East Tennessee State University

2015-2016 Financial Report

EAST TENNESSEE STATE UNIVERSITY

Financial Report

For Year Ended June 30, 2016

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EAST TENNESSEE STATE
UNIVERSITY
Office of the President

November 7, 2016

Mr. David Gregory, Chancellor
Tennessee Board of Regents
1 Bridgestone Park, Third Floor
Nashville, TN 37214

Dear Chancellor Gregory:

Enclosed herewith is the Annual Financial Report of East Tennessee State University for the fiscal year ending June 30, 2016.

Sincerely,

Dr. Brian E. Noland
President

PO Box 70734 Johnson City, TN 37614-1710 | P 423-439-4211 | F 423-439-4004
www.etsu.edu/president

ETSU

East Tennessee State University
Vice President for Finance and Administration • Chief Financial Officer of the ETSU Foundation
Box 70601 • Johnson City, Tennessee 37614-1708 • (423) 439-5884 • Fax: (423) 439-4620
E-mail: collinsd@etsu.edu

November 7, 2016

Dr. Brian E. Noland, President
East Tennessee State University
Box 70734
Johnson City, TN 37614

Dear Dr. Noland:

Transmitted herewith is the Annual Financial Report of East Tennessee State University for the fiscal year ending June 30, 2016.

This report has been prepared in accordance with the generally accepted accounting principles as provided by the Governmental Accounting Standards Board with other appropriate agencies.

The financial report is unaudited. The most recent audit covered the year ending June 30, 2015, for which an audit report has been issued. The University received an unqualified opinion on that report.

Sincerely,

David D. Coll

David D. Collins
Vice President for Finance and Administration

enclosure

EAST TENNESSEE STATE UNIVERSITY

2016 Management's Discussion and Analysis

This section of East Tennessee State University's annual financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2016, with comparative information presented for the fiscal years ended June 30, 2015. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

The university has two discretely presented component units, the East Tennessee State University Foundation and the Medical Education Assistance Corporation (MEAC). More detailed information about the university's component units is presented in Note 22 to the financial statements. This discussion and analysis focuses on the university and does not include the foundation or MEAC.

Overview of the Financial Statements

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

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

The Statement of Net Position

The statement of net position is a point in time financial statement. The statement of net position presents the financial position of the university at the end of the fiscal year. To aid the reader in determining the university's ability to meet immediate and future obligations, the statement includes all assets, liabilities, deferred outflows/inflows, 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, 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 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 sub-divided into two categories, nonexpendable and expendable. Nonexpendable restricted net position includes endowment and similar resources whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity. Expendable restricted net position is available for expenditure by the university but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the resources. The final category is unrestricted net position. Unrestricted net position is available to the university for any lawful purpose of the university.

The following table summarizes the university's assets, liabilities, deferred outflows/inflows, and net position at June 30, 2016, and June 30, 2015.

Summary of Net Position
(in thousands of dollars)

	2016	2015
Assets:		
Current assets	$ 33,215	$ 26,394
Capital assets, net	293,631	295,798
Other assets	134,965	128,001
Total Assets	**461,811**	**450,193**
Deferred Outflows of Resources		
Deferred loss on debt refunding	6,758	7,279
Deferred outflows related to pensions	20,928	8,213
Total Deferred Outflows	**27,686**	**15,492**
Liabilities:		
Current liabilities	45,179	38,881
Noncurrent liabilities	197,247	190,289
Total Liabilities	**242,426**	**229,170**

Deferred Inflows of Resources		
Deferred inflows related to pensions	15,452	20,291
Total Deferred Inflows	**15,452**	**20,291**
Net Position:		
Net investment in capital assets	154,129	155,986
Restricted – expendable	5,842	6,552
Unrestricted	71,648	53,686
Total Net Position	**$231,619**	**$216,224**

Comparison of fiscal year 2016 to fiscal year 2015

- Current assets increased from 2015 to 2016 due to increases in accounts receivable for sales and services related to College of Medicine resident's participation agreements and implementation of a new food service contract, as well as increases in current cash for plant and quasi-endowment funds.

- Capital assets, net of depreciation, remained relatively flat because increases of capital projects are offset by depreciation expense.

- In 2016, other assets increased due to increases in non-current cash held in plant funds for major renovation of the DP Culp Student Center, and construction of a new fine arts building, data center, and football stadium.

- Deferred outflows increased during the year primarily due to calculations of investment earnings and actuarial experience related to the Tennessee Consolidated Retirement System pensions for fiscal year 2015. Further information on pensions can be found in Note 12 of the financial statements.

- Current liabilities increased from 2015 to 2016 due to increases in accrued liabilities for ongoing construction projects and accounts payable related to the implementation of a new food service contract.

- In 2016, noncurrent liabilities increased primarily due to a $12.5 million increase in recorded net pension liability. Further information regarding pensions can be found in Note 12 of the financial statements.

- Invested in capital assets remained relatively unchanged in 2016.

- Restricted expendable net position decreased with decreases in balances held for student loans and transfer of restricted scholarship funds to the ETSU Foundation.

- Unrestricted net position increased from 2015 to 2016 primarily due to increases related to ongoing campus construction projects and increases in working capital for accounts receivable.

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

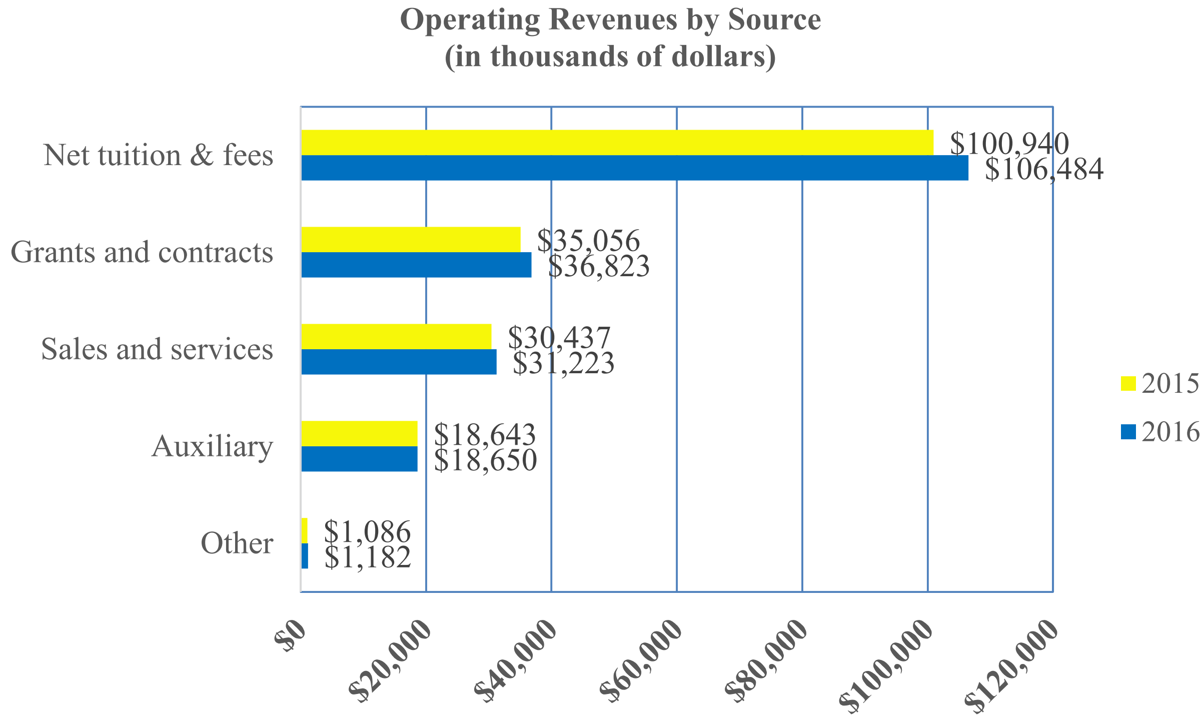
A summary of the university's revenues, expenses, and changes in net position for the year ended June 30, 2016, and June 30, 2015, follows.

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

	2016	2015
Operating revenues	$ 194,363	$ 186,164
Operating expenses	326,041	313,057
Operating loss	(131,678)	(126,893)
Nonoperating revenues and expenses	143,995	135,784
Income (loss) before other revenues, expenses, gains, or losses	12,317	8,891
Other revenues, expenses, gains, or losses	3,078	6,697
Increase (decrease) in net position	15,395	15,588
Net position at beginning of year	216,224	232,912
Cumulative effect of change in accounting principle	-	(32,276)
Net position at beginning of year – restated	**216,224**	**200,636**
Net position at end of year	**$ 231,619**	**$ 216,224**

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 FY 2016 to FY 2015

- Tuition and fees increased in 2016 due to an average 3% tuition increase, increases in other mandatory fees, and increases in graduate enrollment, less discounts for tuition and fees offered to eligible students and reported as a scholarship allowance in the financial statements.

- Governmental grants and contracts increased primarily due to in funding through private grants and contracts for an outpatient drug program and forensic services.

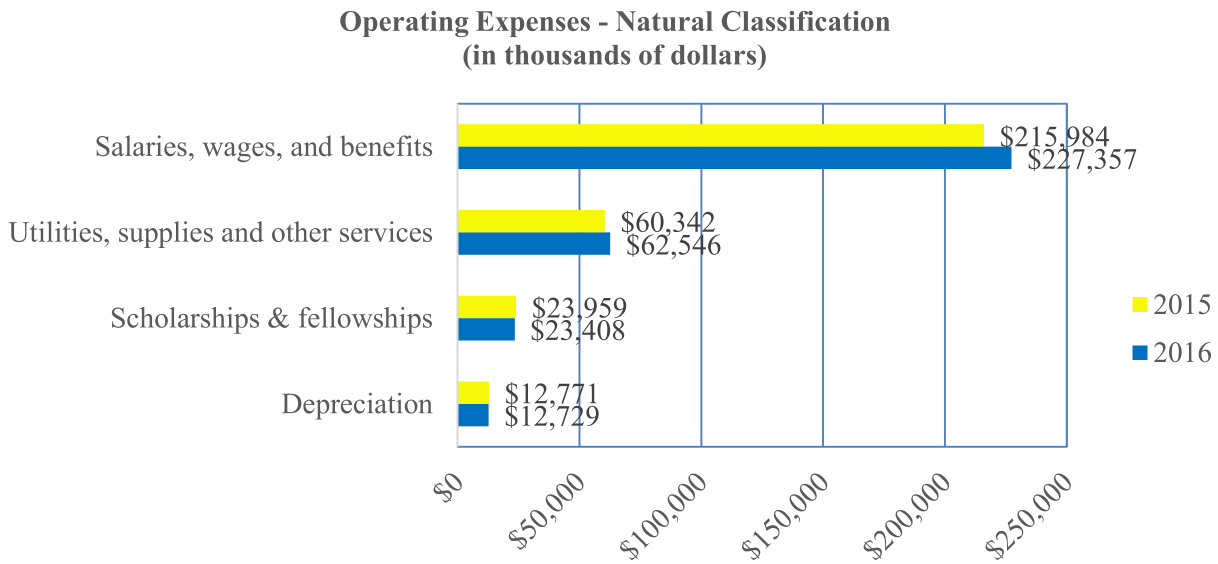
- Sales and services increased slightly from 2015 to 2016 due to significant increases in athletic ticket sales, game guarantees, conference revenue, and athletics advertising.

- Auxiliaries and other operating revenues remained relatively flat.

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:



<u>Comparison of FY 2016 to FY 2015</u>

- Salaries, wages and benefits increased in fiscal year 2016 due to a 2% across the board pay increase and increases in cost for health insurance and other employee benefits.

- Operating expenses increased with maintenance and repairs services including repairs for elevators and lighting, and campus housing improvements provided by increased funding for operations.

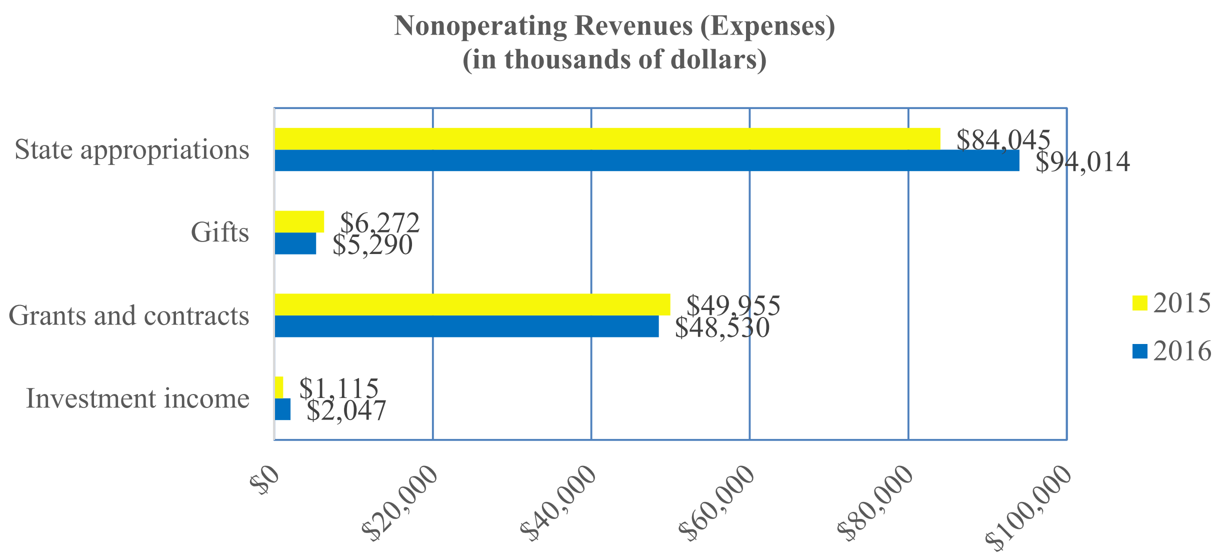
- Scholarships and depreciation remained relatively unchanged from 2015 to 2016.

<u>Nonoperating Revenues and Expenses</u>

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

Nonoperating Revenues (Expenses)
(in thousands of dollars)

	2016	2015
State appropriations	$ 94,014	$ 84,045
Gifts	5,290	6,272
Grants and contracts	48,530	49,955
Investment income	2,047	1,115
Interest on capital asset-related debt	(5,597)	(5,320)
Bond issuance costs	(38)	(158)
Other non-operating expenses	(251)	(125)
Total nonoperating revenues/(expenses)	**$ 143,995**	**$ 135,784**



Comparison of FY 2016 to FY 2015

- State appropriations increased due to receiving over $9 million in increased appropriation in fiscal year 2016 for salary, benefits, and operating increases.

- Nonoperating gifts decreased from 2015 to 2016 due to a reduction in gifts from the ETSU Foundation in the current year.

- Nonoperating grants and contracts decreased due to reductions in funding through Pell grants and Tennessee Lottery grants.

- Investment income increased due to increases in rates of return for investments.

- Interest on capital asset-related debt remained relatively flat.

- ♦ Bond issuance costs decreased due to decreases in TSSBA bonding activity.

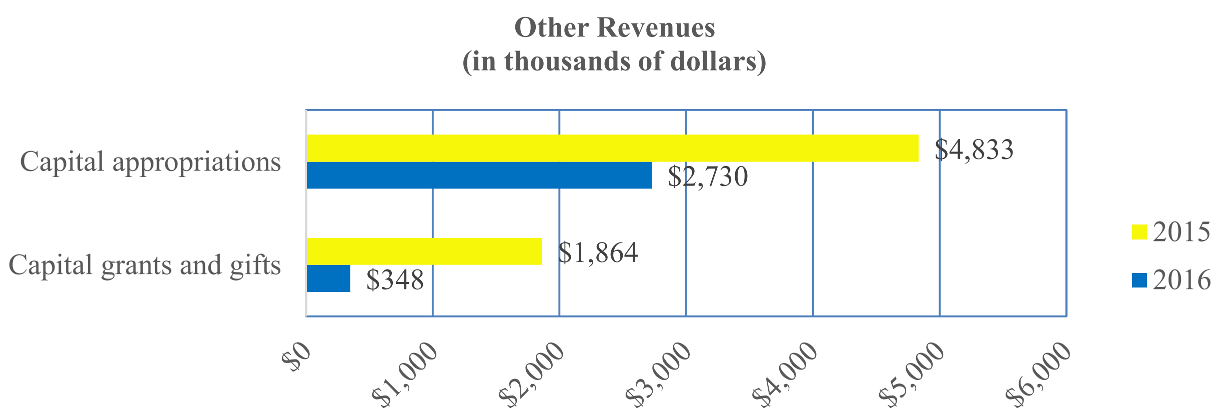
- ♦ Other nonoperating expenses increased as a result of loss on disposal of equipment and improvements.

Other Revenues

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

Other Revenues
(in thousands of dollars)

	2016	2015
Capital appropriations	$ 2,730	$ 4,833
Capital grants and gifts	348	1,864
Total other revenues	**$ 3,078**	**$ 6,697**



Comparison of FY 2016 to FY 2015

- ♦ Capital appropriations decreased from 2015 to 2016 due to a decrease in unexpended state appropriations for capital projects.

- ♦ Capital gifts and grants decreased due to a $1.5 million one-time gift for the fine arts building from the ETSU Foundation in fiscal year 2015.

Capital Assets and Debt Administration

Capital Assets

East Tennessee State University had $296 million invested in capital assets, net of accumulated depreciation of $221 million at June 30, 2016; and $296 million invested in capital assets, net of accumulated depreciation of $210 million at June 30, 2015. Depreciation charges totaled $13 million for the years ended June 30, 2016, and June 30, 2015.

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

	2016	2015
Land	$ 17,483	$ 16,482
Land improvements & infrastructure	23,956	25,405
Buildings	232,779	237,183
Equipment	12,812	13,613
Library holdings	323	424
Intangible assets	117	538
Art and historical collections	24	24
Projects in progress	6,137	2,129
Total	**$293,631**	**$295,798**

- Capital assets, net of depreciation, decreased from 2015 to 2016 due to disposals of improvements and equipment and depreciation of existing assets.

At June 30, 2016, outstanding commitments under construction contracts totaled $115 million for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $31 million 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 $146 and $152 million in debt outstanding at June 30, 2016, and June 30, 2015, respectively. The table below summarizes these amounts by type of debt instrument.

Schedule of Outstanding Debt
(in thousands of dollars)

	2016	2015
Revolving Credit Facility	$ 3,102	$ 2,940
Bonds	127,361	132,628
Unamortized Bond Premiums	15,797	16,903
Total	**$146,261**	**$152,471**

The TSSBA has issued bonds with interest rates ranging from 0.65% to 5% due 2043 on behalf of East Tennessee State University. The university is responsible for the debt service of these bonds. The current portion of the $127 million bonds outstanding at June 30, 2016, is $5.5 million.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2016, were as follows:

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

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

Economic Factors That Will Affect the Future

The economic outlook for the State of Tennessee continues to improve. The university is receiving approximately 6.1% increase in state appropriation in fiscal year 17 for salary, benefits and operating increases. This has allowed the university to have the smallest increase in maintenance fees in over thirty years. In addition the university is embarking over $170 million in construction in the next several years which includes major renovations to the public health building and the DP Culp Student Center, and new construction of a fine arts center, data center, simulation center, and football stadium. These projects will fundamentally transform the campus for our students. It is hoped the economy of the state will continue to improve providing increased funding and opportunities for our students.

The Focus on College and University Success (FOCUS) Act became effective July 1, 2016. This Act removes the six universities from the governance of the Tennessee Board of Regents. The universities will remain part of the State University and Community College System of Tennessee, but each will have their own local boards that will provide governance, approve policies, set tuition and fee rates, and hire presidents. The Act also enhances the role of the Tennessee Higher Education Commission (THEC) by requiring THEC to provide greater coordination across the state, including capital project management, institutional mission approval, and higher education finance. The new local board is expected to convene in April 2017. The six universities will continue under the governance of the Tennessee Board of Regents in fiscal year 2017 until the local board is convened.

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

East Tennessee State University
Unaudited Statement of Net Position
June 30, 2016

	ETSU	Component Units: East Tennessee State University Foundation	Component Units: Medical Education Assistance Corporation
Assets			
Current assets:			
Cash and cash equivalents (Notes 2 and 22)	$ 12,863,045.01	$ 1,128,837.08	$ 6,982,159.00
Short-term investments (Note 22)	-	-	5,123,256.00
Accounts, notes, and grants receivable (net) (Note 5)	13,206,324.35	-	4,929,877.00
Due from primary government	4,167,943.35	-	-
Due from component unit	545,131.32	-	-
Inventories (at lower of cost or market)	147,065.71	-	-
Prepaid expenses	1,246,722.66	-	342,471.00
Accrued interest receivable	1,028,914.21	29,824.39	-
Other assets	9,691.70	-	-
Total current assets	33,214,838.31	1,158,661.47	17,377,763.00
Noncurrent assets:			
Cash and cash equivalents (Notes 2 and 22)	64,576,141.93	1,341,840.69	-
Investments (Notes 3, 4, and 22)	64,129,270.00	87,329,193.61	6,284,163.00
Accounts, notes, and grants receivable (net) (Note 5)	6,198,797.36	-	-
Net pension asset	60,758.00	-	-
Pledges receivable (net) (Note 22)	-	4,619,888.51	-
Capital assets (net) (Note 6)	293,631,188.37	21,486.00	4,203,055.00
Other assets	-	12,117.66	-
Total noncurrent assets	428,596,155.66	93,324,526.47	10,487,218.00
Total assets	461,810,993.97	94,483,187.94	27,864,981.00
Deferred outflows of resources			
Deferred loss on debt refunding	6,758,464.77	-	-
Deferred outflows related to pensions	20,927,670.00	-	-
Total deferred outflows of resources	27,686,134.77	-	-
Liabilities			
Current liabilities:			
Accounts payable (Note 9)	4,664,240.80	57,551.31	571,325.00
Investments purchased (Note 9)	1,000,000.00		
Accrued liabilities	9,601,627.21	-	3,183,156.00
Due to primary government	740,694.22	213,645.48	331,485.84
Student deposits	521,396.21	-	-
Unearned revenue	16,099,235.51	-	-
Compensated absences (Note 10 and 22)	3,325,837.70	-	179,330.00
Accrued interest payable	1,014,890.45	-	-
Long-term liabilities, current portion (Note 10)	5,498,190.31	-	-
Deposits held in custody for others	2,712,296.74	-	580,537.00
Other liabilities	-	-	101,636.16
Total current liabilities	45,178,409.15	271,196.79	4,947,470.00
Noncurrent liabilities:			
Net OPEB obligation (Note 13)	13,253,924.40	-	-
Net pension liability (Note 12)	26,681,350.00	-	-
Compensated absences (Note 10 and 22)	8,747,483.16	-	717,320.00
Long-term liabilities (Note 10)	140,762,338.70	-	-
Due to grantors (Note 10)	7,802,160.13	-	-
Total noncurrent liabilities	197,247,256.39	-	717,320.00
Total liabilities	242,425,665.54	271,196.79	5,664,790.00
Deferred inflows of resources			
Deferred inflows related to pensions	15,452,217.00	-	-
Total deferred inflows of resources	15,452,217.00	-	-
Net position			
Net investment in capital assets	159,590,891.43	21,486.00	4,203,055.00
Restricted for:			
Nonexpendable:			
Scholarships and fellowships	-	40,854,816.50	-
Research	-	690,432.28	-
Instructional department uses	-	5,447,787.53	-
Other	-	4,866,462.53	-
Expendable:			
Scholarships and fellowships	126,031.29	13,453,244.33	-
Research	262,854.42	330,932.01	-
Instructional department uses	224,105.63	4,232,066.61	-
Loans	335,006.03	-	-
Capital projects	-	5,773,291.50	-
Debt service	2,927,210.92	-	-
Other	1,967,202.85	15,655,257.02	-
Unrestricted	66,185,943.63	2,886,214.84	17,997,136.00
Total net position	$ 231,619,246.20	$ 94,211,991.15	$ 22,200,191.00

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

East Tennessee State University
Unaudited Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2016

	ETSU	Component Units: East Tennessee State University Foundation	Component Units: Medical Education Assistance Corporation
Revenues			
Operating revenues:			
Student tuition and fees (net of scholarship allowances of $44,935,971.23	$ 106,483,509.67	$ -	$ -
Gifts and contributions	-	3,567,399.37	-
Governmental grants and contracts	25,562,448.57	-	768,590.00
Non-governmental grants and contracts	11,261,018.09	-	-
Sales and services of educational activities	21,697,822.59	-	-
Sales and services of other activities	9,524,871.63	-	-
Net patient revenue	-	-	41,783,471.00
Auxiliary enterprises:			
Residential life (net of scholarship allowances of $247,934.04; all all residential life revenues are used as security for revenue bonds, see Note 11)	14,064,378.15	-	-
Bookstore	329,612.69	-	-
Food service	684,515.58	-	-
Wellness facility	1,419,774.52	-	-
Other auxiliaries	2,152,491.13	-	-
Interest earned on loans to students	201,517.08	-	-
Other operating revenues, foundation revenues include $414,000.00 from MEAC	981,311.03	1,512,138.07	758,419.00
Total operating revenues	194,363,270.73	5,079,537.44	43,310,480.00
Expenses			
Operating Expenses (Note 17)			
Salaries and wages	168,562,471.03	-	28,118,126.00
Benefits	58,795,000.29	-	2,450,961.00
Utilities, supplies, and other services	62,546,217.51	3,082,149.77	8,841,688.00
Scholarships and fellowships	23,408,204.90	1,899,870.42	-
Depreciation expense	12,729,179.82	-	461,690.00
Payments to or on behalf of ETSU (Note 22)	-	2,672,626.53	-
Total operating expenses	326,041,073.55	7,654,646.72	39,872,465.00
Operating income (loss)	(131,677,802.82)	(2,575,109.28)	3,438,015.00
Nonoperating revenues (expenses)			
State appropriations	94,013,850.00	-	-
Gifts, including $2,460,693.17 from ETSU Foundation and $2,127,139.00 from MEAC	5,289,774.10	-	-
Grants and contracts	48,530,025.38	-	-
Investment income (net of investment expense for the componenet units of $146,615.00)	2,047,382.06	(2,637,543.50)	81,632.00
Interest on capital asset-related debt	(5,432,542.12)	-	-
Interest on non-capital debt	(164,686.80)		
Bond issuance costs	(38,601.42)	-	-
Payments to or on behalf of ETSU or ETSU Foundation	-	-	(2,541,139.00)
Other non-operating revenues/(expenses)	(250,508.01)	-	300.00
Net nonoperating revenues	143,994,693.19	(2,637,543.50)	(2,459,207.00)
Income (loss) before other revenues, expenses gains, or losses	12,316,890.37	(5,212,652.78)	978,808.00
Capital appropriations	2,730,515.99	-	-
Capital grants and gifts, including $211,933.36 from ETSU Foundation	347,611.99	12,000.00	-
Additions to permanent endowments	-	1,463,818.29	-
Total other revenues	3,078,127.98	1,475,818.29	-
Increase (decrease) in net position	15,395,018.35	(3,736,834.49)	978,808.00
Net position -beginning of year	216,224,227.85	97,948,825.64	21,221,383.00
Net position - end of year	$ 231,619,246.20	$ 94,211,991.15	$ 22,200,191.00

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

East Tennessee State University
Unaudited Statement of Cash Flows
for the Year Ended June 30, 2016

Cash flows from operating activities	
Tuition and fees	$ 105,711,443.97
Grants and contracts	36,821,106.73
Sales and services of educational activities	19,637,638.95
Sales and services of other activities	9,524,871.63
Payments to suppliers and vendors	(62,105,448.46)
Payments to employees	(165,374,733.90)
Payments for benefits	(62,378,477.03)
Payments for scholarships and fellowships	(23,401,742.21)
Loans issued to students	(1,329,242.28)
Collection of loans from students	1,751,504.14
Interest earned on loans to students	114,793.79
Auxiliary enterprise charges:	
Residence halls	14,091,280.42
Bookstore	330,078.01
Food services	744,191.51
Wellness facility	1,419,774.52
Other auxiliaries	2,134,216.64
Other receipts (payments)	1,061,458.78
Net cash used by operating activities	(121,247,284.79)
Cash flows from non-capital financing activities	
State appropriations	93,836,400.00
Gifts and grants received for other than capital, including $4,587,832.17 from ETSU Foundation to ETSU	53,819,799.48
Private gifts for endowment purposes	-
Federal/state student loan receipts	99,706,824.00
Federal/state student loan disbursements	(99,678,712.00)
Changes in deposits held for others	283,048.95
Principal paid on noncapital debt	(623,353.24)
Interest paid on noncapital debt	(288,649.27)
Other non-capital financing receipts	54,477.95
Net cash provided (used) by non-capital financing activities	147,109,835.87
Cash flows from capital and related financing activities	
Proceeds from capital debt	3,121,365.62
Capital - state appropriation	2,730,515.99
Capital grants and gifts received, including $211,933.36 from ETSU Foundation	339,611.99
Purchase of capital assets and construction	(10,859,228.10)
Principal paid on capital debt and lease	(7,081,992.35)
Interest paid on capital debt and lease	(6,423,796.04)
Bond issue costs paid on new debt issue	(38,601.42)
Net cash provided (used) by capital and related financing activities	(18,212,124.31)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	32,016,072.78
Income on investments	1,651,486.49
Purchase of investments	(32,004,318.75)
Net cash provided (used) by investing activities	1,663,240.52
Net increase (decrease) in cash and cash equivalents	9,313,667.29
Cash and cash equivalents - beginning of year	68,125,519.65
Cash and cash equivalents - end of year (Note 2)	$ 77,439,186.94

East Tennessee State University
Unaudited Statement of Cash Flows
for the Year Ended June 30, 2016

Reconciliation of operating loss to net cash used by operating activities:

Operating loss	$	(131,677,802.82)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense		12,729,179.82
Pension expense		(5,015,092.41)
Other adjustments		177,450.00
Change in assets, liabilities, and deferrals:		
Receivables, net		(3,074,355.34)
Inventories		133,159.88
Prepaid items		(394,138.03)
Other assets		(113,258.54)
Accounts payable		938,202.35
Accrued liabilities		3,504,598.02
Net OPEB obligation		220,881.25
Unearned revenues		81,585.29
Deposits		11,886.06
Compensated absences		701,474.82
Due to grantors		106,683.00
Loans to students		422,261.86
Net cash used by operating activities	$	(121,247,284.79)

Non-cash investing, capital, and financing transactions

Gifts in-kind - capital	$	8,000.00
Unrealized gains/(losses) on investments	$	352,404.03
Gain/(loss) on disposal of capital assets	$	(304,985.96)

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The university is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides significant financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

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

The East Tennessee State University Foundation and the Medical Education Assistance Corporation are considered component units of the university. Although the university does not control the timing or amount of receipts from these organizations, the majority of resources, or income thereon, which these organizations hold and invest are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation and corporation can only be used by, or for the benefit of, the university, these organizations are considered component units of the university and are discretely presented in the university's financial statements. See Note 22 for more detailed information about the component units and how to obtain the report.

Basis of Presentation

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

Basis of Accounting

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

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

Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other activities that are defined as nonoperating by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement 34, such as state appropriations and investment income.

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

Inventories

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

Compensated Absences

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

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

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, works of art, historical treasures/collections, and intangible assets, are reported in the statement of net position at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' useful lives are not capitalized.

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

These assets, with the exception of works of art and historical treasures/collections deemed inexhaustible and land, are depreciated/amortized using the straight-line method over the estimated useful lives of the assets, which range from 5 to 60 years.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, 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 plan's fiduciary net position 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.

Net Position

The university's net position is classified as follows:

Net investment in capital assets - This represents the university's total investment in capital assets, net of accumulated depreciation, net of outstanding debt obligations related to those capital assets 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.

Restricted net position - nonexpendable - 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.

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

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discount 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 students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs are recorded as either operating or nonoperating revenues in the university's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the university has recorded a scholarship discount and allowance.

Note 2. Cash

This classification includes demand deposits and petty cash on hand. At June 30, 2016, cash consists of $5,189,302.17 in bank accounts, $55,000.00 of petty cash on hand, $69,093,248.52 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, $3,101,636.25 in the LGIP deposits for capital projects account.

The Local Government Investment Pool (LGIP) is administered by the State Treasurer. The LGIP is part of the State Pooled Investment Fund. There are no minimum or maximum limitations on withdrawals with the exception of a 24-hour notification period for withdrawals of $5 million or more. The fund's required risks disclosures are presented in the *State of Tennessee's Treasurer's Report.* That report is available on the state's website at www.treasury.tn.gov or by calling (615) 741-2956.

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

Note 3. Investments

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

As of June 30, 2016, the university had the following investments and maturities.

		Investment Maturities (In Years)	
Investment Type	Fair Value	Less than 1	1 to 5
United States Agencies	$64,129,270.00	3,002,340.00	$61,126,930.00

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 is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies which are backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; banker's acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. Securities are rated using Standard and Poor’s, Moody’s, and/or Fitch’s and are presented below using the Standard and Poor’s rating scale.

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

The policy requires that prime commercial paper shall be limited to that of corporations that meet the following criteria: 1) Senior long-term debt, if any, should have a minimum rating of A1 or equivalent, and short-term debt should have a minimum rating of A1 or equivalent, as provided by a majority of the rating services that rate the issuer. If there is no long-term debt rating, the short-term debt rating must be A1 by all rating services (minimum of two). 2) The rating should be based on the merits of the issuer or guarantee by a nonbank. 3) A financial review should be made to ascertain the issuer’s financial strength to cover the debt. 4) Commercial paper of a banking institution should not be purchased. Prime commercial paper shall not have a maturity that exceeds 270 days. As of June 30, 2016, the university’s investments were rated as follows:

Investment Type	Fair Value	Credit Quality Rating AA	Credit Quality Rating Unrated
LGIP	$ 72,194,884.77	$ -	$72,194,884.77
US Agencies	64,129,270.00	64,129,270.00	-
Total	$136,324,154.77	$64,129,270.00	$72,194,884.77

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. TBR policy restricts investments in banker's acceptances, commercial paper, and money market mutual funds. The policy limits banker's acceptances to not exceed 20% of total investments on the date of acquisition and limits the combined amount of banker's acceptances and commercial paper to not exceed 35% of total investments at the date of acquisition. The amount invested in any one bank shall not exceed 5% of total investments on the date of acquisition. Additionally, no more than 5% of total investments at the date of acquisition may be invested in the commercial paper of a single issuer. The policy further limits the total holdings of an issuer's commercial paper to not more than 2% of the issuing corporation's total outstanding commercial paper. TBR policy limits investments in money market mutual funds to not exceed 10% of total investments on the date of acquisition.

More than 5% of the university's investments were invested in the following single issuers at June 30, 2016.

Issuer	Percentage of Total Investments June 30, 2016
Federal Home Loan Mortgage Corp (FHLMC) obligations	52%
Federal Farm Credit Bank (FFCB) obligations	19%
Federal National Mortgage Association (FNMA) obligations	16%
Federal Home Loan Bank (FHLB) obligations	13%

Note 4. Fair Value Measurement

The university categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The university has the following recurring fair value measurements as of June 30, 2016.

	June 30, 2016	Quoted Prices in Acitve Markets for Identical Assets (Level 1)
Assets by Fair Value Level		
Debt Securities		
United States Agencies	$64,129,270.00	$64,129,270.00
Total Debt Securities	$64,129,270.00	$64,129,270.00
Total Assets at Fair Value	$64,129,270.00	$64,129,270.00

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

Note 5. Receivables

Receivables at June 30, 2016 included the following:

Student accounts receivable	$6,801,356.38
Grants receivable	2,596,750.03
Notes receivable	497,072.90
Other receivables	6,973,880.70
Subtotal	16,869,060.01
Less allowance for doubtful account	(2,647,121.51)
Total receivables	$14,221,938.50

Federal Perkins Loan Program funds at June 30, 2016 include the following:

Perkins loans receivable	$7,755,176.29
Less allowance for doubtful accounts	(2,571,993.08)
Total	$5,183,183.21

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2016, was as follows:

	Beg Balance	Additions	Transfers	Reductions	End Balance
Land	$16,481,720.07	$1,001,900.00	$ -	$ -	$ 17,483,620.07
Land improvements & infrastructure	48,443,615.50		847,255.00	(222,111.30)	49,068,759.20
Buildings	391,439,008.84		2,844,599.64		394,283,608.48
Equipment	41,301,040.05	2,145,039.37	-	(1,534,459.02)	41,911,620.40
Library holdings	1,312,119.40	21,004.79	-	(127,469.13)	1,205,655.06
Intangible assets	4,433,400.78		-		4,433,400.78
Works of Art Historical Treasures	23,500.00		-		23,500.00
Projects in progress	2,129,412.41	7,699,283.94	(3,691,854.64)		6,136,841.71
Total	505,563,817.05	10,867,228.10	-	(1,884,039.45)	514,547,005.70
Less accumulated depreciation/amortization:					
Land improvements & infrastructure.	23,038,818.95	2,229,406.35		(155,358.19)	25,112,867.11
Buildings	154,255,944.39	7,247,982.12			161,503,926.51
Equipment	27,687,528.26	2,708,495.62		(1,296,226.17)	29,099,797.71
Library holdings	887,676.52	122,473.75		(127,469.13)	882,681.14
Intangible assets	3,895,722.88	420,821.98			4,316,544.86
Total	209,765,691.00	12,729,179.82		(1,579,053.49)	220,915,817.33
Capital assets, net	$295,798,126.05	$(1,861,951.72)	$ -	$(304,985.96)	$293,631,188.37

Note 7. Capital Leases

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

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

The university's leasing of the Basic Science Building and the other buildings on the VA campus will constitute a capital lease agreement. The lease term is substantially equal to the estimated useful life of the lease property. Accordingly, the university has capitalized the cost of the buildings at

$64,738,171.26. At June 30, 2016, the buildings are reported at $41,869,271.06, net of accumulated depreciate of $22,868,900.20.

Note 8. Deferred Outflows on Debt Refunding

The advance refunding of revenue bonds in 2012 and 2014 resulted in the recognition of deferred losses of $445,618.47 and $7,349,872.07 respectively. The deferred losses will be amortized through November 2034 and November 2038. The balance of the unamortized deferred loss on bond refunding was $6,758,464.77 on June 30, 2016.

Note 9. Accounts Payable

Accounts payable at June 30, 2016 included the following:

Vendors payable	$4,729,514.31
Unapplied student payments	27,504.01
Other payables	907,222.48
Total	$5,664,240.80

Note 10. Long-term Liabilities

Long term liability activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$132,627,481.08	$ -	$5,266,086.02	$127,361,395.06	$5,498,190.31
Unamortized bond premium	16,902,859.97	-	1,105,727.18	15,797,132.79	-
Revolving credit facility	2,940,342.69	2,600,918.04	2,439,259.57	3,102,001.16	-
Subtotal	152,470,683.74	2,600,918.04	8,811,072.77	146,260,529.01	5,498,190.31
Other Liabilities					
Compensated absences	11,371,846.04	7,839,748.55	7,138,273.73	12,073,320.86	3,325,837.70
Due to grantor	7,695,477.13	106,683.00	-	7,802,160.13	-
Subtotal	19,067,323.17	7,946,431.55	7,138,273.73	19,875,480.99	3,325,837.70
Total long-term liabilities	$171,538,006.91	$10,547,349.59	$15,949,346.50	$166,136,010.00	$8,824,028.01

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 0.65% to 5.0%, were issued by the Tennessee State School Bond Authority TSSBA). The bonds are due serially until 2043 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations, see Note 11 for further details. The bonded indebtedness with the TSSBA included in long-term liabilities on the statement of net position is shown net of assets held by the authority in the debt service reserve and net of unexpended debt proceeds. The reserve amount was $2,326,438.23 at June 30, 2016.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2016, are as follows:

Year Ending June 30	Principal	Interest	Total
2017	$5,498,190.31	$5,976,390.23	$11,474,580.54
2018	4,726,316.75	5,791,758.17	10,518,074.92
2019	4,606,290.88	5,525,339.26	10,131,630.14
2020	6,038,950.53	5,234,006.77	11,272,957.30
2021	6,255,403.63	4,963,430.19	11,218,833.82
2022–2026	31,698,829.25	20,504,879.35	52,203,708.60
2027–2031	26,248,769.90	13,410,016.24	39,658,786.14
2032–2036	22,105,971.13	7,484,437.25	29,590,408.38
2037–2041	15,418,807.21	2,844,737.33	18,263,544.54
2042–2046	4,763,865.47	211,563.66	4,975,429.13
Total	$127,361,395.06	$71,946,558.45	$199,307,953.51

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 total outstanding loans from the revolving credit facility was $2,390,083.51 at June 30, 2016. In addition, the college has expended $711,917.65 on projects that TSSBA has not yet withdrawn from the revolving credit facility.

More detailed information regarding the bonds and the 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/tssba/cafr.asp.

Note 11. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $127,361,395.06 in revenue bonds issued from January 2007 to April 2015. Proceeds from the bonds provided financing for construction and renovation projects. The bonds are payable through 2043. Annual principal and interest payments on the bonds are expected to require 4.54% of available revenues. The total principal and interest remaining to be paid on the bonds is $199,307,953.51. Principal and interest paid for the current year, and total available revenues were $13,887,854.11 and $304,981,082.59, respectively. .

Note 12. Pension Plans

Defined Benefit Plan

Closed State and Higher Education Employee Pension Plan

General Information about the Pension Plan

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

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

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

Average of member's highest compensation for 5 consecutive years (up to Social Security integration level)	**x**	1.50%		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% 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 the 2nd of July 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 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 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, 2016 to the Closed State and Higher Education Employee Pension Plan were $7,784,757.00 which is 15.03% 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, the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension liability – At June 30, 2016, the university reported a liability of $26,681,350.00 for its proportionate share of the net pension liability. The net pension liability was measures as of June 30, 2015, 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, 2015 to the pension plan relative to the contributions of all participating state and higher education agencies. At June 30, 2015 measurement date, the university's proportion was 2.069473%. The proportion measured as of June 30, 2014 was 2.041149%.

Pension expense – For the year ended June 30, 2016, the university recognized a pension expense of $2,964,432.00. Allocated pension expense of $2,869,035.00 was increased $95,397.00 due to change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2016, 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	$ 2,823,323.00	$ 2,310,169.00
Net difference between projected and actual earnings on pension plan investments	9,689,480.00	13,119,443.00
Changes in proportion of net pension liability	381,588.00	-
University's contributions subsequent to the measurement date of June 30, 2015	7,784,757.00	(not applicable)
Total	$20,679,148.00	$15,429,612.00

Deferred outflows of resources, resulting from the university's employer contributions of $7,784,757.00 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ended June 30, 2017. 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:	
2017	$ (1,919,606.00)
2018	(1,919,606.00)
2019	(1,919,607.00)
2020	3,223,598.00
2021	-
Thereafter	-

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 June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.5%

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. 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, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012; (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation; and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3%. The target allocation and best estimates of arithmetic real rates of return 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	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
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 7.5% based on a blending of the three factors described above.

Discount rate - The discount rate used to measure the total pension liability was 7.5%. 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 the university will be made at the actuarially determined contribution rate pursuant to an actuarial valuation 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 net pension liability (asset) to changes in the discount rate - The following presents the university's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5%, as well as what the university's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.5%) or 1 percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
University's net pension liability (asset)	$62,518,473.00	$26,681,350.00	$ (3,522,444.00)

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net positon is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2015, the university reported a payable of $671,451.92 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2016.

State and Higher Education Employee Pension Plan

General Information about the Pension Plan

Plan description - State 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 Employee 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 Tennessee Code Annotated Title 8, Chapters 34-37. 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 publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided - Tennessee Code Annotated Title 8, Chapters 34-37 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 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 year 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 the member's age and 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 the 2nd of July 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. The university's employees contribute 5% of salary to the State and Higher Education Employee Retirement 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, the employer contributions for the State and Higher Educations Employee Retirement Plan are required to be paid. Employer contributions by the university for the year ended June 30, 2016 to the State and Higher Education Employee Retirement Plan were $244,997.00, which is 3.85% 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, the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension asset – At June 30, 2016, the university reported and asset of $60,758.00 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015, and the total pension asset used to calculate the net pension asset was determined by and 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, 2015 to the pension plan relative to the contributions of all participating state and higher education agencies. At June 30, 2015 measurement date, the university's proportion was 2.184792%.

Pension expense – For the year ended June 30, 2016, the university recognized a pension expense of $50,396.00.

Deferred outflows of resources and deferred inflows of resources - For the year ended June 30, 2016, 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	$ -	$ 22,605.00
Net difference between projected and actual earnings on pension plan investments	3,525.00	-
Changes in proportion of net pension liability	-	-
University's contributions subsequent to the measurement date of June 30, 2015	244,997.00	(not applicable)
Total	$248,522.00	$22,605.00

Deferred outflow of resources, resulting from the university's employer contributions of $244,997.00 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ended June 30, 2017. 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:	
2017	$ (1,945.00)
2018	(1,945.00)
2019	(1,945.00)
2020	(1,944.00)
2021	(2,826.00)
Thereafter	(8,475.00)

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 June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.5%

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. 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, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012; (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation; and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3%. The target allocation and best estimates of arithmetic real rates of return 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	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
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 7.5% based on a blending of the three factors described above.

Discount rate - The discount rate used to measure the total pension liability was 7.5%. 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 the university will be made at the actuarially determined contribution rate pursuant to an actuarial valuation 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 net pension liability (asset) to changes in the discount rate - The following presents the university's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5%, as well as what the university's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.5%) or 1 percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
University's net pension liability (asset)	$(23,870.00)	$(60,758.00)	$ (88,365.00)

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net positon is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2015, the university reported a payable of $36,574.14 for the outstanding amount of legally required contributions to the pension plan required at the year ended June 30, 2016.

Defined Contribution Plans

Optional Retirement Plan

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 35, Part 4 of the *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 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. The required contributions made to the ORP were $7,947,909.21 for the year ended June 30, 2016, and $7,605,476.87 for the year ended June 30, 2015. 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.

Deferred Compensation Plans

Employees are offered three deferred compensation plans. The university, through the state of Tennessee, provides two plans, one established pursuant to 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). All costs of administering and funding these programs, with the exclusion of the $50 monthly employer match for the Section 401(k) plan, are the responsibility of plan participants. Section 401(k) and Section 457 plan assets remain the property of the contributing employees, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution and withdrawal provisions for the plans. Employees hired after June 30, 2014, are automatically enrolled to contribute 2% of salary to the state's 401(k) plan with the employer contributing an additional 5% to the plan. Employees will vest immediately to both the employee and employer contributions. During the year ended June 30, 2016, contributions totaling $3,073,928.93 were made by employees participating in the 401(k) plan, with a related match of $1,243,868.71 made by the university. During the year ended June 30, 2015, contributions totaling $2,829,199.23 were made by employees participating in the 401(k) plan, with a related match of $1,012,878.59 made by the university.

Note 13. Other Postemployment Benefits

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that provides postemployment health insurance benefits to eligible university retirees. This program includes two plans available to higher education employees – the State Employee Group Plan and the Medicare Supplement Plan. Both plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* 8-27-201 for the state plan and *Tennessee Code Annotated* 8-27-701 for the Medicare Supplement Plan. Prior to reaching the age of 65, all members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy. Employees hired on or after July 1, 2015, are not eligible to continue insurance coverage at retirement in either the Employee Group plan or the Medicare Supplement plan. The state makes on-behalf payments to the Medicare Supplement Plan for the university's eligible retirees, see Note 20. The plans are reported in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Special Funding Situation

The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan, which covers the retirees of other governmental entities, include the university. The state is the sole contributor for the university retirees who participate in the Medicare Supplement Plan.

Funding Policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Retired employees who have not reached the age of 65 pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service are subsidized 80%; 20 but less than 30 years, 70%; and less than 20 years, 60%. Retired employees who are 65 years of age or older have flat rate premium subsidies based on years of service. 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. Contributions for the State Employee Group Plan for the year ended June 30, 2016, were $27,952,144.62, which consisted of $22,733,793.75 from the university and $5,218,350.87 from the employees.

University's Annual OPEB Cost and Net OPEB Obligation
State Employee Group Plan

Annual Required Contribution (ARC)	$2,985,000.00
Interest on the net OPEB obligation	488,739.12
Adjustment to the ARC	(490,701.93)
Annual OPEB cost	2,983,037.19
Amount of contribution	(2,762,155.94)
Increase/decrease in net OPEB obligation	220,881.25
Net OPEB Obligation – beginning of year	13,033,043.15
Net OPEB Obligation – end of year	13,253,924.40

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2016	State Employee Group Plan	$2,983,037.19	92.6%	$13,253,924.40
June 30, 2015	State Employee Group Plan	$2,930,256.14	94.3%	$13,033,043.15
June 30, 2014	State Employee Group Plan	$2,827,985.26	90.7%	$12,865,581.48

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2015, was as follows:

Actuarial valuation date	July 1, 2015
Actuarial accrued liability (AAL)	$23,133,000
Actuarial value of plan assets	0
Unfunded actuarial accrued liability (UAAL)	$23,133,000
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	$113,801,678.67
UAAL as percentage of covered payroll	20.3%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2015, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 3.75% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5% initially, decreased to 6% in fiscal year 2016 and then reduced by decrements to an ultimate rate of 4.7% in fiscal year 2050. All rates include a 2.5% inflation assumption. Premium subsidies in the Medicare Supplement plan are projected to remain unchanged and, consequently, trend rates are not applicable. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3%.

Note 14. Chairs of Excellence

The university had $26,608,803.56 on deposit at June 30, 2016, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in these financial statements.

Note 15. Insurance-Related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice liability, and workers' compensation. 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, builder's risk (for construction projects starting prior to July 1, 2012), and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012, thus builder's risk is no longer covered by the RMF. 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 $10 million for perils other than earthquake and flood. Purchased insurance coverage is responsible for losses exceeding the $10 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 past three 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. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2016, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the university participates in the RMF, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's RMF. The amount of cash and cash equivalents designated for payment of claims held by the Risk Management Fund at June 30, 2016, was not available.

At June 30, 2016, the scheduled coverage for the university was $852,166,780.00 for buildings and $174,543,000 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 costs of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

Note 16. Commitments and Contingencies

Sick Leave

The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $60,067,133.53 at June 30, 2016.

Operating Leases

The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were $571,355.79 for the year ended June 30, 2016. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2016, outstanding commitments under construction contracts totaled $115,358,838.66 for construction and renovation projects of which $31,065,978.14 will be funded by future state capital outlay appropriations

Litigation

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

Note 17. Natural Classifications with Functional Classifications

The university's operating expenses by functional classification for the year ended June 30, 2016, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarship	Depreciation	Total
Instruction	$99,328,423.86	$32,583,442.64	$15,067,190.09	$ -	$ -	$146,979,056.59
Research	5,190,843.75	1,583,779.86	3,134,196.42	-	-	9,908,820.03
Public service	12,849,889.32	4,305,648.38	6,788,897.60	-	-	23,944,435.30
Academic support	17,302,439.47	6,599,483.38	4,725,817.16	-	-	28,627,740.01
Student services	12,281,981.35	5,126,370.77	7,897,248.79	-	-	25,305,600.91
Institutional support	12,140,847.18	4,376,644.78	2,310,244.51	-	-	18,827,736.47
Maintenance & operation	7,505,040.65	3,516,840.87	15,466,120.59	-	-	26,488,002.11
Scholarships &						

fellowships				23,408,204.90		23,408,204.90
Auxiliary	1,963,005.45	702,789.61	7,156,502.35		-	9,822,297.41
Depreciation	-	-	-	-	12,729,179.82	12,729,179.82
Total Expenses	$168,562,471.03	$58,795,000.29	$62,546,217.51	$23,408,204.90	$12,729,179.82	$326,041,073.55

Note 18. Affiliated Entity Not Included

The East Tennessee State University Research Foundation is a private, nonprofit foundation with the university as the sole beneficiary. The Research Foundation is controlled by a board independent of the university. The financial records, investments, and other financial transactions are handled external to the university and these amounts are not included in the university's financial report. As reported in the foundation's most recently audited financial report, at June 30, 2015 the assets of the research foundation totaled $416,231.00, liabilities were $2,356.00, and the net position amounted to $413,875.00.

Note 19. Insurance Recoveries

The university sustained damage to various building on campus and some of the equipment they contained due to several unrelated events. The impairment of all assets involved was temporary and no impairment loss was recognized. An insurance recovery for the capital damage in the amount of $54,477.55 was recorded in fiscal year 2016. The insurance recovery is classified as other nonoperating revenue in the statement of revenues expense and changes in net position.

Note 20. On-Behalf Payments

During the year ended June 30, 2016, the State of Tennessee made payments of $177,450.00 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 13. The plan is reported in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Note 21. Subsequent Event

The Focus on College and University Success (FOCUS) Act became effective July 1, 2016. This Act removes the six universities from the governance of the Tennessee Board of Regents. The universities will remain part of the State University and Community College System of Tennessee, but each will have their own local boards that will provide governance, approve policies, set tuition and fee rates, and hire presidents. The Act also enhances the role of the Tennessee Higher Education Commission (THEC) by requiring THEC to provide greater coordination across the state, including capital project management, institutional mission approval, and higher education finance. During the period of transition (July 1, 2016 until the local board is convened), the six universities will continue under the governance of the Tennessee Board of Regents. Each university will submit proposals to the Southern Association of Colleges and Schools Council On Colleges (SACSCOC) for substantive change of governance during Fall 2016. The SACSCOC will meet during December 2016 to consider those proposals.

Note 22. Component Unit(s)

EAST TENNESSEE STATE UNIVERSITY FOUNDATION

The East Tennessee State University Foundation is a legally separate, tax-exempt organization supporting East Tennessee State University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the university in support of its programs. The 30-member board of the Foundation is self-perpetuating and consists of graduates and friends of the university. Although the university does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the university, the Foundation is considered a component unit of the university and is discretely presented in the university's financial statements.

During the year ended June 30, 2016, the Foundation made distributions of $2,672,626.53 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Dr. David D. Collins, Vice President for Finance and Administration, P.O. Box 70601, Johnson City, TN 37614.

Cash and Cash Equivalents – In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2016, cash and cash equivalents consists of $218,051.66 in bank accounts, $1,221,273.29 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $1,031,352.82 in cash held by others.

The Local Government Investment Pool is part of the State Pooled Investment Fund. The fund's required risks disclosures are presented in the *State of Tennessee's Treasurer's Report.* That report is available on the state's website at http://www.treasury.tn.gov.

Investments – The Foundation is authorized to invest funds in accordance with its board of directors' policies. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

As of June 30, 2016, the Foundation had the following investments and maturities.

Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
Corporate bonds	$ 3,209,442.60	$761,674.72	$2,447,767.88	$ -	$ -
Bond mutual funds	14,555,312.00	31,105.00	2,737,964.00	3,759,308.00	8,026,935.00
Total	$17,764,754.60	792,779.72	5,185,731.88	3,759,308.00	8,026,935.00

Non-Fixed Income Investments	
Mutual Equity Funds	$66,542,452.84
Certificates of Deposits	2,521,357.00
Real estate	81,043.39
Land	69,900.00
CSV of life Insurance	349,685.78
Total	$87,329,193.61

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. In order to reduce the exposure to interest rate risk, the Foundation will set limits regarding the weighted average maturity for each direct investment pool. In the case of federal securities, the weighted average of all investments should be less than three (3) years.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Securities are rated using Standard and Poor's, Moody's, and/or Fitch's and are presented below using the Standard and Poor's rating scale. The Foundation policy is to limit all direct investments to securities with an investment rating of no less than A as rated by Moody's and A as rated by Standard and Poor's.

As of June 30, 2016, the Foundation's investments were rated as follows:

Investment Type	Fair Value	AAA	AA	A	BBB or Less	Unrated
LGIP	$ 1,221,273.29	$ -	$ -	$ -	$ -	$1,221,273.29
Corporate bonds	3,209,442.60	-		211,823.22	1,585,464.64	1,412,154.74
Bond mutual funds	14,555,312.00	9,619,501.29	301,794.82	1,140,974.33	3,493,041.56	-
Total	$18,986,027.89	$9,619,501.29	$ 301,794.82	$1,352,797.55	$5,078,506.20	$2,633,428.03

Investments of endowment and similar funds are composed of the following:

	June 30, 2016
Mutual funds	$65,095,477.67
Corporate bonds	3,209,442.60
Deposits Held by Others	13,650.87
CD's	266,222.15
Land	69,900.00
Total	$68,654,693.29

Assets of endowment funds are pooled on a fair value basis, with each individual fund subscribing to or disposing of units on the basis of the value per unit fair value at the beginning of the calendar quarter within which the transaction takes place. Of the total units at June 30, 2016, each having a fair value of $0.9926638089, 64,800,102.65 units were owned by endowment, and 127,422.78 units were owned by quasi-endowment.

The following tabulation summarizes changes in relationships between cost and fair values of the pooled assets for the year ended June 30, 2016:

	Pooled Assets			Fair Value
	Market	Cost	Net Gains (Losses)	per Unit
End of year	$86,979,507.83	$86,447,124.34	$ 532,383.49	$0.9926638089
Beginning of year	90,452,238.40	85,275,845.35	5,176,393.05	1.1417575585
Unrealized net losses			(4,644,009.56)	
Realized net gains			(465,614.46)	
Total net losses			$(5,109,624.02)	

The average annual earnings per unit, exclusive of net gains, were $.029 for the year ended June 30, 2016.

Fair Value Measurement - The foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The foundation has the following recurring fair value measurements as of June 30, 2016:

	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at the Net Asset Value (NAV)
Assets by Fair Level Value					
Debt Securities					
Corporate bonds	$3,209,442.60	$3,209,442.60	$ -	$ -	$ -
Bond mutual funds	14,555,312.00	14,555,312.00	-	-	-
Total debt securities	17,764,754.60	17,764,754.60	-	-	-

Equity securities					
Mutual equity funds	66,542,452.84	58,818,976.30	-	-	7,723,476.54
Total equity securities	66,542,452.84	58,818,976.30	-	-	7,723,476.54
Other Investments					
Real estate	81,043.39	-	-	-	81,043.39
Land	69,900.00			69,900.00	-
Cash surrender value of life insurance	349,685.78	-	349,685.78	-	-
Total Other Investments	500,629.17	-	349,685.78	69,900.00	81,043.39
Total assets at fair value	$84,807,836.61	$76,583,730.90	$349,685.78	$ 69,900.00	$7,804,519.93

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Assets classified in Level 2 of the fair value hierarchy are valued using the cash surrender value. Assets classified in Level 3 are valued using realtor market analysis.

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

Assets Measured at the NAV	Fair Value	Unfunded Committments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Commingled equity funds	$7,723,476.54	$ -	Monthly	15-30 Days
Real estate	81,043.39	-	-	-

Commingled equity funds are three international equity funds that are considered to be commingled in nature. Each are valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

Real estate assets classified as NAV are in the liquidation stage and expect to be fully liquidated in fiscal year 2017.

Pledges Receivable - Pledges receivable at June 30, 2016, are summarized below, net of the allowance for doubtful accounts:

Current pledges	$936,216.66
Pledges due in one to five years	3,080,698.72
Pledges due after five years	870,220.00
Subtotal	4,887,135.38
Less discounts to net present value	(267,246.87)
Total pledges receivable, net	$4,619,888.51

Capital Assets - Capital asset activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Buildings	$59,000.00	$ -	$ -	$ -	$59,000.00
Equipment	9,486.00	-	-	-	9,486.00
Other Assets	-	12,000.00	-	-	12,000.00
Projects in progress	-	-	-	-	-
Total	68,486.00	12,000.00	-	-	80,486.00
Less accumulated depreciation/amortization:					
Buildings	59,000.00	-	-	-	59,000.00
Capital assets, net	$9,486.00	$12,000.00	$ -	$ -	$21,486.00

Endowments - The ETSU Foundation's endowment consists of 527 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Board of Directors of the ETSU Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as preservation of the historical dollar value of the original gift. As a result of this interpretation, the ETSU Foundation classifies 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 classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Return Objectives and Risk Parameters - The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) 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 over the long term, will achieve a total return equivalent to or greater than the Foundation's financial requirements over the time horizon. The foundation expects its endowment funds, over time, to provide an average rate of return of approximately seven percent annually. Actual returns in any given year may vary from this amount.

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

Spending Policy and How the Investment Objectives Relate - The foundation has a policy of appropriating for distribution each year 3% to 5% of the average quarterly balance for the three preceding calendar years depending on the amount of reserve for each endowment. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the foundation expects the current spending policy to allow its endowment to grow at an average of 4% annually. This is consistent with the foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

At June 30, 2016, net appreciation of $12,944,937.22 is available to be spent, of which $5,588,855.71 is included in restricted net position expendable for scholarships and fellowships, $84,234.68 is included in restricted net position expendable for research, $704,851.95 is included in restricted net position expendable for instructional departmental uses, and $6,566,994.88 included in restricted net position expendable for other purposes.

MEDICAL EDUCATION ASSISTANCE CORPORATION

The Medical Education Assistance Corporation (MEAC) is a legally separate, tax-exempt organization supporting East Tennessee State University. MEAC acts primarily as a physicians practice group to supplement the resources that are available to the university in support of its medical education programs. The 15-member board of MEAC is self-perpetuating and consists of the department chairs from Quillen College of Medicine, a representative from East Tennessee State University's Office of the President, a representative from the Tennessee Board of Regents, and at-large faculty from the Quillen College of Medicine. Although the university does not control the timing or amount of receipts from MEAC, the residual income that MEAC earns is restricted to supporting medical education. Because these restricted resources held by MEAC can only be used by, or for the benefit of, the university, MEAC is considered a component unit of the university and is discretely presented in the university's financial statements.

During the year ended June 30, 2016, MEAC made distributions of $2,541,139.00 to or on behalf of the ETSU or the ETSU Foundation for both restricted and unrestricted purposes. Complete financial statements for MEAC can be obtained from Russell Lewis, Executive Director, P.O. Box 699, Mountain Home, TN 37684.

Cash –At June 30, 2016, cash and cash equivalents consists of $6,894,780.00 in bank accounts, $2,300.00 of petty cash on hand and $85,079.00 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer.

The Local Government Investment Pool is part of the State Pooled Investment Fund. The fund's required risks disclosures are presented in the *State of Tennessee's Treasurer's Report.* That report is available on the state's website at http://www.treasury.tn.gov.

Investments – The corporation is authorized to invest funds in accordance with its board of directors' policies. The corporation's investments at June 30, 2016, consisted of term deposits (CDs) as well as bonds held at local financial institutions with original maturities greater than three months.

As of June 30, 2016, MEAC had the following investments and maturities.

			Investment Maturities (In Years)	
Investment Type	Amortized Cost	Fair Value	Less than 1	1 to 5
US Agency Bonds		$5,002,000.00	$1,000,000.00	$4,002,000.00
Certificates of Deposit	$6,405,419.00		$4,123,256.00	$2,282,163.00

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

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

		Credit Quality Rating	
Investment Type	Fair Value	AA	Unrated
LGIP	85,079.00		85,079.00
US Agency Bonds	$5,002,000.00	$5,002,000.00	$ -

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of MEAC's investment in a single issuer. MEAC places no limit on the amount it may invest in any one issuer. More than 5 percent of MEAC's investments are investing in the following single issuer at June 30, 2016.

Issuer	Percentage of Total Investments
Bank of Tennessee	36%
First Tennessee	44%
TriSummit Bank	20%

Fair Value Measurement - MEAC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. MEAC has the following recurring fair value measurements as of June 30, 2016.

	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets by Fair Level Value			
Debt Securities			
US Agency	$5,002,000.00	$ -	$5,002,000.00
Total assets at fair value	$5,002,000.00	$ -	$5,002,000.00

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Assets classified in Level 2 of the fair value hierarchy are valued using the spread above risk-free yield curve. As the yields for the risk-free yield curve and the spreads for these securities are observable market inputs, the fair values of US government agency debt securities are included in the Level 2 hierarchy. Valuations are obtained from a third party pricing service for investment securities.

Receivables

Receivables at June 30, 2016, included the following:

Patient accounts receivable, net	$3,004,338.00
Other receivables	1,925,539.00
Total	$4,929,877.00

Capital Assets - Capital asset activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 18,150.00	$ -	$ -	$ -	$ 18,150.00
Buildings & improvements	4,902,488.00	67,010.00	-	-	4,969,498.00
Leasehold improvements	710,078.00	53,288.00	-	-	763,366.00
Equipment	4,366,653.00	47,741.00	-	59,830.00	4,354,564.00
Total	9,997,369.00	168,039.00	-	59,830.00	10,105,578.00

Less accumulated depreciation:					
Buildings & improvements	1,033,195.00	154,819.00	-	-	1,188,014.00
Leasehold improvements	565,048.00	76,462.00	-	-	641,510.00
Equipment	3,902,420.00	230,409.00	-	59,830.00	4,072,999.00
Total	5,500,663.00	461,690.00	-	59,830.00	5,902,523.00
Capital assets, net	$4,496,706.00	($293,651.00)	$ -	$ -	$4,203,055.00

Long-term liabilities - Long term liability activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$847,638.00	$49,012.00	$ -	$896,650.00	$179,330.00
Total long-term liabilities	$847,638.00	$49,012.00	$ -	$896,650.00	$179,330.00

Capital Lease Between MEAC and the University

In 2008, MEAC entered into an agreement to lease a clinical education building from the university for 30 years at a rate equivalent to eh cost of construction of the building, which was $2,942,255. The entire lease obligation was paid in 2009 upon the completion of construction. The agreement is currently being treated as a capital lease. Because there is no remaining obligation, no capital lease obligation has been reported by MEAC and no capital lease receivable has been reported by the university.

East Tennessee State University
Required Supplementary Information
OPEB Schedule of Funding Progress

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2015	State Employee Group Plan	$ -	$ 23,133,000.00	$ 23,133,000.00	0%	$ 113,801,679	20.33%
July 1, 2013	State Employee Group Plan	$ -	$ 22,189,000.00	$ 22,189,000.00	0%	$ 108,619,569	20.43%
July 1, 2011	State Employee Group Plan	$ -	$ 28,137,000.00	$ 28,137,000.00	0%	$ 100,388,162	28.03%

The amount reported here for covered payroll relates to the fiscal year in which the valuations were performed.

East Tennessee State University
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
Closed State and Higher Education Employee Pension Plan within TCRS

	2015	2014
East Tennessee State University's proportion of the net pension liability	2.069473%	2.041149%
East Tennessee State University's proportionate share of the net pension liability	$ 26,681,350.00	$ 14,082,883.00
East Tennessee State University's covered-employee payroll	$ 54,038,562.00	$ 55,762,565.00
East Tennessee State University's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	49.37%	25.26%
Plan fiduciary net position as a percentage of the total pension liability	91.26%	95.11%

This is a ten 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 ten years of information is available.

Schedule of East Tennessee State University's Contributions
Closed State and Higher Educaiton Employee Pension Plan within TCRS

	2016	2015	2014
Contractually determined contribution	$ 7,784,757.00	$ 8,121,992.00	$ 8,381,113.00
Contributions in relation to the actuarially determined contribution	7,784,757.00	8,121,992.00	8,381,113.00
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 51,794,799.00	$ 54,038,562.00	$ 55,762,565.00
Contributions as a percentage of covered-employee payroll	15.03%	15.03%	15.03%

This is a ten 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 ten years of information is available.

East Tennessee State University
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
State and Higher Education Employee Retirement Plan withn TCRS

	2015
East Tennessee State University's proportion of the net pension liability	2.184792%
East Tennessee State University's proportionate share of the net pension liability	$ (60,758.00)
East Tennessee State University's covered-employee payroll	$ 2,379,157.00
East Tennessee State University's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	-2.55%
Plan fiduciary net position as a percentage of the total pension liability	142.55%

This is a ten 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 ten years of information is available.

Schedule of East Tennessee State University's Contributions
State and Higher Education Employee Retirement Plan withn TCRS

	2016	2015
Contractually determined contribution	$ 127,139.00	$ 47,583.00
Contributions in relation to the actuarially determined contribution	244,997.00	92,074.00
Contribution deficiency (excess)	$ (117,858.00)	$ (44,491.00)
Covered-employee payroll	$ 6,356,950.00	$ 2,379,157.00
Contributions as a percentage of covered-employee payroll	3.85%	3.87%

This is a ten 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 ten years of information is available.

East Tennessee State University
Supplementary Information
Supplementary Schedule of Cash Flows - ETSU Foundation
for the Year Ended June 30, 2016

Cash flows from operating activities		
Gifts and contributions	$	4,205,006.56
Payments to suppliers and vendors		(2,938,773.09)
Payments for scholarships and fellowships		(1,776,588.51)
Payments to or on behalf of ETSU		(2,672,626.53)
Other receipts		1,512,138.07
Net cash provided (used) by operating activities	$	(1,670,843.50)
Cash flows from non-capital financing activities		
Private gifts for endowment purposes	$	1,463,818.29
Net cash provided (used) by non-capital financing activities	$	1,463,818.29
Cash flows from capital and related financing activities		
Capital grants and gifts received	$	-
Net cash provided (used) by capital and related financing activities	$	-
Cash flows from investing activities		
Proceeds from sales and maturities of investments	$	22,800,004.04
Income on investments		2,038,392.52
Purchase of investments		(23,829,154.29)
Net cash provided (used) by investing activities	$	1,009,242.27
Net increase (decrease) in cash and cash equivalents		802,217.06
Cash and cash equivalents - beginning of year		1,668,460.71
Cash and cash equivalents - end of year (Note 22)	$	2,470,677.77

Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(2,575,109.28)
Change in assets, liabilities, and deferrals:		
Receivables, net		720,402.44
Accounts payable		183,863.34
Net cash provided (used) by operating activities	$	(1,670,843.50)

Non-cash investing, capital, and financing transactions	
Gifts in-kind - capital	20,000.00
Unrealized gains/(losses) on investments	(4,644,009.56)
Gain/(loss) on disposal of capital assets	(72,525.00)

East Tennessee State University
Supplementary Information
Supplementary Schedule of Cash Flows - Medical Education Assistance Corporation
for the Year Ended June 30, 2016

Cash flows from operating activities		
Collection from patient charges	$	41,629,856.00
Payments to suppliers and vendors		(9,113,550.00)
Payments to employees		(27,775,937.00)
Payments for benefits		(2,450,961.00)
Other receipts		744,507.00
Net cash provided by operating activities	$	3,033,915.00
Cash flows from non-capital financing activities		
Payments to or on behalf of ETSU or ETSU Foundation	$	(2,541,139.00)
Net cash provided (used) by non-capital financing activities	$	(2,541,139.00)
Cash flows from capital and related financing activities		
Purchase of capital assets and construction	$	(168,039.00)
Net cash provided (used) by capital and related financing activities	$	(168,039.00)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	$	6,265,000.00
Income on investments		81,632.00
Purchase of investments		(8,295,304.00)
Other investing receipts (payments)		300.00
Net cash provided (used) by investing activities	$	(1,948,372.00)
Net increase (decrease) in cash and cash equivalents		(1,623,635.00)
Cash and cash equivalents - beginning of year		8,605,794.00
Cash and cash equivalents - end of year (Note 22)	$	6,982,159.00

Reconciliation of operating loss to net cash used by operating activities:		
Operating income/(loss)	$	3,438,015.00
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense		461,690.00
Change in assets, liabilities, and deferrals:		
Receivables, net		(936,116.00)
Prepaid items		(61,719.00)
Accounts payable		(92,835.00)
Accrued liabilities		293,177.00
Unearned revenues		(26,744.00)
Compensated absences		49,012.00
Other		(90,565.00)
Net cash provided (used) by operating activities	$	3,033,915.00