TENNESSEE COMPTROLLER OF THE TREASURY

FINANCIAL AND COMPLIANCE AUDIT REPORT

University of Tennessee

For the Year Ended June 30, 2023

Jason E. Mumpower
Comptroller of the Treasury

DIVISION OF STATE AUDIT

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Mission Statement
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Tennessee Comptroller of the Treasury

Tennessee Comptroller of the Treasury

Jason E. Mumpower
Comptroller

February 29, 2024

The Honorable Bill Lee, Governor
Members of the General Assembly
Mr. Randy Boyd, President

Ladies and Gentlemen:

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

Consideration of the internal control over financial reporting and tests of compliance disclosed 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

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

23/076

Audit Report

The University of Tennessee

For the Year Ended June 30, 2023

Contents

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UNIVERSITY OF TENNESSEE

AUDIT HIGHLIGHTS

University of Tennessee's Mission

Serving all Tennesseans and beyond through education, discovery, and outreach that enables strong economic, social, and environmental well-being.

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

The university's Knoxville campus did not perform a risk assessment for its information security program as required by the Gramm-Leach-Bliley Act

The *Standards for Safeguarding Customer Information*, established by the Gramm-Leach-Bliley Act (GLBA) requires institutions to safeguard sensitive data, which includes information obtained in support of the administration of the federal financial assistance programs. While management at the university's Knoxville campus has taken steps to comply with the GLBA, management did not conduct a written risk assessment to identify reasonably foreseeable internal and external risks to the security, confidentiality, and integrity of students' information, as required by GLBA. Campus management has purchased a risk assessment software solution, and they plan to complete a written risk assessment in early 2024 (page 103).

The University of Tennessee – Knoxville Office of Financial Aid and Scholarships did not adequately monitor the eligibility of Title IV financial aid recipients

The University of Tennessee's Office of Financial Aid and Scholarships at Knoxville did not adequately monitor the eligibility of Title IV financial aid recipients. We reviewed the entire population of 14,260 students enrolled at The University of Tennessee – Knoxville who received Title IV student financial assistance during the 2022-2023 award year. Of the 14,260 students, 17 students (0.12%) received excess financial aid based on their eligibility, resulting in overpayments totaling $140,835 (page 105).

The University of Tennessee Health Science Center Financial Aid Office did not adequately monitor the eligibility of Title IV financial aid recipients

The University of Tennessee Health Science Center's Financial Aid Office did not adequately monitor the eligibility of Title IV financial aid recipients. We reviewed the entire population of 2,195 students enrolled at the University of Tennessee Health Science Center who received Title IV student financial assistance during the 2022-2023 award year. Of the 2,195 students, 8 students (0.36%) received excess financial aid based on their eligibility, resulting in overpayments totaling $75,092 (page 108).

Prior Audit Findings

There were no findings in the prior audit report.

Jason E. Mumpower
Comptroller

Independent Auditor's Report

The Honorable Bill Lee, Governor
Members of the General Assembly
Mr. Randy Boyd, President

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the University of Tennessee, which is a component unit of the State of Tennessee, and its discretely presented component units as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

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

We did not audit the financial statements of the University of Chattanooga Foundation, Inc.; the University of Tennessee Foundation, Inc.; and the University of Tennessee Research Foundation, 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.

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

Basis of Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

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

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks;

such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the university's internal control; accordingly, no such opinion is expressed;
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; and
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the university's ability to continue as a going concern for a reasonable period of time.

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

Emphasis of Matters

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

As discussed in Note 1, the university implemented Governmental Accounting Standards Board Statement 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, during the year ended June 30, 2023. Our opinion is not modified with respect to this matter.

As discussed in Note 2, the financial statements of the university include alternative investments valued at $642,416,464.41(14.3% of net position), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. 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 8 through 16; the schedule of the University of Tennessee's proportionate share of the net pension liability (asset) – Closed State and Higher Education Employee Pension Plan within TCRS on page 89; the schedule of the University of Tennessee's proportionate share of the net pension asset – State and Higher Education Employee

Retirement Plan within TCRS on page 90; the schedule of the University of Tennessee's contributions – Closed State and Higher Education Employee Pension Plan within TCRS on page 91; the schedule of the University of Tennessee's Contributions – State and Higher Education Employee Retirement Plan within TCRS on page 92; the schedule of the University of Tennessee's contributions for the Federal Retirement Plans administered by the U.S. Office of Personnel Management on page 93; the schedule of the University of Tennessee's proportionate share of the collective total/net OPEB liability – Closed State Employee Group OPEB Plan on page 94; the schedule of the University of Tennessee's contributions – Closed State Employee Group OPEB Plan on page 95; and the schedule of the University of Tennessee's proportionate share of the collective net OPEB liability – Closed Tennessee OPEB Plan on page 96 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 combining schedule of net position on page 97; the supplementary combining schedule of revenues, expenses, and changes in net position on page 98; and the supplementary schedule of unrestricted net position on page 99 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary combining schedule of net position; the supplementary combining schedule of revenues, expenses, and changes in net position; and the supplementary schedule of unrestricted net position 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. 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, 2023, on our consideration of the university's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the university's internal control over financial reporting and compliance.

Katherine J. Stickel

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

THE UNIVERSITY OF TENNESSEE
Management's Discussion and Analysis

Introduction

This section of the University of Tennessee's annual financial report presents a discussion and analysis of the financial performance of the university during the year ended June 30, 2023, with comparative information presented for the year ended June 30, 2022. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the financial statements, and the notes to the financial statements.

The university is a component unit of the State of Tennessee and an integral part of the state's *Annual Comprehensive Financial Report* (ACFR). The financial reporting entity for the financial statements is comprised of the university and three component units. The component units are discretely presented based on the nature and significance of their relationship to the university. The reader may refer to Note 1 for detailed information on the financial reporting entity. More detailed information about the foundations is presented in Notes 24, 25, and 26 to the financial statements. This discussion focuses on the university and does not include the foundations.

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 institution.

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

Summary of Net Position
(in thousands of dollars)

	2023	2022
Assets:		
Current assets	$ 569,987	$ 558,766
Capital assets, net	3,225,771	3,104,342
Other assets	2,964,116	2,724,682
Total assets	6,759,874	6,387,790
Deferred outflows of resources:		
Deferred outflows of resources	235,623	229,256
Liabilities:		
Current liabilities	453,681	399,877

Noncurrent liabilities	1,863,682	1,667,924
Total liabilities	2,317,363	2,067,801
Deferred inflows of resources:		
Deferred inflows of resources	139,361	429,868
Net position:		
Net investment in capital assets	2,106,340	2,026,798
Restricted – nonexpendable	572,835	559,584
Restricted – expendable	674,078	750,877
Unrestricted	1,185,520	782,118
Total net position	$ 4,538,773	$ 4,119,377

Total net position increased by $419 million, or 10.2%, during the 2023 fiscal year. Increased net position changes are the university's objective and expectation. The discussion and analysis sections that follow address the university's net increases.

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, 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 the University of Tennessee is dependent upon state appropriations and gifts to fund educational and general operations, under GASB standards these funding sources are reported as nonoperating revenues, as is investment income. As a result, the university has historically reported an excess of operating expenses over operating revenues, resulting in an operating loss. Therefore, the "increase in net position" is more indicative of overall financial results for the year.

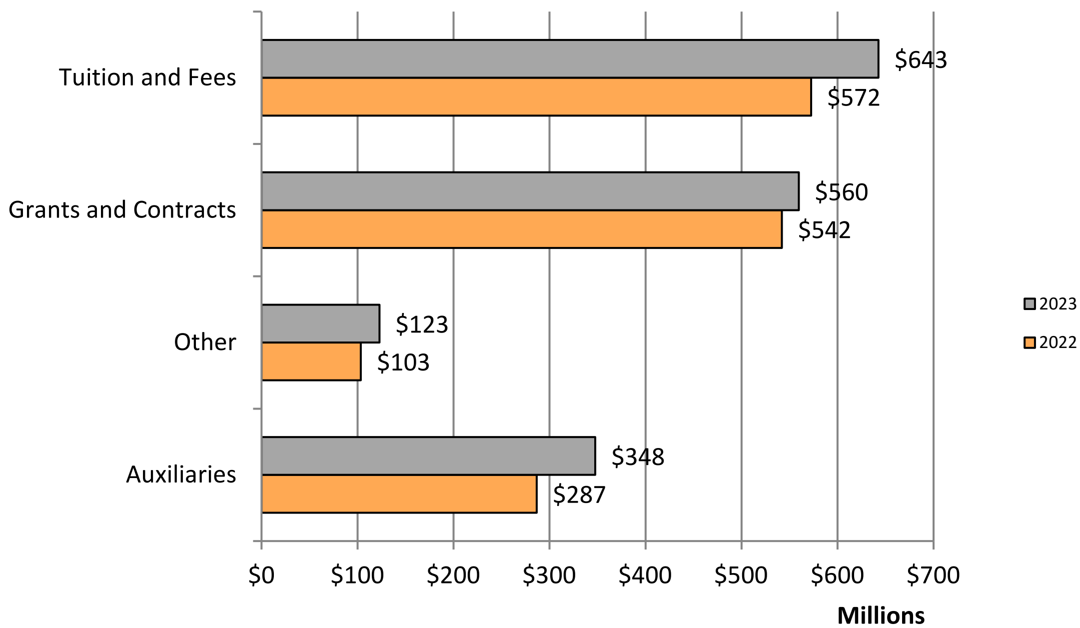
A summary of the university's revenues, expenses, and changes in net position for the year ended June 30, 2023, and the previous year follows:

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

	2023	2022
Operating revenues	$ 1,672,636	$ 1,504,467
Operating expenses	2,722,874	2,455,281
Operating loss	(1,050,238)	(950,814)
Nonoperating revenues and expenses	1,364,836	1,040,091
Income (loss) before other revenues, expenses, gains, or losses	314,598	89,277
Other revenues, expenses, gains, or losses	104,798	148,261
Increase in net position	419,396	237,538
Net position, beginning of year	4,119,377	3,881,839
Net position at end of year	$ 4,538,773	$ 4,119,377

Operating Revenues

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



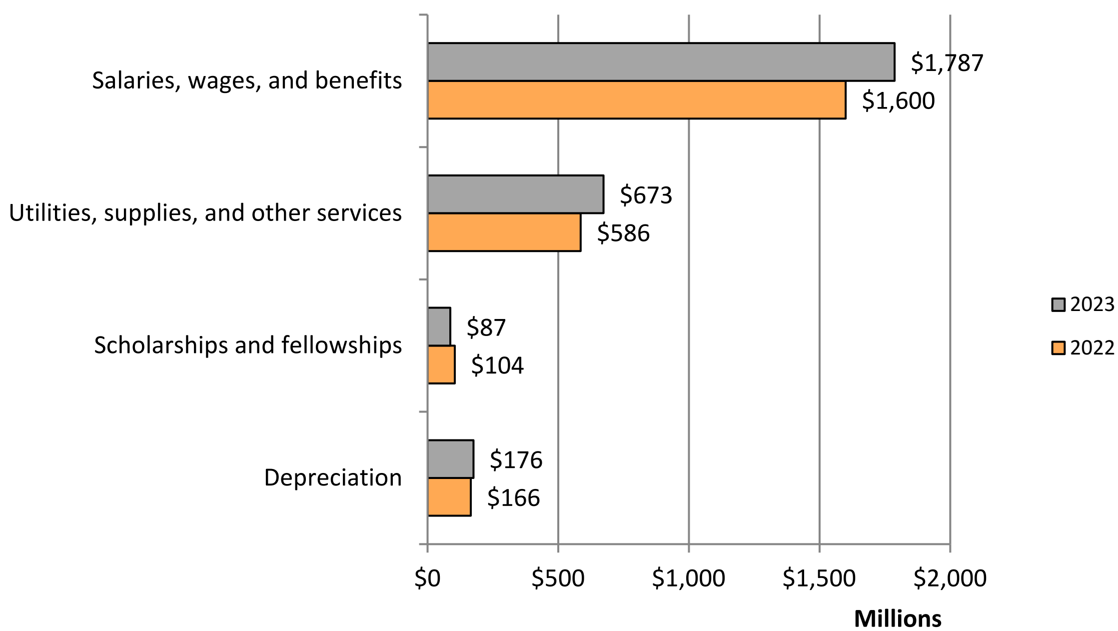
Comparison of Fiscal Year 2023 to Fiscal Year 2022

Tuition and fees increased by $70.1 million, primarily due to an increase in enrollment. Specifically, there was a 32.8% increase in enrollment for out-of-state undergraduate students at the UT Knoxville campus and a 2.3% increase in enrollment at the UT Martin campus.

Auxiliaries experienced an increase of $61 million, or 21.3%. Knoxville Athletics gift revenue increased approximately $22.4 million. There were also increases in football ticket sales, concessions, multimedia rights, and licensing revenue. The success of the football team was the main driver of these increases. The Volshop, the main Knoxville campus provider for books, supplies, and athletic apparel, saw an increase of $6.6 million, which was also driven by the success of the football program. There were other increases among the other auxiliary areas, primarily due to the recovery of the economy after the COVID-19 pandemic.

Operating Expenses

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



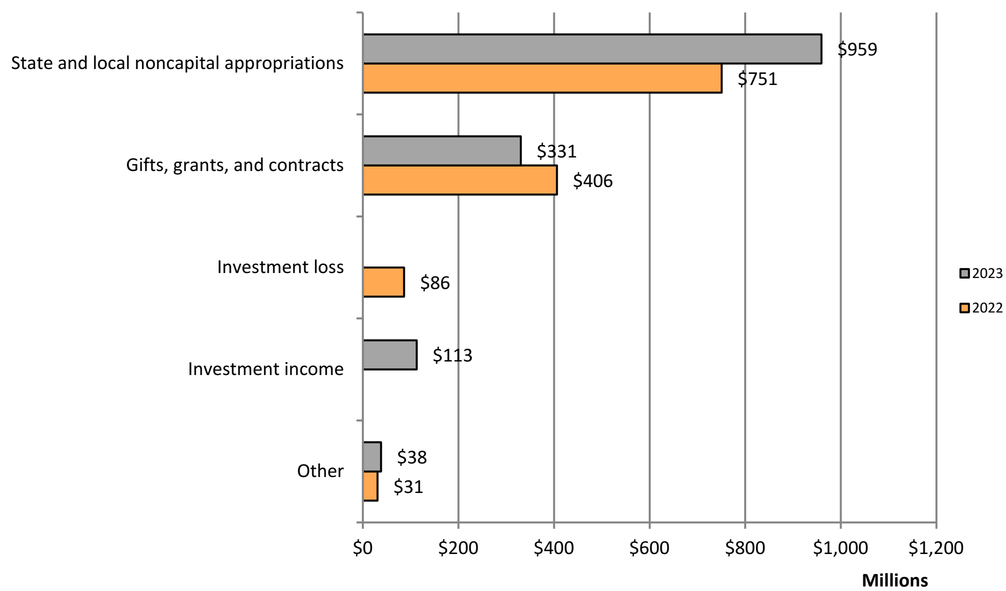
Comparison of Fiscal Year 2023 to Fiscal Year 2022

Utilities, supplies, and other services increased $87.5 million, or 14.9%, due to 2022 operations still recovering from the COVID-19 pandemic. Travel, maintenance, repairs, and legal and professional fees are the areas with the largest increases.

Scholarships and fellowships decreased $17 million, or 16.3%. Scholarship discounts and allowances increased for the Knoxville campus, causing the scholarship and fellowship expense to decrease.

Nonoperating Revenues and Expenses

Certain revenue sources that the university relies on to provide funding for operations, including state and local 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:



Comparison of Fiscal Year 2023 to Fiscal Year 2022

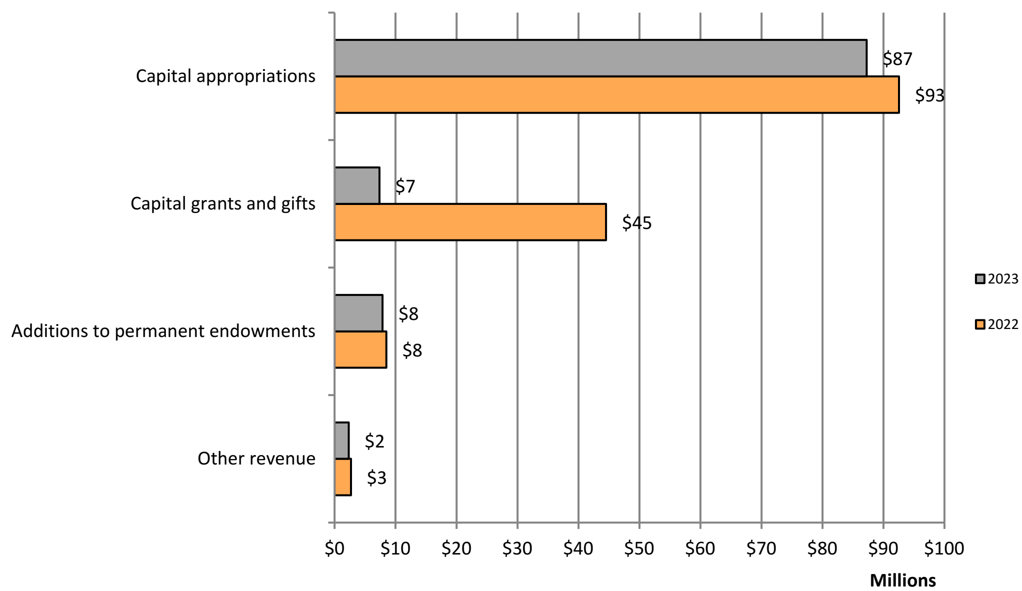
State and local noncapital appropriations increased $208.6 million, or 27.8%. It was another record-setting year when it came to state funding for the university. The state budget included additional funds of $142 million appropriated to UT. There was also an on-behalf payment of approximately $41.7 million made by the State of Tennessee for our pension plan.

Gifts, grants, and contracts decreased $75.5 million, or 18.6%. This decrease is due to the CARES Act Higher Education Emergency Relief Fund grants ending.

The university recognized gains in investment income instead of losses like in the prior year. Interest rates increased more than 400 basis points in fiscal year 2023, causing higher returns.

Other Revenues

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



Comparison of Fiscal Year 2023 to Fiscal Year 2022

Capital grants and gifts decreased $37.2 million. Fiscal year 2022 saw large increases in donations for the Haslam Field expansion and Neyland Stadium renovations.

Capital Assets and Debt Administration

Capital Assets

The University of Tennessee had $3,225,770,921.17 invested in capital assets, net of accumulated depreciation at June 30, 2023; and $3,104,341,661.61 invested in capital assets, net of accumulated depreciation at June 30, 2022. Depreciation charges totaled $175,513,134.67 and $165,516,400.60 for the years ended June 30, 2023, and June 30, 2022, respectively.

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

	2023	2022
Land	$ 92,840	$ 92,509
Land improvements & infrastructure	133,182	138,815
Buildings	2,396,612	2,322,590
Works of art/historical treasures	3,304	3,846
Equipment	146,586	132,440
Software	633	761
Library holdings	105,605	103,739
Projects in progress	268,226	276,230
Right to use assets - land	163	182
Right to use assets - buildings	32,507	31,279
Right to use assets - equipment	1,222	510
Right to use assets – other	1,056	1,441
Subscription assets – development in progress	18,243	-
Subscription assets	25,592	-
Total	$ 3,225,771	$ 3,104,342

Projects in progress decreased $8 million in fiscal year 2023. There were $151.6 million of capital additions in fiscal year 2023, including the following larger projects: the Neyland Stadium Renovations and Nursing Building projects in Knoxville, the Energy and Environmental Science Research Building project at the Knoxville Agriculture campus, and the Football Training Facility project in Chattanooga. Completed projects during 2023 decreased projects in progress by $158 million and increased the associated capital assets by the same amount. The addition of the subscription assets is due to the implementation of GASB 96, *Subscription-Based Information Technology Arrangements,* during fiscal year 2023. The subscription asset – development in progress is related to the Oracle ERP implementation.

At June 30, 2023, outstanding commitments under construction contracts totaled $219,884,843.34 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $55,962,892.08 of these costs.

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

Debt

The university had $1,077,341,218.35 and $1,063,566,116.80 in debt outstanding at June 30, 2023, and June 30, 2022, respectively. The table below summarizes these amounts by type of debt instrument.

Outstanding Debt Schedule
(in thousands of dollars)

	2023	2022
Bonds-current portion	$ 53,371	$ 47,655
Bonds-noncurrent	947,477	897,934
Unamortized bond premium	65,100	61,323
Revolving credit facility-noncurrent	11,393	56,654
Total Debt	$ 1,077,341	$ 1,063,566

The Tennessee State School Bond Authority (TSSBA) issued bonds with interest rates ranging from 0.217% to 5%, due serially to 2053, on behalf of the University of Tennessee. The university is responsible for the debt service of these bonds. The current portion of the $1,077,341,218.35 outstanding at June 30, 2023, is $53,370,864.77.

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

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

More detailed information about the university's long-term liabilities is presented in Note 9 to the financial statements.

Economic Factors That Will Affect the Future

Fiscal year 2024 will be another favorable year for the university. There will be a 9.3% increase in recurring state appropriations. Tuition revenues will increase due to increases in enrollment, as well as tuition and fee increases between 1.5%-3% at all campuses but Knoxville. Auxiliary enterprise revenue will grow, mostly from UT Knoxville Athletics. Also, fiscal year 2024 will mark the third straight year of record-setting salary pools.

Requests for Information

This financial report is designed to provide a general overview of the university's finances for all those with an interest in the university's finances. Questions concerning any of the information provided in the report or requests for additional information should be directed to Ms. Karen McKee, Controller, 505 Summer Place – UT Tower, Knoxville, Tennessee 37902.

THE UNIVERSITY OF TENNESSEE
Statement of Net Position
June 30, 2023

	The University of Tennessee	University of Chattanooga Foundation, Inc.	The University of Tennessee Foundation, Inc.	The University of Tennessee Research Foundation
Assets				
Current assets:				
Cash and cash equivalents (Notes 2 and 3)	$ 221,937,999.27	$ 200,112.00	$ 76,340,817.81	$ 10,840,449.00
Investments (Notes 2, 3, 24, 25, and 26)	172,272,989.97	-	-	-
Accounts, notes, and grants receivable (net) (Note 5)	122,132,274.31	8,102,985.00	26,194,345.94	5,268,597.00
Leases receivable (Note 7)	1,853,321.32	-	-	166,625.00
Due from primary government	33,874,484.77	-	-	-
Due from the university	-	-	-	4,239,411.00
Inventories	9,922,713.06	-	-	-
Prepaid expenses	7,993,058.93	311,180.00	-	151,196.00
Total current assets	569,986,841.63	8,614,277.00	102,535,163.75	20,666,278.00
Noncurrent assets:				
Cash and cash equivalents (Notes 2 and 3)	1,553,073,136.59	-	970,903.53	-
Investments (Notes 2, 3, 24, 25, and 26)	1,214,149,992.54	209,948,194.00	200,362,092.56	3,876,432.00
Investment in Tennessee Retiree Group Trust	19,559,245.00	-	-	-
Investment in UT - Battelle, LLC (Note 15)	5,980,079.00	-	-	-
Accounts, notes, and grants receivable (net) (Note 5)	101,858,923.57	6,368,532.00	116,124,358.18	-
Leases receivable (Note 7)	37,309,454.39	-	-	-
Prepaid expenses	17,365,358.25	-	-	-
Net pension asset (Note 11)	3,657,176.00	-	-	-
Capital assets (net) (Notes 6, 24, and 26)	3,225,770,921.17	59,116,110.00	-	10,815,011.00
Annuities held by others	11,163,208.57	-	-	-
Assets held by the university	-	33,781.00	459,188,294.32	-
Total noncurrent assets	6,189,887,495.08	275,466,617.00	776,645,648.59	14,691,443.00
Total assets	6,759,874,336.71	284,080,894.00	879,180,812.34	35,357,721.00
Deferred outflows of resources				
Deferred amount on debt refunding	20,771,415.23	-	-	-
Deferred outflows related to pensions (Note 11)	176,841,762.00	-	-	-
Deferred outflows related to OPEB (Note 12)	38,009,785.00	-	-	-
Total deferred outflows of resources	235,622,962.23	-	-	-
Liabilities				
Current liabilities:				
Accounts payable (Note 8)	152,499,019.56	2,526,175.00	805,069.61	4,057,259.00
Accrued liabilities	67,659,918.74	-	-	-
Unearned revenue	99,072,854.40	8,122.00	-	607,967.00
Due to grantors (Note 9)	788,441.50	-	-	-
Deposits payable	3,840,177.94	-	-	-
Annuities and life income payable (Note 9)	2,158,583.39	-	1,724,619.40	-
Long-term liabilities, current portion (Notes 9, 24,and 26)	122,056,455.00	2,845,000.00	1,290,140.20	608,904.00
Deposits held in custody for others	5,605,388.98	2,090,160.78	-	-
Due to the university	-	982,999.22	52,266,814.84	449,626.00
Total current liabilities	453,680,839.51	8,452,457.00	56,086,644.05	5,723,756.00
Noncurrent liabilities:				
Unearned revenue	-	-	-	305,000.00
Net pension liability (Note 11)	143,757,373.00	-	-	-
Net other postemployment benefits liability (Note 12)	115,592,805.00	-	-	-
Long-term liabilities, noncurrent portion (Notes 9, 24, and 26)	1,123,811,166.43	88,636,357.00	1,290,140.19	6,376,388.00
Due to grantors (Note 9)	7,188,234.08	-	-	-
Annuities and life income payable (Note 9)	14,144,504.23	-	10,310,215.75	-
Deposits held in custody for component units	459,188,294.32	-	-	-
Total noncurrent liabilities	1,863,682,377.06	88,636,357.00	11,600,355.94	6,681,388.00
Total liabilities	2,317,363,216.57	97,088,814.00	67,686,999.99	12,405,144.00
Deferred inflows of resources				
Deferred inflows related to pensions (Note 11)	13,061,426.00	-	-	-
Deferred inflows related to OPEB (Note 12)	57,971,621.00	-	-	-
Deferred inflows related to split-interest agreements	27,661,961.12	-	-	-
Deferred inflows related to leases	38,416,562.92	-	-	-
Deferred inflows related to PPPs (Note 23)	2,250,000.00	-	-	-
Total deferred inflows of resources	139,361,571.04	-	-	-
Net position				
Net investment in capital assets	2,106,340,009.48	7,634,753.00	-	3,829,719.00
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	258,350,199.07	30,534,769.00	147,632,161.77	-
Libraries	17,916,270.20	-	1,635,442.98	-
Research	44,155,301.35	-	4,868,445.08	-
Instructional department uses	162,454,992.10	77,507,051.00	167,173,773.69	-
Academic support	35,416,398.90	903,817.00	143,523,562.96	-
Other	54,542,237.66	1,443,144.00	41,996,172.11	-
Expendable:				
Scholarships and fellowships	140,594,819.22	2,199,268.00	23,458,212.29	-
Libraries	11,405,822.70	-	-	-
Research	83,912,328.77	-	18,893,349.19	-
Instructional department uses	169,086,524.48	6,692,559.00	15,374,857.11	-
Academic support	70,350,285.88	28,074.00	38,025,672.58	-
Loans	6,615,246.71	-	-	-
Capital projects	53,458,321.50	5,000,000.00	63,104,110.66	-
Debt service	108,130.23	-	-	-
Pensions	3,657,176.00	-	-	-
Other	134,888,997.86	19,437,351.00	101,777,501.67	8,873,589.00
Unrestricted	1,185,519,449.22	35,611,294.00	44,030,550.26	10,249,269.00
Total net position	$ 4,538,772,511.33	$ 186,992,080.00	$ 811,493,812.35	$ 22,952,577.00

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

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

	The University of Tennessee	University of Chattanooga Foundation, Inc.	The University of Tennessee Foundation, Inc.	The University of Tennessee Research Foundation
Revenues				
Operating revenues:				
Student tuition and fees (Note 13)	$ 642,574,863.93	$ -	$ -	$ -
Contributions	-	4,379,009.00	117,365,204.74	2,018,732.00
Investment return designated for operations	-	7,784,666.00	-	-
Federal appropriations	19,039,883.10	-	-	-
Governmental grants and contracts	336,211,677.57	-	32,530,504.00	6,181,525.00
Nongovernmental grants and contracts	223,385,591.54	-	208,223.65	6,639,020.00
Sales and services of educational departments and other activities (Note 13)	74,410,196.43	-	-	-
Auxiliary enterprises:				
Residential life (Note 13)	86,026,390.61	12,701,674.00	-	-
Food services (Note 13)	18,005,436.86	-	-	-
Bookstore (Note 13)	32,279,817.05	-	-	-
Parking (Note 13)	13,184,708.63	-	-	-
Athletics, including gifts of $48,757,597.79 from component units	187,752,082.83	-	-	-
Other auxiliaries (Note 13)	10,389,427.54	-	-	-
Interest earned on loans to students	14,279.76	-	-	-
Other operating revenues (Note 13)	29,361,451.85	-	-	-
Total operating revenues	1,672,635,807.70	24,865,349.00	150,103,932.39	14,839,277.00
Expenses				
Operating expenses (Notes 21, 24, 25, and 26):				
Salaries and wages	1,345,547,087.27	3,333,157.00	22,341,927.76	4,533,275.00
Fringe benefits	441,392,495.57	1,135,166.00	7,793,520.24	1,326,882.00
Utilities, supplies, and other services	673,382,879.42	7,664,854.00	19,840,346.12	14,170,037.00
Scholarships and fellowships	87,038,314.23	-	-	-
Depreciation and amortization expense	175,513,134.67	5,248,460.00	-	877,537.00
Payments to or on behalf of the university (Notes 24 and 25)	-	8,458,512.00	112,268,330.38	-
Total operating expenses	2,722,873,911.16	25,840,149.00	162,244,124.50	20,907,731.00
Operating income (loss)	(1,050,238,103.46)	(974,800.00)	(12,140,192.11)	(6,068,454.00)
Nonoperating revenues (expenses)				
State and local appropriations	959,415,528.50	-	-	-
Gifts, including $50,101,176.47 from component units (Note 13)	53,544,938.97	56,475.00	-	-
Grants and contracts	277,093,978.52	-	-	6,015,254.00
Investment income (loss), including $18,404,249.08 from component units	112,827,054.12	2,440,500.00	39,472,726.61	(56,205.00)
Interest on capital asset-related debt and leases	(31,483,969.20)	(2,574,926.00)	-	-
Other nonoperating revenues (expenses)	(6,561,387.58)	-	-	1,183,471.00
Net nonoperating revenues (expenses)	1,364,836,143.33	(77,951.00)	39,472,726.61	7,142,520.00
Income (loss) before other revenues, expenses, gains, or losses	314,598,039.87	(1,052,751.00)	27,332,534.50	1,074,066.00
Capital appropriations	87,235,447.59	-	-	-
Capital grants and gifts, including $3,463,819.04 from component units	7,357,500.56	-	-	-
Additions to permanent endowments	7,869,139.19	4,996,221.00	34,499,101.14	-
Other, includes $1,199,641.71 of insurance recoveries	2,334,762.93	-	-	-
Total other revenues	104,796,850.27	4,996,221.00	34,499,101.14	-
Increase (decrease) in net position	419,394,890.14	3,943,470.00	61,831,635.64	1,074,066.00
Net position				
Net position - beginning of year	4,119,377,621.19	183,048,610.00	749,662,176.71	21,878,511.00
Net position - end of year	$ 4,538,772,511.33	$ 186,992,080.00	$ 811,493,812.35	$ 22,952,577.00

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

THE UNIVERSITY OF TENNESSEE
Statement of Cash Flows
For the Year Ended June 30, 2023

Cash flows from operating activities	
Tuition and fees	$ 642,519,832.37
Federal appropriations	19,039,883.10
Grants and contracts	558,445,086.12
Sales and services of educational activities and other activities	73,239,944.63
Payments to suppliers and vendors	(687,473,310.77)
Payments to employees	(1,362,437,103.55)
Payments for benefits	(472,990,945.14)
Payments for scholarships and fellowships	(87,038,314.23)
Loans issued to students	(38,000.00)
Collection of loans from students	4,004,464.37
Interest earned on loans to students	153,600.73
Funds received for deposits held for component units	519,188,294.32
Funds disbursed for deposits held for component units	(510,166,115.60)
Funds received for deposits held for others	136,023,030.05
Funds disbursed for deposits held for others	(136,062,158.53)
Auxiliary enterprise charges:	
Residence halls	86,027,578.12
Bookstore	32,057,941.96
Food services	18,429,920.69
Parking	13,250,250.71
Athletics	218,960,398.42
Other auxiliaries	19,317,230.64
Other receipts (payments)	25,797,169.79
Net cash used by operating activities	(889,751,321.80)
Cash flows from noncapital financing activities	
State appropriations	908,067,129.29
Local appropriations	8,437,750.22
Gifts and grants for other than capital or endowment purposes	329,124,814.42
Private gifts for endowment purposes	7,869,139.19
Split-interest transactions receipts	3,168,069.14
Split-interest transactions disbursements	(2,707,704.64)
Federal student loan receipts	296,101,040.50
Federal student loan disbursements	(296,470,992.00)
Net cash balance implicitly financed (repaid)	930,372.75
Other noncapital financing receipts (payments)	(2,228,833.65)
Net cash provided by noncapital financing activities	1,252,290,785.22
Cash flows from capital and related financing activities	
Proceeds from capital debt	64,940,647.09
Capital appropriations	107,303,186.27
Capital grants and gifts received	6,743,200.56
Proceeds from sale of capital assets	24,706.14
Purchases of capital assets and construction	(247,521,123.12)
Principal paid on capital debt and leases	(60,630,970.08)
Interest paid on capital debt and leases	(34,191,751.61)
Other capital and related financing receipts (payments)	(2,142,633.43)
Net cash used by capital and related financing activities	(165,474,738.18)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	78,012,382.71
Income on investments	51,523,081.54
Purchase of investments	(94,147,582.85)
Net cash provided by investing activities	35,387,881.40
Net increase in cash and cash equivalents	232,452,606.64
Cash and cash equivalents at beginning of year	1,542,558,529.22
Cash and cash equivalents at end of year	$ 1,775,011,135.86

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

Reconciliation of net operating loss to net cash used by operating activities:		
Operating loss	$	(1,050,238,103.46)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Noncash operating loss		2,263,820.00
Noncash operating expenses		176,693,034.67
Change in assets, liabilities, deferred outflows of resources, and deferred inflows of resources:		
Receivables, net		6,671,665.74
Inventories		(1,327,847.80)
Prepaid expenses		(18,227,706.45)
Accrued interest receivable		139,320.97
Accounts payable		5,478,118.87
Accrued liabilities		(19,870,607.39)
Unearned revenues		25,719,805.37
Deposits held in custody for others		(39,128.48)
Deposits held in custody for component units		9,022,178.72
Deposits		(254,541.68)
Due to Grantor		166,360.95
Net pension asset		82,979,019.00
Deferred outflows related to pensions		35,066,120.00
Net pension liability		143,757,373.00
Deferred inflows related to pensions		(277,304,652.00)
Deferred outflows related to OPEB		(771,245.00)
Net OPEB liability		(2,710,474.00)
Deferred inflows related to OPEB		(14,564,429.00)
Compensated absences		3,750,529.54
Deferred inflows related to leases		(2,366,397.74)
Deferred inflows related to PPPs		2,250,000.00
Other additions (deductions):		
Loans to students		3,966,464.37
Net cash used by operating activities	$	(889,751,321.80)

Noncash investing, capital, or financing transactions	
Gifts of capital assets	614,300.00
Unrealized gain (loss) on investments	217,985,690.70
Acquisition of right to use assets through incurrence of lease liability	6,266,130.31
Acquisition of right to use SBITA assets through incurrence of SBITA liability	33,215,669.53

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

University of Tennessee
Notes to the Financial Statements
June 30, 2023

Note 1: Summary of Significant Accounting Policies

Reporting Entity

The university is a component unit of the State of Tennessee because the state appoints the majority of the university's governing body and provides significant financial support. The university 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 University of Tennessee System is comprised of the University of Tennessee Knoxville, including the Space Institute at Tullahoma; the University of Tennessee at Chattanooga; the University of Tennessee at Martin; the University of Tennessee Southern; the University of Tennessee Health Science Center including the Memphis campus, the Memorial Research Center at Knoxville, Clinical Education Centers at Chattanooga and Knoxville, and Family Practice Centers at Knoxville and Memphis; the University of Tennessee Institute of Agriculture, including the College of Agriculture at Knoxville, the Agricultural Experiment Stations, the Agricultural Extension Service, and the College of Veterinary Medicine at Knoxville; the University of Tennessee Institute for Public Service, which includes the County Technical Assistance Service, the Municipal Technical Advisory Service, and the Tennessee Language Center; and the University of Tennessee University-Wide Administration. The University of Tennessee's Knoxville, Chattanooga, Martin, Southern, and Health Science Center campuses are each accredited by the Southern Association of Colleges and Schools (SACS). The university is governed by a board of 12 members. The 12-member board is comprised of 1 ex officio member, who is the Commissioner of Agriculture for the State of Tennessee, 10 members appointed by the Governor, and 1 non-voting student member appointed by the board. The president is the chief executive officer of the university system.

The University of Chattanooga Foundation, Inc., and the University of Tennessee Foundation, Inc., are considered component units of the university. Although the university does not control the timing or amount of receipts from the foundations, the majority of resources, or income thereon that the foundations hold and invest are restricted to the activities of the university by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of, the university, the foundations are considered component units of the university and are discretely presented in the university's financial statements. The University of Tennessee Research Foundation is also considered a component unit of the university because the university's board of trustees approves the foundation's administrative budget and funds the foundation's administrative costs. It is also discretely presented in the university's financial statements. See notes 24, 25, and 26 for more detailed information about the component units and how to obtain their reports.

Notes to the Financial Statements

Basis of Presentation

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

Basis of Accounting

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships (PPP) and Availability Payment Arrangements (APA)*. This statement addresses PPPs and APAs and amends current guidance in GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements*. In general, the statement applies the right-of-use model set forth in GASB 87 to PPP arrangements and provides accounting and disclosure guidance for both transferors and operators of governmental assets. The university implemented this standard as of July 1, 2022.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs). This statement requires recognition of a right-to-use subscription asset, initially measured as the sum of the initial subscription liability amount, payments made to the vendor before commencement of the subscription term, and capitalizable implementation costs. The subscription asset is then amortized over the subscription term. The university implemented this standard as of July 1, 2022.

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

Amounts reported as operating revenues include 1) tuition and fees, net of scholarship discounts and allowances; 2) federal appropriations; 3) certain federal, state, local, and private grants and contracts; 4) sales and services of educational departments and other activities; 5) sales and services of auxiliary enterprises, net of scholarship discounts and allowances; and 6) other sources of revenue. Operating expenses include 1) salaries and wages; 2) employee benefits; 3) utilities, supplies, and other services; 4) scholarships and fellowships; and 5) depreciation and amortization expense.

All other activity is nonoperating in nature. This activity includes: 1) state and local appropriations for operations; 2) gifts; 3) nonoperating grants and contracts; 4) investment income; and 5) interest on capital asset-related debt and leases.

When both restricted and unrestricted resources are available for use, generally it is the institution's policy to use the restricted resources first.

Cash Equivalents

This classification includes instruments which are readily convertible to known amounts of cash. The university's investment in the State of Tennessee Local Government Investment Pool (LGIP), classified as cash equivalents, is reported at amortized cost.

Inventories

Inventories are valued at the lower of cost or market, based on the retail, specific identification, average cost, or first-in, first-out basis.

Investments

All university investments are reported at fair value, with the exception of insurance assets at cash surrender value.

The university holds investments in limited partnerships, limited companies, corporations, and limited liability corporations which are carried at estimated fair value provided by the management of these funds. The purpose of this alternative investment class is to increase portfolio diversification and reduce risk due to the low correlation with other asset classes. Methods for determining estimated fair values include discounted cash flows and estimates provided by general partners and fund managers. Because some of these investments are not readily marketable, the estimated fair value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. The estimated fair values are reviewed and evaluated by the university.

Capital Assets

Capital assets, which include property, plant, equipment, works of art, historical treasures/collections, software, library holdings, 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 assets or materially extend the assets' useful lives are not capitalized.

A capitalization threshold of $100,000 is used for buildings, land improvements, and infrastructure. Equipment and software, an intangible asset, are capitalized when the unit acquisition cost is $5,000 or greater and the estimated useful life is one year or more. The capitalization threshold for additions and improvements to infrastructure and land improvements is also $100,000. The capitalization threshold for additions and improvements to buildings is $100,000 provided that amount exceeds 20% of the book value of the building. The capitalization threshold for leased assets, also intangible assets, is set at $100,000. The capitalization threshold for SBITAs, also intangible assets, is set at $250,000.

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 40 years.

Accounts Payable

Included in accounts payable are checks payable in the amount of $5,003,427.78 as of June 30, 2023. These amounts represent the sum of checks written in excess of the university's checking account balance because of the use of a controlled disbursement account. In this way, the university maximizes interest income by transferring from an investment account only funds necessary to cover the checks that clear the bank daily.

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.

Postemployment Benefits Other Than Pensions (OPEB)

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

Compensated Absences

The university's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. Generally, all permanent full-time employees and certain part-time employees are entitled to accrue and carry forward calendar year maximums of 42 days annual vacation leave, except nine-month faculty members who do not accrue annual leave. The amount of these liabilities 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 when an employee dies or is absent because of illness or injury.

Net Position

The institution's net position is classified as follows:

Net investment in capital assets: This represents the institution'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 in which the university is legally or contractually obligated to spend resources 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, the sales and services of educational departments and other activities, and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the institution and may be used at the discretion of the institution to meet current expenses for any purpose.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net 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 institution's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the institution has recorded a scholarship discount and allowance.

Income Taxes

The university, as an integral part of the State of Tennessee, is exempt from federal income tax on income *not* considered unrelated business income. Contributions to the university are deductible by donors as provided under Section 170 of the *Internal Revenue Code.*

Note 2: Deposits and Investments

Investment Policy

Cash management investment pool - The University of Tennessee maintains a cash management investment pool that is available for use by all fund groups. State statutes and university investment policies authorize the university's cash management pool to invest in collateralized Tennessee bank or savings and loan association certificates of deposit, U.S. treasury obligations, U.S. government agency obligations, repurchase agreements of those securities, highest quality commercial paper, and prime bankers' acceptances.

University policy also requires that commercial paper not exceed 35% of the portfolio in total and that no more than 10% of the portfolio's value be in the commercial paper of a single issuer. In addition, banker's acceptances cannot exceed 20% of the portfolio's value and no one banker's acceptances may exceed 10%. At June 30, 2023, the university's cash management investment pool consisted of $493,950,109.00 of commercial paper and $1,213,238,275.08 of U.S. treasury and government agency obligations.

Investments – The university's assets subject to long-term investment (endowments and annuity and life income assets) use various external managers and funds consistent with investment objectives for those invested assets. A significant part of these assets is the university's Consolidated Investment Pool, which is a carefully crafted portfolio of broadly diversified asset classes.

Deposits – University policy and state statute require that university funds be deposited into authorized commercial banks and savings and loan associations. State statutes also require that these financial institutions pledge securities as collateral to secure university time and demand deposits. To facilitate the pledge requirement, financial institutions can elect to either participate in the State of Tennessee Collateral Pool for Public Deposits administered by the State Treasurer or pledge securities with a third party.

Cash and Cash Equivalents

In addition to petty cash and demand deposits, this classification includes instruments which are readily convertible to known amounts of cash.

At June 30, 2023, cash and cash equivalents consisted of $16,339,541.01 in bank accounts, $2,042,856.00 of petty cash on hand, $1,707,188,384.08 in the university's cash management investment pool, and $25,055,452.01 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.

The carrying amount of the university's deposits was $16,339,541.01, and the bank balance was $19,909,258.39.

Additionally, the university maintains custodial accounts at First Horizon Bank and BNY Mellon. In accordance with the custody agreements, First Horizon Bank and BNY Mellon placed cash and cash equivalents totaling $24,384,902.76 at June 30, 2023, including $18,200,000.00 in money market mutual funds.

Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the university's deposits may not be recovered. As stated earlier, state statutes require that all university deposits be in a qualified depository and secured through direct collateralization or participation in the State Collateral Pool. As of June 30, 2023, all university deposits were adequately secured as required by state statute.

Investments

All investments, with the exception of insurance assets at cash surrender value, are reported at fair value, including those securities with a maturity date of one year or less. The university's investment in the State of Tennessee Local Government Investment Pool (LGIP), classified as cash equivalents, is reported at amortized cost. Where applicable, maturities reported for pooled investment vehicles - bonds, represent a weighted average maturity of the individual bonds in the respective fund. As of June 30, 2023, the university had the following investments and maturities:

Investment Maturities (In Years)

Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	10+
Cash Management Pool					
Cash Equivalents					
Debt Securities					
Commercial paper	$ 493,950,109.00	$ 493,950,109.00	$ -	$ -	$ -
U.S. treasury	464,072,276.67	76,835,671.10	366,858,827.57	20,377,778.00	-
U.S. agencies	749,165,998.41	247,404,311.58	381,849,287.26	102,556,383.09	17,356,016.48
	1,707,188,384.08	818,190,091.68	748,708,114.83	122,934,161.09	17,356,016.48
Investments					
Debt Securities					
U.S. treasury	172,847.80	-	-	-	172,847.80
U.S. agencies	16,071.60	-	-	-	16,071.60
Corporate bonds	149,750.85	-	24,381.25	-	125,369.60
Pooled investment vehicles-bonds	110,314,241.92	-	56,200,165.09	52,644,466.78	1,469,610.05
	110,652,912.17	-	56,224,546.34	52,644,466.78	1,783,899.05
		$ 818,190,091.68	$ 804,932,661.17	$ 175,578,627.87	$ 19,139,915.53
Other Investments					
Corporate stocks:					
Domestic	31,793,300.38				
International	2,554,673.60				
Pooled investment vehicles-equity	577,683,331.68				
Pooled investment vehicles-real estate	9,415,718.73				
Private capital investments	450,776,688.24				
Hedge funds	191,639,776.17				
Real estate gifts	1,235,276.00				
Cash surrender value of life insurance	4,734,392.90				
Assets held by others	5,936,912.64				
Total investments & cash equivalents	3,093,611,366.59				
Less: cash equivalents	1,707,188,384.08				
Total investments	$1,386,422,982.51				

Interest Rate Risk

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The university's debt investments as of June 30, 2023, were rated by Moody's Investors Service, Standard & Poor's, and /or Fitch Ratings and are reported below using Moody's rating scale.

The university is authorized by statute to invest funds in accordance with University of Tennessee investment policies. Funds, other than endowment and annuity and life income funds, may be invested in collateralized Tennessee bank or savings and loan association certificates of deposit, U. S. treasury obligations, U.S. government agency obligations and repurchase agreements of those securities, highest quality commercial paper, prime bankers' acceptances, money market mutual funds meeting certain criteria, and the State of Tennessee Local Government Investment Pool. Endowment and life income funds can be invested in equity securities and various other securities given prudent diversification. The university has no investment policy limiting its investment choice based on ratings issued by nationally recognized statistical rating agencies. As of June 30, 2023, the institution's investments were rated as follows:

Rated Debt Instruments*	**Fair Value**	**P-1**	**Aaa**	**Aa1**	**Aa2**	**Aa3**
Cash Management Pool:						
Commercial paper	$ 493,950,109.00	$ 493,950,109.00	$ -	$ -	$ -	$ -
U.S. treasury	464,072,276.67	32,842,702.45	431,229,574.22	-	-	-
U.S. agencies	749,165,998.41	105,224,257.72	476,301,730.87	-	-	-
Investments:						
U.S treasury	172,847.80	-	172,847.80	-	-	-
U.S. agencies	16,071.60	-	16,071.60	-	-	-
Corporate bonds	149,750.85	-		-	-	-
Pooled investment vehicles - bonds	110,314,241.92	-	-	-	44,111,321.42	55,730,458.34

Rated Debt Instruments (continued)	**A1**	**A2**	**A3**	**Baa1**	**Baa2**	**Baa3**
Cash Management Pool:						
Commercial paper	$ -	$ -	$ -	$ -	$ -	$ -
U.S. treasury	-	-	-	-	-	-
U.S. agencies	-	-	-	-	-	-
Investments:						
U.S. treasury	-	-	-	-	-	-
U.S. agencies	-	-	-	-	-	-
Corporate bonds	-	-	-	24,381.25	62,537.60	62,832.00
Pooled investment vehicles - bonds	-	7,493,137.90	-	-	1,337,106.02	-

Rated Debt Instruments (continued)	Ba1	Ba2	Ba3	B1	B2	Unrated
Cash Management Pool:						
Commercial paper	$ -	$ -	$ -	$ -	$ -	$ -
U.S. treasury	-	-	-	-	-	-
U.S. agencies	-	-	-	-	-	167,640,009.82
Investments:						
U.S. treasury	-	-	-	-	-	-
U.S. agencies	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Pooled investment vehicles - bonds	-	708,728.36	-	-	933,489.88	-

*Ratings categories are consistent with the Moody's Ratings Scale and Definitions. In the event a Moody's rating was not available, an equivalent rating from another Nationally Recognized Statistical Rating Organization (NRSRO) has been obtained and then converted to the Moody's Rating Scale.

LGIP investments are not rated by nationally recognized statistical ratings organizations.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the university will not be able to recover the value of the investment or collateral securities that are in possession of an outside party. At June 30, 2023, the university had $5,936,912.64 of uninsured and unregistered investments held by a counterparty but not in the school's name.

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. Other than the restrictions placed on the cash management investment pool described in the investment policies above, the university places no limit on the amount the university may invest in any one issuer.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit or investment. The university has $2,554,673.60 invested in foreign corporate equities at June 30, 2023.

Alternative Investments

In its Consolidated Investment Pool, as part of its endowment assets, the university has investments in one hundred twenty-three limited partnerships, limited companies, corporations, and limited liability corporations (LLCs).

The estimated fair value of these assets is $642,416,464.41 at June 30, 2023.

Total capital contributions less return of capital equal $526,354,517.46 at June 30, 2023.

The university believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2023. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the university's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification within the endowment pool. These investments (private capital investments and hedge funds) are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated by the general partner of each limited partnership or manager of each corporate entity using various valuation techniques.

The methods and assumptions used in estimating fair value vary based upon the asset class, but uniformly all start with the latest audited financial statements for the funds. Most funds issue audited financial statements on a calendar year basis. Using those audited fair values as a beginning point, valuations are adjusted for net capital activity and marketplace considerations to ascertain the reasonableness of estimated fair values provided by the fund managers. Marketplace activity includes subsequent independent appraisals for private real estate assets, subsequent rounds of capital financings that include new investors for private/venture equity, and asset confirmations from brokers and fund administrators for hedge funds.

Note 3: Fair Value Measurements

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, 2023:

	6/30/2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments in Entities That Calculate NAV per Share
Investments and cash equivalents by fair value level					
Debt securities					
U.S. treasury	$ 464,245,124.47	$ 172,847.80	$ 464,072,276.67	$ -	$ -
U.S. agencies	749,182,070.01	-	749,182,070.01	-	-
Corporate bonds	149,750.85	-	149,750.85	-	-
Corporate commercial paper	493,950,109.00	-	-	493,950,109.00	-
Total debt securities	**1,707,527,054.33**				
Corporate Stock					
Domestic	31,793,300.38	31,663,529.13	83,831.25	45,940.00	-
International	2,554,673.60	2,554,673.60	-	-	-
Total equity securities	**34,347,973.98**				
Pooled investment vehicles (ETFs; open-end funds with published and non-published values)					
Equity	577,683,331.68	208,527,175.42	-	-	369,156,156.26
Bonds	110,314,241.92	54,119,299.05	464,484.53	-	55,730,458.34
Real estate	9,415,718.73	9,415,718.73	-	-	-
Total pooled investment vehicles	**697,413,292.33**				
Real estate gifts	1,235,276.00	-	-	1,235,276.00	-
Assets held by others	5,936,912.64	-	-	5,936,912.64	-
Private capital investments					
Private equity	253,598,847.00	-	-	253,598,847.00	-
Private credit/debt	31,404,847.44	-	-	31,404,847.44	-
Private real assets	161,535,735.49	-	-	161,535,735.49	-
Private, other	4,237,258.31	-	-	4,237,258.31	-
Total private capital investments	**450,776,688.24**				
Hedge Funds					
Long/short equity	93,599,181.99	-	-	24,034,761.96	69,564,420.03
Credit	19,012,994.99	-	-	6,575,114.76	12,437,880.23
Diversified	79,027,599.19	-	-	30,456,237.64	48,571,361.55
Total hedge funds	**191,639,776.17**				
Total investments and cash equivalents valued at fair value	**$ 3,088,876,973.69**	**$ 306,453,243.73**	**$ 1,213,952,413.31**	**$ 1,013,011,040.24**	**$ 555,460,276.41**

Debt Securities

The fair value of the Debt Securities category at June 30, 2023, was determined based on Level 1, Level 2, and Level 3 inputs. The university utilizes third-party pricing services and guidance provided by custodians and trading counterparties for fair value estimates of these investments. In addition, it takes into account the nature of the securities, trading activity, and availability of comparable securities in the marketplace. The fair value of U.S. treasury and agency securities, as well as corporate bonds was based on Level 1 and Level 2 inputs. Commercial paper holdings were valued using Level 3 inputs.

Corporate Stock

This category is comprised of common stock and preferred stock, which are based on Level 1, Level 2, and Level 3 inputs. This includes both domestic and international holdings, three of which were preferred stocks totaling $214,771.25.

Pooled Investment Vehicles

These investments include exchange-traded funds (ETF's), exchange-traded closed-end funds, and two categories of open-end funds, those with published values and other commingled vehicles that do not produce public, published values. Accordingly, those investments for which reliable values are available are categorized as Level 1. Assets for which no published values exist are measured at net asset value per share (or its equivalent), which is a fair value measurement provided on a recurring basis. Pooled investment vehicles implement a variety of strategies that are primarily net long or long-only and invest in a variety of markets, including the global equity markets; sovereign debt, corporate bonds, and structured credits; and finally, real estate.

Real Estate Gifts

Level 3 inputs were utilized for the fair value calculations of this investment category. It contains direct real estate holdings of $1,235,276.00, the valuation of which is determined by periodic appraisals.

Assets Held by Others

This category consists of separately invested portfolios of $5,936,912.64. These are managed externally for the benefit of the university, and pricing is provided by third parties.

Private Capital Investments

The fair value of the Private Capital category at June 30, 2023, was determined based on Level 3 inputs. These investments center on three primary categories, private equity which invests in private companies; private credit/debt which lends directly to companies or invests in distressed debt; and real assets which invests in inflation-hedging strategies and assets. Valuation methods such as the income method and/or multiple analysis are examples of those commonly utilized by managers to determine the fair value of these assets and are typically unobservable to the university.

The university's private capital investments have $258,378,812.76 of unfunded commitments at June 30, 2023.

Hedge Funds

Most hedge funds invest in public securities for which pricing is readily available. These funds are measured at net asset value per share (or its equivalent). Some hedge funds, however, invest in private instruments for which no public pricing is available, and their fair value is determined based on Level 3 inputs. These inputs are similar to those utilized by Private Capital Investments described above. Hedge funds are divided into three sub-categories. The first is Long/Short Equity, a strategy that typically invests in common stock by both buying shares and selling shares short. These strategies work across the global equity markets. The second category, entitled Credit, focuses almost exclusively on fixed income instruments, which can include various types of bonds, derivatives, and loans. These strategies also invest in multiple jurisdictions around the world. The final category, Diversified, is comprised of strategies that often overlap in approach and frequently employ more than one strategy within a single vehicle.

NAV Investments General Redemption Terms

The table below provides a summary of the liquidity terms and conditions of those investments with values measured using net asset value.

		Fair Value	Redemption Frequency	Redemption Notice Required
Hedge Funds, Credit	$	12,437,880.23	Annually	90 days
Hedge Funds, Diversified	$	48,571,361.55	Quarterly – Semi-annually	60 days – 90 days
Hedge Funds, Long-short Equity	$	69,564,420.03	Quarterly-Annually	5 days – 90 days
Pooled Investment Vehicles	$	424,886,614.60	Daily – Quarterly	2 days – 45 days

Annuities and Life Income Payable

The university's liability under split interest agreements (annuities and life income payable) is also reported at fair value. The valuation of the liability is based on unobservable inputs (level 3 of the fair value hierarchy). The university has split interest agreements that allow donors to make contributions that provide for certain payments to specified beneficiaries during their lifetime. The amount payable to the donors is recorded at the present value of the estimated future payments to be made under these agreements.

Note 4: Endowment, Annuity, and Life Income Agreements

There are two categories of university assets which are subject to long-term investment: endowments and amounts held in trust under annuity and life income agreements. The investment of these funds is governed by the gift instrument and the investment policies established by the Board of Trustees.

Effective July 1, 1954, the university adopted the policy of investing endowment assets over which it had full investment discretion (and on which the donor or governing gift instrument does not require separate investment) in a Consolidated Investment Pool. This pooling of investments affords closer supervision of the investment portfolio and provides, regardless of size, the advantages of participation in a well-diversified portfolio of domestic and international equities, private equity, bonds, real estate, and hedge funds. All contributing endowments participate in the income and capital appreciation of the Pool on a per-share basis commensurate with their contributions to the Pool. New endowments purchase shares in the Pool at the end of each month at the then current fair value per share, determined by valuing the Pool at month end fair value and dividing by the number of pool units outstanding.

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

The university chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the university, four and a half percent of a seven-year moving average of the fair value of endowment investments at each December 31st has been authorized for expenditure. The maximum and minimum distribution rates are 6% and 3%, respectively, of the previous calendar year's market value. The remaining amount after distributions, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2023, net appreciation of $188,838,261.45 is available to be spent, of which $181,652,610.17 is restricted for scholarships and fellowships, libraries, instructional department uses, academic support, research, and other purposes. The per unit fair value for participating endowments was $3.5776450 at June 30, 2023. Income distributed was $0.15727 per share in 2023, or $58,276,303.12.

The university's Consolidated Investment Pool is invested to maximize total return rather than current income consistent with provisions of the Uniform Prudent Management of Institutional Funds Act adopted by the State of Tennessee in 2007. The total return for fiscal year 2023 and the three and five years then ended was 7.8%, 11.1%, and 6.7% respectively.

All endowments not invested as part of the Consolidated Investment Pool are separately invested to observe requirements or limitations imposed by donors. Income earned and distributed on separately invested endowments amounted to $29,818.31 for 2023.

Annuity and life income amounts held in trust are separately invested entities requiring detailed accounting to reflect specific compliance with the terms of each trust and applicable federal regulations. The investment objectives as reflected in each agreement vary widely since they are affected by the age, income level, and needs of the beneficiaries as well as motives and objectives of the donors. Interest, dividend, rent, and royalty income realized on these funds for 2023 amounted to $911,520.48.

Note 5: Accounts, Notes, and Grants Receivable

Accounts, notes, and grants receivable included the following at June 30, 2023:

Student accounts receivable	$ 30,718,448.07
Grants receivable	112,683,034.30
Notes receivable	5,323,867.95
Pledges receivable	3,949,722.90
Due from component units	53,699,440.06
Other receivables	23,477,152.65
Subtotal	$ 229,851,665.93
Less allowance for doubtful accounts	(8,779,252.12)
Total	$ 221,072,413.81

Pledges receivable are promises of private donations that are reported as accounts receivable, and revenue, net of an estimated uncollectible allowance of $789,944.58.

Federal Perkins Loan Program funds included the following at June 30, 2023:

Perkins loans receivable	$ 3,768,615.51
Less allowance for doubtful accounts	(849,831.44)
Total	$ 2,918,784.07

Note 6: Capital Assets

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 92,508,948.53	$ 1,860,012.30	$ -	$ (1,529,313.77)	$ 92,839,647.06
Land improvements & infrastructure	270,733,937.74	227,108.84	4,974,614.11	-	275,935,660.69
Buildings	3,786,795,508.22	27,499,346.54	153,107,682.33	(10,841,229.41)	3,956,561,307.68
Works of art/ historical treasures	3,846,492.24	-	-	(542,578.72)	3,303,913.52
Equipment	481,994,573.62	44,255,060.47	-	(19,671,852.94)	506,577,781.15
Software	31,487,561.73	185,571.45	-	(48,900.00)	31,624,233.18
Library holdings	182,503,368.28	20,140,528.32	-	(15,697,776.24)	186,946,120.36
Projects in progress	276,230,096.49	151,629,530.67	(158,082,296.44)	(1,551,051.21)	268,226,279.51
Right to use asset - land	201,289.83	-	-	(67.50)	201,222.33
Right to use asset - buildings	34,683,234.67	5,142,235.36	-	(103,354.72)	39,722,115.31
Right to use asset – equipment	658,230.87	1,123,894.95	-	(19,700.61)	1,762,425.21
Right to use asset - other	1,632,893.01	-	-	(252,355.25)	1,380,537.76
Subscription assets – development in process	-	18,243,097.44	-	-	18,243,097.44
Subscription assets	14,023,431.80	19,192,237.73	-	-	33,215,669.53
Total	5,177,299,567.03	289,498,624.07	-	(50,258,180.37)	5,416,540,010.73
Less accumulated depreciation/amortization:					
Land improvements & infrastructure	(131,919,288.82)	(10,834,411.73)	-	-	(142,753,700.55)
Buildings	(1,464,205,999.91)	(104,919,493.13)	-	9,175,863.33	(1,559,949,629.71)
Equipment	(349,554,972.30)	(29,158,250.66)	-	18,721,324.59	(359,991,898.37)
Software	(30,726,565.35)	(313,101.91)	-	48,900.00	(30,990,767.26)
Library holdings	(78,764,109.15)	(18,275,215.28)	-	15,697,776.24	(81,341,548.19)
Right to use asset - land	(19,170.48)	(19,157.52)	-	-	(38,328.00)
Right to use asset - buildings	(3,404,456.88)	(3,844,998.78)	-	34,654.57	(7,214,801.09)
Right to use asset - equipment	(147,805.73)	(392,526.54)	-	-	(540,332.27)
Right to use asset - other	(192,105.00)	(132,727.32)	-	-	(324,832.32)
Subscription assets	-	(7,623,251.80)	-	-	(7,623,251.80)
Total	(2,058,934,473.62)	(175,513,134.67)	-	43,678,518.73	(2,190,769,089.56)
Capital assets, net	$ 3,118,365,093.41	$ 113,985,489.40	$ -	$ (6,579,661.64)	$ 3,225,770,921.17

Note 7: Leases and Subscription Based Information Technology Arrangements (SBITAs)

Leases Receivable

The university leases land and building space to various third parties, the terms of which expire in various years through 2044. Revenue recognized under lease contracts during the year ended June 30, 2023, was $2,360,243.40, which includes both lease revenue and interest.

The university recognized lease revenue of $11,701.02 for the year ended June 30, 2023, for variable payments not included in the measurement of the lease receivable.

Lease Liabilities

The university has lease agreements for building and classroom space, equipment, and parking facilities, the terms of which expire in various years through 2061. Variable payments of certain leases are based upon usage. Variable payments are not included in the lease liability because they are not fixed in substance.

During the year ended June 30, 2023, the university recognized $7,021,115.37 of rental expense for variable payments not included in the measurement of the lease liability.

Lease liability activity for the year ended June 30, 2023, is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Gross lease liabilities	$33,940,571.30	$6,266,130.31	$4,088,320.60	$36,118,381.01	$4,352,374.67

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

Year ending June 30	Principal	Interest	Total
2024	$ 4,352,374.67	$ 769,727.58	$ 5,122,102.25
2025	4,256,166.65	669,271.88	4,925,438.53
2026	4,151,322.04	571,731.42	4,723,053.46
2027	3,789,536.97	476,658.65	4,266,195.62
2028	2,978,123.40	393,603.07	3,371,726.47
2029-2033	8,078,587.39	1,368,290.26	9,446,877.65
2034-2038	3,651,576.54	883,452.51	4,535,029.05
2039-2043	2,153,081.57	518,026.57	2,671,108.14
2044-2048	702,678.96	359,733.45	1,062,412.41
2049-2053	863,030.10	221,049.02	1,084,079.12
2054-2058	698,222.00	108,197.36	806,419.36
2059-2061	443,680.72	17,093.19	460,773.91
Total	$ 36,118,381.01	$ 6,356,834.96	$ 42,475,215.97

Subscription-Based Information Technology Arrangements (SBITAs)

SBITA Liabilities

The university has subscription-based software arrangements, the terms of which expire in various years through 2032. Variable payments of certain software arrangements are based upon usage. Terms and conditions of variable payments include percentage of transactions or number of students participating. Variable payments are not included in the SBITA liability because they are not fixed in substance.

During the year ended June 30, 2023, the university recognized $380,874.32 of subscription expense for variable payments not previously included in the measurement of the SBITA liability.

SBITA liability activity for the year ended June 30, 2023, is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
SBITA liabilities	$14,023,431.80	$19,192,237.73	$9,449,265.05	$23,766,404.48	$8,122,919.62

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

For the year ending June 30	Principal	Interest	Total
2024	$ 8,122,919.62	$ 583,337.11	$ 8,706,256.73
2025	6,755,747.44	350,600.15	7,106,347.59
2026	4,394,343.12	189,776.55	4,584,119.67
2027	3,527,865.70	65,854.35	3,593,720.05
2028	266,979.99	26,755.53	293,735.52
2029-2032	698,548.61	25,445.00	723,993.61
Total	$ 23,766,404.48	$ 1,241,768.69	$25,008,173.17

Note 8: Accounts Payable

Accounts payable included the following:

	June 30, 2023
Vendors payable	$ 123,281,511.42
Payroll deductions payable	18,767,812.33
Due to State of Tennessee	8,231,937.73
Due to component unit	2,217,758.08
Total	$ 152,499,019.56

Note 9: Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term liabilities:					
Bonds	$ 945,589,494.49	$ 102,914,356.64	$ 47,655,228.35	$ 1,000,848,622.78	$ 53,370,864.77
Unamortized bond premium	61,322,706.95	8,972,037.53	5,194,868.14	65,099,876.34	-
Revolving credit facility	56,653,915.36	24,735,464.01	69,996,660.14	11,392,719.23	-
Total TSSBA indebtedness	1,063,566,116.80	136,621,858.18	122,846,756.63	1,077,341,218.35	53,370,864.77

Note payable	6,956,768.64	-	37,852.14	6,918,916.50	6,918,916.50
Compensated absences	97,972,171.55	53,041,908.98	49,291,379.44	101,722,701.09	49,291,379.44
Lease liability	33,940,571.30	6,266,130.31	4,088,320.60	36,118,381.01	4,352,374.67
SBITA liability	14,023,431.80	19,192,237.73	9,449,265.05	23,766,404.48	8,122,919.62
Total long-term liabilities	$ 1,216,459,060.09	$ 215,122,135.20	$ 185,713,573.86	$ 1,245,867,621.43	$122,056,455.00
Other long-term liabilities:					
Due to grantors	9,182,416.44	983,998.34	2,189,739.20	7,976,675.58	788,441.50
Annuities payable and life income payable	15,978,392.78	1,950,727.07	1,626,032.23	16,303,087.62	2,158,583.39
Total other long term liabilities	$ 25,160,809.22	$ 2,934,725.41	$ 3,815,771.43	$ 24,279,763.20	$ 2,947,024.89

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 0.217% to 5%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2053 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations. (See Note 10 for further details.) The total bonded indebtedness at June 30, 2023 was $1,000,848,622.78.

The university's debt service requirements to maturity for all bonds payable at June 30, 2023, are as follows:

Year ending June 30	Principal	Interest
2024	$ 53,370,864.77	$ 36,116,435.80
2025	54,473,097.37	34,296,559.93
2026	56,203,618.80	32,315,046.06
2027	54,771,027.71	30,309,887.30
2028	49,770,162.49	28,456,377.70
2029-2033	244,265,152.19	119,077,343.49
2034-2038	219,811,604.30	85,152,845.71
2039-2043	191,522,418.50	49,244,455.11
2044-2048	110,952,215.93	19,455,259.77
2049-2053	34,611,467.38	4,499,339.50
	$ 1,069,751,629.44	$ 438,923,550.37
Less:		
Unspent bond proceeds	68,903,006.66	
TSSBA debt - bonds	$ 1,000,848,622.78	

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. The amount issued for projects at the university was $11,392,719.23 at June 30, 2023.

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

Note Payable

The university acquired a loan with First Horizon Bank for a total of $7,175,620.98 as of June 30, 2021, to be paid in full on or before July 15, 2026. The principal balance at June 30, 2023, was $6,918,916.50. Because of increasing interest rates, the university paid off this loan on September 1, 2023. When the use of the LIBOR rate was discontinued, the note's interest rate was subject to change based on changes in the SOFR rate. There were no other unused lines of credit at the bank or assets pledged as collateral for this debt.

The university's debt service requirements to maturity for this debt at June 30, 2023, based on the June 30, 2023, SOFR rate, was as follows:

Year ending June 30	Principal	Interest
2024	$ 6,918,916.50	$ 96,773.11

Note 10: Pledged Revenues

The University of Tennessee has pledged certain revenues and fees, including state appropriations, to repay $1,000,848,622.78 in revenue bonds issued from August 2012 to October 2022. Proceeds from the bonds provided financing for construction and renovation projects. The bonds are payable through 2053. (See Note 9 for further details.) Annual principal and interest payments on the bonds are expected to require 3.76% of available revenues. The total principal and interest remaining to be paid on the bonds is $1,439,772,173.15. Principal and interest paid for the current year and total available revenues were $80,811,548.54 and $2,148,317,685.32, respectively.

Note 11: Pensions and Other Employee Benefits

Defined Benefit Plans

Tennessee Consolidated Retirement System

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 five years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent 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 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest.

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The university's employees are noncontributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by the university for the year ended June 30, 2023, to the Closed State and Higher Education Employee Pension Plan were $54,480,091, which is 21.88% of covered payroll. Additional contributions of $41,730,749 were made to the 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 liabilities – At June 30, 2023, the university reported a liability of $143,757,373 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The university's proportion of the net pension liability was based on a projection of the university's contributions during the year ended June 30, 2022, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2022, measurement date, the university's proportion was 12.066660%. The proportion measured as of June 30, 2021, was 12.237600%.

Pension expense – For the year ended June 30, 2023, the university recognized pension expense of $41,538,851.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 27,809,272	$ 8,557,337
Net difference between projected and actual earnings on pension plan investments	2,053,068	-
Changes in assumptions	39,001,816	-
Changes in proportion of net pension liability	-	2,291,621
Contributions subsequent to the measurement date of June 30, 2022	96,210,840	-
Total	$ 165,074,996	$ 10,848,958

Deferred outflows of resources, resulting from the contributions of $96,210,840 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2024	$ 29,533,683
2025	$ 966,257
2026	$ (20,805,462)
2027	$ 48,320,720

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

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

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

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

The actuarial assumptions used in the June 30, 2022, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2016, through June 30, 2020. 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 the net pension liability (asset) to changes in the discount rate – The following presents the university's proportionate share of the net pension liability calculated using the discount rate of 6.75%, as well as what the university's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
University's proportionate share of the net pension liability (asset)	$421,693,003	$143,757,373	$(89,628,121)

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

Payable to the Pension Plan

At June 30, 2023, the university reported a payable of $4,512,616.04 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2023.

State and Higher Education Employee Retirement Plan

General Information About the Pension Plan

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

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

Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw their 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, 2023, to the State and Higher Education Employee Retirement Plan were $6,888,383, which is 2.48% of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension asset – At June 30, 2023, the university reported an asset of $3,657,176 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2022, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The university's proportion of the net pension asset was based on a projection of the university's contributions during the year ended June 30, 2022, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2022, measurement date, the university's proportion was 14.664605%. At the June 30, 2021, measurement date, the university's proportion was 13.877456%.

Pension expense – For the year ended June 30, 2023, the university recognized a pension expense of $4,317,619.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 675,315	$ 1,241,717
Net difference between projected and actual earnings on pension plan investments	1,121,018	-
Changes in assumptions	3,055,026	-
Changes in proportion of net pension asset	27,024	970,751
The university's contributions subsequent to the measurement date of June 30, 2022	6,888,383	-
Total	$ 11,766,766	$ 2,212,468

Deferred outflows of resources, resulting from the university's employer contributions of $6,888,383 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2024	$135,745
2025	$165,369
2026	$(20,874)
2027	$1,866,089
2028	$225,181
Thereafter	$294,405

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

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

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

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

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

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

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

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

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

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

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
University's proportionate share of the net pension liability (asset)	$14,918,714	$(3,657,176)	$(17,611,363)

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

Payable to the Pension Plan

At June 30, 2023, the university reported a payable of $1,914,728.96 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2023.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2023, for all state government defined benefit pension plans was $45,856,470.

Federal Retirement Program

Plan description – The University of Tennessee contributes to the Federal Retirement Program, a cost-sharing, multiple-employer, defined benefit pension plan administered by the Civil Service Retirement System (CSRS) for participants employed prior to January 1, 1987, and the Federal Employees Retirement System (FERS) for participants employed after December 31, 1986. U.S. Office of Personnel Management manages both systems. All regular full-time employees of the University of Tennessee Agricultural Extension Service who hold federal appointments for 51% or more of their time are required to participate in either one of the two Federal Retirement Programs. For both systems, benefit provisions are established in federal statutes. Federal statutes are amended by the U.S. Congress. There were 95 employees in Federal Retirement Programs in 2023, 4 in CSRS and 91 in FERS. Both systems provide retirement, death, and disability benefits, as well as annual cost-of-living adjustments, to plan members and their beneficiaries. Benefits are based on high 3-year average salary and years of service. CSRS employees can retire with 5 years of service at age 62, at age 60 with 20 years of service, or at 55 with 30 years of service. FERS employees can retire with 10 years of service at a minimum retirement age from 55 to 57 depending on year of birth. For both plans, former employees who leave the job before becoming eligible for retirement can either ask that their retirement contributions be returned or wait until age requirements are met to receive monthly benefits, provided years of service requirements have been met. Benefit estimates are available at: https://www.opm.gov/retirement-services/fers-information/computation/.

CSRS and FERS issue publicly available financial reports that include financial statements and required supplementary information. These reports may be obtained by writing to the Office of Personnel Management, Retirement Information Office, P.O. Box 45, Boyers, PA 16017-0045, or by calling (202) 606-0500.

Funding policy – Participating employees, with some exceptions, are required by federal statute to contribute 7.0% of covered salaries to the CSRS plan. The university is currently required to contribute 7.0%. Contributions to CSRS for the year ended June 30, 2023, were $58,227.52 which consisted of $32,845.66 from the university and $25,431.86 from the employees. At June 30, 2023, the university reported a payable of $2,437.85 for the outstanding amount of legally required contributions to the CSRS pension plan for the year ended June 30, 2023.

Federal statute requires employees participating in FERS to contribute 0.8% of their salaries to the Basic Benefit Plan. The university is required to contribute 13.2%. In addition, the university is required to contribute 1% of each participant's salary to the Thrift Savings Plan plus up to an additional 4% depending upon employees' contributions, which can range from 0 to 10% of their salaries. Contributions to FERS for the year ended June 30, 2023, were $1,449,391.52, which consisted of $60,680.23 from the employees and $1,388,711.29 from the university. At June 30, 2023, the university reported a payable of $114,206.32 for the outstanding amount of legally required contributions to the FERS pension plan required for the year ended June 30, 2023.

Defined Contribution Plans

Optional Retirement Plans (ORP)

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 $51,564,692.09 for the year ended June 30, 2023, and $50,028,698.76 for the year ended June 30, 2022. Contributions met the requirements for each year.

Members are immediately 100% vested in the employer contributions made pursuant to the ORP. The Treasury Department has selected three investment vendors who offer a variety of investment products 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.

Joint Contributory Retirement System Plan A (JCRS-A)

Plan description – The Joint Contributory Retirement System Plan A (JCRS-A) is a defined contribution plan with minimum benefits and is administered by the Tennessee Consolidated Retirement System and TIAA-CREF. Employees who were enrolled in the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) before July 1977 are members of JCRS-A. Enrollment in this plan for new employees has been closed since July 1977.

Although JCRS-A members participate in the optional retirement plans described above, they may also, under certain circumstances, receive a supplementary benefit from the State of Tennessee. Plan provisions are established by Title 8, Chapter 35, Part 4, *Tennessee Code Annotated.* State statutes are amended by the Tennessee General Assembly.

Funding policy – Plan members are noncontributory. The university's contributions for JCRS-A members were calculated using the base salary amounts of $1,241,976.97 for fiscal year 2023, and $1,881,799.49 for fiscal year 2022. Contribution requirements are established and amended by state statute. The contributions are included in the ORP amounts. University contributions to fund the state supplemental benefit totaled $271,744.56 in fiscal year 2023, and $385,768.80 in fiscal year 2022. Contributions met the requirements for each year.

Notes to the Financial Statements

Deferred Compensation Plans

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

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

During the year ended June 30, 2023, contributions totaling $41,448,405.63 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $28,046,959.93 for employer contributions. During the year ended June 30, 2022, contributions totaling $38,111,041.56 were made by employees participating in the 401(k) plan, with contributions of $17,481,926.03 made by the university.

Other Employee Benefits

Deferred Compensation Plans

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

Note 12: Other Postemployment Benefits (OPEB)

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, standard PPO plan, or the wellness health savings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members receive the same plan benefits as active employees, at a blended premium rate that considers the cost of active and retired employees. This creates an implicit subsidy for the retirees. The retirees' cost is then directly subsidized by the employers, based on years of service. Therefore, retirees with 30 years of service are subsidized 80%; 20 but less than 30 years, 70%; and less than 20 years, 60%.

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

ADC was $19.28 million. During the fiscal year, the university contributed $19.28 million to the OPEB Trust. The Tennessee General Assembly has the authority to change the contribution requirements of the employers participating in the EGOP.

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

Proportionate share – The university's proportion and proportionate share of the collective net OPEB liability related to the EGOP is 16.327176% and $115.59 million. The proportion existing at the prior measurement date was 16.591583%. This resulted in a change in proportion of (0.264407%) between the current and prior measurement dates. The university's proportion of the collective net OPEB liability was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2022, and a measurement date of June 30, 2022.

OPEB expense – For the fiscal year ended June 30, 2023, the university recognized OPEB expense of $1.24 million.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 10,670
Changes in assumptions	5,811	25,465
Net difference between actual and projected investment earnings	6,795	-
Changes in proportion and difference between benefits paid and proportionate share of benefits paid	6,122	21,837
Contributions subsequent to the measurement date	19,282	-
Total	$ 38,010	$ 57,972

Deferred outflows of resources, resulting from the university's employer contributions of $19,282,391 subsequent to the measurement date, will be recognized as a decrease in net OPEB liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (expressed in thousands):

Year Ending June 30	
2024	$(12,618)
2025	$(12,646)
2026	$(12,541)
2027	$(148)
2028	$(1,291)

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

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

Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%.
Healthcare cost trend rates	8.37% for 2023, decreasing annually to an ultimate rate of 4.5% for 2030 and later years.
Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation, a weighted average has been used with weights derived from the current distribution of members among plans offered.

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

Long-term expected rate of return – The long-term expected rate of return of 6% on OPEB Trust investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. 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	Target Allocation
Equities	25%	80%	53%
Fixed income and short-term securities	20%	50%	25%
Real estate	0%	20%	10%
Private equity and strategic lending	0%	20%	7%
Cash and cash equivalents	0%	25%	5%
			100%

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

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

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

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

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

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

	1% Decrease (5%)	Current Discount Rate (6%)	1% Increase (7%)
University's proportionate share of the collective net OPEB liability	$127,728	$115,593	$104,241

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

	1% Decrease (7.37% decreasing to 3.50%)	Healthcare Cost Trend Rates (8.37% decreasing to 4.50%)	1% Increase (9.37% decreasing to 5.50%)
University's proportionate share of the collective net OPEB liability	$100,741	$115,593	$132,556

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

Closed Tennessee OPEB Plan

General Information About the OPEB Plan

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

Benefits provided – The TNP is offered to help fill most of the coverage gaps created by Medicare and is the only postemployment benefit provided to eligible post-65 retired and disabled employees of participating employers. This plan does not include pharmacy. In accordance with Title 8, Chapter 27, Section 209, *Tennessee Code Annotated*, benefits are established and amended by cooperation of insurance committees created by Sections 8-27-201, 301, and 701, *Tennessee Code Annotated*. Retirees and disabled employees of the state, component units, local education agencies, and certain local governments who have reached the age of 65, are Medicare-eligible, and also receive a benefit from the Tennessee Consolidated Retirement System, may participate in this plan. All plan members receive the same plan benefits at the same premium rates. Many retirees receive direct subsidies toward their premium cost; however, participating employers determine their own policy in this regard. The primary government contributes to the premiums of component unit retirees based on years of service. Therefore, retirees with 30 years of service receive $50 per month; 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25. The university does not provide any subsidies for retirees in the TNP. The primary government paid $1.18 million 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 policies.

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 $27.83 million at June 30, 2023. At the June 30, 2022, measurement date, the proportion of the collective total OPEB liability associated with the university was 18.495094%. The proportion existing at the prior measurement date was 18.557942%. This represents a change of (0.062848%) from the prior proportion. The proportion of the collective total OPEB liability associated with the university was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2022, and a measurement date of June 30, 2022.

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

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

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2022, valuations were the same as those employed in the July 1, 2021, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS) for Group I employees. These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2016, through

June 30, 2020. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. For pre-retirement non-disabled general employees, the mortality rates employed in this valuation are taken from the PUB-2010 Headcount-Weighted Employee mortality table projected generationally with MP-2020 from 2010. Post-retirement tables are Headcount-Weighted Below Median Healthy Annuitant and adjusted with a 6% load for males and a 14% load for females, projected generationally from 2010 with MP-2020. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load, projected generationally from 2018 with MP-2020.

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

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

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

	1% Decrease (2.54%)	Current Discount Rate (3.54%)	1% Increase (4.54%)
Primary government's proportionate share of the collective total OPEB liability	$31,053	$27,831	$25,099

OPEB expense – For the year ended June 30, 2023, the primary government recognized OPEB expense of $252 thousand for employees of the university participating in the TNP.

Total OPEB Expense

The total OPEB expense for the year ended June 30, 2023, was $1.49 million, which consisted of OPEB expense of $1.24 million for the EGOP and $252 thousand paid by the primary government for the TNP.

Note 13: Revenues

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

Revenue Source	Gross Revenue	Less Scholarship Allowances	Uncollectible Debt Adjustments	Net Revenue
Operating Revenues:				
Student tuition and fees	$ 953,314,585.44	$ (308,996,822.90)	$ (1,742,898.61)	$ 642,574,863.93
Sales and services of educational departments and other activities	75,824,011.12	-	(1,413,814.69)	74,410,196.43
Residential life	89,324,465.24	(3,278,266.87)	(19,807.76)	86,026,390.61
Food services	18,033,832.48	-	(28,395.62)	18,005,436.86
Bookstore	32,322,764.72	-	(42,947.67)	32,279,817.05
Parking	13,170,969.08	-	13,739.55	13,184,708.63
Other auxiliaries	10,386,392.82	-	3,034.72	10,389,427.54
Other operating revenues	29,325,281.95	-	36,169.90	29,361,451.85
Nonoperating Revenues:				
Gifts	53,501,305.42	-	43,633.55	53,544,938.97
Total	$1,275,203,608.27	$(312,275,089.77)	$(3,151,286.63)	$959,777,231.87

Uncollectible debt adjustments are negative when the associated allowance for doubtful accounts increases and are positive when the associated allowance for doubtful accounts decreases.

Note 14: Chairs of Excellence

Since fiscal year 1985, the Tennessee General Assembly has appropriated $22 million to a Chairs of Excellence Endowment for the University of Tennessee. The appropriations provided that the Chairs of Excellence Endowment be established as an irrevocable trust with the State Treasurer and required the university to match the appropriation on a dollar-for-dollar basis. The university has fully matched 50 chairs as of June 30, 2023. The financial statements of the university include as expenses the amounts expended in the current year to match the state appropriations. The university's statement of net position does not include the amounts held in trust by the State Treasurer. At June 30, 2023, the amounts held in trust totaled $199,241,669.55 at fair value.

Note 15: Joint Ventures

UT-Battelle

The university is a participant in a joint venture with Battelle Memorial Institute for the sole purpose of management and operation of the Oak Ridge National Laboratory (ORNL) for the U. S. Department of Energy. Each entity has a 50% interest in the venture, each having provided an initial investment of $125,000. The university's equity interest was $5,980,079 at June 30, 2023. The university and Battelle each receive a 50% distribution of the ORNL management fee after shared expenses are deducted. The fee distribution to the university for the year ended September 30, 2022, was $4,855,081.75.

During the year ended June 30, 2023, the university had expenses of $21,441,407.71 under contracts with UT-Battelle. Amounts receivable from UT-Battelle under these contracts totaled $2,940,804.34 at June 30, 2023.

To review the audit report of UT-Battelle, please contact the Controller's Office, The University of Tennessee, 505 Summer Place, Knoxville, TN 37902.

UT Le Bonheur Pediatric Specialists

The university is a participant in a joint venture with Methodist Healthcare – Memphis Hospitals, Le Bonheur Children's Hospital, for the sole purpose of governance, management, and support of the UT Le Bonheur Pediatric Specialists, Inc. (ULPS), a nonprofit faculty group practice comprised of pediatric physicians holding hospital privileges at Le Bonheur who are employed as UT Health Science Center faculty members. The practice group was incorporated on September 9, 2010, and began operations in January 2011.

Both the university and Methodist Healthcare provided an advance to the joint venture in the 2011 fiscal year so that the faculty practice group could begin its operations. In addition, the university and Methodist Healthcare have agreed to guarantee the losses of ULPS equally and provide cash on a monthly basis to meet the operating needs of ULPS. During the 2023 fiscal year, the university remitted another $28,774,242 for these purposes.

To review the audit report of UT Le Bonheur Pediatric Specialists, Inc., please contact the Controller's Office, The University of Tennessee, 505 Summer Place, Knoxville, TN 37902.

Note 16: Insurance-Related Activities

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

The university participates in the RMF. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2023, is presented in Tennessee's *Annual Comprehensive Financial Report*. This report is available on the state's website at https://www.tn.gov/finance/rd-doa/fa-accfin-ar.html. At June 30, 2023, the RMF held $254 million in cash designated for payment of claims.

At June 30, 2023, the scheduled coverage for the university was $8,343,415,823 for buildings and $1,637,498,582 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 17: Commitments and Contingencies

Construction Commitment

The university has contractual obligations for the construction of new buildings and additions to and renovations of existing buildings. The outstanding commitments under such contracts at June 30, 2023, were $219,884,843.34, of which $55,962,892.08 of these costs will be funded with future state capital outlay appropriations.

Sick Leave

The university records the cost of sick leave when paid. The dollar amount of unused sick leave was $342,840,995.76 at June 30, 2023.

Grants and Contracts

The university receives grants and contracts from various federal and state agencies to fund research and other activities. The costs, both direct and indirect, charged to these grants and contracts are subject to audit and disallowance by the granting agency. The university administration believes that any disallowance or adjustments would not have a material effect on the university's financial position.

Nonvested Equipment

Equipment in the possession of the university valued at $6,849,131.03 as of June 30, 2023, is not reflected in the financial statements. This equipment was purchased with restricted grant and contract funds and other funds, and title has not yet transferred to the university.

Litigation

The university is involved in several existing lawsuits and the possibility exists of additional litigation. It is not possible to estimate the extent of any losses resulting from these lawsuits.

Note 18: Lease and Transfer of UT Memorial Research Center and Hospital

On July 29, 1999, the university transferred ownership and control of its hospital located in Knoxville to University Health Systems, Inc., (UHS), an independent, private, not-for-profit organization operating under its own *Internal Revenue Code*, Section 501(c)(3) designation. The lease and transfer of the hospital from the university to UHS was accomplished through three main agreements: the Lease and Transfer Agreement, the Employee Services Agreement, and the Affiliation Agreement. As summarized below, there have been two amendments to the Lease and Transfer agreement.

Original Lease and Transfer Agreement

Pursuant to the enabling legislation, *Tennessee Code Annotated*, Section 49-9-112 and Section 49-9-1301 et seq., UHS leased from the university the real property of the existing hospital and the Graduate School of Medicine. The term of this agreement was 50 years. The university also transferred to UHS all operating assets of the hospital. The original consideration for the lease of the real property and transfer of the operating assets was payment by UHS of a) a sum sufficient to economically defease all of the debt issued by the Tennessee State School Bond Authority in the amount of $149,080,353.69, b) $25,000,000.00 paid to the university at closing, and c) a variable lease obligation of $50,000,000.00 to be paid to the university over twenty years. UHS assumed all prior hospital liabilities, known or unknown.

Lease and Transfer Agreement Amendments

The first amendment, which was executed on July 8, 2011, allowed for the sublease of a tract of land at the hospital. On January 10, 2019, the university and UHS executed the second amendment to the original agreement. In this amendment, the university extended the term of the lease, revised the payment structure for the remaining payment due, and determined the rent that will be due under the remaining term beginning January 1, 2021. The term of the lease was extended to July 29, 2099. The nature of lease payments through calendar year 2049 were agreed upon. These variable lease payments are based on the continuing financial position of UHS. The future lease payment structure is related to an acceptable level of financial performance linked to an A- bond rating. In years where UHS meets the established level of performance, UHS will make a lease payment to the university equal to 20 percent of any operating margin over and above the financial metric required to maintain the agreed upon bond rating. The parties agreed to meet in July 2044 to determine payments beginning in calendar year 2050. Due to the nature of the calculation of these future payments, the university cannot reasonably estimate the future lease payments to be received. Therefore, no lease receivable amount can be recorded for these future payments. There was no variable lease payment made in the 2023 fiscal year.

Employee Services Agreement

UHS has leased from the university all hospital employees as of the date of closing. UHS has paid to the university the amounts incurred by the university to pay the direct expenses relating to the hospital employees, including wages, salaries, and fringe benefits. These payroll expenses on behalf of UHS, totaling $24,747,890.03 in 2023, are reported as operating expenses in the statement of revenues, expenses, and changes in net position. An equal amount of operating revenue is reported in the nongovernmental grants and contracts category. The term of the Employee Services Agreement is 50 years. All persons who began service at the hospital after the date the Employee Services Agreement was signed are employees of UHS and not university employees.

Affiliation Agreement

The university and UHS agreed that UHS will continue to support the Graduate School of Medicine by providing appropriate facilities and resources of the hospital to the faculty and students at the Graduate School of Medicine. UHS agreed to pay the university $1,500,000 at closing for the benefit of the Graduate School of Medicine. In addition, UHS must pay monthly to the university, for the benefit of the Graduate School of Medicine, the government funding, direct and indirect medical education funds, TennCare medical education funds, and other medical education funds received by UHS for the benefit of the Graduate School of Medicine. The amount payable by UHS shall be reduced by a) the fair market rental value of the space provided to the Graduate School of Medicine; b) the fair market value of the information system, telecommunication, network infrastructure, and human resource services provided by UHS to the Graduate School of Medicine; and c) retroactive adjustments made by payers to the graduate medical education payments.

Note 19: Transfer of Development and Alumni Affairs Operations to the University of Tennessee Foundation and the University of Chattanooga Foundation

On July 1, 2011, the university transferred its Development and Alumni Affairs operations to the University of Tennessee Foundation, Inc., a not-for-profit component unit created to support the University of Tennessee. On July 1, 2017, the University of Tennessee at Chattanooga (UTC) transferred its Development and Alumni Affairs operations to the University of Chattanooga Foundation, Inc., a not-for-profit component unit created to support UTC. The foundations support the university's educational, research, and public activities by securing and administering private funds to support programs beyond the scope of the university's general budget. (See also Notes 24 and 25.) Pursuant to the University of Tennessee Board of Trustees' approval and the enabling legislation, *Tennessee Code Annotated*, Section 49-9-113, the university and the foundations signed Affiliation and Services Agreements and Employee Services Agreements to accomplish the transfers.

Affiliation and Services Agreements

The university and the UT Foundation agreed that all gifts, unless directed otherwise by the donor or given in support of the University of Tennessee at Chattanooga, be deposited into the UT Foundation bank account and that the university pay the foundation direct support and a 100 basis point endowment assessment fee as compensation for performing the fundraising function. The direct support amount is to be reviewed annually, and the foundation President and Chief Executive Officer, who is also the university's Vice President for Development and Alumni Affairs, coordinates fundraising goals and objectives of the foundation with the university. For fiscal year 2023, the university provided the foundation direct support of $21,605,742 and endowment assessment fees of $10,924,762.

A separate affiliation agreement provides that the University of Chattanooga Foundation receives all private gifts in support of the University of Tennessee at Chattanooga unless otherwise directed by the donor.

Employee Services Agreements

The foundations have paid to the university the amounts incurred by the university to pay the direct expenses relating to the Development and Alumni Affairs employees, including wages, salaries, and fringe benefits. These payroll expenses on behalf of the UT foundation, totaling $30,001,295.46, and on behalf of the University of Chattanooga Foundation, totaling $2,141,067.38, in fiscal year 2023, are reported as operating expenses in the statement of revenues, expenses, and changes in net position. An equal amount of operating revenue is reported in the nongovernmental grants and contracts category.

Note 20: Voluntary Retirement Incentive Program

The University of Tennessee at Martin (UTM) offered the 2023 UTM Faculty Voluntary Retirement Incentive Program (VRIP) for faculty in fiscal year 2023 as a proactive measure designed to promote alignment of mission and demand (e.g., new strategic investment, student demand) with campus resources. Participation in the program was strictly voluntary. Eleven approved staff participated in the program. Severance pay of $488,296.05 was paid during fiscal year 2023. The UTM Program was open to regular faculty who met certain retirement eligibility criteria within the Tennessee Consolidated Retirement System (TCRS), the Joint Contributory Retirement System (JCRS-A), or the Optional Retirement Program (ORP). UTM reserved the right to limit the number of participants in this program and the right to make final decisions on participation based on academic continuity and campus needs. The incentive pay offered was 6 months of the employee's annualized university base salary, paid in a lump sum after the effective date of retirement. For further details, contact the UTM Human Resources & Payroll Office at humanresources@utm.edu.

Note 21: Natural Classifications With Functional Classifications

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

	NATURAL CLASSIFICATION					
FUNCTIONAL CLASSIFICATION	Salaries	Benefits	Utilities, Supplies, and Other Services	Scholarships	Depreciation	Total
Instruction	$ 521,530,013.44	$ 143,590,278.78	$ 86,557,897.01	$ -	$ -	$ 751,678,189.23
Research	215,026,971.68	54,053,106.35	88,189,137.84	-	-	357,269,215.87
Public service	101,502,433.13	36,284,877.66	56,207,775.65	-	-	193,995,086.44
Academic support	133,200,670.06	44,330,167.08	84,697,223.88	-	-	262,228,061.02
Student services	66,551,214.13	22,691,361.44	41,901,507.35	-	-	131,144,082.92
Institutional support	116,064,575.06	36,313,188.98	56,659,543.15	-	-	209,037,307.19
Operation and maintenance of plant	60,878,340.48	25,056,270.89	119,356,531.08	-	-	205,291,142.45
Scholarships and fellowships	4,612,901.17	44,760,876.39	14,965.82	87,038,314.23	-	136,427,057.61
Auxiliary	86,963,550.45	18,987,749.82	139,798,297.64	-	-	245,749,597.91
Independent operations	39,216,417.67	15,324,618.18	-	-	-	54,541,035.85
Depreciation	-	-	-	-	175,513,134.67	175,513,134.67
Total expenses	$ 1,345,547,087.27	$ 441,392,495.57	$ 673,382,879.42	$ 87,038,314.23	$ 175,513,134.67	$ 2,722,873,911.16

Note 22: On-Behalf Payments

During the year ended June 30, 2023, the State of Tennessee made payments of $1,179,900.00 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 12. The plan is reported in Tennessee's *Annual Comprehensive Financial Report*. That report is available on the state's website at https://www.tn.gov/finance/rd-doa/fa-accfin-ar.html.

During the year ended June 30, 2023, the State of Tennessee made payments of $41,730,748.99 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 for state and higher education employees with membership in the Tennessee Consolidated Retirement System and is discussed further in Note 11. The TCRS issues a publicly available financial report that can be obtained at https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment- Policies.

Note 23: Public-Private Partnership (PPP)

The university has entered into a PPP agreement with Aramark to provide the concession services at all athletic events at Neyland Stadium, Thompson-Boling Arena, Lindsey Nelson Stadium, Tom Black Track, Goodfriend Tennis Center, Regal Soccer Stadium, Lee Softball Stadium, and Jones Aquatic Center. The agreement also gives Aramark the right to provide premium services, which includes the sale and provision of services related to the sale of food and beverages (alcoholic and non-alcoholic) to the public for all athletic events at Neyland Stadium and Thompson-Boling Arena, specifically all suites, all-inclusive areas, clubs, and the Ray Mears Room and for other non-athletics events at the concession facilities mentioned previously (excluding Thompson-Boling Arena). The agreement expires June 30, 2032.

During fiscal year 2023, Aramark made payments to the university of $2,500,000.00, recorded as a deferred inflow of resources related to PPPs. The deferred inflow will be amortized over the life of the contract. Fiscal year 2023 amortization was $250,000.00. There is no receivable related to this PPP. Remaining payments received by the university from Aramark are based on commissions.

Note 24: Component Unit – University of Chattanooga Foundation

The University of Chattanooga Foundation, Inc., is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from revenue recognition criteria and presentation features as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements of this foundation have been reformatted into a GASB format and are reported in a separate column to the right of the university's statements.

The University of Chattanooga Foundation, Inc., is a legally separate, tax-exempt organization supporting the University of Tennessee at Chattanooga. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the university in support of the University of Tennessee at Chattanooga. The 47-member board of trustees of the foundation is self-perpetuating and consists of friends of the University of Tennessee at Chattanooga. 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 of Tennessee at Chattanooga, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements.

During the year ended June 30, 2023, the foundation expended $8,458,512 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from the University of Chattanooga Foundation, Development Office, Department 6806, 615 McCallie Avenue, Chattanooga, TN 37403-2598.

Organization and Nature of Activities

The foundation is a tax-exempt organization under the provisions of Section 509(a)(1) of the *Internal Revenue Code,* dedicated to supporting excellence in higher education through special projects for the University of Tennessee at Chattanooga. Proposals for special projects are submitted by the chancellor of the university and approved by the foundation's board of trustees and the University of Tennessee board of trustees.

Principles of Consolidation

The consolidated financial statements of the foundation include the accounts of the foundation and its subsidiaries, Campus Development Foundation, Inc. (CDFI) and CDFI Phase I, LLC (the LLC). All material intercompany accounts and transactions have been eliminated in consolidation.

CDFI was formed by the foundation to engage in charitable, scientific, and educational projects within the meaning of Section 501 (c)(3) of the *Internal Revenue Code.* The projects include, but are not limited to, the acquisition of real property and the construction, management, and operation of dormitories for students of the university. The directors of CDFI are appointed by the executive committee of the foundation.

CDFI is the sole member of its subsidiary, the LLC. The LLC was formed to own and develop an elementary school in downtown Chattanooga and student housing at the university. The student housing consists of 1,621 bedrooms in 455 units and 722 parking spaces.

Investments

A summary of foundation investments at June 30, 2023, is as follows:

Money market funds	$ 32,460,894
Mutual funds	69,121,620
Common stocks	2,455,491
Limited partnerships	93,933,218
Total	$197,971,223

The foundation also has investments restricted by the terms of the revenue bonds described below, totaling $11,976,971.

Property and Equipment

A summary of foundation property and equipment at June 30, 2023, is as follows:

Land	$ 8,241,032
Buildings	97,844,727
Furniture, fixtures, and equipment	21,521,266
	127,607,025
Accumulated depreciation	(68,490,915)
Total	$ 59,116,110

Revenue Bonds Payable

During November 2015, the Health, Educational, and Housing Facility Board of the City of Chattanooga issued series 2015 tax-exempt revenue refunding bonds totaling $65,895,000. The LLC is the borrower on the Series 2015 bonds. The proceeds of the refunding bonds were primarily used to retire early the two series of tax-exempt revenue bonds issued in 2005. The two series of tax-exempt revenue bonds issued during May 2005 totaling $91,510,000 were primarily used to retire early the three series of tax-exempt revenue bonds issued in 2000 and 2001. The 2000 and 2001 bonds were used to acquire land, fund construction of the student housing, and develop an elementary school near the student housing.

Revenue bonds payable at June 30, 2023, consist of the following:

Series 2015 revenue refunding bonds, interest rates fixed at 3% to 5% payable semi-annually, annual redemption payments due through October 1, 2035	$ 49,140,000
Plus: unamortized premium	2,753,331
Less: unamortized bond issuance costs	(411,974)
	$ 51,481,357

Sinking fund requirements for scheduled redemptions of the revenue bonds for the next five years and thereafter are as follows:

Year Ending June 30	
June 30, 2024	$ 2,845,000
June 30, 2025	2,960,000
June 30, 2026	3,070,000
June 30, 2027	3,220,000
June 30, 2028	3,385,000
Thereafter	33,660,000
	$ 49,140,000

Line of Credit

In January 2020, the foundation entered into a $40,000,000 non-revolving line of credit with a bank. The line of credit will expire in January 2045. The line of credit bears interest at a fixed rate of 2.85%. The outstanding balance at June 30, 2023, was $40,000,000.

Fair Value Measurements

The foundation reports under FASB Accounting Standards Codification (ASC) Topic 820, which defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States, and prescribes disclosures about fair value measurements.

FASB ASC Topic 820 requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to value the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the foundation has the ability to access.

Level 2 - Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs that reflect management's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis:

	Balance as of June 30, 2023	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Money market funds	$ 32,460,894	$ 32,460,894	$ -	$ -
Mutual funds:				
International funds	9,742,318	9,742,318	-	-
Index funds	50,625,341	50,625,341	-	-
Fixed income funds	7,662,286	7,662,286	-	-
Short-term bond funds	1,091,675	1,091,675	-	-
Total mutual funds	69,121,620	69,121,620	-	-
Common stock	2,455,491	2,455,491		
U.S. treasury money market fund	11,976,971	11,976,971	-	-
Total assets at fair value	116,014,976	116,014,976	-	-
Investments measured at net asset value (1) (2)	93,933,218	-	-	-
Total assets	$ 209,948,194	$ 116,014,976	$ -	$ -
Liabilities:				
Deposits received for the benefit of others	$ 2,367,796	$ 2,367,796	$ -	$ -
Total liabilities	$ 2,367,796	$ 2,367,796	$ -	$ -

(1) In accordance with Subtopic 820-10, the limited partnerships that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amount presented in this table is intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of net position.

(2) Limited partnership investments have investment strategies which include investments in private debt financing, emerging and global equity markets, long and short positions primarily in residential and commercial mortgage-backed securities, senior secured debt, public and private oil and gas companies, direct origination and secondary market first and second mortgage liens, commercial real estate, equity-based partnerships, and

transportation and infrastructure. These investments also include certain restrictions on the foundation's contributed capital. These restrictions include lock ups and withdrawal restrictions. Lock up restrictions range from 12-36 months. Withdrawal restrictions range from no withdrawals being allowed until termination of partnership to monthly and quarterly withdrawals with 30-90 days' notice. At June 30, 2023, the foundation had outstanding commitments of $12,670,000.

Endowments

The foundation's endowment consists of approximately 300 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including funds designated by the board of trustees 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 trustees of the foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the maintenance of the purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates to the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund, and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, 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 donor-restricted endowment fund.

(3) General economic conditions.

(4) The possible effect of inflation and deflation.

(5) The expected total return from income and the appreciation of investments.

(6) Other resources of the foundation.

(7) The investment policies of the foundation.

Endowment net assets by type of fund consist of the following at June 30, 2023. Due to GASB reformatting, endowments without donor restrictions are reported as unrestricted net position while endowments with donor restrictions are reported as expendable restricted net position or nonexpendable restricted net position on the university's statement of net position.

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted funds	$ -	$ 110,941,000	$ 110,941,000
Board-designated funds	61,812,552	-	61,812,552
	$ 61,812,552	$ 110,941,000	$ 172,753,552

Changes in endowment net assets for the fiscal year ended June 30, 2023, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 61,999,251	$ 109,155,039	$ 171,154,290
Investment income	557,911	1,056,424	1,614,335
Net realized and unrealized losses	2,318,283	4,426,163	6,744,446
Contributions	5,207	4,996,221	5,001,428
Change in contribution receivable	(735)	(4,368,399)	(4,369,134)
Appropriations	(1,318,509)	(4,305,123)	(5,623,632)
Transfers	(1,748,856)	(19,325)	(1,768,181)
Endowment net assets, end of year	$ 61,812,552	$ 110,941,000	$ 172,753,552

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 foundation must hold in perpetuity or for donor-specified periods as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the consumer price index while assuming a moderate level of investment risk. The foundation expects its endowment funds, over time, to provide an average annual rate of return of approximately 6% above the rate of inflation. 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 constraints.

The foundation has a policy of appropriating for distribution each year 4% of each endowment fund's average balance for the last 12 quarters. 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 2% annually.

Related Party Transactions

CDFI, the LLC, and the university have executed a management agreement which allows the university to assume management responsibilities related to the LLC's student housing. No management fees were paid to the university by the LLC in 2023. At June 30, 2023, deposits held at the university on behalf of the LLC were $33,781.

The University of Tennessee at Chattanooga contributed $56,475 to the LLC to offset lost rental revenues and other expenses incurred as a result of the COVID-19 pandemic.

Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year on the statement of net position date are comprised of the following:

Cash and cash equivalents	$ 200,112
Investments	1,099,152
Other receivables	211,140
	$ 1,510,404

As part of the foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The foundation also has a board-designated endowment of $61,812,552. Although the foundation does not intend to spend from its board-designated endowment other than accounts appropriated for general expenditure as part of its annual budget approval, amounts from its board-designated endowment could be made available if necessary.

Natural Classifications With Functional Classifications

The foundation's operating expenses by functional classification for the year ended June 30, 2023, are as follows:

	Natural Classification				
Functional Classification	Salaries	Benefits	Other Operating	Depreciation	Total
Program services	$ 1,433,734	$ 648,130	$ 13,541,093	$ 5,248,460	$ 20,871,417
Support activities	1,899,423	487,036	2,582,273	-	4,968,732
Total	$ 3,333,157	$ 1,135,166	$ 16,123,366	$ 5,248,460	$ 25,840,149

Note 25: Component Unit – University of Tennessee Foundation

The University of Tennessee Foundation, Inc., is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from revenue recognition criteria and presentation features as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements of this foundation have been reformatted into a GASB format and are reported in a separate column to the right of the university's statements.

The University of Tennessee Foundation is a legally separate, tax-exempt organization supporting the University of Tennessee. The foundation acts as a fund-raising organization to supplement the resources that are available to the university in support of its programs. The foundation has 21 active board members and three ex-officio members. The board of the foundation is self-perpetuating and consists of graduates and friends of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements.

During the year ended June 30, 2023, the foundation expended $112,268,330.38, including $9,088,903.45 of salaries and benefits, to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from the University of Tennessee Foundation, 1525 University Avenue, Knoxville, TN 37921-4848.

Organization and Nature of Activities

The University of Tennessee Foundation, Inc., is a not-for-profit organization exempt from federal income tax under Section 501(c) (3) of the *Internal Revenue Code*. The foundation was formed to support the University of Tennessee. The foundation was established to provide fund raising support for the university in carrying out its mission of teaching, research, and public service. The foundation, in conjunction with the University of Chattanooga Foundation, also conducts the development and alumni affairs operations for the university. See also Note 19.

Pledges Receivable

Pledges receivable (reported as accounts, notes, and grants receivable on the statement of net position) are summarized below net of the allowance for doubtful accounts:

	Pledges Receivable
Current pledges	$ 26,182,900.73
Pledges due in one to five years	110,428,020.19
Pledges due after five years	24,202,160.10
	160,813,081.02
Less discounts to net present value	(18,505,822.11)
Total pledges receivable, net	$ 142,307,258.91

The allowance for doubtful accounts at June 30, 2023, was $1,237,668.65.

Investments and Assets Held by the University of Tennessee

Investments held at June 30, 2023, were as follows:

	Fair Value	Cost
Endowment assets:		
Held by the University of Tennessee:		
Consolidated Investment Pool	$459,188,294.32	$446,382,994.88
Held by the foundation:		
Cash	38,268.61	38,268.74
Equities	3,030,660.37	2,650,747.49
Total endowment assets	462,257,223.30	449,072,011.11
Other investments:		
Held by the foundation:		
Brokerage account:		
Cash	34,709,719.53	34,709,719.53
Equities	46,443,786.12	47,328,029.30
Fixed income	88,605,866.69	93,875,730.86
Total other investments	169,759,372.34	175,913,479.69
Gift annuity program:		
Cash	242,803.71	242,803.71
Equities	16,917,063.61	16,356,223.26
Fixed income	6,732,148.01	7,476,178.83
Total gift annuity program	23,892,015.33	24,075,205.80
Total investments	$ 655,908,610.97	$ 649,060,696.60

Also reported as investments on the statement of net position are other gift assets totaling $3,641,775.91.

At June 30, 2023, the fair values of investments held by the university are based on valuations determined by the university.

Endowments

The foundation's endowment funds consist of cash, investments held by the university, investments held by the foundation, and unconditional promises to give. The majority of the foundation's invested endowment funds are invested in the University of Tennessee Consolidated Investment Pool. These funds are invested according to the policies of the university. A portion of the earnings from these funds are provided to the university to be used as stipulated in the endowment agreements. At June 30, 2023, the cost and fair value for these endowments invested were $446,382,994.88 and $459,188,294.32, which resulted in a cumulative unrealized gain of $12,805,299.44. Five endowments are separately invested by the foundation. At June 30, 2023, the cost and fair value for these endowments were $2,689,016.23 and $3,068,928.98, which resulted in a cumulative unrealized gain of $379,912.75. All endowments at the foundation are donor restricted. Endowment earnings transferred to the university were $18,404,249.08 for fiscal year 2023.

The foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the foundation classifies permanently restricted net assets as (1) the original value of gifts to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the gift instrument until the endowment is vested in the university's Consolidated Investment Pool. Below is a schedule of changes in endowment net assets. Due to the GASB reformatting, endowments with donor restrictions are reported as expendable restricted net position or nonexpendable restricted net position on the statement of net position.

	Other Endowment Funds with Donor Restrictions	Permanent Endowment	Total Endowment Funds with Donor Restrictions
Beginning balance	$ 7,554,566.37	$ 469,644,397.33	$ 477,198,963.70
Contributions received	-	34,499,101.14	34,499,101.14
Transfers to endowments	-	1,911,979.49	1,911,979.49
Investment earnings	19,285,669.24	774,080.63	20,059,749.87
Net gain/loss	6,421,981.96	-	6,421,981.96
Disbursements	(19,212,492.52)	-	(19,212,492.52)
Ending balance	$ 14,049,725.05	$ 506,829,558.59	$ 520,879,283.64

The university calculates its spending policy distributions by taking 4.5% of a seven-year fair value average each December 31.

The assets are to be managed in a manner that will meet the long-term investment objective, while at the same time attempting to limit the volatility in year-to-year spending.

The university's Investment Advisory Committee believes that investing in securities with higher return expectations outweighs their short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities. Fixed income securities and other low volatility strategies (e.g., absolute return hedge funds) will be used to lower the short-term volatility of the portfolio and to provide stability, especially during periods of negative equity markets. Cash is not a strategic asset of the portfolio, but is a residual to the investment process and used to meet short-term liquidity needs.

Disciplined management of the asset allocation is necessary and desirable. Diversification of investments among assets that are not similarly affected by economic, political, or social developments is highly desirable. The general policy shall be to diversify investments so as to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset or investment category.

Fair Value Measurements

The foundation reports under FASB Accounting Standards Codification (ASC) Topic 820, which defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States, and prescribes disclosures about fair value measurements.

FASB ASC Topic 820 requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to value the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

> Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the foundation has the ability to access.
>
> Level 2 – Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
>
> Level 3 – Significant unobservable inputs that reflect management's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The table below presents the reported amount of investments held by the foundation measured at fair value on a recurring basis. As described above, the remaining $459,188,294.32 of the foundation's investments are held in the university's consolidated investment pool, and the valuation of those assets is determined by the university. See Note 4 for a description of the university's consolidated investment pool and Note 3 for fair value disclosures as to university assets.

Investments:	Level 1	Level 2	Level 3	Total
Investments held by the foundation	$ 188,535,427.55	$ 8,184,889.10	$ -	$ 196,720,316.65

Concentration of Credit Risk

The foundation has concentrated its credit risk for cash and liquid, temporary investments by maintaining deposits at a financial institution, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC).

The foundation has a master repurchase agreement with the financial institution where at the end of each day cash is invested in overnight securities and the securities are repurchased the next day. The foundation purchases the securities in its name. The Repurchase Agreement Account is not insured by FDIC insurance, but rather the financial institution provides the securities purchased as the underlying security for the Repurchase Agreement Account. The Repurchase Agreement Account as of June 30, 2023, totaled $73,563,319.81, and is reported in cash and cash equivalents on the statement of net position.

Liquidity and Availability of Financial Assets

The following reflects the foundation's financial assets as of June 30, 2023, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of net position date:

Cash and cash equivalents	$ 76,340,817.81
Cash surrender value of life insurance	970,903.53
Accounts receivable	11,445.21
Unconditional promises to give	142,307,258.91
Investments	655,908,610.97
Total financial assets	875,539,036.43
Less those unavailable for general expenditures within one year due to:	
Donor-imposed restrictions	(767,463,262.09)
Financial assets available to meet cash needs for general expenditures within one year	$ 108,075,774.34

As of June 30, 2023, $767,463,262.09 of financial assets are subject to donor restrictions that generally make them unavailable for expenditure within one year of the balance sheet date. However, the majority of program expenses are funded by non-endowed cash gifts and collections of unconditional promises to give, which are expected to cover total program expenditures for the next year, estimated at $80 million. Average operating expenses, other than program expenses, are approximately $45 million. The majority of that is funded by an existing contract with the university. As a result, the foundation believes that the remaining unrestricted financial assets are sufficient to fund normal operating activities within the next year.

Natural Classifications With Functional Classifications

The foundation's operating expenses by functional classification for the year ended June 30, 2023, are as follows:

	Natural Classification			
Functional Classification	Salaries	Benefits	Other Operating	Total
Program expenses	$ 7,637,073.85	$1,451,829.60	$ 103,179,426.93	$ 112,268,330.38
General and administrative	22,341,927.76	7,793,520.24	19,840,346.12	49,975,794.12
Total expenses	$ 29,979,001.61	$9,245,349.84	$ 123,019,773.05	$ 162,244,124.50

Note 26: Component Unit – University of Tennessee Research Foundation

The University of Tennessee Research Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from revenue recognition criteria and presentation features as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements of this foundation have been reformatted into a GASB format and are reported in a separate column to the right of the university's statements.

The University of Tennessee Research Foundation is a legally separate, tax-exempt organization supporting the University of Tennessee. The foundation bylaws provide for the board to consist of 7 voting directors and 3 nonvoting directors. Because the university's board of trustees approves and funds the foundation's administrative budget, the foundation is considered fiscally dependent on the university, and there is a financial benefit/burden relationship between the two entities. Therefore, the research foundation is considered a component unit of the university and is discretely presented in the university's financial statements.

Notes to the Financial Statements

Complete financial statements for the research foundation can be obtained from the University of Tennessee Research Foundation, 400 W. Summit Hill Drive, UT Tower 961A, Knoxville, TN 37902.

Organization and Nature of Activities

The University of Tennessee Research Foundation is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the *Internal Revenue Code*. The foundation was formed to promote research and hold and manage the university's intellectual property. The foundation was established to protect, manage, and commercialize university inventions and intellectual property; grow the university research enterprise; develop and support an entrepreneurial culture; and contribute to state and regional economic development.

TennEra, LLC, a wholly owned for-profit subsidiary of the University of Tennessee Research Foundation, was formed in 2008. The subsidiary provides a vehicle to leverage state and federal funding with private research and development investments, strategic partnerships and collaborations to further research, economic development, and clean energy objectives. The subsidiary owns a demonstration scale cellulosic ethanol biorefinery in Vonore, Tennessee that is being leased to Genera Energy, Inc. to produce high quality agricultural fibers and compostable products.

Cherokee Farm Development Corporation (CFDC), a wholly owned nonprofit subsidiary of the University of Tennessee Research Foundation, was formed on October 19, 2011. The management of the property, activities, and affairs of CFDC is vested in its board of directors. The board is composed of 9 voting directors. As of June 30, 2023, CFDC had total assets of $1.9 million and total revenue of $1.1 million for the year then ended.

Cherokee Farm Properties, Inc. (CFPI), a wholly owned for-profit subsidiary of Cherokee Farm Development Corporation (CFDC), was formed on May 28, 2014. The management of the property, activities, and affairs of CFPI is vested in its directors. The board is composed of two voting directors. As of June 30, 2023, CFPI had total assets of $1.3 million and total revenue of $70 thousand for the year then ended.

Collaborative Composite Solutions Corporation (CCS), a nonprofit subsidiary of the University of Tennessee Research Foundation, CCS's sole corporate member, was formed on August 1, 2014, and renamed as CCS on July 28, 2015. The subsidiary's primary purpose is coordinating and supporting all activities proposed to meet the intent and requirements of the Department of Energy's funding opportunity announcement DE-FOA-000977. These activities include, selecting, sponsoring, and auditing research and development projects that increase energy efficiency, decrease greenhouse gas emissions, and aid economic development in the United States. The management of the property, activities, and affairs of CCS is vested in its board of directors. At June 30, 2023, there are currently five voting directors. As of June 30, 2023, CCS had total assets of $4 million and total revenue of $9.6 million for the year then ended.

C3 Innovate, Inc. (C3I), a wholly owned for-profit subsidiary of CCS, was formed on May 19, 2023. The subsidiary provides a vehicle to carry out commercial activities. The management of C3I is vested in its board of directors. The board shall be composed of at least 3 but not more than 7 directors. As of June 30, 2023, the board had 3 voting directors. C3I had no assets or revenue as of June 30, 2023.

Principles of Consolidation

The foundation's consolidated financial statements include the foundation's accounts and the accounts of its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Capital Assets

Capital assets consist of the following major classifications at June 30, 2023:

Office furniture and equipment	$ 171,748
Right to use assets	7,551,786
Less accumulated depreciation and amortization	(812,828)
Total	6,910,706
TennEra	
Land	64,044
Buildings	36,979,029
Machinery and equipment	921,439
Less accumulated depreciation	(34,455,470)
Total TennEra	3,509,042
Collaborative Composite Solutions Corporation	
Equipment	550,342
Software– member portal	263,735
Less accumulated depreciation	(418,814)
Total Collaborative Composite Solutions Corporation	395,263
Total	$ 10,815,011

Depreciation expense for the foundation and its subsidiaries totaled $178,042 for the year ended June 30, 2023. Amortization expense for the foundation's right to use assets totaled $699,495.

Lease Liabilities

The foundation has lease agreements for property used in its operations, the terms of which expire in various years through 2032. The foundation's lease liabilities are reported as long-term liabilities on the university's statement of net position.

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

Year ending June 30	
2024	$ 955,795
2025	984,282
2026	936,668
2027	926,755
2028	954,556
Thereafter	4,021,300
Total minimum lease payments	8,779,356
Less amounts representing interest	(1,794,064)
Present value of lease liability	$ 6,985,292

Fair Value Measurements

The foundation reports under FASB Accounting Standards Codification (ASC) Topic 820, which defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States, and prescribes disclosures about fair value measurements.

FASB ASC Topic 820 requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to value the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

> Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the foundation has the ability to access.
>
> Level 2 - Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
>
> Level 3 - Significant unobservable inputs that reflect management's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Registered investment companies – The fair value of registered investment companies (mutual funds) is based on quoted net asset values of the shares held by the foundation at June 30, 2023.

Marketable equity securities – The fair value of marketable equity securities is based on quoted prices times the number of the shares held by the foundation at June 30, 2023.

Investments in Genera Energy, Inc.; Prisma Renewable Composites, LLC; Cherokee Partners Group; and Techstars Partners 2020, LLC – Investments which consist of TennEra's remaining noncontrolling investment in the deconsolidated subsidiaries of Genera Energy and Prisma Renewable Composites are recorded at fair value on a recurring basis based primarily on fair value measurements provided by management utilizing Level 3 inputs in accordance with GAAP. There was no value for TennEra's investment in Prisma Renewable Composites, LLC at June 30, 2023. As of the year ended June 30, 2023, TennEra has invested an additional $2,000,000 in Techstars Partners 2020 LLC and shares 15.625% profit and losses and in capital. CFPI also has an investment in Cherokee Partners Group and shares 40% in profit and losses and 10.75% in capital. There is no current active market for these investments such that the determination of fair value requires significant judgment and estimation. The investments are measured at fair value using an internal enterprise valuation prepared by management.

The following table provides the assets carried at fair value measured on a recurring basis as of June 30, 2023:

	Level 1	Level 2	Level 3	Total
Registered investment companies	$ 15,318	$ -	$ -	$ 15,318
Marketable equity securities	478,013	-	-	478,013
Genera Energy, Inc.	-	-	27,000	27,000
Cherokee Partners	-	-	1,190,443	1,190,443
Techstars Partners	-	-	2,023,877	2,023,877
Non-marketable equity securities	-	-	141,781	141,781
	$ 493,331	$ -	$ 3,383,101	$ 3,876,432

Liquidity and Availability

The foundation maintains financial assets, consisting of cash and short-term investments, on hand to meet its normal operating expenses based on its annual budget. Operating expenses are compared to budgeted expenses on a monthly basis, and financial assets on hand are adjusted as necessary. As part of its liquidity management, the foundation invests cash in excess of daily requirements in various short-term investments. The foundation also has budget encumbrances held by the University of Tennessee from prior year contributions not spent by the foundation. The following table shows financial assets the foundation has to meet its general expenditures over the next 12 months.

Cash	$ 10,840,449
Contract receivables and accrued revenues, net	5,214,431
Contribution receivable from the University of Tennessee	2,018,732
Due from the University of Tennessee - other	740,547
University of Tennessee budget encumbrances	1,480,132
Total financial assets available to meet general expenditures within the next 12 months	$ 20,294,291

Natural Classifications With Functional Classifications

The foundation's operating expenses by functional classification for the year ended June 30, 2023, are as follows:

	Natural Classifications				
Functional Classification	Salaries	Benefits	Other Operating	Depreciation and Amortization	Total
Program services	$ 3,932,165	$1,026,834	$ 13,977,227	$ 699,495	$ 19,635,721
Support activities	601,110	300,048	192,810	178,042	1,272,010
Total	$ 4,533,275	$1,326,882	$ 14,170,037	$ 877,537	$ 20,907,731

Note 27: Subsequent Events

On December 9, 2020, the University of Tennessee Athletics self-reported potential recruiting violations in its football program to the National Collegiate Athletic Association (NCAA). This prompted an investigation by the NCAA which resulted in financial and non-financial penalties to the university. On September 19, 2023, the university received an invoice for these penalties in the amount of $10,433,041.61. The university paid these penalties in full on October 5, 2023.

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

	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2023	12.066660%	$ 143,757,373	$ 251,757,652	57.10%	93.80%
2022	12.237600%	(74,875,352)	258,282,871	28.99%	103.30%
2021	12.467054%	204,249,033	275,950,473	74.01%	90.58%
2020	12.621833%	178,241,066	284,631,987	62.62%	91.67%
2019	12.733725%	205,702,124	295,027,604	69.72%	90.26%
2018	12.868287%	230,290,800	308,432,979	74.66%	88.88%
2017	13.128090%	239,530,566	320,282,715	74.78%	87.96%
2016	12.930334%	166,708,520	337,276,466	49.43%	91.26%
2015	12.764631%	88,069,402	348,719,634	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.

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

	Proportion of the Net Pension Asset	Proportionate Share of the Net Pension Asset	Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2023	14.664605%	$ 3,657,176	$ 213,896,399	1.71%	104.81%
2022	13.877456%	11,760,663	175,707,375	6.69%	121.71%
2021	13.316240%	4,689,086	152,430,983	3.08%	112.90%
2020	12.743761%	5,285,794	119,712,648	4.42%	122.36%
2019	11.663156%	4,498,839	89,602,479	5.02%	132.39%
2018	11.166788%	2,315,823	62,718,322	3.69%	131.51%
2017	11.908035%	1,003,190	36,688,424	2.73%	130.56%
2016	11.730576%	326,224	13,241,214	2.46%	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.

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

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a Percentage of Covered Payroll
2023	$ 54,480,091	$ 96,210,840	$ (41,730,749)	$ 249,026,411	38.63%
2022	51,607,288	81,773,938	(30,166,650)	251,757,652	32.48%
2021	52,249,257	52,249,257	-	258,282,871	20.23%
2020	54,251,863	54,251,863	-	275,950,473	19.66%
2019	54,733,097	54,733,097	-	284,631,987	19.23%
2018	55,639,354	55,639,354	-	295,027,604	18.86%
2017	46,326,637	46,326,637	-	308,432,979	15.02%
2016	48,138,492	48,138,492	-	320,282,715	15.03%
2015	50,692,652	50,692,652	-	337,276,466	15.03%
2014	52,412,536	52,412,536	-	348,719,634	15.03%

Notes to Schedule:

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

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

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

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a Percentage of Covered Payroll
2023	$ 6,888,383	$ 6,888,383	$ -	$ 277,808,238	2.48%
2022	3,978,230	3,978,230	-	213,896,399	1.86%
2021	3,162,654	3,162,654	-	175,707,375	1.80%
2020	2,637,056	2,637,056	-	152,430,983	1.73%
2019	1,984,093	1,984,093	-	119,712,648	1.66%
2018	3,336,552	3,336,552	-	89,602,479	3.72%
2017	2,283,615	2,283,615	-	62,718,322	3.64%
2016	1,419,842	1,419,842	-	36,688,424	3.87%
2015	512,435	512,435	-	13,241,214	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.

UNIVERSITY OF TENNESSEE
Required Supplementary Information
Schedule of the University of Tennessee's Contributions
Federal Retirement Plans Administered by the
U.S. Office of Personnel Management

Civil Service Retirement System

2023	$32,846
2022	52,716
2021	60,935
2020	94,502
2019	116,415
2018	129,341
2017	169,500
2016	196,496
2015	230,096
2014	282,875

Federal Employees Retirement System

2023	$1,759,097
2022	1,866,522
2021	1,788,801
2020	1,762,257
2019	1,646,760
2018	1,669,674
2017	1,639,831
2016	1,586,644
2015	1,492,262
2014	1,455,815

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

Amounts Expressed in Thousands

	University's Proportion of the Collective Total/Net OPEB Liability	University's Proportionate Share of the Collective Total/Net OPEB Liability	University's Covered-employee Payroll	University's Proportionate Share of the Collective Total/Net OPEB Liability as a Percentage of Its Covered-employee Payroll	OPEB Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2023	16.327176%	$ 115,593	$ 518,933	22.28%	39.00%
2022	16.591583%	118,303	543,316	21.77%	39.00%
2021	16.509580%	138,202	582,758	23.72%	25.21%
2020	16.331658%	155,507	615,436	25.27%	18.33%
2019	17.142370%	237,463	661,143	35.92%	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.

UNIVERSITY OF TENNESSEE
Required Supplementary Information
Schedule of the University of Tennessee's Contributions
Closed State Employee Group OPEB Plan

Amounts Expressed in Thousands

	Actuarially Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered-employee Payroll	Contributions as a Percentage of Covered-employee Payroll
2023	$ 19,282	$ 19,282	$ -	$ 496,928	3.88%
2022	21,131	21,131	-	518,933	4.07%
2021	23,686	23,686	-	543,316	4.36%
2020	23,887	23,887	-	582,758	4.10%
2019	22,779	19,664	3,115	615,436	3.20%

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.

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

Amounts Expressed in Thousands

	University's Proportion of the Collective Total OPEB Liability	Primary Government's Proportionate Share of the Collective Total OPEB Liability	University's Covered-employee Payroll	University's Proportionate Share of the Collective Total OPEB Liability as a Percentage of Its Covered-employee Payroll
2023	0.00%	$ 27,831	$ 640,109	0.00%
2022	0.00%	32,987	653,098	0.00%
2021	0.00%	38,017	693,063	0.00%
2020	0.00%	32,287	721,832	0.00%
2019	0.00%	32,837	759,811	0.00%
2018	0.00%	31,316	800,789	0.00%

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

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

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

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

THE UNIVERSITY OF TENNESSEE
Supplementary Combining Schedule of Net Position
June 30, 2023

	Knoxville	Chattanooga	Martin	Southern	Health Science Center	Other Units	Total University
Assets							
Current assets:							
Cash and cash equivalents	$ 211,773,678.02	$ 25,695,295.83	$ 23,658,692.84	$ 975,442.31	$ 17,464,002.32	$ (57,629,112.05)	$ 221,937,999.27
Investments	98,997,792.55	1,738,353.58	8,589,778.53	121,728.32	33,983,946.81	28,841,390.18	172,272,989.97
Accounts, notes, grants, and leases receivable (net)	50,429,723.96	12,715,201.21	5,059,153.20	273,349.87	11,143,027.87	78,239,624.29	157,860,080.40
Inventories	7,008,586.66	117,644.40	492,332.46	70,699.38	2,233,450.16	-	9,922,713.06
Prepaid expenses	3,996,635.04	54,122.30	427,142.85	168,739.31	429,035.70	2,917,383.73	7,993,058.93
Total current assets	372,206,416.23	40,320,617.32	38,227,099.88	1,609,959.19	65,253,462.86	52,369,286.15	569,986,841.63
Noncurrent assets:							
Cash and cash equivalents	993,969,243.25	91,432,463.08	55,715,879.69	2,361,365.66	146,731,494.05	262,862,690.86	1,553,073,136.59
Investments	510,736,198.53	23,335,131.86	35,560,625.97	127,204.00	179,909,002.76	490,021,153.42	1,239,689,316.54
Accounts, notes, grants, and leases receivable (net)	84,264,758.21	2,049,217.26	3,471,105.63	54,737.86	55,341,703.71	(6,013,144.71)	139,168,377.96
Prepaid expenses	17,365,358.25	-	-	-	-	-	17,365,358.25
Capital assets (net)	2,189,681,720.70	386,437,038.49	195,542,865.54	14,688,521.27	354,536,277.14	84,884,498.03	3,225,770,921.17
Net pension asset	1,849,750.00	311,639.00	151,645.00	(15,870.00)	1,138,619.00	221,393.00	3,657,176.00
Annuities held by others	-	-	-	-	-	11,163,208.57	11,163,208.57
Total noncurrent assets	3,797,867,028.94	503,565,489.69	290,442,121.83	17,215,958.79	737,657,096.66	843,139,799.17	6,189,887,495.08
Total assets	4,170,073,445.17	543,886,107.01	328,669,221.71	18,825,917.98	802,910,559.52	895,509,085.32	6,759,874,336.71
Deferred outflows of resources							
Deferred amount on debt refunding	11,110,514.98	594,516.51	2,236,982.18	-	6,562,940.88	266,460.68	20,771,415.23
Deferred outflows related to pensions	92,333,896.79	14,513,885.39	9,221,856.50	218,104.61	35,892,259.38	24,661,759.33	176,841,762.00
Deferred outflows related to OPEB	18,454,596.71	3,472,877.61	2,321,665.77	(10,751.81)	10,500,359.25	3,271,037.47	38,009,785.00
Total deferred outflows of resources	121,899,008.48	18,581,279.51	13,780,504.45	207,352.80	52,955,559.51	28,199,257.48	235,622,962.23
Liabilities							
Current liabilities:							
Accounts payable	67,988,250.25	9,688,307.01	3,246,325.79	346,680.12	18,252,522.23	52,976,934.16	152,499,019.56
Accrued liabilities	28,503,977.22	5,250,639.34	2,857,694.86	303,601.38	2,260,745.98	28,483,259.96	67,659,918.74
Unearned revenue	80,970,834.99	7,928,353.74	2,833,871.73	151,423.47	5,220,691.58	1,967,678.89	99,072,854.40
Due to grantors	630,246.40	8,510.52	10.00	-	143,714.85	5,959.73	788,441.50
Deposits payable	806,142.88	1,513,832.79	326,017.55	160.00	1,123,689.20	70,335.52	3,840,177.94
Annuities and life income payable	-	-	-	-	-	2,158,583.39	2,158,583.39
Long-term liabilities, current portion	70,127,439.85	9,660,775.63	6,079,213.82	7,108,427.21	22,145,478.99	6,935,119.50	122,056,455.00
Deposits held in custody for others	4,652,353.14	143,944.31	57,520.16	28,359.82	(1,119,703.75)	1,842,915.30	5,605,388.98
Total current liabilities	253,679,244.73	34,194,363.34	15,400,653.91	7,938,652.00	48,027,139.08	94,440,786.45	453,680,839.51
Noncurrent liabilities:							
Net pension liability	54,498,742.19	11,703,111.00	7,982,996.00	(64,773.00)	29,787,229.00	39,850,067.81	143,757,373.00
Net OPEB liability	57,903,664.00	9,707,425.00	7,116,160.00	(26,840.00)	28,654,945.00	12,237,451.00	115,592,805.00
Long-term liabilities, noncurrent portion	828,090,039.87	120,044,676.79	55,356,336.21	373,891.95	103,920,328.07	16,025,893.54	1,123,811,166.43
Due to grantors	3,313,604.71	382,122.19	590,412.15	-	2,902,095.03	-	7,188,234.08
Annuities and life income payable	-	-	-	-	-	14,144,504.23	14,144,504.23
Deposits held in custody for component units	-	-	-	-	-	459,188,294.32	459,188,294.32
Total noncurrent liabilities	943,806,050.77	141,837,334.98	71,045,904.36	282,278.95	165,264,597.10	541,446,210.90	1,863,682,377.06
Total liabilities	1,197,485,295.50	176,031,698.32	86,446,558.27	8,220,930.95	213,291,736.18	635,886,997.35	2,317,363,216.57
Deferred inflows of resources							
Deferred inflows related to pensions	5,075,549.86	1,549,136.00	974,163.00	29,242.00	3,277,285.00	2,156,050.14	13,061,426.00
Deferred inflows related to OPEB	27,903,370.71	5,607,591.61	3,581,044.77	(128,934.81)	16,318,446.25	4,690,102.47	57,971,621.00
Deferred inflows related to split-interest agreements	-	-	-	-	-	27,661,961.12	27,661,961.12
Deferred inflows related to leases	37,598,975.99	-	778,605.43	-	38,981.50	-	38,416,562.92
Deferred inflows related to PPPs	2,250,000.00	-	-	-	-	-	2,250,000.00
Total deferred inflows of resources	72,827,896.56	7,156,727.61	5,333,813.20	(99,692.81)	19,634,712.75	34,508,113.73	139,361,571.04
Net position							
Net investment in capital assets	1,352,125,947.42	265,082,564.11	139,914,072.03	7,687,349.02	267,538,607.36	73,991,469.54	2,106,340,009.48
Restricted for:							
Nonexpendable (permanent endowments)	382,077,211.93	17,544,669.97	27,797,872.21	-	138,358,366.11	7,057,279.06	572,835,399.28
Expendable for other	305,065,268.96	10,408,149.68	19,682,353.26	854,263.58	241,199,095.72	33,029,647.71	610,238,778.91
Expendable for pensions	1,849,750.00	311,639.00	151,645.00	(15,870.00)	1,138,619.00	221,393.00	3,657,176.00
Expendable for loans	2,451,203.69	1,117,916.09	742,871.19	150,659.32	2,152,596.42	-	6,615,246.71
Expendable for capital projects	12,171,016.85	-	3,797,796.85	-	3,856,969.71	33,632,538.09	53,458,321.50
Expendable for debt service	-	-	108,130.23	-	-	-	108,130.23
Unrestricted	965,918,862.74	84,814,021.74	58,474,613.92	2,235,630.72	(31,304,584.22)	105,380,904.32	1,185,519,449.22
Total net position	$ 3,021,659,261.59	$ 379,278,960.59	$ 250,669,354.69	$ 10,912,032.64	$ 622,939,670.10	$ 253,313,231.72	$ 4,538,772,511.33

THE UNIVERSITY OF TENNESSEE
Supplementary Combining Schedule of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2023

	Knoxville	Chattanooga	Martin	Southern	Health Science Center	Other Units	Total University
Revenues							
Operating revenues:							
Gross tuition and fees	$ 659,963,533.35	$ 130,067,410.12	$ 64,287,461.84	$ 8,930,578.05	$ 88,322,703.47	$ -	$ 951,571,686.83
Less: tuition discounts and allowances	(198,042,220.72)	(61,883,716.16)	(35,791,060.53)	(5,970,324.45)	(7,309,501.04)	-	(308,996,822.90)
Net student tuition and fees	461,921,312.63	68,183,693.96	28,496,401.31	2,960,253.60	81,013,202.43	-	642,574,863.93
Federal appropriations	19,039,883.10	-	-	-	-	-	19,039,883.10
Governmental grants and contracts	154,509,131.41	12,598,594.90	5,634,112.52	174,791.08	103,984,293.64	59,310,754.02	336,211,677.57
Nongovernmental grants and contracts	53,297,833.80	2,102,497.96	1,816,509.76	320,776.25	136,798,625.10	29,049,348.67	223,385,591.54
Sales and services of educational departments and other activities	44,508,947.56	5,204,306.19	5,137,807.27	229,227.82	19,329,907.59	-	74,410,196.43
Auxiliary enterprises:							
Residential life	60,594,947.94	15,482,651.54	8,152,395.15	1,796,395.98	-	-	86,026,390.61
Food services	13,443,627.63	1,523,256.54	692,809.70	888,010.86	1,457,732.13	-	18,005,436.86
Bookstore	30,783,046.29	515,299.69	306,331.46	105,276.87	569,862.74	-	32,279,817.05
Parking	8,665,643.61	2,854,600.04	433,527.60	-	1,230,937.38	-	13,184,708.63
Athletics	187,205,951.90	546,130.93	-	-	-	-	187,752,082.83
Other auxiliaries	10,255,692.66	79,267.51	12,844.04	-	41,623.33	-	10,389,427.54
Interest earned on loans to students	13,541.32	12.00	-	-	726.44	-	14,279.76
Other operating revenues	13,026,716.11	369,029.53	758,329.33	37,687.47	1,355,877.85	13,813,811.56	29,361,451.85
Total operating revenues	1,057,266,275.96	109,459,340.79	51,441,068.14	6,512,419.93	345,782,788.63	102,173,914.25	1,672,635,807.70
Expenses							
Operating expenses:							
Salaries and wages	738,556,901.16	115,305,180.05	57,143,609.17	8,653,879.65	356,139,723.60	69,747,793.64	1,345,547,087.27
Benefits	256,119,759.54	38,782,960.56	21,001,638.13	2,822,204.69	98,108,739.28	24,557,193.37	441,392,495.57
Utilities, supplies, and other services	405,370,908.08	54,622,204.63	27,287,929.66	6,188,781.50	145,294,747.92	34,618,307.63	673,382,879.42
Scholarships and fellowships	60,242,734.05	11,928,948.49	10,509,071.25	830,510.95	3,408,531.32	118,518.17	87,038,314.23
Depreciation and amortization expense	114,498,244.36	16,580,045.77	8,335,255.04	1,458,206.32	28,019,329.61	6,622,053.57	175,513,134.67
Total operating expenses	1,574,788,547.19	237,219,339.50	124,277,503.25	19,953,583.11	630,971,071.73	135,663,866.38	2,722,873,911.16
Operating income (loss)	(517,522,271.23)	(127,759,998.71)	(72,836,435.11)	(13,441,163.18)	(285,188,283.10)	(33,489,952.13)	(1,050,238,103.46)
Nonoperating revenues (expenses)							
State and local appropriations	516,846,202.61	78,390,579.75	45,163,166.20	5,815,669.63	204,670,821.84	108,529,088.47	959,415,528.50
Gifts	30,061,893.89	5,725,970.12	2,711,307.73	1,056,259.00	11,608,458.25	2,381,049.98	53,544,938.97
Grants and contracts	111,585,721.79	54,542,525.65	29,547,062.08	4,147,853.46	77,041,091.40	229,724.14	277,093,978.52
Investment income (loss)	46,105,526.81	5,701,961.41	3,447,081.50	6,018.52	15,986,457.52	41,580,008.36	112,827,054.12
Interest on capital asset - related debt	(22,873,589.54)	(3,869,125.87)	(1,359,810.70)	(346,284.00)	(2,603,831.84)	(431,327.25)	(31,483,969.20)
Other nonoperating revenues (expenses)	(4,697,076.37)	(114,339.04)	(56,046.74)	(2,270.10)	(1,895,218.82)	203,563.49	(6,561,387.58)
Net nonoperating revenues (expenses)	677,028,679.19	140,377,572.02	79,452,760.07	10,677,246.51	304,807,778.35	152,492,107.19	1,364,836,143.33
Income (loss) before other revenues, expenses, gains, or losses	159,506,407.96	12,617,573.31	6,616,324.96	(2,763,916.67)	19,619,495.25	119,002,155.06	314,598,039.87
Capital appropriations	60,118,082.24	3,425,158.06	6,484,830.23	2,384.10	15,863,033.32	1,341,959.64	87,235,447.59
Capital grants and gifts	5,639,709.04	228,300.00	1,489,491.52	-	-	-	7,357,500.56
Additions to permanent endowments	4,667,544.82	9,186.06	1,156,185.70	-	1,964,790.53	71,432.08	7,869,139.19
Other	950,170.56	700.00	185,513.32	-	(1,262.56)	1,199,641.61	2,334,762.93
Total other revenues	71,375,506.66	3,663,344.12	9,316,020.77	2,384.10	17,826,561.29	2,613,033.33	104,796,850.27
Increase (decrease) in net position	230,881,914.62	16,280,917.43	15,932,345.73	(2,761,532.57)	37,446,056.54	121,615,188.39	419,394,890.14
Net position							
Net position - beginning of year	2,790,777,346.97	362,998,043.16	234,737,008.96	13,673,565.21	585,493,613.56	131,698,043.33	4,119,377,621.19
Net position - end of year	$ 3,021,659,261.59	$ 379,278,960.59	$ 250,669,354.69	$ 10,912,032.64	$ 622,939,670.10	$ 253,313,231.72	$ 4,538,772,511.33

THE UNIVERSITY OF TENNESSEE
Supplementary Schedule of Unrestricted Net Position
June 30, 2023

Working capital	$	32,586,389.00
Revolving funds		6,178,096.05
Encumbrances		6,565,057.93
Auxiliaries		15,315,644.91
Unallocated educational & general		67,567,806.03
Reappropriations		12,548,070.09
Quasi-endowments		59,309,780.21
Plant construction		425,307,390.99
Renewal and replacement funds		835,075,837.51
Debt service		57,406,813.50
		1,517,860,886.22
Investment in plant, interest payable		(4,595,976.40)
Undesignated deficit		(327,745,460.60)
Total	$	1,185,519,449.22

Unrestricted net position includes funds that have been designated for specific purposes.

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
Mr. Randy Boyd, President

We have audited the financial statements of the University of Tennessee, which is a component unit of the State of Tennessee, and its discretely presented component units as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated December 20, 2023. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our report includes a reference to other auditors who audited the financial statements of the University of Chattanooga Foundation, Inc.; the University of Tennessee Foundation, Inc.; and the University of Tennessee Research Foundation as described in our report on the University of Tennessee's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on Internal Control Over Financial Reporting

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

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

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

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

- The university's Knoxville campus did not perform a risk assessment for its information security program as required by the Gramm-Leach-Bliley Act.
- The University of Tennessee - Knoxville Office of Financial Aid and Scholarships did not adequately monitor the eligibility of Title IV financial aid recipients.
- The University of Tennessee Health Science Center Financial Aid Office 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*.

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

University of Tennessee'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, CPA, CGFM, Director
Division of State Audit
December 20, 2023

Findings and Recommendations

Finding 1

The university's Knoxville campus did not perform a risk assessment for its information security program as required by the Gramm-Leach-Bliley Act

Condition and Cause

The *Standards for Safeguarding Customer Information*, established by the Gramm-Leach-Bliley Act (GLBA), requires institutions to safeguard sensitive data, which includes information obtained in support of the administration of the federal financial assistance programs.

While management at the university's Knoxville campus has taken steps to comply with the GLBA, management did not conduct a written risk assessment to identify reasonably foreseeable internal and external risks to the security, confidentiality, and integrity of students' information, as required by GLBA. Because the current Chief Information Security Officer began employment subsequent to the audit period, he was unable to determine why former leadership did not conduct this risk assessment.

Campus management has purchased a risk assessment software solution, and they plan to complete a written risk assessment in early 2024.

Criteria

According to the "Standards for Safeguarding Customer Information," Title 16, *Code of Federal Regulations*, Part 314, Section 3(a), "you shall develop, implement, and maintain a comprehensive information security program that is written in one or more readily accessible parts."

Additionally, according to 16 CFR 314.4(b), the institution must

> Base your information security program on a risk assessment that identifies reasonably foreseeable internal and external risks to the security, confidentiality, and integrity of customer information that could result in the unauthorized disclosure, misuse, alteration, destruction, or other compromise of such information, and assesses the sufficiency of any safeguards in place to control these risks.
>
> (1) The risk assessment shall be written and shall include:

(i) Criteria for the evaluation and categorization of identified security risks or threats you face;

(ii) Criteria for the assessment of the confidentiality, integrity, and availability of your information systems and customer information, including the adequacy of the existing controls in the context of the identified risks or threats you face; and

(iii) Requirements describing how identified risks will be mitigated or accepted based on the risk assessment and how the information security program will address the risks.

(2) You shall periodically perform additional risk assessments that reexamine the reasonably foreseeable internal and external risks to the security, confidentiality, and integrity of customer information that could result in the unauthorized disclosure, misuse, alteration, destruction, or other compromise of such information, and reassess the sufficiency of any safeguards in place to control these risks.

Effect

Not performing a risk assessment for its information security program as required by the GLBA increases the risk that the campus's information technology safeguards may not align with the risks the campus faces. As a result, students' financial information could be more susceptible to unauthorized disclosure, misuse, alteration, destruction, or other compromise. Risk assessments are essential to designing and implementing appropriate safeguards that address internal and external threats to the campus's information technology resources.

Recommendation

Management should develop, implement, and maintain a comprehensive information security program based on a documented risk assessment. The risk assessment should identify reasonably foreseeable internal and external risks to the security, confidentiality, and integrity of student information, as required by the Gramm-Leach-Bliley Act.

Management's Comment

Management concurs that the Knoxville campus did not perform a formal written risk assessment of the controls related to financial aid systems, as required by the Gramm-Leach-Bliley Act. As noted in the audit finding, management at the Knoxville campus has taken significant steps to comply with the GLBA. Additionally, Knoxville campus management performed a non-documented risk assessment which complied with GLBA.

Finding 2

The University of Tennessee – Knoxville Office of Financial Aid and Scholarships did not adequately monitor the eligibility of Title IV financial aid recipients

Background

The Student Financial Assistance programs provide financial assistance to eligible students attending eligible institutions of postsecondary education. The programs include assistance such as Pell Grants, Direct Loans, and Federal Work Study.

To be eligible for student financial assistance, the student must first complete the Free Application for Federal Student Aid (FAFSA). Each school listed on a student's FAFSA will receive the student's Student Aid Report. Each school then notifies the student of their total aid package.

The U.S. Department of Education (ED) has established certain requirements for each school to participate in the student financial assistance programs. Some of the responsibilities of the school are to determine student eligibility, verify data for students selected for verification by the Secretary, and ensure maximum assistance amounts established by ED are not exceeded individually or as part of the total aid package. Title 34, *Code of Federal Regulations* (CFR), 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." Students must also meet certain requirements, such as certain income levels and maintaining a certain grade point average, to be eligible for Title IV assistance.

Condition, Cause, and Criteria

The University of Tennessee'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 14,260 students enrolled at The University of Tennessee – Knoxville who received Title IV student financial assistance during the 2022-2023 award year. Of the 14,260 students, 17 students (0.12%) received excess financial aid based on their eligibility, resulting in overpayments totaling $140,835.

- The university provided Title IV funding to five students enrolled in ineligible programs. Three of the five students had completed 60 hours in an eligible non-degree-seeking program and had not transferred to a degree-seeking or other eligible program. The remaining two students did not complete the required "non-degree" appeal form in order to receive Title IV funds while enrolled in an Advanced Transition program. According to management, students are allowed to be enrolled in a University Early Transition program up to 60 hours before being required to declare a major. If the student reaches 60 hours before declaring a major, that student is moved to the Advanced Transition program and is no longer eligible for Title IV funds. These errors occurred because the university had not configured its Banner system to verify the number of completed hours before payment, and management did not properly monitor the students' accounts. Additionally, the Advanced Transition program for the remaining two students does not qualify for Title IV funds without a "non-degree" waiver in place. Financial aid staff instructed students to complete the form, but staff did not verify that students completed the form before awarding funds. Therefore, staff incorrectly awarded the following funds:

Program	Amount
Pell	$ 4,821
Subsidized Direct Loans	8,659
Unsubsidized Direct Loans	3,959
Direct PLUS Loans	20,878

- The university awarded Subsidized Direct Loans and Unsubsidized Direct Loans to five ineligible students because management incorrectly classified their grade levels in the Banner system. Title 34, CFR, Part 668, Section 203, sets the annual Direct Loan limits based on the student's dependency status and grade level. Volume 3, Chapter 5, of the *Federal Student Aid Handbook* states that it is the responsibility of the university to verify that the student's information is accurate before disbursing Title IV funds. Financial aid staff did not properly verify the information in Banner before disbursing funds; therefore, staff incorrectly awarded the following funds:

Program	Amount
Subsidized Direct Loans	$15,290
Unsubsidized Direct Loans	927

- The university awarded $66,017 of Unsubsidized Direct Loan funds to six students even though the students had already reached their aggregate loan limit. Title 34, CFR, Part 668, Section 32, states that a student is eligible to receive Direct Loans, except as provided in CFR 34 668.35(d), if the student has not obtained loan amounts in excess of the program's annual or aggregate loan limits. CFR 34 668.35(d) states that a student who has received loan funds exceeding the annual or aggregate loan limits must either repay the excess amount in full or arrange with the lender to repay the excess loan amount before they may receive any further Title IV assistance, including Pell grants. The university did not provide documentation that payment arrangements had been made that would permit the students to regain eligibility for Title IV loans. These errors occurred because financial aid staff did not properly monitor the outstanding loan amounts previously awarded to the student.

- The university awarded $20,284 in Unsubsidized Direct Loans to one student although the student was in default on previous Title IV financial aid. Title 34, CFR, Part 668, Section 19(a)(d), states that if the student previously attended another institution, the institution must determine if the student is in default on any Title IV loan. This error occurred because financial aid staff did not properly monitor the status of outstanding loans previously awarded to the student.

Effect

Because financial aid staff did not properly monitor student eligibility and enter student information correctly, students received Title IV assistance for which they were not eligible. Pell Grant overpayments of $4,821 and Direct Loan overpayments of $136,014 will be questioned.

When the university disburses Title IV funds to which students were not entitled, ED could take adverse actions against the university.

Program	Over-Award	Total Award
Pell Grants	$4,821	$30,169,717
Direct Subsidized Loans	$23,949	$21,794,724
Direct Unsubsidized Loans	$91,187	$71,108,536
Direct Plus Loans	$20,878	$50,698,492
TOTAL	$140,835	$173,771,469

Recommendation

Office of Financial Aid and Scholarships management should ensure staff and student advisors properly confirm the eligibility of Title IV recipients prior to the awarding and disbursement of Title IV funds. The university should implement controls to ensure appropriate staff monitor recipients' enrollment in eligible programs, adherence to annual and aggregate loan limits, and whether students are in default on previous loans.

Management's Comment

Management concurs. The UTK Office of Financial Aid and Scholarships experienced significant administrative staffing transitions related to the areas of eligibility noted in the finding. The staffing changes, combined with the manual nature of the noted processes, resulted in eligibility errors related to enrollment, grade level, loan status, and aid disbursement. Additional staff training and automated processes in the Banner Financial Aid System are being implemented to provide greater quality controls to review aid eligibility prior to and following aid disbursement. The Financial Aid review process for academic changes for non-degree status and degree major changes administered by the academic colleges is also being automated and reviewed periodically throughout each semester to ensure proper disbursement of aid. Management notes the total over award of $140,835 represents a fractional 0.08% of the total Title IV funds awarded of $173,771,469 by the institution.

Finding 3

The University of Tennessee Health Science Center Financial Aid Office did not adequately monitor the eligibility of Title IV financial aid recipients

Background

The Student Financial Assistance programs provide financial assistance to eligible students attending institutions of postsecondary education. The programs include assistance such as Pell Grants, Direct Loans, and Federal Work Study.

To be eligible for student financial assistance, the student must first complete the Free Application for Federal Student Aid (FAFSA). Each school listed on a student's FAFSA will receive the student's Student Aid Report. The school then notifies the student of their total aid package.

The US Department of Education (ED) has established certain requirements for each school to participate in the student financial assistance programs. Some of the responsibilities of the school are to determine student eligibility, verify data for students selected for verification by the Secretary, and ensure maximum assistance amounts established by ED are not exceeded individually or as part of the total aid package. Title 34, *Code of Federal Regulations* (CFR), 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." Students must also meet certain requirements, such as certain income levels and maintaining a certain grade point average, to be eligible for Title IV assistance.

Condition, Cause, and Criteria

The University of Tennessee Health Science Center's Financial Aid Office did not adequately monitor the eligibility of Title IV financial aid recipients. We reviewed the entire population of 2,195 students enrolled at the University of Tennessee Health Science Center who received Title IV student financial assistance during the 2022-2023 award year. Of the 2,195 students, 8 students (0.36%) received excess financial aid based on their eligibility, resulting in overpayments totaling $75,092.

- The university provided Title IV funding to four students even though they had already reached their aggregate loan limit, causing them to be ineligible for Direct Loans. Title 34, CFR, Part 668, Section 32(g), states that a student is eligible to receive Direct Loans, except as provided in Title 34, CFR, Part 668, Section 35(d), if the student has not obtained loan amounts in excess of the program's annual or aggregate loan limits. CFR 34 668.35(d) states that a student who has received loan funds exceeding the annual or aggregate loan limits must either repay the excess amount in full or arrange with the lender to repay the excess loan amount before they may receive any further Title IV assistance, including Pell Grants. The university did not provide documentation of these arrangements. Because Financial Aid Office staff did not properly monitor the outstanding loan amounts previously awarded to the student, the university made the following awards in violation of federal regulations:

Program	Amount
Unsubsidized Direct Loans	$54,262
Direct Plus Loans	8,271

- The university awarded Pell Grant and Direct Loan funds to four students without verifying the students' GPA met the criteria for satisfactory academic progress. Title 34, CFR, Part 668, Section 34(a), requires institutions that participate in Title IV programs to "establish a reasonable satisfactory academic progress policy for determining whether an otherwise eligible student is making satisfactory academic progress in his or her educational program and may receive assistance under the Title IV, HEA programs." While the university has a Satisfactory Academic Progress Policy in place, the university did not adhere to the policy requirement to verify a readmitted student's academic standing before awarding funds.

  Because Financial Aid Office staff did not properly verify the students' information before disbursing funds, the university awarded the following funds in violation of federal requirements:

Program	Amount
Subsidized Direct Loans	$7,362
Unsubsidized Direct Loans	5,197

Effect

Because Financial Aid Office staff did not properly monitor student eligibility, students received Title IV assistance for which they were not eligible. Direct Loan overpayments of $75,092 will be questioned.

When the university disburses Title IV funds to students to which they were not entitled, ED could take adverse actions against the university.

Program	Over-Award	Total Award
Pell Grants	$ 0	$ 205,001
Subsidized Direct Loan	7,362	707,876
Unsubsidized Direct Loan	59,459	64,510,935
Direct Plus Loan	8,271	24,588,980
Total	$75,092	$90,012,792

Recommendation

Financial Aid Office management should ensure that staff and student advisors properly confirm the eligibility of Title IV recipients prior to the awarding and disbursement of Title IV funds. The university should implement controls to ensure appropriate staff monitor recipients' adherence to annual and aggregate loan limits and satisfactory academic progress.

Management's Comment

Management concurs with the finding. The excess financial aid awarded to the students will be removed from their respective student accounts and returned to the Department of Education. Management notes that the finding was restricted to the College of Nursing, and attributable to human error and lack of backup measures. Management further notes the total over award of $75,092 represents a fractional 0.08% of the total Title IV funds awarded of $90,012,792 by the institution. Management has already addressed the issue by hiring a new financial aid counselor with the appropriate training and experience.