









March 2023 Audit Committee Meeting



Schedule	Wednesday, March 1, 2023 9:30 AM — 10:00 AM CST
Venue	Maxine A. Smith University Center - Bluff Room (304)
Organizer	Sparkle Burns

Agenda

1. Call to Order and Opening Remarks Presented by Carol Roberts	1
2. Roll Call and Declaration of Quorum Presented by Melanie Murry	2
3. Approval of December 9, 2022 Meeting Minutes For Approval - Presented by Carol Roberts	3
 December 2022 Audit Minutes - Final.docx	4
4. Risk Assessment Update Presentation - Presented by Raajkumar Kurapati	8
 Agenda March - Risk Assessment Update.docx	9
 Risk Assessment Update.pptx	10
 Enterprise Risk Footprint 2023.xlsx	16
5. Summary of Audit Reports Issued Presentation - Presented by Vicki Deaton	19
 1 - Agenda Item - Summary of Audit Reports Issued.docx	20
 2 Audit Report Summary.xlsx	21
6. Audit Issue Follow Up Presentation - Presented by Vicki Deaton	22
 1 Agenda Item - Audit Issue Follow Up.docx	23
 2 Audit Issue Follow Up List .xlsx	24
7. External Audit Report - The University of Memphis Foundation Financial	28



Statements Years Ended June 30, 2022 and 2021

Presentation - Presented by Vicki Deaton

 1 Agenda Item - UofM Foundation Financial Statements 6-30-22 and 2021.docx	29
 2 UOM Fnd Audit FY 2022.pdf	31



8. External Audit Report - Auxiliary Services Foundation Financial Statements Year Ended June 30, 2022

Presentation - Presented by Vicki Deaton

 1 Agenda Item - Auxillary Services Foundation Financial Statements 6-30-22.docx	58
 2 ASF Financial Statements FY22.pdf	60

9. External Audit Report - The Herff Trust Financial Statements Year Ended June 30, 2022

Presentation - Presented by Vicki Deaton

 1 Agenda Item - Herdd Trust Financial Statements 6-30-22.docx	80
 2 Herff Trust Financial Statements FY22.pdf	82



10. External Audit Report - Report on the Application of Agreed- Upon Procedures of the University of Memphis Intercollegiate Athletics Program Statement of Revenues and Expenses for the Year Ended June 30, 2022

Presentation - Presented by Vicki Deaton

 1 Agenda Item - NCAA Agreed Upon Procedures.docx	101
 2 NCAA Audit Report FY2022.pdf	102



11. Internal Audit Client Satisfaction Survey 2022

Presentation - Presented by Vicki Deaton

 1 Agenda Item - Internal Audit Client Satisfaction Survey 2022.docx	120
 2 2022 Internal Audit Client Satisfaction Survey Results.pdf	121

12. Information Security Program Update

Presentation - Presented by Robert Jackson

 Agenda Item - Information Security Program Update.docx	136
 Information Security Program Update.pptx	137

13. Additional Business	144
Presented by Carol Roberts	

14. Adjournment	145
Presented by Carol Roberts	

1. Call to Order and Opening Remarks

Presented by Carol Roberts

2. Roll Call and Declaration of Quorum

Presented by Melanie Murry

3. Approval of December 9, 2022 Meeting Minutes

For Approval

Presented by Carol Roberts

**THE UNIVERSITY OF MEMPHIS
AUDIT COMMITTEE MEETING MINUTES
DECEMBER 9, 2022**

I. CALL TO ORDER AND OPENING REMARKS

Trustee Roberts called the meeting to order.

II. ROLL CALL AND DECLARATION OF QUORUM

Trustee Roberts instructed Board Secretary Melanie Murry to call the roll. The following trustees were in attendance:

Trustee Graf (verified he was alone and could hear her)

Trustee Roberts

Trustee Johnson

Trustee McKinney

Trustee Clark

Trustee Springfield

Additional trustees in attendance:

Trustee North

Chairman Edwards

Secretary Murry announced the presence of a quorum.

III. APPROVAL OF MEETING MINUTES FOR SEPTEMBER 7, 2022

Trustee Roberts asked if there were any questions regarding the minutes. None were provided. Trustee Roberts called for the motion to approve the meeting minutes for September 7, 2022. The motion was made by Trustee Springfield and properly seconded.

A roll call vote was taken and unanimously approved.

IV. ANNUAL RISK ASSESSMENT UPDATE

Trustee Roberts recognized Chief Financial Officer, Raaj Kurapati.

Mr. Kurapati gave an overview of why the University is required to have a risk assessment, discussed the objectives for conducting the risk assessment, and explained the regulatory requirements for the risk assessment. Mr. Kurapati informed the committee that the University follows the COSO model which is a standard approach to internal controls and risk management. Mr. Kurapati explained the approach the

University took to complete the risk assessment. Mr. Kurapati explained that the ongoing risk assessment emphasis is to help understand the business impact analysis and the consequences. Mr. Kurapati stated the Office of Internal Audit and Consulting helped verify the risks that were identified during the risk assessment exercise by performing Risk Assessment audits of various activities.

Mr. Kurapati discussed the ongoing efforts of the risk assessment. Mr. Kurapati informed the committee that this year a Crisis Management team was created, and the team will be structured to align with the national practices. Mr. Kurapati provided an overview of the outcomes for the risk assessment. Mr. Kurapati informed the committee that the updated risk footprint will be brought to the Board in March. Mr. Kurapati stated the University is also complying with the certification that must be provided to the state by December 31st which verifies the University does have a risk assessment process. Mr. Kurapati informed the committee the final risk footprint will be approved by the President and the managers established by the President before it is brought to the committee. Mr. Kurapati presented the next steps for the risk assessment.

Mr. Kurapati concluded his presentation and opened for questions. Trustee Roberts asked if there were any questions, none were provided. Trustee Roberts commented by saying the quality of the risk assessment is to help the University look ahead and hopes the assessment is included in the strategic plan. Trustee Roberts also stated she appreciated the process and the thoroughness of the risk assessment.

Secretary Murry acknowledged Trustee Kemme was present in the meeting.

V. SUMMARY OF AUDIT REPORTS ISSUED

Trustee Roberts recognized Chief Audit Executive, Vicki Deaton.

Ms. Deaton provided a list of four audit projects that have been completed since the last quarterly meeting. All the audit report opinions were effective. Ms. Deaton explained that the "Report of Action FY2021 State Financial and Compliance Audit Corrective Action Plan" was a follow up audit and Internal Audit and Consulting determined the action plans were completed and shared the report with the Comptroller. The "Audit of President's Expenses for the Period 7/1/2021-6/30/2022" is required by Tennessee Code and must be shared with the Tennessee Comptroller by December 1st of every year. Ms. Deaton informed the committee that the audit was sent to the Comptroller on November 28th and no questions have been received at this time.

Ms. Deaton stated if there were no questions she would move to the next item. None were provided.

VI. AUDIT ISSUE FOLLOW UP

Ms. Deaton stated the “Risk Assessment Athletics Internal Control Footprint Audit” was an audit Internal Audit and Consulting followed up on and will follow up on again because it is considered partially complete. Ms. Deaton stated that Executive Director for Safety and Business Continuity Risk Management, Mark Heath, tasked departments to identify risks in their area and Internal Audit and Consulting are awaiting those results. Ms. Deaton believes those results would be beneficial with creating the audit plans.

Ms. Deaton informed the committee that there is a backlog of issues that Internal Audit and Consulting is working to follow up on. The department hired a new employee, Ben Frederick and his assignment is to work on the follow-ups.

Trustee Springfield asked Ms. Deaton a question regarding the completion date for the “Risk Assessment Athletics Internal Control Footprint Audit.” She asked since the date read November 30th if the audit had been completed or was the date going to be extended. Ms. Deaton responded by saying Internal Audit and Consulting had not followed up on the audit since the November 30th completion date. Ms. Deaton explained the follow up process to Trustee Springfield. Trustee Springfield asked Ms. Deaton if Internal Audit and Consulting was waiting to evaluate the action plans to see if they agree. Ms. Deaton clarified by saying that Internal Audit and Consulting is waiting to verify if the action plans have been completed.

VII. EXTERNAL AUDIT REPORT – UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION FINANCIAL STATEMENTS, 6/30/2022

Ms. Deaton provided an overview about the Research Foundation financial statements and the external CPA firm hired to conduct the audit. The opinion for the audit report was a clean opinion and no deficiencies were identified or instances of noncompliance.

Ms. Deaton concluded her presentation and opened for questions. None were provided.

VIII. INFORMATION SECURITY UPDATE

Trustee Roberts recognized Chief Information Officer, Dr. Robert Jackson.

Dr. Jackson discussed the Gramm-Leach-Bliley Act (GLBA) and what he is required to provide to comply with the GLBA Act.

Dr. Jackson discussed why IT security is important, explained the IT security risk diagram, and discussed the defense depth at the University. Dr. Jackson gave an overview of the current status of programs for information security. Dr. Jackson presented the committee with the number of suspicious email account deactivations, the number of IT security engagements, and the next steps.

Dr. Jackson concluded his presentation and opened for questions. Chairman Edwards asked when does the University terminate a student’s email access. Dr. Jackson

responded by stating students have access to their email and resources for one year after the term ends for which they were last enrolled.

IX. ADDITIONAL BUSINESS

No additional business

X. ADJOURNMENT

Trustee Roberts adjourned the meeting into the Executive Session.

4. Risk Assessment Update

Presentation

Presented by Raajkumar Kurapati

The University of Memphis Board of Trustees

Presentation

For Discussion

Date: March 1, 2023

Committee: Audit Committee

Presentation: Risk Assessment Process 2022 - 2023

Presented by: Raaj Kurapati, Executive Vice President & COO/CFO

Background:

This presentation provides an update on the annual Risk Assessment Process to date, including ongoing Quality Assurance efforts.

Risk Assessment Process Update

Audit Committee

Raaj Kurapati
Executive Vice President and COO/CFO

March 1, 2023
Maxine A. Smith University Center

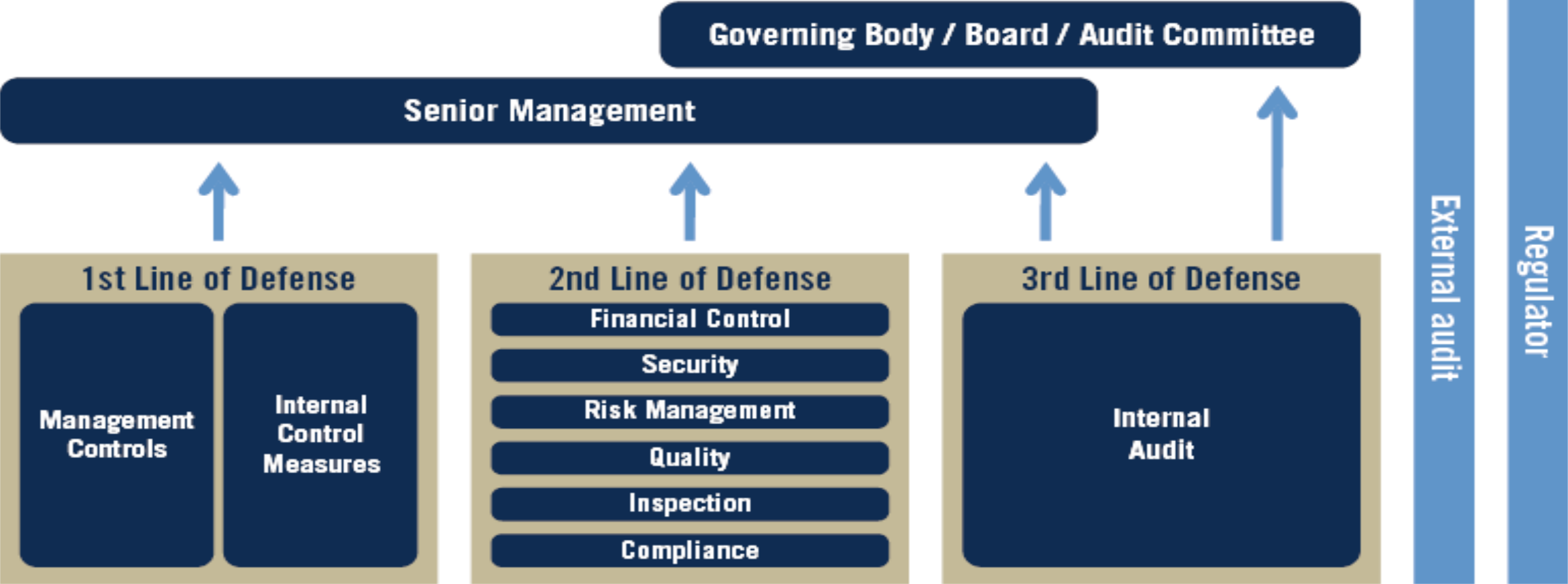


MARCH 2023

As part of Enterprise Risk Management, the Annual Risk Assessment provides:

- Compliance with the Tennessee Financial Integrity Act, (TCA 9-8-102) as University Leadership and Management is responsible for establishing adequate internal controls to achieve the Objectives of the organization
- Meets Committee On Sponsoring Organizations of the Treadway Commission (COSO) Guidelines for ERM, Internal Control, and Fraud Deterrence
- Provides a systematic Line of Defense for managing Risks as outlined on the following slide:

The Three Lines of Defense Model



In Person Training Conducted with Risk Owners and Risk Leaders to ensure understanding and direction for the Risk Assessment Process.

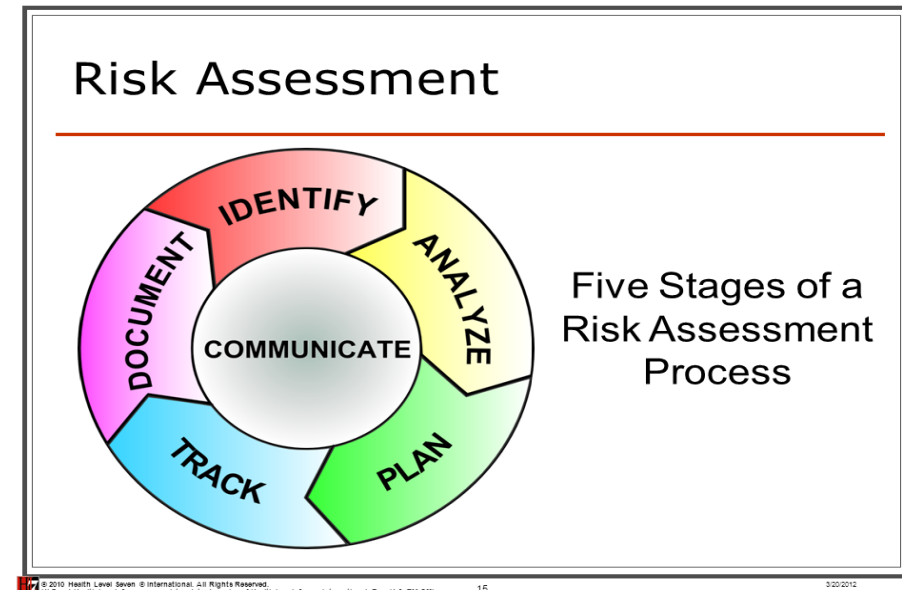
Four sessions in Memphis and Jackson

Requested Risk Teams to review:

- Risk Footprint
- Control Footprint
- **Monitoring Footprint**

– Requested Update or Assurance of Evidence of Controls

– **Key emphasis in 2022-2023 Risk Assessment**



Outcomes of Risk Process:

- Expanded engagement of personnel to produce meaningful Control & Monitoring Updates
- Specific areas reviewed:
 - Athletics
 - Facilities
 - Information Technology (IT)
 - Revenue Generating
 - Leadership & Compliance
(Legal, EEO, Govt Relations, etc.)
 - Enrollment Services
 - Finance & Personnel Management
 - Instruction/Academic Support
 - Student Academic Success
 - Research & Innovation
(Emphasis on R-1 & Compliance)

Results of the FY 2023 Risk Assessment Process:

- Timely Submission of Financial Integrity Letter to
 - Tennessee Comptroller's Office
 - Department of Finance
- On-going Quality Assurance with Risk Owners & Risk Leaders
- Enterprise Risk Footprint
 - President's Council Review – February 2023
 - Changes Incorporated with ERM Footprint Finalized
- Board of Trustees Update - March 2023







Enterprise Risk Management
Footprint Institutional Controls
December 2022

RISKS																							
#	ACTIVITIES	Process Owner	Process Leader(s)		1		2		3		4		5		6		7		8		9		10
1	Significant Institutional Risks	President's Council	NA	HH	Data Breach / Sensitive Data Exposure	HH	Failure to utilize effective IT Security Awareness Principles	HM	Decline in enrollment and retention growth	HM	Reduction in available student financial aid negatively impacting affordability for all student markets	HM	Perceptions of Campus Safety	HM	Title IX non-compliance - Athletics								
2	Research and Innovation	Jasbir Dhaliwal	Mary Ann Dawson	HL	Failure to support researchers adequately across campus	MH	Inadequate administrative policies and procedures for Research & Innovation	MM	Failure to comply with Federal-wide assurance (human subjects)	MM	Breach of Contract, Obligation or protocol	MM	Failure to protect University intellectual property	MM	Unallow able costs charged to grant								
3	Information Technology	Robert Jackson	Karen Bell	HH	Inadequate staffing / employee retention	HM	Inadequate funding of technical infrastructure for IT	HM	Failure to meet regulatory compliance requirements, e.g. GLBA, FERPA	HL	Failure of Business Continuity / Disaster Recovery During Disaster	HL	Failure of core enterprise systems and applications	HL	Network / Telecomm Failure	HL	Failure to provide and support adequate academic and research technologies	ML	Unauthorized Physical Access to / Inappropriate Use of Data or Systems	LH	Unaddressed System / Software Vulnerabilities		
4	Leadership and Compliance	Raaj Kurapati	George Ninan	MH	Serious violation from decentralized compliance function without comprehensive knowledge base, appropriate resources and oversight	MH	Significant decrease in fundraising revenue	MH	Lack of funds for PR and adequate promotion of university	MM	Audit resources are not adequate to provide reasonable coverage of the redefined audit universe.	MM	Failure to effectively manage crisis situation	MM	Lack of influence within THEC/State	ML	Failure to have knowledge of or properly interpret a new or existing law,rule or regulation that has a substantial impact						
5	Instruction and Academic Support	Abby Parrill	Helen Johnson	HL	Attracting and retaining the best faculty, including competitive salaries for regular and adjunct faculty members	HL	Failure to maintain adequate records for the purposes of accreditation (SACs and all of the sub disciplines) and internal reviews	HL	Inadequate programs that help students succeed (e.g., advising, tutoring services, internship programs, retention services, psychological counseling services, intrusive advising,etc.)	HL	Failure to adequately (financial & leadership) support Quality Enhancement Plan	MH	Failure to attract sufficient international students to globalize the university	MM	Ineffective utilization of Library facilities and space	MM	Incentives and policies that encourage continued productivity of faculty and staff	MM	Lack of appropriate support services and facilities for faculty instruction, including adjusting workload based on faculty productivity (e.g. securing external funding, completing research projects, and teaching large classes)				
	Instruction and Academic Support (cont'd)			MM	offer competitive salaries to attract and retain the best support staff (academic, research support, etc.) and for GA stipends to support research faculty; in addition to	MM	Failure to ensure quality of adjunct instruction and provide resources to support adjunct instructors.	MM	Failure to recruit high ability students for Honors Program	MM	Failure to make data available for decision making	MM	Insufficient number of faculty; tenure and non-tenure track.										
6	Enrollment Services	Abby Parrill	Hlen Johnson	HL	Failure to comply with state and federal requirements (i.e. FERPA, etc)	HL	Failure to maintain compliance with federal and state financial aid programs	HL	Student Data breach or mismanagement of confidential data	MH	Administrative decisions made that are in conflict with academic policy and academic catalog	MH	Decentralization of processes with no central oversight (students treated differently depending on major)										

Enterprise Risk Management
Footprint Institutional Controls
December 2022

RISKS																							
#	ACTIVITIES	Process Owner	Process Leader(s)		1		2		3		4		5		6		7		8		9		10
7	Student Academic Success	Karen Weddlewest	Justin Lawhead	MM	Inadequate number of highly trained professionals to facilitate retention and graduation for students of varying abilities, socio ecomic backgrounds, first generation, race ethnicity, genders, age etc	MM	Lack of tools, and technologies to assess and provide appropriate intervention for high risk students	MM	Loss of federal, state and philanthropic foundation funding to support student academic success programs	MM	Failure of employees and students to follow NCAA and University rules												
8	Finance and Personnel Management	Raaj Kurapati	George Ninan	MM	Increased AR and uncollectible from third party arrangements	MM	Insufficient technical knowledge base to meet data analytics demands	MM	Unauthorized contractual agreements	MM	Inability to recruit and retain high performing employees	ML	Compromised data security/integrity due to phishing, unauthorized access, employee fraud etc	ML	Misuse or diversion of cash and investment funds	ML	Failure to draw down financial aid from G5 and disburse on a timely basis	ML	Failure to process payroll and deposit payroll taxes timely				
9	Facilities	Ron Brooks	Ryan Seidner	MM	Natural disaster destroys major portion of campus	MM	Inadequate funding for deferred maintenance	MM	Failure to perform preventative maintenance	MM	Timely prediction of needed repairs	MM	Inadequate/outdated space for programmatic needs	ML	Lack of timely emergency response	MM	Building / Infrastructure systems failure that leaves building unusable	ML	Loss or interruption of utilities service				
	Facilities (cont'd)			ML	Frequent exposure to hazardous / unsafe conditions	ML	Environment not conducive to mission of the University	MM	Loss of institutional knowledge and experience	MM	Budget overruns and construction delays												
10	Revenue Generating Activities	Melinda Carlson	Colis Chambers	HM	Disruption of Revenue model of auxiliary operations i.e housing, dining and parking	HM	Lack of sufficient affordable and desirable housing options for students	HL	Catastrophic Residential property loss	HL	Failure to comply with federal, state, local codes and regulations related to student housing	HL	Failure to maintain life safety detector / equipment, properties and major system failure relating to auxiliary activities	MM	Inadequate staffing	ML	Failure to monitor and enforce contracts or meet contract obligations	LH	Unauthorized access to properties and criminal acts				
11	Athletics	Laird Veatch	Andrew Roberts	HL	Failure to maintain NCAA athletic certification/NCAA Sanctions	HL	Failure to retain / develop corporate / community partnerships	HL	Lack of membership in major conference	HL	Stagnant or decreased donor contributions	MH	Failure to comply with NCAA ticket guidelines	HL	Failure to cultivate donors	HL	Terrorist threat or other acts of violence during events	HL	Failure to adhere to contract terms/breach of contract	HL	Failure to comply with and/or inadequate University or Departmental policies / procedures		
	Athletics (cont'd)			HL	Outbreak of disease / illness	HL	Failure of computer system, loss of data	HL	Revenue shortfall for Athletics	HL	Athletics failure to operate within budget	HL	Findings from Annual Internal Audit of Rules Compliance	MM	Failure to oversee activities of booster clubs	MM	Inadequate staffing/Employee Retention						

Legend:

HH, HM  = Extensive Risk Management & Considerable Risk Management (all Levels of Control* plus a traditional audit)
HL, MH  = Manage and Monitor (all Levels of Control but no traditional audit)
MM, ML, LH  = Monitor (only Execution Controls & Supervisory Controls)
LM, LL  = Accept (accept the risk and have no controls)

The University Of Memphis	
Significant Insitutional Risks - 2021	Controls/Mitigating Strategies
Data breach /sensitive data exposure	Information Security Program (i.e technologies and policies on Acceptable Use of IT Resources, Data Access and Data Security Continued implementation and updating of technologies to combat data breach such as learning and alerting technologies, vulnerability scans and penetration tests, operating system patches etc Participation in committees and policy development groups such as ISAC governance committee and Data Stewards group
Failure to utilize effective IT Security Awareness principles	Incident response planning and procedures Cyberliability coverage Campus participation in security awareness training
Decline in enrollment and retention growth	Increased marketing about quality on-line Continued initiatives to attract out-of-state and international Market Online courses to International partners Continued development of programs aimed at non-traditional students like LIFE
Reduction in available student financial aid negatively impacting affordability for all student markets	Closely monitor student financial aid needs and trends and proactively engage with Federal and State Student funding authorities and University Administration to manage potential changes in aid. Effectively utilize Federal stimulus funds specifically designated for financial relief of student Initiatives and incentives to reduce student time and cost to completion. Scholarship optimization programs including need based scholarships
Title IX non-compliance	Ongoing dissemination, implementation and enforcement of University policies and procedures that promote Title IX Compliance. Recurring annual Title IX trainings, awareness and prevention-related programs, and student outreach. Conducting fair, impartial and timely investigations of complaints. Working with Athletics Department to promote compliance through the Athletics Equity Committee, Title IX Coordinator and Coaches Certification

5. Summary of Audit Reports Issued

Presentation

Presented by Vicki Deaton

The University of Memphis Board of Trustees

Presentation
For Information

Date: March 1, 2023
Committee: Audit Committee
Presentation: Summary of Internal Audit Reports Issued
Presented by: Vicki D. Deaton, Chief Audit Executive

Background:

Two audit reports were issued since the last meeting. Summarized information is included in the attached table.

Name of Audit Report	Date of Audit Report	Audit Engagement Report Opinion	Observations	Minor Issues - Addressed Verbally	Minor Issues	Moderate Issues	Major Issues	Recommendations for Consideration by University Management	Issues Outstanding from Prior Audit
Space Planning and Utilization Audit	1/3/2023	Effective with the Opportunity for Improvement	0	0	3	0	0	1	0
Kemmons Wilson School of Hospitality and Resort Management Financial and Compliance Audit	1/6/2023	Effective with the Opportunity for Improvement	0	4	5	0	0	1 (Verbally Addressed)	0

6. Audit Issue Follow Up

Presentation

Presented by Vicki Deaton

The University of Memphis Board of Trustees

Presentation
For Information

Date: March 1, 2023

Committee: Audit Committee

Presentation: Summary of Audit Issue Follow Up

Presented by: Vicki D. Deaton, Chief Audit Executive

Background:

Attached is a summarized list of audit issues with action plans that were evaluated for completion this quarter.

Action Plan Estimated Completion Date	Name of Audit	Date of Audit Report	Audit Engagement Opinion	Issue #	Issue Description	Issue Rating	Party Responsible for Action Plan Completion	Current Status (as of January 2023)	New Action Plan Estimated Completion Date
8/31/2022	Business Continuity Plan Program Reassessment	7/8/2022	Effective with the Opportunity for Improvement	BCP Reassessment 1	Memphis Ready Online System Access	Minor = Effective with Opportunity for Improvement	Mark Heath, Executive Director of Business Continuity and Risk Management	Complete	
12/31/2022	P-Card Expenditure Audit	5/12/2022	Effective with the Opportunity for Improvement	P-Card 1	Insufficient Controls over Purchasing Cards-Cardholder & Approver Responsibilities	Minor = Effective with Opportunity for Improvement	Kerri Reece, Procurement Card Administrator	Complete	
6/30/2022	P-Card Expenditure Audit	5/12/2022	Effective with the Opportunity for Improvement	P-Card 2	Insufficient Controls over Purchasing Cards-Cardholder Training	Minor = Effective with Opportunity for Improvement	Kerri Reece, Procurement Card Administrator	Complete	
12/31/2022	P-Card Expenditure Audit	5/12/2022	Effective with the Opportunity for Improvement	P-Card 3	Insufficient Controls over Purchasing Cards-Split Purchases	Minor = Effective with Opportunity for Improvement	Kerri Reece, Procurement Card Administrator	Complete	
8/1/2022	Scholarship Awards Audit	5/11/2022	Effective with the Opportunity for Improvement	Scholarship 1	Scholarship Administration Policy Needs Updating	Minor = Effective with Opportunity for Improvement	Lofton Wilborn, Associate Director, Office of Financial Aid and Scholarships	Incomplete	3/31/2023
8/1/2022	Scholarship Awards Audit	5/11/2022	Effective with the Opportunity for Improvement	Scholarship 2	Improvements Needed to Scholarship Award Administration Training	Minor = Effective with Opportunity for Improvement	Lofton Wilborn, Associate Director, Office of Financial Aid and Scholarships	Complete	
8/1/2022	Scholarship Awards Audit	5/11/2022	Effective with the Opportunity for Improvement	Scholarship 3	Tiger Scholarship Manager System Access	Minor = Effective with Opportunity for Improvement	Lofton Wilborn, Associate Director, Office of Financial Aid and Scholarships	Complete	
7/31/2022	Payment Card Industry Data Security Standards Compliance Audit Limited Official Use Only Report	8/10/2021	Insufficient and Requires Improvement	PCI 3	Improvements Needed to PCI Compliance Monitoring	Moderate = Insufficient and Requires Improvement	Henry Robbins PCI-DSS Analyst, Jennifer Perry, Director of Revenue & Bursar	In Progress	Pending Results of PCI Compliance Assessment Performed by Campus Guard
7/31/2022	Payment Card Industry Data Security Standards Compliance Audit Limited Official Use Only Report	8/10/2021	Insufficient and Requires Improvement	PCI 7	Merchant Level Review Needed	Minor = Effective with Opportunity for Improvement	Henry Robbins PCI-DSS Analyst, Jennifer Perry, Director of Revenue & Bursar	In Progress	Pending Results of PCI Compliance Assessment Performed by Campus Guard

7/31/2022	Payment Card Industry Data Security Standards Compliance Audit Limited Official Use Only Report	8/10/2021	Insufficient and Requires Improvement	PCI 8	PCI Self-Assessment Questionnaire (SAQ) C is not Appropriate for UofM Operations	Minor = Effective with Opportunity for Improvement	Henry Robbins PCI-DSS Analyst, Jennifer Perry, Director of Revenue & Bursar	In Progress	Pending Results of PCI Compliance Assessment Performed by Campus Guard
7/31/2022	Payment Card Industry Data Security Standards Compliance Audit Limited Official Use Only Report	8/10/2021	Insufficient and Requires Improvement	PCI 9	Lack of Staff Training on PCI Compliance	Minor = Effective with Opportunity for Improvement	Henry Robbins PCI-DSS Analyst, Jennifer Perry, Director of Revenue & Bursar	In Progress	Pending Results of PCI Compliance Assessment Performed by Campus Guard
7/31/2022	Payment Card Industry Data Security Standards Compliance Audit Limited Official Use Only Report	8/10/2021	Insufficient and Requires Improvement	PCI 10	PCI Responsibility Acknowledgement	Minor = Effective with Opportunity for Improvement	Henry Robbins PCI-DSS Analyst, Jennifer Perry, Director of Revenue & Bursar	In Progress	Pending Results of PCI Compliance Assessment Performed by Campus Guard
12/1/2021	University Libraries Financial and Compliance Audit	11/18/2021	Insufficient and Requires Improvement	UL 1	Insufficient Controls over Purchasing Cards-Cardholder Responsibilities	Moderate = Insufficient and Requires Improvement	John Evans, Executive Director & Associate Dean of University Libraries; Shanika Jones, University Libraries Business Officer II; Jill Green, University Libraries Administrative Associate	Complete	
2/28/2022	University Libraries Financial and Compliance Audit	11/18/2021	Insufficient and Requires Improvement	UL 2	Security Awareness Training Compliance	Moderate = Insufficient and Requires Improvement	John Evans, Executive Director & Associate Dean of University Libraries	Complete	
2/1/2022	University Libraries Financial and Compliance Audit	11/18/2021	Insufficient and Requires Improvement	UL 3	Annual Financial Responsibility Certification Compliance	Minor = Effective with Opportunity for Improvement	John Evans, Executive Director & Associate Dean of University Libraries	Audit Action Plan Follow Up in Progress	

11/18/2021	University Libraries Financial and Compliance Audit	11/18/2021	Insufficient and Requires Improvement	UL 4	Improvements Needed to Fire Drill Planning Procedures	Minor = Effective with Opportunity for Improvement	Thomas Eadie, Fire Protection Specialist – Environmental Health & Safety; Bobby Clark, Director - Environmental Health & Safety; Mark Heath, Executive Director, Business Continuity & Risk Management	Complete	
1/15/2022	University Libraries Financial and Compliance Audit	11/18/2021	Insufficient and Requires Improvement	UL 5	Insufficient Controls over Travel Expenses	Minor = Effective with Opportunity for Improvement	John Evans, Executive Director & Associate Dean of University Libraries	Complete	
11/1/2021	University Libraries Financial and Compliance Audit	11/18/2021	Insufficient and Requires Improvement	UL 6	Insufficient Controls over Travel Expenses	Minor = Effective with Opportunity for Improvement	John Evans, Executive Director & Associate Dean of University Libraries	Complete	
2/1/2022	University Libraries Financial and Compliance Audit	11/18/2021	Insufficient and Requires Improvement	UL 7	Insufficient Controls over Meal Expenses	Minor = Effective with Opportunity for Improvement	John Evans, Executive Director & Associate Dean of University Libraries	Complete	
4/1/2022	University Libraries Financial and Compliance Audit	11/18/2021	Insufficient and Requires Improvement	UL 8	Access Device Inventory Compliance	Minor = Effective with Opportunity for Improvement	John Evans, Executive Director & Associate Dean of University Libraries	Complete	
6/1/2022	University Libraries Financial and Compliance Audit	11/18/2021	Insufficient and Requires Improvement	UL 9	Risk of Unsupervised Minors on Campus	Minor = Effective with Opportunity for Improvement	John Evans, Executive Director & Associate Dean of University Libraries	Complete	
12/31/2022	Risk Assessment - Research Internal Coontrol Footprint Audit	2/23/2021	Effective with the Opportunity for Improvement	RA-Research 1	Controls Need Improvement - Training Business Officers on Grant Management	Minor = Effective with Opportunity for Improvement	Jasbir Dhaliwal, Executive Vice President for Research & Innovation, Raajkumar Kurapati, Executive Vice President, Chief Operating Officer and Chief Financial Officer	Complete	

12/31/2022	Risk Assessment - Research Internal Coontrol Footprint Audit	2/23/2021	Effective with the Opportunity for Improvement	RA-Research 2	Controls Need Improvement - Professional Development for Grants Accounting Staff	Minor = Effective with Opportunity for Improvement	Jasbir Dhaliwal, Executive Vice President for Research & Innovation, Raajkumar Kurapati, Executive Vice President, Chief Operating Officer and Chief Financial Officer	Complete	
12/31/2022	Risk Assessment - Research Internal Coontrol Footprint Audit	2/23/2021	Effective with the Opportunity for Improvement	RA-Research 3	Controls Need Improvement - Screening Int'l Travel	Minor = Effective with Opportunity for Improvement	Jasbir Dhaliwal, Executive Vice President for Research & Innovation, Raajkumar Kurapati, Executive Vice President, Chief Operating Officer and Chief Financial Officer	Audit Action Plan Follow Up in Progress	

7. External Audit Report - The University of Memphis Foundation Financial Statements Years Ended June 30, 2022 and 2021

Presentation

Presented by Vicki Deaton

The University of Memphis Board of Trustees

Presentation
For Information

Date: March 1, 2023

Committee: Audit Committee

Presentation: External Audit Report – University of Memphis Foundation Financial Statements, Years Ended June 30, 2022 and 2021

Presented by: Vicki D. Deaton, Chief Audit Executive

Background:

The University is subject to external audits, and according to UofM Policy GE2016 Notification of External Audits and Reviews, it is the responsibility of the primary contact person for the program or activity being reviewed to notify Internal Audit of an external audit or review as early in the process as possible. After the audit or review is complete, the primary contact will usually receive notice of the results in writing. The primary contact (or designee) should forward a copy of the results to Internal Audit. The responsibility for Internal Audit under this policy includes reporting occurrences of external audits and reviews to the Audit Committee, Division of State Audit and others as the circumstances may dictate. Also, TCA 4-4-113 requires notification of federal award noncompliance, or any deficiency related to compliance with federal statutes, regulations, or the terms and conditions of a federal award, to the Tennessee Comptroller of the Treasury and the Commissioner of Finance and Administration.

On December 12, 2022, the University of Memphis Foundation Financial Statements, Years Ended June 30, 2022 and 2021 were issued. The University of Memphis Foundation (Foundation) is considered a component unit of the University and is discretely presented in the University's financial statements. The Foundation's financial statements are presented to you for informational purposes.

The Foundation is a not-for-profit, tax-exempt corporation chartered in 1964 in the State of Tennessee. 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 Board of the Foundation is self-perpetuating and consists of graduates and friends of the University. Foundation operations are funded by the annual endowment administrative fee.

The Foundation engaged an independent external CPA firm, Forvis, LLP, to perform an audit of the financial statements of the Foundation. The independent auditor's opinion stated that the financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, the auditors also issued a report dated December 12, 2022, on their consideration of the Foundation's internal control over financial reporting and their tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and

other matters. The purpose of the report is solely to describe the scope of the auditor's testing of internal control over financial reporting and compliance, and the results of that testing - not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance.

The auditors did not identify any deficiencies in internal control that they considered to be material weaknesses during their limited consideration of internal control over financial reporting. Also, the results of their tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The University of Memphis Foundation

Financial Statements

Years Ended June 30, 2022 and 2021

Table of Contents

Board of Directors and Financial/Administrative Directors	1
Independent Auditor's Report	2
Financial Statements:	
Statements of Financial Position	5
Statements of Activities	6
Statements of Functional Expenses	8
Statements of Cash Flows.....	10
Notes to Financial Statements.....	11
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	23

Board of Directors

Fred Towler, President
David Tate, Vice President
John Wilfong, Treasurer
Dr. Douglas Scarboro, Secretary
Harry Smith, Immediate Past President
Sudhir Agrawal
Bustamante Rene
Glynna Christian
Tyree Daniels
Tanya L. Hart
Raajkumar "Raaj" Kurapati
Daphne Large
Jason Little
Reginald Porter
John "Mickey" Robinson
Dr. Bill Hardgrave
Monica Wharton

Financial/Administrative Directors

Holly Ford, Foundation CEO
Mark Nicell, CBO

Independent Auditor's Report

Board of Directors
The University of Memphis Foundation
Memphis, Tennessee

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The University of Memphis Foundation (the "Foundation"), a component unit of the University of Memphis, which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position the Foundation as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The University of Memphis Foundation's ability to continue as a going concern within one year after the date that these financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The University of Memphis Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The University of Memphis Foundation's ability to continue as a going concern for a reasonable period of time.

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the roster of the Board of Directors and Management Officials but does not include the financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2022, on our consideration of The University of Memphis Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The University of Memphis Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The University of Memphis Foundation's internal control over financial reporting and compliance.

FORVIS,LLP

**Memphis, Tennessee
December 12, 2022**

The University of Memphis Foundation
Statements of Financial Position
June 30, 2022 and 2021

	2022	2021
ASSETS		
Cash	\$ 3,528,866	\$ 1,581,356
Contributions receivable, net	29,200,192	13,103,196
Accrued interest, dividends, and other receivables	-	1,432
Investments, at fair value	151,825,179	160,567,903
Cash surrender value of life insurance	142,915	142,915
	<u>184,697,152</u>	<u>175,396,802</u>
Total assets	<u>\$ 184,697,152</u>	<u>\$ 175,396,802</u>
LIABILITIES AND NET ASSETS		
Accounts payable, primarily to The University of Memphis	\$ 6,111,706	\$ 4,268,756
Gift annuity obligations	141,375	147,750
	<u>6,253,081</u>	<u>4,416,506</u>
Total liabilities	6,253,081	4,416,506
Net assets:		
Without donor restrictions	4,239,984	4,044,010
With donor restrictions	174,204,087	166,936,286
	<u>178,444,071</u>	<u>170,980,296</u>
Total net assets	178,444,071	170,980,296
Total liabilities and net assets	<u>\$ 184,697,152</u>	<u>\$ 175,396,802</u>

The University of Memphis Foundation
Statement of Activities
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and other revenue:			
Contributions	\$ 188,179	\$ 52,016,092	\$ 52,204,271
Investment income, net of expenses	386,010	2,278,164	2,664,174
Net realized and unrealized losses on investments	212,796	(20,616,508)	(20,403,712)
Other income	2,741,951	(2,033,667)	708,284
	<u>3,528,936</u>	<u>31,644,081</u>	<u>35,173,017</u>
Net assets released from restrictions	<u>24,376,280</u>	<u>(24,376,280)</u>	<u>-</u>
Total support and other revenue	<u>27,905,216</u>	<u>7,267,801</u>	<u>35,173,017</u>
Operating expenses:			
University support and operational cost	18,237,134	-	18,237,134
Awards and scholarships	7,528,626	-	7,528,626
Management and general	908,945	-	908,945
	<u>26,674,705</u>	<u>-</u>	<u>26,674,705</u>
Change in net assets from operating activities	<u>1,230,511</u>	<u>7,267,801</u>	<u>8,498,312</u>
Nonoperating activities:			
Bad debt expense	1,034,537	-	1,034,537
Change in net assets from nonoperating activities	<u>1,034,537</u>	<u>-</u>	<u>1,034,537</u>
Change in net assets	<u>195,974</u>	<u>7,267,801</u>	<u>7,463,775</u>
Net assets, beginning of year	<u>4,044,010</u>	<u>166,936,286</u>	<u>170,980,296</u>
Net assets, end of year	<u>\$ 4,239,984</u>	<u>\$ 174,204,087</u>	<u>\$ 178,444,071</u>

The University of Memphis Foundation
Statement of Activities
Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and other revenue:			
Contributions	\$ 212,023	\$ 32,569,850	\$ 32,781,873
Investment income, net of expenses	455,485	1,540,987	1,996,472
Net realized and unrealized gains on investments	868,886	32,563,813	33,432,699
Other income	282,463	340,280	622,743
	<u>1,818,857</u>	<u>67,014,930</u>	<u>68,833,787</u>
Net assets released from restrictions	<u>32,396,911</u>	<u>(32,396,911)</u>	<u>-</u>
Total support and other revenue	34,215,768	34,618,019	68,833,787
Operating expenses:			
University support and operational cost	25,365,531	-	25,365,531
Awards and scholarships	5,798,030	-	5,798,030
Management and general	882,782	-	882,782
	<u>32,046,343</u>	<u>-</u>	<u>32,046,343</u>
Change in net assets from operating activities	2,169,425	34,618,019	36,787,444
Nonoperating activities:			
Bad debt expense	283,060	-	283,060
Change in net assets from nonoperating activities	<u>283,060</u>	<u>-</u>	<u>283,060</u>
Change in net assets	1,886,365	34,618,019	36,504,384
Net assets, beginning of year	<u>2,157,645</u>	<u>132,318,267</u>	<u>134,475,912</u>
Net assets, end of year	<u>\$ 4,044,010</u>	<u>\$ 166,936,286</u>	<u>\$ 170,980,296</u>

The University of Memphis Foundation
Statement of Functional Expenses
Year Ended June 30, 2022

	Program Services			Support Services	
	University Support and Operational Cost	Awards and Scholarships	Total	Management and General	Total
Salaries and benefits	\$ 493,907	\$ -	\$ 493,907	\$ 603,517	\$ 1,097,424
Conferences and travel	97,898	-	97,898	386	98,284
Supplies	281,405	-	281,405	8,866	290,271
Postage	10,259	-	10,259	1,485	11,744
Printing	105,382	-	105,382	1,564	106,946
Telephone and communications	3,777	-	3,777	1,403	5,180
Maintenance and repairs	1,301	-	1,301	10	1,311
Audit services	-	-	-	40,863	40,863
Legal services	-	-	-	8,943	8,943
Annuity expenses	19,281	-	19,281	-	19,281
Professional services	1,581,741	-	1,581,741	87,416	1,669,157
Publicity/public relations	83,650	-	83,650	-	83,650
Rental fees	109,015	-	109,015	-	109,015
Insurance other	72,315	-	72,315	15,262	87,577
Other expenses	7,659,856	-	7,659,856	149,003	7,808,859
Dues and membership subscriptions	168,018	-	168,018	100	168,118
Meals and entertainment	420,403	-	420,403	1,665	422,068
Tickets	11,764	-	11,764	-	11,764
Sponsorships and donations	1,849,538	-	1,849,538	-	1,849,538
Gifts and flowers	40,259	-	40,259	261	40,520
Fees	695,196	-	695,196	(11,799)	683,397
Honorariums	24,550	-	24,550	-	24,550
University support	1,746,646	-	1,746,646	-	1,746,646
USA grants special projects	2,003,011	-	2,003,011	-	2,003,011
USA chairs professorships	-	547,081	547,081	-	547,081
Awards	-	294,953	294,953	-	294,953
Furniture and equipment	368,492	-	368,492	-	368,492
Construction and renovation	389,470	-	389,470	-	389,470
Scholarships	-	6,495,019	6,495,019	-	6,495,019
Fellowships	-	133,791	133,791	-	133,791
Interns and graduate assistants	-	57,782	57,782	-	57,782
	<u>\$ 18,237,134</u>	<u>\$ 7,528,626</u>	<u>\$ 25,765,760</u>	<u>\$ 908,945</u>	<u>\$ 26,674,705</u>

The University of Memphis Foundation
Statement of Functional Expenses
Year Ended June 30, 2021

	Program Services			Support Services	
	University Support and Operational Cost	Awards and Scholarships	Total	Management and General	Total
Salaries and benefits	\$ 453,781	\$ -	\$ 453,781	\$ 521,338	\$ 975,119
Conferences and travel	16,961	-	16,961	258	17,219
Supplies	307,481	-	307,481	6,382	313,863
Postage	24,935	-	24,935	1,152	26,087
Printing	56,003	-	56,003	124	56,127
Telephone and communications	12,989	-	12,989	1,603	14,592
Maintenance and repairs	1,423	-	1,423	-	1,423
Audit services	-	-	-	25,112	25,112
Legal services	-	-	-	3,208	3,208
Annuity expenses	18,264	-	18,264	-	18,264
Professional services	740,493	-	740,493	4,400	744,893
Publicity/public relations	3,610	-	3,610	-	3,610
Rental fees	24,491	-	24,491	-	24,491
Insurance other	6,954	-	6,954	13,955	20,909
Other expenses	7,546,353	-	7,546,353	282,463	7,828,816
Dues and membership subscriptions	157,864	-	157,864	140	158,004
Meals and entertainment	36,403	-	36,403	-	36,403
Tickets	206	-	206	-	206
Sponsorships and donations	82,150	-	82,150	-	82,150
Gifts and flowers	27,224	-	27,224	85	27,309
Fees	344,593	-	344,593	22,562	367,155
Honorariums	9,725	-	9,725	-	9,725
University support	12,440,509	-	12,440,509	-	12,440,509
USA grants special projects	2,601,653	-	2,601,653	-	2,601,653
USA chairs professorships	-	579,879	579,879	-	579,879
Awards	-	266,861	266,861	-	266,861
Furniture and equipment	85,943	-	85,943	-	85,943
Construction and renovation	365,523	-	365,523	-	365,523
Scholarships	-	4,522,285	4,522,285	-	4,522,285
Fellowships	-	365,532	365,532	-	365,532
Interns and graduate assistants	-	63,473	63,473	-	63,473
	<u>\$ 25,365,531</u>	<u>\$ 5,798,030</u>	<u>\$ 31,163,561</u>	<u>\$ 882,782</u>	<u>\$ 32,046,343</u>

The University of Memphis Foundation
Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Increase in net assets	\$ 7,463,775	\$ 36,504,384
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized loss (gain) on investments	20,403,712	(33,432,699)
Bad debt expense	1,034,537	283,060
Contributions restricted for endowment	(11,619,262)	(10,860,668)
Changes in operating assets and liabilities:		
Contributions receivable	(17,131,533)	(4,224,551)
Accrued interest, dividends, and other receivables	1,432	186,066
Accounts payable, primarily to The University of Memphis	1,842,950	(3,260,887)
Gift annuity obligations	(6,375)	(1,175)
	<u>(5,474,539)</u>	<u>(51,310,854)</u>
Net provided by (cash used) in operating activities	1,989,236	(14,806,470)
Cash flows from investing activities:		
Change in cash surrender value of life insurance	-	(7,893)
Proceeds from sale of investments	29,706,896	35,614,548
Purchases of investments	<u>(41,367,884)</u>	<u>(34,746,413)</u>
Net cash provided by (used in) investing activities	(11,660,988)	860,242
Cash flows from financing activities:		
Contributions restricted for endowment	<u>11,619,262</u>	<u>10,860,668</u>
Net cash provided by financing activities	<u>11,619,262</u>	<u>10,860,668</u>
Net increase (decrease) in cash	1,947,510	(3,085,560)
Cash, beginning of year	<u>1,581,356</u>	<u>4,666,916</u>
Cash, end of year	<u><u>\$ 3,528,866</u></u>	<u><u>\$ 1,581,356</u></u>

1. Summary of Significant Accounting Policies

Organization and activities

The University of Memphis Foundation (the "Foundation") is a not-for-profit, tax-exempt corporation chartered in 1964 in the State of Tennessee. The Foundation accepts and manages private support to The University of Memphis ("University"). Leading citizens of the Mid-South area comprise an independent Board of Directors.

Basis of presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which requires the Foundation to report information about its financial position and operations according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to any donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. The Foundation's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by the actions of the Foundation or by the passage of time. Other donor-imposed restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires (i.e., the donor imposed stipulated purpose has been fulfilled or the stipulated time period has elapsed), net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Support and revenue

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expiration of net assets with donor restrictions are reported as reclassifications between the applicable classes of net assets. During the years ended June 30, 2022 and 2021, the Foundation released net assets with donor restrictions for scholarships, academic enrichment, capital improvements, and various other projects. See Note 6 for releases by purpose.

Cash

The Foundation recognizes all demand deposit accounts as cash. All money market funds are considered to be investments and no amounts are classified as cash equivalents.

Contributions receivable

Contributions receivable consist of unconditional promises to give and are recorded when the pledge is received. Contributions receivable that are expected to be collected within the next year are recorded at their net realizable value. Contributions receivable expected to be collected in subsequent years have been discounted to the present value of their net realizable value.

Receivables are stated at the amount management expects to collect from outstanding balances. Management monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based upon its assessments of the current status of individual accounts. Balances that are still outstanding after a reasonable period of time has elapsed are generally written off through a charge to the valuation allowance and a credit to the appropriate contribution receivable.

Conditional promises to give are not included as revenue until the conditions are substantially met. The Foundation had received conditional promises to give of \$3,737,444 at June 30, 2022. These potential contributions, if received, would generally be restricted for specific purposes stipulated by the donors.

Investment valuation and income recognition

The Foundation's investments are stated at fair value. Fair value is the price that would be received to sell an asset in an ordinary transaction between market participants at the measurement date. See Note 5 for a discussion of fair value measurements.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded when earned and dividends are recorded on the ex-dividend date. Net realized and unrealized gains (losses) on investments include the Foundation's gains and losses on investments bought and sold as well as held during the year and are included in revenues, gains and other support on the statement of activities. Investment expenses incurred on investments are included in investment income on the statement of activities.

Administrative fee

In order to cover expenses of the Foundation's operations and provide unrestricted funds for University support, an administrative fee of 2.0% was assessed on the carrying value of accounts invested in the endowment pool for the years ended June 30, 2022 and 2021. Effective May 2021, the fee assessed on the carrying value of accounts invested in the endowment pool was reduced from 2.00% to 1.50%. The fee covers the cost of business office operations, provides support for University fundraising activities, and assists with other University needs. Administrative fees earned were approximately \$2,001,000 and \$1,614,000 for the years ended June 30, 2022 and 2021, respectively.

Income taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is similarly exempt from Tennessee state income taxes under applicable provisions of the Tennessee tax regulations. The Foundation's limited partnership investments generate unrelated business income or loss activity which is subject to federal income taxes. There was no unrelated business income tax expense ("UBIT") for the years ended June 30, 2022 and 2021.

The Foundation has determined that it does not have any material uncertain tax positions as of June 30, 2022.

Endowment funds

The Foundation is subject to the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), which governs the state of Tennessee, the provisions of which apply to its endowment funds. Based on its interpretation of UPMIFA, the Foundation is required to act prudently when making decisions to spend or accumulate donor-restricted endowment assets and in doing so to consider a number of factors including the duration and preservation of its donor-restricted endowments funds. Interest and dividend income from the endowment funds are recorded as income on net assets with or without restrictions depending on the donor stipulations. See Note 7 for required disclosures of endowment funds.

Use of estimates

Management uses estimates and assumptions in preparing financial statements in accordance with GAAP. Such estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenue and expenses. Significant financial statement estimates include those used in the valuation of certain investments, the allowance for uncollectible contributions, and the present value discount applied to contributions receivable. Management determines the estimate of the allowance for uncollectible contributions considering a number of factors, including historical experience and aging of accounts. Actual results could differ from those estimates.

Concentrations of credit risk

Due to the nature of its business and the volume of revenue activity, the Foundation can accumulate, from time to time, bank balances in excess of the insurance provided by federal deposit insurance authorities. The risk of maintaining deposits in excess of amounts insured by federal deposit authorities is managed by maintaining such deposits in high quality financial institutions.

Functional allocation of expenses

The costs of provided various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program and support services benefited. The method of allocation for salaries and benefits was time and effort. All other expenses were allocated based on a full-time equivalent since they are incurred through invoices submitted by the University.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously report net assets.

Recent accounting pronouncement

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, which requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses on investments available for sale and purchased financial assets with credit deterioration. The new guidance is effective for reporting periods beginning after December 15, 2022. Early adoption of ASU No. 2016-13 is permitted. The effects of adopting ASU No. 2016-13 have not been determined.

Subsequent events

The Foundation has evaluated the effect subsequent events would have on the financial statements through December 12, 2022, which is the date the financial statements were available to be issued.

2. Liquidity and Availability

All assets of the Foundation are restricted for University support and expended for specific uses within the University. The budget allocation for Foundation operations for the years ended June 30, 2022 and 2021, was \$637,500 and \$658,258, respectively. Foundation operations are funded by the annual endowment administrative fee.

3. Contributions Receivable

As of June 30, 2022 and 2021, contributors to the Foundation have unconditionally promised to give as follows:

	<u>2022</u>	<u>2021</u>
Within one year	\$ 10,649,131	\$ 4,453,590
One to five years	21,868,222	9,727,003
More than five years	<u>400,000</u>	<u>-</u>
Total unconditional promises to give	32,917,353	14,180,593
Less allowances for uncollectible pledges	(1,843,372)	(808,835)
Less unamortized present value discount	<u>(1,873,789)</u>	<u>(268,562)</u>
	<u>\$ 29,200,192</u>	<u>\$ 13,103,196</u>

Contributions receivable beyond one year have been discounted to their net present value using interest rates of 0.28% to 2.99% as of June 30, 2022 and 2021, respectively.

4. Investments

Investments as of June 30, 2022 and 2021, are summarized as follows:

	<u>2022</u>		<u>2021</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Limited partnerships and LLCs	\$ 9,163,855	\$ 19,977,808	\$ 12,236,034	\$ 19,523,924
Mutual funds	131,785,344	131,655,671	115,277,907	140,851,952
U.S. government securities	<u>191,700</u>	<u>191,700</u>	<u>191,487</u>	<u>192,027</u>
	<u>\$141,140,899</u>	<u>\$151,825,179</u>	<u>\$127,705,428</u>	<u>\$160,567,903</u>

5. Fair Value Measurements

Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, provides a common definition of fair value and establishes a framework for measuring fair value. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. These inputs are summarized in three broad levels for financial statement purposes.

Level 1: Quoted prices for identical securities in active markets.

Level 2: Other significant observable inputs other than Level 1 prices, such as quoted prices for similar securities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs about which little or no market data exists, therefore, requiring an entity to develop its own assumptions.

The availability of observable inputs varies from product to product and is affected by a variety of factors, including the type of product, whether the product is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Foundation in determining fair value is greatest for instruments categorized in Level 3.

Financial assets and liabilities measured at fair value on a recurring basis include the following:

Mutual funds: Valued at the daily closing price reported on the active market on which securities are traded.

U.S. government securities: Valued at quoted prices from less active markets and/or quoted prices of securities with similar characteristics.

Limited partnerships: Valued using Net Asset Value ("NAV") or capital balances provided by the general partner or investment manager as a practical expedient to fair value.

Valuations provided by the general partners and investment managers are evaluated by management through accounting and financial reporting processes to review and monitor existence and valuation assertions. Management has instituted processes in the areas of initial due diligence, ongoing monitoring and financial reporting. Management also reviews interim financial information and reviews details of investment holdings to obtain an understanding of the underlying investments. Monitoring also includes obtaining and reviewing audited financial statements noting the type of opinion, basis of accounting, procedures pertaining to the valuation of alternative investments and comparison of audited valuation with the fund's valuation.

The University of Memphis Foundation
Notes to Financial Statements

The following tables set forth by level, within the fair value hierarchy, the Foundation's investments measured at fair value on a recurring basis as of June 30, 2022 and 2021.

Assets at Fair Value as of June 30, 2022				
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Fixed income	\$ 36,937,553	\$ -	\$ -	\$ 36,937,553
International Equity	38,397,076	-	-	38,397,076
U.S. equity	<u>56,321,042</u>	<u>-</u>	<u>-</u>	<u>56,321,042</u>
Total mutual funds	131,655,671	-	-	131,665,671
U.S. government securities	<u>-</u>	<u>191,700</u>	<u>-</u>	<u>191,700</u>
Total investments in the fair value hierarchy	<u>\$131,655,671</u>	<u>\$ 191,700</u>	<u>\$ -</u>	131,847,371
Limited partnerships measured at NAV				<u>19,977,808</u>
Total				<u>\$151,825,179</u>

Assets at Fair Value as of June 30, 2021				
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Fixed income	\$ 38,030,027	\$ -	\$ -	\$ 38,030,027
International equity	35,212,988	-	-	35,212,988
U.S. equity	<u>67,608,937</u>	<u>-</u>	<u>-</u>	<u>67,608,937</u>
Total mutual funds	140,851,952	-	-	140,851,952
U.S. government securities	<u>-</u>	<u>192,027</u>	<u>-</u>	<u>192,027</u>
Total investments in the fair value hierarchy	<u>\$140,851,952</u>	<u>\$ 192,027</u>	<u>\$ -</u>	141,043,979
Limited partnerships measured at NAV				<u>19,523,924</u>
Total				<u>\$160,567,903</u>

The University of Memphis Foundation
Notes to Financial Statements

The following table provides information related to investments that are valued based on NAV:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
June 30, 2022				
Hedged strategies- hedged equity ^(a)	\$ 275,571	\$ -	Annually	90 days
Private equity ^(b)	10,692,770	18,720,773	At Manager's discretion	N/A
Real assets ^(c)	<u>9,009,467</u>	<u>3,151,334</u>	At Manager's discretion	N/A
	<u>\$ 19,977,808</u>			
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
June 30, 2021				
Hedged strategies- hedged equity ^(a)	\$ 295,498	\$ -	Annually	90 days
Private equity ^(b)	9,621,123	13,990,963	At Manager's discretion	N/A
Real assets ^(c)	7,767,531	3,101,543	At Manager's discretion	N/A
U.S. equity ^(d)	<u>1,839,772</u>	-	Multi-year	90 days
	<u>\$ 19,523,924</u>			

^{a)} **Hedged Strategies-Hedged Equity** - This category consists of funds of funds that make long and short position equity investments.

^{b)} **Private Equity** - This category consists of partnerships that invest primarily in U.S. based private companies. These investments cannot be voluntarily redeemed and are subject to sale based on market demand.

^{c)} **Real Assets** - This category consists of investment partnerships and funds that invest primarily in U.S. and foreign commercial real estate and natural resources. Some investments in this category allow quarterly redemption, but distributions during periods of illiquidity are restricted by gate constraints.

^{d)} **U.S. Equity** - This category generally consists of managers that invest primarily in equity securities of U.S. corporations. U.S. equity may include multiple styles (growth, value) and market capitalizations (small, mid, large). These investments will primarily be long-only.

6. Nature and Amounts of Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes as of June 30:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for a specified purpose:		
Alumni relations	\$ 545,825	\$ 504,963
Awards	402,023	370,357
Capital improvements (1)	(3,557,796)	(3,979,573)
Centers, institutes and labs	2,126,730	2,263,311
Contributions receivable, net	20,155,617	7,220,657
Departmental/academic enrichment	11,660,685	7,146,626
Gift annuities	18,556	31,826
Operations	114,393	86,905
Professorships/chairs/visiting scholars	382,359	391,059
Scholarships/fellowships	5,018,111	5,067,007
Special projects/lecture series/workshops	11,460,734	11,164,923
	<u>48,327,237</u>	<u>30,268,061</u>

(1) The negative capital improvement balance is the result of the interfund advance discussed in note 8.

Endowments:

Subject to expenditure for a specified purpose:

Alumni relations	220,839	392,187
Awards	863,474	1,567,460
Centers, institutes and labs	1,038,985	2,081,959
Departmental/academic enrichment	2,636,746	5,442,622
Operations	(224,177)	-
Professorships/chairs/visiting scholars	4,462,557	8,479,624
Scholarships/fellowships	8,598,826	19,071,858
Special projects/lecture series/workshops	2,672,105	6,256,763
	<u>20,269,355</u>	<u>43,292,473</u>

Perpetual in nature:

Alumni relations	870,128	783,208
Awards	2,846,284	2,835,519
Centers, institutes and labs	5,319,515	2,783,933
Contributions receivable, net	9,044,562	5,882,539
Departmental/academic enrichment	11,313,264	10,191,966
Operations	616,378	-
Professorships/chairs/visiting scholars	16,230,499	15,613,447
Scholarships/fellowships	43,864,159	41,093,516
Special projects/lecture series/workshops	15,502,706	14,191,624
	<u>105,607,495</u>	<u>93,375,752</u>

Total endowment	<u>125,876,850</u>	<u>136,668,225</u>
-----------------	--------------------	--------------------

Total net assets with donor restrictions	<u>\$ 174,204,087</u>	<u>\$ 166,936,286</u>
--	-----------------------	-----------------------

Net assets with donor restrictions that are perpetual in nature originated with contributions received to establish perpetual endowments. The endowment gift is to be held in perpetuity with the capital appreciation and earnings thereon to be used to provide financial assistance to deserving scholars, salary supplements and awards to attract

The University of Memphis Foundation
Notes to Financial Statements

and retain outstanding faculty members, visiting artists, and lecturers and to provide for various departmental and University needs.

Releases from donor restrictions for the years ended June 30, 2022 and 2021, are as follows:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for a specified purpose:		
Alumni relations	\$ 133,067	\$ 64,292
Awards	16,548	111,973
Capital improvements	5,581,937	17,574,275
Centers, institutes and labs	644,629	619,548
Departmental/academic enrichment	6,414,806	1,574,819
Contributions receivable, net	670,633	283,296
Gift annuities	19,281	18,795
Operations	(4,488)	270,587
Professorships/chairs/visiting scholars	100,500	342,229
Scholarships/fellowships	1,582,137	4,596,761
Special projects/lecture series/workshops	6,449,515	3,327,845
	<u>21,608,565</u>	<u>28,785,420</u>
Endowments:		
Subject to expenditure for a specified purpose:		
Alumni relations	11,835	26,460
Awards	64,853	71,240
Centers, institutes and labs	(29,688)	77,728
Contributions receivable, net	363,904	-
Departmental/academic enrichment	244,642	1,123,268
Professorships/chairs/visiting scholars	369,985	800,462
Scholarships/fellowships	1,360,028	1,219,444
Special projects/lecture series/workshops	382,156	292,889
	<u>2,767,715</u>	<u>3,611,491</u>
	<u>\$ 24,376,280</u>	<u>\$ 32,396,911</u>

7. Endowment Funds

The Foundation's endowment accounts consist of donor-restricted endowment funds and include approximately 600 individual funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment funds and (b) the original value of subsequent gifts to the permanent endowment funds. The remaining portion of the donor-restricted endowment funds 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 UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

The University of Memphis Foundation
Notes to Financial Statements

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Changes in endowment net assets for the period of July 1, 2020 through June 30, 2021, are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
July 1, 2020	\$ -	\$ 96,488,206	\$ 96,488,206
Investment return:			
Investment income	-	366,040	366,040
Net appreciation (realized and unrealized)	-	<u>32,564,802</u>	<u>32,564,802</u>
Total investment return	-	32,930,842	32,930,842
Contributions	-	10,860,668	10,860,668
Appropriation of endowment assets for expenditure	-	<u>(3,611,491)</u>	<u>(3,611,491)</u>
June 30, 2021	-	136,668,225	136,668,225
Investment return:			
Investment income	-	307,442	307,442
Net depreciation (realized and unrealized)	-	<u>(20,616,341)</u>	<u>(20,616,341)</u>
Total investment return	-	(20,308,899)	(20,308,899)
Contributions	-	12,285,239	12,285,239
Appropriation of endowment assets for expenditure	-	<u>(2,767,715)</u>	<u>(2,767,715)</u>
June 30, 2022	<u><u>\$ -</u></u>	<u><u>\$125,876,850</u></u>	<u><u>\$125,876,850</u></u>

Underwater Endowments

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the Foundation is required to retain in a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of net assets with donor restrictions contributions and/or continued appropriation for fees and expenditures. At June 30, 2022, deficiencies of this nature existed in 132 donor-restricted endowment funds, which together have an original gift value of \$27,918,981, a current fair value of \$25,226,167, and a deficiency of \$2,692,813. At June 30, 2021, deficiencies of this nature existed in 3 donor-restricted endowment funds, which together have an original gift value of \$2,739,953, a current fair value of \$2,375,583, and a deficiency of \$364,370.

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 funds while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that

the Foundation must hold in perpetuity or for a donor specified period as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce consistent long-term growth of capital without undue exposure to risk.

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 an emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy

The Foundation has a policy of budgeting for expenditure each year a percentage of its endowment funds' average fair value over the prior twelve quarters through the fiscal year-end one year preceding the fiscal year in which the expenditure is planned. For fiscal years 2022 and 2021, this percentage was 4.00%. In establishing this policy, the Foundation considered the long-term expected return on its endowment funds. Accordingly, over the long term, the Foundation expects the current spending policy to allow for endowment growth. 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.

The Foundation has a policy that permits spending underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. The Board of Directors appropriated for expenditures \$131,980 and \$64,250 from underwater endowment funds during the years ended June 30, 2022 and 2021, respectively, which represents 2% of the 12 quarter moving average, not the 4% it generally draws from its endowment.

8. Related Party Transactions

The Foundation provided direct support to the University for general departmental expenditures, scholarships, and awards which totaled \$26,674,706 and \$32,156,407 for the years ended June 30, 2022 and 2021, respectively. The Foundation had accounts payable to the University in the amount of \$5,351,290 and \$3,717,694 as of June 30, 2022 and 2021, respectively.

During fiscal year 2021, the Foundation entered an agreement with the Auxiliary Services Foundation ("ASF"), an affiliate within the University, to transfer future donated funds designated for University Athletics to ASF. ASF then obtained an unsecured bank loan in the amount of \$12,000,000 for the purposes of providing financial support to University Athletics due to short term financial shortfalls within University Athletics due to the impact of COVID-19 on University Athletics revenue. The Foundation is not a party to the loan agreement with the bank but has agreed to transfer future donations designated for University Athletics to the ASF to cover the debts service based on direction and approval from the University.

At June 30, 2022, accounts payable includes \$707,310 due to the ASF.

Interfund advance

The Foundation has agreed to advance up to \$10,976,899 to an internal Foundation fund as an interfund advance benefiting the athletic department of the University at a 4.00% annual interest rate for the purpose of providing financial support to allow the athletic department to undertake construction of a football practice facility in advance of receiving payment of donor funding commitments. The advance is to be repaid in full not later than June 30, 2025, and is secured by certain future collections of receivables and other collections related to certain Foundation

funds benefitting the athletic department. Interfund advances totaling \$5,810,969 and \$7,600,907 were outstanding as of June 30, 2022 and 2021, respectively.

Contributed services

Based upon an operating agreement between the University and Foundation, the University provides office space and donation collection and processing services for the Foundation. The University provided contributed services under the terms of the operating agreement in the amount of \$149,003 and \$282,463 for the years ended June 30, 2022 and 2021, respectively.

9. Concentrations of Risk

Although the Foundation has a policy to maintain a diversified investment portfolio, its investments are subject to market and credit risks which may be affected by economic developments in a specific geographic region or industry.

Approximately 52% and 57% of the Foundation's contributions receivable at June 30, 2022 and 2021, was due from six and four donors, respectively.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors
The University of Memphis Foundation
Memphis, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of Memphis Foundation (the "Foundation"), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise, and have issued our report thereon dated December 12, 2022.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Report on Compliance and Other Matters

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

There were no prior year findings reported.

We noted certain other matters that we have reported to management of the Foundation in a separate letter dated December 12, 2022.

Purpose of this Report

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

FORVIS, LLP

Memphis, Tennessee
December 12, 2022

8. External Audit Report - Auxiliary Services Foundation Financial Statements Year Ended June 30, 2022

Presentation

Presented by Vicki Deaton

The University of Memphis Board of Trustees

Presentation
For Information

Date: March 1, 2023

Committee: Audit Committee

Presentation: External Audit Report – Auxiliary Services Foundation Financial Statements Year Ended June 30, 2022

Presented by: Vicki D. Deaton, Chief Audit Executive

Background:

On December 12, 2022, the Auxiliary Services Foundation Financial Statements Year Ended June 30, 2022, were issued. The financial statements are presented for your information according to the responsibilities for Internal Audit under UofM Policy GE2016 Notification of External Audits and Reviews, which includes reporting occurrences of external audits and reviews to the Audit Committee, Division of State Audit and others as the circumstances may dictate.

The Auxiliary Services Foundation (Foundation) is a not-for-profit corporation that commenced operations in April 2019 as an agent to operate auxiliary enterprises which directly benefit the University of Memphis (University). The Foundation accepts, administers, applies, and uses property acquired by gift, grant, devise, bequest, or otherwise solely for the benefit of the University. Because the Foundation's resources can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University.

The Foundation's Board of Directors exercises financial oversight and reviews and approves the financial activity in accordance with the Foundation's established bylaws. The Foundation is currently managing several capital projects for the University. The Foundation will continue to support the mission of the University to include the areas of capital projects, receipt of donations, contracts, auxiliary enterprises and other activities which benefit the University.

The Auxiliary Services Foundation engaged an independent external CPA firm, Forvis, LLP, to perform an audit of the financial statements of the Foundation. The independent auditor's opinion, dated December 12, 2022, stated that the financial statements present fairly, in all material respects, the financial position of Auxiliary Services Foundation as of June 30, 2022, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, the auditors also issued a report dated December 12, 2022, on their consideration of the Foundation's internal control over financial reporting and their tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of the auditor's testing of internal control over financial reporting and compliance, and the results of that testing - not to provide an

opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance.

The auditor's tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. The auditors did identify a deficiency that they considered to be a material weakness in internal control related to two significant financial misstatements that would not have been detected by the entity's internal control system. The auditors proposed a recommendation and the Foundation's management provided a response and corrective action plan.

Auxiliary Services Foundation

Financial Statements

Year Ended June 30, 2022

Table of Contents

Board of Directors and Management Official	1
Independent Auditor's Report	2
Financial Statements:	
Statement of Financial Position	5
Statement of Activities	6
Statement of Cash Flows	7
Notes to Financial Statements.....	8
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an audit of Financial Statements performed in accordance with <i>Government Auditing Standards</i>.....	14
Schedule of Findings and Recommendations.....	16
Management's Response to Finding and Corrective Action Plan.....	17

BOARD OF DIRECTORS

Richard A. Spell	President
John Hartney	Vice President
Fred A. Towler	Secretary
Raajkumar Kurapati	Treasurer
Tim Argo	Director
Dr. Bill Hardgrave	University of Memphis President

MANAGEMENT OFFICIAL

Holly Ford	Foundation CEO
------------	----------------

Independent Auditor's Report

Board of Directors
Auxiliary Services Foundation
Memphis, TN

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Auxiliary Services Foundation (a component unit of the University of Memphis), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Auxiliary Services Foundation as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Auxiliary Services Foundation's ability to continue as a going concern within one year after the date that these financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Auxiliary Services Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Auxiliary Services Foundation's ability to continue as a going concern for a reasonable period of time.

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the roster of the Board of Directors and Management Officials but does not include the financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2022, on our consideration of the Auxiliary Services Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Auxiliary Services Foundation's control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Auxiliary Services Foundation's internal control over financial reporting and compliance.

FORVIS, LLP

**Memphis, TN
December 12, 2022**

Auxiliary Services Foundation
Statement of Financial Position
June 30, 2022

ASSETS

Current assets:

Cash	\$ 16,166,349
Due from affiliates	<u>737,788</u>

Total current assets 16,904,137

Other assets:

Cash value of life insurance	361,694
Historical document	750,000
Other investment	<u>7,874</u>

Total other assets 1,119,568

Fair value of derivative financial instrument 654,662

Total assets \$ 18,678,367

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 581,613
Interest payable	25,568
Current portion of long-term debt	<u>1,749,387</u>

Total current liabilities 2,356,568

Long-term liabilities:

Long-term debt, net of current portion	<u>8,552,738</u>
--	------------------

Total liabilities 10,909,306

Net assets:

Without donor restrictions	1,445,937
----------------------------	-----------

With donor restrictions:

Restricted for capital projects	5,573,124
Restricted in perpetuity	<u>750,000</u>

Net assets with donor restrictions 6,323,124

Total net assets 7,769,061

Total liabilities and net assets \$ 18,678,367

Auxiliary Services Foundation
Statement of Activities
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Totals
Support and revenue:			
Transfers from affiliate organizations	1,275,251	8,530,772	\$ 9,806,023
Change in cash surrender value	30,960	-	30,960
Interest income	58,469	-	58,469
Total support and revenue	1,364,680	8,530,772	9,895,452
Net assets released from restrictions	9,054,917	(9,054,917)	-
Total support and revenue and net assets released from restrictions	10,419,597	(524,145)	9,895,452
Expenses:			
Program - University support:			
On campus stadium study	60,060	-	60,060
Porter-Leath	3,500,000	-	3,500,000
Football field renovations	213,021	-	213,021
Lambuth Madison High School	227,000	-	227,000
Athletics debt interest	342,720	-	342,720
Finch Plaza	299,303	-	299,303
Professional services	62,000	-	62,000
Benjamin Hooks Institute	18,100	-	18,100
Leftwich Tennis Center	2,500,000	-	2,500,000
Research Park	12,021	-	12,021
Natatorium facility improvements	2,285,472	-	2,285,472
Total program	9,519,697	-	9,519,697
Management and general:			
Insurance	11,247	-	11,247
Office	1,015	-	1,015
Professional fees	19,598	-	19,598
Salaries and benefits	34,182	-	34,182
Total management and general	66,042	-	66,042
Total expenses	9,585,739	-	9,585,739
Change in fair value of derivative financial instrument	654,662	-	654,662
Change in net assets	1,488,520	(524,145)	964,375
Modifications of restrictions	690,279	(690,279)	-
Net assets at June 30, 2021	(732,862)	7,537,548	6,804,686
Net assets at June 30, 2022	\$ 1,445,937	\$ 6,323,124	\$ 7,769,061

Auxiliary Services Foundation
Statement of Cash Flows
Year Ended June 30, 2022

Cash flows from operating activities:	
Cash received from University of Memphis Foundation	\$ 9,581,787
Cash received from transfers from University of Memphis Research Foundation	11,020
Cash received from interest income	58,469
Cash paid to vendors for University capital projects	(14,178,264)
Cash paid to vendors for general and administrative expenses	(103,042)
Cash paid for interest expense	<u>(335,943)</u>
Net cash used in operating activities	(4,965,973)
Cash flows from financing activities:	
Payments on long-term debt	<u>(1,697,875)</u>
Change in cash	(6,663,848)
Cash at beginning of year	<u>22,830,197</u>
Cash at end of year	<u>16,166,349</u>
Reconciliation of change in net assets to net cash used in operating activities:	
Change in net assets	964,375
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Change in fair value of derivative financial instrument	(654,662)
Changes in operating assets and liabilities:	
Decrease (increase) in operating assets:	
Accounts receivable	25,000
Due from affiliates	(213,216)
Cash value of life insurance	(30,960)
Increase (decrease) in operating liabilities:	
Accounts payable	469,278
Accrued interest and dividends	6,777
Due to affiliate	<u>(5,532,565)</u>
Net cash used in operating activities	<u><u>\$ (4,965,973)</u></u>

1. Summary of Significant Accounting Policies

Organization and activities

Auxiliary Services Foundation (the "Foundation") is a not-for-profit corporation that commenced operations in April 2019 as an agent to operate auxiliary enterprises which directly benefit The University of Memphis ("University"); and accept, administer, apply, and use property acquired by gift, grant, devise, bequest, or otherwise solely for the benefit of the University. Because the Foundation's resources can only be used by, or for the benefit of The University, the Foundation is considered a component unit of the University.

Basis of accounting

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Cash and cash equivalents

For purposes of the statement of cash flows, all highly liquid investments purchased with initial maturities of three months or less are considered to be cash equivalents.

Net assets

Net assets, revenues and support, gains, and losses are classified based on the existence or absence of donor or donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions

Net assets available for use in general operations and not subject to donor restrictions. The board of directors may designate net assets for certain purposes from net assets without donor restrictions, depending on future needs in accordance with the strategic plans for the University.

Net assets with donor restrictions

Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates those resources be maintained in perpetuity.

Restricted for capital projects - includes resources received by the Foundation for specified capital expenditures which have been restricted by the donors when contributed to the original recipient organization.

Restricted in perpetuity - includes resources received by the Foundation to be used to support the needs of the University to be held and maintained in perpetuity.

Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Support and revenue

Transfers from affiliate organizations are recorded as without donor restrictions or with donor restrictions depending upon existence and/or nature of restrictions from the transferring affiliate organization. Transfers from affiliate organizations are recognized as contributions when the determination to transfer the assets is made by the transferring organization.

Derivative financial instrument

During fiscal year 2021, the Foundation entered an interest rate swap agreement to manage its interest rate risk. The Foundation accounts for this derivative financial instrument at its fair value.

Income taxes

The Internal Revenue Service has classified the Foundation as other than a private foundation, which is exempt from federal income taxes on its related purpose under Section 501(c)(3) of the United States Internal Revenue Code and is similarly exempt from state income taxes. Consequently, no federal or state income taxes have been provided for in these financial statements.

Investment valuation and income recognition

The Foundation's investments are stated at fair value. Fair value is the price that would be received to sell an asset in an ordinary transaction between market participants at the measurement date. See Note 5 for a discussion of fair value measurements.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded when earned and dividends are recorded on the ex-dividend date. Net realized and unrealized gains (losses) on investments include the Foundation's gains and losses on investments bought and sold as well as held during the year and are included in support and revenue on the statement of activities. Investment expenses incurred on investments are included in investment income on the statement of activities.

Cash surrender value of the life insurance policy is measured at fair value. Changes in fair value are recorded in other income and are included in support and revenue on the statement of activities.

Use of estimates

Management uses estimates and assumptions in preparing financial statements in accordance with GAAP. Such estimates and assumptions affect the reported amounts of assets and liabilities and reported revenue and expenses. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses

The costs of provided various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and support services benefitted. All expenses were allocated based on a full-time equivalent since they are incurred through invoices submitted by the Foundation.

Subsequent events

Management has evaluated subsequent events through December 12, 2022, the date the financial statements were available to be issued.

2. Deposits with Financial Institutions

Deposits with financial institutions consist of demand deposits with local banks or with banks affiliated with the Foundation's investment broker.

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Foundation will not be able to recover deposits. The Foundation does not have a formal policy regarding custodial risk.

The Foundation had deposits held in financial institutions which were in excess of FDIC coverage by \$15,916,349 at June 30, 2022.

3. Related Party Transactions

The Foundation received the following transfers from organizations affiliated with the University during the year ended June 30, 2022:

University of Memphis Foundation	\$ 9,795,003
University of Memphis Research Foundation	<u>11,020</u>
	<u>\$ 9,806,023</u>

Expenditures made by the Foundation are in support of the University and are presented by activity on the statement of activities.

At June 30, 2022, receivables includes \$737,788 due from the University of Memphis Foundation.

4. Historical Document

During the year ended June 30, 2020, the Foundation received a contribution of the entire speech of Dr. Martin Luther King, Jr, delivered on July 6, 1965, at the fifth General Synod of the United Church of Christ in Chicago. This is for the benefit of the University and is to remain the property of the Foundation in perpetuity. It is on display at the University of Memphis. The document was valued at fair value determined by an independent appraiser at the time of donation.

5. Other Investment

On September 15, 2020, the Foundation committed \$50,000 as a capital contribution to establish Palos Equity Ventures, LLC which provided 99% ownership. The investment is valued at cost due to the limited transactions during the initial startup of entity. The Foundation has paid \$7,875 toward the commitment as of June 30, 2022.

6. Fair Value Measurements

Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, provides a common definition of fair value and establishes a framework for measuring fair value. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. These inputs are summarized in three broad levels for financial statement purposes.

Level 1: Quoted prices for identical securities in active markets.

Level 2: Other significant observable inputs other than Level 1 prices, such as quoted prices for similar securities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs about which little or no market data exists, therefore, requiring an entity to develop its own assumptions.

The fair value measurement of the interest rate swap liability is based on other observable inputs (Level 2). The fair value of the Foundation's swap liability is provided by a third party who derives the valuation from a proprietary model based up on recognized financial principles. Among other factors, the model takes into consideration the notional amount, number of payments, number of days, fixed interest rates, forward interest rates, and a present value discount factor.

The following tables set forth by level, within the fair value hierarchy, the Foundation's liabilities measured at fair value on a recurring basis as of June 30, 2022.

Assets at Fair Value as of June 30, 2022				
	Level 1	Level 2	Level 3	Total
Asset:				
Interest rate swap	\$ _____	\$ 654,662	\$ _____ -	\$ 654,622

7. Net Assets with Donor Restrictions

Net assets are donor restricted for the following activities at June 30, 2022:

	Capital Projects	Restricted in Perpetuity	Total Net Assets with Donor Restrictions
Natatorium Facility Improvements	\$ 1,524,906	\$ -	\$ 1,524,906
Leftwich Tennis Center	4,921,222	-	4,921,222
Football Scouting Contract	24,968	-	24,968
Stones River Group	5,000	-	5,000
Athletics Communications Tool	206,194	-	206,194
Porter-Leath	(1,312,500)	-	(1,312,500)
Olympic Weight Room	19,938	-	19,938
Benjamin Hooks Institute	183,396	-	183,396
Historical document	-	750,000	750,000
	<u>\$ 5,573,124</u>	<u>\$ 750,000</u>	<u>\$ 6,323,124</u>

Negative restricted balances represent funds spend in advance of the expected revenue source becoming due or transferred from the University of Memphis Foundation.

During the year ended June 30, 2022, the Foundation released \$9,054,917 of restrictions by incurring expenditures related to the restricted capital projects.

Certain amounts have been reclassified to net assets without donor restrictions as a result of modifications of the restrictions.

8. Commitments

The Foundation is currently managing capital projects for the University and is under obligation for the following contract for the project listed below:

	Contract Amount	Expended through June 30, 2022	Commitment Remaining June 30, 2022
Natatorium Facility Improvements	\$ 7,042,137	\$ 4,372,741	\$ 2,669,396
Leftwich Tennis Center	7,500,000	2,500,000	5,000,000
Finch Plaza	689,474	628,927	60,547
Football Scouting Contract	75,000	50,032	24,968
Stones River Group	62,000	57,000	5,000
Athletics Communications Tool	296,194	90,000	206,194
Porter-Leath	3,500,000	3,500,000	-
Olympic Weight Room	275,582	240,062	35,520
Benjamin Hooks Institute	225,000	9,604	215,396
Lambuth Madison High School	908,000	227,000	681,000
	<u>\$ 20,573,387</u>	<u>\$ 11,675,366</u>	<u>\$ 8,898,021</u>

9. Liquidity

All the assets of the Foundation are restricted for the support of The University. The cash held in a financial institution is restricted specifically for construction in the amount of \$5,803,085 (see note 7).

10. Long-term Debt

Long-term debt on June 30, 2022 consisted of the following:

Promissory note with a bank, repayable in quarterly principal installments, accrues interest at a variable rate per annum equal to the thirty day LIBOR rate plus 2.15% (2.99% at June 30, 2022). Note matures on December 10, 2027.	\$ 10,302,125
Less: Current portion	<u>(1,749,387)</u>
Debt, long-term	<u>\$ 8,552,738</u>

Future maturities of long-term debt are as follows:

<u>Year Ending June 30,</u>	
2023	\$ 1,749,387
2024	1,802,462
2025	1,857,147
2026	1,913,492
2027	<u>2,979,637</u>
	<u>\$ 10,302,125</u>

For the year ended June 30, 2022, interest expense charged to operations and included as athletics debt interest in program expenses amounted to \$342,270 and interest payable as of June 30, 2022 amounted to \$25,568.

11. Derivative Financial Instrument

The Foundation entered into an interest rate swap contract under which the Foundation agreed to pay a fixed rate of interest times a notional principal amount, and to receive in return an amount equal to a specified variable rate of interest times a notional principal amount. The interest rate swap under which the Foundation agreed to pay a fixed rate of interest was considered to be a hedge against the change in the amount of future cash flows associated with the Foundation's note payable interest payments.

At June 30, 2022, the Foundation's interest rate swap contract was structured to pay fixed rates of interest (2.8% per annum) and receive variable rates of interest (based on percentage of LIBOR) on a \$10,302,125 notional amount. The contract terminates on December 10, 2027.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors
Auxiliary Services Foundation
Memphis, TN

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Auxiliary Services Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 12, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Auxiliary Services Foundation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Auxiliary Services Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of Auxiliary Services Foundation's internal control.

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control, described in the accompanying schedule of findings and recommendations as item 2022-001 that we consider to be a material weakness.

Compliance and Other Matters

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

Auxiliary Services Foundation's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Auxiliary Services Foundation's response to the findings identified in our audit and described in the accompanying schedule of findings and recommendations. The Auxiliary Services Foundation's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

FORVIS,LLP

Memphis, TN
December 12, 2022

2021 Findings: None

2022-001: Audit Adjustments

Criteria: Statement of Audit Standards No. 115 paragraph 15 provides examples of material weaknesses in internal control, one being the identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control.

Conditions: Our audit resulted in two significant audit adjustments that we consider to be the result of a material weakness in internal control:

- The Foundation entered an interest rate swap contract in December 2020, under which the Foundation agreed to pay a fixed rate of interest times a notional principal amount of \$12 million, and to receive in return an amount equal to a specified variable rate of interest times a notional principal amount. This derivative financial instrument had a positive fair value of \$25,013 at June 30, 2021 and \$643,006 at June 30, 2022. The asset value was not recorded or disclosed in the June 30, 2021, financial statements nor was it recorded in the June 30, 2022, preliminary financial statements.
- Three invoices totaling approximately \$535,000 were not properly accrued into accounts payable at year end.

Effect: The preliminary balances for assets and accounts payable were materially understated.

Recommendation: Management should review all significant agreements and valuations to ensure their effect is reflected in the financial statements. Management should also review its closing process to ensure significant expenditures are recorded in the correct period.



Ms. Holly Ford
Foundation CEO
University of Memphis Auxiliary Services Foundation
635 Normal Street
Alumni Center Building College Street
Memphis, TN 38152

RE: Management's Response to Finding and Corrective Action Plan

2022-001: Audit Adjustments

Response and Corrective Action:

In response to the asset value recording of the SWAP contract, Management agrees with the auditors finding. It is noted however, this was not raised as an issue in the prior years' audit due to materiality. Had it been previously raised, it would have prompted management to ensure the asset, which is now material to the financial statements given the impact of the recent rise in interest rates, was reviewed and appropriately accounted for. Going forward the Chief Business Officer will ensure the relating accounting treatment is accurately captured in the financial statements.

Responding to the year-end accrual item, while management agrees with the adjustment to accrue these liabilities at June 30, 2022, it is management's position the auditors were working off a "draft" trial balance, general ledger and note schedules, which were provided to allow for the auditors to begin audit fieldwork. This was necessary to ensure the audit could begin immediately to meet the deadlines for presentation of ASF's financial statements to State Auditors conducting the University's audit. The need for this accrual was recognized by management and the intent was to have such reflected in the final statements presented to the auditors. Going forward management will work with the auditors to ensure only final fully adjusted financial statements are provided to avoid misunderstandings.

Contact Person: Ms. Holly Ford

Expected Completion Date: 6/30/2023

A handwritten signature in black ink, appearing to be 'Holly Ford', written over a horizontal line.

Ms. Holly Ford
Foundation CEO

9. External Audit Report - The Herff Trust Financial Statements Year Ended June 30, 2022

Presentation

Presented by Vicki Deaton

The University of Memphis Board of Trustees

Presentation
For Information

Date: March 1, 2023

Committee: Audit Committee

Presentation: External Audit Report – The Herff Trust Financial Statements Year Ended June 30, 2022

Presented by: Vicki D. Deaton, Chief Audit Executive

Background:

On December 12, 2022, The Herff Trust Financial Statements Year Ended June 30, 2022 were issued. The financial statements are presented in accordance with the responsibilities for Internal Audit under UofM Policy GE2016 Notification of External Audits and Reviews, which includes reporting occurrences of external audits and reviews to the Audit Committee, Division of State Audit and others as the circumstances may dictate.

In 1964, Herbert Herff and his wife donated the money to establish the Herff College of Engineering at the University of Memphis. In 1965, Herbert Herff and Gov. Frank Clement entered into an agreement for Mr. Herff to provide \$350,000 for the benefit of the University under the terms and provisions of the Last Will and Testament of Herbert Herff. When he died in 1966, Herbert Herff left the bulk of his estate in trust with the State of Tennessee for the benefit of the University of Memphis.

According to terms of the trust agreement, a Committee ("Trustees") would be established to "manage and control" the bequest. The funds of the trust were to be used for the benefit of the School of Law and School of Engineering at the University, and such other uses as the committee may decide. The Trustees exercise financial oversight of Trust assets. An Investment Management Consultant advises the Trustees on investment selection and asset allocation. The business affairs of the Trust are managed by the University. The Trust has no employees. The Herbert Herff Trust was formed exclusively for the benefit of the University of Memphis. The Herff Trust is a component unit of the University of Memphis.

The Trustees intend to continue to support the University to maintain and expand its programs, by prudently managing the investments of the Trust. All support will be in accordance with the original agreement with Mr. Herff.

The Herff Trust engaged an independent external CPA firm, Forvis, LLP, to perform an audit of the financial statements of the Herff Trust. The independent auditor's opinion, dated December 12, 2022 stated that the financial statements present fairly, in all material respects, the financial position of the Herff Trust as of June 30, 2022, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The auditors did not identify any deficiencies in internal control that would be considered material weaknesses during their limited consideration of internal control over financial reporting. Also, they did

not identify any instances of noncompliance with certain provisions of laws, regulations, contracts, grant agreements, or other matters that are required to be reported under Government Auditing Standards.

The Herff Trust

Financial Statements

Year Ended June 30, 2022

Table of Contents

Board of Trustees and Management Officials 1

Independent Auditor’s Report 2

Management’s Discussion and Analysis 5

Financial Statements:

 Statement of Net Position 7

 Statement of Revenues, Expenses and Changes in Net Position 8

 Statement of Cash Flows 9

 Notes to Financial Statements..... 10

Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 15

Board of Trustees:

Richard A. Spell	President
John Hartney	Vice President
Fred A. Towler	Secretary
Raajkumar Kurapati	Treasurer
Tim Argo	Trustee

Management Officials:

George Ninan	Assistant VP and University Controller
Holly Ford	Foundation CEO

Independent Auditor's Report

Board of Trustees
The Herff Trust
Memphis, TN

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Herff Trust (a component unit of The University of Memphis), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the The Herff Trust's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the The Herff Trust, as of June 30, 2022, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting

a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Herff Trust's internal control. Accordingly, no such opinion, is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Herff Trust's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the financial statements. The other information comprises the roster of the Board of Trustees and Management Officials but does not include the financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2022, on our consideration of The Herff Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Herff Trust's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Herff Trust's internal control over financial reporting and compliance.

FORVIS, LLP

**Memphis, TN
December 12, 2022**

Management's Discussion and Analysis for The Herff Trust

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and the results of operations of The Herff Trust (the "Trust") for the year ended June 30, 2022. We encourage you to read this MD&A section in conjunction with the accompanying audited financial statements and notes to the financial statements.

About the Financial Statements

As a component unit of The University of Memphis (the "University"), the Trust has implemented the governmental accounting standards for state and local governments and for public colleges and universities. Because the Trust is not supported by governmental tax revenues, the Trust presents its financial reports in a single column "business-type activity" format appropriate for college and university enterprise funds.

In addition to this MD&A section, the financial statements consist of a statement of net position, a statement of revenues, expenses, and changes in net position, a statement of cash flows, and notes to the financial statements.

The statement of net position is the Trust's balance sheet. It reflects the total assets, liabilities, and net position (similar to net equity) of the Trust as of June 30, 2022. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as noncurrent. Net position is to be used for University of Memphis support.

The statement of revenues, expenses, and changes in net position is similar to an income statement. It details how net position has increased during the year ended June 30, 2022.

The statement of cash flows details how cash has decreased during the year. It breaks out the sources and uses of Trust cash into operating and investing activities. Cash flows associated with the Trust's net assets result from investment income and related investment and operating activities.

The notes to the financial statements provide additional details on the amounts reported in the financial statements.

General

In 1965, Herbert Herff and Gov. Frank Clement entered into an agreement for Mr. Herff to provide \$350,000 for the benefit of the University under the terms and provisions of the Last Will and Testament of Herbert Herff. According to terms of the agreement a Committee ("Trustees") would be established to "manage and control" the bequest. The funds of the trust were to be used for benefit of the School of Law and School of Engineering at the University of Memphis, and such other uses as the committee may decide.

The Trustees exercise financial oversight of Trust assets. An Investment Management Consultant advises the Trustees on investment selection and asset allocation. The business affairs of the Trust are managed by the University. The Trust has no employees.

Statement of Net Position

Current assets include cash and the current portion of a note receivable and other income receivable from related party transactions (Note E).

At June 30, 2022, funds held by an investment broker on behalf of the Trust totaled \$26,786,401. Of this amount, \$25,753,819 represents investments at fair value and \$1,032,582 represents deposits with banks affiliated with the broker.

The Herff Trust Management's Discussion and Analysis

A summary of the major components of the net position of the Trust as of June 30, 2022, is as follows:

Current assets	\$ 1,441,521
Other assets	<u>25,852,724</u>
Total assets	<u>\$ 27,294,245</u>
Net position	<u>\$ 27,294,245</u>

Statement of Revenues, Expenses, and Changes in Net Position

A summary of the statement of revenue, expenses, and changes in net position for the year ended June 30, 2022, is as follows:

Net investment loss	\$ (2,762,644)
Other income – University of Memphis	284,454
Student scholarships & other expenses	<u>(947,906)</u>
Change in net position	<u>\$ (3,426,096)</u>

The Statement of Cash Flows

In 2022, the cash receipts and expenses during the year primarily relate to investment activity - purchase, sale and investment income and expenses. Besides these, student scholarships paid to the University is the primary outflow.

Future

The Trust will continue to support the University to maintain and expand its programs, by prudently managing the investments of the Trust. All support will be in accordance with the original agreement with Mr. Herff.

The Herff Trust
Statement of Net Position
June 30, 2022

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,032,582
Due from University of Memphis	284,454
Note receivable - related party	<u>126,697</u>

Total current assets	1,443,733
----------------------	-----------

Other assets:

Investments	25,753,819
Note receivable - related party	<u>96,693</u>
	<u>25,850,512</u>

Total assets	<u>\$ 27,294,245</u>
--------------	----------------------

NET POSITION

Net position	<u>\$ 27,294,245</u>
--------------	----------------------

Total net position	<u>\$ 27,294,245</u>
--------------------	----------------------

The Herff Trust
Statement of Revenues, Expenses and Changes in Net Position
June 30, 2022

Revenue:	
Investment loss	\$ (2,714,702)
Less: Investment expenses	<u>(47,942)</u>
Net investment loss	<u>(2,762,644)</u>
Other - University of Memphis	<u>284,454</u>
Total revenue	(2,478,190)
Expenses:	
Program expenses:	
Student scholarships	939,406
Management and general:	
Professional fees	<u>8,500</u>
	<u>947,906</u>
Change in net position	(3,426,096)
Net position - beginning of the year	<u>30,720,341</u>
Net position - end of year	<u><u>\$ 27,294,245</u></u>

The Herff Trust
Statement of Cash Flows
June 30, 2022

Cash flows from operating activities:	
Investment income received	\$ 699,232
Other income from the University of Memphis	465,170
Professional fees	(8,500)
Investment fees	(47,942)
Cash paid for scholarships	<u>(1,015,898)</u>
Net cash provided by operating activities	92,062
Cash flows from investing activities:	
Purchases of investments	(3,300,685)
Sales of investments	2,957,454
Repayments on note receivable - related party	<u>119,627</u>
Net cash used in investing activities	<u>(223,604)</u>
Change in cash and cash equivalents	(131,542)
Cash and cash equivalents at beginning of year	<u>1,164,124</u>
Cash and cash equivalents at the end of year	<u><u>\$ 1,032,582</u></u>
Reconciliation of change in net position to net cash provided by operating activities:	
Change in net position	\$ (3,426,096)
Adjustments to reconcile net position to net cash provided by operating activities:	
Net realized and unrealized loss on investments	3,412,738
Decrease in accrued interest included in note receivable	1,196
Changes in operating assets and liabilities	
Decrease in operating assets:	
Other receivable - University of Memphis	180,714
Decrease in operating liabilities:	
Due to University of Memphis	<u>(76,490)</u>
Net cash provided by operating activities	<u><u>\$ 92,062</u></u>

Notes to Financial Statements

1. Summary of Significant Accounting Policies

Organization and Activities

The Herff Trust (the "Trust") was formed exclusively for the benefit of The University of Memphis ("The University"). In 1964 Herbert Herff and his wife, Minnie G. Herff, donated the money to establish the Herff College of Engineering at the University of Memphis. When he died in 1966, Herbert Herff left the bulk of his estate in trust with the State of Tennessee for the benefit of the University. More than forty years later, the Trust continues to help sustain and expand University programs.

Financial Reporting Entity

In determining the financial reporting entity, the Trust complies with the provisions of the Governmental Accounting Standards Board ("GASB") No. 14, *The Financial Reporting Entity*. Based on this standard, the Trust was determined to be a component unit of The University, as it was created solely for the purpose of providing benefits to The University.

Basis of Presentation

As a component unit of The University, the financial statements of the Trust have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for public colleges and universities, as prescribed by GASB.

For financial statement purposes, the Trust 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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments purchased with initial maturities of three months or less are considered to be cash equivalents.

Investments

The Trust carries investments at fair value in the statement of net position. Purchases and sales of investments are recorded on the trade-date basis. Realized and unrealized gains and losses as well as investment expenses are included in the net investment loss in the statement of revenues, expenses, and changes in net position.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with GAAP. Such estimates and assumptions affect the reported amounts of assets and liabilities, and revenues and expenses. Accordingly, actual results could differ from estimates.

2. Deposits with Investment Broker

For cash deposits, custodial credit risk is the risk that, in the event of institution failure, the Trust's deposits may not be returned. Balances held within cash accounts administered by its broker are covered by the Securities Investor Protection Corporation ("SIPC") up to \$250,000 per account. None of these accounts exceeded the SIPC coverage as of June 30, 2022.

3. Investments

One objective of the Trust's investment policy is to obtain a favorable absolute return with the preservation of purchasing power with some emphasis on long-term growth. Another objective is to provide cash for distribution to The University in amounts approximating four to six percent of the portfolio's average market value.

The Board of Trustees shall have responsibility for establishing overall financial objectives, setting investment policy, setting parameters for asset allocation, and selecting an investment management consultant. Domestic and international equities, both large and small capitalization, fixed income, cash equivalent securities and alternative investments in the form of diversified funds of funds, hedge funds, and limited partnership interests have been determined to be acceptable vehicles for investment.

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Trust will not be able to recover the value of investment securities that are in the possession of an outside party. The Trust does not have a policy for custodial credit risk for its investments. The Trust utilizes an American multinational independent investment bank and financial services company for its custodial services and has no investment securities from a single issuer valued in excess of twelve percent of the total investment portfolio at June 30, 2022.

4. Fair Value Measurements

Fair value, as defined under GAAP, is an exit price representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

Level 1: Observable inputs such as quoted prices in active markets.

Level 2: Inputs other than quoted prices in active markets that are either directly or indirectly observable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, and others.

Level 3: Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

Investments in limited partnerships that are measured at fair value using the Net Asset Value ("NAV") as a practical expedient are not classified in the fair value hierarchy. The Trust measures certain qualifying investments at the NAV to estimate fair value unless it is probable that the Trust will sell its interest at an amount different than the NAV. As of June 30, 2022, the Trust did not intend to sell investments for an amount other than that measured at the NAV. Short-term highly liquid investments classified as cash equivalents that are measured and reported at amortized cost are not classified in the fair value hierarchy.

The custodian obtains prices for most domestic securities at the close of each business day. Certain security types are priced at the end of each business week or on the last business day of each month. These security types include, limited partnerships, and alternative investments.

There have been no changes in the methodologies used as of June 30, 2022. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Investments categorized as Level 1 include exchange traded funds and money market mutual funds which are valued using quoted prices in active markets for those securities. Investments valued using the NAV as a practical expedient are provided by the general partners, investment managers, or through independent appraisals.

Investments categorized as Level 3 include alternative investments which are held directly with the issuer and information is provided by an external source. The alternative investments are funds that invest in hedge funds.

The following table presents the Trust's financial assets measured at fair value on a recurring basis at June 30, 2022:

	Assets at Fair Value as of June 30, 2022			
	Level 1	Level 2	Level 3	Total
Money market mutual fund	\$ 1,250,937	\$ -	\$ -	\$ 1,250,937
Exchange traded funds	23,469,784	-	-	23,469,784
Alternative investments	-	-	843,595	843,595
Total investments in the fair value hierarchy	<u>\$ 24,720,721</u>	<u>\$ -</u>	<u>\$ 843,595</u>	25,564,316
Limited partnership measured at NAV				<u>189,503</u>
Total				<u>\$ 25,753,819</u>

The Herff Trust
Notes to Financial Statements

The following table provides information related to investments that are valued based on NAV at June 30, 2022:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Limited partnerships ^(a)	\$ 189,503	\$ -	Annually	n/a
^{a)} Limited partnership- This category consists of funds valued using NAV or capital balances provided by the general partner or investment manager as a practical expedient to fair value.				

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2022:

	<u>Alternative Investments</u>
Balance, July 1, 2021	\$ 1,564,667
Unrealized gain (loss)	(121,071)
Sale	(746,959)
Realized gain	<u>146,958</u>
Balance, June 30, 2022	<u>\$ 843,595</u>

5. Related Party Transactions

The Trust was involved in the following transactions with organizations affiliated with The University during the year ending June 30, 2022:

Scholarships disbursed for the benefit of University of Memphis students	\$ 939,406
Perkins loan funds liquidated from the University of Memphis	\$ 284,454

6. Note Receivable – Related Party

Note receivable from UMRF Ventures, Inc., bearing interest at 4.0 percent, due in quarterly payments beginning January 1, 2020, and maturing on December 31, 2023.

UMRG Ventures, Inc.	\$ 223,390
Less: Current portion	<u>(124,485)</u>
Related party receivable - long term	<u>\$ 98,905</u>

Principal payments due from related party receivable for the next two years ending June 30 are as follows:

2023	\$	124,485
2024		<u>98,905</u>
	\$	<u>223,390</u>

Interest income related to the above related party receivable for the year ended June 30, 2022, amounted to \$10,400 and is included in the net investment loss in the statement of revenues, expenses, and changes in net position.

7. Net Position

All of the Trust's net position is to be used for the benefit of The University. The Board of Trustees expects to expend approximately four to six percent of the investments' average market values over the previous three years in support of The University for student scholarships on an annual basis. Other University support is determined at the discretion of the Board of Trustees.

8. Subsequent Events

The Trust has evaluated the effect subsequent events would have on the financial statements through December 12, 2022, which is the date the financial statements were available to be issued.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Trustees
The Herff Trust
Memphis, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Herff Trust (a component unit of The University of Memphis), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise The Herff Trust's basic financial statements, and have issued our report thereon dated December 12, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Herff Trust's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Herff Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of The Herff Trust's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

There were no prior year findings.

Purpose of this Report

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

FORVIS, LLP

**Memphis, TN
December 12, 2022**

10. External Audit Report - Report on the
Application of Agreed- Upon Procedures
of the University of Memphis
Intercollegiate Athletics Program
Statement of Revenues and Expenses for
the Year Ended June 30, 2022

Presentation

Presented by Vicki Deaton

The University of Memphis Board of Trustees

Presentation
For Information

Date: March 1, 2023

Committee: Audit Committee

Presentation Title: External Audit Report - Report on the Application of Agreed-Upon Procedures to the University of Memphis' Intercollegiate Athletics Program Statement of Revenues and Expenses for the year ended June 30, 2022

Presented by: Vicki D. Deaton, Chief Audit Executive

Report Synopsis:

The Athletics Program Statement of Revenues and Expenses for the year ended June 30, 2022 are presented for your information according to the responsibilities for Internal Audit under UofM Policy GE2016 Notification of External Audits and Reviews, which includes reporting occurrences of external audits and reviews to the Audit Committee, Division of State Audit, and others as the circumstances may dictate.

Internal Audit received an Independent Accountants' Report on the Application of Agreed-Upon Procedures to the University of Memphis' Intercollegiate Athletics Program Statement of Revenues and Expenses. The Agreed-Upon Procedures evaluated compliance with the National Collegiate Athletic Association (NCAA) Bylaw 3.2.4.17 for the year ended June 30, 2022, and was performed by the Tennessee Comptroller of the Treasury's Division of State Audit.

No opinion was expressed on compliance with NCAA requirements. One exception was noted, however, no adjustments to the Statement of Revenues and Expenses were required.



JASON E. MUMPOWER
Comptroller

January 11, 2023

Dr. Bill Hardgrave, President
The University of Memphis

Dear Dr. Hardgrave:

Transmitted herewith is the report on the results of certain agreed-upon procedures applied to the statement of revenues and expenses of the intercollegiate athletics programs at the University of Memphis.

Sincerely,

A handwritten signature in blue ink that reads 'Katherine J. Stickel'.

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

cc: Vicki Deaton
Chief Audit Executive

Mr. Mike Batson
Chief Audit Executive
System-wide Internal Audit
Tennessee Board of Regents



JASON E. MUMPOWER
Comptroller

Independent Accountants' Report on the Application of Agreed-upon Procedures

Dr. Bill Hardgrave, President
The University of Memphis

We have performed the procedures enumerated below on the accompanying statement of revenues and expenses of the University of Memphis's Intercollegiate Athletics Programs for the year ended June 30, 2022. The institution's management is responsible for the statement of revenues and expenses (statement) and the statement's compliance with those requirements.

The University of Memphis's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of assisting you in evaluating the accompanying statement of revenues and expenses of the University of Memphis's Intercollegiate Athletics Program is in compliance with the National Collegiate Athletic Association (NCAA) Bylaw 3.2.4.17 for the year ended June 30, 2022. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

Exceptions totaling no more than the lesser of \$25,000 or 10% of the line-item total to which an agreed-upon procedure has been applied are considered insignificant and have not been reported. The procedures that we performed, and our findings are as follows:

Agreed-upon Procedures Related to the Statement of Revenues and Expenses

Procedure	Results
<ul style="list-style-type: none">Obtain the summary of revenues and expenses for or on behalf of intercollegiate athletics programs for affiliated and outside organizations prepared by the institution. Recalculate the addition of the amounts on the summary and compare the summary information with the amounts on the statement.	No exceptions noted.

- Obtain the statement of revenues and expenses of the athletic programs and related notes for the year ended June 30, 2022, as prepared by management. Compare the amounts reported on the statement with the institution's general ledger.

No exceptions noted.

Revenues

- Compare and agree each operating revenue category reported in the statement during the reporting period to supporting schedules provided by the institution. If a specific reporting category is less than 4% of the total revenues, no other procedures were performed for that specific category.

No exceptions noted.

- Compare and agree a sample of operating revenue receipts from the operating revenue supporting schedules to adequate supporting documentation.

No exceptions noted.

- Compare each major revenue account over 10% of the total revenues to prior-period amounts and with budget estimates. Obtain and document management's explanation for any variations greater than 10%. Report the analysis as a supplement to the final Agreed-upon Procedures Report.

No exceptions noted. See the supplement to this report for this analysis.

- Compare tickets sold during the reporting period, complimentary tickets provided during the reporting period, and unsold tickets to the related revenue reported by the institution in the statement and the related attendance figures and recalculate totals.

No exceptions noted.

- Compare and agree student fees reported by the institution in the statement to student enrollments during the same reporting period and recalculate totals.

No exceptions noted.

- If the athletics department is reporting that an allocation of student fees should be countable as generated revenue, recalculate the totals of the department's methodology for supporting that it is able to count each sport. Agree the

No exceptions noted.

calculation to supporting documents such as seat manifests, ticket sales reports, and student fee totals.

- Compare direct state or other governmental support recorded by the institution during the reporting period with state appropriations, institutional authorizations, and/or other corroborative supporting documentation and recalculate totals.
- Compare the direct institutional support recorded by the institution during the reporting period with the institutional supporting budget transfers documentation and other corroborative supporting documentation and recalculate totals.
- Compare the transfers back to institution with permanent transfers back to institution from the athletics department and recalculate totals.
- Compare the indirect institutional support recorded by the institution during the reporting period with expense payments, cost allocation detail, and other corroborative supporting documentation and recalculate totals.
- Select a sample of settlement reports for away games during the reporting period and agree each selection to the institution's general ledger and/or the statement and recalculate totals.
- Select a sample of contractual agreements pertaining to revenues derived from guaranteed contests (including payments received due to game cancellations) during the reporting period and compare and agree each selection to the institution's general ledger and/or the statement and recalculate totals.
- Any contributions of moneys, goods, or services received directly by an intercollegiate athletics program from any affiliated or outside organization, agency, or group of individuals (two or more) not included elsewhere (e.g.,

As the institution does not receive direct state or other governmental support, this step was not applicable.

No exceptions noted.

No transfers back to institution were reported; therefore, this step was not performed.

No exceptions noted.

Revenues of this type did not exceed 4% of total revenues; therefore, this step was not performed.

Revenues of this type did not exceed 4% of total revenues; therefore, this step was not performed.

No exceptions noted.

contributions by corporate sponsors) that constitutes 10% or more in aggregate for the reporting year of all contributions received for intercollegiate athletics during the reporting periods shall be disclosed in the notes to the statement of athletics department revenue and expenses. Obtain and review supporting documentation for each contribution and recalculate totals.

- Compare the in-kind contributions recorded by the institution during the reporting period with a schedule of in-kind donations and recalculate the totals.
- Obtain and inspect agreements for the institution's total media rights as reported in the statement. Compare and agree the media rights revenues to a summary statement of all media rights identified, if applicable, and the institution's general ledger and recalculate the totals. Ledger totals may be different for total conference distributions if media rights are not broken out separately.
- Compare the amounts recorded in the revenue and expense reporting to general ledger detail for NCAA distributions and other corroborative supporting documents and recalculate totals.
- Obtain and inspect agreements related to the institution's conference distributions and participation in revenues from tournaments during the reporting period. Compare and agree the related revenues to the institution's general ledger and/or statement and recalculate totals.
- Compare the amount recorded in the revenue reporting category to a general ledger detail of program sales, concessions, novelty sales, and parking as well as any other corroborative supporting documents and recalculate totals.
- Obtain and inspect agreements related to the institution's participation in revenues from royalties, licensing, advertisements, and

Revenues of this type did not exceed 4% of total revenues; therefore, this step was not performed.

The institution did not report any revenues from media rights; therefore, this step was not applicable

Revenues of this type did not exceed 4% of total revenues; therefore, this step was not performed.

No exceptions noted.

Revenues of this type did not exceed 4% of total revenues; therefore, this step was not performed.

No exceptions noted.

sponsorships during the reporting period. Compare and agree the related revenues to the institution's general ledger and/or the statement and recalculate totals.

- Inspect sports camp contract(s) between the institution and person(s) conducting institution sports camps or clinics during the reporting period. Obtain schedules of camp participants and select a sample of individual camp participant cash receipts from the schedule of sports camp participants. Agree each selection with the institution's general ledger and/or the statement and recalculate totals.
- Obtain and inspect the institution's endowment agreements. Compare the classification and use of endowment and investment income reported in the statement during the reporting period to the uses of income defined within the related endowment agreement and recalculate totals.
- Obtain and inspect agreements related to the institution's revenues from post-season football bowl participation during the reporting period. Compare and agree the related revenues to the institution's general ledger and/or the statement and recalculate totals.

The institution did not report any revenues for this line item; therefore, this step was not applicable.

Revenues of this type did not exceed 4% of total revenues; therefore, this step was not performed.

Revenues of this type did not exceed 4% of total revenues; therefore, this step was not performed.

Expenses

- Compare and agree each operating expense category reported in the statement during the reporting period to supporting schedules provided by the institution. If a specific reporting category is less than 4% of the total expenses, no other procedures were performed for that specific category.
- Compare and agree a sample of expenses from the operating expense supporting schedules to adequate supporting documentation.
- Compare each major expense account over 10% of the total expense to prior-period amounts and with budget estimates. Obtain and document management's explanation for any variations

No exceptions noted.

No exceptions noted.

No exceptions noted. See the supplement to this report for this analysis.

greater than 10%. Report the analysis as a supplement to the final Agreed-upon Procedures Report.

- Select a sample of students from the listing of institutional student aid recipients during the reporting period. Data should be captured by the institution through the creation of a squad/eligibility list for each sponsored sport. Obtain individual student-account detail for each selection and compare total aid in the institution's student system to the student's detail in Compliance Assistance (CA) or the institution report that ties directly to the NCAA Membership Financial Reporting System. Confirm information for each student selected was reported accurately in either the NCAA's CA software or entered directly into the NCAA Membership Financial Reporting System using the appropriate criteria. Recalculate totals.
- Obtain and inspect visiting institution's away-game settlement reports received by the institution during the reporting period and agree related expenses to the institution's general ledger and/or the statement. Recalculate totals. Obtain and inspect contractual agreements pertaining to expenses recorded by the institution from guaranteed contests (including payments made due to game cancellations) during the reporting period. Compare and agree related amounts expensed by the institution to the institution's general ledger and/or statement. Recalculate totals.
- Obtain and inspect a listing of coaches employed by the institution and related entities during the reporting period. Select a sample of coaches' contracts that must include football and men's and women's basketball from the listing. Compare and agree the financial terms and conditions of each selection to the related coaching salaries, benefits, and bonuses recorded by the institution and related entities in the statement during the reporting period. Obtain and inspect payroll summary registers

An exception was noted because the university used outdated cost of attendance figures. However, no adjustments to the statement were required.

Expenses of this type did not exceed 4% of total expenses; therefore, this step was not performed.

No exceptions noted.

for the reporting year for each selection. Compare and agree payroll summary registers from the reporting period to the related coaching salaries, benefits and bonuses paid by the institution and related entities expense recorded by the institution in the statement during the reporting period. Compare and agree the totals recorded to any employment contracts executed for the sample selected and recalculate totals.

- Obtain and inspect a listing of coaches employed by third parties during the reporting period. Select a sample of coaches' contracts that must include football and men's and women's basketball from the listing. Compare and agree the financial terms and conditions of each selection to the related coaching other compensation and benefits paid by a third party and recorded by the institution in the statement during the reporting period. Obtain and inspect reporting period payroll summary registers for each selection. Compare and agree related payroll summary register to the coaching other compensation and benefits paid by a third-party recorded by the institution in the statement during the reporting period. Recalculate totals.
- Select a sample of support staff/administrative personnel employed by the institution and related entities during the reporting period. Obtain and inspect reporting period summary payroll registers for each selection. Compare and agree related summary payroll register to the related support staff/administrative salaries, benefits and bonuses paid by the institution and related entities expense recorded by the institution in the statement during the reporting period. Recalculate totals.
- Select a sample of support staff/administrative personnel employed by third parties during the reporting period. Obtain and inspect reporting period payroll summary registers to the related support staff/administrative other compensation and benefits expense recorded by the institution

No coaches were employed by third parties during the reporting period; therefore, this step was not applicable.

No exceptions noted.

No support staff/administrative personnel were employed by third parties during the reporting period; therefore, this step was not applicable.

in the statement during the reporting period.
Recalculate totals.

- Select a sample of employees receiving severance payments by the institution during the reporting period and agree each severance payment to the related termination letter or employment contract and recalculate totals.
- Compare and agree the institution's recruiting policies to existing institutional- and NCAA-related policies. Obtain general ledger detail and compare to the total expenses reported and recalculate totals.
- Compare and agree the institution's team travel policies to existing institutional- and NCAA-related policies. Obtain general ledger detail and compare to the total expenses reported and recalculate totals.
- Obtain a listing of debt service schedules, lease payments, and rental fees for athletics facilities for the reporting year. Compare a sample of facility payments including the top two highest facility payments to additional supporting documentation (e.g., debt financing agreements, leases, rental agreements). Compare amounts recorded to amounts listed in the general ledger detail and recalculate totals.

No exceptions noted.

Expenses of this type did not exceed 4% of total expenses; therefore, this step was not performed.

No exceptions noted.

No exceptions noted.

Additional agreed-upon procedures

- Compare and agree the sports sponsored as reported in the NCAA Membership Financial Reporting System to the Calculation of Revenue Distribution Equivalencies Report from Compliance Assistance or equivalent supporting equivalency calculations from the institution. Compare current year Grants-in-Aid revenue distribution equivalencies to prior year reported equivalencies.
- Obtain the institution's Sports Sponsorship and Demographics Forms Report for the reporting year. Validate that the countable sports reported met the minimum requirement as set

As previously noted, aid awarded was based on outdated cost of attendance figures, which understated the revenue distribution equivalencies. Because the aid awarded was based on a lower cost of attendance, the aid awarded did not exceed allowable limits.

No exceptions noted.

forth in the bylaws. Once countable sports have been confirmed, ensure that the institution has properly reported these sports as countable for revenue distribution purposes within the NCAA Membership Financial Reporting System. Compare current year number of Sponsored Sports to prior year reported total.

- For Pell grants, agree the total number of Division I student-athletes who, during the academic year, received a Pell grant award and the total value of these Pell grants reported in the NCAA Membership Financial Reporting System to a report, generated out of the institution's financial aid records, of all student-athlete Pell Grants. Compare current year Pell Grants total to prior year reported total.

No exceptions noted.

Other reporting items

- Obtain general ledger detail and compare to the total expenses reported as excess transfers to institution or conference realignment expenses. Select a sample of transactions to validate the existence of the transaction and accuracy of recording. Recalculate totals.
- Obtain repayment schedules for all outstanding intercollegiate athletics debt during the reporting period. Recalculate annual maturities (consisting of principal and interest) provided in the schedules obtained. Agree the total annual maturities and total outstanding athletic debt to supporting documentation and the institution's general ledger, as applicable.
- Agree the total outstanding institutional debt to supporting documentation and the institution's audited financial statements (if available), or the institution's general ledger.
- Obtain a schedule of all athletics-dedicated endowments maintained by athletics, the institution, and affiliated organizations. Agree the fair value in the schedules to supporting documentation, the general ledger, and audited financial statements, if available.

The institution did not report any excess transfers to the institution or conference realignment expenses; therefore, this step was not applicable.

No exceptions noted.

No exceptions noted.

No exceptions noted.

- Agree the total fair value of institutional endowments to supporting documentation, the institution's general ledger, and audited financial statements, if available. No exceptions noted.
- Obtain a schedule of athletics-related capital expenses made by athletics, the institution, and affiliated organizations during the reporting period. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate the existence of the transaction and accuracy of recording. Recalculate the totals. No exceptions noted.

We were engaged by the University of Memphis management to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the accompanying statement of revenues and expenses of the University of Memphis's Intercollegiate Athletics Programs for the year ended June 30, 2022. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the University of Memphis and to meet our other ethical responsibilities in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the institution's management, and is not intended to be and should not be used by anyone other than the institution's management.

Sincerely,



Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
January 11, 2023

University of Memphis
Department of Intercollegiate Athletics
Statement of Revenues and Expenses
For the Year Ended June 30, 2022

	Football	Men's Basketball	Women's Basketball	Olympic Sports	Non-Program Specific	Total
Revenues						
Ticket sales	\$ 5,440,760.24	\$ 4,550,601.97	\$ 16,184.90	\$ 76,039.09	\$ 170,022.32	\$ 10,253,608.52
Student fees	-	-	-	-	7,872,383.37	7,872,383.37
Direct institutional support	-	4,728,262.63	-	-	13,800,000.00	18,528,262.63
Indirect institutional support	-	-	-	-	3,169,503.80	3,169,503.80
Indirect institutional support - athletic facilities debt service, lease, and rental fees	-	-	-	-	302,177.85	302,177.85
Guarantees	-	50,000.00	-	11,200.00	-	61,200.00
Contributions	551,386.26	352,422.61	32,580.69	586,740.57	3,685,596.02	5,208,726.15
In-kind contributions	-	-	-	-	569,616.69	569,616.69
NCAA distributions	-	102,937.50	-	23,968.85	1,957,969.80	2,084,876.15
Conference distributions	-	-	-	-	6,254,463.47	6,254,463.47
Program, novelty, parking, and concession sales	743,844.50	368,531.30	1,170.00	703.93	471,214.16	1,585,463.89
Royalties, licensing, advertisements, and sponsorships	-	373,135.59	-	24,504.20	4,963,276.23	5,360,916.02
Athletics restricted endowment and investment income	8,597.00	61,914.00	-	33,045.00	1,171.00	104,727.00
Other operating revenues	2,325.00	14,401.37	345.00	10,532.90	284,454.99	312,059.26
Football bowl revenues	506,890.00	-	-	-	-	506,890.00
Subtotal operating revenues	7,253,803.00	10,602,206.97	50,280.59	766,734.54	43,501,849.70	62,174,874.80

**University of Memphis
Department of Intercollegiate Athletics
Statement of Revenues and Expenses
For the Year Ended June 30, 2022**

	Football	Men's Basketball	Women's Basketball	Olympic Sports	Non-Program Specific	Total
Expenses						
Athletic student aid	2,896,703.96	422,080.78	569,387.68	4,173,311.43	625,297.30	8,686,781.15
Guarantees	576,636.00	340,000.00	36,368.00	47,282.00	-	1,000,286.00
Coaching salaries, benefits, and bonuses paid by the university and related entities	5,836,965.14	3,927,560.98	822,191.52	2,651,616.77	-	13,238,334.41
Support staff/administrative compensation, benefits, and bonuses paid by the university and related entities	969,428.62	461,715.13	129,729.00	57,864.80	6,203,838.66	7,822,576.21
Severance payments	-	4,728,262.63	-	-	-	4,728,262.63
Recruiting	484,367.56	289,167.91	107,108.65	191,767.32	-	1,072,411.44
Team travel	797,426.60	1,753,388.81	925,040.93	1,606,475.73	-	5,082,332.07
Sports equipment, uniforms, and supplies	926,460.84	283,917.88	214,349.81	1,197,197.25	-	2,621,925.78
Game expenses	274,376.57	217,895.61	17,727.59	205,826.54	-	715,826.31
Fundraising, marketing, and promotion	13,500.00	155,241.62	1,050.00	-	1,138,953.39	1,308,745.01
Spirit groups	-	-	-	-	215,486.59	215,486.59
Athletic facilities debt service, leases, and rental fees	2,330,777.38	631,955.75	171,200.00	613,962.78	302,177.85	4,050,073.76
Direct overhead and administrative expenses	227,966.99	44,495.13	7,044.55	40,604.13	360,361.59	680,472.39
Indirect institutional support	-	-	-	-	3,169,503.80	3,169,503.80
Medical expenses and insurance	16,388.69	93,292.00	670.00	440.00	1,062,226.40	1,173,017.09
Membership and dues	8,307.23	345.00	1,645.00	10,789.18	26,685.08	47,771.49
Student-athlete meals (non-travel)	949,998.88	174,334.21	41,919.07	108,684.31	-	1,274,936.47
Other operating expenses	759,186.12	212,169.19	70,948.45	149,259.61	3,015,575.40	4,207,138.77
Football bowl expenses	727,390.10	-	-	-	-	727,390.10
Football bowl expenses - coaching compensation/bonuses	351,603.33	-	-	-	-	351,603.33
Subtotal operating expenses	18,147,484.01	13,735,822.63	3,116,380.25	11,055,081.85	16,120,106.06	62,174,874.80
Excess (deficiency) of revenues over (under) expenses	\$ (10,893,681.01)	\$ (3,133,615.66)	\$ (3,066,099.66)	\$ (10,288,347.31)	\$ 27,381,743.64	\$ -

The accompanying notes are an integral part of this statement.

Other Reporting Items:

Total athletics-related debt	\$ 7,554,719.74
Total institutional debt	\$ 188,865,474.13
Value of athletics-dedicated endowments	\$ 3,219,778.34
Value of institutional endowments	\$ 157,206,831.39
Total athletics-related capital expenses	\$ 989,851.77

The University of Memphis
Intercollegiate Athletics Department
Notes to the Statement of Revenues and Expenses
For the Year Ended June 30, 2022

NOTE 1. CONTRIBUTIONS

The University of Memphis Foundation (the UMF) office researched the donation records for donors to determine if any cumulatively gave 10% or more of all contributions to athletics. Nike, Inc. donated \$2,199,694.76 in apparel to athletics and is reported as Advertising/Sponsorships/Royalties revenue in the NCAA Statement of Revenues and Expenses. There were no other donors during the fiscal year ended June 30, 2022, which met the 10% disclosure requirement.

NOTE 2. FOUNDATION REVENUES AND EXPENSES

Foundation funds are reported on the statement only to the extent these contributions were utilized by the athletic department in the current reporting period. For the year ended June 30, 2022, the UMF and the Auxiliary Services Foundation (ASF) transferred, disbursed, and/or recorded expense accruals for \$4,721,596 and \$630,534 (for a total of \$5,352,130), respectively, of athletic donations to the University of Memphis, various other vendors, and various athletic department employees to cover scholarships and other athletic department expenses.

The UMF and the ASF also recorded revenues and expenses in athletic accounts controlled by the foundations.

	Football	Men's Basketball	Women's Basketball	Other Sports	Non-sport Specific	TOTAL
Expenditures:						
Athletics Student Aid	\$2,896,704	\$289,205	\$ -	\$ -	\$ -	\$3,185,909
Other operating expenses	-	132,875	569,388	479,903	-	1,182,166
Capital expenditures	10,990	-	-	-	973,065	984,055
Total	<u>\$2,907,694</u>	<u>\$422,080</u>	<u>\$569,388</u>	<u>\$479,903</u>	<u>\$973,065</u>	<u>\$5,352,130</u>

Of the \$5,352,130 transferred by the UMF and the ASF, \$984,055 was for in-kind capital expenditures recorded in the university's unexpended plant funds and is therefore not included in the Statement of Revenues and Expenses; however, this amount is included in the Total Athletics-related Capital Expenses under the Other Reporting Items section of the report.

Notes to the Statement of Revenues and Expenses (Continued)

NOTE 3. INDIRECT FACILITIES AND ADMINISTRATIVE SUPPORT

The statement of revenues and expenses includes an allocation for indirect facilities and administrative support for the year ended June 30, 2022. These allocations were not recorded on the University's records and are only estimates of the institutional costs. The calculations are based on criteria used by the University for allocating costs to auxiliary service units. They have been included only as required for NCAA reporting purposes.

Indirect facilities charges of \$1,288,238.98 were allocated to intercollegiate athletics for the period. The facilities support allocation is based on a comprehensive analysis of services for maintenance, trash pickup, grounds, motor pool, custodial, and utilities. The calculation included a service cost estimate and an overhead cost estimate as if the expenses would be billed to an auxiliary service unit. Direct labor cost and materials were included in the total allocation amounts for grounds, maintenance, motor pool, and custodial services. Utilities, trash pickup, and overhead costs were estimated based on square footage of buildings to total expenses.

The indirect administrative support estimated and attributed to intercollegiate athletics for the year was \$1,881,264.82. The indirect administrative support allocation is based on the following formula:

Total unrestricted salaries before allocation
Less: net institutional support salaries not benefiting auxiliaries
Net salary base

Allocation percentage: auxiliary salaries/net salary base

The percentage is then applied to the total expenses of the departments benefiting auxiliary units to determine the total allocation. Each auxiliary unit then shares in the allocation based on their salaries as a percentage of total auxiliary unit salaries.

NOTE 4. CAPITAL ASSETS

Intercollegiate athletics is required to follow all of the University of Memphis policies and procedures for acquiring, approving, and disposing of capital assets. A University purchase order must be issued for purchases of \$5,000 or more for all equipment purchases. These purchases shall be based upon the principle of competitive bidding. Requisitioning and approving of purchases will begin in the athletic department and will then be forwarded to purchasing for the bidding and issuance of the purchase order. Consistent with University policy, the University Physical Plant Department is notified when any capital asset is no longer useful to the athletic department. The Physical Plant Department picks up the capital asset and places it in campus storage as surplus equipment. If the item cannot be used by another department on campus, the item is placed on a governmental website for sale to the general public.

Notes to the Statement of Revenues and Expenses (Continued)

Athletics capital assets, which include property, plant, and equipment, are reported in the statement of net position at historical cost or at acquisition 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 asset's useful life are not capitalized.

A capitalization threshold of \$100,000 is used for buildings, and \$50,000 is used for infrastructure. Equipment is capitalized when the unit acquisition cost is \$5,000 or greater. The capitalization threshold for additions and improvements to buildings and land is set at \$50,000. The capitalization threshold for software is set at \$100,000.

These assets are depreciated using the straight-line method over the estimated useful lives, which range from 5 to 60 years.

The University of Memphis has determined that only a portion of the Physical Education Building and Field House is directly assigned to Athletics and has prorated the value of the building accordingly.

NOTE 5. DEBT

The University of Memphis has debt service requirements to the Tennessee State School Bond Authority for the Physical Education Building and the Indoor Football Practice Facility. The University determined that only a portion of the Physical Education Building is directly assigned to Athletics and has prorated the debt for the building accordingly.

Debt service requirements to maturity at June 30, 2022, for athletic related debt are as follows:

Year Ending June 30	Principal	Interest	Total
2023	\$1,021,152.71	\$ 312,686.86	\$1,333,839.57
2024	1,073,395.34	264,967.51	1,338,362.85
2025	1,131,888.17	214,517.07	1,346,405.24
2026	1,186,103.12	161,115.33	1,347,218.45
2027	1,250,810.45	104,587.35	1,355,397.80
2028 - 2030	1,891,369.96	55,984.27	1,947,354.23
Total	\$7,554,719.75	\$1,113,858.39	\$8,668,578.14

Supplemental Schedule: Revenues and Expenses Analytical Review

	2022 Actual	2021 Actual	2022 Budget	Prior-Year Comparison		Budget vs. Actual Comparison	
				\$ Difference	% Difference	\$ Difference	% Difference
Operating revenues:							
Ticket Sales	\$ 10,253,608.52	\$ 1,513,847.69	\$ 11,230,000.00	\$ 8,739,760.83	577.32% (1)	\$ (976,391.48)	-8.69%
Student Fees	7,872,383.37	7,334,541.54	7,500,000.00	537,841.83	7.33%	372,383.37	4.97%
Direct Institutional Support	18,528,262.63	14,001,343.56	14,416,200.00	4,526,919.07	32.33% (2)	4,112,062.63	28.52% (3)
Conference Distributions	6,254,463.47	6,625,082.45	5,330,000.00	(370,618.98)	-5.59%	924,463.47	17.34% (4)
10% of Revenues	\$ 6,217,487.48						
Operating expenses:							
Athletic Student Aid	\$ 8,686,781.15	\$ 9,044,839.71	\$ 8,853,550.00	\$ (358,058.56)	-3.96%	\$ (166,768.85)	-1.88%
Coaching salaries, benefits, and bonuses paid by the university and related entities	13,238,334.41	11,105,676.51	13,302,152.00	2,132,657.90	19.20% (5)	(63,817.59)	-0.48%
Support staff/administrative compensation, benefits, and bonuses paid by the university and related entities	7,822,576.21	6,598,818.77	5,482,608.00	1,223,757.44	18.55% (6)	2,339,968.21	42.68% (7)
10% of Expenses	\$ 6,217,487.48						

Footnotes:

FN 1 - In fiscal year 2021, there was significantly reduced athletics activity due to COVID. This resulted in such impacts as smaller capacities, cancelled games, and fewer games. During fiscal year 2022, the game crowds were more like they had been traditionally.

FN 2 - The increase in direct institutional support is due to the lump sum severance payment of \$4,728,262.63 made to a former Men's Basketball coach.

FN 3 - The October budget usually does not accurately portray the total amount of direct institutional support, because that amount is not determined until year-end procedures are completed. The amount of institutional aid appears consistent with previous years when considering the additional amount the university provided the former Men's Basketball Coach, as described in **FN2**.

FN 4 - The budgeted figure is directly provided by the conference in advance of each year. The conference tends to budget conservatively to avoid putting schools in a position where they might receive less than expected. The biggest reason for additional revenue to be distributed in 2021-2022 was the fact that another AAC school, Cincinnati, made the college football playoff for the 2021 season. This was the first time an AAC school made the playoff.

FN 5 - During the prior year many coaches were furloughed or took reduced payments, and the Men's Basketball Coach was also not paid properly during his first two years of his contract and an additional \$900,000 was paid this year to make up the difference.

FN 6 - During the prior year, many staff were furloughed or took reduced payments.

FN 7 - An accurate rate of fringe benefits was not included in the 2022 Budget.

11. Internal Audit Client Satisfaction Survey 2022

Presentation

Presented by Vicki Deaton

The University of Memphis Board of Trustees

Presentation

For Information

Date: March 1, 2023

Committee: Audit Committee

Presentation Title: Office of Internal Audit and Consulting Client Satisfaction Survey 2022

Presented by: Vicki D. Deaton, Chief Audit Executive

Synopsis:

According to our University of Memphis (UofM) Internal Audit Charter, all UofM internal audit activities are conducted in accordance with state statutes relative to internal audit and audit committees. The state statutes require that internal audit activities are governed by adherence to The Institute of Internal Auditor's (IIA) mandatory guidance. This mandatory guidance includes establishing a Quality Assurance and Improvement Program (QAIP) that includes ongoing internal monitoring, periodic internal assessments, and external quality assessments.

Ongoing monitoring includes obtaining feedback from internal audit clients and other stakeholders regarding the efficiency and effectiveness of the internal audit team. The QAIP also includes sharing the results of the program with the UofM Audit Committee to assist the committee in reviewing the internal audit activity and ensuring that the activity is carrying out its internal audit responsibilities.

During January 2023, feedback was solicited via a Client Satisfaction Survey that was distributed to 139 faculty and staff – audit clients, employees involved in investigations, and others who worked with Internal Audit or received Internal Audit communications during 2022. Fifty individuals completed the anonymous survey.

About 97% of the responses indicated that the audit clients were satisfied with the University's internal audit services or considered the University's internal audit services favorably. Survey results, including suggestions and concerns, will be used to improve internal audit operations.

Please see the attached University of Memphis 2022 Internal Audit and Consulting Client Satisfaction Survey Results Report for detailed information.

2022 Internal Audit and Consulting Client Satisfaction Survey

Results Report

Q1 - The purpose, goals, objectives, areas to be reviewed, and tentative completion dates of the audit/project were clearly explained.

1



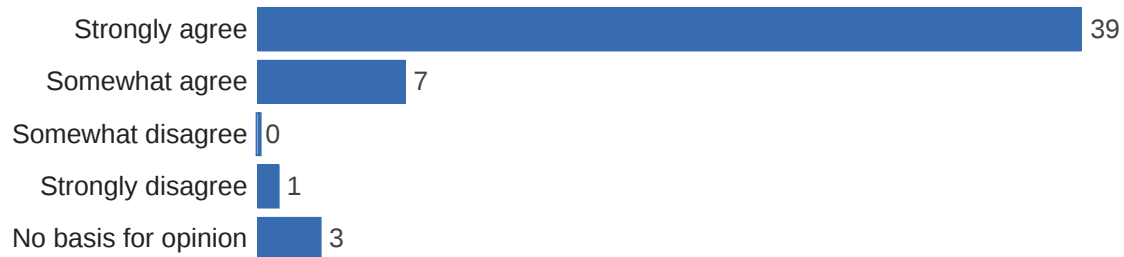
Field	Choice Count	
Strongly agree	84%	42
Somewhat agree	8%	4
Somewhat disagree	2%	1
Strongly disagree	2%	1
No basis for opinion	4%	2
Total		50

2022 Internal Audit and Consulting Client Satisfaction Survey

Results Report

Q2 - Internal Audit staff was responsive to my concerns and perspectives throughout the audit/project.

2



Field	Choice Count	
Strongly agree	78%	39
Somewhat agree	14%	7
Somewhat disagree	0%	0
Strongly disagree	2%	1
No basis for opinion	6%	3
Total		50

2022 Internal Audit and Consulting Client Satisfaction Survey

Results Report

Q3 - The disruption of daily activities was minimized as much as possible during the audit/project.

3



Field	Choice Count	
Strongly agree	78%	39
Somewhat agree	14%	7
Somewhat disagree	2%	1
Strongly disagree	2%	1
No basis for opinion	4%	2
Total		50

2022 Internal Audit and Consulting Client Satisfaction Survey

Results Report

Q4 - Communication of audit/project status during the audit/project was timely and adequate.

4



Field	Choice Count	
Strongly agree	84%	42
Somewhat agree	8%	4
Somewhat disagree	2%	1
Strongly disagree	2%	1
No basis for opinion	4%	2
Total		50

2022 Internal Audit and Consulting Client Satisfaction Survey

Results Report

5

Q5 - The audit/project was completed in a reasonable time frame.



Field	Choice Count	
Strongly agree	88%	44
Somewhat agree	4%	2
Somewhat disagree	0%	0
Strongly disagree	2%	1
No basis for opinion	6%	3
Total		50

2022 Internal Audit and Consulting Client Satisfaction Survey

Results Report

6

Q6 - The audit/project results were accurately reported and appropriate perspective was provided in the report.



Field	Choice Count	
Strongly agree	84%	42
Somewhat agree	6%	3
Somewhat disagree	0%	0
Strongly disagree	2%	1
No basis for opinion	8%	4
Total		50

2022 Internal Audit and Consulting Client Satisfaction Survey

Results Report

Q7 - The Internal Audit staff I interacted with conducted themselves in a courteous and professional manner.

7



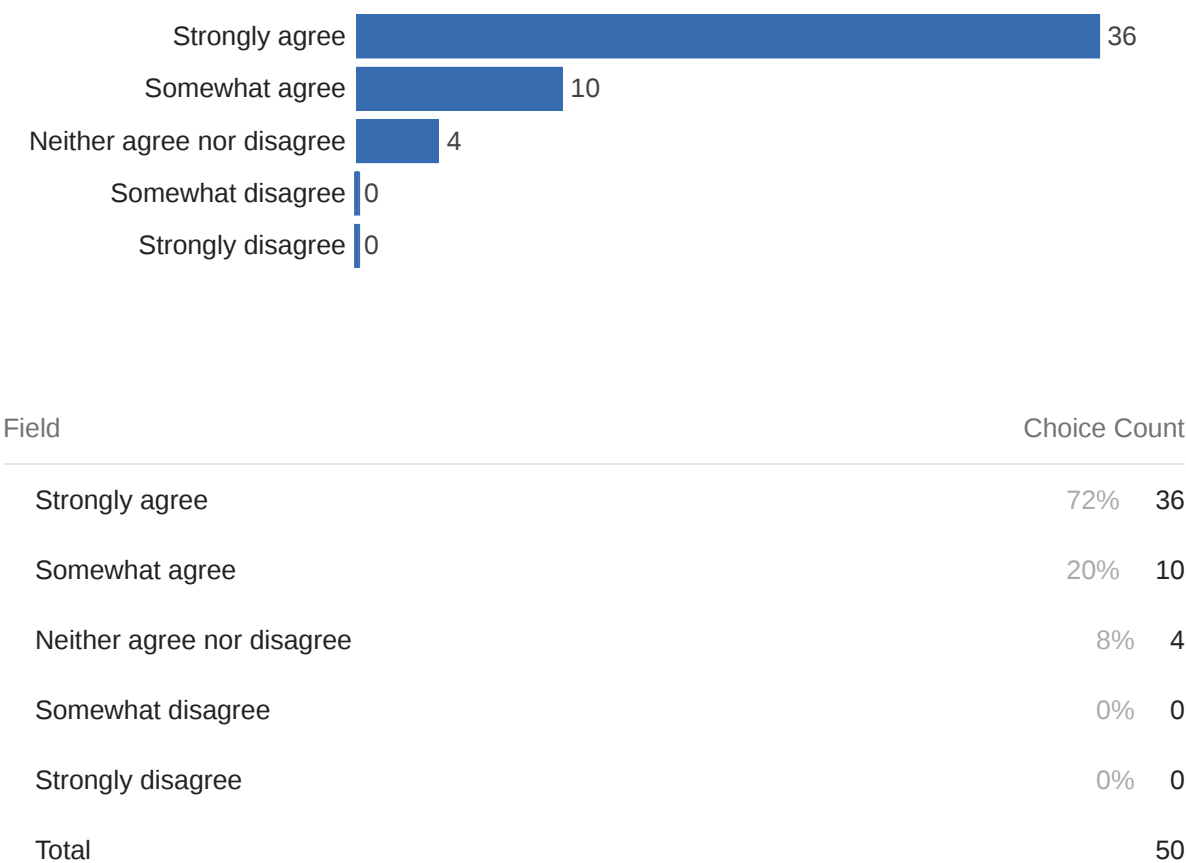
Field	Choice Count	
Strongly agree	94%	47
Somewhat agree	0%	0
Neither agree nor disagree	4%	2
Somewhat disagree	2%	1
Strongly disagree	0%	0
Total		50

2022 Internal Audit and Consulting Client Satisfaction Survey

Results Report

Q8 - The auditor's comments and recommendations will assist us to improve operations.

8



2022 Internal Audit and Consulting Client Satisfaction Survey

Results Report

Q9 - Overall, how satisfied are you with the services of Internal Audit?

9



Field	Choice Count	
Extremely satisfied	88%	44
Somewhat satisfied	4%	2
Neither satisfied nor dissatisfied	4%	2
Somewhat dissatisfied	0%	0
Extremely dissatisfied	4%	2
Total		50

2022 Internal Audit and Consulting Client Satisfaction Survey

Results Report

Q10 - Which of the following words would you use to describe Internal Audit services? Check all that apply.

10



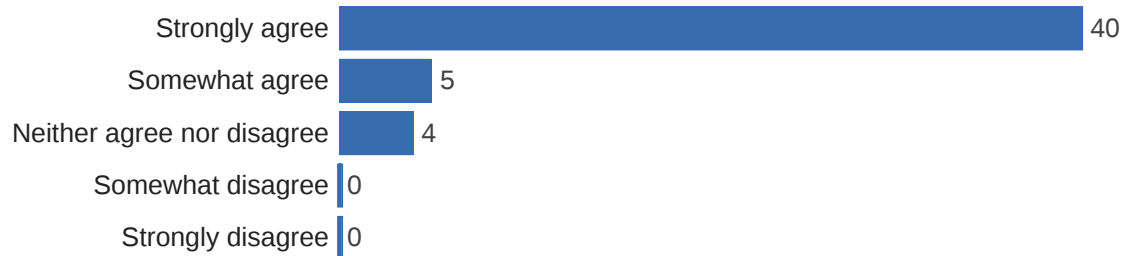
Field	Choice Count	
High quality	39%	37
Valuable	30%	28
Effective	30%	28
Ineffective	0%	0
Impractical	0%	0
Poor quality	1%	1
Total		94

2022 Internal Audit and Consulting Client Satisfaction Survey

Results Report

Q11 - Internal Audit is a resource I would use in the future.

11



Field	Choice Count	
Strongly agree	82%	40
Somewhat agree	10%	5
Neither agree nor disagree	8%	4
Somewhat disagree	0%	0
Strongly disagree	0%	0
Total		49

2022 Internal Audit and Consulting Client Satisfaction Survey

Results Report

Q12 - What suggestions do you have for improving the audit process?

12

None

Ensure the department receives update programming to continue the positive job they face.

None at present

None

None.

none

No suggestions at the moment.

None

None

do not be biased and do not lie

Keep providing the great quality of service that you do.

n/a

2022 Internal Audit and Consulting Client Satisfaction Survey

Results Report

Q13 - Are there any issues or areas of concern you feel we should be aware of? ¹³

No

Nothing

None at present

I think we need more guidance on offering gifts, handouts, SWAG to people to avoid audit issues and conflict of interest with recipients who have a connection with us through their business and contracting.

none

No issues.

No

No

do not make promises of getting back with to solve the problem and then ignore me

None comes to mind right now.

n/a

2022 Internal Audit and Consulting Client Satisfaction Survey

Results Report

Q14 - Have our auditors done anything that was particularly helpful ¹⁴ that you would recommend we do again in the future?

Being thorough

Excellent Communication skills, through emails and phone

Interface with areas on information sharing and perspective on key issues and controls was beneficial.

Sending a draft report and discussing the results.

I like it when policy is used to justify an action, but can also see where our policies lack clarity and are up for interpretation. Audit does try to navigate those situations and have helped us in such matters which I greatly appreciate.

Very thorough in helping us understand the process and attentive to our processes.

Continue to provide flexibility to prevent day to day impact.

No

Their patience was greatly appreciated

n/a

I think they communicate exceptionally well and were very transparent about the process which helped make it a lot easier.

The open line of communication that I received from the auditor was very much appreciated and helped the department reach the goals set for improvement in a timely fashion.

12. Information Security Program Update

Presentation

Presented by Robert Jackson

The University of Memphis Board of Trustees

Presentation
For Information

Date: March 1, 2023

Committee: Audit Committee

Presentation: Information Security Program Update

Presented by: Dr. Robert Jackson, Chief Information Officer

Background:

Quarterly update on the Information Security Program.

Information Security Program Update

Audit Committee

Dr. Robert Jackson
Chief Information Officer

March 1, 2023

Maxine A. Smith University Center

March 2023 Audit Committee Meeting

12. Information Security Program Update



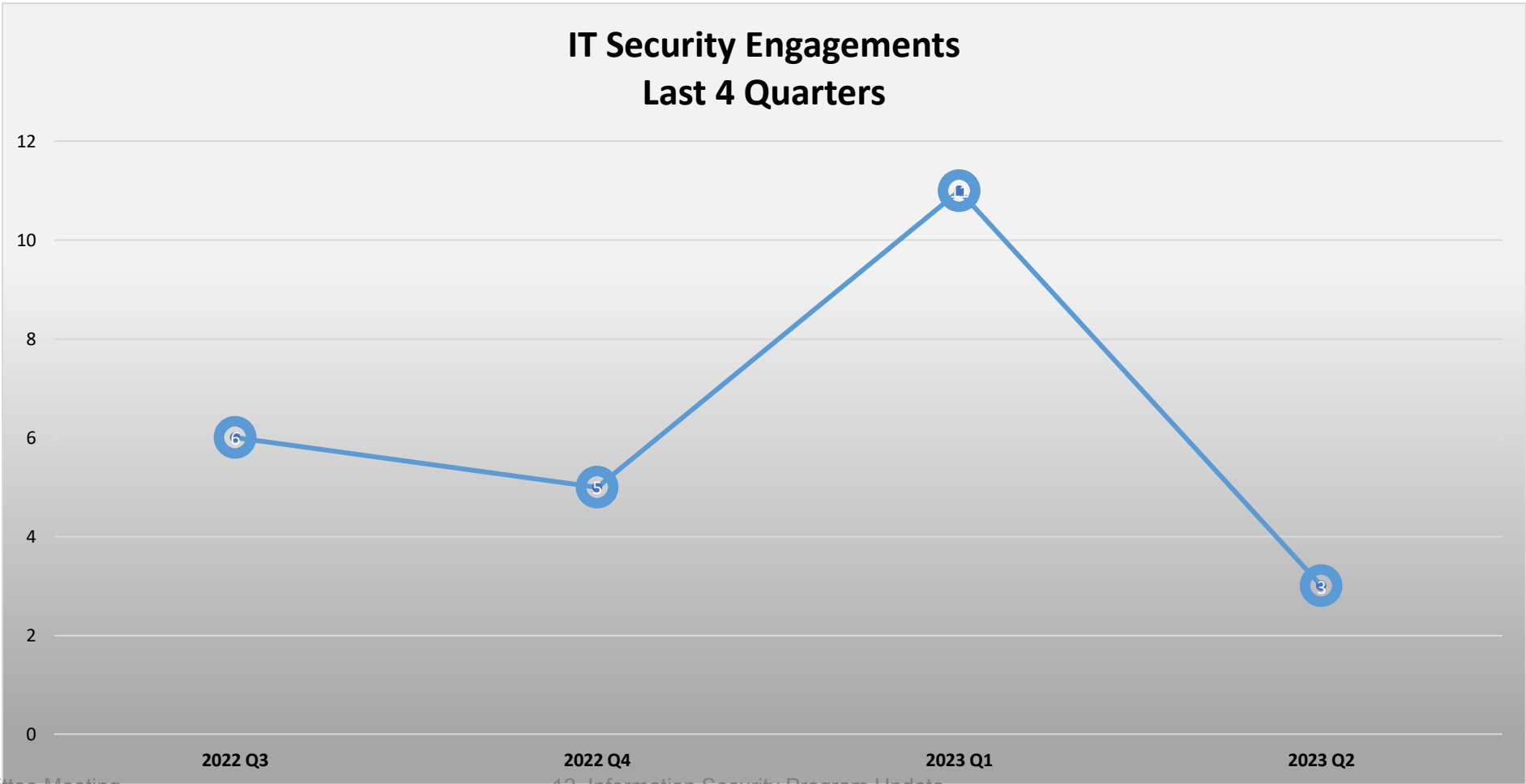
MARCH 2023

Page 137 of 145

- Timothy Cureton appointed Director of IT Security & Identity Management
- IT Security Awareness Training (Oct – Feb)
- Privileged access management implementation
 - Research into alternative approaches is on-going
- Network Access Control
 - Progressing through academic buildings
 - On schedule for summer completion
- PCI Gap Assessment initiated

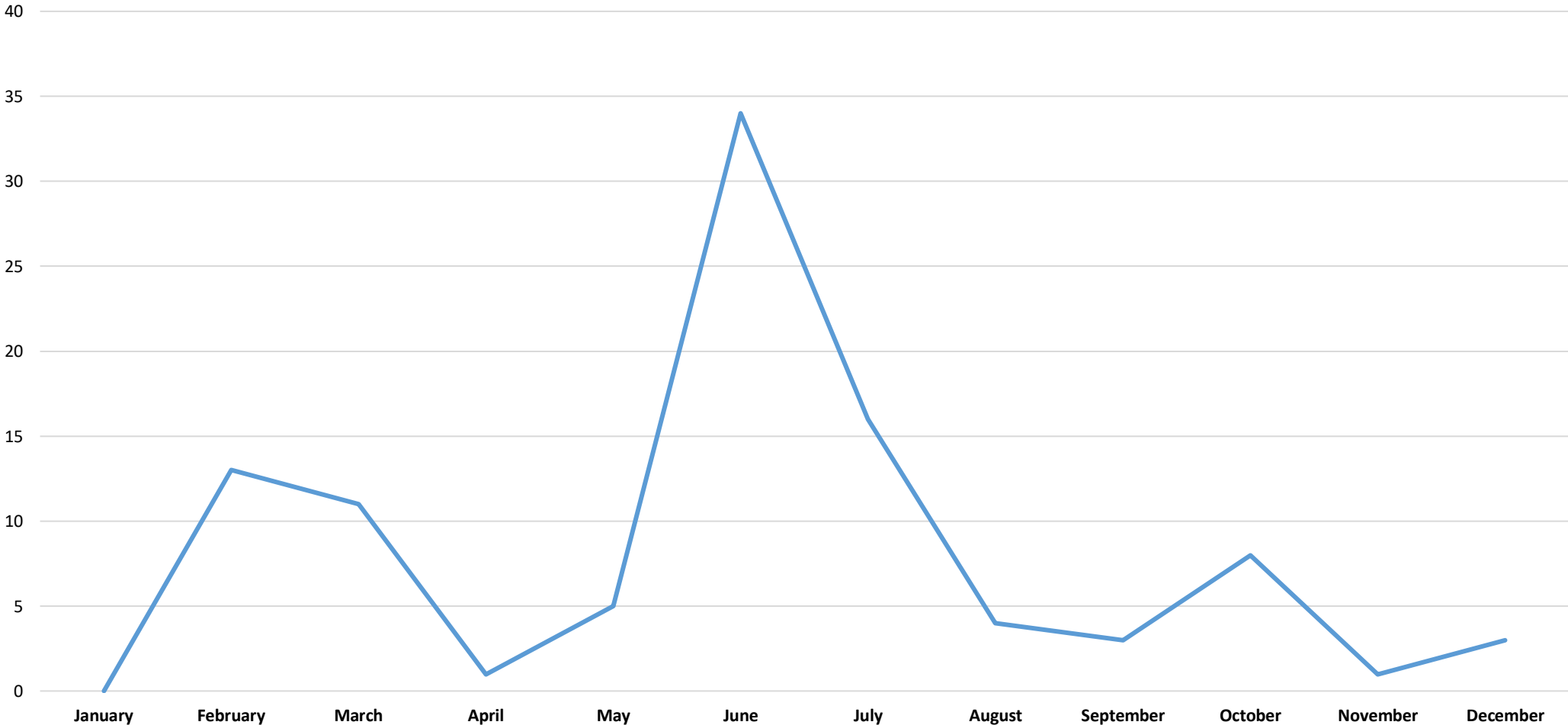
- Met with TN Dept of Claims and Risk Management to discuss opportunities for improvement in our security posture

- Implementing RingCentral unified communications platform
 - Additional functionality for improving student support (e.g., call backs)
 - Improved analytics to support data-based decision-making
 - Anywhere/anytime phone services (desk phone, mobile devices, computer)
 - Provides service resiliency and scalability (cloud-based)
 - Replaces 20-year old legacy components
 - Eliminates potential security vulnerabilities in legacy systems



Suspicious Email Account Deactivations

Account Deactivations, Last 4 Quarters



- PCI Gap Assessment results and follow-up actions
- Prepare for CMMC level 1 certification
- Prepare FY2024 SRI budget request materials

Thank You

13. Additional Business

Presented by Carol Roberts

14. Adjournment

Presented by Carol Roberts