Tennessee Comptroller of the Treasury

Financial and Compliance Audit Report

The University of Tennessee

For the Year Ended June 30, 2019

Justin P. Wilson
Comptroller of the Treasury

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Tennessee Comptroller of the Treasury

Justin P. Wilson
Comptroller

Jason E. Mumpower
Deputy Comptroller

February 20, 2020

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

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the University of Tennessee for the year ended June 30, 2019. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA, Director
Division of State Audit

20/001

Audit Report

The University of Tennessee

For the Year Ended June 30, 2019

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The University of Tennessee

For the Year Ended June 30, 2019

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Finding

The University of Tennessee Did Not Provide Adequate Internal Controls in One Area That Was Reported in the Prior Two Audits*

For the third consecutive year, the University of Tennessee did not design and monitor effective internal controls in one area. Pursuant to Standard 4.40 of the U.S. Government Accountability Office's *Government Auditing Standards*, we omitted details from this finding because they are confidential under the provisions of Section 10-7-504(i), *Tennessee Code Annotated* (page 91).

*This finding is repeated from the prior audit.

Tennessee Comptroller of the Treasury

Justin P. Wilson
Comptroller

Jason E. Mumpower
Deputy Comptroller

Independent Auditor's Report

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

Report on the Financial Statements

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, 2019, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

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relevant to the university's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Tennessee and its discretely presented component units as of June 30, 2019; and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3, the financial statements of the university include investments valued at $838,129,214 (26% 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 5 through 13; the schedule of the University of Tennessee's proportionate share of the net pension liability – Closed State and Higher Education Employee Pension Plan within TCRS on page 79; 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 80; the schedule of the University of Tennessee's contributions – Closed State and Higher Education Employee Pension Plan within TCRS on page 81; the schedule of the University of Tennessee's contributions – State and Higher Education Employee Retirement Plan within TCRS on page 82; 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 83; the schedule of the University of Tennessee's proportionate share of the collective total OPEB liability – Closed State Employee Group OPEB Plan on page 84; and the schedule of the University of Tennessee's proportionate share of the collective total OPEB liability – Closed Tennessee OPEB Plan on page 85 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the university's basic financial statements. The supplementary combining schedule of net position on page 86; the supplementary combining schedule of revenues, expenses, and changes in net position on page 87; and the supplementary schedule of unrestricted net position on page 88 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, 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 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 16, 2019, 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.

Deborah V. Loveless

Deborah V. Loveless, CPA, Director
Division of State Audit
December 16, 2019

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, 2019, with comparative information presented for the year ended June 30, 2018. 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 *Comprehensive Annual Financial Report (CAFR)*. 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 has 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, 2019, and June 30, 2018:

Summary of Net Position
(in thousands of dollars)

	2019	2018
Assets:		
Current assets	$ 587,594	$ 632,621
Capital assets, net	2,793,048	2,736,190
Other assets	2,000,359	1,920,145
Total assets	5,381,001	5,288,956
Deferred outflows of resources:		
Deferred outflows of resources	165,411	154,520
Liabilities:		
Current liabilities	369,296	387,192
Noncurrent liabilities	1,853,023	1,883,455
Total liabilities	2,222,319	2,270,647
Deferred inflows of resources:		
Deferred inflows of resources	56,118	47,691
Net position:		
Net investment in capital assets	1,731,284	1,669,360
Restricted – nonexpendable	525,498	513,178
Restricted – expendable	539,123	523,781
Unrestricted	472,070	418,819
Total net position	$ 3,267,975	$ 3,125,138

Total net position increased by $143 million, or 4.6%, during the 2019 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.

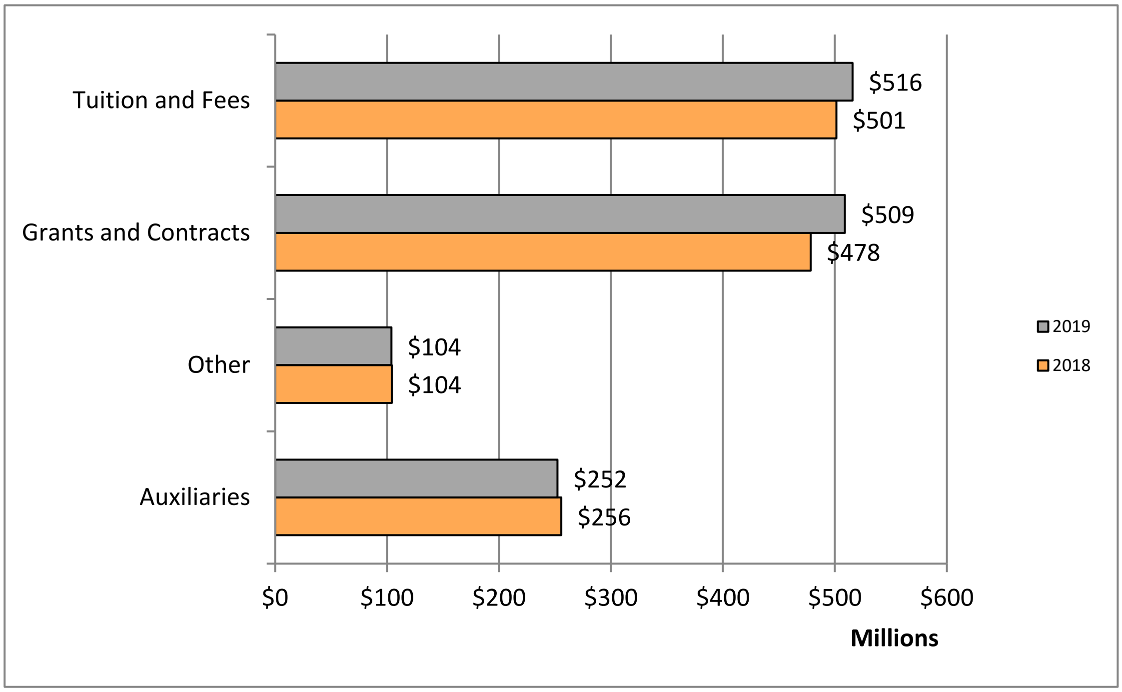
A summary of the university's revenues, expenses, and changes in net position for the year ended June 30, 2019, and the previous year follows:

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

	2019	2018
Operating revenues	$ 1,381,008	$ 1,339,651
Operating expenses	2,311,797	2,212,775
Operating loss	(930,789)	(873,124)
Nonoperating revenues and expenses	980,910	882,101
Income (loss) before other revenues, expenses, gains, or losses	50,121	8,977
Other revenues, expenses, gains, or losses	117,988	123,896
Increase in net position	168,109	132,873
Net position, beginning of year	3,125,138	3,113,216
Prior-period adjustment	(25,272)	-
Cumulative effect of changes in accounting principal	-	(120,951)
Net position, beginning of year, restated	3,099,866	2,992,265
Net position at end of year	$ 3,267,975	$ 3,125,138

Operating Revenues

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



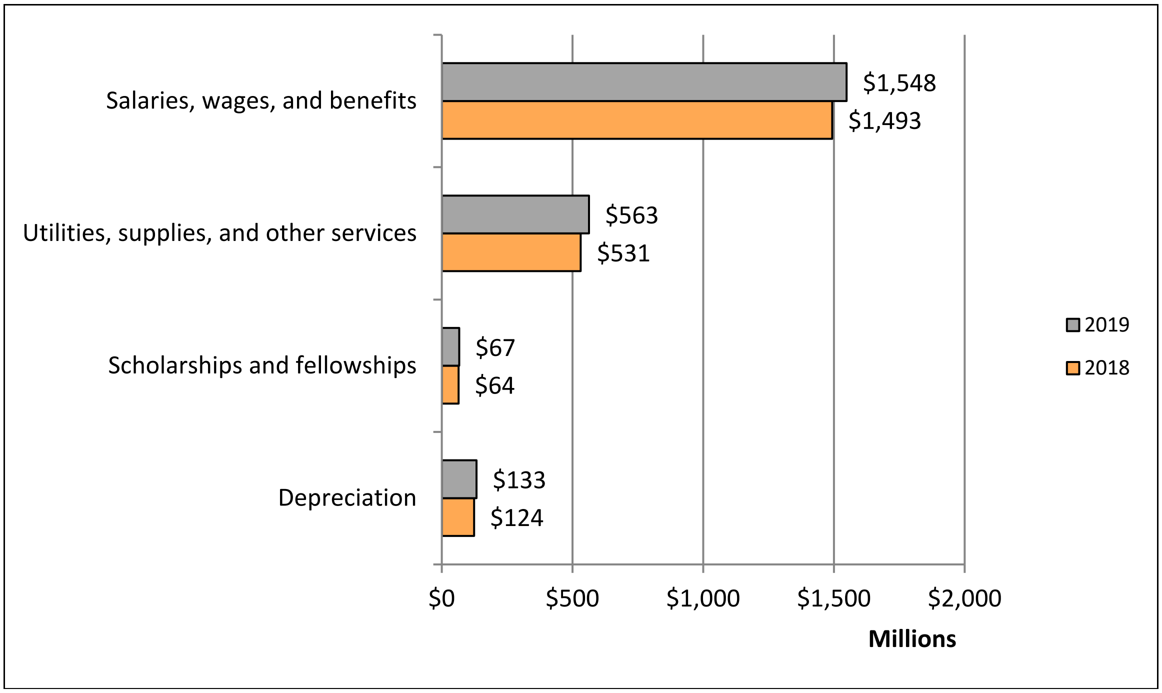
Comparison of Fiscal Year 2019 to Fiscal Year 2018

Tuition and fees increased by $14.4 million, or 2.9%, primarily due to a 1-3% increase in tuition rates at the Martin, Veterinary Medicine, and Health Science Center campuses. This was coupled with an overall increase in enrollment.

Operating grants and contracts experienced an increase of $30.7 million, or 6.4%. This increase is primarily due to an increase in private grants and contracts at the Health Science Center campus. The increase follows a 3.4% decrease in fiscal year 2018.

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 2019 to Fiscal Year 2018

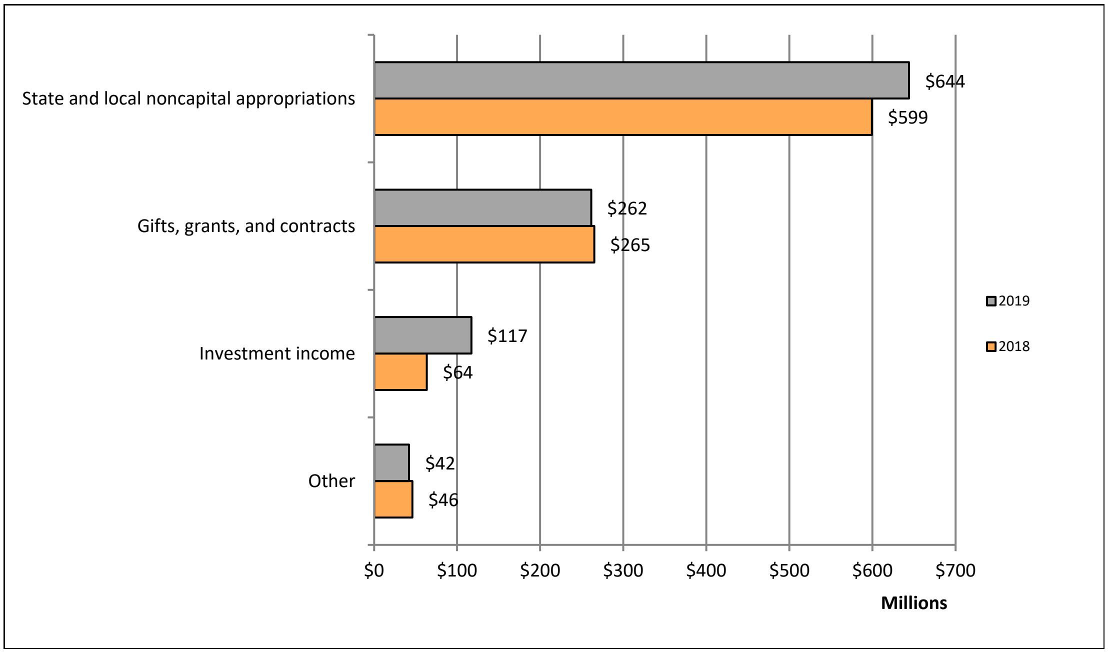
The university had the following significant changes in expenses between fiscal years:

The increase in salary and benefit expenses from 2018 to 2019 is due to a 2.5% increase pool that each campus/unit distributed in accordance with its compensation strategy and due to increased expense for pension benefits and OPEB benefits.

Utilities, supplies, and other services increased $31.9 million or 6% due to increased supplies for grants and contracts, including supplies for construction.

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:



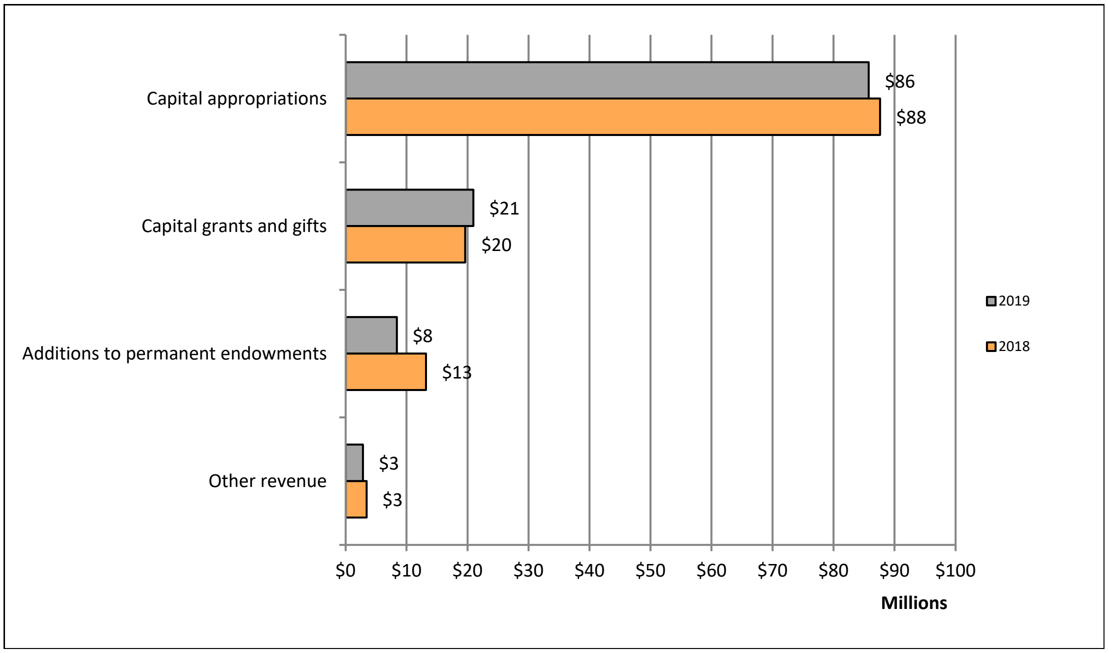
Comparison of Fiscal Year 2019 to Fiscal Year 2018

In fiscal year 2019, state and local appropriations increased $44.7 million, mostly due to THEC formula outcomes, productivity gains, and increased salary funds for nonformula units.

Investment income increased $53.7 million, due to the university purchasing additional bonds, an increase in the fair value of the bonds held by the university, and a change in interest rates in regards to those bonds.

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:



Capital Asset and Debt Administration

<u>Capital Assets</u>

The University of Tennessee had $2,793,048,647.47 invested in capital assets, net of accumulated depreciation at June 30, 2019; and $2,736,190,166.40 invested in capital assets, net of accumulated depreciation at June 30, 2018. Depreciation charges totaled $133,019,422.30 and $123,649,092.90 for the years ended June 30, 2019, and June 30, 2018, respectively.

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

	2019	2018
Land	$ 86,405	$ 82,995
Land improvements & infrastructure	136,392	146,108
Buildings	2,205,566	1,928,399
Works of art/historical treasures	3,851	4,415
Equipment	115,757	113,659
Software	570	730
Library holdings	94,734	91,316
Projects in progress	149,773	368,568
Total	$ 2,793,048	$ 2,736,190

Major capital additions to land and buildings during 2018-2019 included the $100 million Student Union Phase II, the $92 million Mossman Building, the $75 million West Campus Redevelopment (Magnolia and Dogwood Halls) in Knoxville, and the $79 million West Campus Housing in Chattanooga.

At June 30, 2019, outstanding commitments under construction contracts totaled $259,720,597.20 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $166,708,761.24 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 $1,088,460,469.66 and $1,096,121,922.21 in debt outstanding at June 30, 2019, and June 30, 2018, respectively. The table below summarizes these amounts by type of debt instrument.

Outstanding Debt Schedule
(in thousands of dollars)

	2019	2018
Bonds-current portion	$ 41,079	$ 39,472
Bonds-noncurrent	897,648	914,825
Unamortized bond premium	126,080	133,365
Revolving credit facility-noncurrent	23,653	8,460
Total Debt	$ 1,088,460	$ 1,096,122

The Tennessee State School Bond Authority (TSSBA) issued bonds with interest rates ranging from .18% to 5.0% due serially to 2048 on behalf of the University of Tennessee. The university is responsible for the debt service of these bonds. The current portion of the $1,088,460,469.66 outstanding at June 30, 2019, is $41,078,865.82.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2019, 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

For fiscal year 2020, the University of Tennessee Board of Trustees has authorized individual campus fee increases from 2-2.5% that are expected to generate approximately $16.8 million in new funding with a continued projected enrollment increase. State appropriations will increase $21.4 million with formula funding increases generated by productivity gains made by UT's three "formula units" (Chattanooga, Knoxville, and Martin) and funding for a 2% salary pool. The university continues to be successful in competing for grants and contracts. The capital markets have shown little improvement and remain potentially unstable, which could affect the university's investment income.

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. Mary McDonald, Controller, 201 Andy Holt Tower, Knoxville, Tennessee, 37996-0100.

THE UNIVERSITY OF TENNESSEE
Statement of Net Position
June 30, 2019

	The University of Tennessee	University of Chattanooga Foundation, Inc.	The University of Tennessee Foundation, Inc.	The University of Tennessee Research Foundation, Inc.
Assets				
Current assets:				
Cash and cash equivalents (Notes 2 and 3)	$ 358,107,774.05	$ 15,180,719.00	$ 13,967,517.90	$ 8,556,029.00
Investments (Notes 2, 3, 24, 25, and 26)	141,148,705.06	-	-	-
Accounts, notes, and grants receivable (net) (Note 5)	67,228,575.11	10,202,547.00	16,344,366.04	11,158,797.00
Due from the primary government	10,045,416.68	-	-	-
Due from the university	-	-	-	3,529,048.00
Inventories	6,549,801.51	-	-	-
Prepaid expenses	4,513,440.42	102,097.00	-	168,983.00
Total current assets	587,593,712.83	25,485,363.00	30,311,883.94	23,412,857.00
Noncurrent assets:				
Cash and cash equivalents (Notes 2 and 3)	932,447,032.82	-	634,685.61	-
Investments (Notes 2, 3, 24, 25, and 26)	931,022,220.21	151,082,705.00	64,650,926.94	1,022,811.00
Investment in Tennessee Retiree Group Trust	2,629,227.00	-	-	-
Investment in UT - Battelle, LLC (Note 15)	4,361,251.00	-	-	-
Accounts, notes, and grants receivable (net) (Note 5)	78,766,084.66	23,715,641.00	126,593,734.21	-
Lease payments receivable (Note 20)	18,975,207.45	-	-	-
Due from primary government	23,294,488.11	-	-	-
Net pension asset (Note 11)	4,498,839.00	-	-	-
Capital assets (net) (Notes 6, 24, and 26)	2,793,048,647.47	43,872,856.00	-	4,530,551.00
Annuities held by others	4,364,634.90	-	-	-
Assets held by the university	-	126,791.00	303,308,205.08	-
Total noncurrent assets	4,793,407,632.62	218,797,993.00	495,187,551.84	5,553,362.00
Total assets	5,381,001,345.45	244,283,356.00	525,499,435.78	28,966,219.00
Deferred outflows of resources				
Deferred amount on debt refunding	18,588,088.27	-	-	-
Deferred outflows related to pensions (Note 11)	102,767,799.00	-	-	-
Deferred outflows related to OPEB (Note 12)	44,055,415.00	-	-	-
Total deferred outflows of resources	165,411,302.27	-	-	-
Liabilities				
Current liabilities:				
Accounts payable (Note 8)	111,711,832.45	2,772,695.00	285,044.65	8,626,539.00
Accrued liabilities	64,528,050.82	-	-	-
Unearned revenue (Note 9)	66,395,319.50	70,173.00	-	2,018,618.00
Due to component unit	247,183.52	-	-	-
Deposits payable	4,167,133.15	-	-	-
Annuities and life income payable (Note 9)	2,866,144.74	-	578,715.64	-
Total other postemployment benefits liability (Note 12)	19,663,887.00	-	-	-
Long-term liabilities, current portion (Notes 9, 24, and 25)	92,265,727.32	2,370,000.00	874,031.70	-
Deposits held in custody for others	7,450,778.97	2,081,389.46	-	-

Due to the university	-	1,082,609.54	-	-
Total current liabilities	369,296,057.47	8,376,867.00	1,737,791.99	10,645,157.00
Noncurrent liabilities:				
Unearned revenue (Note 9)	12,073,457.00	-	-	721,030.00
Net pension liability (Note 11)	205,702,124.00	-	-	-
Total other postemployment benefits liability (Note 12)	217,798,785.00	-	-	-
Long-term liabilities, noncurrent portion (Notes 9, 24, and 25)	1,079,489,905.48	60,617,349.00	860,964.23	-
Due to grantors (Note 9)	20,423,612.91	-	-	-
Annuities and life income payable (Note 9)	14,227,038.31	-	3,870,226.03	-
Deposits held in custody for component units	303,308,205.08	-	-	-
Total noncurrent liabilities	1,853,023,127.78	60,617,349.00	4,731,190.26	721,030.00
Total liabilities	2,222,319,185.25	68,994,216.00	6,468,982.25	11,366,187.00
Deferred inflows of resources				
Deferred inflows related to pensions (Note 11)	10,448,666.00	-	-	-
Deferred inflows related to OPEB (Note 12)	16,068,397.00	-	-	-
Deferred inflows related to split-interest agreements	29,601,368.97	-	-	-
Total deferred inflows of resources	56,118,431.97	-	-	-
Net position				
Net investment in capital assets	1,731,283,812.33	-	-	4,530,551.00
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	229,748,356.55	24,119,335.00	75,460,254.71	-
Libraries	15,042,246.30	-	694,039.02	-
Research	42,800,772.19	-	3,601,824.39	-
Instructional department uses	155,509,562.26	71,034,666.00	119,575,454.26	-
Academic support	32,633,366.98	741,471.00	84,310,707.03	-
Other	49,763,697.62	666,559.00	28,680,524.90	-
Expendable:				
Scholarships and fellowships	116,144,988.27	1,603,224.00	9,737,308.82	-
Libraries	9,689,607.53	-	-	-
Research	73,478,845.45	-	12,273,995.56	-
Instructional department uses	128,129,901.05	7,005,078.00	15,073,873.16	-
Academic support	59,268,575.65	29,336.00	29,181,412.62	-
Loans	6,311,358.64	-	-	-
Capital projects	21,160,951.90	5,000,000.00	35,299,243.30	-
Debt service	748,782.81	-	-	-
Pensions	7,128,066.00	-	-	-
Other	117,061,960.58	18,083,995.00	86,161,057.43	5,177,805.00
Unrestricted	472,070,178.39	47,005,476.00	18,980,758.33	7,891,676.00
Total net position	$ 3,267,975,030.50	$ 175,289,140.00	$ 519,030,453.53	$ 17,600,032.00

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, 2019

	The University of Tennessee	University of Chattanooga Foundation, Inc.	The University of Tennessee Foundation, Inc.	The University of Tennessee Research Foundation, Inc.
Revenues				
Operating revenues:				
Student tuition and fees (Note 13)	$ 515,825,432.59	$ -	$ -	$ -
Contributions	-	4,211,443.00	80,149,627.48	2,003,521.00
Investment return designated for operations	-	5,796,963.00	-	-
Federal appropriations	15,910,298.00	-	-	-
Governmental grants and contracts (Note 19)	279,297,906.33	-	27,947,950.00	-
Nongovernmental grants and contracts	229,729,726.33	-	-	3,017,692.00
Sales and services of educational departments and other activities (Note 13)	65,165,351.47	-	-	-
Auxiliary enterprises:				
Residential life (Note 13)	70,156,969.48	12,139,776.00	-	-
Food services (Note 13)	11,603,517.27	-	-	-
Bookstore (Note 13)	21,371,848.37	-	-	-
Parking (Note 13)	12,533,667.61	-	-	-
Athletics, including gifts of $26,313,806.28 from component units	134,722,825.74	-	-	-
Other auxiliaries (Note 13)	1,789,994.67	-	-	-
Interest earned on loans to students	17,057.85	-	-	-
Other operating revenues	22,883,878.67	-	346,699.62	-
Total operating revenues	1,381,008,474.38	22,148,182.00	108,444,277.10	5,021,213.00
Expenses				
Operating expenses (Notes 21, 24, 25, and 26):				
Salaries and wages	1,138,792,416.00	2,439,119.00	16,993,308.06	7,382,086.00
Fringe benefits	409,565,448.57	858,981.00	5,664,436.03	1,784,970.00
Utilities, supplies, and other services	563,350,078.83	4,575,387.00	9,379,732.46	11,288,795.00
Scholarships and fellowships	67,070,007.93	-	-	-
Depreciation and amortization expense	133,019,422.30	3,295,267.00	-	242,614.00
Payments to or on behalf of the university (Notes 24 and 25)	-	5,829,753.00	71,487,574.31	-
Total operating expenses	2,311,797,373.63	16,998,507.00	103,525,050.86	20,698,465.00
Operating income (loss)	(930,788,899.25)	5,149,675.00	4,919,226.24	(15,677,252.00)
Nonoperating revenues (expenses)				
State and local appropriations	644,198,464.06	-	-	-
Gifts, including $28,390,028.10 from component units (Note 13)	35,698,388.78	-	-	-
Grants and contracts	225,923,601.22	-	-	14,055,076.00
Investment income (loss), including $9,074,865.93 from component units	117,315,788.46	663,562.00	11,203,859.74	(1,168,843.00)
Interest on capital asset-related debt	(38,328,608.65)	(2,456,666.00)	-	-
Other nonoperating revenues (expenses)	(3,897,839.95)	-	-	1,443,682.00
Net nonoperating revenues (expenses)	980,909,793.92	(1,793,104.00)	11,203,859.74	14,329,915.00
Income (loss) before other revenues, expenses, gains, or losses	50,120,894.67	3,356,571.00	16,123,085.98	(1,347,337.00)
Capital appropriations	85,785,251.63	-	-	-
Capital grants and gifts, including $13,538,627.00 from component units	20,943,635.30	-	-	-
Additions to permanent endowments	8,399,791.15	4,026,062.00	53,970,507.52	-
Other, includes $2,394,223.18 of insurance recoveries	2,859,670.28	-	-	-
Total other revenues	117,988,348.36	4,026,062.00	53,970,507.52	-
Increase (decrease) in net position	168,109,243.03	7,382,633.00	70,093,593.50	(1,347,337.00)
Net position				
Net position - beginning of year	3,125,138,281.63	167,906,507.00	448,936,860.03	18,947,369.00
Prior-period adjustment (Note 23)	(25,272,494.16)	-	-	-
Net position at beginning of year, as restated	3,099,865,787.47	167,906,507.00	448,936,860.03	18,947,369.00
Net position - end of year	$ 3,267,975,030.50	$ 175,289,140.00	$ 519,030,453.53	$ 17,600,032.00

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, 2019

Cash flows from operating activities	
Tuition and fees	$ 507,425,461.13
Federal appropriations	15,910,298.00
Grants and contracts	515,505,288.62
Sales and services of educational activities and other activities	68,609,432.95
Payments to suppliers and vendors	(581,305,779.69)
Payments to employees	(1,138,233,919.07)
Payments for benefits	(390,631,962.56)
Payments for scholarships and fellowships	(67,070,007.93)
Loans issued to students	753,989.32
Collection of loans from students	3,261,956.20
Interest earned on loans to students	512,042.84
Funds received for deposits held for component units	722,158,351.94
Funds disbursed for deposits held for component units	(729,975,544.35)
Funds received for deposits held for others	425,259,853.62
Funds disbursed for deposits held for others	(425,175,007.59)
Auxiliary enterprise charges:	
Residence halls	70,156,969.48
Bookstore	21,417,510.23
Food services	11,603,517.27
Parking	12,533,667.61
Athletics	133,665,037.82
Other auxiliaries	1,205,762.82
Other receipts (payments)	22,862,599.57
Net cash used by operating activities	(799,550,481.77)
Cash flows from noncapital financing activities	
State appropriations	610,765,836.03
Local appropriations	6,657,984.65
Gifts and grants for other than capital or endowment purposes	272,085,228.61
Private gifts for endowment purposes	8,399,791.15
Split-interest transactions receipts	1,128,717.29
Split-interest transactions disbursements	(257,728.75)
Federal student loan receipts	297,687,843.35
Federal student loan disbursements	(297,431,667.00)
Net cash balance implicitly financed (repaid)	1,508,366.79
Other noncapital financing receipts (payments)	465,774.46
Net cash provided by noncapital financing activities	901,010,146.58
Cash flows from capital and related financing activities	
Proceeds from capital debt	41,786,750.50
Capital appropriations	77,866,188.54
Capital grants and gifts received	19,435,914.69
Proceeds from sale of capital assets	99,186.93
Purchases of capital assets and construction	(198,175,192.80)
Principal paid on capital debt and leases	(40,630,034.05)
Interest paid on capital debt and leases	(52,204,533.13)
Other capital and related financing receipts (payments)	5,216,889.15
Net cash used by capital and related financing activities	(146,604,830.17)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	404,193,259.24
Income on investments	92,724,005.58
Purchase of investments	(439,172,141.17)
Net cash provided by investing activities	57,745,123.65
Net increase in cash and cash equivalents	12,599,958.29
Cash and cash equivalents at beginning of year	1,277,954,848.58
Cash and cash equivalents at end of year	$ 1,290,554,806.87

THE UNIVERSITY OF TENNESSEE
Statement of Cash Flows (continued)
For the Year Ended June 30, 2019

Reconciliation of net operating loss to net cash used by operating activities:		
Operating loss	$	(930,788,899.25)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Noncash operating expenses		159,794,065.68
Change in assets, liabilities, deferred outflows, and deferred inflows:		
Receivables, net		1,586,992.17
Inventories		410,504.88
Prepaid expenses		(105,847.47)
Accrued interest receivable		494,984.99
Investment in Tennessee Retiree Group Trust		(2,629,227.00)
Accounts payable		(18,286,488.39)
Accrued liabilities		657,055.21
Unearned revenues		(2,195,970.34)
Deposits held in custody for others		84,846.03
Deposits held in custody for component units		(7,817,192.41)
Deposits		539,237.26
Net pension asset		(2,183,016.00)
Deferred outflows related to pensions		17,335,340.00
Net pension liability		(24,588,676.00)
Deferred inflows related to pensions		833,806.00
Deferred outflows related to OPEB		(29,890,042.00)
Total OPEB liability		23,691,541.00
Deferred inflows related to OPEB		7,853,897.00
Compensated absences		1,636,661.35
Loans to students		4,015,945.52
Net cash used by operating activities	$	(799,550,481.77)
Noncash investing, capital, or financing transactions		
Gifts of capital assets	$	1,507,720.61
Unrealized gain on investments	$	15,671,788.83

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The university is a 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 the *Tennessee Comprehensive Annual Financial Report*. That report is available at https://www.tn.gov/finance/rd-doa/fa-accfin-cafr.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 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 Jackson, 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, 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, Inc., 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.

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

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.

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.

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.

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 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, and library holdings, are reported in the statement of net position at historical cost or at acquisition value at date of donation, less accumulated depreciation/amortization. The costs of normal maintenance and repairs that do not add to the value of the 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 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.

These assets, with the exception of works of art and historical treasures/collections deemed inexhaustible and land, are depreciated/amortized using the straight-line method over the estimated useful lives, which range from 5 to 40 years.

Accounts Payable

Included in accounts payable are checks payable in the amount of $8,681,004.82 as of June 30, 2019. 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.

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%. Money market funds cannot exceed 10% of the portfolio's total value. At June 30, 2019, the university's cash management investment pool consisted of $25,000.00 of demand deposits yielding money market rates, $99,774,310.00 of commercial paper, and $1,167,756,231.43 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, 2019, cash and cash equivalents consisted of $10,347,376.52 in bank accounts, $1,463,931.00 of petty cash on hand, and $1,267,555,541.43 in the university's cash management investment pool.

The carrying amount of the university's deposits was $10,372,376.52, and the bank balance was $9,384,393.35.

Additionally, the university maintains custodial accounts at First Tennessee Bank and BNY Mellon. In accordance with the custody agreements, First Tennessee Bank and BNY Mellon placed cash equivalents totaling $11,187,957.92 at June 30, 2019, 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, 2019, all university deposits were adequately secured as required by state statute.

Investments

All investments are reported at fair value, including those securities with a maturity date of one year or less. 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, 2019, 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+	Unknown	Cost
Cash Management Pool							
Cash Equivalents							
Debt Securities							
Commercial paper	$ 99,774,310.00	$ 99,774,310.00					$ 99,653,751.39
U.S. Treasury	56,848,798.00		$ 56,848,798.00				56,996,171.70
U.S. agencies	1,110,907,433.43	169,406,231.27	770,608,600.94	$ 131,665,132.23	$ 39,227,468.99		1,101,596,688.61
	$ 1,267,530,541.43	$ 269,180,541.27	$827,457,398.94	$ 131,665,132.23	$ 39,227,468.99		$ 1,258,246,611.70
Investments							
Debt Securities							
U.S. Treasury	$ 227,601.12	$ 3,021.57			$ 224,579.55		$ 199,387.66
U.S. agencies	19,441.20			$ 19,441.20			14,942.10
Corporate bonds	360,333.90		$ 182,853.40	25,836.75	151,643.75		359,105.90
Pooled investment vehicles-bonds	56,161,323.73		3,395,334.17	50,997,960.92	1,433,545.18	$ 334,483.46	$ 54,844,065.59
	$ 56,768,699.95	$ 3,021.57	$ 3,578,187.57	$ 51,043,238.87	$ 1,809,768.48	$ 334,483.46	$ 55,417,501.25
		$ 269,183,562.84	$ 831,035,586.51	$ 182,708,371.10	$ 41,037,237.47	$ 334,483.46	

Other Investments		
Corporate stocks:		
Domestic	$ 21,339,669.14	$ 16,527,678.51
International	4,322,102.06	4,613,122.96
Pooled investment vehicles-equity	397,319,746.85	370,659,234.35
Alternative investments:		
Pooled investment vehicles-real estate	39,133,777.36	29,232,825.49
Private capital investments	326,499,154.48	301,940,241.13
Hedge funds	216,863,198.66	184,505,024.58
Real estate gifts	2,945,896.87	3,139,797.47
Assets with trustees	6,970,317.48	6,642,136.68
Other	8,362.42	16,303.56
Total investments & cash equivalents	$2,339,701,466.70	$ 2,230,940,477.68
Less: cash equivalents	1,267,530,541.43	1,258,246,611.70
Total investments	$1,072,170,925.27	$ 972,693,865.98

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, 2019, 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, and money market mutual funds meeting certain criteria. 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, 2019, the institution's investments were rated as follows:

Rated Debt Instruments	Fair Value	Aaa	Aa1	Aa2	Aa3	A1
Cash Management Pool:						
Commercial paper	$ 99,774,310.00					$99,774,310.00
U.S. agencies	1,110,907,433.43	$ 793,179,835.81				
Investments:						
U.S. agencies	$ 19,441.20	$ 19,441.20				
Corporate bonds	360,333.90					
Pooled investment vehicles - bonds	56,161,323.73					
Money market funds in custodial accounts	11,187,957.92					

Rated Debt Instruments (continued)	A2	A3	Baa1	Baa2	Baa3	B1
Cash Management Pool						
Commercial paper						
U.S. agencies						
Investments:						
U.S. agencies						
Corporate bonds			$ 25,836.75	$ 184,694.75	$ 99,302.40	
Pooled investment vehicles - bonds						
Money market funds in custodial accounts						

Rated Debt Instruments (continued)	Unrated
Cash Management Pool:	
Commercial paper	
U.S. agencies	$317,727,597.62
Investments:	
U.S. agencies	
Corporate bonds	50,500.00
Pooled investment vehicles - bonds	56,161,323.73
Money market funds in custodial accounts	11,187,957.92

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, 2019, the university had $6,970,317.68 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 $4,322,102.06 invested in foreign corporate equities at June 30, 2019.

Alternative Investments

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

The estimated fair value of these assets is $582,496,130.50 at June 30, 2019.

Total capital contributions less returns of capital equal $515,678,091.20 at June 30, 2019.

The university believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2019. 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 (real estate assets, 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 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, 2019:

	6/30/2019	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	$ 57,076,399.12		$ 57,076,399.12		
U.S. agencies	1,110,926,874.63		1,110,926,874.63		
Corporate bonds	360,333.90		360,333.90		
Corporate commercial paper	99,774,310.00			$ 99,774,310.00	
Total debt securities	$ **1,268,137,917.65**				
Corporate Stock					
Domestic	$ 21,339,669.14	$ 21,262,519.14		77,150.00	
International	4,322,102.06	4,322,102.06			
Total equity securities	**$ 25,661,771.20**				
Pooled investment vehicles (ETFs;Open-end funds with published and non-published values)					
Equity	$ 397,319,746.85	123,244,809.71			$ 274,074,937.14
Bonds	56,161,323.73	56,161,323.73			
Real estate	39,133,777.36	18,441,853.44			20,691,923.92
Total pooled investment vehicles	$ **492,614,847.94**				
Real estate gifts	$ **2,945,896.87**			2,945,896.87	
Assets held by others	**6,970,317.48**			6,970,317.48	
Other assets	**8,362.42**			8,362.42	
Private capital investments					
Private equity	**$** 103,334,703.21			103,334,703.21	
Private credit/debt	72,970,938.51			72,970,938.51	
Private real assets	144,331,878.09			144,331,878.09	
Private, other	5,861,634.67			5,861,634.67	
Total private capital investments	$ **326,499,154.48**				
Hedge Funds					
Long/short equity	$ 79,810,924.04				79,810,924.04
Credit	33,768,528.18				33,768,528.18
Diversified	103,283,746.44				103,283,746.44
Total hedge funds	$ **216,863,198.66**	**$ 223,432,608.08**	**$ 1,168,363,607.65**	**$ 436,275,191.25**	**$ 511,630,059.72**
Total investments and cash equivalents valued at fair value	**$ 2,339,701,466.70**				

Debt Securities

The fair value of the Debt Securities category at June 30, 2019, was determined based on 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 2 inputs. Commercial paper holdings were valued using Level 3 inputs.

Corporate Stock

This category is comprised of common stock and preferred stock, the majority of which are based on Level 1 inputs. This includes both domestic and international holdings. Two preferred stocks totaling $77,150 were valued using Level 3 inputs.

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 $2,945,896.87, the valuation of which is determined by periodic appraisals.

Assets Held by Others

This category consists of separately invested portfolios of $6,970,317.48. These are managed externally for the benefit of the university, and pricing is provided by third parties.

Other Assets

This asset is a single annuity valued at $8,362.42 and is priced by the sponsoring entity.

Private Capital Investments

The fair value of the Private Capital category at June 30, 2019, 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 $198,254,902 of unfunded commitments at June 30, 2019.

Hedge Funds

Like certain pooled investment vehicles, hedge funds are measured at net asset value per share (or its equivalent), provided to investors on a recurring basis. These holdings 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	$ 33,768,528.18	Quarterly – Annually	95 days – 120 days
Hedge funds, diversified	$ 103,283,746.44	Monthly, Quarterly	30 days – 90 days
Hedge funds, long-short equity	$ 79,810,924.04	Monthly, Annually	5 days – 90 days
Open-end funds	$ 294,766,861.06	Daily, Monthly, Quarterly, Semi-annually	1 day – 90 days

As of fiscal year-end, no investments measured at NAV were still within the initial lock-up period.

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 has been authorized for expenditure. In fiscal year 2016, the university began transitioning to a seven-year moving average, by adding one year's value to the moving average calculation. This transition was complete in fiscal year 2019. In addition, the board approved imposing both a maximum and minimum distribution rate on each year's calculation. Beginning in fiscal year 2016, 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, 2019, net appreciation of $140,980,215.24 is available to be spent, of which $138,024,735.21 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 $3.3714491 at June 30, 2019. Income distributed was $0.15128 per share in 2019, or $44,594,609.13.

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 2019 and the three and five years then ended was 2.74%, 6.89%, and 3.79%, 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 $127,182.84 for 2019.

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 2019 amounted to $1,194,456.65.

Note 5. Accounts, Notes, and Grants Receivable

Accounts, notes, and grants receivable included the following at June 30, 2019:

Student accounts receivable	$ 25,748,356.28
Grants receivable	79,906,131.61
Notes receivable	2,340,613.97
Pledges receivable	1,631,438.65
Due from component units	1,082,609.54
Other receivables	33,376,179.71
Subtotal	$ 144,085,329.76
Less allowance for doubtful accounts	(7,562,532.04)
Total	$ 136,522,797.72

Pledges receivable are promises of private donations that are reported as accounts receivable, and revenue, net of an estimated uncollectible allowance of $326,287.73.

Federal Perkins Loan Program funds included the following at June 30, 2019:

Perkins loans receivable	$ 16,710,329.56
Less allowance for doubtful accounts	(7,238,467.51)
Total	$ 9,471,862.05

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 82,995,135.41	$ 3,409,433.10	$ -	$ -	$ 86,404,568.51
Land improvements & infrastructure	234,792,885.82	-	-	-	234,792,885.82
Buildings	3,024,277,136.09	52,920,753.59	306,228,175.60	(2,750,215.56)	3,380,675,849.72
Works of art/ historical treasures	4,414,950.77	-	-	(563,607.53)	3,851,343.24
Equipment	399,927,734.54	29,439,950.55	-	(15,378,912.38)	413,988,772.71
Software	31,031,294.76	140,633.53	-	(80,760.00)	31,091,168.29
Library holdings	161,011,830.92	19,566,649.14	-	(13,883,764.85)	166,694,715.21
Projects in progress	368,567,825.08	87,433,713.77	(306,228,175.60)	-	149,773,363.25
Total	$ 4,307,018,793.39	$ 192,911,133.68	$ -	$ (32,657,260.32)	$ 4,467,272,666.75

Less accumulated depreciation/ amortization:					
Land improvements & infrastructure	(88,684,402.20)	(9,716,460.99)	-	-	(98,400,863.19)
Buildings	(1,095,878,245.70)	(80,772,840.98)	-	1,541,181.29	(1,175,109,905.39)
Equipment	(286,268,998.79)	(26,079,738.74)	-	14,116,979.74	(298,231,757.79)
Software	(30,301,503.91)	(301,841.13)	-	82,104.13	(30,521,240.91)
Library holdings	(69,695,476.39)	(16,148,540.46)	-	13,883,764.85	(71,960,252.00)
Total	$(1,570,828,626.99)	$(133,019,422.30)	$ -	$ 29,624,030.01	$(1,674,224,019.28)
Capital assets, net	$ 2,736,190,166.40	$ 59,891,711.38	$ -	$ (3,033,230.31)	$2,793,048,647.47

Note 7. Operating Leases

The university has entered into various operating leases for buildings and equipment. It is expected that in the normal course of business, such leases will continue to be required. Net expenses for rentals under leases were $11,003,073.52 for the year ended June 30, 2019. All operating leases are cancelable at the lessee's option.

Note 8. Accounts Payable

Accounts payable included the following:

	June 30, 2019
Vendors payable	$ 82,180,022.40
Payroll deductions payable	23,647,428.35
Due to State of Tennessee	5,884,381.70
Total	$ 111,711,832.45

Note 9. Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term liabilities:					
Bonds	$ 954,297,194.41	$ 23,901,889.11	$ 39,471,997.82	$ 938,727,085.70	$ 41,078,865.82
Unamortized bond premium	133,364,503.88	-	7,283,621.22	126,080,882.66	-
Revolving credit facility	8,460,223.92	16,350,313.61	1,158,036.23	23,652,501.30	-
Total TSSBA indebtedness	$ 1,096,121,922.21	$ 40,252,202.72	$ 47,913,655.27	$ 1,088,460,469.66	$ 41,078,865.82
Compensated absences	81,658,501.79	52,823,522.85	51,186,861.50	83,295,163.14	51,186,861.50
Total long-term liabilities	$ 1,177,780,424.00	$ 93,075,725.57	$ 99,100,516.77	$ 1,171,755,632.80	$ 92,265,727.32
Other long-term liabilities:					
Unearned revenue	$ 84,091,728.55	$ 60,772,367.45	$ 66,395,319.50	$ 78,468,776.50	$ 66,395,319.50
Due to grantors	20,430,788.96	636,223.95	643,400.00	20,423,612.91	-
Annuities payable and life income payable	19,848,826.43	339,806.81	3,095,450.19	17,093,183.05	2,866,144.74
Total other long-term liabilities	$ 124,371,343.94	$ 61,748,398.21	$ 70,134,169.69	$ 115,985,572.46	$ 69,261,464.24

TSSBA Debt – Bonds

Bonds, with interest rates ranging from .18% to 5.00%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2048 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations. (See Note 10 for further details.) The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the statement of net position is shown net of assets held by the authority in the debt service reserve, capitalized interest, and unexpended debt proceeds. The total bonded indebtedness at June 30, 2019, was $943,184,402.76. The unspent bond proceeds amount at June 30, 2019, was $4,457,317.06.

The university's debt service requirements to maturity for all bonds payable at June 30, 2019, are as follows:

Year Ending June 30:	Principal	Interest
2020	$ 41,078,865.82	$ 42,750,876.99
2021	37,233,747.55	41,089,140.44
2022	37,867,879.45	39,495,496.38
2023	38,854,838.23	37,813,287.92
2024	38,631,042.40	36,141,881.62
2025-2029	193,763,707.78	154,135,731.11
2030-2034	190,476,861.48	109,336,312.88
2035-2039	171,170,424.61	66,803,830.59
2040-2044	140,803,726.69	28,827,063.87
2045-2048	53,303,308.75	4,252,241.06
	$ 943,184,402.76	$ 560,645,862.86
Less:		
Unspent bond proceeds	(4,457,317.06)	
TSSBA debt-bonds	$ 938,727,085.70	

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 $23,652,501.30 at June 30, 2019.

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 10. Pledged Revenues

The University of Tennessee has pledged certain revenues and fees, including state appropriations, to repay $938,727,085.70 in revenue bonds issued from August 2012 to September 2017. Proceeds from the bonds provided financing for construction and renovation projects. The bonds are payable through 2048. (See Note 9 for further details.) Annual principal and interest payments on the bonds are expected to require 5.16% of available revenues. The total principal and interest remaining to be paid on the bonds is $1,499,372,948.56. Principal and interest paid for the current year and total available revenues were $83,887,137.58 and $1,625,285,113.25, respectively.

Note 11. Pension Plans

<u>Defined Benefit Plans</u>

Tennessee Consolidated Retirement System

Closed State and Higher Education Employee Pension Plan

General Information About the Pension Plan

<u>Plan Description</u> – 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 www.treasury.tn.gov/tcrs.

<u>Benefits Provided</u> – 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 non-contributory, 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, 2019, to the Closed State and Higher Education Employee Pension Plan were $54,733,097, which is 19.23% of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension Liability – At June 30, 2019, the university reported a liability of $205,702,124 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2018, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2018, measurement date, the university's proportion was 12.733725%. The proportion measured as of June 30, 2017, was 12.868287%.

Pension Expense – For the year ended June 30, 2019, the university recognized a pension expense of $46,766,157.

Deferred Outflows of Resources and Deferred Inflows of Resources – For the year ended June 30, 2019, 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	$ 18,582,331	$ 956,276
Net difference between projected and actual earnings on pension plan investments	-	5,912,527
Changes in assumptions	25,870,404	-
Changes in proportion of net pension liability	1,265,189	3,191,649
The university's contributions subsequent to the measurement date of June 30, 2018	54,733,097	-
Total	$ 100,451,021	$ 10,060,452

Deferred outflows of resources, resulting from the university's employer contributions of $54,733,097 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2020	$ 36,682,594
2021	17,125,472
2022	(14,354,268)
2023	(3,796,326)

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, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with mortality improvement projected 6 years beyond each actuarial valuation date.

The actuarial assumptions used in the June 30, 2018, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a comparison of historical market returns and future capital market projections.

Discount Rate – The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the university's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the university's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
University's proportionate share of the net pension liability (asset)	$ 452,093,435	$ 205,702,124	$ (1,659,837)

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 www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2019, the university reported a payable of $ 4,482,636.23 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2019.

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, 2019, to the State and Higher Education Employee Retirement Plan were $1,984,093, which is 1.66% 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, 2019, the university reported an asset of $4,498,839 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2018, 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, 2018, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2018, measurement date, the university's proportion was 11.663156%. At the June 30, 2017, measurement date, the university's proportion was 11.166788%.

Pension Expense – For the year ended June 30, 2019, the university recognized a pension expense of $1,319,310.

Deferred Outflows of Resources and Deferred Inflows of Resources – For the year ended June 30, 2019, 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	$ 125,813	$ 75,421
Net difference between projected and actual earnings on pension plan investments	-	217,231
Changes in assumptions	152,823	-
Changes in proportion of net pension asset	54,049	95,562
The university's contributions subsequent to the measurement date of June 30, 2018	1,984,093	-
Total	$ 2,316,778	$ 388,214

Deferred outflows of resources, resulting from the university's employer contributions of $1,984,093 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2020. 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:	
2020	$ (34,628)
2021	(39,332)
2022	(64,449)
2023	(12,039)
2024	16,696
Thereafter	78,223

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, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with generational mortality improvement.

The actuarial assumptions used in the June 30, 2018, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30,

2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016 actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best estimate of expected real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a comparison of historical market returns and future capital market projections.

Discount Rate – The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of 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 7.25%, as well as what the university's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1 percent point lower (6.25%) or 1 percent point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
University's proportionate share of the net pension asset	$ 746,227	$ 4,498,839	$ 7,306,845

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 www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2019, the university reported a payable of $723,501 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2019.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2019, for all state government defined benefit pension plans was $48,085,467.

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 131 employees in Federal Retirement Programs in 2019, 18 in CSRS and 113 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 55-57 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, 2019, were $226,677.40 which consisted of $116,414.72 from the university and $110,262.68 from the employees. At June 30, 2019, the university reported a payable of $9,135.50 for the outstanding amount of legally required contributions to the CSRS pension plan for the year ended June 30, 2019.

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, 2019, were $2,288,765.58, which consisted of $1,646,759.83 from the university and $642,005.75 from the employees. At June 30, 2019, the university reported a payable of $99,556.34 for the outstanding amount of legally required contributions to the FERS pension plan required for the year ended June 30, 2019.

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 $49,152,693.12 for the year ended June 30, 2019, and $48,363,388.68 for the year ended June 30, 2018. 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. Accordingly, the State of Tennessee is not acting in a trustee capacity, nor does it have a fiduciary responsibility for the funds held by the investment vendors.

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 $5,472,838.84 for fiscal year 2019, and $6,249,578.35 for fiscal year 2018. 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 $1,052,385.82 in fiscal year 2019, and $1,176,555.81 in fiscal year 2018. Contributions met the requirements for each year.

Deferred Compensation Plans

Employees are offered three deferred compensation plans. The university, through the State of Tennessee, provides two plans, one established pursuant to the *Internal Revenue Code* (IRC), Section 457, and the other pursuant to IRC, Section 401(k). The third plan is administered by the university and was established in accordance with IRC, Section 403(b). The plans are outsourced to third party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k), Section 403(b), and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. Sections 401(k), 403(b), and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 403(b) and the 457 plans is voluntary for employees. The university provides up to a $50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Chapter 259 of the *Public Acts of 2013,* employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan if they elect to be in the TCRS pension plan and contribute 2% of their salary, with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

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

During the year ended June 30, 2019, contributions totaling $29,215,712.94 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $12,325,776.63 for employer contributions. During the year ended June 30, 2018, contributions totaling $26,127,996.62 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $10,550,333.36 for employer contributions.

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.

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 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%. During the current measurement period, this plan was funded on a pay-as-you-go basis and there were no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75. However, during the current fiscal year, the plan was transitioned to a prefunding arrangement where assets will be accumulating in a qualifying trust.

Contributions – Annually, an insurance committee, created in accordance with Title 8, Chapter 27, Section 201, *Tennessee Code Annotated*, establishes the required payments to the plan by member employers and employees. Active members of the Employee Group Insurance Plan and pre-age 65 retired members of the EGOP pay the same rate. Claims liabilities of the plans are periodically computed using actuarial and statistical techniques to establish premium rates. While the plan operated on a pay-as-you-go basis, employers made the minimum required payments for retiree costs. However, once the plan transitioned to the prefunding arrangement through the qualifying trust, employers began making contributions to the trust based on an actuarially-determined contribution rate (ADC). Employer contributions by the university for the year ended June 30, 2019, to the EGOP were $19,663,887, which is 2.974223% of covered-employee payroll.

Total OPEB Liability

Proportionate Share – The university's proportionate share of the collective total OPEB liability related to the EGOP was $237.46 million. At the June 30, 2018, measurement date, the university's proportion of the collective total OPEB liability was 17.142370%. The proportion existing at the prior measurement date was 15.922879%. This resulted in a change in proportion of 1.219491% between the current and prior measurement dates. The university's proportion of the collective total 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, 2018, and a measurement date of June 30, 2018.

Actuarial Assumptions – The collective total OPEB liability in the June 30, 2018, 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.
Healthcare cost trend rates	6.75% for 2019, decreasing annually to an ultimate rate of 3.91% for 2050 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, 2018, valuations were the same as those employed in the July 1, 2017, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender-distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load.

Discount Rate – The discount rate used to measure the total OPEB liability was 3.62%. 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 Fidelity 20-Year Municipal GO AA index.

Changes in Assumptions – The discount rate was changed from 3.56% as of the beginning of the measurement period to 3.62% as of June 30, 2018. This change in assumption decreased the total OPEB liability. Additionally, the near-term healthcare cost trend rates were changed from 5.4%, 5.3%, and 5.2% for the plan years 2019 to 2021, respectively, to 6.75%, 6.25%, and 5.75%, respectively. Furthermore, the assumed initial per capita costs and premium amounts were revised to reflect rates adopted for the 2019 plan year. These two changes in assumptions increased the total OPEB liability.

Significant Changes Subsequent to the Measurement Date – During fiscal year 2019, the EGOP was transitioned from a pay-as-you-go funding arrangement to a prefunded arrangement where assets would be deposited and accumulated in a qualifying trust and benefits would be paid directly from the trust assets. In the first year of this arrangement, participating employers made estimated total contributions to the trust of $297.2 million dollars. The trust had an estimated net position of $213.3 million at June 30, 2019. These plan assets will significantly reduce the net OPEB liability recorded by employers for the year ended June 30, 2020.

Sensitivity of the Proportionate Share of the Collective Total OPEB Liability to Changes in the Discount Rate – The following presents the university's proportionate share of the collective total OPEB liability of the EGOP, 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 (2.62%) or 1 percentage point higher (4.62%) than the current rate (expressed in thousands):

	1% Decrease (2.62%)	**Current Discount Rate (3.62%)**	**1% Increase (4.62%)**
University's proportionate share of the collective total OPEB liability	$253,344	$237,463	$222,517

Sensitivity of the Proportionate Share of the Collective Total OPEB Liability to Changes in the Healthcare Cost Trend Rate – The following presents the university's proportionate share of the collective total OPEB liability of the EGOP, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (5.75% decreasing to 2.91%) or 1 percentage point higher (7.75% decreasing to 4.91%) than the current rate (expressed in thousands):

	1% Decrease (5.75% decreasing to 2.91%)	Healthcare Cost Trend Rates (6.75% decreasing to 3.91%)	1% Increase (7.75% decreasing to 4.91%)
University's proportionate share of the collective total OPEB liability	$214,464	$237,463	$264,353

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

OPEB expense – For the year ended June 30, 2019, the university recognized OPEB expense of $20.47 million.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2019, 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	$ -	$ 8,488
Changes in assumptions	10,459	7,580
Changes in proportion and differences between benefits paid and proportionate share of benefits paid	13,932	-
Contributions subsequent to the measurement date	19,664	-
Total	$ 44,055	$ 16,068

Deferred outflows of resources, resulting from the university's employer contributions of $19,663,887 subsequent to the measurement date, will be recognized as a decrease in total OPEB liability in the year ending June 30, 2020. 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:	
2020	$1,075
2021	1,075
2022	1,075
2023	1,075
2024	1,075
Thereafter	2,948

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

Closed Tennessee OPEB Plan

General Information about the OPEB Plan

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

Benefits Provided – The TNP is offered to help fill most of the coverage gaps created by Medicare and is the only postemployment benefit provided to eligible post-65 retired and disabled employees of participating employers. This plan does not include pharmacy. In accordance with Title 8, Chapter 27, Section 209, *Tennessee Code Annotated*, benefits are established and amended by cooperation of insurance committees created by Sections 8-27-201, 301, and 701, *Tennessee Code Annotated*. Retirees and disabled employees of the state, component units, local education agencies, and certain local governments who have reached the age of 65, are Medicare-eligible, and also receive a benefit from the Tennessee Consolidated Retirement System may participate in this plan. All plan members receive the same plan benefits at the same premium rates. Many retirees receive direct subsidies toward their premium cost; however, participating employers determine their own policy in this regard. The primary government contributes to the premiums of component unit retirees based on years of service. Therefore, retirees with 30 years of service receive $50 per month; 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25. The university does not provide any subsidies for retirees in the TNP. The primary government paid $26.77 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 No. 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.

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 $32.8 million. At the June 30, 2018, measurement date, the proportion of the collective total OPEB liability associated with the university was 18.995887%. 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. There has been no change in the university's proportion since the prior measurement date. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2018, and a measurement date of June 30, 2018.

Actuarial Assumptions – The total OPEB liability in the June 30, 2018, 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.
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, 2018, valuations were the same as those employed in the July 1, 2017, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender-distinct table published in IRS Ruling 96-7 for disabled lives with a 10% load.

Discount Rate – The discount rate used to measure the total OPEB liability was 3.62%. 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 Fidelity 20-Year Municipal GO AA index.

Changes in Assumptions – The discount rate was changed from 3.56% as of the beginning of the measurement period to 3.62% as of June 30, 2018. This change in assumption decreased the total OPEB liability.

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 (2.62%) or 1 percentage point higher (4.62%) than the current rate (expressed in thousands). The university does not report a proportionate share of the OPEB liability for employees in the TNP.

	1% Decrease (2.62%)	Current Discount Rate (3.62%)	1% Increase (4.62%)
Primary government's proportionate share of the collective total OPEB liability	$37,072	$32,837	$29,280

OPEB expense – For the fiscal year ended June 30, 2019, the primary government recognized OPEB expense of $1.63 million for employees of the university participating in the TNP.

Total OPEB Expense

The total OPEB expense for the year ended June 30, 2019, was $22.1 million, which consisted of OPEB expense of $20.47 million for the EGOP and $1.63 million 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	$ 758,005,511.93	$(241,091,790.48)	$(1,088,288.86)	$ 515,825,432.59
Sales and services of educational departments and other activities	66,121,547.96	-	(956,196.49)	65,165,351.47
Residential life	72,856,034.53	(2,737,523.57)	38,458.52	70,156,969.48
Food services	11,589,457.38	-	14,059.89	11,603,517.27
Bookstore	21,428,087.65	-	(56,239.28)	21,371,848.37
Parking	13,080,917.52	-	(547,249.91)	12,533,667.61
Other auxiliaries	1,789,140.84	-	853.83	1,789,994.67
Other operating revenues	22,952,456.13	-	(68,577.46)	22,883,878.67
Nonoperating revenues:				
Gifts	35,415,741.46	-	282,647.32	35,698,388.78
Total	$1,003,238,895.40	$(243,829,314.05)	$(2,380,532.44)	$757,029,048.91

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, 2019. 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, 2019, the amounts held in trust totaled $167,912,209.44 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 $4,361,251 at June 30, 2019. 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, 2018, was $4,111,596.72.

During the year ended June 30, 2019, the university had expenses of $28,629,658.45 under contracts with UT-Battelle. Amounts receivable from UT-Battelle under these contracts totaled $3,116,994.29 at June 30, 2019. To review the audit report of UT-Battelle, please contact the Controller's Office, The University of Tennessee, 201 Andy Holt Tower, Knoxville, Tennessee 37996-0100.

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 2019 fiscal year, the university remitted another $17,494,187 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, 201 Andy Holt Tower, Knoxville, Tennessee 37996-0100.

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 purchases commercial insurance for real property, crime and fidelity coverage on the state's officials and employees, and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The RMF is responsible for property losses for the annual aggregate deductible of $7.5 million for perils other than earthquake and flood. Purchased insurance coverage is responsible for losses exceeding the $7.5 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 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. The amounts of settlements have not exceeded insurance coverage for each 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, 2019, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/rd-doa/fa-accfin-cafr.html. At June 30, 2019, the RMF held $186 million in cash designated for payment of claims.

At June 30, 2019, the scheduled coverage for the university was $7,573,087,707 for buildings and $1,371,304,992 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, 2019, were $259,720,597.20, of which $166,708,761.24 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 $360,966,609.34 at June 30, 2019.

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 $4,722,371.55 as of June 30, 2019, 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. The second amendment to the Lease and Transfer Agreement was executed January 10, 2019. Each of these agreements is summarized below.

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. (See also Note 20.) The term of this agreement was 50 years. The university also transferred to UHS all operating assets of the hospital. The 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.

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 $35,268,020.17 in 2019, 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.

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 remaining payment from the original agreement is due by March 15, 2021. This payment can be made in full or over a period not to exceed five years. Lease payments will continue through calendar year 2049 to reflect the ongoing benefits of the Lease and Transfer Agreement. The future 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. As the financial position of UHS improves and 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.

Note 19. Transfer of Development and Alumni Affairs Operations to the University of Tennessee 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. The foundation supports 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 Note 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 foundation signed an Affiliation and Services Agreement and an Employee Services Agreement to effect the transfer.

<u>Affiliation and Services Agreements</u> – The university and the 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 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 2019, the university provided the foundation direct support of $19,365,287 and endowment assessment fees of $8,582,663.

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.

<u>Employee Services Agreement</u> – The foundation has 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 foundation, totaling $22,657,978.13 in fiscal year 2019, 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. Capital Leases of Real Property

Capital Lease of Real Property to University Health Systems, Inc.

In the original Lease and Transfer Agreement, the university leased the real property of the UT Memorial Research Center and Hospital to UHS for a term of 50 years. This lease was pursuant to the Lease and Transfer Agreement described in Note 18. This lease was classified as a direct financing lease. The guaranteed lease payment of $50 million was to be paid by UHS in annual payments through 2021. The amount of the annual payments were the lesser of 1) 20% of the hospital's net operating profit for the applicable calendar year; or 2) $3 million or the greater amount resulting from the application of an index, as specified in the agreement. The payment of $50 million was guaranteed by March 15, 2021.

On January 10, 2019, the university and UHS executed an amendment that negotiated an annual lease payment for the next 30 years of the lease. Beginning January 1, 2021, future lease payments will be based on the continuing financial position of UHS. See note 18 for more details on these payments. 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 payment receivable amount can be recorded for these future payments.

The amendment dated January 10, 2019, also states that the university has agreed to receive $14,103,837 as final payment from the original agreement between the university and UHS. The remaining payment is due by March 15, 2021. An annual lease payment made to the university during the year ended June 30, 2019, totaled $2,030,380. Therefore, the university has recorded a lease payment receivable in the amount of $10,659,760.31 at June 30, 2019. The total minimum lease payments to be received has been adjusted downward from $36,650,624.97 recorded at June 30, 2018, to reflect this agreed upon amount.

	June 30, 2019
Total minimum lease payments to be received	$ 12,073,457.00
Less: unearned income	(1,413,696.69)
Net investment in direct financing lease	$ 10,659,760.31

Capital Lease of Real Property to Memphis Mental Health Institute

On November 5, 2005, the university entered into a facility lease agreement with the Tennessee Department of Mental Health and Substance Abuse Services (TDMHSAS) to provide a new building to house the Memphis Mental Health Institute. The building is a joint project of the university, Methodist Healthcare, Shelby County Health Care Authority (The MED), the State of Tennessee, and Shelby County. This lease is classified as a direct financing lease. The guaranteed lease payments will be paid by TDMHSAS in semiannual payments through 2027.

The amount of the semiannual payments will equal the amount to retire the debt from the construction project and any other project costs incurred by the university in excess of the funds contributed by Methodist Healthcare and the MED. During the term of the lease, TDMHSAS will be responsible for all operational and maintenance costs associated with the facility.

The university recorded a lease payment receivable in the amount of $8,315,447.14 at June 30, 2019:

Total minimum lease payments to be received	$ 9,921,883.74
Less: unearned income	(1,606,436.60)
Net investment in direct financing lease	$ 8,315,447.14

Year Ended June 30:	Minimum Lease Payments To Be Received	Interest	Principal
2020	$ 1,367,560.68	$ 372,224.55	$ 995,336.13
2021	1,369,559.64	327,670.29	1,041,889.35
2022	1,371,646.46	281,032.18	1,090,614.28
2023	1,373,827.24	232,212.99	1,141,614.25
2024	1,376,112.58	181,110.88	1,195,001.70
2025-2027	3,063,177.14	212,185.71	2,850,991.43
	$ 9,921,883.74	$1,606,436.60	$ 8,315,447.14

Note 21. Natural Classifications with Functional Classifications

The university's operating expenses by functional classification for the year ended June 30, 2019, are as follows:

	NATURAL CLASSIFICATION					
FUNCTIONAL CLASSIFICATION	Salaries	Benefits	Utilities, Supplies, and Other Services	Scholarships	Depreciation	Total
Instruction	$ 462,728,976.77	$ 142,864,790.59	$ 102,006,835.04	$ -	$ -	$ 707,600,602.40
Research	187,812,763.48	49,663,132.37	76,363,916.08	-	-	313,839,811.93
Public service	81,219,642.65	32,204,541.33	36,875,205.84	-	-	150,299,389.82
Academic support	103,941,518.55	39,134,394.52	60,084,759.48	-	-	203,160,672.55
Student services	51,480,584.23	19,256,566.42	29,601,987.13	-	-	100,339,137.78
Institutional support	90,353,829.91	34,783,773.03	43,806,921.06	-	-	168,944,524.00
Operation and maintenance of plant	50,730,261.26	24,129,767.72	113,274,994.95	-	-	188,135,023.93
Scholarships and fellowships	3,687,639.03	34,461,367.09	-	67,070,007.93	-	105,219,014.05
Auxiliary	64,938,894.14	17,276,696.11	101,335,459.25	-	-	183,551,049.50
Independent operations	41,898,305.98	15,790,419.39	-	-	-	57,688,725.37
Depreciation	-	-	-	-	133,019,422.30	133,019,422.30
Total expenses	$ 1,138,792,416.00	$ 409,565,448.57	$ 563,350,078.83	$ 67,070,007.93	$ 133,019,422.30	$ 2,311,797,373.63

Note 22. On-Behalf Payments

During the year ended June 30, 2019, the State of Tennessee made payments of $26,774,643.38 on behalf of the university for retirees participating in the State Employee Group OPEB Plan and the Closed Tennessee OPEB Plan. The State Employee Group OPEB Plan and the Closed Tennessee OPEB Plan are postemployment benefit healthcare plans and are discussed further in Note 12.

Note 23. Prior-period Adjustment

In accounting for the capital lease of the real property of the UT Memorial Research Center and Hospital to University Health Systems, Inc., lease payments receivable was overstated by $26,669,095.87 at June 30, 2018, and earned lease revenue (reported as other nonoperating revenue) of $1,396,601.71 was not recognized at June 30, 2018. As a result, for the year ended June 30, 2019, beginning net position has been decreased by $25,272,494.16.

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 49-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, 2019, the foundation expended $5,829,753.00 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 1,644 bedrooms in 453 units and 666 parking spaces.

Investments

A summary of foundation investments at June 30, 2019, is as follows:

Mutual funds	$ 57,255,017
Limited partnerships	82,762,616
Total	$140,017,633

The foundation also has investments restricted by the terms of the revenue bonds described below, totaling $11,065,072.

Property and Equipment

A summary of foundation property and equipment at June 30, 2019, is as follows:

Land	$ 8,241,032
Buildings	78,175,931
Furniture, fixtures, and equipment	8,430,754
	94,847,717
Accumulated depreciation	(50,974,861)
Total	$ 43,872,856

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, 2019, consist of the following:

Series 2015 revenue refunding bonds, interest rates fixed at 3.0% to 5.0% payable semi-annually, annual redemption payments due through October 1, 2035	$ 59,260,000
Plus: unamortized premium	4,383,242
Less: unamortized bond issuance costs	(655,893)
	$ 62,987,349

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

Year Ended	
June 30, 2020	$ 2,370,000
June 30, 2021	2,460,000
June 30, 2022	2,580,000
June 30, 2023	2,710,000
June 30, 2024	2,845,000
Thereafter	46,295,000
	$ 59,260,000

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, 2019	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Mutual funds:				
International funds	$ 27,812,776	$ 27,812,776	$ -	$ -
Index funds	23,082,607	23,082,607	-	-
Short-term bond funds	6,359,634	6,359,634	-	-
Total mutual funds	$ 57,255,017	$ 57,255,017	$ -	$ -
U.S. Treasury money market fund	11,065,072	11,065,072	-	-
Total assets at fair value	68,320,089	68,320,089	-	-
Investments measured at net asset value (1) (2)	82,762,616	-	-	-
Total assets	$ 151,082,705	$ 68,320,089	$ -	$ -
Liabilities:				
Deposits received for the benefit of others	$ 2,401,115	$ 2,401,115	$ -	$ -
Total liabilities	$ 2,401,115	$ 2,401,115	$ -	$ -

(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, 2019, the foundation had outstanding commitments of $19,812,000.

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 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 of this interpretation, the foundation considers as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not included in permanently restricted net assets is considered restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization 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, 2019. 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 statement of net position.

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted funds	$ -	$ 98,595,146	$ 98,595,146
Board-designated funds	59,441,967	-	59,441,967
	$ 59,441,967	$ 98,595,146	$ 158,037,113

Changes in endowment net assets for the fiscal year ended June 30, 2019, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 59,822,522	$ 93,601,003	$ 153,423,525
Investment income	1,041,322	1,322,242	2,363,564
Net realized and unrealized gains	1,644,760	1,996,432	3,641,192
Contributions	88,503	4,026,062	4,114,565
Appropriations	(1,535,671)	(2,208,744)	(3,744,415)
Transfers	(1,619,469)	(141,849)	(1,761,318)
Endowment net assets, end of year	$ 59,441,967	$ 98,595,146	$ 158,037,113

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 percent 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 percent 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 percent 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. The LLC paid management fees of $237,500 to the university during the LLC's fiscal year ended June 30, 2019. At June 30, 2019, deposits held at the university on behalf of the LLC were $126,791.

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	$1,466,102
Investments	1,179,687
Other receivables	169,646
	$2,815,435

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 $59,441,967. 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, 2019, are as follows:

	Natural Classification				
Functional Classification	Salaries	Benefits	Other Operating	Depreciation	Total
Program services	$ 603,994	$ 223,395	$ 9,112,282	$ 3,295,267	$ 13,234,938
Support activities	1,835,125	635,586	1,292,858	-	3,763,569
Total	$ 2,439,119	$ 858,981	$ 10,405,140	$ 3,295,267	$ 16,998,507

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 22 active board members and four 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, 2019, the foundation expended $71,487,574.31, including $6,403,533.89 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 receives contributions from individuals, corporations, alumni, and other donors. The 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	$ 16,127,201.12
Pledges due in one to five years	121,286,350.83
Pledges due after five years	11,962,226.52
	149,375,778.47
Less discounts to net present value	(6,654,843.15)
Total pledges receivable, net	$ 142,720,935.32

The allowance for doubtful accounts at June 30, 2019, was $856,960.82.

Investments and Assets Held by the University of Tennessee

Investments held at June 30, 2019, were as follows:

	Fair Value	Cost
Endowment assets:		
Held by the University of Tennessee:		
Consolidated Investment Pool	$245,006,325.99	$245,325,217.49

Held by the foundation:		
Cash	354,499.38	354,499.38
Equities	1,887,800.07	1,643,888.80
Total endowment assets	247,248,625.44	247,323,605.67
Other investments:		
Held by the university:		
Cash management investment pool	58,301,879.09	58,301,879.09
Held by the foundation:		
Brokerage account:		
Cash	12,296.28	12,296,28
Fixed income	46,835,240.20	46,581,873.36
Total other investments	105,149,415.57	104,896,048.73
Gift annuity program:		
Cash	151,933.10	151,933.10
Equities	5,044,644.56	4,827,251.72
Fixed income	4,295,733.35	4,313,227.59
Total gift annuity program	9,492,311.01	9,292,412.41
Total investments	$ 361,890,352.02	$ 361,512,066.81

Also reported as investments on the statement of net position are other gift assets totaling $6,068,780.00.

At June 30, 2019, 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, 2019, the cost and fair value for these endowments invested were $245,325,217.49 and $245,006,325.99, which resulted in a cumulative unrealized loss of $318,891.50. Three endowments are separately invested by the foundation. At June 30, 2019, the cost and fair value for these endowments were $1,998,388.18 and $2,242,299.45, which resulted in a cumulative unrealized gain of $243,911.27. All endowments at the foundation are donor restricted. Endowment earnings transferred to the university were $9,074,865.92 for fiscal year 2019.

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	$ 2,134,247.54	$ 257,573,559.44	$ 259,707,806.98
Contributions received	-	53,970,507.52	53,970,507.52
Transfers to endowments	-	11,003.32	11,003.32
Investment earnings	9,110,621.43	941,308.92	10,051,930.35
Fair value adjustment	(1,999,499.71)	(64,074.89)	(2,063,574.60)
Disbursements	(9,074,865.92)	(109,500.00)	(9,184,365.92)
Ending balance	$ 170,503.34	$ 312,322,804.31	$ 312,493,307.65

Historically, the university had calculated its spending policy distributions by taking 4.5% of a three-year fair value average each December 31. In fiscal year 2016, the university began transitioning to a seven-year moving average, by adding one year's value to the moving average calculation. This transition was completed during fiscal year 2019.

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 recorded amount of assets measured at fair value on a recurring basis:

Investments:	Level 1	Level 2	Level 3	Total
University	$ -	$ -	$ 303,308,205.08	$ 303,308,205.08
Foundation	11,746,906.74	46,835,240.20	-	58,582,146.94
Total investments	$ 11,746,906.74	$ 46,835,240.20	$ 303,308,205.08	$ 361,890,352.02

The foundation does not hold any Level 3 investments directly; therefore, the schedule of annual financial activities for Level 3 investments represents investments held by the university measured at their fair value on a recurring basis from reliance on Level 3 inputs for determining their fair value.

Beginning balance	$ 138,394,532.61
Transfers from Level 1	72,997,874.11
Transfers from Level 2	99,732,990.77
Total realized and unrealized gains and losses included in earnings	(2,093,446.04)
Net purchases, issuances, settlements, and other	(5,723,746.37)
Ending balance	$ 303,308,205.08

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 by the bank 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, 2019, totaled $8,464,808.48, 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, 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date:

Cash and cash equivalents	$ 13,967,517.90
Cash surrender value of life insurance	634,685.61
Accounts receivable	217,164.92
Unconditional promises to give	142,720,935.33
Investments	361,890,352.02
Total financial assets	519,430,655.78
Less those unavailable for general expenditures within one year due to:	
Donor-imposed restrictions	(498,845,210.99)
Financial assets available to meet cash needs for general expenditures within one year	$ 20,585,444.79

As of June 30, 2019, $498,845,210.99 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 $71.5 million. Average operating expenses, other than program expenses, are approximately $28.5 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, 2019, are as follows:

	Natural Classification			
Functional Classification	Salaries	Benefits	Other Operating	Total
Program expenses	$ 4,802,650.42	$1,600,883.47	$ 65,084,040.42	$ 71,487,574.31
General and administrative	16,993,308.06	5,664,436.03	9,379,732.46	32,037,476.55
Total expenses	$21,795,958.48	$7,265,319.50	$ 74,463,772.88	$103,525,050.86

Note 26. Component Unit – University of Tennessee Research Foundation

The University of Tennessee Research 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 Research Foundation is a legally separate, tax-exempt organization supporting the University of Tennessee. The foundation has 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.

Complete financial statements for the research foundation can be obtained from the University of Tennessee Research Foundation, Suite 211, UT Conference Center Building, 600 Henley Street, Knoxville, TN 37996-4122.

Organization and Nature of Activities

The University of Tennessee Research 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 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.

Space Institute Research Corporation (SIRC), a wholly owned nonprofit subsidiary of the University of Tennessee Research Foundation, was formed in 2011 and renamed as SIRC on June 2, 2017. The management of the property, activities, and affairs of SIRC is vested in its board of directors. The board is composed of seven voting directors. As of June 30, 2019, SIRC had total assets of $8,392 and total revenues of $6,616 for the year then ended.

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 five voting directors. As of June 30, 2019, CFDC had total assets of $1,371,690 and total revenue of $258,416 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 board of directors. The board is composed of three voting directors. As of June 30, 2019, CFPI had total assets of $1,026,950 and total revenue of $108,516 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. The board is composed of fourteen voting directors, one of whom is a representative of UTRF, and another representing the University of Tennessee. As of June 30, 2019, CCS had total assets of $12,509,329 and total revenue of $15,272,367 for the year then ended.

Clinical Trials Network of Tennessee (CTN2), a wholly owned nonprofit subsidiary of the University of Tennessee Research Foundation, was formed on December 8, 2017. The management of the property, activities, and affairs of CTN2 is vested in its board of directors. The board is composed of ten voting directors. As of June 30, 2019, CTN2 had total assets of $404,142 and total revenue of $10,615 for the year then ended.

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.

Impairment of Long-Lived Assets

During the prior year, TennEra determined the biorefinery to be impaired by $26,879,567, and this amount is considered as part of accumulated depreciation at June 30, 2019. Management reevaluated this impairment in 2019 and determined no additional impairment was necessary.

Property and Equipment

Property and equipment consist of the following major classifications at June 30, 2019:

Office furniture and equipment	$ 133,188
Less accumulated depreciation	(126,385)
Total	6,803
TennEra	
Land	64,044
Buildings	36,979,029
Machinery and equipment	921,439
Less accumulated depreciation	(33,925,470)
Total TennEra	4,039,042
Cherokee Farm	
Office furniture and equipment	1,739
Less accumulated depreciation	(1,739)
Total Cherokee Farm	-
Collaborative Composite Solutions Corporation	
Equipment	402,072
Software– member portal	263,735
Less accumulated depreciation	(181,101)
Total Collaborative Composite Solutions Corporation	484,706
Total	$ 4,530,551

Depreciation expense for the foundation and its subsidiaries totaled $242,614 for the year ended June 30, 2019.

Note Receivable from Sale of Biomass Innovation Park

In May 2016, TennEra sold its Biomass Innovation Park to Genera Energy, Inc. for $1,850,000. A promissory note for $1,600,000 was issued and payable in quarterly installments beginning in August 2016 with the note maturing in May 2021. Interest accrues on the unpaid balance at 5% per year. The note is secured by a pledge of 89,000 shares of Class M stock of Genera Energy, Inc. No payments were paid to TennEra during the year ended June 30, 2019. The balance of the note receivable including accrued interest is $932,054 at June 30, 2019. The balance of the note was paid in full in July 2019.

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, 2019.

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, 2019.

Investments in Genera Energy, Inc. and Prisma Renewable Composites, LLC – Investments which consist of TennEra's remaining noncontrolling investment in deconsolidated subsidiaries is 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 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 valuation resulted in a loss on investments of $850,061 for Prisma Renewable Composites, LLC for the year ended June 30, 2019.

The following table provides the assets carried at fair value measured on a recurring basis as of June 30, 2019:

	Level 1	Level 2	Level 3	Total
Registered investment companies	$ 12,775	$ -	$ -	$ 12,775
Marketable equity securities	123,490	-	-	123,490
Genera Energy, Inc.	-	-	27,000	27,000
Cherokee Farm Properties, Inc.	-	-	849,601	849,601
Non-marketable equity securities	-	-	9,945	9,945
	$136,265	$ -	$ 886,546	$ 1,022,811

Change in Accounting Principle

On August 18, 2016 the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities.*

A summary of the net asset reclassifications driven by the adoption of ASU 2016-14 as of June 30, 2019, follows:

As originally stated:	Unrestricted	Temporarily Restricted	Total
Net assets, beginning of year	$ 374,019	$18,573,350	$18,947,369

As restated:	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	$12,984,137	$ 5,963,232	$18,947,369

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	$ 8,556,029
Contract receivables and accrued revenues, net	10,226,743
Contribution receivable from the University of Tennessee	2,003,521
Due from the University - other	247,184
University of Tennessee budget encumbrances	1,278,343
Note receivable from related party	932,054
Prepaid expenses	164,013
Other assets	4,970
Total financial assets available to meet general expenditures within the next 12 months	$ 23,412,857

Natural Classifications with Functional Classifications

The foundation’s operating expenses by functional classification for the year ended June 30, 2019, are as follows:

	Natural Classification				
Functional Classification	Salaries	Benefits	Other Operating	Depreciation	Total
Program services	$ 7,184,549	$1,689,098	$ 10,363,168	$ 942	$ 19,237,757
Support activities	197.537	95,872	925,627	241,672	1,460,708
Total	$ 7,382,086	$1,784,970	$ 11,288,795	$ 242,614	$ 20,698,465

Note 27. Subsequent Events

In September 2019, the Tennessee State School Bond Authority (TSSBA) issued additional bonded indebtedness, of which $44,484,542 was for university projects. This issuance increased the university's TSSBA indebtedness by $39,809,542, as the issuance repaid $4,675,000 of revolving credit facility debt related to these projects existing at June 30, 2019.

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

	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
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.

THE UNIVERSITY OF TENNESSEE
Required Supplementary Information
Schedule of 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
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.

THE UNIVERSITY OF TENNESSEE
Required Supplementary Information
Schedule of 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	Contributions as a Percentage of Covered Payroll
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%
2013	$47,508,571	$47,508,571	-	$316,091,623	15.03%
2012	$44,814,906	$44,814,906	-	$300,569,457	14.91%
2011	$43,343,861	$43,343,861	-	$290,703,293	14.91%
2010	$37,266,850	$37,266,850	-	$286,227,727	13.02%

Notes to Schedule:

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

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

THE UNIVERSITY OF TENNESSEE
Required Supplementary Information
Schedule of 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	Contributions as a Percentage of Covered Payroll
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:

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

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.

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

Civil Service Retirement System

2019	$116,415
2018	$129,341
2017	$169,500
2016	$196,496
2015	$230,096
2014	$282,875
2013	$302,616
2012	$321,989
2011	$339,588
2010	$411,179

Federal Employees Retirement System

2019	$1,646,760
2018	$1,669,674
2017	$1,639,831
2016	$1,586,644
2015	$1,492,262
2014	$1,455,815
2013	$1,478,574
2012	$1,439,573
2011	$1,380,360
2010	$1,360,281

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

Amounts Expressed in Thousands

	2019	2018
University's proportion of the collective total OPEB liability	17.142370%	15.922879%
University's proportionate share of the collective total OPEB liability	$237,463	$213,771
University's covered-employee payroll	$661,143	$707,387
University's proportionate share of the collective total OPEB liability as a percentage of its covered-employee payroll	35.92%	30.22%

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.

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

Amounts Expressed in Thousands

	2019	2018
University's proportion of the collective total OPEB liability	0.0%	0.0%
University's proportionate share of the collective total OPEB liability	$ -	$ -
Primary government's proportionate share of the collective total OPEB liability	$ 32,837	$ 31,316
Total OPEB liability associated with the university	$ 32,837	$ 31,316
University's covered-employee payroll	$759,811	$800,789
University's proportionate share of the collective total OPEB liability as a percentage of its covered-employee payroll	0.0%	0.0%

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

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

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

THE UNIVERSITY OF TENNESSEE
Supplementary Combining Schedule of Net Position
June 30, 2019

	Knoxville	Chattanooga	Martin	Health Science Center	Other Units	Total University
Assets						
Current assets:						
Cash and cash equivalents	$ 138,466,862.47	$ 25,805,798.18	$ 10,877,855.35	$ 35,510,559.38	$ 147,446,698.67	$ 358,107,774.05
Investments	78,473,105.91	1,629,547.30	7,248,433.31	26,704,768.48	27,092,850.06	141,148,705.06
Accounts, notes, and grants receivable (net)	32,703,357.46	9,081,922.53	2,556,519.72	5,698,170.89	27,234,021.19	77,273,991.79
Inventories	4,554,707.90	89,180.85	535,298.00	1,168,647.65	201,967.11	6,549,801.51
Prepaid expenses	3,896,283.81	161,073.63	290,482.87	471,803.09	(306,202.98)	4,513,440.42
Total current assets	258,094,317.55	36,767,522.49	21,508,589.25	69,553,949.49	201,669,334.05	587,593,712.83
Noncurrent assets:						
Cash and cash equivalents	623,685,863.03	66,818,188.37	34,555,657.26	108,406,643.02	98,980,681.14	932,447,032.82
Investments	442,807,046.44	20,833,474.91	26,428,773.56	158,716,750.47	289,226,652.83	938,012,698.21
Accounts, notes, and grants receivable (net)	56,296,920.74	8,101,890.17	4,513,877.83	42,964,847.07	9,158,244.41	121,035,780.22
Capital assets (net)	1,992,410,622.15	321,472,824.50	135,886,211.89	301,881,108.43	41,397,880.50	2,793,048,647.47
Net pension asset	2,305,458.00	419,270.00	187,261.00	1,305,611.00	281,239.00	4,498,839.00
Annuities held by others	-	-	-	-	4,364,634.90	4,364,634.90
Total noncurrent assets	3,117,505,910.36	417,645,647.95	201,571,781.54	613,274,959.99	443,409,332.78	4,793,407,632.62
Total assets	3,375,600,227.91	454,413,170.44	223,080,370.79	682,828,909.48	645,078,666.83	5,381,001,345.45
Deferred outflows of resources						
Deferred amount on debt refunding	8,106,140.97	2,677,859.21	4,754,272.17	2,429,403.45	620,412.47	18,588,088.27
Deferred outflows related to pensions	51,383,191.70	8,628,117.97	5,423,320.84	21,675,523.50	15,657,644.99	102,767,799.00
Deferred outflows related to OPEB	21,459,865.00	4,056,884.00	2,680,315.00	12,167,309.00	3,691,042.00	44,055,415.00
Total deferred outflows of resources	80,949,197.67	15,362,861.18	12,857,908.01	36,272,235.95	19,969,099.46	165,411,302.27
Liabilities						
Current liabilities:						
Accounts payable	37,171,801.85	8,328,214.07	2,048,187.03	14,292,336.86	49,871,292.64	111,711,832.45
Accrued liabilities	27,196,466.88	5,902,266.72	3,828,005.65	3,208,661.72	24,392,649.85	64,528,050.82
Unearned revenue	47,483,334.97	6,528,968.81	2,284,994.39	9,568,505.02	529,516.31	66,395,319.50
Due to component unit	-	-	-	82,539.37	164,644.15	247,183.52
Deposits payable	890,746.68	1,606,549.47	389,014.19	1,248,200.34	32,622.47	4,167,133.15
Annuities and life income payable	-	-	-	-	2,866,144.74	2,866,144.74
Total OPEB liability	9,491,758.25	1,824,808.71	1,195,564.33	5,568,812.80	1,582,942.90	19,663,887.00
Long-term liabilities, current portion	54,033,068.22	7,508,851.18	4,443,787.45	22,044,160.72	4,235,859.75	92,265,727.32
Deposits held in custody for others	5,063,654.77	81,009.32	13,128.93	220,740.50	2,072,245.45	7,450,778.97
Total current liabilities	181,330,831.62	31,780,668.28	14,202,681.97	56,233,957.33	85,747,918.26	369,296,057.47
Noncurrent liabilities:						
Unearned revenue	-	-	-	-	12,073,457.00	12,073,457.00
Net pension liability	88,251,448.19	16,310,159.00	11,064,218.00	41,801,953.00	48,274,345.81	205,702,124.00
Total OPEB liability	108,075,526.75	19,730,720.29	13,267,461.67	56,992,885.20	19,732,191.10	217,798,785.00
Long-term liabilities, noncurrent portion	799,759,057.83	121,209,306.82	63,941,753.71	82,754,087.57	11,825,699.55	1,079,489,905.48
Due to grantors	10,248,056.01	1,553,420.34	2,081,644.52	6,540,492.04	-	20,423,612.91
Annuities and life income payable	-	-	-	-	14,227,038.31	14,227,038.31
Deposits held in custody for component units	-	-	-	-	303,308,205.08	303,308,205.08
Total noncurrent liabilities	1,006,334,088.78	158,803,606.45	90,355,077.90	188,089,417.81	409,440,936.85	1,853,023,127.78
Total liabilities	1,187,664,920.40	190,584,274.73	104,557,759.87	244,323,375.14	495,188,855.11	2,222,319,185.25
Deferred inflows of resources						
Deferred inflows related to pensions	3,661,238.86	1,354,970.00	901,289.00	2,620,018.00	1,911,150.14	10,448,666.00
Deferred inflows related to OPEB	7,835,074.00	1,491,148.00	981,066.00	4,434,745.00	1,326,364.00	16,068,397.00
Deferred inflows related to split-interest agreements	-	-	-	-	29,601,368.97	29,601,368.97
Total deferred inflows of resources	11,496,312.86	2,846,118.00	1,882,355.00	7,054,763.00	32,838,883.11	56,118,431.97
Net position						
Net investment in capital assets	1,183,027,841.01	201,801,530.24	75,463,192.36	229,593,368.72	41,397,880.00	1,731,283,812.33
Restricted for:						
Nonexpendable (permanent endowments)	350,475,016.20	17,983,529.98	20,967,739.50	131,774,117.00	4,297,599.22	525,498,001.90
Expendable for other	251,189,411.01	6,687,913.96	16,246,959.55	192,551,113.73	37,098,480.28	503,773,878.53
Expendable for pensions	3,653,104.00	663,915.00	300,026.00	2,064,986.00	446,035.00	7,128,066.00
Expendable for loans	2,429,298.76	1,098,989.09	740,971.19	2,042,099.60	-	6,311,358.64
Expendable for capital projects	20,977,942.23	158,120.81	12,154.93	12,733.93	-	21,160,951.90
Expendable for debt service	533,012.99	-	215,769.82	-	-	748,782.81
Unrestricted	445,102,566.12	47,951,639.81	15,551,350.58	(90,315,411.69)	53,780,033.57	472,070,178.39
Total net position	$ 2,257,388,192.32	$ 276,345,638.89	$ 129,498,163.93	$ 467,723,007.29	$ 137,020,028.07	$ 3,267,975,030.50

THE UNIVERSITY OF TENNESSEE
Supplementary Combining Schedule of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2019

	Knoxville	Chattanooga	Martin	Health Science Center	Other Units	Total University
Revenues						
Operating revenues:						
Gross tuition and fees	$ 483,674,920.27	$ 117,943,955.95	$ 61,133,739.00	$ 94,164,607.85	$ -	$ 756,917,223.07
Less: tuition discounts and allowances	(150,925,160.52)	(49,334,913.77)	(32,328,130.39)	(8,503,585.80)	-	(241,091,790.48)
Net student tuition and fees	332,749,759.75	68,609,042.18	28,805,608.61	85,661,022.05	-	515,825,432.59
Federal appropriations	15,910,298.00	-	-	-	-	15,910,298.00
Governmental grants and contracts	173,467,945.22	6,478,044.17	3,349,437.05	89,192,512.46	6,809,967.43	279,297,906.33
Nongovernmental grants and contracts	48,492,972.78	1,794,508.38	1,376,475.06	138,143,794.12	39,921,975.99	229,729,726.33
Sales and services of educational departments and other activities	35,447,611.42	5,385,426.99	4,292,720.74	20,039,592.32	-	65,165,351.47
Auxiliary enterprises:						
Residential life	49,722,613.36	13,259,169.03	7,175,187.09	-	-	70,156,969.48
Food services	9,544,483.96	1,289,379.23	564,806.77	204,847.31	-	11,603,517.27
Bookstore	20,145,205.68	687,510.15	539,132.54	-	-	21,371,848.37
Parking	7,567,327.77	3,033,081.09	543,980.63	1,389,278.12	-	12,533,667.61
Athletics	134,394,255.23	328,570.51	-	-	-	134,722,825.74
Other auxiliaries	1,865,756.15	110,454.21	41,916.26	(228,131.95)	-	1,789,994.67
Interest earned on loans to students	15,535.52	6.00	-	1,516.33	-	17,057.85
Other operating revenues	8,313,048.92	229,493.46	720,074.73	1,230,213.87	12,391,047.69	22,883,878.67
Total operating revenues	837,636,813.76	101,204,685.40	47,409,339.48	335,634,644.63	59,122,991.11	1,381,008,474.38
Expenses						
Operating expenses:						
Salaries and wages	588,783,074.35	96,305,665.57	52,876,390.15	331,155,587.11	69,671,698.82	1,138,792,416.00
Benefits	223,070,043.99	36,087,320.43	21,251,727.22	101,940,941.46	27,215,415.47	409,565,448.57
Utilities, supplies, and other services	315,447,537.37	50,902,282.60	27,004,957.04	144,037,513.80	25,957,788.02	563,350,078.83
Scholarships and fellowships	44,729,022.35	9,515,424.77	8,220,171.37	4,401,785.94	203,603.50	67,070,007.93
Depreciation and amortization expense	89,705,485.49	10,089,738.12	6,994,820.25	23,407,346.79	2,822,031.65	133,019,422.30
Total operating expenses	1,261,735,163.55	202,900,431.49	116,348,066.03	604,943,175.10	125,870,537.46	2,311,797,373.63
Operating income (loss)	(424,098,349.79)	(101,695,746.09)	(68,938,726.55)	(269,308,530.47)	(66,747,546.35)	(930,788,899.25)
Nonoperating revenues (expenses)						
State and local appropriations	353,756,706.10	58,697,188.00	36,338,571.00	167,342,895.35	28,063,103.61	644,198,464.06
Gifts	14,675,703.60	2,672,179.55	3,683,756.86	12,971,410.00	1,695,338.77	35,698,388.78
Grants and contracts	89,310,083.76	40,681,908.91	26,440,046.99	69,491,561.56	-	225,923,601.22
Investment income	25,784,050.41	3,774,930.24	1,673,878.81	9,005,241.32	77,077,687.68	117,315,788.46
Interest on capital asset - related debt	(28,342,522.72)	(4,197,217.91)	(2,545,126.76)	(2,925,471.57)	(318,269.69)	(38,328,608.65)
Other nonoperating revenues (expenses)	(1,931,188.17)	(12,394.85)	(68,674.59)	(785,419.41)	(1,100,162.93)	(3,897,839.95)
Net nonoperating revenues (expenses)	453,252,832.98	101,616,593.94	65,522,452.31	255,100,217.25	105,417,697.44	980,909,793.92
Income (loss) before other revenues, expenses, gains, or losses	29,154,483.19	(79,152.15)	(3,416,274.24)	(14,208,313.22)	38,670,151.09	50,120,894.67
Capital appropriations	37,901,213.11	14,042,493.04	8,913,919.64	24,430,994.89	496,630.95	85,785,251.63
Capital grants and gifts	20,531,409.09	-	394,513.21	17,713.00	-	20,943,635.30
Additions to permanent endowments	6,803,490.99	66,075.65	183,341.47	1,163,384.38	183,498.66	8,399,791.15
Other	395,190.39	5,961.00	112,114.00	59,000.00	2,287,404.89	2,859,670.28
Total other revenues	65,631,303.58	14,114,529.69	9,603,888.32	25,671,092.27	2,967,534.50	117,988,348.36
Increase (decrease) in net position	94,785,786.77	14,035,377.54	6,187,614.08	11,462,779.05	41,637,685.59	168,109,243.03
Net position						
Net position - beginning of year	2,162,602,405.55	262,310,261.35	123,310,549.85	456,260,228.24	120,654,836.64	3,125,138,281.63
Prior-period adjustment	-	-	-	-	(25,272,494.16)	(25,272,494.16)
Net position - beginning of year, restated	2,162,602,405.55	262,310,261.35	123,310,549.85	456,260,228.24	95,382,342.48	3,099,865,787.47
Net position - end of year	$ 2,257,388,192.32	$ 276,345,638.89	$ 129,498,163.93	$ 467,723,007.29	$ 137,020,028.07	$ 3,267,975,030.50

THE UNIVERSITY OF TENNESSEE
Supplementary Schedule of Unrestricted Net Position
June 30, 2019

Working capital	$	28,771,228.99
Revolving funds		23,886,169.65
Encumbrances		3,510,352.64
Auxiliaries		9,964,429.36
Unallocated Educational & General		58,607,852.08
Reappropriations		2,244,809.15
Quasi-endowments		13,985,044.06
Plant construction		111,459,305.98
Renewal and replacement funds		579,540,620.38
Debt service		35,227,491.18
		867,197,303.47
Investment in plant, interest payable		(7,200,415.57)
Undesignated deficit		(387,926,709.51)
Total	$	472,070,178.39

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

Justin P. Wilson
Comptroller

Jason E. Mumpower
Deputy 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, Interim 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, 2019, 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 16, 2019. 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, Inc., 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.

Internal Control Over Financial Reporting

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

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

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 a deficiency in internal control, as described below, that we consider to be a significant deficiency.

- The University of Tennessee did not provide adequate internal controls in one area that was reported in the prior two audits.

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

Compliance and Other Matters

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

The University of Tennessee's Response to Finding

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

Purpose of This Report

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

Deborah V. Loveless

Deborah V. Loveless, CPA, Director
Division of State Audit
December 16, 2019

Finding and Recommendation

The University of Tennessee did not provide adequate internal controls in one area that was reported in the prior two audits

For the third consecutive year, the University of Tennessee did not design and monitor effective internal controls in one area. We observed conditions at both the Knoxville and Martin campuses that were in violation of university policies and industry-accepted best practices, including a system-wide condition that affected both campuses. The control deficiency at the Martin campus was repeated from the prior two audits. The control deficiency at the Knoxville campus and the system-wide deficiency was repeated from the prior audit. Although management has taken steps to correct the system-wide condition and the condition at the Knoxville campus, that corrective action was not sufficient. Management has not taken steps to correct the condition at the Martin campus.

Ineffective implementation of internal controls increases the likelihood of errors, data loss, and unauthorized access to university information. Pursuant to Standard 4.40 of the U.S. Government Accountability Office's Government Auditing Standards, we omitted details from this finding because they are confidential under the provisions of Section 10-7-504(i), *Tennessee Code Annotated.* We provided the university with detailed information regarding the specific conditions we identified, as well as the related criteria, causes, and our specific recommendations for improvement.

Recommendation

Management should ensure that these conditions are corrected by promptly developing and consistently implementing internal controls in these areas.

Management's Comment

We concur. A solution is being built for the Martin campus and will be in place soon. We have implemented one step to improve the system-wide deficiency, but additional action is needed. Pertinent system and campus staffs will meet to review the current process and take all available steps to streamline this process while maintaining adequate controls.