Financial and Compliance Audit Report

The University of Memphis

For the Year Ended June 30, 2022

Jason E. Mumpower
Comptroller of the Treasury

Division of State Audit

Katherine J. Stickel, CPA, CGFM, *Director*

State Agency Audits
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Assistant Director

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Audit Manager

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Michael Selig
In-Charge Auditors

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Amanda Adams
Amy Brack
Editors

Information Systems
Brent L. Rumbley, CPA, CISA, CFE
Assistant Director

Jeff White, CPA, CISA
Audit Manager

Fallon Richards
In-Charge Auditor

Comptroller of the Treasury, Division of State Audit
Cordell Hull Building
425 Rep. John Lewis Way N.
Nashville, TN 37243
(615) 401-7897

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Tennessee Comptroller of the Treasury

Jason E. Mumpower
Comptroller

April 11, 2023

The Honorable Bill Lee, Governor
Members of the General Assembly
Dr. Bill Hardgrave, President

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the University of Memphis, an institution of the State University and Community College System of Tennessee, for the year ended June 30, 2022. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

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

22/075

Audit Report

The University of Memphis

For the Year Ended June 30, 2022

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State of Tennessee

Audit Highlights

Comptroller of the Treasury   Division of State Audit

Financial and Compliance Audit

The University of Memphis

For the Year Ended June 30, 2022

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Finding

The university did not obtain state-level approvals for accounts receivable write-offs

University of Memphis management did not submit accounts receivable write-offs to the state's Department of Finance and Administration and Comptroller of the Treasury as required by Chapter 0620-1-9.02 of the *Rules of Department of Finance and Administration* (page 80).

Jason E. Mumpower
Comptroller

Independent Auditor's Report

The Honorable Bill Lee, Governor
Members of the General Assembly
Dr. Bill Hardgrave, President

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the University of Memphis, an institution of the State University and Community College System of Tennessee, which is a component unit of the State of Tennessee, and its discretely presented component units as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Memphis and its discretely presented component units as of June 30, 2022; and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of the University of Memphis Foundation, the University of Memphis Research Foundation, and the Auxiliary Services Foundation, discretely presented component units; and the Herbert Herff Trust, a blended component unit (which represents 2.68%, 3.73%, and 0.00%, respectively, of the assets, net position, and revenues of the university) as of June 30, 2022, and the respective changes in financial position and cash flows thereof for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinions, insofar as it relates to the amounts included for the university and its discretely presented component units, are based solely on the report of the other auditors.

Basis of Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

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

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks; such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the university's internal control; accordingly, no such opinion is expressed;

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; and
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the university's ability to continue as a going concern for a reasonable period of time.

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

Emphasis of Matters

As discussed in Note 1, the financial statements of the University of Memphis, an institution of the State University and Community College System of Tennessee, are intended to present the financial position, the changes in financial position, and the cash flows of only the University of Memphis. They do not purport to, and do not, present fairly the financial position of the State University and Community College System of Tennessee, as of June 30, 2022, and the 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. Our opinion is not modified with respect to this matter.

As discussed in Note 21, the financial statements of Herbert Herff Trust, a blended component unit of the University of Memphis, include alternative investments valued at $843,595.30 (0.12% of net position of the university), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

As discussed in Note 22, the financial statements of the University of Memphis Foundation, a discretely presented component unit of the University of Memphis, include alternative investments valued at $19,977,808 (11.2% of net position of the foundation), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the university implemented Governmental Accounting Standards Board Statement 87, *Leases*, during the year ended June 30, 2022. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 15, the schedule of the University of Memphis's proportionate share of the net pension liability (asset) – Closed State and Higher Education Employee Pension Plan within TCRS on page 71, the schedule of the University of

Memphis's proportionate share of the net pension asset – State and Higher Education Employee Retirement Plan within TCRS on page 72, the schedule of the University of Memphis's contributions – Closed State and Higher Education Employee Pension Plan within TCRS on page 73, the schedule of the University of Memphis's contributions – State and Higher Education Employee Retirement Plan within TCRS on page 74, the schedule of the University of Memphis's proportionate share of the collective total/net OPEB liability – Closed State Employee Group OPEB Plan on page 75, the schedule of the University of Memphis's contributions – Closed State Employee Group OPEB Plan on page 76, and the schedule of the University of Memphis's proportionate share of the collective total OPEB liability – Closed Tennessee OPEB Plan on page 77 be presented to supplement the basic financial statements. Such information is the responsibility of management, and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2022, on our consideration of the university's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the university's internal control over financial reporting and compliance.

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
December 14, 2022

UNIVERSITY OF MEMPHIS
Management's Discussion and Analysis

Introduction

This section of the University of Memphis's annual financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2022, with comparative information presented for the fiscal year ended June 30, 2021. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and the notes. The financial statements, notes, and this discussion are the responsibility of management.

The university has a blended component unit, the Herff Trust (trust). The university also has three discretely presented component units, the University of Memphis Foundation (UMF), the Auxiliary Services Foundation (ASF), and the University of Memphis Research Foundation (UMRF). More detailed information about all component units is presented in Notes 21, 22, 23, and 24 to the financial statements. This discussion and analysis focus on the university and trust and does not include similar information on the other discretely presented component units.

Overview of the Financial Statements

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

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

The Statement of Net Position

The statement of net position is a point-in-time financial statement. The statement of net position presents the financial position of the university at the end of the fiscal year. To aid the reader in determining the university's ability to meet immediate and future obligations, the statement includes all assets, liabilities, deferred outflows/inflows of resources, and net position of the university and segregates the assets and liabilities into current and noncurrent components. Current assets are those that are available to satisfy current liabilities, inclusive of assets that will be converted to cash within one year. Current liabilities are those that will be paid within one year. The statement of net position is prepared under the accrual basis of accounting; assets and liabilities are recognized when goods or services are provided or received despite when cash is actually exchanged.

From the data presented, readers of the statement can determine the assets available to continue the operations of the university. They are also able to determine how much the university owes vendors, lenders, and others. Net position represents the difference between the university's assets and liabilities, along with the difference between deferred outflows and deferred inflows of resources, and is one indicator of the university's current financial condition.

The statement of net position also indicates the availability of net position for expenditure by the university. Net position is divided into three major categories. The first category, net investment in capital assets, represents the university's total investment in property, plant, and equipment, net of outstanding debt obligations related to these capital assets. To the extent debt or deferred inflows of resources have been incurred but not yet expended for capital assets, such amounts are not included. The next category is restricted net position, which is subdivided into two categories, nonexpendable and expendable. Nonexpendable restricted net position includes endowment and similar resources whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity. Expendable restricted net position is available for expenditure by the university but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the resources. The final category is unrestricted net position. Unrestricted net position is available to the university for any lawful purpose of the university.

The following table summarizes the university's assets, liabilities, deferred outflows/inflows of resources, and net position on June 30, 2022, and June 30, 2021.

Summary of Net Position
(in thousands of dollars)

	2022	2021
Assets:		
Current assets	$ 51,515	$ 50,692
Capital assets, net	657,697	631,754
Other assets	310,597	293,384
Total Assets	**1,019,809**	**976,280**
Deferred Outflows of Resources		
Deferred amount on debt refunding	5,468	5,688
Deferred outflows related to OPEB	5,791	6,085
Deferred outflows related to pension	27,438	12,140
Total Deferred Outflows of Resources	**38,697**	**23,913**
Liabilities:		
Current liabilities	62,450	62,923
Noncurrent liabilities	208,222	255,670
Total Liabilities	**270,672**	**318,593**

Deferred Inflows of Resources		
Deferred amount on debt refunding	45	52
Deferred inflows related to OPEB	8,973	9,811
Deferred inflows related to pension	46,591	640
Total Deferred Inflows of Resources	**55,609**	**10,503**
Net Position:		
Net investment in capital assets	472,094	439,365
Restricted – nonexpendable	4,036	3,997
Restricted – expendable	60,255	55,287
Unrestricted	195,840	172,448
Total Net Position	**$732,225**	**$671,097**

- Capital assets net of accumulated depreciation increased primarily due to ongoing projects in progress and the completion of several projects, including the Music Center, the Natatorium, the leased Culinary School Building, Campus Middle School, and improvements and safety updates. Projects in progress include the STEM Research Building and various capital maintenance and improvements projects.

- Deferred outflows relating to pensions increased primarily due to the one-time allocation from the state to the Closed State and Higher Education Employee Pension Plan ($4.68 million) and the impact of changes in assumptions underlying the actuarial valuation.

- Noncurrent liabilities decreased by $47.45 million primarily due to debt repayment and premium amortization, along with the decrease in the net pension liability. Net pension liability decreased by $31.91 million because favorable investment earning experience eliminated the existing net pension liability and created a pension asset.

- Deferred inflows related to pension increased due to a positive actuarial and investment experience.

- Net investment in capital assets increased by $32.73 million because the net increase in capital assets was predominantly financed by sources other than debt.

- Restricted expendable assets increased because of an increase in net pension asset, offset by decreases in assets restricted to capital projects and the Herff Trust. The increase in net pension asset is the result of favorable investment earning experience. Decrease in assets restricted to capital gifts coincides with the use of contributed gifts for the Music Center and STEM Research Building projects.

- Unrestricted net position increased primarily due to amounts set aside for future projects such as the STEM Research Building, Middle and High School Renovations, and academic and strategic initiatives. Also included is a one-time contribution from the state to the Closed Pension Plan ($4.68 million).

The Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position presents the results of operations for the fiscal year. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received. The statement indicates whether the university's financial condition has improved or deteriorated during the fiscal year. The statement presents the revenues received by the university, both operating and nonoperating; the expenses paid by the university, operating and nonoperating; and any other revenues, expenses, gains, or losses received or spent by the university.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the university. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the university. Nonoperating revenues are revenues received for which goods and services are not provided directly to the payor. Although the University of Memphis is dependent upon state appropriations and gifts to fund educational and general operations, under GASB standards these funding sources are reported as nonoperating revenues, as is investment income. As a result, the university has historically reported an excess of operating expenses over operating revenues, resulting in an operating loss. Therefore, the "increase in net position" is more indicative of overall financial results for the year.

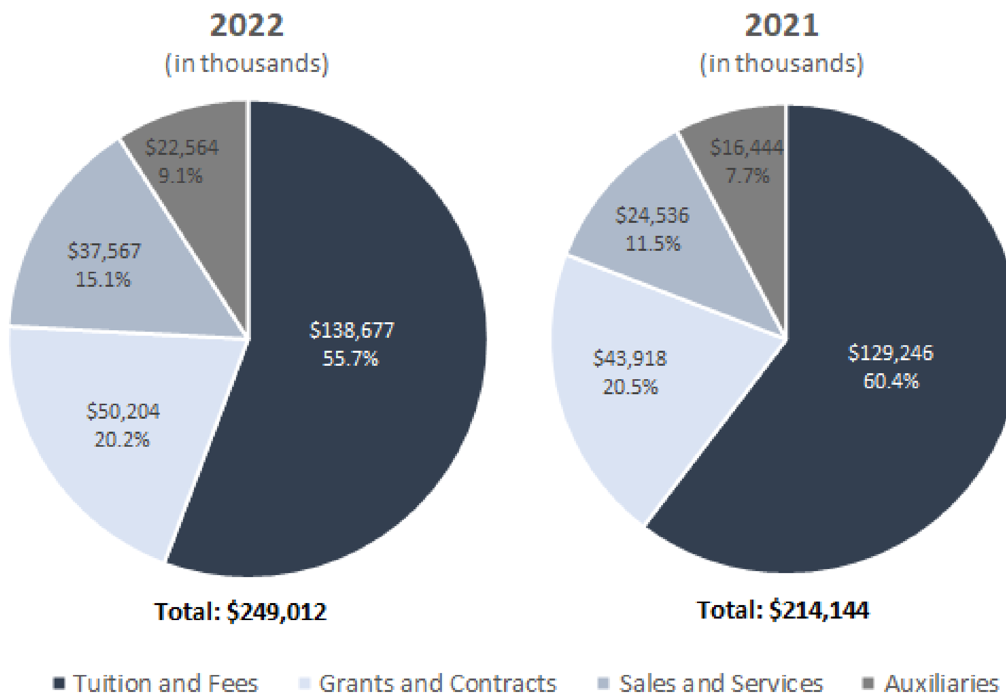
A summary of the university's revenues, expenses, and changes in net position for the years ended June 30, 2022, and June 30, 2021, follows.

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

	2022	2021
Operating revenues	$249,012	$214,144
Operating expenses	(472,014)	(432,993)
Operating loss	**(223,002)**	**(218,849)**
Nonoperating revenues and expenses	254,556	265,150
Income before other revenues, expenses, gains, or losses	31,554	46,301
Other revenues, expenses, gains, or losses	29,574	40,557
Increase in net position	**61,128**	**86,858**
Net position at beginning of year	671,097	587,036
Prior period adjustment	-	(2,797)
Net position at end of year	**$732,225**	**$671,097**

Operating Revenues

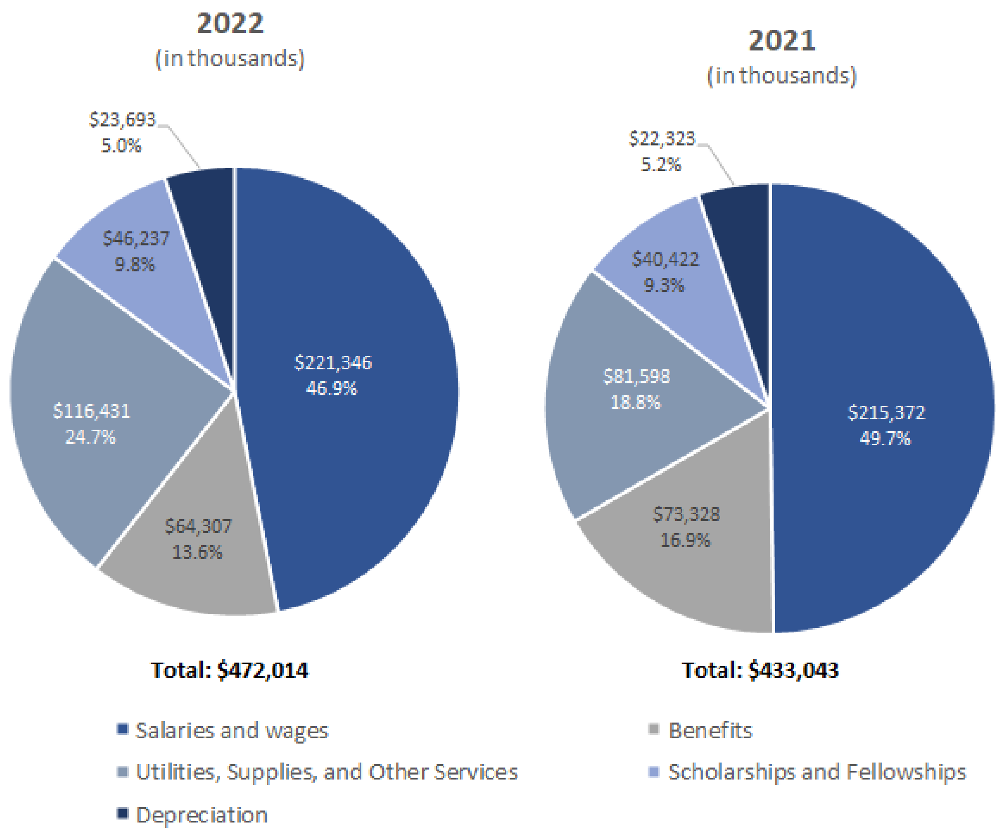
The following summarizes the operating revenues by source that were used to fund operating activities for the last two fiscal years:



- Tuition and fees increased primarily due to tuition and fee increases for fiscal year 2022 as well as increased numbers of students from other states and countries.
- Grants and contracts revenue increased primarily because in fiscal year 2022, the number of active government gifts and grants increased. Similarly, the number of non-governmental grants and contracts increased.
- Sales and services income increased primarily due to increased on-campus activity, such as intercollegiate athletic events, as the university recovers from the impact of COVID-19.

Operating Expenses

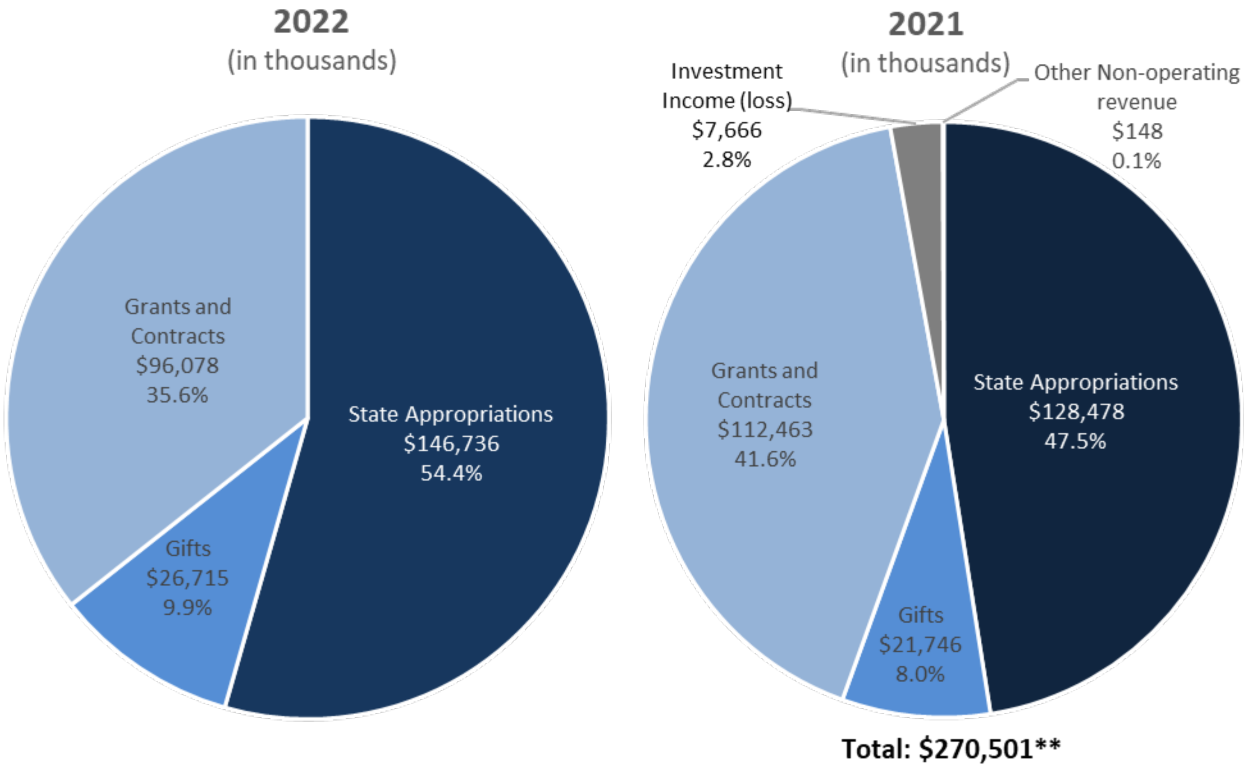
Operating expenses may be reported by nature or function. The university has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net position and has displayed the functional classification in the notes to the financial statements. The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



- Salaries and wages expenditures increased primarily due to a 3.4% university-wide salary increase.
- Benefits expenditures decreased primarily due to a decrease in state retirement expenses because there was a negative pension expense for the current year.
- Utilities, supplies, and other services expenditures increased by $34.83 million. Coming out of COVID-19 restrictions, increased level of activity and resulting expenses were incurred in most expense categories. Grants and subsidies include $5 million of unpaid student debt discharged using Higher Education Emergency Relief Fund (HEERF) funds.
- Scholarships and fellowships expense increased primarily because HEERF emergency grants to students increased in fiscal year 2022.

Nonoperating Revenues and Expenses

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

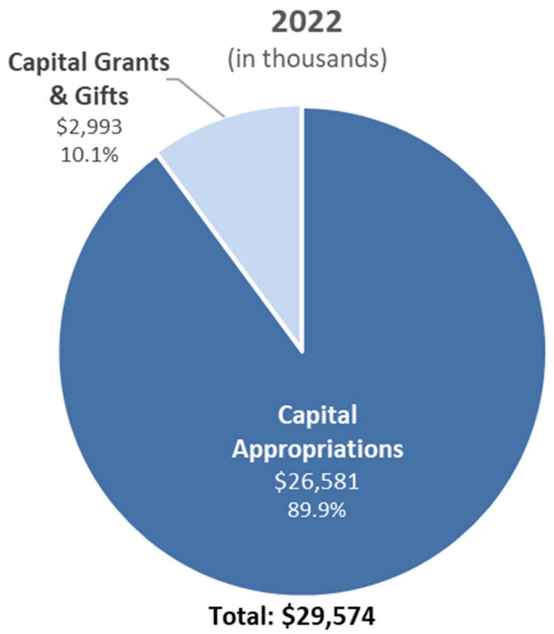


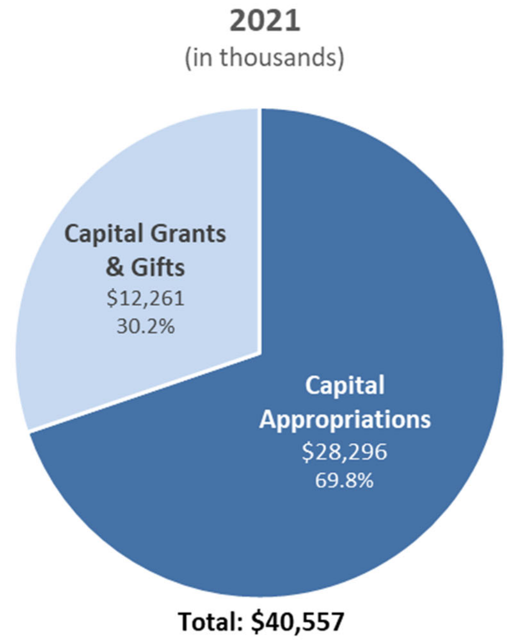
** FY22: Excludes nonoperating expense of $5,338 & investment loss of $9,350*
*** FY21: Excludes nonoperating expense of $5,351*

- State appropriations increased by $18.25 million. This is because of a one-time allocation from the state to the Closed State and Higher Education Employee Pension Plan, a non-recurring appropriation to support the Carnegie I initiative, and funding for salary increase and benefits expenses.
- Gifts increased by $4.96 million primarily due to an increase in gifts in-kind from foundations.
- Grants and contracts decreased primarily due to less HEERF funds spent. The most significant decreases from the prior year were in the HEERF Institutional portion.
- Investment income decreased by $17.02 million. This change consists of a decrease in university investment income of $9.31 million and a negative change in Herff Trust net position by $7.70 million from fiscal year 2021 to fiscal year 2022. This is attributable to the changes in the stock market and the interest rate environment.

<u>Other Revenues</u>

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





- Capital grants and gifts decreased primarily due to the gifts for the Music Center and STEM Research Building in fiscal year 2021 which were non-recurring.

Capital Assets and Debt Administration

Capital Assets

The University of Memphis had $657.69 million invested in capital assets, net of accumulated depreciation of $347.05 million at June 30, 2022; and $631.8 million invested in capital assets, net of accumulated depreciation of $326.8 million at June 30, 2021. Depreciation charges totaled $23.69 million and $22.32 million for the years ended June 30, 2022, and June 30, 2021, respectively.

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

	2022	2021
Land	$ 19,060	$ 19,060
Land improvements and infrastructure	112,032	98,202
Buildings	489,264	459,906
Equipment	14,814	14,509
Library holdings	3,620	3,608
Intangible assets	1,200	1,205
Art and historical collections	2,166	2,166
Projects in progress	13,554	33,098
Leased asset-buildings	1,987	-
Total	$657,697	$631,754

At June 30, 2022, outstanding commitments under construction contracts totaled $75.77 million for the STEM Research Building and various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $54.35 million of these costs.

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

Debt

The university had $188.86 million and $198.02 million in debt outstanding at June 30, 2022, and June 30, 2021, respectively. The table below summarizes these amounts by type of debt instrument.

Outstanding Debt
(in thousands of dollars)

	2022	2021
TSSBA Bonds Payable	$188,097	$196,917
GO Commercial Paper	768	1,108
Total	$188,865	$198,025

The Tennessee State School Bond Authority (TSSBA) issued bonds with interest rates ranging from 0.167% to 5% due through 2050 on behalf of the University of Memphis. The university is responsible for the debt service of these bonds. The current portion of the $188.1 million outstanding at June 30, 2022, is $8.65 million.

The Tennessee State Funding Board issued general obligation commercial paper with variable interest rates on behalf of the University of Memphis. The university is responsible for the debt service of these bonds. The outstanding amount at June 30, 2022, is $0.77 million.

The ratings on debt issued by the TSSBA at June 30, 2022, were as follows:

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

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

Economic Factors That Will Affect the Future

For fiscal year 2022–2023, the university's recurring state appropriations increased to $153.13 million, evidence of a positive trend with the state funding formula outcomes. This includes $9.20 million for health insurance and retirement cost increases and salary pool funding for employees.

The university will receive $14 million in capital maintenance funding for various building repairs and upgrades. The university expects to receive $45 million for the renovation of Mynders Hall and Fogelman College of Business buildings. Also, a non-recurring appropriation of $50 million to establish an endowment fund to support the university's research mission and maintain its Carnegie 1 standing was approved and is expected to be received in fiscal year 2023.

Fall 2022 semester overall enrollment grew by 1.3% compared to the previous year, driven primarily by an increase in dual enrollment and graduate students. A decline in in-state enrollment was offset by growth in out-of-state graduate enrollments, the result of specific recruitment efforts and national rankings, including achievement of the R1 designation.

Dr, Bill Hardgrave assumed the presidency of the University of Memphis on April 1, 2022. Under his direction, the university launched the preparation of a new strategic plan, which will guide the university in the years to come. This will be followed by a comprehensive enrollment plan which will guide the university's enrollment strategy going forward. Another key initiative launched in fiscal year 2023 is a comprehensive space utilization study which aims to inform how best to utilize university space in keeping with institutional priorities. The university is evaluating its need and preparedness to undertake an ERP implementation. Finally, the university will also be evaluating its current budgeting model to be more closely aligned to a Responsibility Center Management (RCM) budget model.

THE UNIVERSITY OF MEMPHIS
Statement of Net Position
June 30, 2022

	University	University of Memphis Foundation	University of Memphis Research Foundation	The Auxiliary Services Foundation
Assets				
Current assets:				
Cash and cash equivalents (Notes 2, 22, 23, and 24)	$ 6,012,491.57	$ 3,528,866.00	$ 1,343,184.00	$ 16,166,349.00
Accounts, notes, and grants receivable (net) (Note 5)	32,975,437.02	-	864,828.00	-
Due from affiliate (Note 24)	-	-	-	707,310.00
Due from State of Tennessee	4,275,449.86	-	-	-
Due from component units (Notes 22 and 23)	6,090,488.00	-	-	-
Pledges receivable (net) (Note 22)	-	10,649,131.00	-	-
Inventories	480,331.55	-	-	-
Prepaid expenses	1,277,019.17	-	7,439.00	-
Accrued interest receivable	403,726.84	-	-	-
Total current assets	51,514,944.01	14,177,997.00	2,215,451.00	16,873,659.00
Noncurrent assets:				
Cash and cash equivalents (Note 2)	63,239,982.08	-	-	-
Investments (Notes 3, 4, 22, 23, and 24)	229,272,772.99	151,825,179.00	1,912,870.00	654,662.00
Investment in Tennessee Retiree Group Trust	2,912,502.30	-	-	-
Accounts, notes, and grants receivable (net) (Note 5)	825,143.39	-	-	-
Due from component units (Note 23)	96,693.00	-	-	-
Pledges receivable (net) (Note 22)	-	18,551,061.00	-	-
Capital assets (net) (Notes 6, 23, and 24)	657,697,444.86	-	1,006,328.00	750,000.00
Net pension asset (Note 12)	14,247,645.00	-	-	-
Other assets	2,500.00	142,915.00	41,323.00	369,568.00
Total noncurrent assets	968,294,683.62	170,519,155.00	2,960,521.00	1,774,230.00
Total assets	1,019,809,627.63	184,697,152.00	5,175,972.00	18,647,889.00
Deferred outflows of resources				
Deferred amount on debt refunding	5,468,407.74	-	-	-
Deferred outflows related to pensions (Note 12)	27,437,730.19	-	-	-
Deferred outflows related to OPEB (Note 13)	5,791,048.55	-	-	-
Total deferred outflows of resources	38,697,186.48	-	-	-
Liabilities				
Current liabilities:				
Accounts payable (Note 8)	10,515,708.29	53,106.00	8,798.00	581,613.00
Accrued liabilities	16,878,451.37	141,375.00	268,952.00	-
Due to affiliate (Note 24)	-	707,310.00	-	-
Due to State of Tennessee	5,124,849.71	-	-	-
Due to UOM (Notes 22 and 23)	-	5,351,290.00	739,198.00	-
Student deposits	574,188.47	-	-	-
Unearned revenue (Note 14)	15,710,331.72	-	400,480.00	-
Lease liability (Note 7 and 23)	524,016.06	-	111,952.00	-
Compensated absences (Note 9)	2,490,917.61	-	-	-
Accrued interest payable	1,050,206.63	-	-	25,568.00
Long-term liabilities, current portion (Notes 9, 23, and 24)	8,657,185.18	-	54,064.00	1,749,387.00
Deposits held in custody for others	625,588.09	-	-	-
Other liabilities	298,724.00	-	11,018.00	-
Total current liabilities	62,450,167.13	6,253,081.00	1,594,462.00	2,356,568.00
Noncurrent liabilities:				
Due to grantors (Note 9)	1,216,874.84	-	-	-
Due to UOM (Note 23)	-	-	96,693.00	-
Lease liability (Note 7 and 23)	1,634,781.17	-	107,856.00	-
Compensated absences (Note 9)	10,561,847.90	-	-	-
Long-term liabilities (Notes 9, 23, and 24)	180,208,288.95	-	57,106.00	8,552,738.00
Net OPEB liability (Note 13)	14,600,365.87	-	-	-
Other liabilities	-	-	1,764.00	-
Total noncurrent liabilities	208,222,158.73	-	263,419.00	8,552,738.00
Total liabilities	270,672,325.86	6,253,081.00	1,857,881.00	10,909,306.00
Deferred inflows of resources				
Deferred amount on debt refunding	45,535.00	-	-	-
Deferred inflows related to pensions (Note 12)	46,590,701.00	-	-	-
Deferred inflows related to OPEB (Note 13)	8,973,229.00	-	-	-
Total deferred inflows of resources	55,609,465.00	-	-	-
Net position				
Net investment in capital assets	472,093,658.66	-	681,716.00	750,000.00
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	1,410,024.93	46,710,443.00	-	-
Research	-	-	216,434.00	-
Instructional department uses	-	26,815,970.00	-	-
Loans	2,565,710.46	-	-	-
Other	60,000.00	32,081,082.00	-	-
Expendable:				
Scholarships and fellowships	1,768,478.25	14,882,434.00	-	-
Research	2,691,428.14	3,165,715.00	-	-
Instructional department uses	1,799,722.86	28,430,270.00	-	-
Loans	2,296,793.59	-	-	-
Capital projects	3,808,910.51	-	-	5,542,646.00
Pension	14,247,645.00	-	-	-
Herff Assets for University Support	27,294,245.00	-	-	-
Other	6,348,025.61	25,675,969.00	-	-
Unrestricted	195,840,380.24	682,188.00	2,419,941.00	1,445,937.00
Total net position	$ 732,225,023.25	$ 178,444,071.00	$ 3,318,091.00	$ 7,738,583.00

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

THE UNIVERSITY OF MEMPHIS
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2022

	University	University of Memphis Foundation	University of Memphis Research Foundation	The Auxiliary Services Foundation
Revenues				
Operating revenues:				
Student tuition and fees (Note 14)	$ 138,676,759.85	$ -	$ -	$ -
Gifts and contributions	-	39,919,032.00	242,115.00	-
Contributions from affiliate organizations (Note 24)	-	-	-	9,775,545.00
Governmental grants and contracts	45,197,056.48	-	-	-
Nongovernmental grants and contracts	5,006,408.86	-	6,543,967.00	-
Sales and services of educational activities (Note 14)	3,761,937.88	-	-	-
Sales and services of other activities (Note 14)	33,804,975.60	559,281.00	101,317.00	-
Auxiliary enterprises:				
Residential life (Note 14)	7,943,390.82	-	-	-
Bookstore	717,161.77	-	-	-
Food service	8,359,162.02	-	-	-
Other auxiliaries (Note 14)	5,502,442.04	-	-	-
Interest earned on loans to students (Note 14)	42,314.27	-	-	-
Other operating revenues	-	-	-	-
Total operating revenues	249,011,609.59	40,478,313.00	6,887,399.00	9,775,545.00
Expenses				
Operating expenses (Notes 19, 22, 23, and 24):				
Salaries and wages	221,345,857.78	458,955.00	4,535,314.00	25,208.00
Benefits	64,306,579.66	144,562.00	402,119.00	8,974.00
Utilities, supplies, and other services	116,431,710.33	1,339,965.00	721,574.00	31,860.00
Scholarships and fellowships	46,237,070.01	-	-	-
Depreciation expense	23,693,233.34	-	272,805.00	-
Payments to or on behalf of UOM	-	25,765,760.00	791,586.00	9,519,697.00
Total operating expenses	472,014,451.12	27,709,242.00	6,723,398.00	9,585,739.00
Operating income (loss)	(223,002,841.53)	12,769,071.00	164,001.00	189,806.00
Nonoperating revenues (expenses)				
State appropriations	146,736,308.69	-	-	-
Gifts	26,714,829.37	-	-	-
Grants and contracts	96,077,707.90	-	-	-
Investment income (loss) (net of investment expense)	(9,634,684.21)	(17,739,538.00)	(115,737.00)	744,091.00
Interest on capital asset-related debt	(5,268,770.07)	-	-	-
University support	-	149,003.00	-	-
Other nonoperating revenues (expenses)	(69,348.73)	-	51,502.00	-
Total nonoperating revenues (expenses)	254,556,042.95	(17,590,535.00)	(64,235.00)	744,091.00
Income (loss) before other revenues, expenses, gains, or losses	31,553,201.42	(4,821,464.00)	99,766.00	933,897.00
Capital appropriations	26,581,082.50	-	-	-
Capital grants and gifts	2,993,458.16	-	-	-
Additions to permanent endowments	-	12,285,239.00	-	-
Total other revenues	29,574,540.66	12,285,239.00	-	-
Increase in net position	61,127,742.08	7,463,775.00	99,766.00	933,897.00
Net position - beginning of year	671,097,281.17	170,980,296.00	3,218,325.00	6,804,686.00
Net position - end of year	$ 732,225,023.25	$ 178,444,071.00	$ 3,318,091.00	$ 7,738,583.00

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

THE UNIVERSITY OF MEMPHIS
Statement of Cash Flows
For the Year Ended June 30, 2022

Cash flows from operating activities	
Tuition and fees	$ 133,405,812.19
Grants and contracts	49,544,017.09
Sales and services of educational activities	3,674,980.14
Sales and services of other activities	30,651,128.45
Payments to suppliers and vendors	(114,959,802.77)
Payments to employees	(224,634,611.34)
Payments for benefits	(77,461,691.35)
Payments for scholarships and fellowships	(46,237,070.01)
Collection of loans from students	(27,286.34)
Interest earned on loans to students	42,613.83
Funds received for deposits held for others	142,383.71
Funds disbursed for deposits held for others	(297,747.52)
Auxiliary enterprise charges:	
Residence halls	7,757,729.72
Bookstore	717,161.77
Food services	8,359,162.02
Other auxiliaries	6,416,912.70
Net cash used for operating activities	(222,906,307.71)
Cash flows from noncapital financing activities	
State appropriations	141,486,647.20
Gifts and grants received for other than capital or endowment purposes	125,266,372.89
Federal student loan receipts	88,932,233.00
Federal student loan disbursements	(88,932,233.00)
Net cash provided by noncapital financing activities	266,753,020.09
Cash flows from capital and related financing activities	
Principal paid on capital debt and lease	(18,636,964.60)
Interest paid on capital debt and lease	(8,251,951.29)
Bond issuance costs paid on new debt issue	(6,640,204.90)
Other capital and related financing receipts (payments)	352,822.12
Net cash used for capital and related financing activities	(33,176,298.67)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	64,235,982.82
Income on investments	5,763,028.38
Purchase of investments	(69,155,437.15)
Other investing receipts (payments)	119,627.00
Net cash provided by investing activities	963,201.05
Net increase in cash and cash equivalents	11,633,614.76
Cash and cash equivalents - beginning of year	57,618,858.89
Cash and cash equivalents - end of year	$ 69,252,473.65

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

Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (223,002,841.53)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Noncash operating expenses	28,773,894.83
Change in assets, liabilities, and deferrals:	
Receivables, net	(5,307,243.94)
Inventories	38,709.82
Prepaid items	54,287.81
Net pension asset	(1,257,800.00)
Deferred outflows of resources	(15,003,605.42)
Accounts payable	1,994,778.71
Accrued liabilities	(3,376,498.78)
Unearned revenues	(3,467,283.43)
Deposits	(402,391.37)
Compensated absences	(558,775.41)
Net pension liability	(44,008,091.00)
Net OPEB liability	(2,341,472.19)
Deferred inflows of resources	45,113,388.00
Other	(155,363.81)
Net cash used for operating activities	$ (222,906,307.71)

Noncash investing, capital, or financing transactions		
Gifts in-kind - capital	$	2,993,458.15
Unrealized losses on investments	$	(16,141,148.55)
Loss on disposal of capital assets	$	(180,572.58)
Capital appropriations	$	9,324.35
Purchase of capital assets and construction	$	26,489,871.60
Other capital and related financing receipts (payments)	$	(26,499,195.95)

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The university is a part of the State University and Community College System of Tennessee (the system). The Focus on College and University Success Act of 2016 removed the six universities from the governance of the Tennessee Board of Regents, but they remain part of the system. The universities have their own local governing boards that provide governance, approve policies, set tuition and fee rates, and hire presidents. The system has continuing oversight responsibilities in the areas of budget approval and institutional debt. This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides significant financial support; the system is discretely presented in Tennessee's *Annual Comprehensive Financial Report*. That report is available at https://www.tn.gov/finance/rd-doa/fa-accfin-ar.html.

The financial statements present only that portion of the system's activities that is attributable to the transactions of the University of Memphis.

The Herbert Herff Trust (the trust) is considered a component unit of the university. The trust provides resources exclusively for the benefit of the university and is presented as a component unit using the blended method. The University of Memphis Foundation (the foundation), the University of Memphis Research Foundation (UMRF), and the Auxiliary Services Foundation (ASF) are also considered component units of the university but are discretely presented. Although the university does not control the timing or amount of receipts from these organizations, the majority of resources, or income thereon, that these organizations hold and invest are restricted to the activities of the university by its donors. Because these restricted resources held by the foundations and the resources of the UMRF and ASF can only be used by, or for the benefit of, the university, these organizations are considered component units of the university and are discretely presented in the university's financial statements. See Notes 21, 22, 23, and 24 for more detailed information about the component units.

Basis of Presentation

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

Basis of Accounting

In June 2017, the GASB issued Statement 87, *Leases*. This statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The university implemented this standard as of July 1, 2021.

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

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

Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other activities that are defined as nonoperating by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* such as state appropriations and investment income.

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

Cash Equivalents

This classification includes instruments that are readily convertible to known amounts of cash and have original maturities of three months or less.

Inventories

Inventories are valued on an average cost basis.

Compensated Absences

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

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

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, works of art, historical treasures/collections, 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 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 art, historical treasures/collections, and similar assets is set at $5,000. The capitalization threshold for leased assets is set at $100,000.

These assets, with the exception of works of art and historical treasures/collections deemed inexhaustible and land, are depreciated/amortized using the straight-line method over the estimated useful lives of the assets or life of the lease agreement, which range from 1 to 60 years.

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plans' fiduciary net positions have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

Other Postemployment Benefits

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

Net Position

The university's net position is classified as follows:

Net investment in capital assets – This represents the university's total investment in capital assets, net of accumulated depreciation and net of outstanding debt obligations and deferred outflows/inflows of resources related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Nonexpendable restricted net position – Nonexpendable restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may be expendable or added to principal.

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

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, as well as certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the university and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the university's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the university has recorded a scholarship discount and allowance.

Note 2. Cash and Cash Equivalents

In addition to demand deposits and petty cash on hand, this classification includes instruments that are readily convertible to known amounts of cash and that have original maturities of three months or less. At June 30, 2022, cash and cash equivalents consisted of $12,155,407.80 in bank accounts; $26,280.00 of petty cash on hand; $55,922,960.89 in the Local Government Investment Pool (LGIP) administered by the State Treasurer; $115,242.96 in LGIP deposits for capital projects; and $1,032,582.00 in Investment broker accounts.

The LGIP is administered by the State Treasurer and is measured at amortized cost. The LGIP is part of the State Pooled Investment Fund. The fund's required risk disclosures are presented in the financial statements for the State Pooled Investment Fund. That report is available on the state's website at https://treasury.tn.gov/Explore-Your-TN-Treasury/About-the-Treasury/Department-Reports.

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

Note 3. Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended, and GASB Statement 72, *Fair Value Measurement and Application,* as amended, investments are reported at fair value, including those with a maturity date of one year or less at the time of purchase, unless otherwise noted.

Interest Rate Risk

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

At June 30, 2022, the university had the following debt investments and maturities:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasury	$118,954,086.15	$ -	$118,954,086.15	$ -	$ -
U.S. agencies	74,264,320.71	12,518,391.70	57,527,647.74	1,393,120.25	2,825,161.02
Total debt investments	$193,218,406.86	$12,518,391.70	$176,481,733.89	$1,393,120.25	$2,825,161.02

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The university is authorized by statute to invest funds in accordance with the policy of its governing board. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States, repurchase agreements for United States securities, certificates of deposit in banks and savings and loan associations, bankers' acceptances, commercial paper, money market mutual funds, and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. Securities are rated by Standard and Poor's, Moody's Investors Service, and/or Fitch Ratings and are presented below using the Standard and Poor's rating scale.

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

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

At June 30, 2022, the university's investments were rated as follows:

		Credit Quality Rating	
Investment Type	Balance	AA	Unrated
LGIP (amortized cost)	$55,922,960.89	$ -	$55,922,960.89
LGIP – capital projects (amortized cost)	115,242.96	-	115,242.96
U.S. government agencies	74,264,320.71	74,264,320.71	-
Total	$130,302,524.56	$74,264,320.71	$56,038,203.85

Alternative Investments

The university had investments in hedge funds and a private fund. The estimated fair value of these assets was $843,595 at June 30, 2022. The university also had investments in limited partnerships with an estimated fair value of $189,503 at June 30, 2022.

The university believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2022. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the university's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques.

Note 4. Fair Value Measurement

The university categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The university has the following recurring fair value measurements as of June 30, 2022:

	June 30, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at the Net Asset Value (NAV)
Assets by Fair Value Level					
Money market mutual fund	$ 1,250,937.00	$ 1,250,937.00	$ -	$ -	$ -
U.S. Treasury	118,954,086.15	118,954,086.15	-	-	-
U.S. agencies	74,264,320.71	-	74,264,320.71	-	-
Exchange traded funds	23,469,784.00	23,469,784.00	-	-	-
Alternative investments	843,595.00	-	-	843,595.00	-
Limited partnerships	189,503.00	-	-	-	189,503.00
Total assets at fair value	$218,972,225.86	$143,674,807.15	$74,264,320.71	$843,595.00	$189,503.00

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Assets classified in Level 2 of the fair value hierarchy are valued using significant observable inputs other than Level 1 prices. Assets classified in Level 3 are valued based on modeling techniques that are unobservable to the university. These values are obtained from independent valuation services or provided by an external source.

Investments valued at fair value as reflected in the above schedule total $218,972,225.86. Investments as reported on the statement of net position totaled $229,972,772.99. The difference between these amounts represents certificates of deposit totaling $10,300,547.13, which are not included in the above schedule as they are not measured at fair value. The certificates of deposit are time deposits measured at amortized cost.

Note 5. Receivables

Receivables at June 30, 2022, included the following:

Student accounts receivable	$ 9,649,690.08
Grants receivable	17,168,736.25
Federal Direct Loan receivable	6,284,541.80
Notes receivable	431,077.45
Athletics receivable	322,196.37
Auxiliary receivable	1,364,050.67
Other receivables	1,194,180.01
Subtotal	36,414,472.63
Less allowance for doubtful accounts	(3,439,035.61)
Total receivables	$32,975,437.02

Federal Perkins Loan Program funds at June 30, 2022, included the following:

Perkins loans receivable	$ 2,293,467.06
Less allowance for doubtful accounts	(1,468,323.67)
Total	$ 825,143.39

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2022, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$19,060,262.99	$ -	$ -	$ -	$ 19,060,262.99
Improvements and infrastructure	169,020,906.02	14,637,039.69	7,964,076.72	-	191,622,022.43
Buildings	668,414,977.63	21,912,765.36	17,792,330.72	-	708,120,073.71
Equipment	48,041,603.32	3,664,662.27	-	(1,976,465.57)	49,729,800.02
Library holdings	9,598,541.34	895,488.08	-	(1,664,573.93)	8,829,455.49
Intangible assets					
Easement	1,200,000.00	-	-	-	1,200,000.00
Software	7,975,115.72	-	-	-	7,975,115.72
Right-to-use – buildings	2,494,327.31	-	-	-	2,494,327.31
Art and historical collections	2,165,700.00	-	-	-	2,165,700.00

Projects in progress	33,097,553.85	6,212,984.31	(25,756,407.44)	-	13,554,130.72
Total	961,068,988.18	47,322,939.71	-	(3,641,039.50)	1,004,750,888.39
Less accumulated depreciation/amortization:					
Improvements and infrastructure	70,818,730.44	8,771,199.61	-	-	79,589,930.05
Buildings	208,508,488.56	10,347,989.37	-	-	218,856,477.93
Equipment	33,532,877.18	3,178,294.48	-	(1,795,892.99)	34,915,278.67
Library holdings	5,990,948.78	882,945.55	-	(1,664,573.93)	5,209,320.40
Intangible assets					
Software	7,969,632.15	5,483.57	-	-	7,975,115.72
Right-to-use – buildings	-	507,320.76	-	-	507,320.76
Total	326,820,677.11	23,693,233.34	-	(3,460,466.92)	347,053,443.53
Capital assets, net	$634,248,311.07	$23,629,706.37	$ -	$ (180,572.58)	$ 657,697,444.86

Note 7. Leases

Lease Liabilities

The university leases classroom space, the terms of which expire in various years through 2026.

The following is a schedule by year of payments under the leases as of June 30, 2022:

Year Ending June 30	Principal	Interest	Total
2023	$ 524,016.06	$26,731.30	$ 550,747.36
2024	542,318.58	19,369.37	561,687.95
2025	561,270.13	11,651.33	572,921.46
2026	531,192.46	3,715.56	534,908.02
Total	$2,158,797.23	$61,467.56	$2,220,264.79

Note 8. Accounts Payable

Accounts payable at June 30, 2022, included the following:

Vendors payable	$ 9,050,404.48
Other payables	1,465,303.81
Total accounts payable	$10,515,708.29

Note 9. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2022, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 170,999,050.11	$ 9,324.35	$ (7,546,379.84)	$ 163,461,994.62	$ 8,657,185.18
Unamortized bond premium/discount	25,918,138.96	-	(1,282,529.75)	24,635,609.21	-
General obligation debt:					
Commercial paper	1,108,219.30	-	(340,349.00)	767,870.30	-
Subtotal	198,025,408.37	9,324.35	(9,169,258.59)	188,865,474.13	8,657,185.18
Other liabilities:					
Compensated absences	13,611,540.92	5,253,784.21	(5,812,559.62)	13,052,765.51	2,490,917.61
Due to grantor	1,819,399.29	415,065.69	(1,017,590.14)	1,216,874.84	-
Other liabilities	3,899,091.59	-	(3,899,091.59)	-	-
Subtotal	19,330,031.80	5,668,849.90	(10,729,241.35)	14,269,640.35	2,490,917.61
Total long-term liabilities	$ 217,355,440.17	$ 5,678,174.25	$ 19,898,499.94	$ 203,135,114.48	$ 11,148,102.79

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 0.167% to 5%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2050 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations; see Note 11 for further details. The bonded indebtedness with the TSSBA included in long-term liabilities on the statement of net position is shown net of unexpended debt proceeds. Unexpended debt proceeds were $64,363.45 at June 30, 2022.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2022, are as follows:

Year Ending June 30	Principal	Interest	Total
2023	$ 8,657,185.18	$ 6,092,591.56	$ 14,749,776.74
2024	8,898,436.59	5,735,635.18	14,634,071.77
2025	9,620,845.48	5,358,138.75	14,978,984.23
2026	8,703,979.64	4,978,371.08	13,682,350.72
2027	9,119,064.64	4,606,475.89	13,725,540.53
2028–2032	34,822,926.54	18,340,889.30	53,163,815.84
2033–2037	25,308,801.20	13,977,996.91	39,286,798.11
2038–2042	25,539,041.80	9,252,900.91	34,791,942.71

2038–2047	23,671,845.00	4,529,663.72	28,201,508.72
2048–2050	9,119,868.55	704,121.36	9,823,989.91
Total	$163,461,994.62	$73,576,784.66	$237,038,779.28

More detailed information regarding the bonds can be found in the notes to the financial statements in the financial report for the TSSBA. That report is available on the state's website at https://www.comptroller.tn.gov/boards/tennessee-state-school-bond-authority/investor-information/tssba-financial-reports.html.

General Obligation Debt – Commercial Paper

The Tennessee State Funding Board issues commercial paper for the purpose of, among other things, acquisition of certain sites and existing structures for expansion purposes on behalf of the university. The amount outstanding for projects at the university was $767,870.30 at June 30, 2022. More detailed information regarding the commercial paper can be found in the notes to the financial statements in Tennessee's *Annual Comprehensive Financial Report*, which is available on the state's website at https://www.tn.gov/finance/rd-doa/fa-accfin-ar.html.

Note 10. Endowments

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

The university chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the university, all interest earnings, with the exception of five endowment accounts that require any interest generated in excess of expenses be reapplied to the principal, has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2022, net appreciation of $431,252.45 is available to be spent, of which $130,852.52 is included in restricted net position expendable for scholarships and fellowships, $19,008.29 is included in restricted net position expendable for instrumental departmental uses, $276,646.83 is included in restricted net position expendable for loans, and $4,744.81 is included in restricted net position for other.

Note 11. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $163,461,994.62 in revenue bonds issued from October 1998 to February 2021 (see Note 9 for further detail). Proceeds from the bonds provided financing for construction and renovation of various facilities as well as building systems and equipment. The bonds are payable through 2050. Annual principal and interest payments on the bonds are expected to require 2.23% of available revenues. The total principal and interest remaining to be paid on the bonds is $237,038,779.28. Principal and interest paid for the current year and total available revenues were $14,059,098.57 and $451,801,146.63, respectively.

Note 12. Pension Plans

Defined Benefit Plans

Closed State and Higher Education Employee Pension Plan

General Information About the Pension Plan

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

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

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

Average of member's highest compensation for 5 consecutive years (up to Social Security integration level)	x	1.50%	x	Years of Service Credit	x	105%

Plus:

Average of member's highest compensation for 5 consecutive years (over the Social Security integration level)	x	1.75%	x	Years of Service Credit	x	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with 5 years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service are required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest.

<u>Contributions</u> – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The university's employees are noncontributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by the university for the year ended June 30, 2022, to the Closed State and Higher Education Employee Pension Plan were $8,046,291.72. Additional contributions of $4,685,058.69 were made to the pension plan by the State of Tennessee on behalf of the university. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

<u>Pension asset</u> – At June 30, 2022, the university reported an asset of $12,095,312 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2021, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The university's proportion of the net pension asset was based

on a projection of the university's contributions during the year ended June 30, 2021, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2021, measurement date, the university's proportion was 1.976849%. The proportion measured as of June 30, 2020, was 1.947908%.

Pension expense – For the year ended June 30, 2022, the university recognized a negative pension expense of ($1,472,622).

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2022, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 259,955.00	$ 2,950,963.00
Net difference between projected and actual earnings on pension plan investments	-	41,979,512.00
Changes in assumptions	12,779,128.00	-
Changes in proportion of net pension liability	290,204.00	133,153.00
University's contributions subsequent to the measurement date of June 30, 2021	12,731,350.41	-
Total	$26,060,637.41	$45,063,628.00

Deferred outflows of resources, resulting from employer contributions of $12,731,350.41 subsequent to the measurement date, will be recognized as a reduction in net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2023	$ (5,538,407)
2024	$ (4,928,737)
2025	$ (9,942,436)
2026	$(11,324,761)
2027	$ -
Thereafter	$ -

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

Actuarial assumptions – The total pension liability as of the June 30, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on customized tables based on actual experience, including a projected mortality improvement using Scale MP-2020 (generational projection).

The actuarial assumptions used in the June 30, 2021, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2016, through June 30, 2020. As a result of the 2020 actuarial experience study, investment and demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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

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

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

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

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

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
University's proportionate share of the net pension liability (asset)	$31,948,266	$(12,095,312)	$(49,070,272)

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

Payable to the Pension Plan

At June 30, 2022, the university reported a payable of $679,390.11 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2022.

State and Higher Education Employee Retirement Plan

General Information About the Pension Plan

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

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

Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. University employees contribute 5% of their salary to the State and Higher Education Employee Retirement Plan. The higher education institutions make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the university for the year ended June 30, 2022, to the State and Higher Education Employee Retirement Plan were $683,857.78, which is 1.86% of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension asset – At June 30, 2022, the university reported an asset of $2,152,333 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2021, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The university's proportion of the net pension asset was based on a projection of the university's contributions during the year ended June 30, 2021, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2021, measurement date, the university's proportion was 2.539731%. At the June 30, 2020, measurement date, the university's proportion was 2.540327%.

Pension expense – For the year ended June 30, 2022, the university recognized a pension expense of $274,936.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2022, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 53,590.00	$ 254,067.00
Net difference between projected and actual earnings on pension plan investments	-	1,226,022.00
Changes in assumptions	618,662.00	-
Changes in proportion of net pension asset	20,983.00	46,984.00
University's contributions subsequent to the measurement date of June 30, 2021	683,857.78	-
Total	$ 1,377,092.78	$ 1,527,073.00

Deferred outflows of resources, resulting from the university's employer contributions of $638,857.78 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2023	$ (249,996)
2024	$ (243,739)
2025	$ (238,608)
2026	$ (270,104)
2027	$ 56,695
Thereafter	$ 111,914

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

Actuarial assumptions – The total pension liability as of the June 30, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on customized tables based on actual experience, including a projected mortality improvement using Scale MP-2020 (generational projection).

The actuarial assumptions used in the June 30, 2021, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2016, through June 30, 2020. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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

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

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

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

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

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
University's proportionate share of the net pension liability (asset)	$332,546	$(2,152,333)	$(4,030,955)

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

Payable to the Pension Plan

At June 30, 2022, the university reported a payable of $62,391.38 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2022.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2022, for all state government defined benefit pension plans was $(1,197,686).

Defined Contribution Plans

Optional Retirement Plans

Plan description – The university contributes to the Optional Retirement Plan (ORP). The ORP, administered by the Tennessee Treasury Department, is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 25, Part 2, *Tennessee Code Annotated*. This statute also sets out the plan provisions. The plan provisions are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

Funding policy – For employees employed prior to July 1, 2014, plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. For employees hired after June 30, 2014, plan members will contribute 5% to the ORP and the university will contribute 9% of the employee's base salary. Pension expense equaled the required contributions made to the ORP and was $10,435,921.45 for the year ended June 30, 2022, and $10,351,797.94 for the year ended June 30, 2021. Contributions met the requirements for each year.

Members are immediately 100% vested in the employer contributions made pursuant to the ORP. The Treasury Department has selected three investment vendors who offer a variety of investment products in which members are responsible for selecting how the contributions are invested. Each member makes the decision when to reallocate future contributions or when to transfer funds from one investment product to another. Funds are held by the investment vendor in the name of the member, not in the name of the State of Tennessee. The State of Tennessee has no discretion over these funds other than to make the initial contributions.

Payable to the plan – At June 30, 2022, the university reported a payable of $240.28 for the outstanding amount of legally required contributions to the plan required for the year then ended.

Deferred Compensation Plans

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

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

During the year ended June 30, 2022, contributions totaling $5,412,157 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $2,848,226 for employer contributions. During the year ended June 30, 2021, contributions totaling $4,804,790 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $2,606,380 for employer contributions.

At June 30, 2022, the university reported a payable of $31,741.78 for the outstanding amount of legally required contributions to the plan required for the year ended June 30, 2022.

Note 13. Other Postemployment Benefits

Closed State Employee Group OPEB Plan

General Information About the OPEB Plan

Plan description – Employees of the university who were hired prior to July 1, 2015, and choose coverage, are provided with pre-65 retiree health insurance benefits through the Closed State Employee Group OPEB Plan (EGOP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The employers participating in this plan include the State of Tennessee (primary government), the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee, and the institutions that make up the State University and Community College System. The State of Tennessee Postemployment Benefits Trust (OPEB Trust) was established to accumulate resources to pay for the retiree benefits of EGOP participants. The OPEB Trust prepares a stand-alone financial report that can be found at https://www.tn.gov/finance/rd-doa/opeb22121.html.

Benefits provided – The EGOP is offered to provide health insurance coverage to eligible retired and disabled participants and is the only postemployment benefit provided to eligible pre-65 participants. Benefits are established and amended by an insurance committee created by Title 8, Chapter 27, Section 201, *Tennessee Code Annotated*. All retirees and disabled employees of the primary government and certain component units, who are eligible and choose coverage, and who have not yet reached the age of 65, are enrolled in this plan. All members have the option of choosing between the premier preferred provider organization (PPO) plan, the standard PPO plan, or the wellness health savings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members receive the same plan benefits as active employees, at a blended premium rate that considers the cost of active and retired employees. This creates an implicit subsidy for the retirees. The retirees' cost is then directly subsidized by the employers, based on years of service. Therefore, retirees with 30 years of service are subsidized 80%; 20 but less than 30 years, 70%; and less than 20 years, 60%.

Contributions – Annually, an insurance committee, created in accordance with Title 8, Chapter 27, Section 201, *Tennessee Code Annotated*, establishes the required contributions to the plan by member employees through the premiums established to approximate claims cost for the year. Pre-age 65 retired members of the EGOP pay a premium based on a blended rate that considers the cost of active and retired employees as well as their individual years of service. Therefore, retirees pay either 20%, 30%, 40%, or 100% of the appropriate premium rate. These payments are deposited into the OPEB Trust. Employers contribute to the OPEB Trust based on an actuarially determined contribution (ADC) rate calculated in a manner to meet the funding goals of the state. The total ADC rate for plan employers for the year ended June 30, 2022, was $126.3 million. The university's share of the ADC was $3,127,668. During the fiscal year, the university contributed $3,127,668 to the OPEB Trust. The Tennessee General Assembly has the authority to change the contribution requirements of the employees participating in the EGOP.

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

Proportionate share – The university's proportionate share of the collective net OPEB liability related to the EGOP was $14,600,365.87. At the June 30, 2021, measurement date, the university's proportion of the collective net OPEB liability was 2.047646%. The proportion existing at the prior measurement date was 2.023875%. This resulted in a change in proportion of 0.023771% between the current and prior measurement dates. The university's proportion of the collective net OPEB liability was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2021, and a measurement date of June 30, 2021.

OPEB expense – For the year ended June 30, 2022, the university recognized OPEB expense of $242,980.81.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2022, the university reported deferred outflows of resources and deferred inflows of resources related to OPEB paid by the EGOP from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$1,395,164.00
Changes in assumptions	964,793.00	3,602,788.00
Net difference between actual and projected investment earnings	-	1,010,752.00
Changes in proportion and differences between benefits paid and proportionate share of benefits paid	1,698,587.55	2,964,525.00

Contributions subsequent to the measurement date	3,127,668.00	-
Total	$5,791,048.55	$8,973,229.00

Deferred outflows of resources, resulting from the university's employer contributions of $3,127,668 subsequent to the measurement date, will be recognized as a decrease in net OPEB liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30	
2023	$ (1,575,392)
2024	$ (1,575,393)
2025	$ (1,578,971)
2026	$ (1,562,652)
2027	$ (32,337)
Thereafter	$ 14,897

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

Actuarial assumptions – The collective total OPEB liability in the June 30, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Healthcare cost trend rates	7.36% for 2022, decreasing annually to an ultimate rate of 4.50% for 2029 and later years
Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation, a weighted average has been used with weights derived from the current distribution of members among plans offered.

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

Long-term expected rate of return – The long-term expected rate of return of 6% on OPEB Trust investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Title 8, Chapter 27, Section 802, *Tennessee Code Annotated*, establishes the responsibility of the trustees to adopt written investment policies authorizing how assets in the OPEB Trust may be invested and reinvested by the State Treasurer. The treasurer may invest trust assets in any security or investment in which the Tennessee Consolidated Retirement System (TCRS) is permitted to invest, provided that investments by the OPEB Trust shall be governed by the investment policies and guidelines adopted by the trustees. Any changes to the investment policy will be the responsibility of the established trustees. The OPEB Trust investment policy target asset allocation and allocation range for each major asset class is summarized in the following table:

	Allocation Range		
Asset Class	Minimum	Maximum	Total Allocation
Equities	25%	80%	53%
Fixed income and short-term securities	20%	50%	25%
Real estate	0%	20%	10%
Private equity and strategic lending	0%	20%	7%
Cash and cash equivalents	0%	25%	5%
			100%

The best estimates of geometric real rates of return for each major asset class included in the target asset allocation as of June 30, 2021, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
U.S. equity	4.10%
Developed market international equity	4.81%

Emerging market international equity	5.33%
Private equity and strategic lending	3.71%
U.S. fixed income	0.32%
Real estate	2.91%
Cash (government)	(0.22%)

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

Changes in assumptions – The long-term inflation rate was increased from 2.1% to 2.25%. Other changes in assumptions include changes made to the medical and drug trend rates, and coverage and acceptance rates to reflect more recent experience and subsidy amounts. Also, changes in retirement, withdrawal, and mortality rates were made to match those provided by TCRS. The net change in liability as a result of these changes is not considered significant.

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

	1% Decrease (5%)	Current Discount Rate (6%)	1% Increase (7%)
University's proportionate share of the collective net OPEB liability	$16,319,998.95	$14,600,365.87	$12,996,621.95

Sensitivity of the proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rate – The following presents the university's proportionate share of the collective net OPEB liability of the EGOP, as well as what the proportionate share of the collective net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (6.36% decreasing to 3.5%) or 1 percentage point higher (8.36% decreasing to 5.5%) than the current rate:

	1% Decrease (6.36% decreasing to 3.5%)	Healthcare Cost Trend Rates (7.36% decreasing to 4.5%)	1% Increase (8.36% decreasing to 5.5%)
University's proportionate share of the collective net OPEB liability	$12,338,561.95	$14,600,365.87	$17,218,629.95

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

Closed Tennessee OPEB Plan

General Information About the OPEB Plan

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

Benefits provided – The TNP is offered to help fill most of the coverage gaps created by Medicare and is the only postemployment benefit provided to eligible post-65 retired and disabled employees of participating employers. This plan does not include pharmacy. In accordance with Title 8, Chapter 27, Section 209, *Tennessee Code Annotated*, benefits are established and amended by cooperation of insurance committees created by Sections 8-27-201, 301, and 701, *Tennessee Code Annotated*. Retirees and disabled employees of the state, component units, local education agencies, and certain local governments, who have reached the age of 65, are Medicare-eligible, and also receive a benefit from the Tennessee Consolidated Retirement System, may participate in this plan. All plan members receive the same plan benefits at the same premium rates. Many retirees receive direct subsidies toward their premium cost; however, participating employers determine their own policy in this regard. The primary government contributes to the premiums of component unit retirees based on years of service. Therefore, retirees with 30 years of service receive $50 per month; 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25. The university does not provide any subsidies for retirees in the TNP. The primary government paid $222,050 for OPEB as the benefits came due during the reporting period. This plan is funded on a pay-as-you-go basis, and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement 75.

In accordance with Title 8, Chapter 27, Part 209, *Tennessee Code Annotated*, the state insurance committees established by Sections 8-27-201, 301, and 701, *Tennessee Code Annotated,* determine the required payments to the plan by member employers and employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs are allocated to plan participants. Employers contribute towards employee costs based on their own developed practices.

Total OPEB Liability and OPEB Expense

Proportionate share – The primary government is entirely responsible for the TNP OPEB liability associated with the university's employees. The primary government's proportionate share of the total OPEB liability associated with the university was $5,286,168. At the June 30, 2021, measurement date, the proportion of the collective total OPEB liability associated with the university was 2.973885%. This represents a change of 0.128545% from the prior proportion of 2.845340%. The proportion of the collective total OPEB liability associated with the university was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2021, and a measurement date of June 30, 2021.

Actuarial assumptions – The total OPEB liability in the June 30, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

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

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2021, valuations were the same as those employed in the July 1, 2021, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS) for Group I employees. These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2016, through June 30, 2020. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. For pre-retirement non-disabled general employees, the mortality rates employed in this valuation are taken from the PUB-2010

Headcount-Weighted Employee mortality table projected generationally with MP-2020 from 2010. Post-retirement tables are Headcount-Weighted Below Median Healthy Annuitant and adjusted with a 6% load for males and a 14% load for females, projected generationally from 2010 with MP-2020. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender-distinct table published in IRS Ruling 96-7 for disabled lives with a 10% load, projected generationally from 2018 with MP-2020.

Discount rate – The discount rate used to measure the total OPEB liability was 2.16%. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa2 as shown on the Bond Buyer GO 20-Bond Municipal index.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate – The following presents the primary government's proportionate share of the university's related collective total OPEB liability, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.16%) or 1 percentage point higher (3.16%) than the current rate. The university does not report a proportionate share of the OPEB liability for employees in the TNP.

	1% Decrease (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
Primary government's proportionate share of the collective total OPEB liability	$5,926,484	$5,286,168	$4,744,898

OPEB expense – For the year ended June 30, 2022, the primary government recognized OPEB expense of $225,419 for employees of the university participating in the TNP.

Total OPEB Expense

The total OPEB expense for the year ended June 30, 2022, was $468,399.81, which consisted of OPEB expense of $242,980.81 for the EGOP and $225,419.00 paid by the primary government for the TNP.

Note 14. Revenues

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

Revenue Source	Gross Revenue	Less Scholarship Allowances	Less Uncollectible Debts	Net Revenue
Operating revenues:				
Tuition and fees	$214,068,737.53	$(75,635,362.00)	$243,384.32	$138,676,759.85
Sales and services of educational activities	3,802,659.16	-	(40,721.28)	3,761,937.88
Sales and services of other activities	33,807,227.17	-	(2,251.57)	33,804,975.60
Residential life	15,712,979.94	(7,736,973.00)	(32,616.12)	7,943,390.82
Other auxiliaries	5,511,890.98	-	(9,448.94)	5,502,442.04
Interest earned on loans to students	26,004.39	-	16,309.88	42,314.27
Total	$272,929,499.17	$(83,372,335.00)	$174,656.29	$189,731,820.46

Note 15. Insurance-related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, medical malpractice liability, and workers' compensation. By statute, the maximum liability for general liability, automobile liability, and medical malpractice liability is $300,000 per person and $1,000,000 per occurrence. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The state purchases commercial insurance for real property, crime and fidelity coverage on the state's officials and employees, and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first $25,000 to $75,000 of losses based on a tiered deductible system that accounts for averaged losses over a three-year period and the type of loss. The RMF is responsible for property losses for the annual aggregate deductible of $7.5 million for perils other than earthquake and flood. Purchased insurance coverage is responsible for losses exceeding the $7.5 million annual aggregate deductible. For earthquake, named storm, wind/hail, and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $600 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in the New Madrid Zone. Settled claims resulting from these risks have not exceeded maximum commercial insurance coverage in any of the three past fiscal years.

The university participates in the RMF. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2022, is presented in Tennessee's *Annual Comprehensive Financial Report*, which is available on the state's website at www.tn.gov/finance/rd-doa/fa-accfin-ar.html. At June 30, 2022, the RMF held $245 million in cash designated for payment of claims.

At June 30, 2022, the scheduled coverage for the university was $1,774,133,279 for buildings and $507,609,657 for contents.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state, with the risk retained by the state. The university participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on estimates of the ultimate cost of claims, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

Note 16. Commitments and Contingencies

Sick Leave

The university records the cost of sick leave when paid. The dollar amount of unused sick leave was $86,419,825.52 at June 30, 2022.

Construction in Progress

At June 30, 2022, outstanding commitments under construction contracts totaled $75,772,031.39 for the Rudi E. Scheidt School of Music, STEM Research Building, various building HVAC updates, Lambuth Campus classroom conversion, multiple building upgrades and repairs, multiple buildings' window replacement and brick repairs, Student Recreation Center re-roof and repairs, multiple buildings freeze repairs, campus-wide building control replacements and upgrades, multiple building roof replacements, student housing improvements, central plant and CFA chillers and HVAC, building code and safety repairs, and campus school expansion capital projects, of which $54,349,205.03 will be funded by future state capital outlay appropriations.

Litigation

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

Note 17. Chairs of Excellence

The university had $93,635,935.20 on deposit at June 30, 2022, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

Note 18. Funds Held in Trust by Others

The university is a beneficiary under the Van Vleet, Pope M Farrington, C.M. Gooch, and Herman Bensdorf trusts. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received $167,398.02 from these funds during the year ended June 30, 2022.

Note 19. Natural Classification With Functional Classifications

The university's operating expenses for the year ended June 30, 2022, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 93,533,612.66	$28,020,646.74	$ 14,733,208.82	$ -	$ -	$136,287,468.22
Research	35,606,702.83	14,828,456.75	11,001,519.71	-	-	61,436,679.29
Public service	5,356,158.88	1,450,327.39	2,975,850.01	-	-	9,782,336.28
Academic support	21,659,892.73	4,554,376.68	7,360,195.02	-	-	33,574,464.43
Student services	30,974,124.89	7,103,032.42	34,958,161.56	-	-	73,035,318.87
Institutional support	17,406,576.89	3,651,380.93	11,056,013.88	-	-	32,113,971.70
Maintenance and operation	14,473,847.69	4,204,950.01	18,523,381.67	-	-	37,202,179.37
Scholarships and fellowships	-	-	-	46,237,070.01	-	46,237,070.01
Auxiliary	2,334,941.21	493,408.74	15,823,379.66	-	-	18,651,729.61
Depreciation	-	-	-	-	23,693,233.34	23,693,233.34
Total	$221,345,857.78	$64,306,579.66	$116,431,710.33	$46,237,070.01	$23,693,233.34	$472,014,451.12

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling $12,915,806.60 were reallocated from academic support to the other functional areas.

Note 20. On-behalf Payments

During the year ended June 30, 2022, the State of Tennessee made payments of $222,050 on behalf of the university for retirees participating in the Closed Tennessee OPEB Plan. The Closed Tennessee OPEB Plan is a postemployment benefit healthcare plan and is discussed further in Note 13. The plan is reported in Tennessee's *Annual Comprehensive Financial Report*, which is available on the state's website at http://www.tn.gov/finance/rd-doa/fa-accfin-ar.html.

The State of Tennessee also made payments of $4,685,058.69 on behalf of the university for retirees participating in the Closed State and Higher Education Employee Pension Plan. The Closed State and Higher Education Employee Pension Plan is a defined benefit pension plan with membership in the Tennessee Consolidated Retirement System and is discussed further in Note 12. The TCRS issues a publicly available financial report that can be obtained at https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies.

Note 21. Blended Component Unit – Herbert Herff Trust

The Herbert Herff Trust (the trust) was created exclusively for the benefit of the university. The trust invests and manages the bequest of Herbert Herff to support primarily the School of Engineering and the School of Law. Although it is legally separate from the university, it is reported in the university's financial statements as a blended component unit. The exclusion of the trust from the university's reporting entity would render the financial statements incomplete. The assets, liabilities, revenues, and expenses of the trust are included in the university's statement of net position and statement of revenues, expenditures, and changes in net position.

Complete financial statements for the trust can be obtained from the Controller, University of Memphis, 275 Administration Building, Memphis, TN 38152.

The following is a condensed statement of net position; condensed statement of revenues, expenses, and changes in net position; and condensed statement of cash flows showing assets, liabilities, revenues, and expenses that are reported as a blended component unit of the university.

Herbert Herff Trust
Condensed Statement of Net Position
June 30, 2022

Assets:	
Current assets	$ 1,443,733
Other assets	25,850,512
Total Assets	27,294,245
Net Position:	
Restricted - expendable	$27,294,245
Total Net Position	$27,294,245

Herbert Herff Trust
Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2022

Nonoperating revenue	$(2,478,190)
Nonoperating expenses	(947,906)
Decrease in net position	(3,426,096)
Net position at beginning of year	30,720,341
Net position at end of year	$27,294,245

Herbert Herff Trust
Condensed Statement of Cash Flows
June 30, 2022

CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	$2,957,454
Income on investments	1,107,960
Purchase of investments	(3,300,685)
Other investing receipts (payments)	(896,271)
Net cash used for investing activities	(131,542)
Net decrease in cash and cash equivalents	(131,542)
Cash and cash equivalents - beginning of year	1,164,124
Cash and cash equivalents - end of year	$1,032,582
Non-cash investing transactions	
Unrealized losses on investments	$4,688,191

Note 22. Component Unit – The University of Memphis Foundation

The University of Memphis Foundation is a legally separate, tax-exempt organization supporting the University of Memphis. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the university in support of its programs. The 20-member board of the foundation is self-perpetuating and consists of graduates and friends of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements.

The foundation is a nonprofit organization that reports under Financial Accounting Standards Board standards. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the foundation's financial information in the university's financial statements for these differences.

During the year ended June 30, 2022, the foundation made distributions of $25,765,760 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Holly Ford, Chief Executive Officer, 635 Normal Street, Memphis, Tennessee 38152-3750 or online at http://www.memphis.edu/foundation/publicinfopolicy/statements.php.

Fair Value Measurements

The foundation reports certain assets at fair value. The following table categorizes the recurring fair value measurements for assets at June 30, 2022.

	June 30, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Investments Measured at the Net Asset Value (NAV)
Assets:				
U.S. equity mutual funds	$56,321,042	$ 56,321,042	$ -	$ -
International equity mutual funds	38,397,076	38,397,076	-	-
Fixed income mutual funds	36,937,553	36,937,553	-	-
U.S. government securities	191,700	-	191,700	-
Interest in limited partnerships	19,977,808	-	-	19,977,808
Total assets	$151,825,179	$131,655,671	$ 191,700	$19,977,808

The foundation groups its assets measured at fair value in three levels based on the reliability of valuation inputs used to determine fair value. The proper level of fair value measurement is determined based on the lowest level of significant input. The levels are as follows:

Level 1 valuations are based on quoted prices in active markets for identical assets.

Level 2 valuations are based on 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 valuations are based on unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

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

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

Money market fund – Valued at the daily closing price as reported by the fund. Money market funds held by the foundation are open-ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at the price. The money market mutual funds held by the foundation are deemed to be actively traded.

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

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

Limited partnerships – Valued using NAV or capital balances provided by the general partner or investment manager as a practical expedient to fair value.

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

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

	Fair Value at June 30, 2022	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Assets Measured at the NAV				
Hedged strategies – hedged equity	$ 275,571	$ -	Annually	90 days
Private equity	10,692,770	18,720,773	At manager's discretion	N/A
Real assets	9,009,467	3,151,334	At manager's discretion	N/A

a) Hedged Strategies/Hedged Equity – This category consists of funds-of-funds that make long and short position equity investments.

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

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

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts. The risk of maintaining deposits in excess of amounts insured by federal deposit authorities is managed by maintaining such deposits in high quality financial institutions.

Investments

Investments are recorded at fair value.

Investments held at June 30, 2022, were as follows:

	Cost	Fair Value
Mutual funds	$131,785,344	$131,655,671
U.S. government securities	191,700	191,700
Interest in limited partnerships/LLCs	9,163,855	19,977,808
Total investments	$141,140,899	$151,825,179

Alternative investments – The foundation had investments in certain limited partnerships and LLCs. The estimated fair value of these assets was $19,977,808 at June 30, 2022.

The foundation believes the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2022. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques.

Pledges Receivable

Pledges receivable at June 30, 2022, are summarized below net of the estimated uncollectible allowance of $1,843,372 and unamortized present value discount of $1,873,789:

Current pledges	$ 10,649,131
Pledges due in one to five years	21,868,222
Pledges due after five years	400,000
Subtotal	32,917,353
Less allowance for uncollectible pledges	(1,843,372)
Less unamortized present value discount	(1,873,789)
Total pledges receivable, net	$ 29,200,192

Liquidity and Availability

All assets of the foundation are restricted for university support and expended for specific uses within the university. The budget allocation for foundation operations for the year ended June 30, 2022, was $637,500. Foundation operations are funded by the annual endowment administrative fee.

Endowments

The University of Memphis Foundation's endowments consist of approximately 600 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, is classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The University of Memphis Foundation is subject to the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee, and thus classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the foundation's board appropriates such amounts for expenditures. Most of those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The foundation's board has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment funds; and (2) the original value of subsequent gifts to the permanent endowment funds. The remaining portion of the donor-restricted endowments funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated by expenditure by the foundation in a manner consistent with the standard of prudence prescribed by the Act. Additionally, in accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the foundation and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation or deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the foundation, and (7) the investment policies of the foundation.

Endowment Net Asset Composition by Type of Fund
As of June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$125,876,850	$125,876,850
Total funds	$ -	$125,876,850	$125,876,850

Changes in Endowment Net Assets
As of June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$136,668,225	$136,668,225
Investment return, net	-	(20,308,899)	(20,308,899)
Contributions	-	12,285,239	12,285,239
Appropriation of endowment assets for expenditure	-	(2,767,715)	(2,767,715)
Endowment net assets, end of year	$ -	$125,876,850	$125,876,850

Underwater endowment funds – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the foundation is required to retain in a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions. Deficiencies of this nature exist in 132 donor-restricted endowment funds, which together have an original gift value of $27,918,980; a current fair value of $25,226,167; and a deficiency of $2,692,813 as of June 30, 2022. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of net assets with donor-restricted contributions and/or continued appropriation for fees and expenditures.

Return objectives and risk parameters – The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce consistent long-term growth of capital without undue exposure to risk.

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

Spending policy and how the investment objectives relate – The foundation has a policy of budgeting for expenditure each year a percentage of its endowment funds' average fair value over the prior 12 quarters through the fiscal year-end 1 year preceding the fiscal year in which the expenditure is planned. This percentage was 4% for fiscal year 2022. In establishing this policy, the foundation considered the long-term expected return on its endowment funds. Accordingly, over the long term, the foundation expects the current spending policy to allow for endowment growth. This is consistent with the foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide real growth through new gifts and investment return.

The foundation has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. The board of directors appropriated for expenditure $131,980 from underwater endowment funds during the year, which represents 2% of the 12-quarter moving average, not the 4% it generally draws from endowment.

Natural Classifications With Functional Classifications

The foundation's operating expenses by functional classification for the year ended June 30, 2022, are as follows:

Functional Classification	Salaries	Benefits	Other Operating	Payments Made to or on Behalf of University	Total
Support activities	$458,955	$144,562	$1,339,965	$ -	$ 1,943,482
Program services	-	-	-	25,765,760	25,765,760
Total expenses	$458,955	$144,562	$1,339,965	$25,765,760	$27,709,242

The foundation does not have any expenses that requires any type of allocation.

Related-Party Transaction

The foundation provided direct support to the university for general departmental expenditures, scholarships, and awards, which totaled $26,674,706 for the year ended June 30, 2022. The foundation had accounts payable to the university in the amount of $5,351,290 as of June 30, 2022.

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

At June 30, 2022, the foundation also had accounts payable to the Auxiliary Services Foundation in the amount of $707,310.

Interfund Advance

The foundation has agreed to advance up to $10,976,899 to a foundation fund as an interfund advance benefiting the athletic department of the university at a 4% annual interest rate for the purpose of providing financial support to allow the athletic department to undertake construction of a football practice facility in advance of receiving payment of donor funding commitments. The advance is to be repaid in full not later than June 30, 2025, and is secured by certain future collections of receivables and other collections related to certain foundation funds benefiting the athletic department. Interfund advances totaling $5,810,969 were outstanding as of June 30, 2022.

Contributed Services

Based upon an operating agreement between the university and the foundation, the university provides office space and donation collection and processing services for the foundation. The university provided contributed services under the terms of the operating agreement in the amount of $149,003 for the year ended June 30, 2022.

Concentrations of Risk

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

Approximately 52% of the foundation’s contributions receivable balance at June 30, 2022, was due from six donors.

Note 23. Component Unit – The University of Memphis Research Foundation

The University of Memphis Research Foundation (UMRF) is a legally separate, tax-exempt organization supporting the University of Memphis. The UMRF acts primarily as a fund-raising organization to promote the development, implementation, and coordination of sponsored research solely for the benefit of the university in the furtherance of the university's research objectives. The 12-member board of the foundation is self-perpetuating and consists of friends, faculty, and staff of the university. Although the university does not control the timing or amount of receipts from the UMRF, the majority of resources, or income thereon, that the foundation holds and invests are restricted to support research activities of the university. Because these restricted resources held by the UMRF can only be used by, or for the benefit of, the university, the UMRF is considered a component unit of the university and is discretely presented in the university's financial statements.

UMRF Ventures, Inc. (UMRF Ventures) is a wholly owned subsidiary of the UMRF that was incorporated in 2017 and commenced business operations on July 1, 2017. Its mission is to create viable part-time employment for students of the university that provides relevant job experience and potential pathways to future full-time employment. Although it is legally separate from the UMRF, this report consolidates the financial results of operations of the two entities. The exclusion of the wholly owned subsidiary from the UMRF's reporting entity would render its financial statements incomplete. The assets, liabilities, revenues, and expenses of UMRF Ventures are included in the UMRF's statement of net position and statement of revenues, expenditures, and changes in net position. However, the condensed stand-alone statements for Ventures are shown in this report as well as a description of a notes payable to the UMRF, the most significant inter-entity activity that was eliminated during the consolidation process. Upon dissolution of the wholly owned subsidiary, the assets shall be distributed to the UMRF.

Since the UMRF is an affiliate of and created solely for the benefit of the university, the financial statements of the UMRF have been prepared in accordance with accounting principles generally accepted in the United States of America for public colleges and universities, as prescribed by the Governmental Accounting Standards Board (GASB).

During the year ended June 30, 2022, the UMRF made distributions of $791,586 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Dr. Jasbir Dhaliwal, Executive Director, 365 Innovation Drive, Suite 303; Memphis, TN 38152.

Cash and Cash Equivalents

At June 30, 2022, cash and cash equivalents consisted of $1,343,184 in demand deposit accounts or with banks affiliated with the Research Foundation's investment broker. As of June 30, 2022, UMRF had deposits in excess of federally insured limits in the amount of $61,722. As of June 30, 2022, Ventures had deposits in excess of federally insured limits in the amount of $515,462.

Investments

The foundation is authorized to invest funds in accordance with its board of directors' policies. In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended, and GASB Statement 72, *Fair Value Measurement and Application,* as amended, investments are reported at fair value, including those with a maturity date of one year or less at the time of purchase, unless otherwise noted. The foundation is authorized to invest funds in accordance with its board of directors' policies.

At June 30, 2022, the UMRF had the following investments:

Investment Type	Fair Value	Less than 1 year
U.S. Treasury	$ 228,413	$228,413
Total debt investments	228,413	$228,413
Non-Fixed Income Investment		
Mutual funds	1,458,807	
Brokered certificates of deposit	225,650	
Total	$1,912,870	

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. The UMRF has adopted an investment policy to invest excess operating cash in brokered certificates of deposit as a means of managing its exposure to fair value arising from increasing interest rates.

Custodial credit risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the UMRF will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The UMRF does not have a deposit policy for custodial credit risk; however, all investments are held in third-party safekeeping at an institution that is a member of the Securities Investor Protection Corporation (SIPC). SIPC covers custodial risk up to $500,000 per investor.

Fair Value Measurement

The UMRF categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The UMRF has the following recurring fair value measurements as of June 30, 2022:

	June 30, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets by Fair Value Level			
Debt securities			
U.S. Treasuries	$ 228,413	$ 228,413	$ -
Total debt securities	228,413	228,413	-
Equity securities			
Mutual equity funds	1,458,807	1,458,807	-
Other assets			
Brokered certificates of deposit	225,650	-	225,650
Total assets at fair value	$ 1,912,870	$ 1,687,220	$ 225,650

Assets and liabilities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Assets and liabilities classified in Level 2 of the fair value hierarchy are valued using the discounted related cash flows based on current yields of similar instruments with comparable durations, as reported by the custodian.

Capital Assets

Capital asset activity for the year ended June 30, 2022, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Leasehold improvements	$183,396	$ -	$ -	$ 183,396
Equipment	280,881	82,644	-	363,525
Patents	621,494	242,115	(54,083)	809,526
Intangible assets				
Right-to-use – equipment	-	321,296	-	321,296
Total	1,085,771	646,055	(54,083)	1,677,743
Less accumulated depreciation/amortization:				
Leasehold improvements	139,414	43,982	-	183,396
Equipment	104,503	60,309	-	164,812
Patents	180,620	60,661	(25,927)	215,354
Intangible assets				
Right-to-use – equipment	-	107,853	-	107,853

Total	424,537	272,805	(25,927)	671,415
Capital assets, net	$661,234	$373,250	$(28,156)	$1,006,328

Leases

Lease liabilities – UMRF Ventures, Inc. leases office space from the university, the terms of which expire in various years through 2025.

The following is a schedule by year of payments under the leases as of June 30, 2022:

Year Ending June 30	Principal	Interest	Total
2023	$111,952	$6,795	$118,747
2024	103,181	2,194	105,375
2025	4,675	16	4,691
Total	$219,808	$9,005	$228,813

Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2022, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Notes	$75,278.00	$76,664.00	$40,772.00	$111,170.00	$54,064.00

Notes payable – In fiscal year 2020, UMRF Ventures borrowed funds from a finance company to purchase operating equipment. The note bears an interest rate of 1%, had an original issue amount of $102,796 and a minimum annual debt service of $2,707, and matures in September 2023. The balance owed by the foundation was $41,218 at June 30, 2022. In fiscal year 2022, UMRF Ventures borrowed additional funds from a finance company to purchase operating equipment. This note bears an interest rate of 1%, had an original issue amount of $76,664 and a minimum annual debt service of $2,672, and matures in April 2025. The balance owed at June 30, 2022, was $69,952.

Debt service requirements to maturity for notes payable at June 30, 2022, are as follows:

Year Ending June 30	Principal	Interest	Total
2023	$ 54,064	$10,492	$ 64,556
2024	35,487	6,097	41,584
2025	21,619	1,793	23,412
Total	$111,170	$18,382	$129,552

Equities Held in Licensees

The UMRF holds minor equity interests in research companies licensed to use the foundation's patents ranging from 0.6% to 9%. No value has been assigned to these shares, as there is no readily determinable market value, and the shares were acquired without any cost to the foundation.

Concentrations

The UMRF recorded 100% of total contract billings from one funding source during the year ended June 30, 2022.

UMRF Ventures recorded approximately 92% of total revenue and 84% of total receivables from two customers during the year ended June 30, 2022.

Related-Party Debt

Related-party debt for the UMRF as of June 30, 2022, includes the following:

Note Payable:	Balance
UMRF Ventures note payable to UOM, bearing interest at 4%, due in quarterly payments beginning January 1, 2020, and maturing on December 31, 2023	$ 221,179
Less: Current portion	(124,486)
Total related-party debt – long term	$ 96,693

In September 2018, the UMRF loaned UMRF Ventures, Inc. $225,000 for working capital support to expand its services. This loan bears interest at 5% per annum and is due September 20, 2024. The UMRF received interest relating to this loan totaling $11,250 during the year ended June 30, 2022. The UMRF received rent in the amount of $50,000 from UMRF Ventures, Inc. during the year ended June 30, 2022. This loan was eliminated as part of internal activity.

Debt service requirements to maturity on related-party debt are as follows:

	Principal	Interest	Total
For the years ending June 30			
2023	$124,486	$6,995	$131,481
2024	96,693	1,941	98,634
Total	$221,179	$8,936	$230,115

Other Related-Party Transactions

Expenditures to UOM represent amounts paid by the UMRF to reimburse the university for certain expenses, including prepaid management, business office operations, and personnel support, incurred by the university of behalf of the UMRF.

Residual balance payments are paid annually to the university for costs incurred on projects that utilize excess funds from previously completed projects that are now available to be used in funding current projects. Such amounts are included in expenditures to the university in the accompanying statement of revenues, expenses, and changes in net position.

During the year ended June 30, 2022, the UMRF made cash transfers to the university in the amount of $1,146,364. As of June 30, 2022, the UMRF had payables to the university totaling $564,281.

The UMRF paid rent to the university for the use of office space in the amount of $14,783 during 2022.

In addition to rent, UMRF Ventures pays the university for other operating expenses. During the year ended June 30, 2022, UMRF Ventures incurred expenses from the university totaling $10,509 in data usage fees, $954 in parking, and $7,034 in other office expenses. As of June 30, 2022, UMRF Ventures had $48,219 due to the university for various expenses and fees.

Blended Component Unit

The following is a condensed statement of net position; condensed statement of revenues, expenses, and changes in net position; and condensed statement of cash flows showing assets, liabilities, revenues, and expenses that are reported as blended component unit of the UMRF.

UMRF Ventures, Inc.
Condensed Statement of Net Position
June 30, 2022

Assets:	
Current assets	$1,896,210
Capital assets, net	412,156
Other assets	41,323
Total Assets	2,349,689
Liabilities:	
Current liabilities	615,486
Noncurrent liabilities	488,419
Total Liabilities	1,103,905
Net Position:	
Net investment in capital assets	87,544
Unrestricted	1,158,240
Total Net Position	$1,245,784

UMRF Ventures, Inc.
Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2022

Operating revenues	$5,780,699
Operating expenses	(5,850,117)
Operating loss	(69,418)
Other revenues, expenses, gains, or losses	16,703
Decrease in net position	(52,715)
Net position, beginning of year	1,298,499
Net position, end of year	$1,245,784

Note 24. Component Unit ‑ The Auxiliary Services Foundation

The Auxiliary Services Foundation (ASF) is a legally separate, tax-exempt organization supporting University of Memphis. The ASF acts primarily as an agent to operate auxiliary enterprises which directly affect the university. The five-member board of the ASF is self-perpetuating and consists of friends and staff of the university. Although the university does not control the timing or amount of receipts from the ASF, the majority of resources, or income thereon, that the ASF holds and invests are restricted to support activities of the university. Because these restricted resources held by the ASF 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.

The ASF is a nonprofit organization that reports under Financial Accounting Standards Board standards. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the ASF's financial information in the university's financial statements for these differences.

During the year ended June 30, 2022, the foundation made distributions of $9,519,697 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Holly Ford, Chief Executive Officer, 635 Normal Street, Memphis, TN 38152.

Cash and Cash Equivalents

At June 30, 2022, cash consists of $16,166,349 in demand deposit accounts.

Liquidity and Availability

All financial assets of the ASF are restricted for the support of the university. The cash held in a financial institution is restricted specifically for construction in the amount of $5,573,124.

The ASF does not have a liquidity management plan.

Capital Assets

Capital assets at year-end is comprised of the donation of a historical document valued at $750,000. The document is 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.

Related-Party Transactions

The ASF received the following transfers from organizations affiliated with the university during the period ending June 30, 2022:

University of Memphis Foundation	$9,764,525
University of Memphis Research Foundation	11,020
	$9,775,545

Expenditures made by the ASF are in support of the university and are presented in the statement of revenues, expenses, and changes in net position.

At June 30, 2022, the foundation was due $707,310 from the University of Memphis Foundation.

Commitments

The ASF is currently managing capital projects for the university and is under obligation for the following contracts for the projects listed below:

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

Long-term Liabilities

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

	Balance
Promissory note, repayable in quarterly principal installments, accrues interest at variable rate per annum equal to the 30-day LIBOR rate plus 2.15% (2.99% at June 30, 2022). Note matures on December 10, 2027	$10,302,125
Less: Current portion	(1,749,387)
Total related-party debt – long term	$ 8,552,738

Future maturities of long-term debt are as follows:

For the Years Ending June 30	
2023	$ 1,749,387
2024	1,802,462
2025	1,857,147
2026	1,913,492
2027	2,979,637
Total	$10,302,125

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

Derivative Instruments and Fair Value Measurements

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

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

The ASF groups its assets measured at fair value in three levels based on the reliability of valuation inputs used to determine fair value. The proper level of fair value measurement is determined based on the lowest level of significant input. The levels are as follows:

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 coordinated 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 asset is based on other observable inputs (Level 2). The fair value of the foundation's swap asset is provided by a third party who derives the valuation from a proprietary model based upon 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 asset measured at fair value on a recurring basis as of June 30, 2022:

	Fair Value June 30, 2022	Significant Other Observable Inputs (Level 2)
Assets by Fair Value Level		
Interest rate swap	$654,662	$654,662

Natural Classifications With Functional Classifications

The ASF's operating expenses by functional classification for the year ended June 30, 2022, are as follows:

Functional Classification	Salaries	Benefits	Other Operating	Payments Made to or on Behalf of University	Total
Support activities	$25,208	$8,974	$31,860	$ -	$ 66,042
Payments made to or on behalf of the university	-	-	-	9,519,697	9,519,697
Total expenses	$25,208	$8,974	$31,860	$9,519,697	$9,585,739

The ASF does not have any expenses that require any type of allocation.

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

	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2022	1.976849%	$(12,095,312)	$41,724,304	(28.99%)	103.30%
2021	1.947908%	31,912,779	43,117,121	74.01%	90.58%
2020	1.954592%	27,602,054	44,069,482	62.63%	91.67%
2019	1.985131%	32,068,037	45,932,958	69.81%	90.26%
2018	1.981436%	35,459,769	47,429,941	74.76%	88.88%
2017	2.053060%	37,459,409	50,178,303	77.68%	87.96%
2016	1.964990%	25,334,267	51,310,490	49.37%	91.26%
2015	2.010010%	13,868,034	54,942,068	25.24%	95.11%

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

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

THE UNIVERSITY OF MEMPHIS

Required Supplementary Information

Schedule of the University of Memphis's Proportionate Share of the Net Pension Asset

State and Higher Education Employee Retirement Plan Within TCRS

	Proportion of the Net Pension Asset	Proportionate Share of the Net Pension Asset	Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2022	2.539731%	$2,152,333	$32,165,085	6.69%	121.71%
2021	2.540327%	894,533	29,077,960	3.08%	112.90%
2020	2.583001%	1,071,365	24,223,099	4.42%	122.36%
2019	2.470528%	952,959	18,163,681	5.25%	132.39%
2018	2.337078%	484,6575	12,324,169	3.93%	131.51%
2017	2.497908%	210,436	7,702,818	2.73%	130.56%
2016	2.108964%	58,650	2,296,586	2.55%	142.55%

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

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

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

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2022	$8,046,292	$12,731,350	($4,685,058)	$39,250,039	32.44%
2021	8,044,840	8,044,840	-	41,724,304	20.23%
2020	8,476,846	8,476,846	-	43,117,121	19.66%
2019	8,474,745	8,474,745	-	44,069,482	19.23%
2018	8,667,550	8,667,550	-	45,932,958	18.87%
2017	6,995,147	6,995,147	-	47,429,941	15.02%
2016	7,530,918	7,530,918	-	50,178,303	15.03%
2015	7,709,639	7,709,639	-	51,310,490	15.03%
2014	8,253,251	8,253,251	-	54,942,068	15.03%
2013	8,364,880	8,364,880	-	55,654,558	15.03%

Notes to Schedule:

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

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

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

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2022	$683,858	$683,858	$ -	$32,767,277	1.86%
2021	578,804	578,804	-	32,165,085	1.80%
2020	503,051	503,051	-	29,077,960	1.73%
2019	402,220	402,220	-	24,223,099	1.66%
2018	708,946	708,946	-	18,163,681	3.90%
2017	483,152	483,152	-	12,324,169	3.91%
2016	283,442	283,442	-	7,702,818	3.68%
2015	92,517	92,517	-	2,296,586	3.87%

Notes to Schedule:

1) This is a 10-year schedule; however, contributions to this plan began in 2015. Years will be added to this schedule in future years until 10 years of information is available.

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

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

	University's Proportion of the Collective Total/Net OPEB Liability	University's Proportionate Share of the Collective Total/Net OPEB Liability	University's Covered-Employee Payroll	University's Proportionate Share of the Collective Total/Net OPEB Liability as a Percentage of Its Covered-Employee Payroll	OPEB Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2022	2.047646%	$14,600,366	$ 83,586,188	17.47%	39.00%
2021	2.023875%	16,941,838	89,308,913	18.97%	25.20%
2020	2.016082%	19,196,730	91,875,711	20.89%	18.33%
2019	2.147529%	29,748,396	119,564,847	24.88%	N/A
2018	2.003563%	26,898,652	103,838,371	25.90%	N/A

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

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

3) During fiscal year 2019, the plan transitioned from a pay-as-you-go OPEB plan to a prefunding arrangement where assets are accumulated in a qualifying trust and benefits are paid from that trust. This change was reflected in the June 30, 2020, reporting period due to the one-year lookback on OPEB measurement.

4) The OPEB liability measured as of June 30, 2019, was measured with a 6% discount rate. This was a significant increase from the rate used in prior years and was due to the OPEB plan's transition from pay-as-you-go funding to a prefunding arrangement through a qualifying trust.

THE UNIVERSITY OF MEMPHIS
Required Supplementary Information
Schedule of the University of Memphis's Contributions
Closed State Employee Group OPEB Plan

	Actuarially Determined Contributions	Contributions in Relation to Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2022	$3,127,668	$3,127,668	$ -	$82,489,326	3.79%
2021	3,441,007	3,441,007	-	83,586,188	4.12%
2020	3,346,796	3,346,796	-	89,308,913	3.75%
2019	3,253,335	2,808,396	444,939	91,875,711	3.06%

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

2) Actuarially determined contribution rates are determined based on valuations as of June 30 two years prior to the fiscal year-end in which the contributions are reported.

THE UNIVERSITY OF MEMPHIS

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

	University's Proportion of the Collective Total OPEB Liability	Primary Government's Proportionate Share of the Collective Total OPEB Liability	Primary Government's Total OPEB Liability Associated With the University	University's Covered-Employee Payroll	University's Proportionate Share of the Collective Total OPEB Liability as a Percentage of Its Covered Payroll
2022	0.00%	$5,286,168	$5,286,168	$102,151,546	0.00%
2021	0.00%	5,866,886	5,866,886	111,874,928	0.00%
2020	0.00%	5,037,419	5,037,419	114,003,275	0.00%
2019	0.00%	5,321,549	5,321,549	99,528,541	0.00%
2018	0.00%	4,931,306	4,931,306	106,767,792	0.00%

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

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

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

Jason E. Mumpower
Comptroller

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

The Honorable Bill Lee, Governor
Members of the General Assembly
Dr. Bill Hardgrave, President

We have audited the financial statements of the University of Memphis, an institution of the State University and Community College System of Tennessee, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated December 14, 2022. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our report includes a reference to other auditors who audited the financial statements of the University of Memphis Foundation, the University of Memphis Research Foundation, the Auxiliary Services Foundation, and the Herbert Herff Trust, as described in our report on University of Memphis's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on Internal Control Over Financial Reporting

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

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

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

- The university did not obtain state-level approvals for accounts receivable write-offs.

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

Report on Compliance and Other Matters

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

The University of Memphis's Response to Finding

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

Purpose of This Report

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

Katherine J. Stickel

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
December 14, 2022

Finding and Recommendation

Finding

The university did not obtain state-level approvals for accounts receivable write-offs

Condition, Criteria, Cause, and Effect

As part of the oversight authority of the State of Tennessee, the Department of Finance and Administration (F&A) has a rule that accounts receivable write-offs are subject to approval by both the Commissioner of F&A and the Comptroller of the Treasury. The intent of the rule is to ensure appropriate collection efforts before discharging amounts owed to the state. According to Chapter 0620-1-9.02 of the *Rules of Department of Finance and Administration:*

> For write-offs of accounts of five thousand dollars ($5,000) or greater, or accounts aggregating to twenty-five thousand dollars ($25,000) or greater, the agency, department, or institution shall obtain written approval of the Commissioner of Finance and Administration and the Comptroller of the Treasury. . . . Write-offs of accounts less than five thousand dollars ($5,000) or accounts aggregating less than twenty-five thousand dollars ($25,000) may be authorized by the head of the agency, department, or institution.

The University of Memphis has policies and procedures that mirror the language of the F&A rule: Policy BF4033, "Collection of All University Accounts Receivable" and the related procedure "Process for Recovery of Accounts Receivable."

While the rule does not define the time period of write-offs, common practice is to analyze and submit approvals for the accounts receivable annually. As part of this process, universities and state departments compile a list of receivables where collection efforts have been exhausted and accumulate a total write-off amount for approval. While annual submissions are common, more frequent submissions have historically been acceptable.

Management shared with us that their intention is for the University Student Business Services Office (USBS) to submit the accounts for write-off up to the amount permitted by the rule on a monthly basis, in addition to the annual submission to F&A and the Comptroller as they had been doing previously.

When we examined the university's write-off requests, we noted that more than $149,000 was written off in a six-month period, without the additional approvals from F&A and the Comptroller. The Chief Financial Officer and the President approved the first grouping, totaling $74,936 and covering January through March, on March 28 and 29, 2022. They approved the second grouping, totaling $74,067 and covering April through June, on June 23 and 29, 2022. Both groupings accumulated to totals larger than the $25,000 threshold requiring state approval, but management did not submit them for F&A and Comptroller approval.

University management's position was that since each month accumulated to less than $25,000, the additional approval was not required. We disagree with that interpretation of the rule.

The chart below summarizes the university's write-off activity and related approvals. In addition to accumulations for the President's approval, the aggregated amounts for all six individual months were between $24,380 and $24,998.

Month	Write-off Amount	USBS Preparation Date	Chief Financial Officer Approval Date	President Approval Date
January 2022	$24,971.69	03/25/2022	03/28/2022	03/29/2022
February 2022	$24,967.11	03/24/2022	03/28/2022	03/29/2022
March 2022	$24,997.21	03/24/2022	03/28/2022	03/29/2022
April 2022	$24,937.06	05/17/2022	06/29/2022	06/29/2022
May 2022	$24,748.99	05/26/2022	06/29/2022	06/29/2022
June 2022	$24,380.45	06/07/2022	06/22/2022	06/23/2022

We concluded the write-offs were not in compliance with the spirit of the policy and resulted in the avoidance of appropriate approvals.

Even with these smaller monthly write-offs, the university still had a large annual write-off for over $1 million that had to be submitted to the state. Due to staffing shortages earlier in the year and the ensuing backlog from those shortages, the larger write-off was not submitted until December 2022, six months after the June 30 fiscal year ended.

Recommendation

University management should ensure write-off policies and practices are in compliance with both the letter and the spirit of the F&A rule. Management should ensure the write-offs of accounts receivable are appropriately accumulated and approved.

Management's Comments

Management acknowledges the finding described above and appreciates the concerns expressed regarding compliance with both the letter and spirit of the F&A rule. Going forward, the university will ensure that uncollectible debts of any denomination recommended for write-off will be submitted to the Commissioner of F&A and the Comptroller of the Treasury and written off only upon their approval. We will aim to do so on a regular basis to ensure that aged balances do not increase as was the case prior to the practice of regular review and write-off of balances implemented in fiscal year 2019.