ -

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, 2022, the corporation's investments were rated as follows:

		Credit Quality Rating	
Investment Type	Balance	AA	Unrated
LGIP	$2,220,899	$ -	$2,220,899
U.S. agency obligations	3,366,076	3,366,076	-

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, 2022, 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	59%
Federal Farm Credit Bank (FCCB) obligations	41%

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, 2022:

	June 30, 2022	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	$3,366,076	$ -	$3,366,076	$ -	$ -
Total debt securities	$3,366,076	$ -	$3,366,076	$ -	$ -

Receivables

Receivables at June 30, 2022, included the following:

Patient accounts receivable, net	$2,842,733
Leases receivable	601,302
Other receivables	3,910,245
Total	$7,354,280

Capital Assets

Capital asset activity for the year ended June 30, 2022, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$408,450	$ -	$ -	$408,450
Leasehold improvements	769,706	-	-	769,706
Buildings	3,123,636	2,137,123	-	5,260,759
Equipment	5,417,391	110,689	970,879	4,557,201
Right-to-use – buildings	2,942,254	404,096	-	3,346,350
Right-to-use – equipment	411,632	366,256	-	777,888
Right-to-use – vehicles	-	11,227	-	11,227
Total	13,073,069	3,029,391	970,879	15,131,581

Less accumulated depreciation/amortization:				
Leasehold improvements	767,804	1,268	-	769,072
Buildings	1,066,754	203,881	-	1,270,635
Equipment	4,560,485	288,126	970,879	3,877,732
Right-to-use – buildings	1,201,420	204,988	-	1,406,408
Right-to-use – equipment	41,163	240,751	-	281,914
Right-to-use – vehicles	-	936	-	936
Total	7,637,626	939,950	970,879	7,606,697
Total	$5,435,443	$2,089,441	$ -	$7,524,884

The beginning balances in right-to-use assets originated from capital leases reported under accounting principles in effect prior to the implementation of GASB Statement 87, *Leases*. These were not financed purchases, and the related agreement did not dictate that title would pass to MEAC. They are therefore reported in accordance with GASB Statement 87.

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

Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2022, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$ 682,073	$ -	$ 14,923	$ 667,150	$133,430
Lease liability	379,181	781,579	341,547	819,213	354,805
Total long-term liabilities	$1,061,254	$781,579	$356,470	$1,486,363	$488,235

Lease Liability

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

The following is a schedule by year of payments under the leases as of June 30, 2022:

Year Ending June 30	Principal	Interest	Total
2023	$354,805	$25,889	$380,694
2024	297,066	13,192	310,258
2025	125,957	4,870	130,827
2026	41,385	1,542	42,927
Total	$819,213	$45,493	$864,706

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	$92,723,773	$41,805,350	$2,925,589	$47,992,834

EAST TENNESSEE STATE UNIVERSITY

Required Supplementary Information

Schedule of East Tennessee State University's Proportionate Share of the Net Pension Liability (Asset)

Closed State and Higher Education Employee Pension Plan Within TCRS

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

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

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

EAST TENNESSEE STATE UNIVERSITY

Required Supplementary Information

Schedule of East Tennessee State University's Proportionate Share of the Net Pension Asset

State and Higher Education Employee Retirement Plan Within TCRS

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

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

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

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

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2022	$8,423,702	$13,348,765	($4,925,063)	$41,091,224	32.49%
2021	8,757,445	8,757,445	-	43,290,288	20.23%
2020	9,344,941	9,344,941	-	47,530,893	19.66%
2019	9,337,610	9,337,610	-	48,552,102	19.23%
2018	9,540,014	9,540,014	-	50,556,513	18.87%
2017	7,617,033	7,617,033	-	50,712,584	15.02%
2016	7,784,757	7,784,757	-	51,794,799	15.03%
2015	8,121,767	8,121,767	-	54,038,562	15.03%
2014	8,381,113	8,381,113	-	55,762,565	15.03%
2013	8,044,873	8,044,873	-	53,525,437	15.03%

Notes to Schedule:

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

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

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
2022	$696,398	$696,398	$ -	$37,448,653	1.86%
2021	562,523	562,523	-	31,251,008	1.80%
2020	481,545	481,545	-	27,834,900	1.73%
2019	363,782	363,782	-	21,915,711	1.66%
2018	630,229	630,229	-	16,399,694	3.84%
2017	430,143	430,143	-	11,157,589	3.86%
2016	244,997	244,997	-	6,330,672	3.87%
2015	92,133	92,133	-	2,379,157	3.87%

Notes to Schedule:

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

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

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

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

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

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

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

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

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

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

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

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

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

	University's Proportion of the Collective Total OPEB Liability	Primary Government's Proportionate Share of the Collective Total OPEB Liability	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 Payroll
2022	0.0%	$4,603,827	$4,603,827	$105,450,267	0.0%
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.

EAST TENNESSEE STATE UNIVERSITY
Supplementary Schedule of Cash Flows - East Tennessee State University Foundation
For the Year Ended June 30, 2022

Cash flows from operating activities		
Gifts and contributions	$	8,147,316.11
Payments to suppliers and vendors		(791,904.69)
Payments for scholarships and fellowships		(2,963,034.28)
Payments to or on behalf of ETSU		(5,126,450.52)
Other receipts (payments)		2,789,333.67
Net cash provided by operating activities		2,055,260.29
Cash flows from noncapital financing activities		
Private gifts for endowment purposes		2,575,558.32
Net cash provided by noncapital financing activities		2,575,558.32
Cash flows from capital and related financing activities		
Purchases of capital assets and construction		(3,594,732.32)
Other receipts (payments)		(156,246.31)
Net cash used for capital and related financing activities		(3,750,978.63)
Cash flows from investing activities		
Proceeds from sales and maturities of investments		51,914,857.02
Income on investments		2,353,470.26
Purchases of investments		(54,519,541.48)
Net cash used for investing activities		(251,214.20)
Net increase in cash and cash equivalents		628,625.78
Cash and cash equivalents - beginning of year		19,650,301.54
Cash and cash equivalents - end of year	$	20,278,927.32
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$	(5,793.95)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Noncash operating expenses		300,894.86
Change in assets, liabilities, and deferred inflows:		
Receivables, net		(678,038.34)
Prepaid expenses		13,333.00
Accounts payable		2,570,533.52
Deferred inflows of resources		(159,252.83)
Other liabilities		13,584.03
Net cash provided by operating activities	$	2,055,260.29
Noncash investing, capital, or financing transactions		
Gifts of capital assets	$	118,031.00
Unrealized losses on investments	$	(18,495,981.02)
Acquisition of right to use asset through incurrence of lease liability	$	2,689,047.68

EAST TENNESSEE STATE UNIVERSITY
Supplementary Schedule of Cash Flows - Medical Education Assistance Corporation
For the Year Ended June 30, 2022

Cash flows from operating activities	
Collections from patient charges	$ 48,439,466.00
Payments to employees	(34,085,149.00)
Payments for benefits	(3,136,376.00)
Payments to suppliers and vendors	(10,302,322.00)
Other receipts (payments)	1,495,802.00
Net cash provided by operating activities	2,411,421.00
Cash flows from noncapital financing activities	
Payments to or on behalf of ETSU or ETSU Foundation	(2,433,781.00)
Other receipts (payments)	463,651.00
Net cash used for noncapital financing activities	(1,970,130.00)
Cash flows from capital and related financing activities	
Proceeds from sale of property and equipment	200.00
Purchases of capital assets and construction	(2,247,812.00)
Principal paid on leases	(341,547.00)
Interest paid on leases	(38,313.00)
Net cash used for capital and related financing activities	(2,627,472.00)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	7,524,672.00
Income on investments	114,557.00
Purchases of investments	(5,800,622.00)
Other investing receipts (payments)	140,938.00
Net cash provided by investing activities	1,979,545.00
Net increase in cash	(206,636.00)
Cash - beginning of year	22,139,864.00
Cash - end of year	$ 21,933,228.00

Reconciliation of operating gain to net cash provided by operating activities:	
Operating gain	$ 2,430,595.00
Adjustments to reconcile operating gain to net cash provided by operating activities:	
Noncash operating expenses	3,865,539.00
Changes in assets and liabilities:	
Receivables, net	(2,733,949.00)
Prepaid expenses	45,509.00
Accounts payable	(128,975.00)
Accrued liabilities	(243,414.00)
Compensated absences	(3,313.00)
Deposits held in custody for others	24,380.00
Unearned revenue	(737,334.00)
Other	(107,617.00)
Net cash provided by operating activities	$ 2,411,421.00
Noncash investing, capital, or financing transactions	
Acquisition of right to use assets through incurrence of lease liability	$ 781,579.00
Unrealized losses on investments	$ (111,246.00)

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, 2022, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated December 20, 2022. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our report includes a reference to other auditors who audited the financial statements of East Tennessee State University Foundation and the Medical Education Assistance Corporation, as described in our report on East Tennessee State University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on Internal Control Over Financial Reporting

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

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

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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.

- University staff did not conduct proper collection procedures on accounts receivable.
- The ETSU Office of Financial Aid and Scholarships did not adequately monitor the eligibility of Title IV financial aid recipients.

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

Report on Compliance and Other Matters

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

East Tennessee State University's 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 20, 2022

Findings and Recommendations

1. <u>University staff did not conduct proper collection procedures on accounts receivable</u>

<u>Condition and Criteria</u>

As noted in the prior audit, management did not ensure collection procedures for accounts receivable were performed timely by Bursar's Office and ETSU College of Nursing personnel. We tested a sample of 32 delinquent receivables, which consisted of 27 student accounts receivable and 5 College of Nursing clinic receivables that were more than 90 days old at June 30, 2022. 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 27 student receivables tested, for 9 (33%), a billing letter was issued from 1 day to 19 months late. For these late billing letters, the average billing letter issuance was 87 days late. Eight of the billing letter issues were for student receivables deemed delinquent in prior periods. One student receivable was deemed delinquent within the period under audit with the billing letter being issued 25 days late.
- Of 27 student receivables tested, 13 (48%) were referred to the collection agency late. Placement with a collection agency was 4 days to 19 months late. For these receivables, the average time for collection placement was 8 months after the final billing was issued. The 13 late collection agency placements occurred for student receivables deemed delinquent in prior periods.

The College of Nursing has its own policy. 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.

- Of five clinic receivables tested, three (60%) were referred to the collection agency from six days to five months late. For these receivables, the average time for collection placement was three months late. The three clinic receivables were deemed delinquent in prior periods.

- For one (20%) of the five delinquent clinic receivables tested, the account was not referred to a collection agency. The clinic receivable was deemed delinquent within the current period.

In response to the prior audit finding, management stated they would take steps to ensure staff adhere to written and departmental policies to ensure timely collections. We noted management has taken steps to correct these conditions with the April 2022 implementation of a "collections calendar," outlining the dates of scheduled collection letters and collection placements during the year, and a new collection policy effective June 13, 2022. Because these steps were implemented at the end of the audit period, not enough time has elapsed to see the full effect of these changes. The results above were based on the policy effective through June 12, 2022.

Cause

Management did not adhere to its own policies for the collection of accounts receivable. The university Bursar stated that the errors noted were for the same reasons as noted in the prior audit. Staff simply did not conduct collection processes in adherence to policy. College of Nursing management stated that each account to be sent to collections must be reviewed manually, and therefore, this is a time-consuming process.

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 has taken 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. Following the issuance of the prior year report in February 2022, the policy *Collection of Accounts Receivable* was updated and subsequently approved by ETSU University Council in June. In addition, a new collections calendar was implemented in the Bursar's Office to improve the timeline of e-mailed and mailed notifications as well as provide date ranges for placements with an outside agency after proper notification of the debt. In April of 2022, a new semi-automated monthly notification process was put into place which creates e-mails to students' campus and personal accounts on a monthly basis. Bursar's Office staff are also working with our vendor, Campus Receivables Collector, to clarify certain system processes to increase automation.

The College of Nursing has been working with the Office of Practice to review the clinic accounts receivable procedures and ensure adherence to collection policies. The Office of Practice is aware of the need to consistently follow ETSU and College of Nursing policies and procedures. The Office of Practice has contracted a temporary employee for 15 hours a week to review delinquent accounts, prepare the final collection letter, and move the account into a final collection status after 10 days with no response. Additionally, a new Business Director started January 3, 2023, filling a position which was vacant for 5 years. Hiring the staff and temporary positions is a critical step forward to ensure proper internal management.

2. The ETSU Office of Financial Aid and Scholarships did not adequately monitor the eligibility of Title IV financial aid recipients

Condition and Cause

East Tennessee State University's Office of Financial Aid and Scholarships did not adequately monitor the eligibility of Title IV financial aid recipients. We reviewed the entire population of students enrolled at ETSU who received Title IV student financial assistance during the 2021-2022 award year. The population we reviewed also included students in the university's Colleges of Medicine and Pharmacy. A total of 8,036 students were tested (7,593 enrolled at ETSU, 222 enrolled at the College of Medicine, and 221 enrolled at the College of Pharmacy). Of the 7,593 students at ETSU, 13 students (0.17%) received excess financial aid based on their eligibility, resulting in overpayments totaling $77,329. We did not identify errors for the College of Medicine or the College of Pharmacy.

- One student was awarded and received $2,993 in federal Pell Grants for the fall 2021 semester, but the student dropped from full-time enrollment to less than half-time prior to the census date. The award was not revised, resulting in a Pell overpayment of $2,181.
- Four students were enrolled in ineligible programs and still received Title IV funding. The students had completed 60 hours in an eligible non-degree-seeking program and needed to transfer to a degree-seeking or other eligible program. This resulted in overpayments to these students of $523 in Pell Grants, $5,442 in Subsidized Direct Loans, and $9,650 in Unsubsidized Direct Loans during the fall 2021 semester. Management stated that student advisors failed to follow policy and have the student declare and update their major.
- One student was awarded Subsidized Direct Loans based on limits in place for a second-year student even though the student was a first-year freshman, resulting in a $989 overpayment in the fall 2021 semester and a $989 overpayment in the spring 2022 semester. Management stated this student was incorrectly entered as a sophomore student in the Banner system.
- Five students were awarded and paid funds from Title IV programs even though they did not have an acceptable academic status. This resulted in an overpayment of $3,704 in Pell Grants, $1,732 in Subsidized Direct Loans, and $17,926 in Unsubsidized Direct Loans during the fall 2021 semester, along with overpayments of $2,436 of Pell Grants and $4,000 in Subsidized Direct Loans in the summer 2022 semester. The students had not maintained satisfactory academic progress; however, the aid was awarded prior to

the status being entered into Banner. Financial aid staff should have revised the aid once the status was updated.

- Two students received Direct Loan funds even though they had already reached their Aggregate Loan Limit, causing them to be ineligible for Direct Loan funds. This resulted in $10,872 of Unsubsidized Direct Loans being overpaid during the fall 2021 semester, $10,142 of Unsubsidized Direct Loans being overpaid in the spring 2022 semester, and $6,743 of Direct Plus Loans being overpaid during the summer 2022 semester. These errors occurred because financial aid staff cleared the students to receive the aid in error.

Criteria

Title 34, *Code of Federal Regulations,* Part 668, Section 164(b)(3), states, "At the time a disbursement is made to a student for a payment period, an institution must confirm that the student is eligible for the type and amount of Title IV, HEA program funds identified by that disbursement."

Effect

Because Financial Aid staff did not properly monitor student eligibility and enter student information, ineligible students received federal financial aid payments. Pell grant overpayments of $8,844 and Direct Loan overpayments of $68,485 will be questioned. This finding will also be reported in the State of Tennessee Single Audit as federal *Uniform Guidance* requires the reporting of known questioned costs that are greater than $25,000.

Recommendation

East Tennessee State University should provide additional training to the Office of Financial Aid and Scholarships staff and student advisors to ensure that they properly confirm the eligibility of Title IV recipients prior to disbursement of Title IV funds. Controls should be in place to monitor enrollment changes, recipients' enrollment in eligible programs, adherence to annual and aggregate loan limits, and satisfactory academic progress.

Management's Comment

We concur with the finding and recommendation.

Management has implemented procedures to confirm student eligibility for financial aid. Additional training for Financial Aid and Scholarships Office staff has been initiated, and additional levels of review have been added to procedures moving forward. Management has met with the Executive Director of Academic Advising to schedule additional training for academic advisors regarding university policy relative to declaring a major. Additionally, a report has been created that identifies students that have earned more than 60 credits and have not declared a major. The report is being electronically delivered weekly to academic advisors for outreach and processing. The Director of Financial Aid and Scholarships and the Assistant Director of Financial Aid Operations also receive and review the report to ensure ineligible students do not receive financial aid.