

# March 2024 Finance and Audit Committee














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| <b>Schedule</b>  | Wednesday, March 13, 2024 9:00 AM — 9:45 AM CDT      |
| <b>Venue</b>     | Maxine A. Smith University Center - Bluff Room (304) |
| <b>Organizer</b> | Colton Cockrum                                       |












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# 1. Call to Order and Open Remarks

Presented by David McKinney



## 2. Roll Call and Declaration of Quorum

Presented by Colton Cockrum





**3. Approval of Prior Audit Committee  
Meeting Minutes from December 12, 2023**  
For Approval  
Presented by Colton Cockrum

**The University of Memphis  
Board of Trustees  
Audit Committee Meeting  
December 12, 2023  
Meeting Minutes**

**Agenda Item 1: Call to Order and Opening Remarks**

Trustee Roberts called the meeting to order.

**Agenda Item 2: Roll Call and Declaration of Quorum/Meeting of Necessity**

Trustee Roberts recognized Secretary Murry

Trustee Roberts

Trustee Johnson

Chairman McKinney

Trustee Ellison (he stated he was alone and could hear her)

Trustee Springfield

Trustee Carter

Secretary Murry announced the presence of a quorum.

These trustees walked into the room after the meeting had started:

Trustee North arrived at 9:57 a.m.

Chairman Edwards arrived at 9:53 a.m.

Trustee Marchetta arrived at 9:57 a.m.

**Agenda Item 3: Approval of Meeting Minutes for September 6, 2023**

Trustee Roberts called for a motion and second to approve the meeting minutes for September 6, 2023. The motion was made by Trustee Johnson and properly seconded. Trustee Roberts asked if there was any discussion, none was provided. A roll call vote was taken, and the agenda was unanimously approved.

Trustee Roberts then introduced the chief audit executive, Vicki Deaton, to take the committee through the audit reports.

#### **Agenda Item 4: Summary of Audit Reports Issued**

Ms. Deaton provided a report on the summary of internal audit reports issued. She explained that with the first item listed – the Report of Action for the FY2022 State Financial & Compliance Audit Corrective Action Plan, the institution is required to complete the corrective action plan. She confirmed that the corrective action plan was completed.

For the School of Law Financial & Compliance Audit, Internal Audit reviewed 26 control activities. We identified a total of seven issues but have management plans for all those issues worked out with the School of Law management. Internal Audit will follow up to ensure the action plans are completed.

The last item Ms. Deaton addressed was an annual audit of the President's expenses – Audit of President's Expenses for the Period July 1, 2022 – June 30, 2023. This report was forwarded to the State prior to the December 1<sup>st</sup> deadline.

#### **Agenda Item 5: Summary of Internal Audit Investigations Completed**

Ms. Deaton provided a list of internal audit investigations that were completed since the last Audit Committee meeting. She explained that the University's Complaint Triage Team may assign investigations to Internal Audit for completion. There were four completed investigations this quarter.

#### **Agenda Item 6: Summary of External Audit Reports**

Ms. Deaton provided the external audit report of the University of Memphis Foundation Financial Statements for Years Ended June 30, 2023, and 2022. She explained that the Foundation is a component of the University and is discretely presented in the University's financial statements. She then explained the information regarding the external CPA firm that conducted the audit and provided the auditor's opinion - that it was an unqualified opinion. The external audit firm also expressed no opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. Ms. Deaton reminded the Committee that the auditors did not identify any deficiencies in internal control and that the auditors did not identify any instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Ms. Deaton provided information on the external audit report for the University of Memphis Research Foundation Financial Statements, June 30, 2023. Ms. Deaton explained the purpose of the foundation, what the financial report incorporates, that the University of Memphis is the sole beneficiary of the Foundation, and that the Foundation is a component unit of the University and is discretely presented in the University's financial statements. Ms. Deaton provided information on the external CPA firm and that their opinion was an unqualified opinion. The auditors did not identify any deficiencies in internal control and did not identify any instances of noncompliance.

Trustee Roberts asked for any questions from the Committee.

### **Agenda Item 7: Information Security Program Update**

Trustee Roberts recognized Interim Chief Information Officer, Karen Bell. Ms. Bell explained that the university is subject to compliance with the Gramm-Leach-Bliley Act (GLBA) Safeguard Rule. Ms. Bell said that the state audit occurred in the spring 2023 semester. The overall status of the information security program was that it was effective with opportunities for improvement. Ms. Bell then described some of the activities that support the information security program and explained there will be a new policy being created that will help with compliance. Ms. Bell informed the committee of the types of data that the institution keeps that requires additional controls. She also explained the security posture of the institution and the defense layers that are in place to protect information. Ms. Bell then explained the current status of the university's security approaches and provided data that showed the amount of suspicious email account deactivations.

Trustee Roberts asked if the Board should take comfort in the low level of numbers. Ms. Bell reported that the report reflects data through September, and she expects there to be a little spike. Ms. Bell then went on to explain the number of IT security engagements that have occurred recently. Additionally, Ms. Bell explained the next steps of the information security approach including network access control, data auditing, funding opportunities, implement additional Microsoft A5 features, and engage in a gap analysis for GDPR in February 2024.

Trustee Roberts asked if anyone had questions. Trustee Ellison asked if the institution had considered doing a cyber-attack tabletop exercise. Trustee Ellison mentioned that this is a beneficial policy. Trustee Ellison also asked about a cautionary fallback plan in the case of ransomware.

Ms. Bell responded to the question about a tabletop exercise. She confirmed they conduct a tabletop exercise annually. Ms. Bell mentioned that the state gets involved in ransomware issues.

Trustee Clark says that one of the most beneficial things about tabletop exercises is that the university could understand what the boundaries are regarding state law. Chairman Edwards shared the about the cautionary tale of what happened at another institution in Tennessee. Trustee North requested that discussions regarding responses to security breaches be discussed in executive session due to the security sensitivity.

## **Agenda Item 8: Risk Assessment Update**

Trustee Roberts recognizes Greg DuBois and Mark Heath. Mr. DuBois explained that the risk assessment update is provided to the Board on an annual basis. Mr. Heath explained the purpose of the audit report is to let the Board be informed about the process of risk assessment planning and it's part of the audit committee process. Mr. Heath then went on to explain that the ERM responsibility and accountability is rooted in key objectives that supports the University's strategic plan and overall performance. He also stated that it is designed to enhance strategic, operational, and compliance effectiveness for 12 foundational areas of the University. Mr. Heath provided the board with information on ERM compliance that meets benchmarks so established in the Sarbanes Oxley Act of 2002, US Sentencing Guidelines for Organizations, and regulatory obligations outlined in TCA 9-18-102. He then explained the ERM teams including process owners, leaders, and process teams. Mr. Heath mentioned that they are asking process owners and leaders to engage in a Business Impact Analysis (BIA) and to identify risks, assess risk, mitigation strategies, transfer the risk, and/or accept certain risks. He mentioned that the BIA is performed to determine impact, likelihood of probability of each risk, plan of action, evidence of monitoring, and on-going assurance of risks measures. Mr. Heath then explained to the Board of the current, on-going assessment process. Mr. Heath then concluded his report.

Trustee Roberts asked for any questions or comments.

Trustee Carter explained that there is a framework out there that companies use to show a dashboard of all the strategic areas of risk. He explained about how institutions use this type of dashboard and how it helps to rank risk. Mr. Heath confirmed that they use a manual spreadsheet process but that they have looked at options to do something similar. Mr. DuBois stated that is where the university needs to get to.

Trustee Springfield made a comment that with new leaders it's a great opportunity to recognize additional risk and recognize additional opportunities the university may have. Having a fresh set of eyes looking at risks, controls, etc., will help with the risk assessment process.

Mr. Heath agreed and stated that one of the things they've talked about is risk attitude and risk appetite and expand on those ideas.

## **Agenda Item 9: Additional Business**

Trustee Roberts asked for additional business

## **Agenda Item 10: Adjournment**

Trustee Roberts called for a motion to adjourn. A motion was made and properly seconded. The meeting was properly adjourned.



## 4. Approval of Prior Governance and Finance Committee Meeting Minutes from December 12, 2023

For Approval

Presented by Colton Cockrum

**University of Memphis Board of Trustees  
Governance and Finance Committee Meeting  
December 12, 2023**

The Governance and Finance Committee of the University of Memphis Board of Trustees met at 9:07 a.m. CDT on Tuesday, December 12, 2023, in person at the Maxine A. Smith University Center.

**I. Call to Order/Roll Call/Declaration of Quorum/Introduction**

Chairman Doug Edwards presided over the meeting.

University Counsel and Board Secretary Melanie Murry called the roll and confirmed the following Governance and Finance Committee members were present:

Trustee Cato Johnson  
Trustee Rob Carter  
Trustee Marissa Clark  
Trustee David North  
Chairman Doug Edwards  
Trustee Jeffrey Marchetta  
Trustee Susan Springfield

Secretary Murry announced the presence of a quorum and acknowledged two additional trustees in attendance: Trustee Carol Roberts and Trustee David McKinney.

**II. Approval of Meeting Minutes for September 6, 2023**

Chairman Edwards requested a motion for the approval of the September 6, 2023, Governance and Finance Committee minutes. The motion was made by Trustee Springfield and properly seconded by Trustee North. No discussion. A voice vote was taken and the motion carried.

**III. Agenda Item Government Affairs Update**

Chairman Edwards recognized President Bill Hardgrave. President Hardgrave provided an update on governmental affairs in the absence of Vice President for Governmental and Community Affairs Katie VanLandingham. He also introduced new employee Allie Jones, Deputy Chief Government Relations and Policy Officer.

President Hardgrave opened by mentioning the \$30 million safety and security allocation for higher education institutions allocated during the special legislative session in August. President Hardgrave highlighted the key budget requests for the upcoming legislative session to include: \$65 million capital renewal request related to the upkeep of existing buildings which will become a recurring ask for the next 3 years; \$65 million research modernization to create additional lab spaces; \$5.4



million request for safety and security upgrades and \$2 million recurring request for the Brain Center.

Chairman Edwards commented on campus safety and security and emphasized the effort as the most important priority. Trustee Johnson advised safety and security is also a priority for the Memphis City Mayor-elect who also shared his concerns during a recent meeting with the Governor.

#### **IV. Simmons Bank Liberty Stadium**

Chairman Edwards recognized Vice President and Director of Intercollegiate Athletics (Athletic Director) Laird Veatch to provide an update on Simmons Bank Liberty Stadium. Athletic Director Veatch shared an overview of the stadium ownership transfer and renovation highlights related to the Letter of Intent (LOI). Components of the LOI included the anticipated Memphis City Council vote on December 19, 2023 and subsequent ownership transfer to the University of Memphis' Auxiliary Services Foundation (ASF); completion of the LOI and outlining the plans for a definitive agreement (long form contract) in development; funding allocation received from the State; management of the renovation project by the ASF; coordination with the City to establish a committee to provide regular reporting; no debt transfer with the stadium or long-term debt incurred with renovation; collaboration with City and project architects on the deferred maintenance plan; identification of the stadium property line; parking retained by the City with priority and maintenance for football events; and the status of facility and event management operations; current commitments, contracts, sponsorships, and vendor and tenant agreements.

Faculty Senate Representative Jeff Marchetta mentioned one of the reasons the City considered the ownership transfer beneficial was the annual maintenance costs. He inquired about the plan of the Auxiliary Services Foundation (ASF) to effectively manage the costs. Athletic Director Veatch explained costs will be managed through the combination of stadium ownership, operational efficiencies, renovations and increased revenue opportunities. Conversation ensued regarding renovations and future use opportunities for the City and other events.

Trustee North acknowledged Mr. Fred Smith, his family, and FedEx for their tremendous donation, continued support and commitment.

Chairman Edwards shared the importance of the ownership transfer and renovation to elevate the football program and impact participation in conference realignment.

#### **V. Agenda Item 5: Budget Update**

Chairman Edwards recognized Interim Chief Financial Officer (CFO) Greg DuBois & Associate Director, Financial Planning Madison Ellison to provide an overview of the University's revised budget. Interim CFO DuBois advised the revised budget is a State requirement submitted each fall to update revenue and expenditure

projections incorporated in the proposed budget related to adjustments for fall enrollment changes, tuition increases, the effect of the prior year activities carryforward and adjustments of state appropriations occurring since the FY2024 proposed budget was prepared and approved in June 2023.

Associate Director Ellison provided an overview of the revenue and expenditure budgets. She highlighted the \$10.2 million revenue adjustment and advised the adjustment was based on increases in University of Memphis Global and international graduate enrollments, state appropriations, grants contracts and gifts, and one-time activities and events. Associate Director Ellison noted tuition and fees and state appropriations were the major sources of revenue. She also noted the minimal increases in tuition and fees since 2018 and advised the increase in state appropriations were based on the \$50M Carnegie R1 endowment for FY2023.

In reviewing expenditures, she advised variances between revenues and expenses were related to carryforward funds rolled forward from year to year. Conversation ensued regarding transfers. In closing, Assistant Director Ellison shared the majority of expenditures were spent for scholarships, instruction, and research.

Chairman Edwards called for a motion to approve the revised budget as presented. The motion was made by Trustee Johnson and seconded by Trustee North. Chairman Edwards called for a voice vote and the motion carried.

Interim CFO DuBois provided an update on enrollment. He advised enrollment as the largest driver of the University's budget. Interim CFO DuBois shared an overview of the parameters of the Focus Act and discussed the FY2024-25 tuition and mandatory fee increases (0% - 4% proposed binding range) set by the Tennessee Higher Education Commission during the November meeting. He also highlighted tuition increases over the past 8 years and mentioned the University has the lowest average tuition increase (1.3%) in the State. Trustee Carter inquired about the future of higher education based on current enrollment trends. President Hardgrave advised the University's domestic enrollment trends have been consistent with the rest of the country over the past few years. In acknowledging the enrollment and revenue benefits of international student growth over the past 5 years, President Hardgrave also emphasized the value in creating a more culturally diverse campus. He also emphasized the importance of enrollment within the strategic plan and plans for stabilizing and growing enrollment through aggressive recruitment upon the arrival of the new vice president for enrollment management.

Inquiries regarding the future of UofM Global and commendations on the outstanding commitment and impact of the late Dr. Richard Irwin were discussed.

## **VI. Agenda Item 6: Housing Fee Increase**

Chairman Edwards yielded to Interim CFO Greg DuBois & Assistant Vice President (AVP), Auxiliary Services Melinda Carlson to discuss the housing fee increase

request. Interim CFO DuBois advised the 3.5% housing increase request was based on annual above the line deferred maintenance and adequate capital renewal funding needs. He shared for the University's current housing stock, there should be \$12 million in replacement and renewal funds available to address long term building needs. The University currently has \$2 million available. AVP Carlson conferred current housing rates are not sufficient to manage properties. She provided an overview of current challenges; the operating budget and capital renewal needs to include: \$550,000 for routine maintenance and operation costs; over \$5 million for high priority projects; \$6.2 million to update access controls to mobile credential system for housing; and over \$60 million estimated deferred maintenance housing needs.

AVP Carlson noted the University is currently comparable with other State institution. Additional conversation ensued regarding debt service, peer and local housing increases and the importance of a safe, attractive housing program. Trustee McKinney inquired about the possibility of inflation and avoiding the need to request a steeper increase within the five-year period. AVP Carlson advised based on trends seen over time, a consistent 3.5% over several years instead of planning one year out is adequate. She also mentioned reviewing and right-sizing operations during the five-year period. He suggested presenting an annual auxiliary operations financial health report to address any future needs or requests for adjustments.

Chairman Edwards called for a motion to approve the 3.5% housing rate increase through FY2028. The motion was made by Trustee Johnson and seconded by Trustee North. Chairman Edwards called for a voice vote and the motion carried.

**VII.** Agenda Item 7: Additional Business

There was no additional committee business.

**VIII.** Agenda Item 8: Adjournment

The meeting was adjourned by Chairman Edwards at 9:39 a.m.



# 5. Information Security Program Update

Presentation

Presented by Jeff Delaney

# The University of Memphis Board of Trustees

For Presentation

**Date:** March 13, 2024

**Committee:** Audit Committee

**Presentation:** Information Security Program Update

**Presented by:** Dr. Jeff Delaney

**Background:** Quarterly update on the Information Security Program.

# The University of Memphis Board of Trustees

Presentation

For Information

**Date:** March 13, 2024

**Committee:** Finance and Audit Committee

**Presentation Title:** Quality Assurance and Improvement Program Update

**Presented by:** Vicki D. Deaton, Chief Audit Executive

## Synopsis:

Per the University of Memphis Office of Internal Audit and Consulting Charter: All Internal Audit activities are conducted in accordance with all state statues relative to Internal Audit and Audit Committees. In addition, the state statues require that Internal Audit activities are governed by adherence to The Institute of Internal Auditor's (IIA) mandatory guidance, which includes the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*.

The IIA's mandatory guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of the internal audit activity's performance.

A Quality Assurance and Improvement Program includes ongoing internal monitoring, periodic internal assessments, and external quality assessments. A quality assessment evaluates compliance with the *Standards*, the definition of internal auditing, the Code of Ethics, the internal audit & audit committee charters, the organization's governance, risk and control assessment, and the use of successful practices.

The last external quality assessment performed for the UofM audit activity was in 2019. The UofM Office of Internal Audit and Consulting is in the process of completing a quality self-assessment review, then will identify and retain members of an external quality assessment team to complete an independent validation of our quality self-assessment review. The Chair of the Audit Committee will be informed as this initiative progresses.

# *Information Security Program Update*

## *Audit Committee*

Dr. Jeff Delaney  
Chief Information Officer

March 13, 2024

Maxine A. Smith University Center



**Board of  
Trustees**

MARCH 2024 MEETING

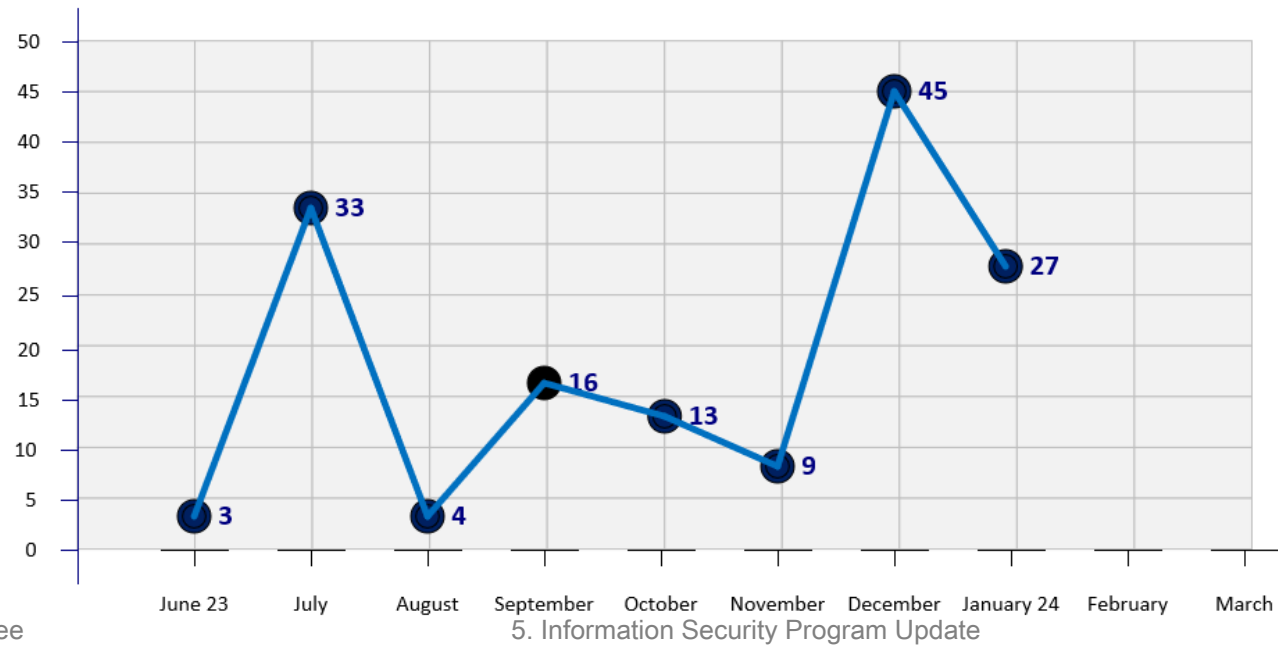


# Current Status

- Security Awareness training cycle completed February 2024
- Information Security Awareness Training Compliance Policy in effect
- Network Access Control
  - System updates and patching enforcement in testing
- External Assessments
  - GDPR (data privacy)
  - NIST 800-171 R3 (restricted research)
- Data auditing to support GLBA enabled January 2024

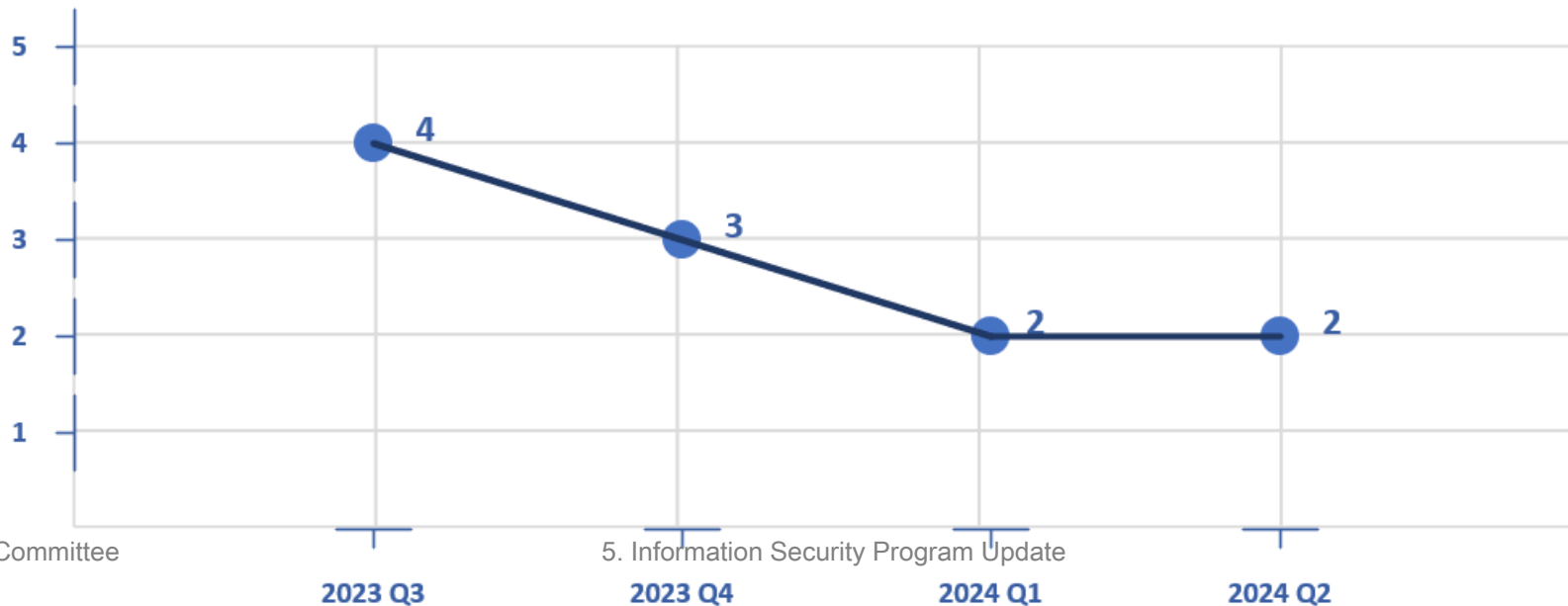
# Suspicious Email Account Deactivations

**Account Deactivations  
FY24**



# IT Security Engagements

**IT Security Engagements  
Last 4 Quarters**



# Next Steps

- Phishing campaigns to test Security Awareness training effectiveness
- Network Access Control
  - System updates and patching enforcement for managed desktops
- Additional email security controls
- Research DMZ for collaboration on large research data sets
- State-mandated research data controls

**Thank you!**



## 6. Summary of Audit Reports Issued

Presentation

Presented by Vicki Deaton

# The University of Memphis Board of Trustees

Presentation  
For Information

**Date:** March 13, 2024  
**Committee:** Finance and Audit Committee  
**Presentation:** Summary of Internal Audit Reports Issued  
**Presented by:** Vicki D. Deaton, Chief Audit Executive

**Background:**

One Internal Audit consulting report was issued since the last meeting. Summarized information is included in the attached table.



# *Internal Audit Agenda Items*

## *Finance and Audit Committee*

Vicki D. Deaton  
Chief Audit Executive

March 13, 2024  
Maxine A. Smith University Center



MARCH 2024 MEETING

# Presentation: Summary of Internal Audit Reports Issued

One audit report was issued since the last meeting. This was a consulting project report.

| Name of Internal Audit Report                         | Date of Report | Observations | Actions Completed | Recommendations for Management |
|---|----------------|--------------|-------------------|--------------------------------|
| Surplus Property Management Consulting Project Report | 2/12/2024      | 6            | 2                 | 4                              |

# Presentation: Audit Issue Follow Up

| 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 February 2024) |
|---------------------------------------|---|----------------------|--|------------------|--|--|---|--------------------------------------|
| 9/1/2023                              | College of Health Sciences Financial and Compliance Audit | 7/6/2023             | Effective with the Opportunity for Improvement | CHS 1            | Third-party Cloud Storage of University Data             | Moderate = Insufficient and Requires Improvement   | Tracy Shipp, Assistant Director of Marketing and Communications, College of Health Sciences | Complete                             |
| 8/1/2023                              | College of Health Sciences Financial and Compliance Audit | 7/6/2023             | Effective with the Opportunity for Improvement | CHS 2            | Timeliness of Financial Approval Requests                | Minor = Effective with Opportunity for Improvement | Hilary DeLuco, Business Officer III, College of Health Sciences                             | Complete                             |
| 7/1/2023                              | College of Health Sciences Financial and Compliance Audit | 7/6/2023             | Effective with the Opportunity for Improvement | CHS 3            | Documentation of Alternative Work Arrangements           | Minor = Effective with Opportunity for Improvement | Richard Bloomer, Dean, College of Health Sciences   | Complete                             |
| 7/1/2023                              | College of Health Sciences Financial and Compliance Audit | 7/6/2023             | Effective with the Opportunity for Improvement | CHS 4            | Annual Financial Responsibility Certification Completion | Minor = Effective with Opportunity for Improvement | Richard Bloomer, Dean, College of Health Sciences   | Complete                             |
| 3/1/2023                              | 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                | Complete                             |
| 12/31/2023                            | Space Planning and Utilization Audit                      | 1/3/2023             | Effective with the Opportunity for Improvement | Space Planning 1 | Space Planning and Utilization Policy Needs Updating     | Minor = Effective with Opportunity for Improvement | Lauren W. Kane, Director of Space Planning and Utilization                                  | Complete                             |

# Presentation: Summary of Internal Audit Investigations Resolved

Four investigations were resolved since the last meeting.

| Allegation Received by   | Date Allegation Received | Description of Allegation                               | Date Assigned to Internal Audit by Complaint Triage Team | Internal Audit Investigation Number | Investigation Status  | Investigation Outcome  | Date of Final Action by Internal Audit |
|--|--------------------------|---|--|-------------------------------------|---|--|--|
| Referral from University and Student Business Services Bursar                    | 9/21/2023                | Counterfeit Bill Received on Student Account            | 9/29/2023  | 24-005 (TN Comp 24-8460)            | Investigation Complete, Internal Audit Resolution Information to TN Comptroller | Failure of Counterfeit Detection Device                                | 11/21/2023                             |
| Referral from Provost's Office - Fraud, Waste, or Abuse Report Received          | 10/25/2023               | Wasteful Use of Funds for Faculty Not Present on Campus | 10/25/2023   | 24-006                              | Investigation Complete, Internal Audit Memo and Management Letter Issued        | No Indication Employee is not Meeting Responsibilities of Position     | 12/20/2023                             |
| Referral from Chief Information Officer - Fraud, Waste, or Abuse Report Received | 11/2/2023                | Employee Obtaining Parking Services without Paying      | 11/6/2023  | 24-007                              | Investigation Complete, Internal Audit Memo Issued                              | Employee Obtained Parking Services without Paying, Employee Terminated | 12/11/2023                             |
| Referral from UofM Police Services - Police Report Filed                         | 12/11/2023               | Employee Fraud at UofM Holiday Inn                      | 12/12/2023   | TN Comp 24-8758                     | Investigation Complete, Internal Audit Resolution Information to TN Comptroller | UofM Will Not Lose Revenue Due to Fraud, Employees Terminated          | 2/12/2024                              |

# Presentation: External Audit Report - Auxiliary Services Foundation Independent Auditor's Report, Financial Statements, and Supplemental Schedules, June 30, 2023

In accordance with requirements of the Tennessee Comptroller of the Treasury, an audit of the Auxiliary Services Foundation's (Foundation) financial statements was conducted for the fiscal year ending June 30, 2023.

# Presentation: External Audit Report - Auxiliary Services Foundation

- The Auxiliary Services 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.
- The Foundation accepts, administers, applies, and uses property acquired by gift, grant, devise, or 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 and is discretely presented in the University's financial statements.

# Presentation: External Audit Report - Auxiliary Services Foundation

- The Foundation engaged Forvis, LLP, an independent external CPA firm, to conduct the audit.
- The independent auditor's opinion, dated December 11, 2023, stated that the financial statements present fairly, in all material respects, the financial position of the Auxiliary Services Foundation as of June 30, 2023, 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.

# Presentation: External Audit Report - Auxiliary Services Foundation

In accordance with Government Auditing Standards, the auditors also issued a report dated December 11, 2023, 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.



# Presentation: External Audit Report - Auxiliary Services Foundation

- No opinion is expressed 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. The auditors proposed a recommendation and the Foundation's management provided a response and corrective action plan.

# Report: External Audit Report - The Herff Trust Financial Statements Year Ended June 30, 2023

In accordance with requirements of the Tennessee Comptroller of the Treasury, an audit of the Herff Trust's financial statements was conducted for the fiscal year ending June 30, 2023.

# Report: External Audit Report - The Herff Trust

- Herbert Herff left the bulk of his estate in trust with the State of Tennessee for the benefit of the University when he died in 1966. The funds of the trust were to be used for the benefit of the School of Law and School of Engineering at the University of Memphis (University), and such other uses as the Committee may decide.
- According to terms of the trust agreement, a Committee (Trustees) manages and controls the bequest. The business affairs of the Herff Trust are managed by the University.
- The Herff Trust was formed exclusively for the benefit of the University of Memphis and is a component unit of the University.

# Report: External Audit Report - The Herff Trust

- The Herff Trust engaged Forvis, LLP, an independent external CPA firm, to conduct the audit.
- The independent auditor's opinion dated December 11, 2023, stated that the financial statements present fairly, in all material respects, the financial position of the Herff Trust as of June 30, 2023, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

# Report: External Audit Report - The Herff Trust

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 or other matters that are required to be reported under Government Auditing Standards.

# Presentation: External Audit Report - 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 20.2.4.17 for the year ended June 30, 2023, and was performed by the Tennessee Comptroller of the Treasury's  
Division of State Audit.

# Presentation: External Audit Report - Independent Accountants' Report on the Application of Agreed-Upon Procedures to the University of Memphis' Intercollegiate Athletics Program Statement of Revenues and Expenses

- No opinion or conclusion was expressed on the statement of revenues and expenses or compliance with NCAA requirements.
- No exceptions were noted.

# Presentation: Office of Internal Audit and Consulting Client Satisfaction Survey 2023

According to state statute, 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 Audit Committee to assist the committee in reviewing the internal audit activity and ensuring that the activity is carrying out its internal audit responsibilities.



# Presentation: Office of Internal Audit and Consulting Client Satisfaction Survey 2023

During February 2024, feedback was solicited via a Client Satisfaction Survey that was distributed to 150 faculty and staff – audit clients, employees involved in investigations, and others who worked with Internal Audit or received Internal Audit communications during 2023. Survey results, including suggestions and concerns, will be considered in the ongoing efforts to improve internal audit operations.

- Fifty-one individuals completed the anonymous survey.
- About 96% of the responses indicated that the audit clients were satisfied with the University's internal audit services or considered the internal audit services favorably.

# Quality Assurance and Improvement Program Update

- A Quality Assurance and Improvement Program includes periodic internal assessments, and external quality assessments.
- A quality assessment evaluates compliance with the *Standards*, the definition of internal auditing, the Code of Ethics, the internal audit & audit committee charters, the organization's governance, risk and control assessment, and the use of successful practices.
- The UofM Office of Internal Audit and Consulting is in the process of completing a quality self-assessment review.
- An external quality assessment team will be engaged to complete an independent validation of our quality self-assessment review.

# Questions?

| Name of Internal Audit Report                         | Date of Report | Observations | Actions Completed | Recommendations for Management |
|---|----------------|--------------|-------------------|--------------------------------|
| Surplus Property Management Consulting Project Report | 2/12/2024      | 6            | 2                 | 4                              |

# 7. Audit Issue Follow Up

Presentation

Presented by Vicki Deaton

# The University of Memphis Board of Trustees

Presentation  
For Information

**Date:** March 13, 2024

**Committee:** Finance and 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 February 2024) |
|---------------------------------------|---|----------------------|--|------------------|--|--|---|--------------------------------------|
| 9/1/2023                              | College of Health Sciences Financial and Compliance Audit | 7/6/2023             | Effective with the Opportunity for Improvement | CHS 1            | Third-party Cloud Storage of University Data             | Moderate = Insufficient and Requires Improvement   | Tracy Shipp, Assistant Director of Marketing and Communications, College of Health Sciences | Complete                             |
| 8/1/2023                              | College of Health Sciences Financial and Compliance Audit | 7/6/2023             | Effective with the Opportunity for Improvement | CHS 2            | Timeliness of Financial Approval Requests                | Minor = Effective with Opportunity for Improvement | Hilary DeLuco, Business Officer III, College of Health Sciences                             | Complete                             |
| 7/1/2023                              | College of Health Sciences Financial and Compliance Audit | 7/6/2023             | Effective with the Opportunity for Improvement | CHS 3            | Documentation of Alternative Work Arrangments            | Minor = Effective with Opportunity for Improvement | Richard Bloomer, Dean, College of Health Sciences   | Complete                             |
| 7/1/2023                              | College of Health Sciences Financial and Compliance Audit | 7/6/2023             | Effective with the Opportunity for Improvement | CHS 4            | Annual Financial Responsibility Certification Completion | Minor = Effective with Opportunity for Improvement | Richard Bloomer, Dean, College of Health Sciences   | Complete                             |
| 3/1/2023                              | 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                | Complete                             |
| 12/31/2023                            | Space Planning and Utilization Audit                      | 1/3/2023             | Effective with the Opportunity for Improvement | Space Planning 1 | Space Planning and Utilization Policy Needs Updating     | Minor = Effective with Opportunity for Improvement | Lauren W. Kane, Director of Space Planning and Utilization                                  | Complete                             |





# 8. Internal Audit Investigations Resolved

Presentation

Presented by Vicki Deaton

# The University of Memphis Board of Trustees

Presentation  
For Information

**Date:** March 13, 2024

**Committee:** Finance and Audit Committee

**Presentation:** Internal Audit Investigations Resolved

**Presented by:** Vicki D. Deaton, Chief Audit Executive

**Background:**

Four investigations assigned to the Office of Internal Audit and Consulting by the Complaint Triage Team were resolved this quarter. Attached is a summary of the investigation information.

# CONFIDENTIAL AUDIT INFORMATION

| Allegation Received by   | Date Allegation Received | Description of Allegation                               | Date Assigned to Internal Audit by Complaint Triage Team | Internal Audit Investigation Number | Investigation Status  | Investigation Outcome  | Date of Final Action by Internal Audit |
|--|--------------------------|---|--|-------------------------------------|---|--|--|
| Referral from University and Student Business Services Bursar                    | 9/21/2023                | Counterfeit Bill Received on Student Account            | 9/29/2023  | 24-005 (TN Comp 24-8460)            | Investigation Complete, Internal Audit Resolution Information to TN Comptroller | Failure of Counterfeit Detection Device                                | 11/21/2023                             |
| Referral from Provost's Office - Fraud, Waste, or Abuse Report Received          | 10/25/2023               | Wasteful Use of Funds for Faculty Not Present on Campus | 10/25/2023   | 24-006                              | Investigation Complete, Internal Audit Memo and Management Letter Issued        | No Indication Employee is not Meeting Responsibilities of Position     | 12/20/2023                             |
| Referral from Chief Information Officer - Fraud, Waste, or Abuse Report Received | 11/2/2023                | Employee Obtaining Parking Services without Paying      | 11/6/2023  | 24-007                              | Investigation Complete, Internal Audit Memo Issued                              | Employee Obtained Parking Services without Paying, Employee Terminated | 12/11/2023                             |
| Referral from UofM Police Services - Police Report Filed                         | 12/11/2023               | Employee Fraud at UofM Holiday Inn                      | 12/12/2023   | TN Comp 24-8758                     | Investigation Complete, Internal Audit Resolution Information to TN Comptroller | UofM Will Not Lose Revenue Due to Fraud, Employees Terminated          | 2/12/2024                              |



**9. External Audit Report – Auxiliary  
Services Foundation Financial Statements  
Year Ended June 30, 2023**

Presentation

Presented by Vicki Deaton

# The University of Memphis Board of Trustees

Presentation  
For Information

**Date:** March 13, 2024

**Committee:** Finance and Audit Committee

**Presentation:** External Audit Report – Auxiliary Services Foundation Independent Auditor’s Report, Financial Statements, and Supplemental Schedules, June 30, 2023

**Presented by:** Vicki D. Deaton, Chief Audit Executive

## **Background:**

The Auxiliary Services Foundation Independent Auditor’s Report, Financial Statements, and Supplemental Schedules, June 30, 2023, 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 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 11, 2023, stated that the financial statements present fairly, in all material respects, the financial position of Auxiliary Services Foundation as of June 30, 2023, 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 11, 2023, 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, and not to provide an opinion on the effectiveness of the Foundation’s control over financial reporting or on compliance.

The auditor’s tests identified a deficiency in internal control that they consider to be a material weakness. The auditors proposed a recommendation and the Foundation’s management provided a response and corrective action plan. The auditor’s tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards



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# Auxiliary Services Foundation

## Independent Auditor's Report, Financial Statements, and Supplemental Schedules

June 30, 2023

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**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 OFFICIALS**

|                |                        |
|----------------|------------------------|
| Holly Ford     | Foundation CEO         |
| Mark Nicell    | Foundation CBO         |
| Steve McDaniel | Retained Legal Counsel |

## Independent Auditor's Report

Board of Directors  
Auxiliary Services Foundation  
Memphis, Tennessee

### 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, 2023, 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, 2023, 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 11, 2023, 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, Tennessee  
December 11, 2023**

**Auxiliary Services Foundation**  
**Statement of Financial Position**  
**June 30, 2023**

**ASSETS**

Current assets:

|                      |                  |
|----------------------|------------------|
| Cash                 | \$ 8,341,149     |
| Due from affiliates  | <u>1,517,136</u> |
| Total current assets | <u>9,858,285</u> |

Other assets:

|                              |                  |
|------------------------------|------------------|
| Real estate assets           | 2,468,488        |
| Cash value of life insurance | 380,539          |
| Historical document          | 750,000          |
| Other investment             | <u>7,875</u>     |
| Total other assets           | <u>3,606,902</u> |

|   |                             |
|---|-----------------------------|
| Fair value of derivative financial instrument | <u>736,931</u>              |
| Total assets                                  | <u><u>\$ 14,202,118</u></u> |

**LIABILITIES AND NET ASSETS**

Current liabilities:

|                                   |                  |
|-----------------------------------|------------------|
| Accounts payable                  | \$ 606,074       |
| Interest payable                  | 34,164           |
| Current portion of long-term debt | <u>1,802,462</u> |
| Total current liabilities         | 2,442,700        |

Long-term liabilities:

|  |                  |
|--|------------------|
| Long-term debt, net of current portion | <u>6,801,788</u> |
| Total liabilities                      | <u>9,244,488</u> |

Net assets:

|                                    |                             |
|------------------------------------|-----------------------------|
| Without donor restrictions         | <u>2,902,229</u>            |
| With donor restrictions:           |                             |
| Restricted for capital projects    | 1,305,401                   |
| Restricted in perpetuity           | <u>750,000</u>              |
| Net assets with donor restrictions | <u>2,055,401</u>            |
| Total net assets                   | <u>4,957,630</u>            |
| Total liabilities and net assets   | <u><u>\$ 14,202,118</u></u> |

**Auxiliary Services Foundation  
Statement of Activities  
Year Ended June 30, 2023**

|  | <u>Without Donor<br/>Restrictions</u> | <u>With Donor<br/>Restrictions</u> | <u>Totals</u>       |
|--|---------------------------------------|------------------------------------|---------------------|
| Support and revenue:                                       |                                       |                                    |                     |
| Transfers from affiliate organizations                     | \$ 2,000,703                          | 8,962,985                          | \$ 10,963,688       |
| Contribution of real estate                                | 158,400                               | -                                  | 158,400             |
| Change in cash surrender value                             | 18,845                                | -                                  | 18,845              |
| Interest income  | 277,901                               | -                                  | 277,901             |
|  | <u>2,455,849</u>                      | <u>8,962,985</u>                   | <u>11,418,834</u>   |
| Net assets released from restrictions                      | <u>13,875,950</u>                     | <u>(13,875,950)</u>                | <u>-</u>            |
|  | <u>16,331,799</u>                     | <u>(4,912,965)</u>                 | <u>11,418,834</u>   |
| Expenses:  |                                       |                                    |                     |
| Program - University support:                              |                                       |                                    |                     |
| Elma Roane locker room                                     | 90,874                                | -                                  | 90,874              |
| FedEx Forum locker room                                    | 182,910                               | -                                  | 182,910             |
| Football field renovations                                 | 91,177                                | -                                  | 91,177              |
| Lambuth Madison High School                                | 227,000                               | -                                  | 227,000             |
| Athletics debt interest                                    | 272,568                               | -                                  | 272,568             |
| Finch Plaza  | 244,420                               | -                                  | 244,420             |
| Professional services                                      | 43,277                                | -                                  | 43,277              |
| Benjamin Hooks Institute                                   | 2,000                                 | -                                  | 2,000               |
| Leftwich Tennis Center                                     | 8,500,393                             | -                                  | 8,500,393           |
| FCBE renovation  | 183,366                               | -                                  | 183,366             |
| Rifle range targets  | 75,195                                | -                                  | 75,195              |
| Natatorium facility improvements                           | 2,537,365                             | -                                  | 2,537,365           |
| Video boards   | 1,731,250                             | -                                  | 1,731,250           |
|  | <u>14,181,795</u>                     | <u>-</u>                           | <u>14,181,795</u>   |
| Management and general:                                    |                                       |                                    |                     |
| Insurance  | 16,079                                | -                                  | 16,079              |
| Office   | 453                                   | -                                  | 453                 |
| Professional fees  | 55,916                                | -                                  | 55,916              |
| Salaries and benefits                                      | 58,293                                | -                                  | 58,293              |
|  | <u>130,741</u>                        | <u>-</u>                           | <u>130,741</u>      |
| Total expenses   | <u>14,312,536</u>                     | <u>-</u>                           | <u>14,312,536</u>   |
| Change in fair value of<br>derivative financial instrument | <u>82,271</u>                         | <u>-</u>                           | <u>82,271</u>       |
| Change in net assets                                       | <u>2,101,534</u>                      | <u>(4,912,965)</u>                 | <u>(2,811,431)</u>  |
| Modifications of restrictions                              | <u>(645,242)</u>                      | <u>645,242</u>                     | <u>-</u>            |
| Net assets at June 30, 2022                                | <u>1,445,937</u>                      | <u>6,323,124</u>                   | <u>7,769,061</u>    |
| Net assets at June 30, 2023                                | <u>\$ 2,902,229</u>                   | <u>\$ 2,055,401</u>                | <u>\$ 4,957,630</u> |

**Auxiliary Services Foundation**  
**Statement of Cash Flows**  
**Year Ended June 30, 2023**

|   |                       |
|---|-----------------------|
| Cash flows from operating activities:   |                       |
| Cash received from University of Memphis Foundation                                     | \$ 10,242,633         |
| Cash received from interest income  | 277,902               |
| Cash paid to vendors for University capital projects                                    | (13,899,782)          |
| Cash paid to vendors for general and administrative expenses                            | (174,018)             |
| Cash paid for interest expense  | <u>(263,972)</u>      |
| Net cash used in operating activities   | (3,817,237)           |
| Cash flows from investing activities:   |                       |
| Purchase of property, plant, and equipment  | (2,310,088)           |
| Cash flows from financing activities:   |                       |
| Payments on long-term debt  | <u>(1,697,875)</u>    |
| Change in cash  | (7,825,200)           |
| Cash at beginning of year   | <u>16,166,349</u>     |
| Cash at end of year   | <u>8,341,149</u>      |
| Reconciliation of change in net assets to net cash used in operating activities:        |                       |
| Change in net assets  | (2,811,431)           |
| Adjustments to reconcile change in net assets to net cash used in operating activities: |                       |
| Change in fair value of derivative financial instrument                                 | (82,271)              |
| Non-cash contribution of real estate  | (158,400)             |
| Changes in operating assets and liabilities:  |                       |
| Decrease (increase) in operating assets:  |                       |
| Due from affiliates   | (721,055)             |
| Cash value of life insurance  | (18,845)              |
| Increase (decrease) in operating liabilities:   |                       |
| Accounts payable  | (33,832)              |
| Accrued interest and dividends  | <u>8,597</u>          |
| Net cash used in operating activities   | <u>\$ (3,817,237)</u> |

## Notes to Financial Statements

### 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.

Contributions of real property are recorded at their estimated fair values on the date of transfer.

***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 11, 2023, 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 \$8,091,149 at June 30, 2023.

## **3. Related Party Transactions**

The Foundation received transfers from the University of Memphis Foundation, an organization affiliated with the University, of \$10,963,688 during the year ended June 30, 2023.

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

At June 30, 2023, receivables include \$1,517,136 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, 2023.

## **6. Real Estate Assets**

During the year ended June 30, 2023, the Foundation purchased property for \$2,309,960. Additionally, the Foundation received an unrestricted contribution of property in the amount of \$158,400 during the year ended June 30, 2023. This contribution was recorded at fair value determined by appraisal. Management is currently evaluating their plans for future use of both these properties.

**7. 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, 2023.

|                    | <b>Assets at Fair Value as of June 30, 2023</b> |                |                |              |
|--------------------|---|----------------|----------------|--------------|
|                    | <u>Level 1</u>                                  | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Asset:             |   |                |                |              |
| Interest rate swap | \$ -  | \$ 736,931     | \$ -           | \$ 736,931   |

**8. Net Assets with Donor Restrictions**

Net assets are donor restricted for the following activities at June 30, 2023:

|                                   | <u>Capital<br/>Projects</u> | <u>Restricted<br/>in<br/>Perpetuity</u> | <u>Total<br/>Net Assets<br/>with Donor<br/>Restrictions</u> |
|-----------------------------------|-----------------------------|---|---|
| Natatorium Facility Improvements  | \$ (659,490)                | \$ -                                    | \$ (659,490)  |
| Larry Finch Center Updates        | 5,580                       | -                                       | 5,580   |
| Leftwich Tennis Center            | 222                         | -                                       | 222   |
| Football Scouting Contract        | (32)                        | -                                       | (32)  |
| Athletics Communications Tool     | 156,194                     | -                                       | 156,194   |
| Olympic Weight Room               | 19,938                      | -                                       | 19,938  |
| Benjamin Hooks Institute          | 331,325                     | -                                       | 331,325   |
| Liberty Bowl Strategic Consulting | 29,500                      | -                                       | 29,500  |
| Elma Roane Locker Room            | 582                         | -                                       | 582   |
| FCBE Renovation                   | 269,465                     | -                                       | 269,465   |
| Video Board Project               | 152,117                     | -                                       | 152,117   |
| Real Estate Acquisitions          | 1,000,000                   | -                                       | 1,000,000   |
| Historical document               | -                           | 750,000                                 | 750,000   |
|                                   | <u>\$ 1,305,401</u>         | <u>\$ 750,000</u>                       | <u>\$ 2,055,401</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, 2023, the Foundation released \$13,875,950 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.

## 9. Commitments

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

|                                   | <u>Contract<br/>Amount</u> | <u>Expended<br/>through<br/>June 30, 2023</u> | <u>Commitment<br/>Remaining<br/>June 30, 2023</u> |
|-----------------------------------|----------------------------|---|---|
| Natatorium Facility Improvements  | \$ 7,240,536               | \$ 7,214,398                                  | \$ 26,138   |
| Leftwich Tennis Center            | 11,000,615                 | 11,000,393                                    | 222   |
| Larry Finch Center Updates        | 250,000                    | 244,420                                       | 5,580   |
| Football Scouting Contract        | 75,000                     | 75,032  | (32)  |
| Athletics Communications Tool     | 296,194                    | 140,000                                       | 156,194   |
| Porter-Leath                      | 3,500,000                  | 3,500,000                                     | -   |
| Olympic Weight Room               | 291,759                    | 256,239                                       | 35,520  |
| Benjamin Hooks Institute          | 352,000                    | 20,100  | 331,900   |
| Liberty Bowl Strategic Consulting | 30,000                     | -   | 30,000  |
| Elma Roane Locker Room            | 90,874                     | 90,874  | -   |
| FedEx Forum Locker Room           | 182,910                    | 182,910                                       | -   |
| FCBE Renovation                   | 300,000                    | 183,366                                       | 116,634   |
| Rifle Range Targets               | 76,133                     | 75,195  | 938   |
| Video Board Project               | 1,931,860                  | 1,731,250                                     | 200,610   |
| Lambuth Madison High School       | <u>908,000</u>             | <u>454,000</u>                                | <u>454,000</u>                                    |
|                                   | <u>\$ 26,525,881</u>       | <u>\$ 25,168,177</u>                          | <u>\$ 1,357,704</u>                               |

## 10. Liquidity

All the assets of the Foundation are restricted for the support of The University. The cash held in a financial institution of \$8,341,149 is restricted specifically for construction in the amount of \$1,305,401 (see note 8).

## 11. Long-term Debt

Long-term debt on June 30, 2023 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 SOFR rate plus 2.20% (7.29% at June 30, 2023). Note matures on December 10, 2027. | \$ 8,604,250        |
| Less: Current portion   | <u>(1,802,462)</u>  |
| Debt, long-term   | <u>\$ 6,801,788</u> |

**Auxiliary Services Foundation  
Notes to Financial Statements**

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Future maturities of long-term debt are as follows:

| <u>Year Ending<br/>June 30,</u> |                     |
|---------------------------------|---------------------|
| 2024                            | \$ 1,802,462        |
| 2025                            | 1,857,147           |
| 2026                            | 1,913,492           |
| 2027                            | <u>3,031,149</u>    |
|                                 | <u>\$ 8,604,250</u> |

For the year ended June 30, 2023, interest expense charged to operations and included as athletics debt interest in program expenses amounted to \$272,568 and interest payable as of June 30, 2023 amounted to \$34,164.

**12. 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, 2023, 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 SOFR) on a \$8,552,738 notional amount. The contract terminates on December 10, 2027.

## ***Supplementary Schedules***

**Auxiliary Services Foundation  
 Supplemental Schedule of Changes in Long-Term Debt  
 Year Ended June 30, 2023**

| <u>Description<br/>of Indebtedness</u> | <u>Original<br/>Amount<br/>of Issue</u> | <u>Interest Rate</u>  | <u>Date<br/>of<br/>Issue</u> | <u>Last<br/>Maturity<br/>Date</u> | <u>Outstanding<br/>July 1, 2022</u> | <u>Issued<br/>During<br/>Period</u> | <u>Paid and/or<br/>Matured<br/>During Period</u> | <u>Refunded<br/>During<br/>Period</u> | <u>Outstanding<br/>June 30, 2023</u> |
|--|---|-----------------------|------------------------------|-----------------------------------|-------------------------------------|-------------------------------------|--|---------------------------------------|--------------------------------------|
| Long-term debt                         | \$ 12,000,000                           | 30 day SOFA<br>+2.20% | 12/10/2020                   | 12/10/2027                        | \$ 10,302,125                       | \$ -                                | \$ (1,697,875)                                   | \$ -                                  | \$ 8,604,250                         |



**Auxiliary Services Foundation**  
**Supplemental Schedule of Debt Service Requirements**  
**Year Ended June 30, 2023**

| <u>Fiscal Year</u> | <u>Long Term Debt</u> |
|--------------------|-----------------------|
| 2024               | \$ 1,802,462          |
| 2025               | 1,857,147             |
| 2026               | 1,913,492             |
| 2027               | <u>3,031,149</u>      |
| Total              | <u>\$ 8,604,250</u>   |

## 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, 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 Auxiliary Services Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, 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 11, 2023.

### ***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 2023-001 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, Tennessee  
December 11, 2023

**2023 Finding:**

**2023-001: Audit Adjustments**

Criteria: Generally accepted accounting principles require that expenses be accrued when incurred. Internal controls over financial reporting should include effective policies and procedures to capture invoices and record them in a timely manner.

Conditions: We found one fiscal year 2023 expenditure in the amount of \$231,000 that was reviewed by management on August 7, 2023, but was not properly accrued during the first closing of the books on August 15, 2023. This invoice was also not accrued in schedules submitted to the auditor for testing on September 14, 2023. We also found two other invoices totaling \$65,000 that were paid on August 9, 2023 and August 22, 2023, respectively, and were also excluded from the accounts payable detail presented to the auditors on September 14, 2023.

Effect: The balance for accounts payable submitted to State Auditor on August 15, 2023, and to FORVIS on September 14, 2023 was materially understated.

Recommendation: Management should review its closing process to ensure significant expenditures are recorded in a timely manner. The process would also be strengthened if management performed this process on a quarterly basis instead of only at year end.

**2022 Finding:**

**2022-001: Audit Adjustments**

- Interest rate swap agreement – Corrected.
- Recording of accounts payable – Repeated/2023-001.



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

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

**2023-001: Audit Adjustments**

**Response and Corrective Action:**

FY23 audited financials produced by FORVIS, state a finding and identify an effect. While management agrees with the adjustments to accrue for the items listed in the finding of the audited financial statements, points of clarification are noted below.

In response to the year-end accrual items, while management agrees with the adjustment to accrue these liabilities at June 30, 2023, it is management's position the auditors were working off "draft" files, which were provided to allow for the auditors to begin audit fieldwork and not intended to be considered final. This was necessary to ensure the audit could begin as scheduled and attempt to meet the deadlines for presentation of ASF's financial statements to various internal and external parties. Further, it is management's position, continued review of draft files in order to provide final versions, would have yielded the recording of the referenced payables as accrual items for FY23. Draft versions being reviewed by the auditors were dated prior to these three items being paid and recorded on the ASF's financials. This has been discussed at length this year and in the prior fiscal year and it is management's position to outline files, which can be provided to the auditors in draft form and in advance, while recognizing some schedules and files will not be provided until final versions are complete.

Of note, and in response to the statement in the audited financials from FORVIS stating there was a material understatement to the state as a result of the previous referenced accrual finding, the advanced deliverables to the state, in August, were to be preliminary with final adjustments made upon the completion of the audited financials for the Auxiliary Services Foundation. Thus, any preliminary / draft submissions supplied to the state in August and categorized as a misstatement in the audited financials, have been corrected upon the completion of the audit, and thus, not a misstatement.

In FY23, this Foundation grew exponentially, accepting real estate gifts and acquiring strategic real estate holdings. At the end of the fiscal year, a collaborative effort began internally to offer support to meet the growth needs of this Foundation. Moving into FY24, all financials have migrated to and

**Auxiliary Services Foundation  
Management Corrective Action Plan  
June 30, 2023**

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will be managed on the University's ERP system, Banner. In addition, by the end of FY24, accounting operations for the ASF will be managed by to the University of Memphis Controller's Office in collaboration with ASF staff.

Contact Person: Ms. Holly Ford

Expected Completion Date: 6/30/2024

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

Ms. Holly Ford  
Foundation CEO

In collaboration with:

Andrew Roberts, Senior Associate AD, CFO

George Ninan, University of Memphis Controller

Mark Nicell, Auxiliary Services Foundation Chief Business Officer

**10. External Audit Report – The Herff  
Trust Financial Statements Year Ended  
June 30, 2023**

Presentation

Presented by Vicki Deaton, Bill Hardgrave and  
Carol Roberts

# The University of Memphis Board of Trustees

Presentation  
For Information

**Date:** March 13, 2024

**Committee:** Finance and Audit Committee

**Presentation:** External Audit Report – The Herff Trust Financial Statements Year Ended June 30, 2023

**Presented by:** Vicki D. Deaton, Chief Audit Executive

## **Background:**

The Herff Trust Independent Auditor's Report and Financial Statements, June 30, 2023, were issued. The financial statements are presented in accordance with the responsibilities for Internal Audit under UofM policy.

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 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 and is a component unit of the University of Memphis.

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 11, 2023, stated that the financial statements present fairly, in all material respects, the financial position of the Herff Trust as of June 30, 2023, 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.





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# The Herff Trust

## Independent Auditor's Report and Financial Statements

June 30, 2023

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**Board of Trustees:**

|                    |                |
|--------------------|----------------|
| Richard A. Spell   | President      |
| John Hartney       | Vice President |
| Fred A. Towler     | Secretary      |
| Raajkumar Kurapati | Treasurer      |
| Tim Argo           | Trustee        |
| Dr. Bill Hardgrave | Member         |

**Management Officials:**

|              |  |
|--------------|--|
| George Ninan | Assistant VP and University Controller |
| Holly Ford   | Foundation CEO                         |

## Independent Auditor's Report

Board of Trustees  
The Herff Trust  
Memphis, Tennessee

### 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, 2023, and the related notes to the financial statements, which collectively comprise 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 Harf Trust, as of June 30, 2023, 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 Harf 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 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 11, 2023, 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, Tennessee  
December 11, 2023

## **The Herff Trust Management's Discussion and Analysis**

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### ***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, 2023. 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, 2023. 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, 2023.

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, 2023, funds held by an investment broker on behalf of the Trust totaled \$28,551,697. Of this amount, \$28,473,784 represents investments at fair value and \$77,913 represents deposits with banks affiliated with the broker.

**The Herff Trust  
Management's Discussion and Analysis**

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A summary of the major components of the net position of the Trust as of June 30, 2023, is as follows:

|                                    |                      |
|------------------------------------|----------------------|
| Current assets                     | \$ 175,573           |
| Other assets                       | <u>28,473,784</u>    |
| Total assets                       | <u>\$ 28,649,357</u> |
| Current liabilities                | 69,532               |
| Net position                       | <u>28,579,825</u>    |
| Total liabilities and net position | <u>\$ 28,649,357</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 gain                   | \$ 2,089,460        |
| Other income – University of Memphis  | 211,035             |
| Student scholarships & other expenses | <u>(1,014,917)</u>  |
| Change in net position                | <u>\$ 1,285,578</u> |

***The Statement of Cash Flows***

In 2023, 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, 2023**

**ASSETS**

Current assets:

|                                 |               |
|---------------------------------|---------------|
| Cash and cash equivalents       | \$ 77,913     |
| Note receivable - related party | <u>97,660</u> |

|                      |                |
|----------------------|----------------|
| Total current assets | <u>175,573</u> |
|----------------------|----------------|

Other assets:

|             |                   |
|-------------|-------------------|
| Investments | <u>28,473,784</u> |
|             | <u>28,473,784</u> |

|              |                             |
|--------------|-----------------------------|
| Total assets | <u><u>\$ 28,649,357</u></u> |
|--------------|-----------------------------|

**LIABILITIES AND NET POSITION**

Current Liabilities:

|                              |              |
|------------------------------|--------------|
| Due to University of Memphis | \$ 63,772    |
| Due to SIG                   | <u>5,760</u> |

|                           |        |
|---------------------------|--------|
| Total current liabilities | 69,532 |
|---------------------------|--------|

|              |                   |
|--------------|-------------------|
| Net position | <u>28,579,825</u> |
|--------------|-------------------|

|                                    |                             |
|------------------------------------|-----------------------------|
| Total liabilities and net position | <u><u>\$ 28,649,357</u></u> |
|------------------------------------|-----------------------------|

**The Herff Trust**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**June 30, 2023**

---

|                                      |                             |
|--------------------------------------|-----------------------------|
| Revenue:                             |                             |
| Investment gain                      | \$ 2,134,952                |
| Less: Investment expenses            | <u>(45,492)</u>             |
| Net investment gain                  | 2,089,460                   |
| Other - University of Memphis        | <u>211,035</u>              |
| Total revenue                        | <u>2,300,495</u>            |
| Expenses:                            |                             |
| Program expenses:                    |                             |
| Student scholarships                 | 994,960                     |
| Management and general:              |                             |
| Professional fees                    | <u>19,957</u>               |
|                                      | <u>1,014,917</u>            |
| Change in net position               | 1,285,578                   |
| Net position - beginning of the year | <u>27,294,247</u>           |
| Net position - end of year           | <u><u>\$ 28,579,825</u></u> |

**The Herff Trust**  
**Statement of Cash Flows**  
**June 30, 2023**

|  |                          |
|--|--------------------------|
| Cash flows from operating activities:  |                          |
| Investment income received   | \$ 712,332               |
| Other income from the University of Memphis  | 495,489                  |
| Professional fees  | (14,197)                 |
| Investment fees  | (45,492)                 |
| Cash paid for scholarships   | <u>(931,188)</u>         |
| Net cash provided by operating activities  | <u>216,944</u>           |
| Cash flows from investing activities:  |                          |
| Purchases of investments   | (4,116,868)              |
| Sales of investments   | 2,820,768                |
| Repayments on note receivable - related party  | <u>124,485</u>           |
| Net cash used in investing activities  | <u>(1,171,615)</u>       |
| Change in cash and cash equivalents  | (954,671)                |
| Cash and cash equivalents at beginning of year   | <u>1,032,584</u>         |
| Cash and cash equivalents at the end of year   | <u><u>\$ 77,913</u></u>  |
| Reconciliation of change in net position to net cash provided by operating activities: |                          |
| Change in net position   | \$ 1,285,578             |
| Adjustments to reconcile net position to net cash provided by operating activities:    |                          |
| Net realized and unrealized gain on investments  | (1,423,865)              |
| Decrease in accrued interest included in note receivable                               | 1,245                    |
| Changes in operating assets and liabilities  |                          |
| Decrease in operating assets:  |                          |
| Other receivable - University of Memphis   | 284,454                  |
| Increase in operating liabilities:   |                          |
| Due to University of Memphis   | <u>69,532</u>            |
| Net cash provided by operating activities  | <u><u>\$ 216,944</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, 2023.

## 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 fourteen percent of the total investment portfolio at June 30, 2023.

## 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.

**The Herff Trust**  
**Notes to Financial Statements**

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.

There have been no changes in the methodologies used as of June 30, 2023. 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, 2023:

|   | <b>Assets at Fair Value as of June 30, 2023</b> |                 |                 |                          |
|---|---|-----------------|-----------------|--------------------------|
|   | <u>Level 1</u>                                  | <u>Level 2</u>  | <u>Level 3</u>  | <u>Total</u>             |
| Money market mutual fund                          | \$ 1,906,506                                    | \$ -            | \$ -            | \$ 1,906,506             |
| Exchange traded funds                             | <u>26,567,278</u>                               | <u>-</u>        | <u>-</u>        | <u>26,567,278</u>        |
| <br>Total investments in the fair value hierarchy | <br><u>\$ 28,473,784</u>                        | <br><u>\$ -</u> | <br><u>\$ -</u> | <br><u>\$ 28,473,784</u> |

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, 2023:

|                            | <u>Alternative Investments</u> |
|----------------------------|--------------------------------|
| Balance, July 1, 2022      | \$ 843,595                     |
| Unrealized gain (loss)     | (285,596)                      |
| Sale                       | (798,015)                      |
| Realized gain              | <u>240,016</u>                 |
| <br>Balance, June 30, 2023 | <br><u>\$ -</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, 2023:

|  |            |
|--|------------|
| Scholarships disbursed for the benefit of University of Memphis students | \$ 994,960 |
|--|------------|

**6. Note Receivable – Related Party**

Note receivable from UMRG 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.                  | \$ 97,660       |
| Less: Current portion                | <u>(97,660)</u> |
| Related party receivable - long term | <u>\$ -</u>     |

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

|      |           |
|------|-----------|
| 2024 | \$ 97,660 |
|------|-----------|

Interest income related to the above related party receivable for the year ended June 30, 2023, amounted to \$5,750 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 11, 2023, 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, 2023, 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 11, 2023.

### ***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.



# FORVIS

## ***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, Tennessee**  
**December 11, 2023**



11. 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, 2023

Presentation

Presented by Vicki Deaton, Carol Roberts and Cato Johnson

# The University of Memphis Board of Trustees

Presentation  
For Information

**Date:** March 13, 2024

**Committee:** Finance and 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, 2023

**Presented by:** Vicki D. Deaton, Chief Audit Executive

**Report Synopsis:**

The 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, 2023, is presented for your information according to the responsibilities for Internal Audit under UofM policy.

The Agreed-Upon Procedures evaluated compliance with the National Collegiate Athletic Association (NCAA) Bylaw 20.2.4.17 for the year ended June 30, 2023, and was performed by the Tennessee Comptroller of the Treasury's Division of State Audit. No opinion or conclusion was expressed on the statement of revenues and expenses or compliance with NCAA requirements. No exceptions were noted in the independent accountants' report.



JASON E. MUMPOWER  
*Comptroller*

January 12, 2024

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

## 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' Intercollegiate Athletics Programs for the year ended June 30, 2023. 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' 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' Intercollegiate Athletics Program is in compliance with the National Collegiate Athletic Association (NCAA) Bylaw 20.2.4.17 for the year ended June 30, 2023. 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"><li>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.</li></ul> | No exceptions noted. |
| <ul style="list-style-type: none"><li>Obtain the statement of revenues and expenses of the athletic programs and related notes for the year ended June 30, 2023, as prepared by management. Compare the amounts reported on the statement with the institution's general ledger.</li></ul>   | 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 calculation to supporting documents such as seat manifests, ticket sales reports, and student fee totals. No exceptions noted.

- 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.

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.

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., contributions by corporate sponsors) that

There were no contributions that met this criterion; therefore, this step was not performed.



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.

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.

- Obtain and inspect agreements related to the institution's participation in revenues from royalties, licensing, advertisements, and 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.

No exceptions noted.

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. No exceptions noted.
- Compare and agree a sample of expenses from the operating expense supporting schedules to adequate supporting documentation. No exceptions noted.
- 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 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.
- 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. No exceptions noted.
- 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. Expenses of this type did not exceed 4% of total expenses; therefore, this step was not performed.

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 expended 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 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.

No exceptions noted.

- 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

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

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 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

No exceptions noted.

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

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

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

No exceptions noted.

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.

**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 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 to NCAA Research for the reporting year. 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

No exceptions noted.

No exceptions noted.

No exceptions noted.

aid records, of all student-athlete Pell Grants. Compare current year Pell Grants total to prior year reported total.

**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.
- Agree the total fair value of institutional endowments to supporting documentation, the institution's general ledger, and audited financial statements, if available.
- 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

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.

No exceptions noted.

No exceptions noted.

to the total expenses reported. Select a sample of transactions to validate the existence of the transaction and accuracy of recording. Recalculate the totals.

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' Intercollegiate Athletics Programs for the year ended June 30, 2023. 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 12, 2024



University of Memphis  
Department of Intercollegiate Athletics  
Statement of Revenues and Expenses  
For the Year Ended June 30, 2023

|  | Football            | Men's<br>Basketball | Women's<br>Basketball | Olympic<br>Sports | Non-Program<br>Specific | Total                |
|--|---------------------|---------------------|-----------------------|-------------------|-------------------------|----------------------|
| <b>Revenues</b>  |                     |                     |                       |                   |                         |                      |
| Ticket sales   | \$ 4,414,661.49     | \$ 4,111,368.76     | \$ 39,931.49          | \$ 11,286.10      | \$ 217,591.31           | \$ 8,794,839.15      |
| Student fees   | -                   | -                   | -                     | -                 | 7,722,525.07            | 7,722,525.07         |
| Direct institutional support   | -                   | -                   | -                     | -                 | 15,321,390.48           | 15,321,390.48        |
| Indirect institutional support   | -                   | -                   | -                     | -                 | 3,493,018.04            | 3,493,018.04         |
| Indirect institutional support - athletic facilities<br>debt service, lease, and rental fees | -                   | -                   | -                     | -                 | 265,481.27              | 265,481.27           |
| Guarantees   | -                   | -                   | -                     | 14,500.00         | -                       | 14,500.00            |
| Contributions  | 401,249.18          | 262,830.13          | 196,602.84            | 694,939.00        | 8,471,416.10            | 10,027,037.25        |
| In-kind contributions  | -                   | -                   | -                     | -                 | 534,824.61              | 534,824.61           |
| NCAA distributions   | -                   | 48,375.00           | -                     | 47,620.00         | 2,311,359.68            | 2,407,354.68         |
| Conference distributions   | -                   | -                   | -                     | -                 | 6,762,960.84            | 6,762,960.84         |
| Program, novelty, parking, and concession sales  | 1,100,324.00        | 357,660.00          | 1,235.00              | -                 | 515,688.72              | 1,974,907.72         |
| Royalties, licensing, advertisements,<br>and sponsorships                                    | -                   | 410,878.26          | -                     | 25,469.20         | 5,277,262.93            | 5,713,610.39         |
| Athletics restricted endowment<br>and investment income                                      | 2,162.00            | 62,775.00           | -                     | 34,505.00         | -                       | 99,442.00            |
| Other operating revenues   | -                   | 350.00              | 254,885.00            | 126,851.00        | 168,917.01              | 551,003.01           |
| Football bowl revenues   | 650,000.00          | -                   | -                     | -                 | -                       | 650,000.00           |
| <b>Subtotal operating revenues</b>   | <b>6,568,396.67</b> | <b>5,254,237.15</b> | <b>492,654.33</b>     | <b>955,170.30</b> | <b>51,062,436.06</b>    | <b>64,332,894.51</b> |

**University of Memphis  
Department of Intercollegiate Athletics  
Statement of Revenues and Expenses  
For the Year Ended June 30, 2023**

|  | <b>Football</b>           | <b>Men's<br/>Basketball</b> | <b>Women's<br/>Basketball</b> | <b>Olympic<br/>Sports</b> | <b>Non-Program<br/>Specific</b> | <b>Total</b>         |
|--|---------------------------|-----------------------------|-------------------------------|---------------------------|---------------------------------|----------------------|
| <b>Expenses</b>  |                           |                             |                               |                           |                                 |                      |
| Athletic student aid   | 3,428,035.98              | 505,381.63                  | 548,109.57                    | 4,194,285.57              | 642,528.55                      | 9,318,341.30         |
| Guarantees   | 375,000.00                | 280,000.00                  | 59,562.00                     | 40,431.00                 | -                               | 754,993.00           |
| Coaching salaries, benefits, and bonuses paid<br>by the university and related entities                            | 5,749,695.87              | 3,739,009.97                | 953,616.34                    | 3,211,875.57              | -                               | 13,654,197.75        |
| Support staff/administrative compensation,<br>benefits, and bonuses paid by the university<br>and related entities | 1,782,003.03              | 929,301.03                  | 302,658.98                    | 134,845.75                | 6,956,487.76                    | 10,105,296.55        |
| Severance payments   | 119,610.40                | -                           | -                             | -                         | -                               | 119,610.40           |
| Recruiting   | 587,931.30                | 142,145.11                  | 146,113.66                    | 241,181.27                | -                               | 1,117,371.34         |
| Team travel  | 1,029,709.15              | 2,092,372.10                | 1,530,598.28                  | 1,845,303.20              | -                               | 6,497,982.73         |
| Sports equipment, uniforms, and supplies   | 1,011,095.79              | 361,904.90                  | 218,611.07                    | 1,298,112.55              | -                               | 2,889,724.31         |
| Game expenses  | 594,848.37                | 191,868.23                  | 57,137.33                     | 298,071.87                | -                               | 1,141,925.80         |
| Fundraising, marketing, and promotion  | 70,209.32                 | 291,871.05                  | 28,786.69                     | 23,129.77                 | 1,372,732.60                    | 1,786,729.43         |
| Spirit groups  | -                         | -                           | -                             | -                         | 232,051.99                      | 232,051.99           |
| Athletic facilities debt service, leases,<br>and rental fees   | 2,119,979.97              | 664,602.29                  | -                             | 617,735.00                | 265,481.27                      | 3,667,798.53         |
| Direct overhead and administrative expenses  | 238,872.93                | 66,575.37                   | 4,648.97                      | 38,142.17                 | 467,815.27                      | 816,054.71           |
| Indirect institutional support   | -                         | -                           | -                             | -                         | 3,493,018.04                    | 3,493,018.04         |
| Medical expenses and insurance   | 33,766.83                 | 48,571.12                   | -                             | 6,235.53                  | 1,132,785.77                    | 1,221,359.25         |
| Membership and dues  | 7,940.00                  | 349.95                      | 4,910.00                      | 8,299.00                  | 13,399.73                       | 34,898.68            |
| Student-athlete meals (non-travel)   | 1,449,357.49              | 253,296.14                  | 84,109.40                     | 259,650.50                | -                               | 2,046,413.53         |
| Other operating expenses   | 447,528.27                | 190,515.63                  | 121,525.67                    | 219,907.08                | 3,480,402.81                    | 4,459,879.46         |
| Football bowl expenses   | 537,144.51                | -                           | -                             | -                         | -                               | 537,144.51           |
| Football bowl expenses - Coaching Compensation/Bonuses   | 438,103.20                | -                           | -                             | -                         | -                               | 438,103.20           |
| <b>Subtotal operating expenses</b>   | <b>20,020,832.41</b>      | <b>9,757,764.52</b>         | <b>4,060,387.96</b>           | <b>12,437,205.83</b>      | <b>18,056,703.79</b>            | <b>64,332,894.51</b> |
| <b>Excess (deficiency) of revenues over<br/>(under) expenses</b>   | <b>\$ (13,452,435.74)</b> | <b>\$ (4,503,527.37)</b>    | <b>\$ (3,567,733.63)</b>      | <b>\$ (11,482,035.53)</b> | <b>\$ 33,005,732.27</b>         | <b>\$ -</b>          |

The accompanying notes are an integral part of this statement.

Other Reporting Items:

|  |                   |
|--|-------------------|
| Total athletics-related debt             | \$ 6,533,567.04   |
| Total institutional debt                 | \$ 155,370,800.78 |
| Value of athletics-dedicated endowments  | \$ 3,339,102.91   |
| Value of institutional endowments        | \$ 286,024,987.36 |
| Total athletics-related capital expenses | \$ 2,311,421.82   |

**The University of Memphis**  
**Intercollegiate Athletics Department**  
**Notes to the Statement of Revenues and Expenses**  
**For the Year Ended June 30, 2023**

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**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. There were no donors during the fiscal year ended June 30, 2023, 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, 2023, the UMF and the Auxiliary Services Foundation (ASF) transferred, disbursed, and/or recorded expense accruals for \$9,605,645 and \$2,415,826 (for a total of \$12,021,471), 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.

|                          | <u>Football</u>       | <u>Men's<br/>Basketball</u> | <u>Women's<br/>Basketball</u> | <u>Other<br/>Sports</u> | <u>Non-program<br/>Specific</u> | <u>Total</u>           |
|--------------------------|-----------------------|-----------------------------|-------------------------------|-------------------------|---------------------------------|------------------------|
| Expenses:                |                       |                             |                               |                         |                                 |                        |
| Athletic student aid     | \$3,425,768.00        | \$505,382.00                | \$548,348.00                  | \$3,742,603.00          | \$ -                            | \$ 8,222,101.00        |
| Other operating expenses | -                     | -                           | -                             | 451,122.00              | 1,164,135.00                    | 1,615,257.00           |
| Capital expenditures     | 40,843.00             | -                           | 90,874.00                     | 304,970.00              | 1,747,426.00                    | 2,184,113.00           |
| <b>Total</b>             | <u>\$3,466,611.00</u> | <u>\$505,382.00</u>         | <u>\$639,222.00</u>           | <u>\$4,498,695.00</u>   | <u>\$2,911,561.00</u>           | <u>\$12,021,471.00</u> |

Of the \$12,021,471 transferred by the UMF and the ASF, \$2,184,113 was for in-kind capital expenditures recorded in the university's unexpended plant fund 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)**

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### **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, 2023. 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 \$1,511,763.01 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 \$1,981,255.03. 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

## **Notes to the Statement of Revenues and Expenses (Continued)**

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item cannot be used by another department on campus, the item is placed on a governmental website for sale to the general public.

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

A capitalization threshold of \$100,000 is used for buildings, and \$50,000 is used for infrastructure. Equipment is capitalized when the unit acquisition cost is \$5,000 or greater. The capitalization threshold for additions and improvements to buildings and land is set at \$50,000. The capitalization threshold for intangible assets is set at \$100,000. The capitalization threshold for leased assets 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, 2023, for athletic related debt are as follows:

| Year Ending June 30 | Principal              | Interest             | Total                  |
|---------------------|------------------------|----------------------|------------------------|
| 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                | 1,309,730.26           | 44,843.20            | 1,354,573.46           |
| 2029-2030           | 581,639.70             | 11,141.07            | 592,780.77             |
| <b>Total</b>        | <b>\$ 6,533,567.04</b> | <b>\$ 801,171.53</b> | <b>\$ 7,334,738.57</b> |

Supplemental Schedule: Revenues and Expenses Analytical Review

|  | 2023                   | 2022             | 2023            | Prior-Year Comparison |              | Budget vs. Actual Comparison |              |      |
|--|------------------------|------------------|-----------------|-----------------------|--------------|------------------------------|--------------|------|
|  | Actual                 | Actual           | Budget          | \$ Difference         | % Difference | \$ Difference                | % Difference |      |
| <b>Operating revenues:</b>   |                        |                  |                 |                       |              |                              |              |      |
| Ticket sales   | \$ 8,794,839.15        | \$ 10,253,608.52 | \$ 9,230,000.00 | \$ (1,458,769.37)     | -14.23%      | (1) \$ (435,160.85)          | -4.71%       |      |
| Student fees   | 7,722,525.07           | 7,872,383.37     | 7,500,000.00    | (149,858.30)          | -1.90%       | 222,525.07                   | 2.97%        |      |
| Direct institutional support   | 15,321,390.48          | 18,528,262.63    | 13,124,000.00   | (3,206,872.15)        | -17.31%      | (2) 2,197,390.48             | 16.74%       | (6)  |
| Contributions  | 10,027,037.25          | 5,208,726.15     | 12,025,000.00   | 4,818,311.10          | 92.50%       | (3) (1,997,962.75)           | -16.62%      | (7)  |
| Conference distributions   | 6,762,960.84           | 6,254,463.47     | 5,800,000.00    | 508,497.37            | 8.13%        | 962,960.84                   | 16.60%       | (8)  |
| <b>10% of Revenues</b>   | <b>\$ 6,433,289.45</b> |                  |                 |                       |              |                              |              |      |
| <b>Operating expenses:</b>   |                        |                  |                 |                       |              |                              |              |      |
| Athletic student aid   | \$ 9,318,341.30        | \$ 8,686,781.15  | \$ 8,977,000.00 | \$ 631,560.15         | 7.27%        | \$ 341,341.30                | 3.80%        |      |
| Coaching salaries, benefits, and bonuses paid by the university and related entities                     | 13,654,197.75          | 13,238,334.41    | 11,539,327.00   | 415,863.34            | 3.14%        | 2,114,870.75                 | 18.33%       | (9)  |
| Support staff/administrative salaries, benefits, and bonuses paid by the university and related entities | 10,105,296.55          | 7,822,576.21     | 10,493,627.00   | 2,282,720.34          | 29.18%       | (4) (388,330.45)             | -3.70%       |      |
| Team travel  | 6,497,982.73           | 5,082,332.07     | 4,785,604.00    | 1,415,650.66          | 27.85%       | (5) 1,712,378.73             | 35.78%       | (10) |
| <b>10% of Expenses</b>   | <b>\$ 6,433,289.45</b> |                  |                 |                       |              |                              |              |      |

Footnotes:

- (1) The decline in ticket sales is due to several factors including: 1) the success in the 2022 season of the professional basketball team increased fan excitement for the 2023 season and drew some fans away from the college team for the 2022-2023 season; 2) ticket sales in basketball shifted from season ticket sales to individual game sales; 3) the overall economy's impact on discretionary spending; 4) safety concerns in downtown Memphis; and 5) sports teams have an increased presence on streaming outlets.
- (2) The decline in direct institutional support was the result of the prior year including a one time severance payment for the former Men's Basketball Head Coach.
- (3) The increase in contributions was due to the prior year having better overall financial circumstances which resulted in less need to transfer funding from the University of Memphis Foundation. The opposite was true for fiscal year 2023, due largely to less revenues from ticket sales and higher than expected costs for expenses such as travel and food.
- (4) The increase in support staff/administrative salaries, benefits, and bonuses is due to a planned increase in support spending and enhancing several support positions across the department. In addition, there were increases for cost of living/merit raises.
- (5) The increase in travel was caused by inflation hitting buses, flights, hotels, and food significantly. Team success also led to more travel than anticipated in Men's and Women's Soccer and Women's Basketball. The Men's Basketball Team advanced to the Conference Championship as well.
- (6) The actual direct institutional support exceeded the budget because the budget is set based on revenue and expense projections going into the year. The actual direct support is not determined until the year-end closing process. Also, some of the inflationary impacts the university faced necessitated an increase in direct support to close the fund.
- (7) Actual contributions being less than the budgeted amount is due to the fact that the budget includes the annual value of the Nike contract, which was \$2.25 million for fiscal year 2023 and, for NCAA reporting, is captured on Line 15 as part of sponsorship revenues.
- (8) Actual conference distributions exceeded the budget because the budget is developed using direct information from the conference office prior to the fiscal year. Actual revenues are not shared until May of each year. The revenues are traditionally higher than initial estimates and the university budgets on a conservative basis.
- (9) The coaching salaries, benefits, and bonuses exceeded the budget because when the budget figure is pulled, fringe benefits are not broken out by type (coach, assistant coach, support staff). Also, fringe benefits have historically been underfunded in Banner in total. Furthermore, several coaches and assistant coaches received bonus payments and moving allowances above budgeted figures.
- (10) Actual travel exceeded the budget and was the result of inflation hitting buses, flights, hotels, and food significantly. Team success also led to more travel than anticipated in Men's and Women's Soccer and Women's Basketball. The Men's Basketball Team advanced to the Conference Championship as well.

# 12. Internal Audit Client Satisfaction Survey 2023

Presentation

Presented by Vicki Deaton

# The University of Memphis Board of Trustees

Presentation

For Information

**Date:** March 13, 2024

**Committee:** Finance and Audit Committee

**Presentation Title:** Office of Internal Audit and Consulting Client Satisfaction Survey 2023

**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 statues relative to internal audit and audit committees. The state statues 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.

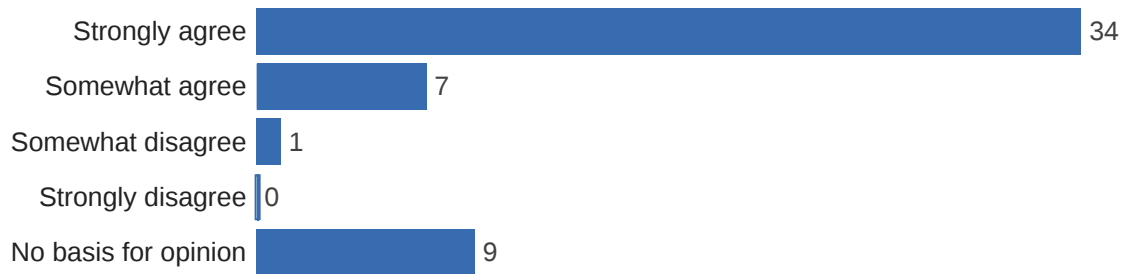
During February 2024, feedback was solicited via a Client Satisfaction Survey that was distributed to 150 faculty and staff – audit clients, employees involved in investigations, and others who worked with Internal Audit or received Internal Audit communications during 2023. Fifty-one individuals completed the anonymous survey.

About 96% 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 considered in the ongoing efforts to improve internal audit operations.

Please see the attached University of Memphis 2023 Internal Audit and Consulting Client Satisfaction Survey Results Report for detailed information.

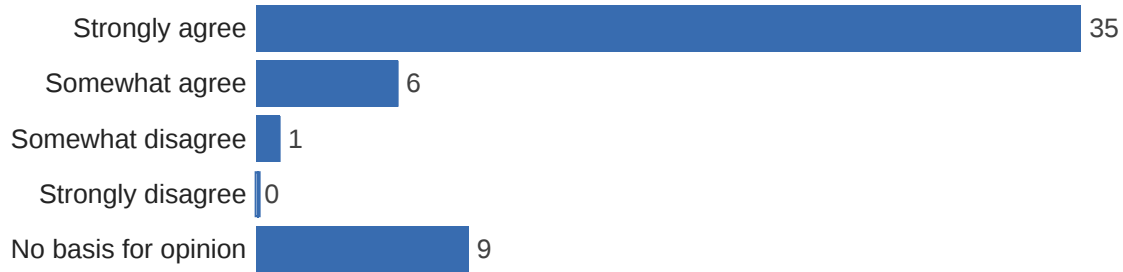


Q1 - The purpose, goals, objectives, areas to be reviewed, and tentative completion dates of the audit/project were clearly explained.



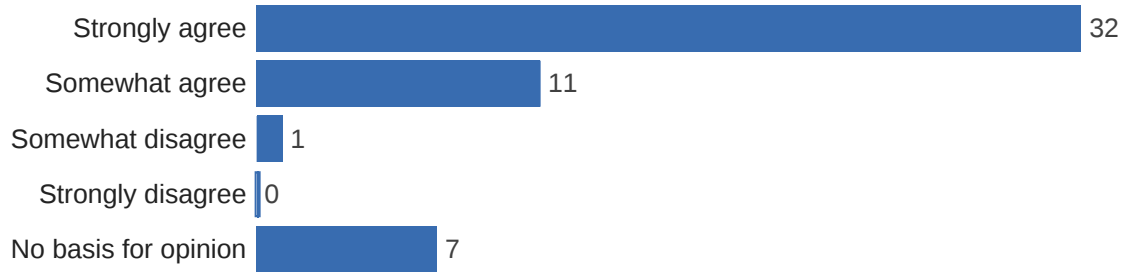
| Field                | Choice Count |
|----------------------|--------------|
| Strongly agree       | 67% 34       |
| Somewhat agree       | 14% 7        |
| Somewhat disagree    | 2% 1         |
| Strongly disagree    | 0% 0         |
| No basis for opinion | 18% 9        |
| Total                | 51           |

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



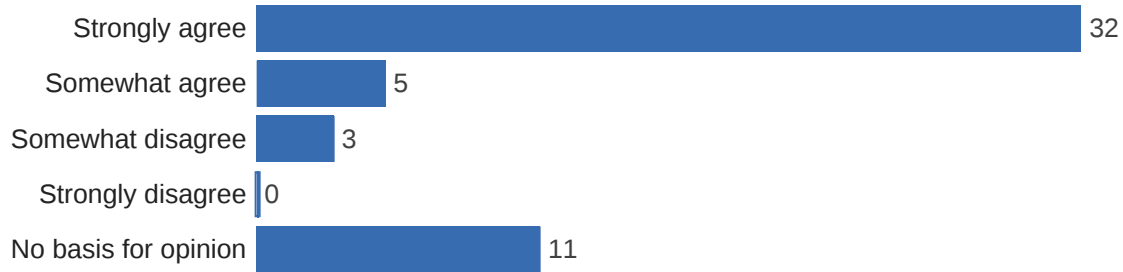
| Field                | Choice Count |
|----------------------|--------------|
| Strongly agree       | 69% 35       |
| Somewhat agree       | 12% 6        |
| Somewhat disagree    | 2% 1         |
| Strongly disagree    | 0% 0         |
| No basis for opinion | 18% 9        |
| Total                | 51           |

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



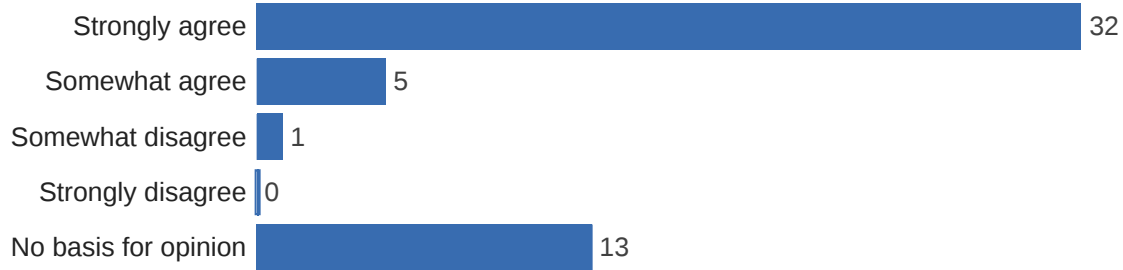
| Field                | Choice Count |
|----------------------|--------------|
| Strongly agree       | 63% 32       |
| Somewhat agree       | 22% 11       |
| Somewhat disagree    | 2% 1         |
| Strongly disagree    | 0% 0         |
| No basis for opinion | 14% 7        |
| Total                | 51           |

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



| Field                | Choice Count |
|----------------------|--------------|
| Strongly agree       | 63% 32       |
| Somewhat agree       | 10% 5        |
| Somewhat disagree    | 6% 3         |
| Strongly disagree    | 0% 0         |
| No basis for opinion | 22% 11       |
| Total                | 51           |

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



| Field                | Choice Count |
|----------------------|--------------|
| Strongly agree       | 63% 32       |
| Somewhat agree       | 10% 5        |
| Somewhat disagree    | 2% 1         |
| Strongly disagree    | 0% 0         |
| No basis for opinion | 25% 13       |
| Total                | 51           |

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



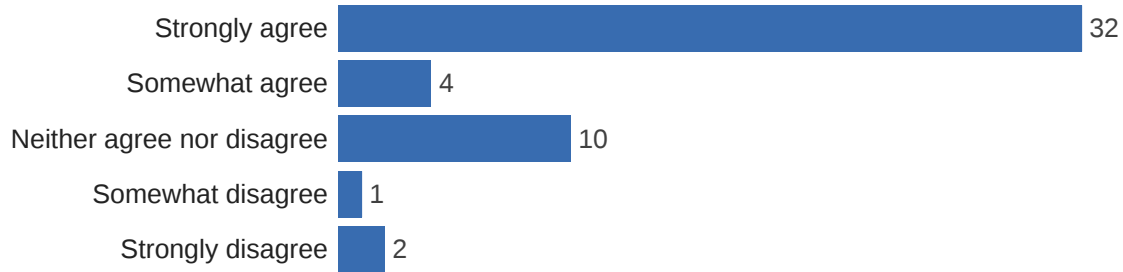
| Field                | Choice Count |
|----------------------|--------------|
| Strongly agree       | 60% 30       |
| Somewhat agree       | 8% 4         |
| Somewhat disagree    | 2% 1         |
| Strongly disagree    | 2% 1         |
| No basis for opinion | 28% 14       |
| Total                | 50           |

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



| Field                      | Choice Count |
|----------------------------|--------------|
| Strongly agree             | 90% 46       |
| Somewhat agree             | 2% 1         |
| Neither agree nor disagree | 4% 2         |
| Somewhat disagree          | 2% 1         |
| Strongly disagree          | 2% 1         |
| Total                      | 51           |

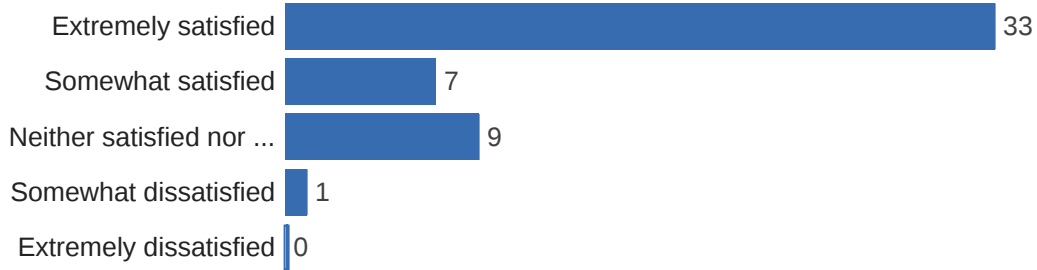
Q8 - The auditor's comments and recommendations will assist us to improve operations.



| Field                      | Choice Count |
|----------------------------|--------------|
| Strongly agree             | 65% 32       |
| Somewhat agree             | 8% 4         |
| Neither agree nor disagree | 20% 10       |
| Somewhat disagree          | 2% 1         |
| Strongly disagree          | 4% 2         |
| Total                      | 49           |



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



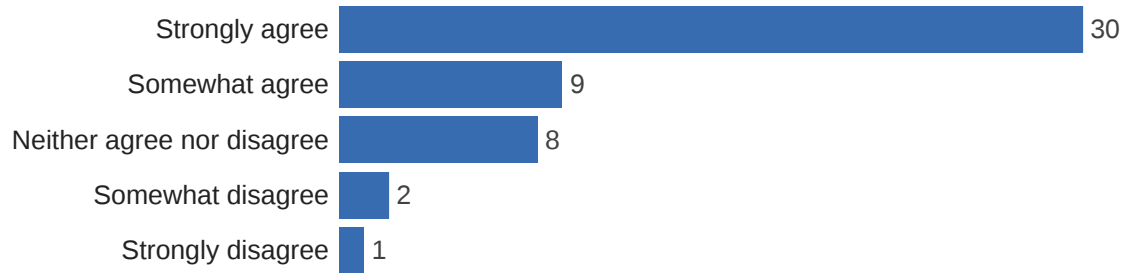
| Field                              | Choice Count |
|------------------------------------|--------------|
| Extremely satisfied                | 66% 33       |
| Somewhat satisfied                 | 14% 7        |
| Neither satisfied nor dissatisfied | 18% 9        |
| Somewhat dissatisfied              | 2% 1         |
| Extremely dissatisfied             | 0% 0         |
| Total                              | 50           |

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



| Field        | Choice Count |
|--------------|--------------|
| High quality | 31% 25       |
| Valuable     | 36% 29       |
| Effective    | 30% 24       |
| Ineffective  | 4% 3         |
| Impractical  | 0% 0         |
| Poor quality | 0% 0         |
| Total        | 81           |

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



| Field                      | Choice Count |
|----------------------------|--------------|
| Strongly agree             | 60% 30       |
| Somewhat agree             | 18% 9        |
| Neither agree nor disagree | 16% 8        |
| Somewhat disagree          | 4% 2         |
| Strongly disagree          | 2% 1         |
| Total                      | 50           |

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

None

Department Chairs need to be notified of any audits, and be provided with the final report

none

Thus was my first experience, and everything was handled wonderfully. No changes needed.

None at this time

N/A

None

Being explicitly clear with the full team about the scope and areas to be reviewed

No basis for opinion

As I only began in Sept. 2023, I cannot adequately respond to this survey.

None. Great process.

I do not remember working with this dept, so I don't have any input regarding their work processes.

limit audit to issues and responsibilities within the control of the unit

None

Making people feel and doing audits where concerns were sincerely invested no matter how it turns out for the university. People don't report because they feel things are swept under the rug.

I have yet to see the report. Can I get a copy?

Move to an online platform, if available instead of using spreadsheets.

n/a

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

No

Department Chairs need to be notified of any audits related to the Department, Staff, faculty, or staff.

none

No

None at this time

N/A

none

None

No

No basis for opinion

As I only began in Sept. 2023, I cannot adequately respond to this survey.

No

NA

many issues/recommendations in unit audit were within the sole control of other units (IT/HR)

None

Why did we not get a copy of tge final report since we were the subject of the report?

Yes, working with surplus to clear out old equipment is an issue since they do not have space or time for it.

n/a

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

No suggestion

Keep up the good work

For me, it was simply the level of professionalism that I SINCERELY appreciated

Collaboration and Feedback are always beneficial to the process

N/A

None

Always informative, response and professional

Clearly discussed the potential risks/concerns and effective ways to address any concerns

No basis for opinion

As I only began in Sept. 2023, I cannot adequately respond to this survey.

Process was timely and appropriate. Thank you.

NA

Your departments communication was excellent. What a great team to work with even if it is auditing!

They were pleasant, knowledgeable and easy to work with

Yes, continue to deal with the departments with an understanding of their unique issues..

n/a

# 13. Quality Assurance and Improvement Program Update

Presentation

Presented by Vicki Deaton





# 14. FY23 Annual Financial Audit Report

Presentation

Presented by Rene Bustamante

# The University of Memphis Board of Trustees

Information  
For Discussion

**Date:** March 13, 2024

**Committee:** **Audit Committee**

**Topic:** FY 2023 Annual Financial Audit Report

**Presented by:** Rene Bustamante, Executive Vice President and COO/CFO

## **Background:**

The Office of the Comptroller of the Treasury, Division of State Audit, completed its audit of the University of Memphis (the University) on December 14, 2023. The audit was conducted in accordance with auditing standards generally accepted in the United States of America (GAAS) and standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. The audit opinions from the Division of State Audit will be unmodified. The objectives and scope of the audit were as described in the Engagement letter from the Comptroller of the Treasury, Division of State Audit.

The final draft of the audit report was released on February 12, 2024. It contained the audited financial statements of the University as of and for the year ended June 30, 2023, Management's Discussion and Analysis, Required Supplementary Information, and other Supplementary Information. There has been a finding in the student aid audit regarding Title IV financial assistance program eligibility. Of 12,290 students receiving such assistance, 20 students (0.16%) received excess financial aid based on their eligibility. Title IV financial assistance for the year ended June 30, 2023, totaled \$ 125,074,844 of which \$33,353 (.026%) were overpayments based on eligibility guidelines. The item is being remediated. The financial information presented is based on the latest available at the time of completion of audit fieldwork.

The exit conference with the auditors was held on February 20, 2024. The final audit report is expected to be released shortly.

# *2023 Annual Financial Report & Internal Control Audit*

## *Finance and Audit Committee*

Rene Bustamante  
Executive Vice President and COO-CFO

March 13, 2024  
Maxine A. Smith University Center



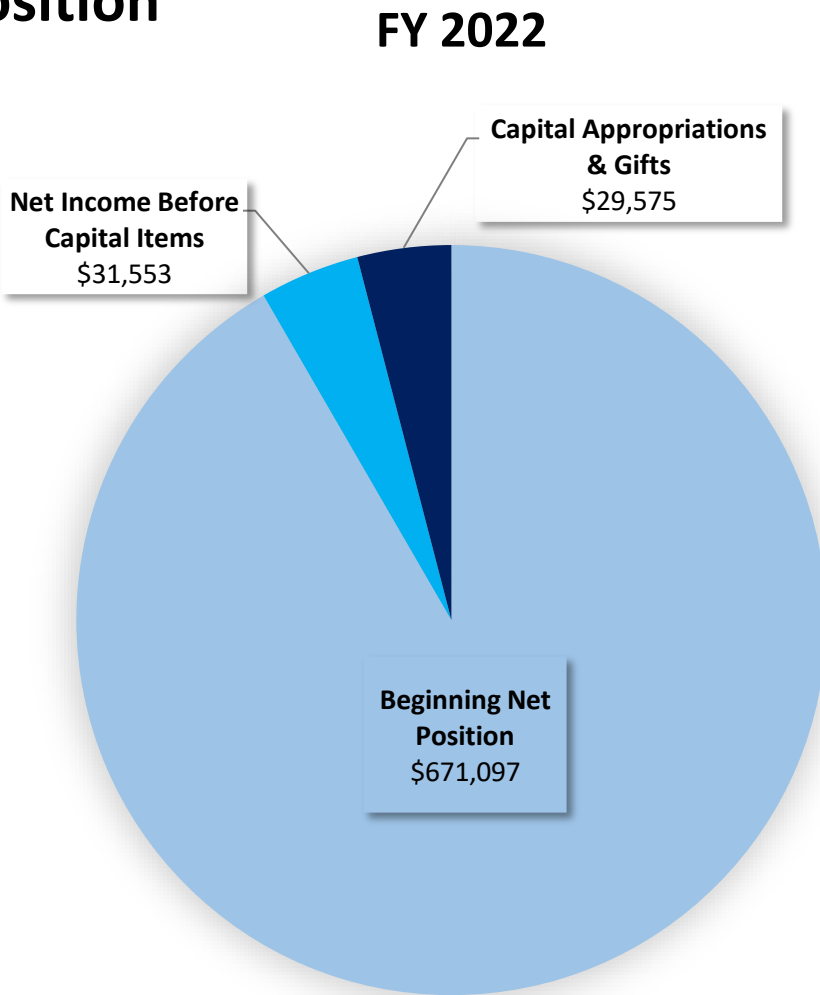
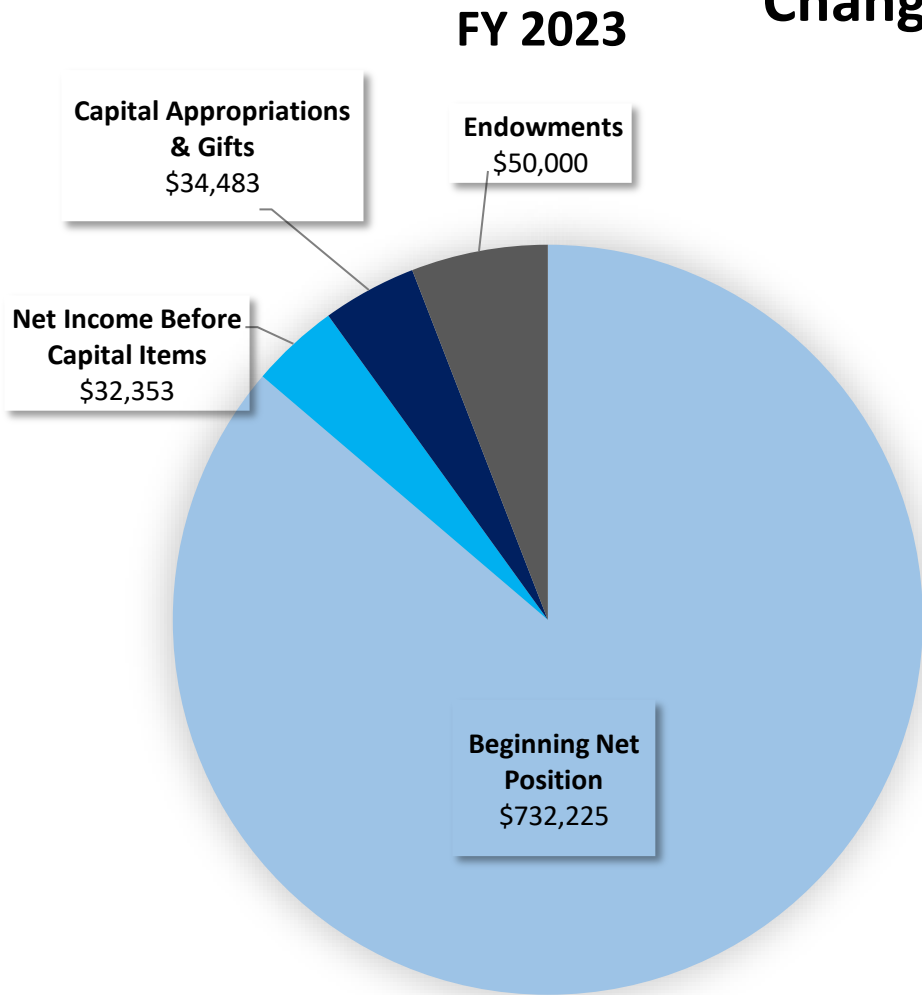
MARCH 2024 MEETING

The University's operations are audited by the Division of State Audit under the Office of the State Comptroller. Additionally, independent audits are performed for each of its component units. Below are the summary results of the audits for FY 2023:

- Unmodified clean audit opinions for the University as well as UM Foundation, Auxiliary Services Foundation, UM Research Foundation and Herff Trust.
- The University successfully implemented GASB 96 which was a significant new accounting standard. This standard provided that certain software subscriptions be capitalized on the statement of financial position. This resulted in capital assets and related debt increasing by \$8M.
- There were no adjustments to the University's financial statements as a result of the audit.

- The University had one fining by the auditors relating to its monitoring of Title IV financial aid recipients. 12,290 students were audited and 20 (0.16%) received excess financial aid totaling \$33,353
- Improved financial standing of the three foundations:
  - Total Assets grew by \$34.64M, due primarily to increases in the value of investments of the UM Foundation
  - Total Liabilities increased by \$8.81M, due to increases in year end payables of the UM Foundation
  - Net Position improved by \$26.11M

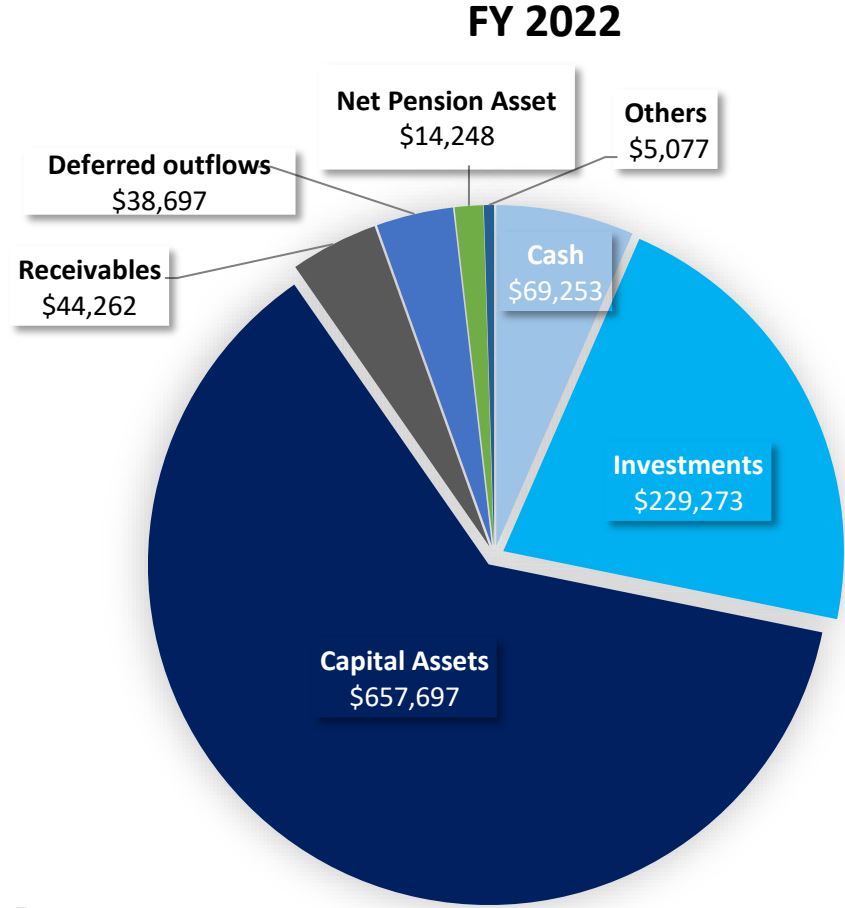
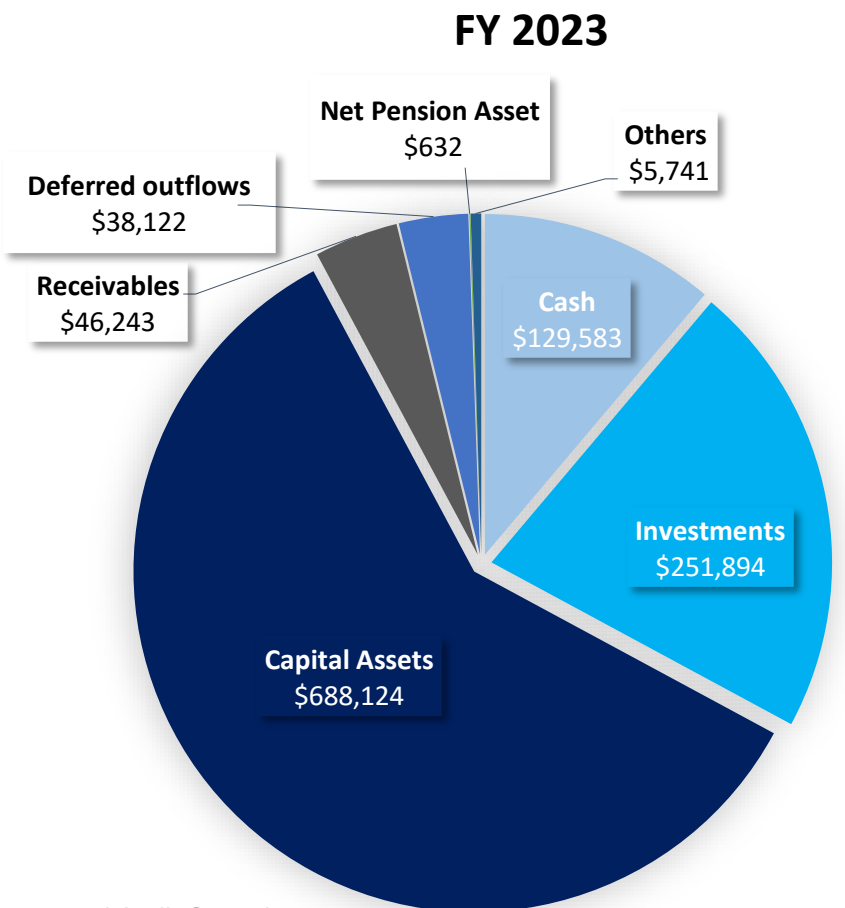
**Change in Net Position**  
*(in thousands)*



**Ending Net Position – \$849,062**

**Ending Net Position – \$732,225**

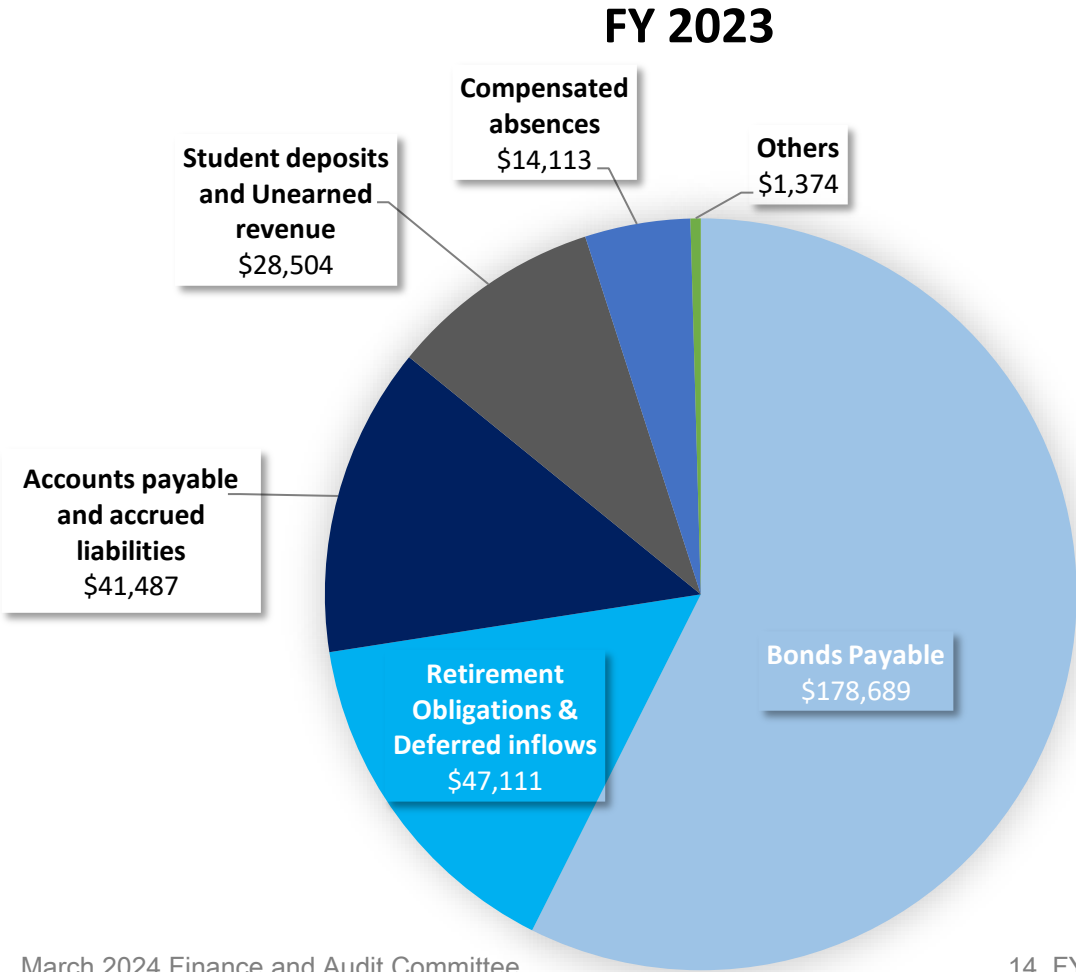
**Composition of Assets**  
*(in thousands)*



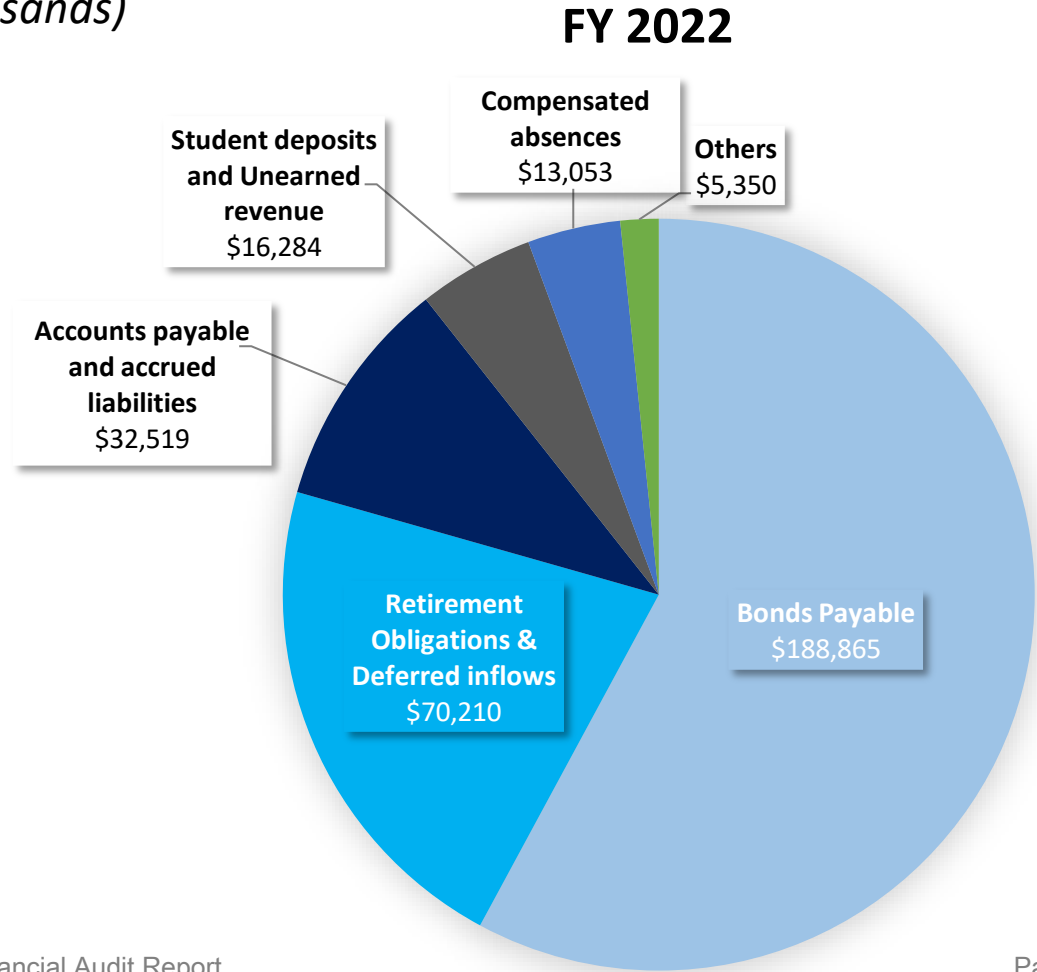
**Total Assets – \$1,160,339**

**Total Assets – \$1,058,507**

### Composition of Liabilities (in thousands)



**Total Liabilities - \$311,278**



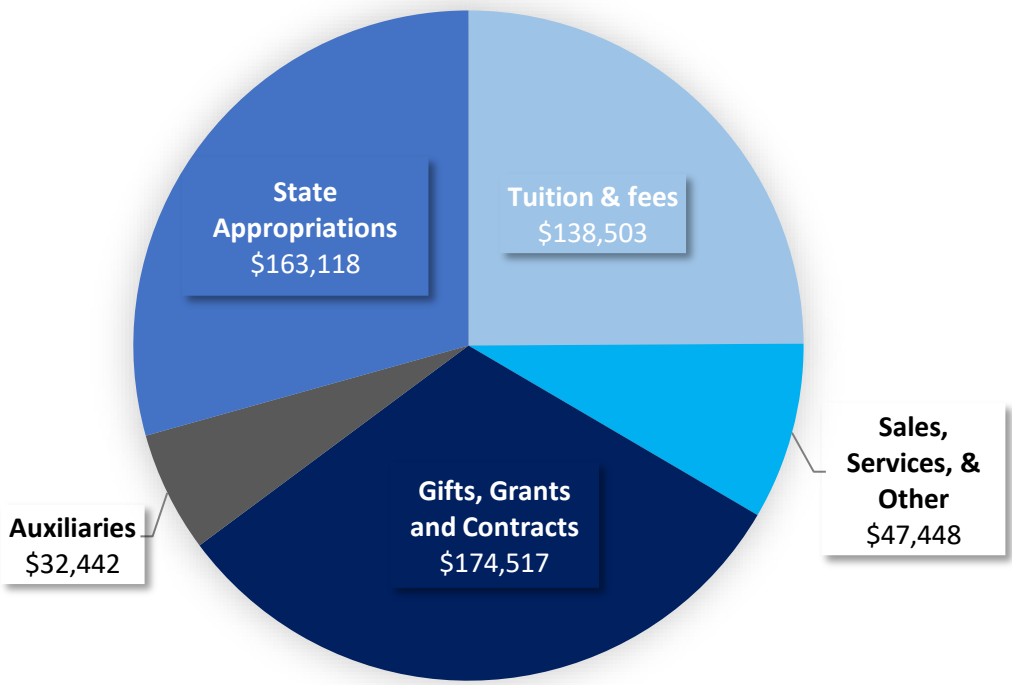
**Total Liabilities - \$326,281**



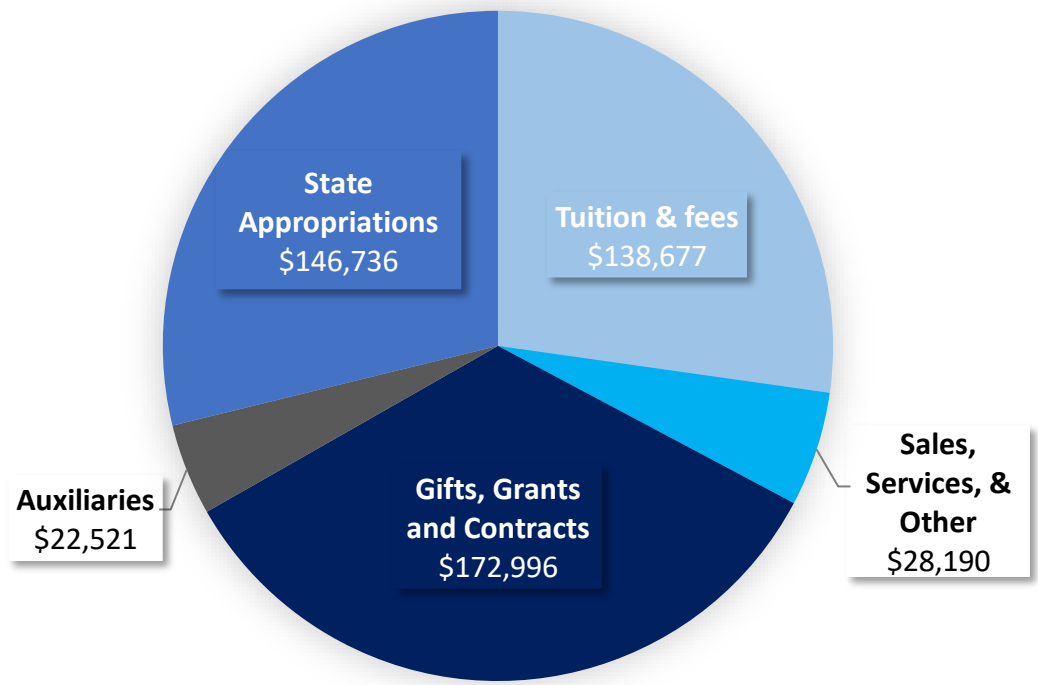
**Sources Of Revenue\***  
*(in thousands)*

\*Does not include Capital Gifts and Appropriations

**FY 2023**

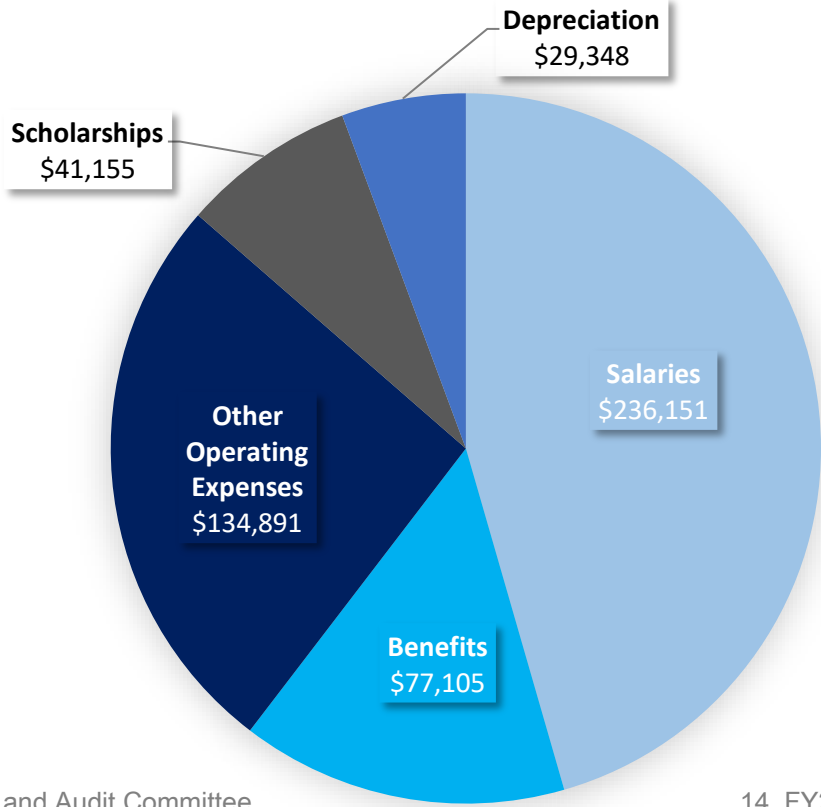


**FY 2022**



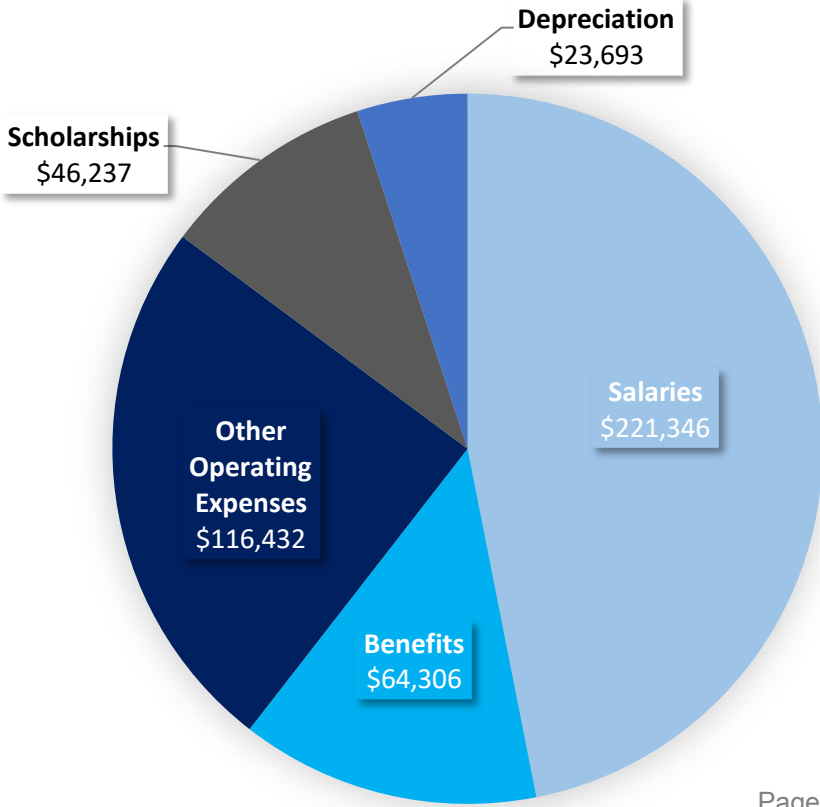
**Operating Expenses**  
*(in thousands)*

**FY 2023**

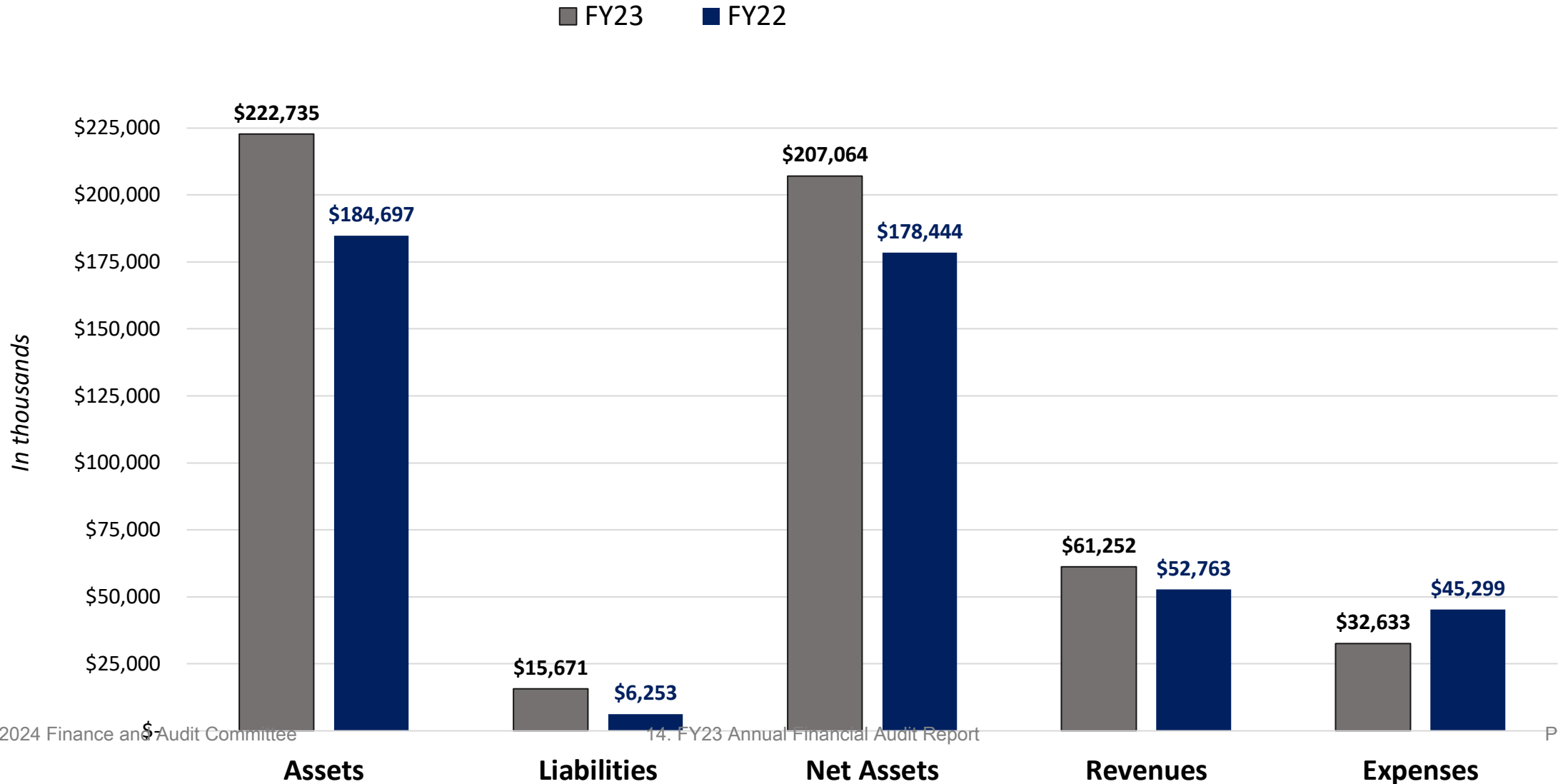


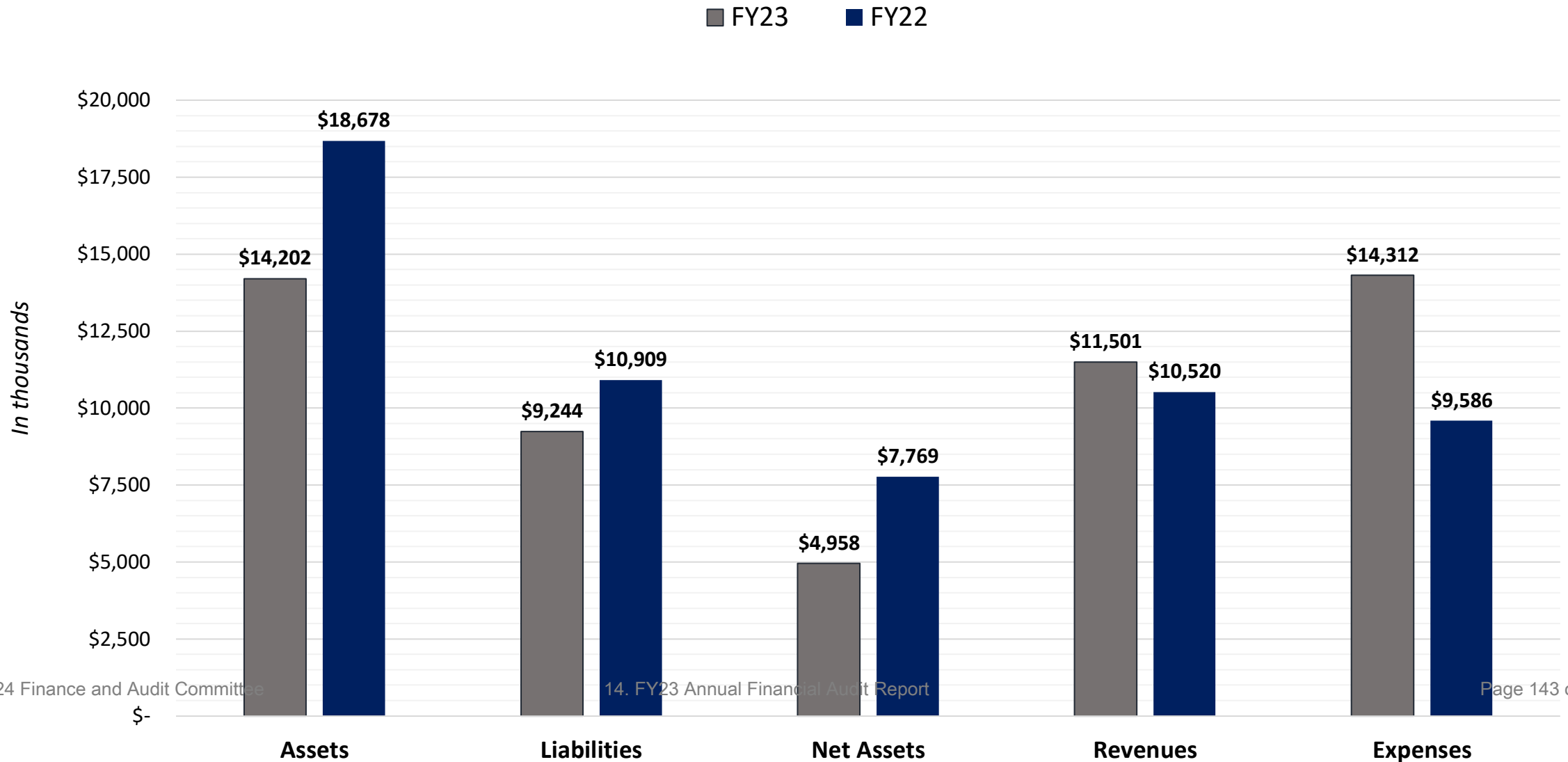
**Total Expenses \$518,650**

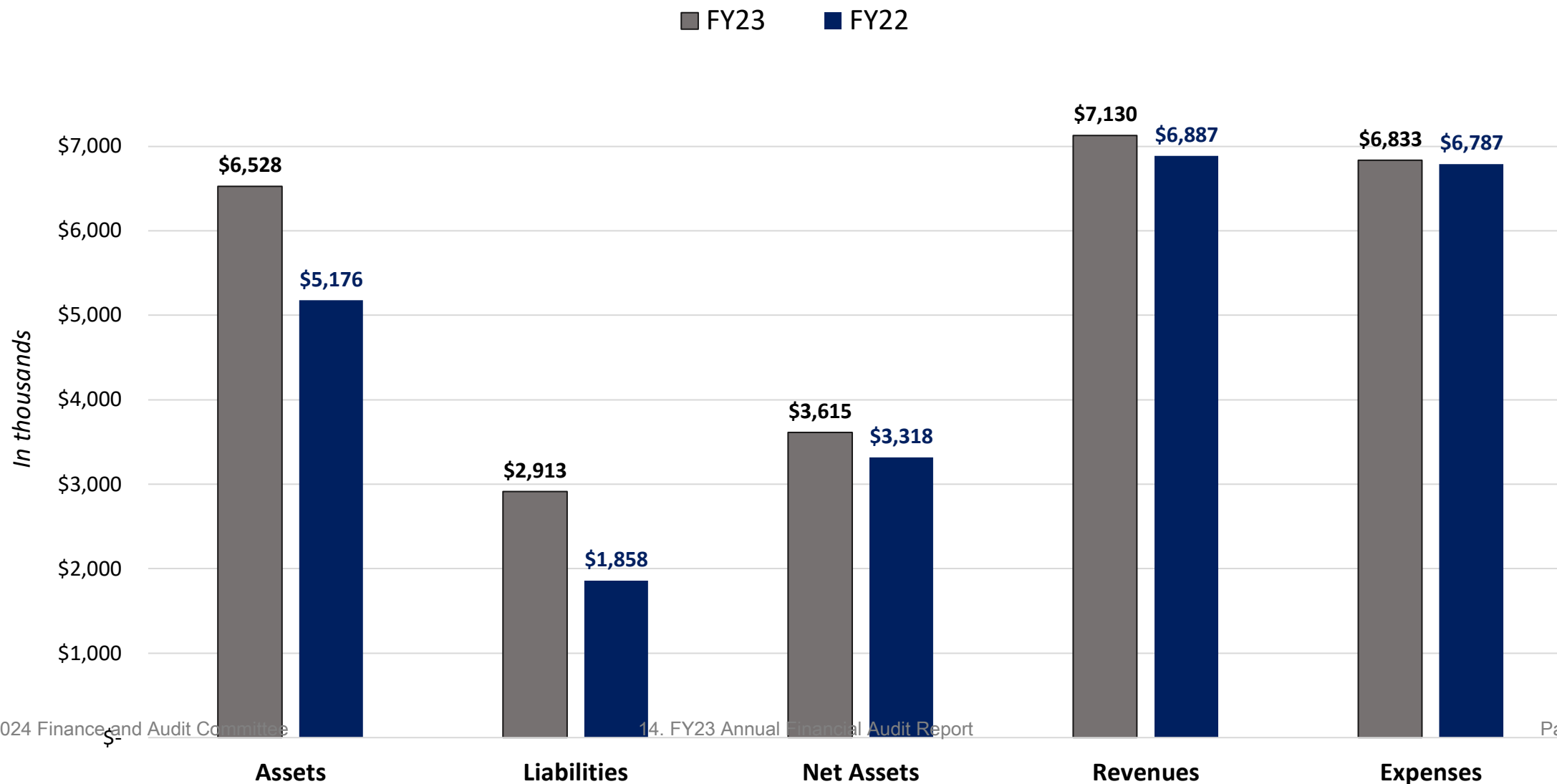
**FY 2022**



**Total Expenses \$472,014**





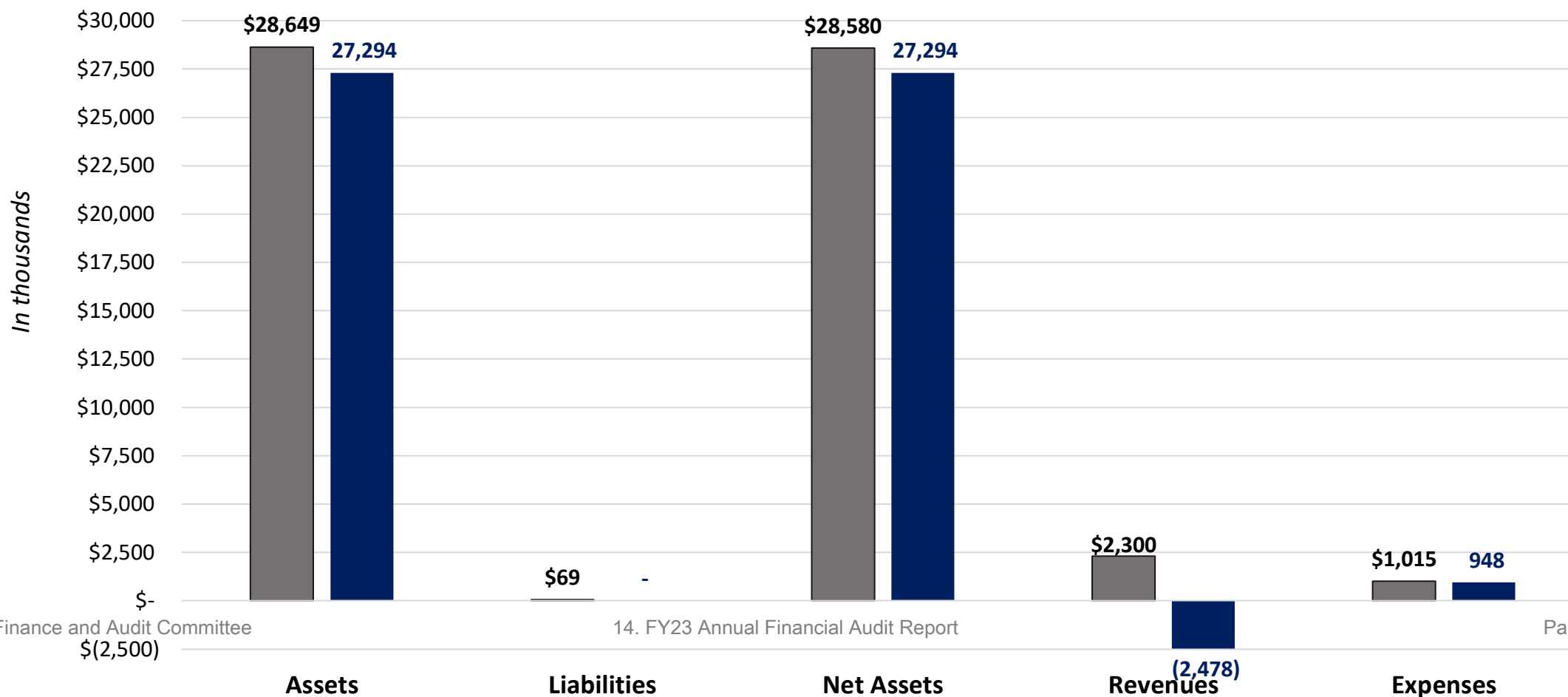


# Herff Trust\* Financial Statement Summaries

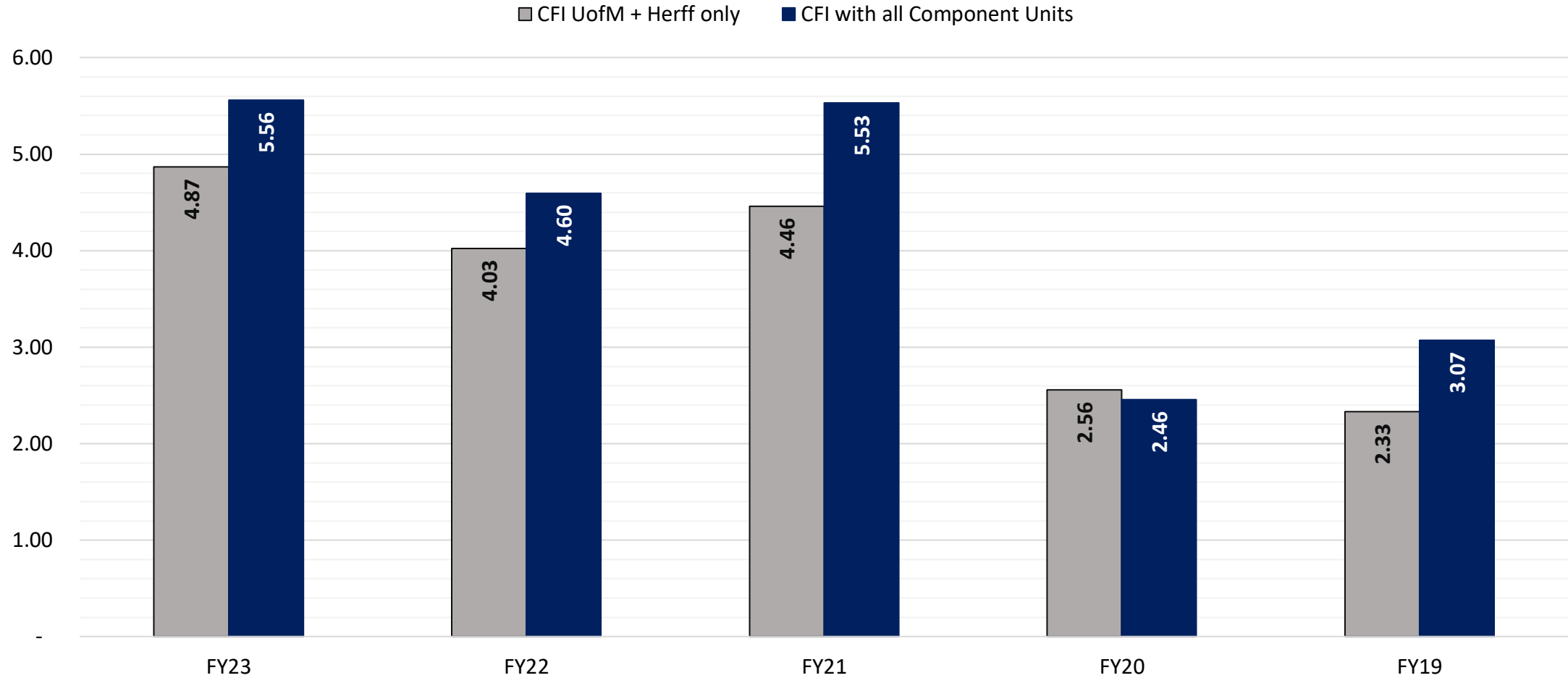
## FYE June 30 2023 and 2022

■ FY23 ■ FY22

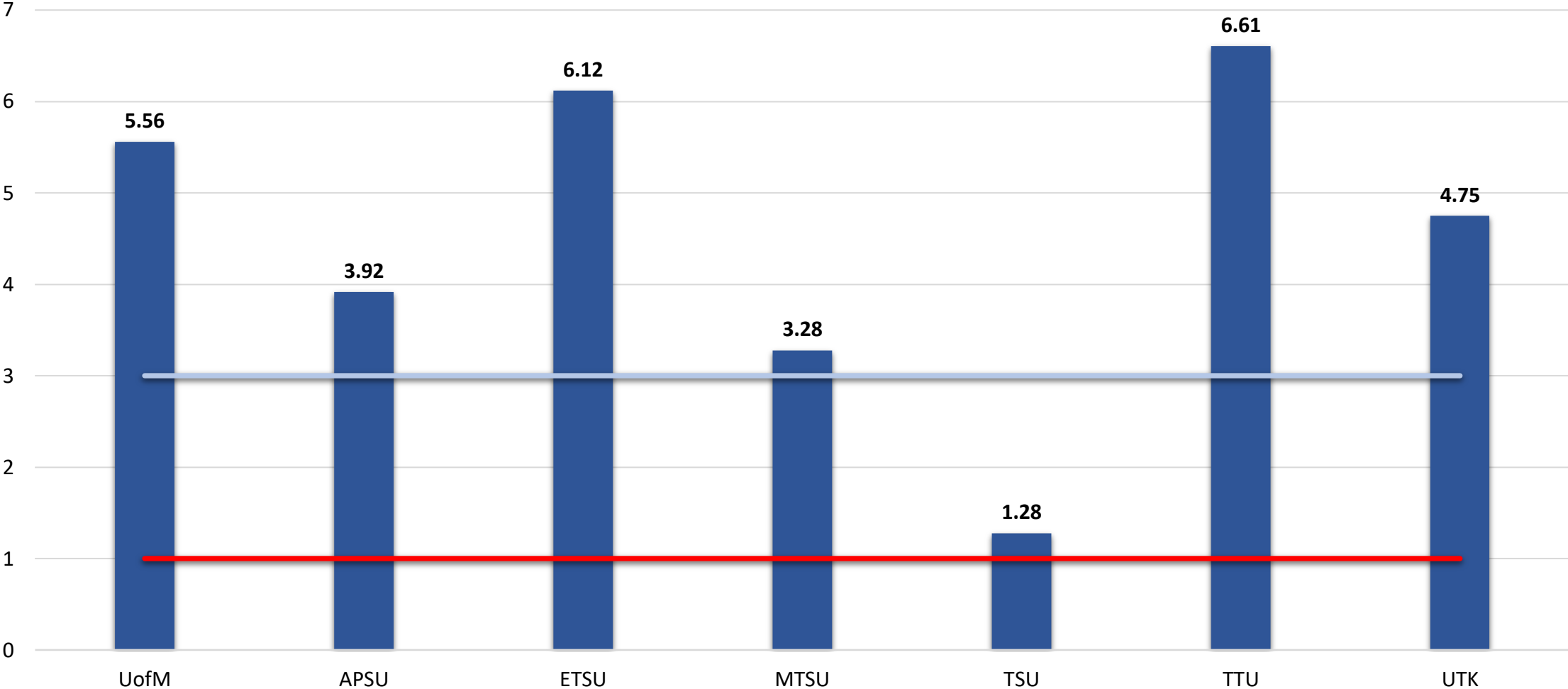
\* Included in U of M as a blended component unit



# Composite Financial Index (CFI) U of M Historic Trend



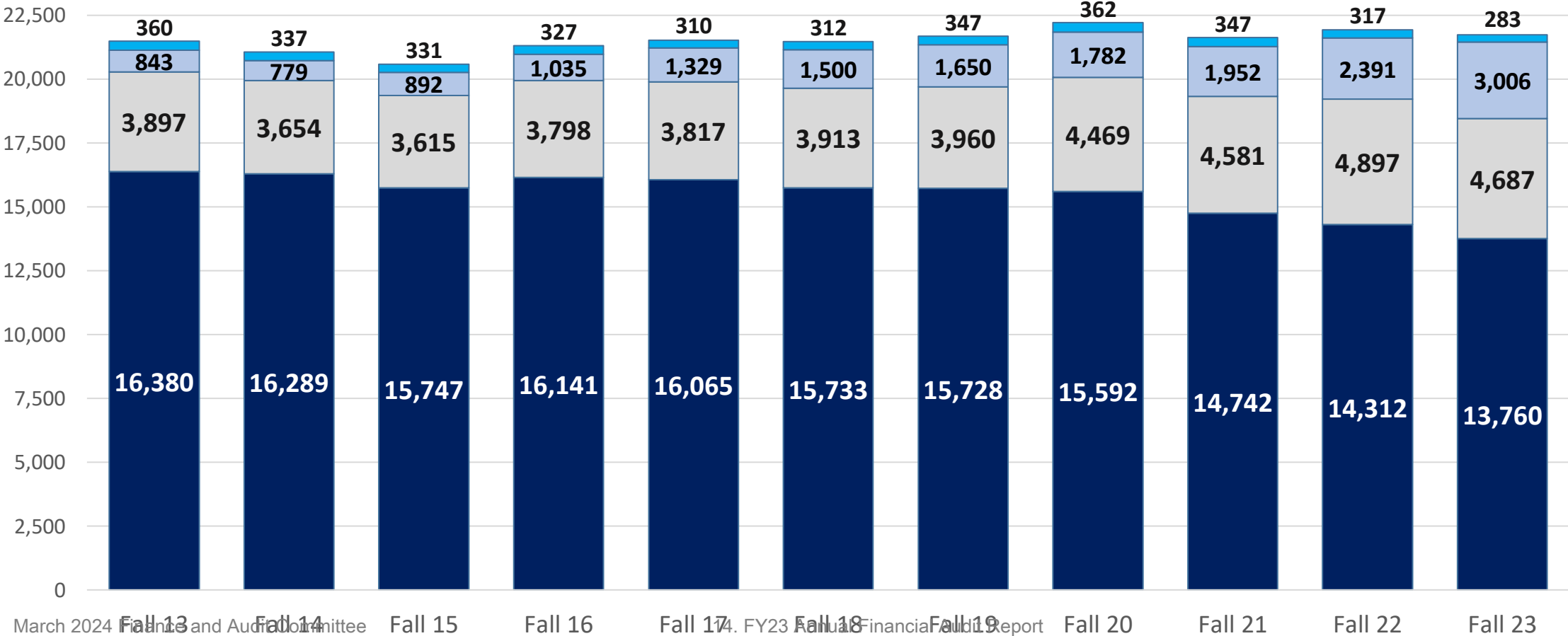
# FY23 CFI Comparison with UTK and LGs





# Enrollment by Class

■ Undergraduate  
 ■ Graduate  
 ■ Dual Enrollment  
 ■ Law

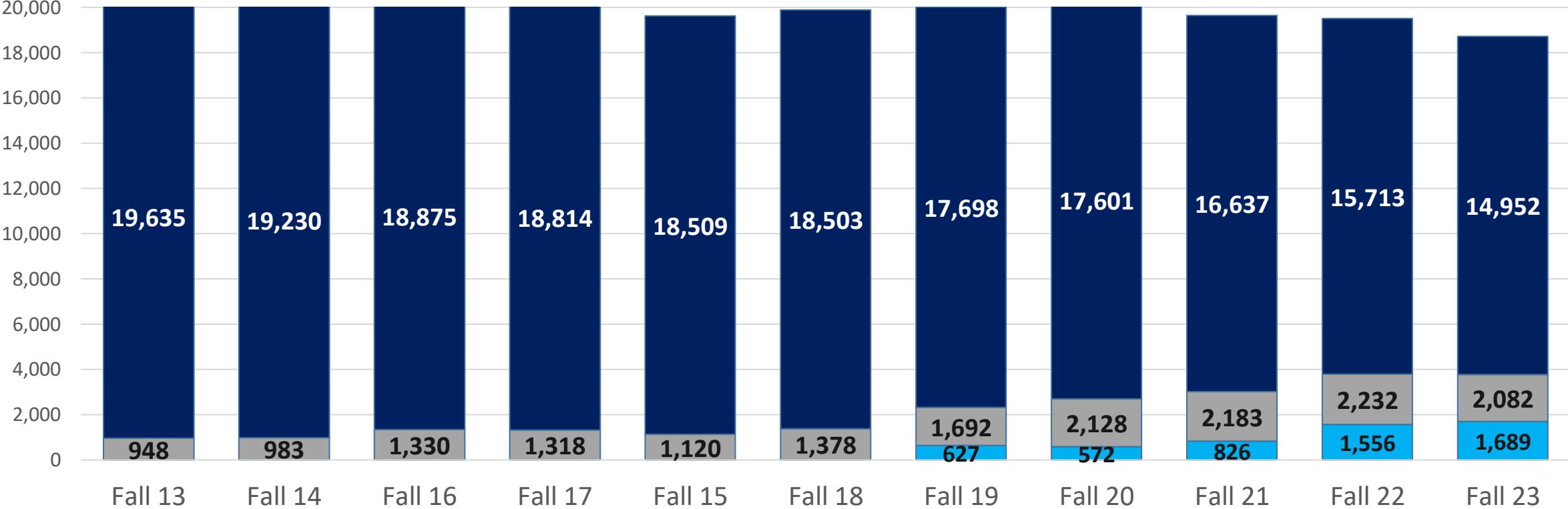


4 Yr  
 Decrease UG  
 HC  
 (-1,832)

# Enrollment by Residency

## Headcount Trend by Residency (excludes Dual Enrollment)

International Nonresident Resident



*Declining in-state enrollments*

# Credit Hours by Residency

*Declining in-state enrollments*

| Credit Hour Enrollment by Residency and Level |                |                |                |                |                 |               |
|---|----------------|----------------|----------------|----------------|-----------------|---------------|
|   | 2020-2021      | 2021-2022      | 2022-2023      | 2023-2024      | 4 Yr Change     | 4 Yr % Change |
| <b>Resident</b>                               |                |                |                |                |                 |               |
| Undergraduate                                 | 338,269        | 314,490        | 303,589        | 305,438        | (32,831)        | -10%          |
| Graduate                                      | 41,229         | 39,224         | 33,458         | 30,802         | (10,427)        | -25%          |
| Law   | 8,217          | 7,683          | 7,087          | 6,575          | (1,642)         | -20%          |
| <b>Resident-Total</b>                         | <b>387,715</b> | <b>361,397</b> | <b>344,134</b> | <b>342,815</b> | <b>(44,900)</b> | <b>-12%</b>   |
| <b>Nonresident</b>                            |                |                |                |                |                 |               |
| Undergraduate                                 | 26,907         | 31,149         | 31,843         | 30,714         | 3,807           | 14%           |
| Graduate                                      | 12,083         | 10,420         | 9,963          | 9,591          | (2,492)         | -21%          |
| Law   | 2,188          | 2,213          | 1,976          | 1,547          | (641)           | -29%          |
| <b>Nonresident-Total</b>                      | <b>41,178</b>  | <b>43,782</b>  | <b>43,782</b>  | <b>41,852</b>  | <b>674</b>      | <b>2%</b>     |
| <b>International</b>                          |                |                |                |                |                 |               |
| Undergraduate                                 | 3,679          | 4,690          | 4,818          | 5,890          | 2,211           | 60%           |
| Graduate                                      | 6,637          | 12,781         | 23,961         | 23,106         | 16,469          | 248%          |
| Law   | 28             |                |                |                |                 |               |
| <b>International-Total</b>                    | <b>10,344</b>  | <b>17,471</b>  | <b>28,779</b>  | <b>28,996</b>  | <b>18,652</b>   | <b>180%</b>   |
| <b>University Total</b>                       | <b>231,934</b> | <b>220,852</b> | <b>220,614</b> | <b>217,506</b> | <b>(14,428)</b> | <b>-6%</b>    |

| CR Enrollment by Student Level |                 |               |
|--------------------------------|-----------------|---------------|
|                                | 4 Yr Change     | 4 Yr % Change |
| Undergraduate                  | (26,813)        | -7%           |
| Graduate                       | 3,550           | 6%            |
| Law                            | (2,311)         | -22%          |
| <b>University Total</b>        | <b>(25,574)</b> | <b>-6%</b>    |

# Questions?

# 15. FY 2025-2026 Capital Budget Proposal

Presented by Rene Bustamante

# The University of Memphis Board of Trustees

For Approval

Presentation of Capital Budget Request for FY 25 / 26

**Date:** March 13, 2024

**Committee:** Finance and Audit

**Presentation:** Capital Budget Request for FY 25 / 26

**Presented by:** Rene Bustamante / Tony Potet

## Background:

**Per Tennessee Higher Education Commission (THEC) Policy F4.0 Capital Projects:** As the coordinating body for higher education in Tennessee, THEC engages with institutions and governing boards on capital investment through its role to develop and approve recommendations for capital outlay and maintenance funding. THEC identifies capital investment needs and determines priorities for those investments for consideration by the Governor and the General Assembly as part of the annual appropriations act. Categories of projects submitted to THEC in the annual Capital Budget Request are as follows:

**Capital Outlay:** In accordance with funding request guidelines annually disseminated by THEC staff, the Commission receives a prioritized list of capital outlay projects from each governing board for evaluation and scoring into a single prioritized list for the state. These projects either provide new space or major renovations (or a combination of both), and respond to: state goals for education, strategic plans, space guidelines, facility assessments, program plans, business plans, and/or external funding and the campus master plan. One project is requested from each LGI for 24 /25 along with a five-year plan for future projects. Match funding in the amount of 17% for new construction (of which 50% must be gift funds) or 6% for major renovations is required from the campus for each project.

**Capital Maintenance:** THEC requests a prioritized list of capital maintenance projects from each governing board. THEC staff makes project recommendations to the Commission's Board in accordance with a capital maintenance formula. The formula may include, but not be limited to, the age, gross Education & General (E&G) square footage, usage, and conditions of institutions facilities. Individual projects should reduce deferred maintenance and protect the assets of the state. Based upon the current THEC funding formula, U of M will receive 11.7% of the total statewide higher education maintenance funding as approved by the governor and legislature.

**Disclosed Projects:** A project must be disclosed to the legislature if it is an improvement over \$ 100,000 or a maintenance project over \$ 1,000,000. Bonded projects, new construction, and major projects over \$ 10 million should be disclosed as part of the annual capital budget submittal. Projects will be itemized as part of the annual state budget approved by the Legislature. Projects disclosed in the annual capital budget process may be brought to the SBC in July of 2025.

**Committee Recommendation:** Motion to approve the Capital Budget Request for Fiscal Year 2024 / 25 as detailed in the meeting materials.

# *Capital Budget Proposal 2025-2026*

## *Governance and Finance Committee*

*Rene Bustamante  
Executive VP / COO & CFO*

*Tony Poteet, Chief University Planning Officer*

*March 13, 2024  
University Center Bluff Room*



MARCH 2024 MEETING



- Capital Outlay
- Capital Maintenance
- Disclosures
  
- Due to THEC June 30, 2024

## Capital Outlay Projects (New Facilities or Major Renovations)

| <b>Capital Outlay – Five Year Plan</b>   | <b>Total Cost</b>    | <b>Match</b>         | <b>Funding Year</b> |
|--|----------------------|----------------------|---------------------|
| <b>1. Research Modernization</b><br>Renovate research lab space in existing buildings            | <b>\$ 75,000,000</b> | <b>\$ 4,500,000</b>  | 2025/2026           |
| <b>2. Interdisciplinary Science Research</b><br>New laboratory intensive facility on main campus | <b>\$ 82,000,000</b> | <b>\$ 13,940,000</b> | 2026/2027           |
| <b>3. Research Park</b><br>New research facilities west of main campus                           | <b>\$ 64,000,000</b> | <b>\$ 10,880,000</b> | 2027/2028           |
| <b>4. Academic Building Replacement (Mitchell / Clement)</b><br>New building on main campus      | <b>\$ 99,000,000</b> | <b>\$ 16,830,000</b> | 2028/2029           |
| <b>5. Research Renovation / Physical Plant Relocation</b>  | <b>\$ 33,300,000</b> | <b>\$ 5,661,000</b>  | 2029/2030           |

Note: All costs are inflated to the mid-point of anticipated construction based on 8% inflation per year.

## Research Modernization

- This project will modernize 115,000 square feet of space to support research in the sciences, including Chemistry, Life Sciences, Psychology, Physics, Engineering and Computer Science. The improved labs and support space will promote excellence in research, post-baccalaureate training, and undergraduate education.
- \$ 70,500,000 state funds
- \$ 4,500,000 match funds (campus or gifts)



## Interdisciplinary Science Research

- Construction of a new 68,500-square-foot facility to contain clusters of wet labs, write-up space, scientific equipment clusters, offices, and a full first-floor vivarium for research animal care. The project is part of the campus master plan and is integral to Carnegie 1 classification for research. The project includes site development adjacent to the Field House, loading dock, site lighting, drainage, and all utilities to serve the new facility.
- \$ 63,080,000 state funds
- \$ 13,940,000 match funds (50% must be gifts)



# Capital Maintenance

## (Deficiency Corrections to Buildings and Site)

## Projects 2025/2026

## Cost

### **1. Boilers and Coil Replacement Phase 3**

**\$ 5,850,000**

Install hot water heating boilers for Administration, Jones, Herzog, Hayden, Health Center, Manning, University Center, Journalism, Johnson Hall, McWherter, and replace steam coils with hot water coils where necessary.

### **2. HVAC Component Replacement Phase 2**

**\$ 7,000,000**

Replace major HVAC components in E and G buildings, including chillers, cooling towers, air handlers, fan coils, water heaters, rooftop units, and all associated work.

### **3. Brick Repairs and Window Replacements**

**\$ 4,000,000**

Replace windows in Johnson Hall, Old Brister, Clement, and Mitchell, and repair bricks on several buildings to maintain a water-tight envelope.

### **4. Field House HVAC Replacement**

**\$ 8,000,000**

Replace HVAC components in academic sections of the Field House.

### **5. ACB HVAC Replacement**

**\$ 4,600,000**

Replace existing variable refrigerant system with chilled and hot water VAV system.

### **6. Mitchell and Clement HVAC Replacement**

**\$ 4,500,000**

Replace all fan coil units and controls and all associated work.

| <b><u>Projects 2025/2026</u></b>   | <b><u>Cost</u></b>  |
|--|---------------------|
| <b>7. Park Campus Water / Sewer Line Replacement</b>   | <b>\$ 4,000,000</b> |
| Replace aged, broken and undersized water and sewer system for Park Avenue Campus.   |                     |
| <b>8. Admin HVAC Replacement</b>   | <b>\$ 8,000,000</b> |
| Replace Air Handlers, VAV boxes, piping, pumps, controls, and fan coils in the Administration Building.  |                     |
| <b>9. Lambuth Multiple Building Repairs</b>  | <b>\$ 3,000,000</b> |
| Replace roofs, chillers, and elevators, and perform brick repairs and waterproofing on priority academic buildings.  |                     |
| <b>10. Scates HVAC</b>   | <b>\$ 2,000,000</b> |
| Replace existing blower coil systems with chilled and hot water systems, including air handlers, blower coils, piping, controls, ductwork, chilled water tie-in, and a new boiler plant. |                     |
| <b>11. Multiple Building Roof Replacement</b>  | <b>\$ 7,000,000</b> |
| Replace roofs on Administration, Jones, Johnson, Smith, Ellington, and FedEx.  |                     |



| <b><u>Projects 2025/2026</u></b>  | <b><u>Cost</u></b>  |
|---|---------------------|
| <b>12. Generator / Transformer / Electrical Replacements</b>  | <b>\$ 4,000,000</b> |
| Repair and modernization of major electrical components on several academic facilities, including Ball Hall, Lipman, Art and Communication, and Student Wellness. |                     |
| <b>13. HVAC Controls Replacement</b>  | <b>\$ 2,000,000</b> |
| Replace outdated control systems in several academic buildings.   |                     |
| <b>14. Campus Wide Lighting Replacement</b>   | <b>\$ 4,000,000</b> |
| Replace interior and exterior lighting with high-efficiency LED fixtures.   |                     |
| <b>15. Chemistry HVAC Replace HVAC systems</b>  | <b>\$ 7,000,000</b> |
| Replace the existing HVAC systems, including air handlers, controls, pumps, etc., and all associated work.  |                     |
| <b>16. Life Sciences HVAC Replace HVAC systems</b>  | <b>\$ 5,000,000</b> |
| Replace the existing HVAC systems, including air handlers, controls, pumps, etc., and all associated work.  |                     |

# Disclosure Projects

## (Campus Funded or Bond Funds)

## Disclosure

## Cost

**The following were submitted for 24/25 disclosure:**

|                                   |              |
|-----------------------------------|--------------|
| • B and E Addition                | \$55,000,000 |
| • Soccer Complex                  | \$15,000,000 |
| • Graduate Student Housing        | \$12,000,000 |
| • Student Athlete Support Center  | \$35,000,000 |
| • Wilson Hospitality Improvements | \$12,500,000 |

# Questions?

## 16. Park Avenue Campus

# The University of Memphis Board of Trustees

## Recommendation for Approval

**Date:** March 13, 2024

**Committee:** Finance and Audit

**Presentation:** Park Avenue Campus Student Housing

**Presented by:** Rene Bustamante

### Background:

The University of Memphis Board of Trustees approved the use of an RFP to seek proposals from qualified financiers and developers to fund, plan, design, construct, operate and maintain a student housing development on property owned by the University on the Park Avenue Campus.

This new 540-bed student housing development will become a transformative icon on the Park Avenue Campus. While the housing will be available to all students, it is anticipated that it will be primarily occupied by nursing students and student athletes taking classes on the Park Avenue campus. The housing will have a full surface parking lot and high security features, including card access into the property and the building, a fence around the perimeter, security cameras, and a roving security guard on site after hours. The building will consist of four-bedroom, two-bedroom and studio-style units and will include study spaces, social spaces and outdoor living areas along with other amenities such as grab-and-go dining options. The housing will be complete in time to house students beginning the 2026 school year.

The effort to deliver the project has resulted in the completion of the RFP selection process, approval to award a pre-development agreement to the Annex Group from the State Building Commission, and schematic design approval. The developer, in conjunction with the University, is in the process of completing the Ground Lease, Facilities Management Agreement, Residence Life Management Agreement, Development Agreement, Asset Management Agreement, Trust Indenture and POS for the bond issue. A detailed market study indicated a strong demand for the housing and an application has been filed with the Health, Education and Housing Facility Board of the City of Memphis for a revenue bond issue.

The project structure includes a 501c3 entity to serve as the owner of the project during the financing period of 30 years. This entity is Madrone community Development Foundation. Madrone Community Development Foundation was formed to lessen the burdens of government by assisting local governments, public agencies, schools, community colleges, colleges and universities in acquiring, developing and constructing facilities, including educational, community, infrastructure and housing facilities. Madrone is incorporated as a California nonprofit public benefit corporation and has received federal tax exemption as a 501(c)(3) organization.

**A requirement for this entity is to have a resolution and an MOU as part of their 1023 IRS approvals for tax exempt financing. Their statement is as follows:**

**Please note that the configuration of this housing project is for the Annex Group to provide ongoing operation and management as part of their ground lease requirements which are based on the approved RFP.**

**The next step in the project is to provide this information to the developer and team in order to continue the project process for tax exempt financing and for the project ground lease to be approved by the State Building Commission to allow execution of site preparedness and construction and operation of the facility.**

**Committee Recommendation: Motion to approve the resolution, as reflected in the meeting materials, by The University of Memphis Board of Trustees based on legal approval.**

**THE UNIVERSITY OF MEMPHIS**

**RESOLUTION # \_\_\_\_**

**A RESOLUTION OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF MEMPHIS RELATING TO THE UNIVERSITY OF MEMPHIS PARK AVENUE HOUSING FACILITY AND APPROVING THE EXECUTION AND DELIVERY OF A MEMORANDUM OF UNDERSTANDING RELATING THERETO**

**WHEREAS**, The University of Memphis (the “University”) is an instrumentality of the State of Tennessee (the “State”), duly organized and existing under the laws of the State; and

**WHEREAS**, the University previously issued Request for Response 05152023 (the “RFP”) seeking a public-private partnership with respect to the financing, development, design and construction of an approximately 500-bed student housing facility (the “Project”) to be located on the University’s Park Avenue campus; and

**WHEREAS**, the University is authorized under State law to develop and operate housing for its students, and has previously developed and currently operates certain housing facilities on the Campus; and

**WHEREAS**, the University intends to enter into a Ground Lease (the “Ground Lease”) with a Tennessee limited liability company (the “Lessee”), the sole member of which is Madrone Community Development Foundation (“Madrone”), a California nonprofit public benefit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended; and

**WHEREAS**, the Ground Lease will require that the Lessee undertake the financing, development, construction and operation of the Project; and

**WHEREAS**, the Ground Lease will require that the University undertake certain obligations with regard to, and coordinate in certain respects with the Lessee in relation to, the development and operation of the Project; and

**WHEREAS**, the University intends to enter into a memorandum of understanding with Madrone relating to the development, construction and operation of the Project (the “Memorandum of Understanding”), a proposed form of which has been presented to this meeting.

**NOW, THEREFORE, BE IT FOUND, DETERMINED AND RESOLVED BY THE BOARD OF TRUSTEES OF THE UNIVERSITY OF MEMPHIS (THE “BOARD”) AS FOLLOWS:**

**Section 1.** The Board hereby specifically finds and declares that the actions authorized hereby constitute and are with respect to public affairs of the University, and that the statements, findings, and determinations of the Board set forth in the preambles above are true and correct.

**Section 2.** The Board hereby finds and determines that the provision of safe and affordable housing for students of the University, generally, and the Project, specifically, are burdens of the University, and that Madrone, through the obligations and activities of the Lessee pursuant to the Ground Lease, will be lessening the governmental burden of the University by undertaking the Project.



**Section 3.** The form of Memorandum of Understanding presented at this meeting is hereby approved and any one of the Chief Operating Officer, Chief Financial Officer or Chief University Planning Officer, or a designee of either thereof (each an “Authorized Officer”), is hereby authorized and directed, for and in the name of and on behalf of the University, to execute and deliver the Memorandum of Understanding in substantially the form presented at this meeting with such changes therein as the Authorized Officer executing the same may approve, such approval to be conclusively evidenced by the execution and delivery thereof.

**Section 4.** The Authorized Officers and other officers and officials of the University are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to consummate, carry out, give effect to, and comply with the terms and intent of this resolution. All such actions heretofore taken by such officers and officials are hereby confirmed, ratified, and approved.

**Section 5.** This resolution shall take effect immediately upon its passage.

**PASSED AND ADOPTED** this \_\_\_\_ day of March, 2024.

AYES:

NOES:

ABSENT:

ABSTENTIONS:

## MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding (“Agreement”) is entered into as of March [\_\_\_], 2024 by and among **The University of Memphis**, an instrumentality of the State of Tennessee (the “University”) and **Madrone Community Development Corporation**, a California nonprofit public benefit corporation (“Madrone”) (University and Madrone are collectively referred to herein as the “Parties”).

A. WHEREAS, the University previously issued Request for Response 05152023 (the “RFP”) seeking a public-private partnership with respect to the financing, development, design and construction of an approximately 500-bed student housing facility (the “Project”) to be located on the University’s Park Avenue campus (the “Campus”);

B. WHEREAS, the University has engaged Union Development Holdings, LLC (the “Developer”) to serve as the developer of the Project, and has selected Madrone to serve as the nonprofit 501(c)(3) organization to serve as the owner of the Project;

C. WHEREAS, the University is an instrumentality of the State of Tennessee (the “State”), is authorized under State law to develop and operate housing for its students, and has previously developed and currently operates certain housing facilities on the Campus;

D. WHEREAS, the University has determined the financing, developing and operating of affordable housing for its students to be a burden of government and has manifested such determination through the issuance of the RFP, the selection of the Developer and its proposed consortium to finance, develop, design, construct and operate the Project, and the adoption of a resolution of the University’s Board of Trustees dated [\_\_\_\_\_], 2024;

E. WHEREAS, Madrone will establish a Tennessee limited liability company (the “Owner”), the sole member of which is Madrone, for the purpose of owning title to the Project;

F. WHEREAS, the Owner expects to finance the Project by causing the issuance of tax-exempt and/or taxable bonds (the “Bonds”) by The Health, Educational and Housing Facility Board of the City of Memphis or another conduit issuer (the “Issuer”), borrowing the proceeds of such bonds from the Issuer, and applying such proceeds to the construction of the Project and related expenses; and

G. WHEREAS, Madrone and the University seek to memorialize their collective understanding of the Project and the respective undertakings of the Owner and the University relating to the development and operation thereof.

**NOW THEREFORE**, in consideration of the mutual covenants set forth herein, the Parties hereto agree as follows:

1. Governmental Burden. The University has a governmental burden of developing, financing, constructing and operating housing for its students, and has determined that a housing facility providing at least 500 beds on the Campus is necessary at this time. The Parties intend that the Owner will alleviate the University’s burden by undertaking the development, financing, construction and operation of the Project through the issuance of the Bonds and the construction and

management of the Project. The Parties anticipate that the Owner will construct and operate the Project at a lower cost than the University would otherwise be able to through a for-profit developer, as the Owner will finance the Project with tax-exempt bonds at a lower cost of borrowing than a private developer, and, as a 501(c)(3) nonprofit entity, will charge a substantially lower overhead cost than private developers.

2. Ground Lease. The Parties expect that the Owner, the University and the State, on behalf of the University, will enter into a ground lease (the “*Ground Lease*”) pursuant to which the State will lease certain real property located on the Campus to the Owner, on which the Project will be constructed. The Ground Lease will require that the Owner obtain financing for the Project, construct the improvements constituting the Project, and continually operate the Project during the term of the Ground Lease, and upon expiration of the Ground Lease the Project will revert to the State and the University. The Parties expect the Ground Lease to include an option for the University to terminate the Ground Lease by purchasing Owner’s interest in the Project after a certain number of years.

As consideration for entering into the Ground Lease and undertaking the Project, the Ground Lease will provide that the State and University will pay, or cause to be paid, an initial fee to the Owner out of proceeds of the Bonds and an ongoing annual fee to the Owner solely out of revenues of the Project.

3. Ongoing University Obligations. The Ground Lease, or alternatively a separate coordination agreement or other agreement between the Owner and the University, will provide that the University will have certain affirmative obligations with regard to the Project, including:

- (a) to treat the Project as a part of the University’s student housing program on a similar basis to its other student housing facilities;
- (b) to enforce compliance by residents with their housing agreements;
- (c) to advertise and market the Project to its students;
- (d) to collect receipts from student occupants of the Project;
- (e) not to construct or sponsor any additional student housing unless the Project is meeting certain agreed-upon financial benchmarks; and
- (f) to provide periodic information to the Owner to assist Owner in complying with its continuing disclosure obligations relating to the Bonds.

4. University and Owner Coordination of Project. The Parties expect that the Ground Lease will establish a committee, with members appointed by the University and Owner, which will meet periodically and serve in an advisory role regarding the Project.

5. Nature of Agreement. The Parties agree that this Agreement sets forth the current expectations of the Parties and does not bind the Parties to enter into the Ground Lease or otherwise undertake the Project.

6. Miscellaneous.

(a) Governing Law. The Agreement shall be governed by the laws of the State of Tennessee.

(b) Amendments. This Agreement may only be amended by the mutual written agreement of the Parties.

(c) Separability of Provisions. Each provision of this Agreement shall be considered separable, and if for any reason any provision which is not essential to the effectuation of the basic purposes of this Agreement is determined to be invalid and contrary to any existing or future law, such invalidity shall not impair the operation of or affect those provisions of this Agreement which are valid.

(d) Further Assurances. Each of the parties hereto shall execute and deliver any and all additional papers, documents and other assurances, and shall do any and all acts and things reasonably necessary in connection with the performance of their obligations hereunder to carry out the intent of the Parties hereto.

(e) Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original copy and all of which together shall constitute one agreement binding on all parties hereto, notwithstanding that all the parties shall not have signed the same counterpart. Duplicates of this Agreement containing all counterpart signatures, whether produced from an electronically stored copy, digital, facsimile, photocopy, or other means, shall be treated as though the duplicate is an original copy of the Agreement and shall be deemed as evidence of the terms of this Agreement.

(f) Entire Agreement. This Agreement sets forth all (and is intended by all Parties to be an integration of all) of the representations, promises, agreements and understandings among the parties hereto with respect to the subject matter hereof, and there are no representations, promises, agreements or understandings, oral or written, express or implied, among them with respect to such subject matter or the enforceability or effect of this Agreement, other than as set forth or incorporated herein.

*[Remainder of page intentionally left blank]*

This Memorandum of Understanding is executed as of the date set forth above.

MADRONE COMMUNITY DEVELOPMENT  
FOUNDATION, a California nonprofit public benefit  
corporation

By: \_\_\_\_\_  
Nick Waugh, President

*[Signature pages continue on following pages]*

STATE OF TENNESSEE, ON BEHALF OF THE  
UNIVERSITY OF MEMPHIS

By: \_\_\_\_\_  
Name and Title:

THE UNIVERSITY OF MEMPHIS

By: \_\_\_\_\_  
Name and Title:

# 17. Creation of the Real Estate Foundation

For Approval

Presented by Greg DuBois

# The University of Memphis Board of Trustees

Recommendation

For Approval

**Date:** March 13,2024

**Committee:** Finance and Audit

**Presentation:** University of Memphis Real Estate Foundation

**Presented by:** Greg DuBois

## **Background:**

**Purpose:** The purposes for which the Foundation is organized are solely and exclusively for charitable, scientific, literary and educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986. The powers include those granted in T.C.A. §§ 48-53-102 and 103 plus the following key purposes and powers:

- (a) To promote and support literary, scientific, educational, research, charitable and developmental purposes and objects of all colleges and departments within the University of Memphis.
- (b) To pursue alternative financing and funding to support institutional operating needs and capital investments and projects of the Foundation or the University.
- (c) To purchase, hold, manage, and operate, for the benefit of the University, auxiliary services that are incidental to the University's mission and student welfare. Such services may include, but are not limited to, student and University housing, commercial real estate, and other services as may be deemed in the future to be services for the benefit of the University.
- (d) To purchase, own, hold, manage, use, rent, lease, sell, mortgage, pledge, or otherwise acquire and dispose of property, including equities, trusts, real estate, and personal property.
- (e) To loan and borrow monies and to pledge assets as security for such loans.

## **Motion:**

Motion to authorize the creation of the University of Memphis Real Estate Foundation. This entity will be governed by a Board of Directors comprised of community members and senior administration of the University of Memphis.



# *Real Estate Foundation*

## *Finance and Audit*

Greg DuBois

March 13, 2024

Maxine A. Smith University Center



**Board of  
Trustees**

MARCH 2024 MEETING

# Proposal for UofM Real Estate Foundation

- Auxiliary Services Foundation to become Athletics focused
- Establishment was recommended in the “Assessment of Foundations” performed by Alexander-Haas (11/28/23)
- Purpose
  - Purchase , hold, manage, operate
  - Loan and borrow monies against pledged assets
  - Pursue alternative financing/funding to support institutional operating needs and capital investments

## 18. Additional Business



## 19. Adjournment