

# March 2025 Finance and Audit Committee







**Schedule**

















Wednesday, March 5, 2025 9:45 AM — 10:30 AM CST





**Organizer**

Colton Cockrum

## Agenda

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# 1. Call to Order and Opening Remarks

Presented by David McKinney



## 2. Roll Call and Declaration of Quorum

For Approval

Presented by Colton Cockrum



### 3. Approval of Finance and Audit Committee Meeting Minutes from December 4, 2024

For Approval

Presented by David McKinney

**University of Memphis Board of Trustees**

**Finance & Audit Committee**

**December 4th, 2024**

**Meeting Minutes**

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

Trustee McKinney called the meeting to order.

Trustee McKinney welcomed students, faculty, and staff present. He thanked fellow trustees and members of the community for their presence.

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

Trustee McKinney recognized Secretary Cockrum.

The following committee members were in attendance:

Trustee Khokhar  
Trustee Springfield  
Trustee Marchetta  
Trustee Roberts (she stated she was alone and could hear)  
Trustee Carter (he stated he was alone and could hear)  
Trustee McKinney

These additional trustees were acknowledged in attendance:

Chairman Johnson  
Trustee Edwards  
Trustee North (he stated he was alone and could hear)

Secretary Cockrum announced the presence of quorum.

**Agenda Item 3: Approval of Finance & Audit Committee Meeting Minutes from September 4, 2024**

Trustee called for a motion and second to approve the meeting minutes from September 4, 2024. The motion was made by Trustee Marchetta and properly seconded.

A roll call vote was taken, and the motion carried.

**Agenda Item 4: FY 2024-2025 Revised Budget Approval**

Trustee McKinney recognized Executive Vice President, Chief Operating and Financial Officer (EVP, COO/CFO), Rene Bustamante.

Mr. Bustamante updated the committee of the following changes: approved tuition and fee increases from the June 5, 2024 board meeting and Fall 2024 actual-enrollment adjustments; increased state appropriations; non-recurring expenditure budgets, including one-time activities, and resources available from prior year operations; other adjustments to operating plans, organizational structure, revenue projections, or fixed costs made after the submission of the Proposed Budget.

Mr. Bustamante explained that the FY2025 Revised Budget total \$659.9 million reflects revenue increases of \$15.3 million from the FY2025 Proposed Budget of \$644.6 million. He also noted that the proposed budget is the base budget and does not include carry over funds or one-time activities which the revised budget does. He explained that the variance increases are largely due to the carry forward funds of each category. Mr. Bustamante stressed that student retention and enrollment is the number one goal. He noted that one-time funds have been set aside to help respond to temporary declines in tuition and fee revenues.

Mr. Bustamante noted that Instruction, Research, and Scholarships and Fellowships are the bulk of expenditures. Mr. Bustamante noted that the FY25 Revised Budget is within available resources, complies with applicable policies and guidelines and is recommended for approval.

Trustee McKinney thanked Rene and team. He reminded the board of the strategy to recruit and retain quality students will sacrifice intake in the short term, but in the long term aligns with the strategic plan's national model.

Trustee McKinney called for a motion and second to approve the FY2025 Revised Budget. The motion was made by Trustee Springfield and properly seconded. A roll call vote was taken and the motion carried.

Trustee Marchetta commented as a reminder to the audience that sometimes the increase in revenue is not discretionary and has to be spent a certain way.

#### **Agenda Item 5: Renaming of Auxiliary Services Foundation to Memphis Athletic Foundation**

Trustee McKinney recognized President Hardgrave.

President Hardgrave commended Rene and his team on their conservative approach in keeping the university fiscally sound amid financial struggles in higher education overall.

President Hardgrave explained that at the March 13, 2024, board meeting the Real Estate Foundation was established to separate real estate from athletics allowing the Auxiliary Services Foundation (ASF) to become more athletics focused. He noted that at the completion of the Simmons Bank Liberty Stadium transfer to the university the ASF was to be renamed.

The Finance and Audit committee recommended a motion to authorize the renaming and repurposing of the Auxiliary Services Foundation to the Memphis Athletic Foundation.

Trustee McKinney called for a motion and second on the recommendation. The motion was made by Trustee Marchetta and properly seconded. A roll call vote was taken and the motion carried.

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

Trustee McKinney recognized Chief Audit Executive, Angela Ross.

Ms. Ross explained that of the three audits performed since the last meeting, there were no significant issues identified.

#### **Agenda Item 7: Summary of Internal Audit Investigations**

Ms. Ross noted there were three reports issued from an investigation's perspective. All were resolved and appropriate memos issued.

#### **Agenda Item 8: Review of Conflict-of-Interest Policy**

Ms. Ross explained that there were two policies to be brought before the committee for an annual policy review.

The first policy presented was the Conflict-of-Interest Policy. Details to the policy were in the committee members' materials. She noted there were no changes to this policy. Ms. Ross called for questions. There were none.

#### **Agenda Item 9: Review of University Code of Ethics**

The second policy presented was the Code of Ethics Policy. Details to the policy were in the committee members' materials. She noted there were no changes to this policy. Ms. Ross called for questions.

Trustee Marchetta questioned the prefix of the policies to identify their associated division. Ms. Ross noted that the materials would be updated to reflect that change.

#### **Agenda Item 10: Review of Finance and Audit Charter**

Ms. Ross explained that the charter was detailed in the committee members' materials. She noted there were no changes to this policy.

Trustee McKinney thanked Chief Audit Executive, Angela Ross for her report.



### **Agenda Item 11: Payment Card Industry External Review and Corrective Action**

Trustee McKinney recognized Chief Information Officer, Jeff Delaney.

Mr. Delaney presented the updates to the Payment Card Industry Data Security Standard (PCI DSS) which includes guidelines to protect cardholder data. He explained that these standards had to be upheld to allow major credit cards to be used at an institution. He noted there was an assessment completed in February 2023 by CampusGuard to measure compliance. A summary of the assessment and the recommendations were provided at the September 2023 Board of Trustees meeting in executive session. Since then, Information Technology Services has been working in consultation with CampusGuard to complete the recommendations. Mr. Delaney noted that all recommendations have been completed except two.

Mr. Delaney explained that the two recommendations are strengthening the partnership between the university and the foundations to show PCI DSS compliance and increase the logging and auditing on the PCI Network. Alternative to maintaining the PCI Network, Mr. Delaney noted that it would be eliminated altogether by utilizing encrypted devices to encrypt traffic between the terminal and processor. He explained that once the final device is eliminated then that recommendation would be resolved.

### **Agenda Item 12: Annual Information Security Program Update**

Mr. Delaney provided an annual update noting the completion of the Annual Security Awareness training in October 2024 with a 92% completion rate. He explained that the phishing failure rate went from 15% to 7.6% due to training and monthly simulated phishing campaigns. Student phishing campaigns started in Fall 2024 with a 15% failure rate. He explained that two new IT Security policies have been implemented: Data privacy policy (IT6010) to protect personal data (Gramm-Leach-Bliley Act requirement) and Password policy (IT6011) codifying the process that is already in place. Mr. Delaney explained that IT has improved email security filtering processing about 13 million emails monthly and blocking about 40%.

Mr. Delaney noted in looking ahead that IT is working on a CyQu-State of TN cyber insurance questionnaire to evaluate security posture in compliance with standards to ensure eligibility with the state cyber insurance. He explained that IT is also researching improving authentication methods and will continue to phish students to improve the failure rate.

Trustee Carter commented that cyber risk emerged as the number one enterprise risk across all entities and wanted to make it known that the committee is widely interested in the cyber security posture of the university as well as UofM IT has the necessary resources. Trustee Carter asked Mr. Delaney if he felt he had the necessary resources to protect the university's technology footprint.

Mr. Delaney responded that he does have the resources. He noted email as a big challenge as well as human error. He noted that the trainings and phishing campaigns are bringing about the necessary awareness.

Trustee North commented that cyber breaches do not always come within the walls of the institution. He asked Mr. Delaney if he felt he had enough authority to understand all of the entities that the university may share significant amounts of data with and wondered about the state of the university's security as applicable to the broader university community.

Mr. Delaney responded that IT significantly assesses vendors especially ones that include data transferring. He explained that he feels he is empowered enough to protect the institution.

### **Agenda Item 13: Additional Business**

Trustee McKinney asked for additional Business. The next committee meeting will be March 5, 2025.

### **Agenda Item 14: Adjournment**

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

## 4. Summary of Internal Audit Reports Issued

Presentation

Presented by Angela Ross

# *Internal Audit Agenda Items*

## *Finance and Audit Committee*

Angela Ross

Associate Vice President and Chief Audit Executive

March 5, 2025

Maxine A. Smith University Center



MARCH 2025

# Presentation: Summary of Internal Audit Reports Issued

Two reports were issued since the December 2024 meeting.

Name of Audit Report	Date of Audit Report	Audit Engagement Report Opinion	Observations	Minor Issues Addressed Verbally	Minor Issues	Moderate Issues	Major Issues	Matters for Consideration by University Management	Issues Outstanding from Prior Audit	Recommendations for Management
School of Communication Science and Disorder Consulting	1/15/2025	Not Applicable	3	0	0	0	0	0	0	1
NACHA - WEB	2/21/2025	Effective with the Opportunity for Improvement	0	0	0	0	0	0	0	0

## Presentation: Audit Issue Follow Up

Action Plan Estimated Completion Date	Name of Audit	Date of Audit Report	Audit Engagement Opinion	Issue #	Issue Description	Issue Rating	Party Responsible for Action Plan Completion	Current Status (as of January 2025)
12/31/2024	Lab Safety Audit FY2024	5/8/2024	Effective with the Opportunity for Improvement	Lab Safety 1	Improvement Needed in Identification of New Labs	Moderate = Requires Improvement	Bobby Clark, Director, Environmental Health & Safety	Not Complete, Action Plan Estimated Completion Date Extended to 2/28/2025
12/31/2024	Lab Safety Audit FY2024	5/8/2024	Effective with the Opportunity for Improvement	Lab Safety 2	Improvement Needed in Lab Safety Training Processes	Moderate = Requires Improvement	Bobby Clark, Director, Environmental Health & Safety	Not Complete, Action Plan Estimated Completion Date Extended to 2/28/2025
8/31/2024	Lab Safety Audit FY2024	5/8/2024	Effective with the Opportunity for Improvement	Lab Safety 3	Opportunity to Improve Annual Lab Inspection Process	Minor = Effective with the Opportunity for Improvement	Bobby Clark, Director, Environmental Health & Safety	Complete
10/31/2024	Lab Safety Audit FY2024	5/8/2024	Effective with the Opportunity for Improvement	Lab Safety 4	Opportunity to Improve Student Lab Safety	Minor = Effective with the Opportunity for Improvement	Bobby Clark, Director, Environmental Health & Safety	Not Complete, Action Plan Estimated Completion Date Extended to 2/28/2025

# Presentation: Summary of Investigations Resolved

Two reports were issued since the December 2024 meeting.

Allegation Received by	Date Allegation Received	Description of Allegation	Date Assigned by Complaint Triage Team	Internal Audit Investigation Number	Investigation Status	Investigation Outcome	Date of Final Action
TN Comptroller of Treasury	7/3/2024	Use of University Vehicle	7/25/2024	25-001 (TN Comp ANTS 25-9895)	Investigation Complete, Human Resources Memo Issued	No Evidence of Vehicle Use Policy Violation	10/16/2024
Referral from Athletics Department	10/9/2024	Volleyball Coach Sale of Nike Shoes	10/10/2024	25-002 (TN Comp ANTS 25-10479)	Investigation Complete, Human Resources Memo Issued	No Evidence of Intentional Deception; Potential Waste and Abuse	8/31/2024



## Presentation: External Audit Reports

- In accordance with requirements of the Tennessee Comptroller of the Treasury, recent audits of University of Memphis Foundation's, UofM Research Foundation, and Herff Trust financial statements were conducted for the fiscal year ending June 30, 2024, and 2023.
- Independent external CPA firms conducted their audits in accordance with accounting principles generally accepted in the United States of America.
- In accordance with Government Auditing Standards, independent auditors also issued a report, on their consideration of the Foundation's internal control over financial reporting and on compliance with certain provisions of laws, regulations, contracts and grant agreements.
- No opinion is expressed on the effectiveness of the Foundations' internal control over financial reporting or on compliance.



## Presentation: External Audit Report - **The Herff Trust** Financial Statements Year Ended June 30, 2024

- Herbert Herff left the bulk of his estate in trust with the State of Tennessee in 1966 for the University to use the funds for the benefit of the UofM School of Law, the School of Engineering , and such other uses as the Committee responsible for managing and controlling the bequest may decide. The business affairs of the Herff Trust are managed by the University.
- CBIZ CPA independent auditor's opinion stated that the **financial statements present fairly, in all material respects**, the financial position of the Herff Trust as of June 30, 2024, and the changes in its financial position and cash flows for the year then ended **in accordance with accounting principles generally accepted** in the United States of America.
- Auditors did not identify any deficiencies in internal control that would be considered material weaknesses during their limited consideration of internal control over financial reporting. Also, they did not identify any instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

## Presentation: External Audit Report - The University of Memphis Foundation Financial Statements, Years Ended June 30, 2024, and 2023

- University of Memphis (UofM) Foundation is a not-for-profit, tax-exempt corporation chartered in 1964 in the State of Tennessee, that accepts and manages private support to the University of Memphis and is considered a component unit of the University discretely presented in the University's financial statements.
- CBIZ CPA independent auditor's opinion stated that **the financial statements present fairly, in all material respects**, the financial position of the Foundation as of June 30, 2024, and the changes in its net assets and its cash flows for the year then ended **in accordance with accounting principles generally accepted** in the United States of America.
- Prior period financial statements as of and for the year ended June 2023 were audited by other auditors (Forvis, LLP), and a similar auditor's opinion was rendered by that firm.
- Auditors did not identify any deficiencies in internal control that would be considered material weaknesses during their limited consideration of internal control over financial reporting. Also, **they did not identify any instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.**

## Presentation: External Audit Report - The University of Memphis Research Foundation Financial Statements, June 30, 2024

- The University of Memphis Research Foundation is a private, nonprofit foundation established on June 16, 2006, to develop and administer sponsored research and other sponsored projects conducted by the faculty and staff of the University. The University is the sole beneficiary of the Foundation. Financial statements and activities of the Foundation's wholly-owned subsidiary, UMRF Ventures, Inc. are incorporated in the UMRF financials as a discretely presented component unit. UMRF Ventures was incorporated in 2017.
- Watkins Uiberall, PLLC independent auditor's opinion stated that the **financial statements present fairly, in all material respects**, the respective financial position of the business-type activities and the discretely presented component unit of the Foundation as of June 30, 2024, and the respective changes in financial position and, where applicable, cash flows for the year then ended **in accordance with accounting principles generally accepted** in the United States of America.
- Auditors did not identify any deficiencies in internal control that would be considered material weaknesses during their limited consideration of internal control over financial reporting. Also, they did not identify any instances of noncompliance with certain provisions of laws, regulations, contracts, grant agreements, or other matters that are required to be reported under Government Auditing Standards.

## Presentation: External Audit Report - **Auxiliary Services Foundation** Independent Auditor's Report, Financial Statements, and Supplemental Schedules, June 30, 2024

- The Auxiliary Services Foundation is a not-for-profit corporation that commenced operations in April 2019 as an agent to operate auxiliary enterprises which directly benefit the University of Memphis.
- The Foundation accepts, administers, applies, and uses property acquired by gift, grant, devise, or bequest, or otherwise solely for the benefit of the University and is considered a component unit of the University and is discretely presented in the University's financial statements.
- ATA, PLLC independent auditor's opinion stated that the **financial statements present fairly, in all material respects**, the financial position of Auxiliary Services Foundation as of June 30, 2024, and the changes in its net assets and its cash flows for the year then ended **in accordance with accounting principles generally accepted** in the United States of America.
- Auditors identified certain deficiencies in internal control they consider to be material weaknesses and significant deficiencies. The auditors proposed a recommendation and the Foundation's management provided a response and corrective action plan. The auditors test did not identify any instances of **noncompliance or other matters that are required to be reported under Government Auditing Standards.**

## Presentation: Office of Internal Audit and Consulting Client Satisfaction Survey 2024

During February 2025, feedback was solicited via a Client Satisfaction Survey that was distributed to 112 faculty and staff – audit clients, employees involved in investigations, and others who worked with Internal Audit or received Internal Audit communications during 2024. Survey results, including suggestions and concerns, will be considered in the ongoing efforts to improve internal audit operations.

- Anonymous survey participation rate was 21% (24 responses).
- About 91% of the responses indicated that the audit clients were satisfied with the University's internal audit services or considered the internal audit services favorably.



# Questions?

## The University of Memphis Board of Trustees

Presentation  
For Information

**Date:** March 5, 2025

**Committee:** Finance and Audit Committee

**Presentation:** Summary of Internal Audit Reports Issued

**Presented by:** Angela Ross, Associate Vice President & Chief Audit Executive

**Background:**

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

Name of Audit Report	Date of Audit Report	Audit Engagement Report Opinion	Observations	Minor Issues Addressed Verbally	Minor Issues	Moderate Issues	Major Issues	Matters for Consideration by University Management	Issues Outstanding from Prior Audit	Recommendations for Management
School of Communication Science and Disorder Consulting	1/15/2025	Not Applicable	3	0	0	0	0	0	0	1
NACHA - WEB	2/24/2025	Effective with the Opportunity for Improvement	0	0	0	0	0	0	0	0



## 5. Audit Issue Follow Up

Presentation

Presented by Angela Ross

# The University of Memphis Board of Trustees

Presentation  
For Information

**Date:** March 5, 2025

**Committee:** Finance and Audit Committee

**Presentation:** Summary of Audit Issue Follow Up

**Presented by:** Angela Ross, Associate Vice President and Chief Audit Executive

**Background:**

Attached is a summarized list of audit issues with action plans that were evaluated for completion this quarter. Date extensions were granted for three of four action plans at management's request to accommodate for a leadership transition.

Action Plan Estimated Completion Date	Name of Audit	Date of Audit Report	Audit Engagement Opinion	Issue #	Issue Description	Issue Rating	Party Responsible for Action Plan Completion	Current Status (as of January 2025)
12/31/2024	Lab Safety Audit FY2024	5/8/2024	Effective with the Opportunity for Improvement	Lab Safety 1	Improvement Needed in Identification of New Labs	Moderate = Requires Improvement	Bobby Clark, Director, Environmental Health & Safety	Not Complete, Action Plan Estimated Completion Date Extended to 2/28/2025
12/31/2024	Lab Safety Audit FY2024	5/8/2024	Effective with the Opportunity for Improvement	Lab Safety 2	Improvement Needed in Lab Safety Training Processes	Moderate = Requires Improvement	Bobby Clark, Director, Environmental Health & Safety	Not Complete, Action Plan Estimated Completion Date Extended to 2/28/2025
8/31/2024	Lab Safety Audit FY2024	5/8/2024	Effective with the Opportunity for Improvement	Lab Safety 3	Opportunity to Improve Annual Lab Inspection Process	Minor = Effective with the Opportunity for Improvement	Bobby Clark, Director, Environmental Health & Safety	Complete
10/31/2024	Lab Safety Audit FY2024	5/8/2024	Effective with the Opportunity for Improvement	Lab Safety 4	Opportunity to Improve Student Lab Safety	Minor = Effective with the Opportunity for Improvement	Bobby Clark, Director, Environmental Health & Safety	Not Complete, Action Plan Estimated Completion Date Extended to 2/28/2025



## 6. Summary of Investigations Resolved

Presentation

Presented by Angela Ross

## The University of Memphis Board of Trustees

Presentation  
For Information

**Date:** March 5, 2025

**Committee:** Finance and Audit Committee

**Presentation:** Summary of Investigations Resolved

**Presented by:** Angela Ross, Associate Vice President & Chief Audit Executive

**Background:**

Reports were issued for two resolved investigations since the last meeting. Summarized information is included in the attached table.

Allegation Received by	Date Allegation Received	Description of Allegation	Date Assigned by Complaint Triage Team	Internal Audit Investigation Number	Investigation Status	Investigation Outcome	Date of Final Action
TN Comptroller of Treasury	7/3/2024	Use of University Vehicle	7/25/2024	25-001 (TN Comp ANTS 25-9895)	Investigation Complete, Human Resources Memo Issued	No Evidence of Vehicle Use Policy Violation	10/16/2024
Referral from Athletics Department	10/9/2024	Volleyball Coach Sale of Nike Shoes	10/10/2024	25-002 (TN Comp ANTS 25-10479)	Investigation Complete, Human Resources Memo Issued	No Evidence of Intentional Deception; Potential Waste and Abuse	8/31/2024



# Office of Human Resources

## Investigation Report

**UofM Case #25-002, TN Comptroller ANTS #25-10479**

January 8, 2025

**Restrictions on Report Use:** This report is intended solely for the internal use of the University of Memphis Board of Trustees and the management of the University of Memphis. It is not intended and should not be used for any other purpose. The distribution of the report to external parties must be approved by the University of Memphis Office of Internal Audit and Consulting, and managed in accordance with institutional policies; however, this report is a matter of public record.



**University of Memphis**  
**Investigation of Allegations of Fraud**  
UofM Case #25-002, TN Comptroller ANTS #25-10479  
January 8, 2025

<b>Investigating Office:</b> Department of Human Resources	<b>Key Office or Staff:</b> Athletics – Head Coach of Women’s Volleyball
<b>Introduction and Background:</b> On October 9, 2024, a Sport Administrator in Athletics was approached by an individual with information claiming that the Head Coach was possibly using state funds, allotted for seasonal team orders, to buy Nike products for himself and then resell them online for personal profit. The University of Memphis Complaint Triage Team assigned the investigation to the Human Resources (HR) Department and the Office of Internal Audit & Consulting.	
<b>Objective:</b> The objectives of this investigation are to determine the facts, maintain confidentiality, determine responsibility, and recommend corrective actions if fraud, waste, or abuse have occurred.	
<b>Scope:</b> This investigation included reviewing records, researching eBay account data, and interviewing University personnel.	
<b>Procedures Performed:</b> To accomplish investigation objectives, Internal Audit staff reviewed university documents and records and in collaboration with HR interviewed the Head Coach. The Coach was provided the Garrity Notice, prior to interview commencement, which he reviewed, signed, and returned to HR and Internal Audit for record-keeping.	
<b>Results:</b> Objective: Was the Head Coach of Women’s Volleyball utilizing state funds to purchase Nike shoes for personal use and/or resell for profit? <ul style="list-style-type: none"><li>• HR and Internal Audit interviewed the Coach on November 26, 2024. The coach confirmed that the eBay account believed to belong to him for the purpose of buying and selling goods and merchandise, including Nike shoes ordered through the annual team allotment for multiple years including the most recent, was indeed his personal account. The Coach also admitted to selling shoes from the Volleyball team order through this personal eBay account.</li><li>• The Coach said he did not consider that selling a personal allotment of shoes from a team order would be problematic.</li><li>• His rationale was that the team has an allotment on the Nike system which is set by the Business Office. He believes the team is always adequately equipped, other coaches and staff members have everything they need to outfit the team successfully, and there is always an excess dollar amount of at least a couple of thousand dollars left unspent in the Nike account.</li><li>• The Coach said there are four or five levels of approval for each team allotment order, and no one has ever questioned the number of shoes he orders for himself. He said no one has ever communicated, if there is, a limit on a number that is appropriate or reasonable for him to order as his personal allotment.</li><li>• The Coach indicated he would be willing to remove all Nike shoe postings and reimburse the University for any sold from his personal eBay account.</li></ul>	
<b>Conclusion:</b> The University utilizes the following definitions from the State of Tennessee Comptroller of the Treasury: Fraud – An intentional deception that violates a law or the public trust for personal benefit or the benefit of others. Waste – Behavior involving the extravagant, careless, or needless use of government funds, property, and/or personnel.	

Abuse – Behavior involving the use of government funds or property that a prudent person would not consider reasonable and necessary business practice given the facts and circumstances.

The posting and selling of Nike shoes on his personal eBay account was not intentionally deceptive, however, it could be considered wasteful or abusive as determined by Athletics Management.

**Recommendation:**

Athletics Management should discuss and clarify University policies, procedures, and responsibilities for Athletics personnel involved in procurement of team seasonal orders of equipment and Nike apparel. Management should clearly communicate expectations related to team merchandise orders, approvals, annual coach, and staff personal allotments, and monitor for compliance. Additionally, University management should determine whether further actions are necessary based on the investigation results.

Additional Note: Head Coach's employment contract was not renewed upon its expiration date of December 31, 2024.

**Distribution:**

Tennessee Comptroller of the Treasury  
David McKinney, Chair of the Finance and Audit Committee  
Bill Hardgrave, University of Memphis President  
Maria Alam, AVP/Chief Human Resources Officer  
Rene Bustamante, Executive Vice President, Chief Operating and Financial Officer  
Melanie Murry, University Counsel  
Jesse Pierce, Sr. Technology and Network Security Auditor  
Ceecy Reed, Director, Office for Institutional Equity  
Angela Ross, Associate Vice President, and Chief Audit Executive  
Ed Scott, Senior Vice President, and Director of Intercollegiate Athletics



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Julie Ahart  
Assistant Director, Employee Relations & Compliance



# Office of Human Resources

## Investigation Report

**UofM Case #25-001, TN Comptroller ANTS #25-9895**

January 29 2025

**Restrictions on Report Use:** This report is intended solely for the internal use of the University of Memphis Board of Trustees and the management of the University of Memphis. It is not intended and should not be used for any other purpose. The distribution of the report to external parties must be approved by the University of Memphis Office of Internal Audit and Consulting, and managed in accordance with institutional policies; however, this report is a matter of public record.

**University of Memphis**  
**Investigation of Allegations Related to University Vehicle**  
UofM Case #25-001, TN Comptroller ANTS #25-9895  
January 29, 2025

<b>Investigating Office:</b> Department of Human Resources	<b>Key Office or Staff:</b> Police Services Department
<b>Introduction and Background:</b> <p>On July 25, 2024, the University’s Office of Internal Audit and Consulting received a Fraud, Waste, and Abuse hotline referral from the TN Comptroller of the Treasury for investigation by the University of Memphis (UofM) management. Allegations were made that the new Police Services administrator was using a newly purchased University vehicle (Chevrolet Tahoe) to commute to and from work instead of using his personal vehicle and was possibly fueling the vehicle on campus at the University’s expense.</p> <p>The Office of Internal Audit and Consulting shared the allegations with the UofM Complaint Triage Team and the investigation was assigned to the Human Resources (HR) Department.</p>	
<b>Objective:</b> The objective of this investigation was to determine if the allegation regarding the personal use of a University-owned vehicle by a Police Services administrator was true and recommend corrective action, if needed.	
<b>Scope:</b> This investigation included a review of university records and interviewing University personnel.	
<b>Procedures Performed:</b> To accomplish the investigation objectives, HR searched for any documents that might have authorized the employee’s use of the university vehicle. HR discussed with the employee’s supervisor if there had been an agreement authorizing the use of the vehicle, and interviewed the administrator, who had recently been hired by the UofM, regarding his use of the vehicle.	
<b>Results:</b> <p>In August 2024, after not finding any documentation authorizing personal use of university vehicles, HR discussed the matter with the employee’s supervisor to determine if a verbal authorization was given or if the supervisor was aware the vehicle was used to travel to and from work. The supervisor indicated he was not aware the vehicle was being used for this purpose. The supervisor also indicated he was aware that top administrators at other police departments were allowed to use a police vehicle to travel to and from work. Because this level of employee is considered on-call 24/7 having the police vehicle at their disposal would allow them to get back to campus faster whenever the need would arise. The supervisor also indicated that he would not be opposed to allowing the employee to use the vehicle for this purpose.</p> <p>During the administrator’s interview, he affirmed that he was indeed using the university owned police vehicle to travel to and from work since this is a practice that he was used to at other police departments where he had worked. The employee also indicated that he had reviewed the policy and did not find anything precluding him from doing so. When asked for a copy of the policy, the employee provided a copy of the TN Department of Human Resources Policy (Operation of Motor Vehicles by State Employees). It was explained to the employee that the UofM has its own policy regarding the use of motor vehicles and that the policy he shared applied to state employees of the State of TN not higher education employees. The employee indicated that he was not aware there were different policies. At this time, the employee stopped using the University owned vehicle.</p>	
<b>Conclusion:</b> Based on the findings of the investigation and the employee administrator being new to the university, it is understandable that he did not realize that there were two separate policies. Also, based on the supervisor’s position that the administrator is considered to be on-call 24/7 and needs to quickly return to campus as needed, and the common practice of other police	

departments assigning a police vehicle to their administrator, it is concluded that the employee believed he was acting within policy and at no time tried to defraud or hide the fact that he was indeed using the vehicle to travel to and from home.

**Recommendation:**

To address the needs of the University and the prompt response needed by the police administrator outside of their regular working hours, it is recommended that the police administrator be assigned a university owned police vehicle to be used for work related purposes only to include traveling to and from work. It is also recommended that since the vehicle will be used for work related purposes only, that the vehicle's gas be covered as an expense by the University's Police Services Department.

**Distribution:**

TN Comptroller of the Treasury  
David McKinney, Chair of the Finance and Audit Committee  
Bill Hardgrave, University of Memphis President  
Rene Bustamante, Executive Vice President, Chief Operating and Financial Officer  
Melanie Murry, University Counsel  
Ceecy Reed, Director, Office for Institutional Equity  
Angela Ross, Associate Vice President, and Chief Audit Executive



Maria Alam, AVP/Chief Human Resources Officer



## 7. External Audit Reports

Presentation

Presented by Angela Ross

# The University of Memphis Board of Trustees

Presentation  
For Information

**Date:** March 5, 2025

**Committee:** Finance and Audit Committee

**Presentation:** External Audit Report – The Herff Trust Financial Statements Year Ended June 30, 2024

**Presented by:** Angela Ross, Associate Vice President & Chief Audit Executive

## Background:

The Herff Trust Independent Auditor's Report and Financial Statements, June 30, 2024, are presented in accordance with the responsibilities for Internal Audit under UofM policy GE2016.

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

The Trustees exercise financial oversight of Trust assets. An Investment Management Consultant advises the Trustees on investment selection and asset allocation. The business affairs of the Trust are managed by the University. The Trust has no employees. The Herbert Herff Trust was formed exclusively for the benefit of the University of Memphis and is a component unit of the University of Memphis.

The Herff Trust engaged an independent external CPA firm, CBIZ P.C. to perform an audit of the financial statements. The auditor's opinion, dated November 15, 2024, stated that the financial statements present fairly, in all material respects, the financial position of the Herff Trust as of June 30, 2024, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The auditors did not identify any deficiencies in internal control that would be considered material weaknesses during their limited consideration of internal control over financial reporting. Also, they did not identify any instances of noncompliance with certain provisions of laws, regulations, contracts, grant agreements, or other matters that are required to be reported under Government Auditing Standards.



## **THE HERFF TRUST**

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Financial Statements  
For the Year Ended June 30, 2024

# THE HERFF TRUST

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## THE HERFF TRUST

Board of Trustees and Management Officials  
June 30, 2024

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### Board of Trustees:

Richard A. Spell	President
John Hartney	Vice President
Fred A. Towler	Secretary/Treasurer
Rene Bustamante	Member
Dr. Bill Hardgrave	Member

### Management Officials:

Holly Ford	Foundation CEO
Mark Nicell	Foundation Chief Business Officer
George Ninan	University Controller through December 31, 2023
Stephen M. Lackey	University Controller as of January 1, 2024



## Independent Auditors' Report

Board of Trustees  
The Herff Trust  
Memphis, Tennessee

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of The Herff Trust (the "Trust", a component unit of The University of Memphis), which comprise the statement of net position as of June 30, 2024, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Trust, as of June 30, 2024, and the respective changes in the financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

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

#### *Responsibilities of Management for the Financial Statements*

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

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

## ***Auditors' Responsibilities for the Audit of the Financial Statements***

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

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

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

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

## ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in

accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

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

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2024, on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Trust's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.

*CBIZ CPAs P.C.<sup>1</sup>*

Memphis, Tennessee  
November 15, 2024

<sup>1</sup> In certain jurisdictions, CBIZ CPAs P.C. operates under its previous name, Mayer Hoffman McCann P.C.

## THE HERFF TRUST

### Management's Discussion and Analysis June 30, 2024

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

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and the results of operations of the Herff Trust (the "Trust") for the year ended June 30, 2024. We encourage you to read this MD&A section in conjunction with the accompanying audited financial statements and notes to the financial statements.

#### ***About the Financial Statements***

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

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

The statement of net position is the Trust's balance sheet. It reflects the total assets, liabilities, and net position (similar to net equity) of the Trust as of June 30, 2024. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as noncurrent. Net position is to be used for University of Memphis support.

The statement of revenues, expenses, and changes in net position is similar to an income statement. It details how net position has increased during the year ended June 30, 2024.

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

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

#### ***General***

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

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

## THE HERFF TRUST

### Management's Discussion and Analysis (Continued) June 30, 2024

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#### **Statement of Net Position**

Current assets include cash and dividends receivable.

At June 30, 2024, funds held by an investment broker on behalf of the Trust totaled \$30,977,619. Of this amount, \$30,910,925 represents investments at fair value and \$66,694 represents deposits with banks affiliated with the broker.

A summary of the major components of the net position of the Trust as of June 30, 2024, is as follows:

Current assets	\$ 121,800
Other assets	<u>30,910,925</u>
Total assets	<u>31,032,725</u>
Current liabilities	\$ 102,786
Net position	<u>30,929,939</u>
Total liabilities and net position	<u>\$ 31,032,725</u>

#### **Statement of Revenues, Expenses, and Changes in Net Position**

A summary of the statement of revenues, expenses, and changes in net position for the year ended June 30, 2024, is as follows:

Net investment gain	\$ 3,353,006
Student scholarships & other expenses	<u>(1,002,892)</u>
Change in net position	<u>\$ 2,350,114</u>

#### **Statement of Cash Flows**

In 2024, the cash receipts and expenses during the year primarily relate to investment activity - purchase, sale and investment income and expenses. Besides these, student scholarships paid to the University is the primary outflow.

#### **Future**

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



## THE HERFF TRUST

### Statement of Net Position June 30, 2024

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#### Assets

Current assets	
Cash and cash equivalents	\$ 66,694
Dividends receivable	<u>55,106</u>
	121,800
Other assets	
Investments	<u>30,910,925</u>
Total assets	<u>\$ 31,032,725</u>

#### Liabilities and Net Position

Current liabilities	
Due to The University of Memphis	\$ 102,786
Net position	<u>30,929,939</u>
Total liabilities and net position	<u>\$ 31,032,725</u>

The accompanying notes are an integral  
part of these financial statements.

## THE HERFF TRUST

### Statement of Revenues, Expenses and Changes in Net Position For the Year Ended June 30, 2024

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Revenues:	
Investment gain	\$ 3,400,077
Less: Investment expenses	<u>(47,071)</u>
Net investment gain	3,353,006
Expenses:	
Program expenses	
Student scholarships	988,269
Management and general	
Professional fees	<u>14,623</u>
Total expenses	<u>1,002,892</u>
Change in net position	2,350,114
Net position at beginning of the year	<u>28,579,825</u>
Net position at end of the year	<u>\$ 30,929,939</u>

The accompanying notes are an integral  
part of these financial statements.

## THE HERFF TRUST

### Statement of Cash Flows For the Year Ended June 30, 2024

Cash flows from operating activities:	
Investment income received	\$ 729,542
Professional fees	(14,623)
Investment fees	(47,071)
Cash paid for scholarships	<u>(949,255)</u>
Net cash and cash equivalents used in operating activities	(281,407)
Cash flows from investing activities:	
Purchases of investments	(1,500,121)
Sales of investments	1,672,649
Repayments of note receivable - related party	<u>97,660</u>
Net cash and cash equivalents provided by investing activities	<u>270,188</u>
Net decrease in cash and cash equivalents	(11,219)
Cash and cash equivalents at beginning of the year	<u>77,913</u>
Cash and cash equivalents at end of the year	\$ <u><u>66,694</u></u>
Reconciliation of change in net position to net cash and cash equivalents used in operating activities:	
Change in net position	\$ 2,350,114
Adjustments to reconcile net position to net cash and cash equivalents provided by operating activities	
Net realized and unrealized gain on investments	(2,609,669)
Changes in operating assets and liabilities	
Increase in operating assets	
Dividends receivable	(55,106)
Increase in operating liabilities	
Due to The University of Memphis	<u>33,254</u>
Net cash and cash equivalents used in operating activities	\$ <u><u>(281,407)</u></u>

The accompanying notes are an integral  
part of these financial statements.

## THE HERFF TRUST

Notes to Financial Statements  
June 30, 2024

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### Note 1 - Organization and activities

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

### Note 2 - Summary of significant accounting policies

#### Financial reporting entity

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

#### Basis of presentation

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

For financial statement purposes, the Trust is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

#### Cash and cash equivalents

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

#### Investments

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

## THE HERFF TRUST

### Notes to Financial Statements (Continued) June 30, 2024

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#### Note 2 - Summary of significant accounting policies (continued)

##### Investments (continued)

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

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

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Trust will not be able to recover the value of investment securities that are in the possession of an outside party. The Trust does not have a policy for custodial credit risk for its investments. The Trust utilizes an American multinational independent investment bank and financial services company for its custodial services and has no investment securities from a single issuer valued in excess of fourteen percent of the total investment portfolio at June 30, 2024.

##### Deposits with Investment Broker

For cash deposits, custodial credit risk is the risk that, in the event of institution failure, the Trust's deposits may not be returned. Balances held within cash accounts administered by its broker are covered by the Securities Investor Protection Corporation (SIPC) up to \$250,000 per account. None of these accounts exceeded the SIPC coverage as of June 30, 2024.

##### Events occurring after reporting date

Management has evaluated events and transactions that have occurred between June 30, 2024 and November 15, 2024, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

##### Use of estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

## THE HERFF TRUST

### Notes to Financial Statements (Continued) June 30, 2024

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#### Note 2 - Summary of significant accounting policies (continued)

##### Interest and dividends

Interest income is recognized on the accrual basis. Dividends are recognized as income on the ex-dividend date.

##### Security transactions

Security transactions are recorded on the date purchased or sold (trade date).

#### Note 3 - Fair value of financial instruments

Certain of the Trust's assets are reported at fair value in the accompanying statement of net position. The following table provides fair value measurement information for financial assets measured at fair value on a recurring basis as of June 30, 2024.

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

**Level 1:** Quoted prices (unadjusted) of identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

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

**Level 3:** Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The following methods and assumptions were used to estimate the fair value of financial assets in the table below:

*Money market mutual funds:* Valued at the closing price reported on the active market on which the individual securities are traded.

*Exchange traded funds:* Valued at the closing price reported on the active market on which the individual securities are traded.

## THE HERFF TRUST

### Notes to Financial Statements (Continued) June 30, 2024

#### Note 3 - Fair value of financial instruments (continued)

The following table sets forth by level, within the fair value hierarchy, the Trust's assets measured at fair value on a recurring basis as of June 30, 2024:

	2024			
	Level 1	Level 2	Level 3	Total
Money market mutual funds	\$ 1,764,120	\$ -	\$ -	\$ 1,764,120
Exchange traded funds	<u>29,146,805</u>	<u>-</u>	<u>-</u>	<u>29,146,805</u>
	<u>\$ 30,910,925</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,910,925</u>

#### Note 4 - Related party transactions

The Trust disbursed scholarships for the benefit of The University of Memphis students in the amount of \$988,269 during the year ending June 30, 2024.

The Trust recognized interest income from a note receivable with a maturity date of December 31, 2023 in the amount of \$974, which is included in the net investment gain in the statement of revenues, expenses and changes in net position.

#### Note 5 - Net position

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

#### Note 6 - Subsequent event

Effective July 1, 2024, the Trust was transitioned into The University of Memphis Foundation (the "Foundation") for oversight. The assets of the Trust remain invested with Raymond James. In August 2024, this update was communicated with Raymond James to reflect the accurate Board of Directors overseeing the asset. For accounting purposes internally, the Trust is in a separate and clearly identifiable fund within the Foundation.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees  
The Herff Trust  
Memphis, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Herff Trust (the "Trust", a component unit of The University of Memphis), which comprise the statement of net position as of June 30, 2024, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 15, 2024.

***Report on Internal Control Over Financial Reporting***

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

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

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



### ***Report on Compliance and Other Matters***

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

### ***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.

CBIZ CPAs P.C.<sup>1</sup>

Memphis, Tennessee  
November 15, 2024

<sup>1</sup> In certain jurisdictions, CBIZ CPAs P.C. operates under its previous name, Mayer Hoffman McCann P.C.

## The University of Memphis Board of Trustees

Presentation  
For Information

**Date:** March 5, 2025

**Committee:** Finance and Audit Committee

**Presentation:** External Audit Report – The University of Memphis Foundation Financial Statements, Years Ended June 30, 2024, and 2023

**Presented by:** Angela Ross, Associate Vice President & Chief Audit Executive

### Background:

The financial statements are presented for your information according to the responsibilities for Internal Audit under UofM Policy GE2016 Notification of External Audits and Reviews, which includes reporting occurrences of external reviews and audits to the Finance and Audit Committee, Division of State Audit and others as the circumstances may dictate. Also, TCA 4-4-113 requires notification of federal award noncompliance, or any deficiency related to compliance with federal statutes, regulations, or the terms and conditions of a federal award, to the Tennessee Comptroller of the Treasury and the Commissioner of Finance and Administration.

On November 15, 2024, the University of Memphis Foundation Financial Statements, Years Ended June 30, 2024, was issued by an independent external firm, CBIZ CPA. Prior period financial statements as of and for the year ended June 2023 were audited by other auditors (Forvis LLP). CBIZ also issued a report on their consideration of the Foundation's internal control over financial reporting and on compliance with certain provisions of laws, regulations, contracts and grant agreements not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance, but solely to describe the limited scope of their testing and results related to internal control and compliance.

From the Audit Report's: The University of Memphis Foundation (Foundation) is considered a component unit of the University and is discretely presented in the University's financial statements. The Foundation is a not-for-profit, tax-exempt corporation chartered in 1964 in the State of Tennessee that accepts and manages private support to the University of Memphis. Leading citizens of the Mid South area comprise an independent Board of Directors.

The independent auditor's opinion stated that the financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2024, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

**THE UNIVERSITY OF MEMPHIS FOUNDATION**

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Financial Statements  
For the Years Ended June 30, 2024 and 2023

# THE UNIVERSITY OF MEMPHIS FOUNDATION

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## THE UNIVERSITY OF MEMPHIS FOUNDATION

Board of Directors and Financial/Administrative Directors  
June 30, 2024

### **Board of Directors**

David Tate, President  
John Wilfong, Vice President  
Tanya Hart, Treasurer  
Glynna Christian, Secretary  
Fred Towler, Immediate Past President  
Sudhir Agrawal  
Rene Bustamante  
Lauralan Grisoni  
Dr. Bill Hardgrave  
Daphne Large  
Dr. Reginald Porter  
John "Mickey" Robinson  
Dr. Douglas Scarboro  
Harry Smith  
Monica Wharton

### **Financial/Administrative Directors**

Holly Ford, Foundation CEO  
Mark Nicell, Foundation CBO



## Independent Auditors' Report

Board of Directors  
The University of Memphis Foundation  
Memphis, Tennessee

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of The University of Memphis Foundation (the "Foundation"), a component unit of The University of Memphis, which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion on 2024 Financial Statements*

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 of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Prior Period Financial Statements*

The accompanying financial statements as of and for the year ended June 30, 2023 were audited by other auditors whose report dated November 7, 2023 expressed an unmodified opinion on the statement of financial position, and the related statements of activities, functional expenses, and cash flows.

#### *Responsibilities of Management for the Financial Statements*

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

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

### ***Auditors' Responsibilities for the Audit of the 2024 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

### ***Other Information***

Management is responsible for the other information. The other information comprises the Roster of Board of Directors and Financial/Administrative Directors but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2024, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of the testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's 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 Foundation's internal control over financial reporting and compliance.

CBIZ CPAs P.C.<sup>1</sup>

Memphis, Tennessee  
November 15, 2024

<sup>1</sup> In certain jurisdictions, CBIZ CPAs P.C. operates under its previous name, Mayer Hoffman McCann P.C.



# THE UNIVERSITY OF MEMPHIS FOUNDATION

## Statements of Financial Position June 30, 2024 and 2023

	2024	2023
<b>Assets</b>		
Cash	\$ 17,215,894	\$ 11,536,780
Contributions receivable, net	33,656,953	30,379,261
Other receivables	535,812	35,159
Investments, at fair value	212,726,233	180,676,111
Cash surrender value of life insurance	171,560	142,915
Property and equipment, net	<u>27,204</u>	<u>-</u>
Total assets	<u>\$ 264,333,656</u>	<u>\$ 222,770,226</u>
<b>Liabilities</b>		
Accounts payable, primarily to The University of Memphis	\$ 18,958,169	\$ 15,574,284
Gift annuity obligations	<u>105,593</u>	<u>132,121</u>
Total liabilities	19,063,762	15,706,405
<b>Net assets</b>		
Without donor restrictions	7,596,302	4,296,431
With donor restrictions	<u>237,673,592</u>	<u>202,767,390</u>
Total net assets	<u>245,269,894</u>	<u>207,063,821</u>
Total liabilities and net assets	<u>\$ 264,333,656</u>	<u>\$ 222,770,226</u>

The accompanying notes are an integral  
part of these financial statements.

# THE UNIVERSITY OF MEMPHIS FOUNDATION

## Statement of Activities For the Year Ended June 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Support and other revenues			
Contributions	\$ 218,794	\$ 28,886,420	\$ 29,105,214
Investment income, net of expenses	1,735,185	3,269,819	5,005,004
Net realized and unrealized gains on investments	983,636	20,600,966	21,584,602
Other income	<u>3,005,691</u>	<u>2,598,192</u>	<u>5,603,883</u>
	5,943,306	55,355,397	61,298,703
Net assets released from restrictions	<u>20,449,195</u>	<u>(20,449,195)</u>	<u>-</u>
Total support and other revenues	26,392,501	34,906,202	61,298,703
Operating expenses			
University support and operational cost	12,360,704	-	12,360,704
Awards and scholarships	9,474,116	-	9,474,116
Management and general	<u>1,257,810</u>	<u>-</u>	<u>1,257,810</u>
Total operating expenses	<u>23,092,630</u>	<u>-</u>	<u>23,092,630</u>
Increase in net assets	3,299,871	34,906,202	38,206,073
Net assets at beginning of year	<u>4,296,431</u>	<u>202,767,390</u>	<u>207,063,821</u>
Net assets at end of year	<u>\$ 7,596,302</u>	<u>\$ 237,673,592</u>	<u>\$ 245,269,894</u>

The accompanying notes are an integral  
part of these financial statements.

# THE UNIVERSITY OF MEMPHIS FOUNDATION

## Statement of Activities For the Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Support and other revenues			
Contributions	\$ 199,031	\$ 37,757,843	\$ 37,956,874
Investment income, net of expenses	724,763	2,666,842	3,391,605
Net realized and unrealized gains on investments	67,898	13,660,301	13,728,199
Other income (expense)	<u>2,920,304</u>	<u>3,255,418</u>	<u>6,175,722</u>
	3,911,996	57,340,404	61,252,400
Net assets released from restrictions	<u>28,777,101</u>	<u>(28,777,101)</u>	<u>-</u>
Total support and other revenues	32,689,097	28,563,303	61,252,400
Operating expenses			
University support and operational cost	18,863,136	-	18,863,136
Awards and scholarships	12,684,362	-	12,684,362
Management and general	<u>1,085,152</u>	-	<u>1,085,152</u>
Total operating expenses	<u>32,632,650</u>	<u>-</u>	<u>32,632,650</u>
Increase in net assets	56,447	28,563,303	28,619,750
Net assets at beginning of year	<u>4,239,984</u>	<u>174,204,087</u>	<u>178,444,071</u>
Net assets at end of year	<u>\$ 4,296,431</u>	<u>\$ 202,767,390</u>	<u>\$ 207,063,821</u>

The accompanying notes are an integral  
part of these financial statements.

# THE UNIVERSITY OF MEMPHIS FOUNDATION

## Statement of Functional Expenses For the Year Ended June 30, 2024

	Program Services			Support Services	
	University Support and Operational Cost	Awards and Scholarships	Total Program Services	Management and General	Total
Salaries and benefits	\$ 13,126	\$ -	\$ 13,126	\$ 685,714	\$ 698,840
Conferences and travel	102,301	-	102,301	12,684	114,985
Supplies	542,248	-	542,248	9,944	552,192
Postage	2,684	-	2,684	1,186	3,870
Printing	49,525	-	49,525	80	49,605
Telephone and communications	-	-	-	2,333	2,333
Maintenance and repairs	481	-	481	3,856	4,337
Audit services	-	-	-	41,872	41,872
Legal services	-	-	-	15,590	15,590
Annuity expenses	19,281	-	19,281	-	19,281
Professional services	1,098,773	-	1,098,773	123,216	1,221,989
Publicity/public relations	4,397	-	4,397	-	4,397
Rental fees	137,453	-	137,453	187	137,640
Insurance other	28,779	-	28,779	15,805	44,584
Other expenses	4,068,366	-	4,068,366	240,401	4,308,767
Dues and membership subscriptions	251,777	-	251,777	4,779	256,556
Meals and entertainment	650,059	-	650,059	4,989	655,048
Tickets	10,597	-	10,597	2,070	12,667
Sponsorships and donations	111,868	-	111,868	-	111,868
Gifts and flowers	28,636	-	28,636	170	28,806
Interest expense	137,977	-	137,977	-	137,977
Fees	137,571	-	137,571	90,290	227,861
Furniture and equipment depreciation	-	-	-	2,644	2,644
Honorariums	46,600	-	46,600	-	46,600
University support	1,754,030	-	1,754,030	-	1,754,030
USA grants special projects	2,044,958	-	2,044,958	-	2,044,958
USA chairs professorships	-	629,667	629,667	-	629,667
Awards	-	339,790	339,790	-	339,790
Bad debt expense	251,809	-	251,809	-	251,809
Furniture and equipment	845,338	-	845,338	-	845,338
Construction and renovation	22,070	-	22,070	-	22,070
Scholarships	-	8,375,859	8,375,859	-	8,375,859
Fellowships	-	59,186	59,186	-	59,186
Interns and graduate assistants	-	69,614	69,614	-	69,614
Total functional expenses	<u>\$ 12,360,704</u>	<u>\$ 9,474,116</u>	<u>\$ 21,834,820</u>	<u>\$ 1,257,810</u>	<u>\$ 23,092,630</u>

The accompanying notes are an integral  
part of these financial statements.

# THE UNIVERSITY OF MEMPHIS FOUNDATION

## Statement of Functional Expenses For the Year Ended June 30, 2023

	Program Services			Support Services	
	University Support and Operational Cost	Awards and Scholarships	Total Program Services	Management and General	Total
Salaries and benefits	\$ 167,609	\$ -	\$ 167,609	\$ 317,947	\$ 485,556
Conferences and travel	251,813	-	251,813	9,135	260,948
Supplies	435,541	-	435,541	9,005	444,546
Postage	8,543	-	8,543	1,203	9,746
Printing	112,061	-	112,061	117	112,178
Telephone and communications	1,950	-	1,950	77,077	79,027
Maintenance and repairs	-	-	-	376	376
Audit services	-	-	-	40,560	40,560
Legal services	3,200	-	3,200	9,755	12,955
Annuity expenses	19,281	-	19,281	-	19,281
Professional services	1,155,918	-	1,155,918	207,398	1,363,316
Publicity/public relations	1,970	-	1,970	-	1,970
Rental fees	281,789	-	281,789	-	281,789
Insurance other	27,824	-	27,824	30,762	58,586
Other expenses	10,992,596	-	10,992,596	249,554	11,242,150
Dues and membership subscriptions	209,224	-	209,224	3,627	212,851
Meals and entertainment	785,048	-	785,048	2,723	787,771
Tickets	10,712	-	10,712	-	10,712
Sponsorships and donations	96,804	-	96,804	-	96,804
Gifts and flowers	36,110	-	36,110	-	36,110
Fees	95,167	-	95,167	109,812	204,979
Honorariums	28,700	-	28,700	-	28,700
University support	2,538,606	-	2,538,606	-	2,538,606
USA grants special projects	1,416,210	-	1,416,210	-	1,416,210
USA chairs professorships	-	414,712	414,712	-	414,712
Awards	-	285,131	285,131	-	285,131
Bad debt expense	67,295	-	67,295	-	67,295
Furniture and equipment	17,772	-	17,772	16,101	33,873
Construction and renovation	101,393	-	101,393	-	101,393
Scholarships	-	11,850,436	11,850,436	-	11,850,436
Fellowships	-	116,509	116,509	-	116,509
Interns and graduate assistants	-	17,574	17,574	-	17,574
Total functional expenses	<u>\$ 18,863,136</u>	<u>\$ 12,684,362</u>	<u>\$ 31,547,498</u>	<u>\$ 1,085,152</u>	<u>\$ 32,632,650</u>

The accompanying notes are an integral part of these financial statements.

# THE UNIVERSITY OF MEMPHIS FOUNDATION

## Statements of Cash Flows For the Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Increase in net assets	\$ 38,206,073	\$ 28,619,750
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	2,644	-
Net realized and unrealized investment (gain) loss	(21,584,602)	(13,728,199)
Reinvested interest and dividends	(4,961,014)	-
Bad debt expense	251,809	67,295
Restricted contributions	(28,914,716)	(13,513,175)
Changes in operating assets and liabilities		
Contributions receivable	(3,529,501)	(1,246,364)
Accrued interest, dividends, and other receivables	(529,298)	-
Accounts payable, primarily to The University of Memphis	3,383,885	9,427,419
Gift annuity obligations	<u>(26,528)</u>	<u>(9,254)</u>
Net cash provided by (used in) operating activities	(17,701,248)	9,617,472
Cash flows from investing activities:		
Purchases of property and equipment	(29,848)	-
Proceeds from sale of investments	2,497,511	7,595,045
Purchases of investments	<u>(8,002,017)</u>	<u>(22,717,778)</u>
Net cash used in investing activities	(5,534,354)	(15,122,733)
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Endowment	5,389,023	13,513,175
Term or performance	<u>23,525,693</u>	<u>-</u>
Net cash provided by financing activities	<u>28,914,716</u>	<u>13,513,175</u>
Net increase in cash	5,679,114	8,007,914
Cash at beginning of year	<u>11,536,780</u>	<u>3,528,866</u>
Cash at end of year	<u>\$ 17,215,894</u>	<u>\$ 11,536,780</u>

The accompanying notes are an integral  
part of these financial statements.

## THE UNIVERSITY OF MEMPHIS FOUNDATION

### Notes to Financial Statements June 30, 2024 and 2023

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#### Note 1 - Summary of significant accounting policies

##### Organization and activities

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

##### Basis of presentation

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

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

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

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

##### Support and revenue

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expiration of net assets with donor restrictions are reported as reclassifications between the applicable classes of net assets. During the years ended June 30, 2024 and 2023, the Foundation released net assets with donor restrictions for scholarships, academic enrichment, capital improvements, and various other projects. See note 6 for releases by purpose.

##### Cash

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

## THE UNIVERSITY OF MEMPHIS FOUNDATION

### Notes to Financial Statements (Continued) June 30, 2024 and 2023

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#### Note 1 - Summary of significant accounting policies (continued)

##### Contributions receivable

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

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

Conditional promises to give are not included as revenue until the conditions are substantially met. The Foundation had received conditional promises to give of \$9,306,564 at June 30, 2024. These potential contributions, if received, would generally be restricted for specific purposes stipulated by the donors.

##### Investment valuation and income recognition

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

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

##### Administrative fee

In order to cover expenses of the Foundation's operations and provide unrestricted funds for University support, an administrative fee of 1.50% was assessed on the carrying value of accounts invested in the endowment pool for the years ended June 30, 2024 and 2023. The fee covers the cost of business office operations, provides support for University fundraising activities, and assists with other University needs. Administrative fees earned were approximately \$2,236,000 and \$1,856,000 for the years ended June 30, 2024 and 2023, respectively.

##### Income taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is similarly exempt from Tennessee state income taxes under applicable



## THE UNIVERSITY OF MEMPHIS FOUNDATION

### Notes to Financial Statements (Continued) June 30, 2024 and 2023

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#### Note 1 - Summary of significant accounting policies (continued)

##### Income taxes (continued)

provisions of the Tennessee tax regulations. The Foundation's limited partnership investments generate unrelated business income or loss activity which is subject to federal income taxes. There was no unrelated business income tax expense (UBIT) for the years ended June 30, 2024 and 2023.

The Foundation has determined that it does not have any material uncertain tax positions as of June 30, 2024.

##### Endowment funds

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

##### Use of estimates

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

##### Concentration of credit risk

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

##### Functional allocation of expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program and support services benefited. The method of allocation for salaries and

## THE UNIVERSITY OF MEMPHIS FOUNDATION

### Notes to Financial Statements (Continued) June 30, 2024 and 2023

#### Note 1 - Summary of significant accounting policies (continued)

##### Functional allocation of expenses (continued)

benefits was time and effort. All other expenses were allocated based on a full-time equivalent since they are incurred through invoices submitted by the University.

##### New accounting pronouncement

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses* (Topic 326), which requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses on investments available for sale and purchased financial assets with credit deterioration. The Foundation adopted this accounting standard effective July 1, 2023. The adoption of this new accounting standard has no impact on the Foundation's financial statements, as it does not extend credit to customers or others.

##### Subsequent events

The Foundation has evaluated events and transactions that have occurred between June 30, 2024 and November 15, 2024, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

##### Reclassifications

Certain reclassifications have been made to the 2023 financial statements in order to conform with the 2024 financial statement presentation.

#### Note 2 - Contributions receivable

Contributions receivable are summarized as follows as of June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Within one year	\$ 16,951,321	\$ 14,058,802
One to five years	20,367,417	19,850,498
Greater than five years	<u>1,296,896</u>	<u>209,753</u>
Total contributions receivable	38,615,634	34,119,053
Less allowances for uncollectible pledges	(2,162,476)	(1,829,125)
Less unamortized present value discount	<u>(2,796,205)</u>	<u>(1,910,667)</u>
Contributions receivable, net	<u>\$ 33,656,953</u>	<u>\$ 30,379,261</u>

Contributions receivable have been discounted to their net present value using an annual rate of 4.47% in 2024 and 4.18% in 2023.

## THE UNIVERSITY OF MEMPHIS FOUNDATION

### Notes to Financial Statements (Continued) June 30, 2024 and 2023

#### Note 3 - Liquidity and availability

All assets of the Foundation are restricted for University support and expended for specific uses within the University. The budget allocation for Foundation operations for the years ended June 30, 2024 and 2023 was \$1,049,984 and \$1,064,823, respectively. Foundation operations are funded by the annual endowment administrative fee.

#### Note 4 - Investments

The fair value of investments as of June 30, 2024 and 2023 is summarized as follows:

	2024		2023	
	Cost	Fair Value	Cost	Fair Value
Limited partnerships and LLCs	\$ 15,210,104	\$ 29,013,360	\$ 11,134,962	\$ 22,564,353
Mutual funds	152,629,585	183,503,626	141,394,259	157,915,595
U.S. government securities	<u>207,452</u>	<u>209,247</u>	<u>192,553</u>	<u>196,163</u>
Total	<u>\$168,047,141</u>	<u>\$212,726,233</u>	<u>\$152,721,774</u>	<u>\$180,676,111</u>

#### Note 5 - Fair value measurements

FASB Accounting Standard Codification (ASC) 820, *Fair Value Measurements*, provides a common definition of fair value and establishes a framework for measuring fair value. ASC 820 defines fair value as the exchange price that would be received for an asset or liability in an orderly transaction between market participants on the measurement date. This framework also provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below.

**Level 1:** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

**Level 2:** Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3:** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

# THE UNIVERSITY OF MEMPHIS FOUNDATION

Notes to Financial Statements (Continued)  
June 30, 2024 and 2023

## Note 5 - Fair value measurements (continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2024 and 2023.

*Mutual funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish daily net asset value (NAV) and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.

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

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

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement as of the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Foundation's investments at fair value on a recurring basis as of June 30, 2024 and 2023.

<b>Investments at Fair Value as of June 30, 2024</b>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Fixed income	\$ 36,412,937	\$ -	\$ -	\$ 36,412,937
International equity	56,162,960	-	-	56,162,960
U.S. equity	<u>90,927,729</u>	<u>-</u>	<u>-</u>	<u>90,927,729</u>
Total mutual funds	183,503,626	-	-	183,503,626
U.S. government securities	<u>-</u>	<u>209,247</u>	<u>-</u>	<u>209,247</u>
Total investments in the fair value hierarchy	<u>\$ 183,503,626</u>	<u>\$ 209,247</u>	<u>\$ -</u>	183,712,873
Limited partnerships measured at NAV				* <u>29,013,360</u>
<b>Total</b>				<u><b>\$ 212,726,233</b></u>

# THE UNIVERSITY OF MEMPHIS FOUNDATION

Notes to Financial Statements (Continued)  
June 30, 2024 and 2023

## Note 5 - Fair value measurements (continued)

<b>Investments at Fair Value as of June 30, 2023</b>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Fixed income	\$ 39,556,876	\$ -	\$ -	\$ 39,556,876
International equity	45,036,160	-	-	45,036,160
U.S. equity	<u>73,322,559</u>	-	-	<u>73,322,559</u>
Total mutual funds	157,915,595	-	-	157,915,595
U.S. government securities	-	<u>196,163</u>	-	<u>196,163</u>
Total investments in the fair value hierarchy	<u>\$ 157,915,595</u>	<u>\$ 196,163</u>	<u>\$ -</u>	158,111,758
Limited partnerships measured at NAV			*	<u>22,564,353</u>
Total				<u>\$ 180,676,111</u>

\* In accordance with ASC 820, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying statements of financial position.

The following tables provide information related to the investments that are valued based on NAV:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
<b>June 30, 2024</b>				
Hedged strategies- hedged equity (a)	\$ 162,900	\$ -	Annually	90 Days
Private equity (b)	19,676,600	35,662,877	At manager's discretion	N/A
Real assets (c)	<u>9,173,860</u>	1,733,867	At manager's discretion	N/A
	<u>\$ 29,013,360</u>			

# THE UNIVERSITY OF MEMPHIS FOUNDATION

Notes to Financial Statements (Continued)  
June 30, 2024 and 2023

## Note 5 - Fair value measurements (continued)

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
<b>June 30, 2023</b>				
Hedged strategies-hedged equity (a)	\$ 182,246	\$ -	Annually	90 Days
Private equity (b)	12,994,695	29,642,504	At manager's discretion	N/A
Real assets (c)	<u>9,387,412</u>	2,337,386	At manager's discretion	N/A
	<u>\$ 22,564,353</u>			

- Hedge strategies-hedged equity* - This category consists of funds of funds that make long and short position equity investments.
- Private equity* - This category consists of partnership that invest primarily in U.S. based private companies. These investments cannot be voluntarily redeemed and are subject to sale based on market demand.
- 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.

## Note 6 - Nature and amounts of net assets with donor restrictions

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

	<u>2024</u>	<u>2023</u>
Subject to expenditure for a specified purpose:		
Alumni relations	\$ 441,213	\$ 429,235
Awards	433,500	423,544
Capital improvements (1)	2,601,958	(1,081,424)
Centers, institutes and labs	3,823,234	2,801,681
Contributions receivable, net	28,444,365	21,045,095
Departmental/academic enrichment	10,544,356	9,985,745
Gift annuities	31,030	15,252
Operations	391,733	330,194
Professorships/chairs/visiting scholars	370,885	1,153,872
Scholarships/fellowships	6,191,001	5,776,809
Special projects/lecture series/workshops	<u>10,770,056</u>	<u>10,802,065</u>
	64,043,331	51,682,068

# THE UNIVERSITY OF MEMPHIS FOUNDATION

Notes to Financial Statements (Continued)  
June 30, 2024 and 2023

## Note 6 - Nature and amounts of net assets with donor restrictions (continued)

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

	<u>2024</u>	<u>2023</u>
Endowments:		
Subject to expenditure for a specified purpose:		
Alumni relations	\$ 515,259	\$ 351,269
Awards	1,747,258	1,206,633
Capital improvements	27,049	-
Centers, institutes and labs	2,645,159	1,661,234
Departmental/academic enrichment	6,175,964	4,095,229
Operations	(44,511)	(58,108)
Professorships/chairs/visiting scholars	11,000,324	7,236,452
Scholarships/fellowships	20,114,393	12,994,833
Special projects/lecture series/workshops	<u>7,071,753</u>	<u>4,386,668</u>
	49,252,648	31,874,210
Perpetual in nature:		
Alumni relations	997,267	985,515
Awards	2,998,259	2,877,001
Capital improvements	106,985	-
Centers, institutes and labs	6,839,437	6,161,943
Contributions receivable, net	5,212,589	9,334,166
Departmental/academic enrichment	14,334,439	13,012,336
Operations	749,616	669,618
Professorships/chairs/visiting scholars	23,872,656	21,971,966
Scholarships/fellowships	51,803,944	47,470,334
Special projects/lecture series/workshops	<u>17,462,421</u>	<u>16,728,233</u>
	<u>124,377,613</u>	<u>119,211,112</u>
Total endowment	<u>173,630,261</u>	<u>151,085,322</u>
Total net assets with donor restrictions	<u>\$ 237,673,592</u>	<u>\$ 202,767,390</u>

Net assets with donor restrictions that are perpetual in nature originated with contributions received to establish perpetual endowments. The endowment gift is to be held in perpetuity with the capital appreciation and earnings thereon to be used to provide financial assistance to deserving scholars, salary supplements and awards to attract and retain outstanding faculty members, visiting artists, and lecturers and to provide for various departmental and University needs.

# THE UNIVERSITY OF MEMPHIS FOUNDATION

## Notes to Financial Statements (Continued) June 30, 2024 and 2023

### Note 6 - Nature and amounts of net assets with donor restrictions (continued)

Releases from donor restrictions for the years ended June 30, 2024 and 2023 are as follows:

	2024	2023
Subject to expenditure for a specified purpose:		
Alumni relations	\$ 301,410	\$ 394,134
Awards	142,807	77,442
Capital improvements	1,810,770	6,392,334
Centers, institutes and labs	905,080	414,251
Contributions receivable, net	212,573	50,471
Departmental/academic enrichment	8,960,596	11,032,299
Gift annuities	19,281	19,281
Operations	72,292	(265,783)
Professorships/chairs/visiting scholars	722,735	140,687
Scholarships/fellowships	3,424,897	1,563,920
Special projects/lecture series/workshops	3,880,489	6,158,477
	<u>20,452,930</u>	<u>25,977,513</u>
Endowments:		
Subject to expenditure for a specified purpose:		
Alumni relations	375	29,387
Awards	-	65,303
Centers, institutes and labs	-	130,974
Contributions receivable, net	37,230	16,824
Departmental/academic enrichment	-	246,679
Professorships/chairs/visiting scholars	-	505,372
Scholarships/fellowships	(41,340)	1,372,309
Special projects/lecture series/workshops	-	432,740
	<u>(3,735)</u>	<u>2,799,588</u>
	<u>\$ 20,449,195</u>	<u>\$ 28,777,101</u>

### Note 7 - Endowment funds

The Foundation's endowment accounts consist of donor-restricted endowment funds and include approximately 700 individual funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.



## THE UNIVERSITY OF MEMPHIS FOUNDATION

Notes to Financial Statements (Continued)  
June 30, 2024 and 2023

### Note 7 - Endowment funds (continued)

#### Interpretation of relevant law

The Board of Directors of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of gifts donated to the permanent endowment funds and (b) the original value of subsequent gifts to the permanent endowment funds. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Changes in endowment net assets for the fiscal year ended June 30, 2024 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of year	\$ -	\$ 151,085,321	\$ 151,085,321
Investment return:			
Investment income	-	369,265	369,265
Net depreciation (realized and unrealized)	-	20,513,066	20,513,066
Total investment return	-	20,882,331	20,882,331
Contributions	-	5,389,023	5,389,023
Appropriation of endowment assets for expenditure	-	(3,726,414)	(3,726,414)
End of year	\$ -	\$ 173,630,261	\$ 173,630,261

## THE UNIVERSITY OF MEMPHIS FOUNDATION

### Notes to Financial Statements (Continued) June 30, 2024 and 2023

#### Note 7 - Endowment funds (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2023 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of year	\$ -	\$ 125,876,850	\$ 125,876,850
Investment return:			
Investment income	-	833,439	833,439
Net depreciation (realized and unrealized)	-	<u>13,661,445</u>	<u>13,661,445</u>
Total investment return	-	14,494,884	14,494,884
Contributions	-	13,513,175	13,513,175
Appropriation of endowment assets for expenditure	-	<u>(2,799,588)</u>	<u>(2,799,588)</u>
End of year	<u>\$ -</u>	<u>\$ 151,085,321</u>	<u>\$ 151,085,321</u>

#### Funds with deficiencies

Fair value of assets associated with individual donor-restricted endowment funds may, at times, fall below the level that the donor requires the Foundation to retain in a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in assets without donor restrictions. These deficiencies result from unfavorable market fluctuations that occurred after the investment of net assets with donor restricted contributions and/or continued appropriation for fees expenditures. At June 30, 2024, deficiencies of this nature existed in 12 donor-restricted endowment funds, which together have an original gift value of \$4,834,554, a current fair value of \$4,215,541, and a deficiency of \$619,013. At June 30, 2023, deficiencies of this nature existed in 55 donor-restricted endowment funds, which together have an original gift value of \$13,090,464, a current fair value of \$12,032,112, and a deficiency of \$1,058,352.

#### Return objectives and risk parameters

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

## THE UNIVERSITY OF MEMPHIS FOUNDATION

Notes to Financial Statements (Continued)  
June 30, 2024 and 2023

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### Note 7 - Endowment funds (continued)

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

#### Spending policy and relationship to investment objectives

The Foundation has a policy of budgeting for expenditure each year a percentage of its endowment funds' average fair value over the prior three calendar years preceding the fiscal year in which the expenditure is planned. For fiscal years 2024 and 2023, this percentage was four percent (4%). In establishing this policy, the Foundation considered the long-term expected return on its endowment funds. Accordingly, over the long-term, the Foundation expects the current spending policy to allow for endowment growth. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The Foundation has a policy that permits spending underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. The Board of Directors appropriated for expenditures \$151,353 and \$44,103 from underwater endowment funds during the years ended June 30, 2024 and 2023, respectively, which represents 2% of the 12-quarter moving average, not the 4% it generally draws from its endowment.

### Note 8 - Related party transactions

The Foundation provided direct support to the University for general departmental expenditures, scholarships, and awards which totaled \$23,092,630 and \$32,632,650 for the years ended June 30, 2024 and 2023, respectively. The Foundation had accounts payable to the University in the amount of \$16,624,545 and \$13,563,123 as of June 30, 2024 and 2023, respectively.

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

## THE UNIVERSITY OF MEMPHIS FOUNDATION

### Notes to Financial Statements (Continued) June 30, 2024 and 2023

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#### Note 8 - Related party transactions (continued)

The Foundation also had accounts payable due to ASF in the amount of \$2,010,283 and \$1,517,136 as of June 30, 2024 and 2023, respectively.

#### Interfund advance

The Foundation has agreed to advance up to \$10,976,899 to an internal Foundation fund as an interfund advance benefiting the athletic department of the University at a 4.00% annual interest rate for the purpose of providing financial support to allow the athletic department to undertake construction of a football practice facility in advance of receiving payment of donor funding commitments. The advance is to be repaid in full not later than June 30, 2025, and is secured by certain future collections of receivables and other collections related to certain Foundation funds benefiting the athletic department. Interfund advances totaling \$2,013,437 and \$3,949,433 were outstanding as of June 30, 2024 and 2023, respectively.

#### Contributed services

Based upon an operating agreement between the University and Foundation, the University provides office space and donation collection and processing services for the Foundation. The University provided contributed services under the terms of the operating agreement in the amount of \$239,775 and \$249,509 for the years ended June 30, 2024 and 2023, respectively.

#### Note 9 - Concentrations of risks

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 geographic region or industry.

Approximately 32% and 36% of the Foundation's contributions receivable was due from four and six donors at June 30, 2024 and 2023, respectively.

#### Note 10 - Subsequent event

Effective July 1, 2024, The Herff Trust (the "Trust") was transitioned into the Foundation for oversight. The assets of the Trust remain with Raymond James. In August 2024, this update was communicated with Raymond James to reflect the accurate Board of Directors overseeing the asset. For accounting purposes internally, the Trust is in a separate and clearly identifiable fund within the Foundation.



**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***

**Independent Auditors' Report**

To the Board of Directors  
The University of Memphis Foundation  
Memphis, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of Memphis Foundation (the "Foundation"), which comprise the statement of financial position as of June 30, 2024 and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 15, 2024.

**Report on Internal Control Over Financial Reporting**

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

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

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

## Report on Compliance and Other Matters

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

## Purpose of this Report

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

CBIZ CPAs P.C.<sup>1</sup>

Memphis, Tennessee  
November 15, 2024

<sup>1</sup> In certain jurisdictions, CBIZ CPAs P.C. operates under its previous name, Mayer Hoffman McCann P.C.

# The University of Memphis Board of Trustees

## Presentation For Information

**Date:** March 5, 2025

**Committee:** Finance and Audit Committee

**Presentation:** External Audit Report - University of Memphis Research Foundation Financial Statements, June 30, 2024

**Presented by:** Angela Ross, Associate Vice President and Chief Audit Executive

### Background:

The financial statements are presented for your information according to the responsibilities for Internal Audit under UofM Policy GE2016 Notification of External Audits and Reviews, which includes reporting occurrences of external reviews and audits to the Finance and Audit Committee, Division of State Audit and others as the circumstances may dictate. The University of Memphis Research Foundation, a component unit of the University of Memphis, Financial Statements was audited by an independent audit firm, Watkins Uiberall, PLLC, and the report was issued on October 24, 2024.

From the Audit Report's Management Discussion and Analysis: The University of Memphis Research Foundation (Foundation) is a nonprofit corporation established on June 16, 2006, to develop and administer sponsored research and other sponsored projects conducted by the faculty and staff of the University. In addition, the Foundation may seek and hold patents and copyrights, negotiate and administer licenses, and collect and distribute royalties on behalf of the University. As of June 30, 2024, the Foundation held fifty (50) patents assigned by the University. The Foundation's Board of Directors approves the annual operating budget for the Foundation's administrative expenses. Budgets for sponsored projects are administered by the University. The Foundation utilizes University facilities and personnel to perform sponsored projects and for operating the Foundation. The Foundation reimburses the University quarterly for expenses incurred on behalf of the Foundation.

The Foundation's financial statements incorporate the activities of the Foundation's wholly owned subsidiary, UMRF Ventures, Inc., as a component unit. UMRF Ventures was incorporated in 2017 with the mission to create good paying, part-time jobs for UofM students in a professional on-campus environment, and to provide the students with financial resources, relevant job experience, and potential pathways to future full-time employment. UMRF Ventures started seven years ago as a partnership with FedEx and now employs over 175 University of Memphis students working additionally with Raymond James, Sedgwick, Methodist LeBonheur Health Care and others. The goals of UMRF Ventures are to provide good-paying jobs and professional development that fill a talent pipeline for companies in our region, especially our partners; provide a high-quality service to our customers; and benefit the research efforts of the UofM, which supports its R1 status today and into the future.

The independent auditor's opinion stated that the financial statements present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented

component unit of the Foundation as of June 30, 2024, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The auditors did not identify any deficiencies in internal control that would be considered material weaknesses during their limited consideration of internal control over financial reporting. Also, they did not identify any instances of noncompliance with certain provisions of laws, regulations, contracts, grant agreements, or other matters that are required to be reported under Government Auditing Standards.



**THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION**  
**FINANCIAL STATEMENTS**

June 30, 2024

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# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

## BOARD OF DIRECTORS AND MANAGEMENT OFFICIALS

JUNE 30, 2024

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### BOARD OF DIRECTORS

Bill Hardgrave	Chairman
Brad Phillips	Secretary/Treasurer
Cody Behles	Director
Richard Bloomer	Director
Jan Bouten	Director
Lakita Cavin	Director
Erika Dillard	Director
Gary Emmert	Director
Tom Kadien	Director
Firouzeh Sabri	Director
Ido Sarig	Director
Jessica Taveau	Director
Tim Whitehorn	Director

### MANAGEMENT OFFICIALS

Jasbir Dhaliwal	Executive Director
Angela Bunch	Accountant

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
The University of Memphis Research Foundation  
Memphis, Tennessee

### Report on the Audit of the Financial Statements

#### Opinions

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of The University of Memphis Research Foundation, a component unit of The University of Memphis, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise The University of Memphis Research Foundation's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of The University of Memphis Research Foundation, as of June 30, 2024, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### Basis for Opinions

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

#### Responsibilities of Management for the Financial Statements

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

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

#### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 generally accepted auditing standards 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 generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The University of Memphis Research Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The University of Memphis Research Foundation's ability to continue as a going concern for a reasonable period of time.

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

#### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise The University of Memphis Research Foundation's basic financial statements. The schedules of changes in long-term debt by individual issue; long-term debt, principal, and interest requirements by fiscal year; changes in lease obligations; and lease obligations, principal and interest requirements by fiscal year are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of changes in long-term debt by individual issue; long-term debt, principal, and interest requirements by fiscal year; changes in lease obligations; and lease obligations, principal and interest requirements by fiscal year are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

#### **Other Information**

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

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

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2024 on our consideration of The University of Memphis Research Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The University of Memphis Research Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering University of Memphis Research Foundation's internal control over financial reporting and compliance.

*Watkins Mikusall, PLLC*

Memphis, Tennessee  
October 24, 2024

# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS PRIMARY GOVERNMENT

JUNE 30, 2024

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The following Management's Discussion and Analysis ("MD&A") provides an overview of the financial position and the results of operations of The University of Memphis Research Foundation (the "Foundation") for the year ended June 30, 2024. We encourage you to read this MD&A section in conjunction with the accompanying audited financial statements and notes to the financial statements.

### About the Financial Statements

As an affiliate unit of The University of Memphis (the "University"), the Foundation has implemented the governmental accounting standards for state and local governments and for public colleges and universities. Because the Foundation is not supported by governmental tax revenues, the Foundation presents its financial statements in a single column "business-type activity" format appropriate for college and university enterprise funds. Governmental accounting standards define business-type activities as those financed in whole or in part by fees charged to external parties for goods and services.

The financial statements incorporate the activities of the Foundation's wholly owned subsidiary, UMRF Ventures, Inc., as a component unit.

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

The statement of net position is the Foundation's balance sheet. It reflects the total assets, liabilities, and net position of the Foundation as of June 30, 2024. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as noncurrent. Net position is grouped in the following categories:

- Net investment in capital assets
- Restricted for research
- Unrestricted

The statement of revenues, expenses, and changes in net position details how net position has increased or decreased during the fiscal year ended June 30, 2024.

The statement of cash flows details how cash has increased or decreased during the fiscal year ended June 30, 2024. It classifies the sources and uses of Foundation cash into the following categories:

- Operating activities
- Investing activities
- Capital financing activities
- Noncapital financing activities

Cash flows associated with the Foundation's unrestricted net assets primarily result from operating activities and investment income.

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

### General

The Foundation is a nonprofit corporation established on June 16, 2006, to develop and administer sponsored research and other sponsored projects conducted by the faculty and staff of the University. In addition, the Foundation may seek and hold patents and copyrights, negotiate and administer licenses, and collect and distribute royalties on behalf of the University. As of June 30, 2024, the Foundation held fifty patents assigned by the University. The Foundation's Board of Directors approves the annual operating budget for the Foundation's administrative expenses. Budgets for sponsored projects are administered by the University. The Foundation utilizes University facilities and personnel to perform sponsored projects and for operating the Foundation. The Foundation reimburses the University quarterly for expenses incurred on behalf of the Foundation.

### Financial Highlights and Key Trends

During fiscal year 2024, the Foundation continued to manage sponsored projects processed through the Foundation and to operate the UMRF Research Park. The Foundation made capital improvements of \$82,858 to the research park and awarded \$30,000 each to two UMRF Professorship recipients.

# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS PRIMARY GOVERNMENT (CONTINUED)

JUNE 30, 2024

In fiscal year 2023, the Foundation implemented Governmental Accounting Standards Board (GASB) Statement No. 87 Leases. Under this standard, the Foundation is required as lessee to recognize a lease liability and an intangible right of use asset, and as lessor, to recognize a lease receivable and a deferred inflow of resources.

### Statement of Net Position

Current assets include cash, investments, and receivables expected to be collected in the coming year. Capital assets include patents, leasehold improvements, equipment, and right of use asset related to leases. Other assets include notes receivable, rent receivable under leases, and equity interest in UMRF Ventures, Inc. Current liabilities include payables, current portion of lease liabilities, unearned revenue expected to be recognized in the next fiscal year, and security deposits from UMRF Research Park residents. Long term liabilities are for lease obligations.

Net position is divided into three categories. The first category, net investment in capital assets, represents the Foundation's investment in capital assets, net of accumulated depreciation or amortization, and net of any outstanding debt or lease obligations related to those capital assets. The next category is restricted for research. This amount is available for expenditure by the Foundation but must be spent in accordance with restrictions imposed by external third parties. The last category is unrestricted, which is comprised of reserved and unreserved funds. Reserved funds are designated for specific purposes; unreserved funds may be used to meet expenses for any lawful purpose. On June 30, 2024, reserved funds totaled \$645,444 and unreserved funds totaled \$2,044,243.

Funds held on June 30, 2024, by an investment broker on behalf of the Foundation totaled \$1,902,953. Of this amount, \$1,900,909 represents investments at fair value and \$2,044 represents deposits with banks affiliated with the broker.

A summary of the major components of the net position of the Foundation as of June 30, 2024 and 2023 is as follows:

	2024	2023
<b>Assets</b>		
Current assets	\$ 2,886,586	\$ 2,347,063
Capital Assets	731,192	735,587
Other assets	1,417,716	1,744,492
<b>Total assets</b>	<b>\$ 5,035,494</b>	<b>\$ 4,827,142</b>
<b>Liabilities</b>		
Current liabilities	\$ 1,137,684	\$ 921,021
Long-term liabilities	30,272	-
<b>Total liabilities</b>	<b>\$ 1,167,956</b>	<b>\$ 921,021</b>
<b>Deferred inflows</b>	<b>\$ 205,078</b>	<b>\$ 291,159</b>
<b>Net position</b>		
Net investment in capital assets	\$ 687,685	\$ 679,364
Restricted, expendable for research	285,088	216,436
Unrestricted	2,689,687	2,719,162
<b>Total net position</b>	<b>\$ 3,662,460</b>	<b>\$ 3,614,962</b>

The increase in current assets is primarily due to the June 2024 error by a Foundation sponsor in electronically transmitting funds to the Foundation's bank account instead of to the intended recipient. Because of the erroneous deposit, there is a corresponding increase in current liabilities, which is partially offset by a substantial decrease in unearned revenue.

The decrease in other assets is attributable to reclassification to current assets of portions of notes and leases receivable; the recording of the decrease in equity interest in subsidiary; and the recording of the dividend received from UMRF Ventures, Inc..

# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS PRIMARY GOVERNMENT (CONTINUED)

JUNE 30, 2024

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

A summary of the statement of revenues, expenses, and changes in net position for the years ended June 30, 2024 and 2023, is as follows:

	2024	2023
Operating revenues	\$ 2,354,227	\$ 2,023,230
Operating expenses	(2,371,425)	(1,899,168)
Operating income (loss)	(17,198)	124,062
Nonoperating income (expense)		
Royalty income	33,382	24,511
Net investment income	112,741	58,958
Increase (decrease) equity interest in subsidiary	(81,425)	89,340
Change in net position	\$ 47,500	\$ 296,871

The Foundation recognizes sponsored project revenue and expenses for contracts when projects are completed. For grants and contributions, the Foundation recognizes revenue upon receipt of cash or a pledge with no contingencies and recognizes expenses as incurred.

Operating revenues and expenses increased due to a greater number of projects being completed during the fiscal year. The operating loss is mainly due to recognition of patent impairment; amortization of leasehold improvements; and use of internal Foundation funds to support UMRF Professorships. Significant increases in interest, dividends and unrealized gains contributed to the increase in net investment income.

### Statement of Cash Flows

In fiscal 2024, cash inflows came from sponsored project revenue, UMRF Research Park revenue, and interest and royalty income. Cash outflows were primarily for sponsored project expenses. All sponsored project expenses are incurred by the University and reimbursed by the Foundation.

### Future

The Foundation will continue to explore opportunities to support the advancement of research excellence and the expansion of research infrastructure at the University. The strategic focus will be on technology licensing and equity holdings in subsidiary ventures as the primary means for generating funds.



# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS COMPONENT UNIT

JUNE 30, 2024

UMRF Ventures, Inc. (the "Company") is a wholly owned subsidiary of The University of Memphis Research Foundation (the "Foundation"). The following MD&A provides an overview of the financial position and the results of operations of the Company for the year ended June 30, 2024. We encourage you to read this MD&A section in conjunction with the accompanying audited financial statements and notes to the financial statements.

### General

The Company was incorporated in 2017 and began operating on July 1, 2017, with the mission to create good-paying, part-time jobs for University of Memphis' (the "University") students, in a professional, on-campus environment, that provides the students with financial resources, relevant job experience, and potential pathways to future full-time employment.

### Financial Highlights and Key Trends

UMRF Ventures, Inc. is seven years old. What started with a partnership with FedEx that employed 23 students, has become a company that employs over 175 University of Memphis students working additionally with Raymond James, Sedgwick, and Methodist LeBonheur Health Care, to name a few. Our goals are to provide good-paying jobs and professional development that fill a talent pipeline for companies in our region, especially our partners; provide a high-quality service to our customers; and benefit the research efforts of the University, which supports its R1 status today and into the future.

With one exception (a FedEx IT Service Desk agreement) we renewed all other contracts and signed new ones, including MLGW, to end the fiscal year with a positive net income. In addition, the Board of Directors approved a resolution to issue a dividend payment of \$80,000 to the Foundation.

We anticipate growth with businesses in healthcare and banking as well as new contracts with existing customers. For the fiscal year ending 2025, we are projecting modest revenue growth and an increase in profitability.

### Statement of Net Position

Current assets include cash, receivables expected to be collected in the coming year and prepaid expenses. Other assets consist of capital assets. Current liabilities include payables, accrued payroll and the current portion of loan and lease liabilities. Long-term liabilities include lease obligations and loan received from the Foundation.

A summary of the major components of the net position of the Company as of June 30, 2024 and 2023, is as follows:

	2024	2023
Assets		
Current assets	\$ 1,963,505	\$ 1,831,445
Capital assets	1,226,923	1,598,378
Income tax benefit	-	37,459
Total assets	<u>\$ 3,190,428</u>	<u>\$ 3,467,282</u>
Liabilities		
Current liabilities	\$ 756,152	\$ 664,738
Long-term liabilities	1,260,577	1,467,420
Total liabilities	<u>\$ 2,016,729</u>	<u>\$ 2,132,158</u>
Net position		
Net investment in capital assets	\$ (14,103)	\$ 21,048
Unrestricted	1,187,802	1,314,076
Total net position	<u>\$ 1,173,699</u>	<u>\$ 1,335,124</u>

# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS COMPONENT UNIT (CONTINUED)

JUNE 30, 2024

The decrease in capital assets is due to amortization of right of use asset. Current liabilities increased due to recording a substantial income tax liability and to reclassification of the current portion of leases and loan payable.

### Statement of Revenues, Expenses, and Changes in Net Assets

A summary of the statement of revenues, expenses and changes in net position for the years ended June 30, 2024 and 2023, is as follows:

	2024	2023
Operating revenues	\$ 4,862,489	\$ 5,094,007
Operating expenses	(4,668,828)	(5,002,067)
Operating income (loss)	193,661	91,940
Nonoperating income (expense)		
Income tax benefit (expense)	(279,526)	(2,100)
Charity	(500)	(500)
Net investment income	4,940	-
Change in net position	\$ (81,425)	\$ 89,340
Dividend	(80,000)	-
Change in net position after dividend	\$ (161,425)	\$ 89,340

The decrease in operating revenues and expenses is primarily due to contract cutbacks by FedEx. The increase in income tax expense is due to the reversal of timing differences between financial accounting income and taxable income.

### Statement of Cash Flows

Cash inflows came from contract revenue. Cash outflows were for operating expenses, purchase of equipment and repayment toward loans and to reduce lease liabilities.

### Future

The long-range vision of the Company is to increase its brand awareness, grow annual revenue to \$10 million, provide jobs and financial resources to more than 500 students per year, and to dividend profits back to the Foundation

**THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION**

**STATEMENT OF NET POSITION**

FOR THE YEAR ENDED JUNE 30, 2024

	<b>Primary Government</b>	<b>Component Unit</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 792,545	\$ 1,223,390
Investment securities	1,900,909	204,668
Accounts receivable	-	517,776
Notes receivable - current	75,000	-
Leases receivable - current	118,132	-
Prepaid expenses	-	17,671
Total current assets	<u>2,886,586</u>	<u>1,963,505</u>
<b>Capital Assets, net</b>		
Property and equipment, net	154,325	85,804
Right of use asset, net	44,404	1,141,119
Patents, net of amortization	532,463	-
Total capital assets	<u>731,192</u>	<u>1,226,923</u>
<b>Other Assets</b>		
Notes receivable - long term	150,000	-
Leases receivable - long term	94,019	-
Equity interest in subsidiary	1,173,697	-
Total other assets	<u>1,417,716</u>	<u>-</u>
<b>Total Assets</b>	<u><u>\$ 5,035,494</u></u>	<u><u>\$ 3,190,428</u></u>
<b>LIABILITIES , DEFERRED INFLOWS AND NET POSITION</b>		
<b>Current Liabilities</b>		
Current portion of other long-term debt	\$ -	\$ 21,034
Current portion of related party debt	-	75,000
Current portion of lease liabilities	13,235	229,993
Payable to The University of Memphis	289,623	26,952
Payable to The University of Memphis Foundation	500,000	-
Accounts payable	2,743	21,674
Unearned revenue	324,117	-
Accrued payroll and other liabilities	7,966	260,483
Income tax payable	-	121,016
Total current liabilities	<u>1,137,684</u>	<u>756,152</u>
<b>Long-term Liabilities</b>		
Related party debt - long term	-	150,000
Lease liabilities, - long term	30,272	989,999
Deferred income taxes	-	120,578
Total long-term liabilities	<u>30,272</u>	<u>1,260,577</u>
<b>Deferred inflows under lease agreements</b>	205,078	-
<b>Net Position</b>		
Net investment in capital assets	687,685	(14,103)
Restricted for research	285,088	-
Unrestricted	2,689,687	1,187,802
Total net position	<u>3,662,460</u>	<u>1,173,699</u>
<b>Total Liabilities, Deferred Inflows and Net Position</b>	<u><u>\$ 5,035,494</u></u>	<u><u>\$ 3,190,428</u></u>

See accompanying notes to the financial statements.

**THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**

**FOR THE YEAR ENDED JUNE 30, 2024**

	<b>Primary Government</b>	<b>Component Unit</b>
<b>Operating Revenue</b>		
Contract revenue	\$ 2,126,776	\$ 4,862,489
Grants and contributions	31,346	-
Patent contributions	45,350	-
Income from Research Park	150,755	-
Total operating revenues	<u>2,354,227</u>	<u>4,862,489</u>
<b>Operating Expenses</b>		
Depreciation and amortization	69,566	347,247
General and administrative	-	78,758
Insurance	5,641	96,351
Interest	2,067	51,921
Network services	22,558	39,464
Other	1,480	21,346
Payroll taxes	-	335,344
Professional fees	23,625	91,820
Rent	-	6,961
Repairs and maintenance	-	16,975
Research park expenses	17,649	-
Research projects	2,216,862	-
Royalty distributions	11,977	-
Salaries	-	3,582,641
Total operating expenses	<u>2,371,425</u>	<u>4,668,828</u>
<b>Operating Income (Loss)</b>	<u>(17,198)</u>	<u>193,661</u>
<b>Other Income (Expense)</b>		
Royalty income	33,382	-
Net investment income	112,741	4,940
Decrease in equity interest in subsidiary	(81,425)	-
Charity	-	(500)
Total other income (expense)	<u>64,698</u>	<u>4,440</u>
<b>Income Before Income Taxes</b>	47,500	198,101
<b>Income Tax Expense</b>		
Current	-	(121,489)
Deferred	-	(158,037)
Total income tax expense	<u>-</u>	<u>(279,526)</u>
<b>Change in Net Position</b>	47,500	(81,425)
<b>Net Position, Beginning of Year</b>	3,614,960	1,335,124
<b>Less: Dividends paid</b>	<u>-</u>	<u>(80,000)</u>
<b>Net Position, End of Year</b>	<u><u>\$ 3,662,460</u></u>	<u><u>\$ 1,173,699</u></u>

# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2024

	Primary Government	Component Unit
<b>Cash flows from operating activities</b>		
Cash received from sponsors	\$ 1,226,250	\$ -
Cash received from contracts	-	5,316,864
Cash received from Research Park	105,946	-
Cash received from Component Unit	126,706	-
Cash payments to The University of Memphis	(1,082,866)	(2,247)
Cash payments to suppliers	(44,966)	(245,093)
Cash payments to employees	-	(3,942,256)
Cash payments for state franchise taxes	-	(12,974)
Net cash provided by operating activities	331,070	1,114,294
<b>Cash flows from capital and related financing activities</b>		
Purchases of property and equipment	(10,632)	(30,099)
Payments to reduce lease liability	(9,490)	(245,482)
Repayment of long-term debt	-	(22,938)
Net cash used for capital and related financing activities	(20,122)	(298,519)
<b>Cash flows from noncapital financing activities</b>		
Dividends paid to Primary Government	-	(80,000)
Repayment of related party debt	-	(96,695)
Cash payments for interest	-	(66,535)
Net cash used for noncapital financing activities	-	(243,230)
<b>Cash flows from investing activities</b>		
Purchases of investments	(1,167,228)	(200,000)
Investment maturities	391,000	-
Proceeds from the sale of investments	626,686	-
Income from royalties	33,382	-
Income from investments	57,597	-
Net cash used for investing activities	(58,563)	(200,000)
Change in cash and cash equivalents	252,385	372,545
Cash and cash equivalents at beginning of year	540,160	850,845
Cash and cash equivalents at end of year	\$ 792,545	\$ 1,223,390

See accompanying notes to the financial statements.

# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

## STATEMENT OF CASH FLOWS (Continued)

FOR THE YEAR ENDED JUNE 30, 2024

### Reconciliation of operating income to net cash

#### provided by operating activities

Operating income (loss)	\$	(17,198)	\$	193,661
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization		69,565		347,247
Bad debt		-		194
Patent contributions		(45,350)		-
Patent impairment loss		63,038		-
Interest expense		2,068		51,921
Changes in operating assets and liabilities				
(Increase) decrease in operating assets:				
Accounts receivable		-		456,250
Prepaid expenses		-		(11,570)
Increase (decrease) in operating liabilities				
Accounts payable		1,299		10,982
Payable to the University of Memphis		(40,751)		21,294
Payable to the University of Memphis Foundation		500,000		-
Accrued payroll and other liabilities		-		44,315
Unearned revenue		(201,601)		-
Net cash provided by operating activities	\$	331,070	\$	1,114,294

See accompanying notes to the financial statements.

# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2024

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### PRIMARY GOVERNMENT

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Organization and Activities

The University of Memphis Research Foundation (the "Foundation") is a not-for-profit corporation created in June 2006 as an agent to promote the development, implementation, and coordination of sponsored research solely for the benefit of The University of Memphis (the "University") in the furtherance of The University's research objectives. Operations for the Foundation commenced on July 1, 2007.

##### Financial Reporting Entity

In determining the financial reporting entity, the Foundation complies with the provisions of GASB No. 14, *The Financial Reporting Entity*. Based on this standard, the Foundation's wholly owned for-profit entity was determined to be a component unit. UMRF Ventures, Inc. is a legally separate entity for which the Foundation is considered to be financially accountable.

##### Basis of Presentation

The University is a public institution governed by an independent board of trustees under the FOCUS Act, which is a component unit of the State of Tennessee. Therefore, as a component unit of, and created solely for the benefit of, The University, the financial statements of the Foundation 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).

##### Basis of Accounting

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

##### Cash and Cash Equivalents

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

##### Accounts Receivable

Accounts receivable represent amounts due from services rendered on contracts and for certain rents as of June 30, 2024. The Foundation records accounts receivable at their estimated net realizable value. An allowance for doubtful accounts is recorded based upon management's estimate of uncollectible accounts, determined by analysis of specific customer accounts. Past due balances and delinquent receivables are charged against the allowance when they are determined to be uncollectible by management. Management did not consider an allowance for doubtful accounts to be necessary as of June 30, 2024.

##### Investment Securities

The Foundation carries investments at fair value in the statement of net position. Investments are recorded on the trade-date basis. Realized and unrealized gains and losses are included in the net investment income in the statement of revenues, expenses, and changes in net position.

##### Patents

Certain patents related to research projects have been donated to the Foundation by The University. Donated patents are recorded as contributions at the cost incurred by The University, which approximates the estimated fair value on the date of donation.

Patents are amortized over their useful lives, estimated at twenty years, using the straight-line method and are stated net of accumulated amortization.

It is the goal of the Foundation to license patents to companies with the expertise and capability to commercialize inventions covered by the patents. At least annually, or if a determination is made that there is no accessible market for a patent, an impairment assessment is performed and the carrying value of the patent may be adjusted. Any impairment loss determined by management is included in the statement of revenues, expenses, and changes in net position in the year in which impairment is determined. There was impairment loss of \$63,038 for the year ended June 30, 2024.

#### Deferred Inflows of Resources

Deferred inflows of resources represents acquisitions of assets that apply to a future period which will not be recognized as inflows of resources (revenue) until that future period.

#### Equity Interest in Subsidiary

In accordance with accounting principles issued by GASB, the Foundation's ownership of its wholly owned for-profit subsidiary is accounted for using the equity method; whereby the recorded amount includes the purchase price of the stock plus the Foundation's share (100% in this case) of the subsidiary's profit or loss.

#### Net Position

The Foundation's net position is classified as follows:

*Net investment in capital assets* - This represents the total investment in capital assets, net of accumulated depreciation or amortization, and net of any outstanding debt or lease obligations related to those capital assets.

*Restricted, expendable for research* - includes resources which the Foundation is legally or contractually obligated to spend on research in accordance with restrictions imposed by external third parties.

*Unrestricted* - Unrestricted net position represents resources that do not meet the definition of restricted net position and may be used by the Foundation to meet expenses for any purpose. The policies of The University require that certain amounts be held in reserve for specified uses. Additional amounts are reserved due to Foundation policy.

When both restricted and unrestricted resources are available, it is the Foundation's policy to use restricted resources first, then unrestricted resources as they are needed.

#### Revenue Recognition

The Foundation's revenues are derived from grants, research contracts, contributions, and Research Park rent which provide support for the Foundation. The Foundation recognizes revenue from research contracts once the project has been completed. The Foundation maintains records of any amounts that are remaining at the conclusion of a project by transferring the funds to a residual balance account in the name of the project's principal investigator and holds these funds for future projects to be approved by the Foundation. Unearned revenue consists of amounts billed on research contracts net of expenditures incurred to date.

Grants and contribution revenue are recognized when written documentation is received and all conditions have been satisfied for the Foundation to be eligible to receive the grant or contribution.

Revenues derived from grants, research contracts, contributions, and rent are reported as operating revenues. Transactions that are investment-related are reported as non-operating income. Interest and royalties are recorded when earned and are reported as non-operating income.

#### Income Taxes

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

#### Fair Value Measurements

Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establish the framework for a fair value hierarchy. The fair value hierarchy gives the highest priority to observable inputs such as quoted prices in active markets for identical assets or liabilities (Level 1), the next highest priority to inputs (other than quoted prices within Level 1) such as quoted prices for similar assets or liabilities, quoted prices in inactive markets, or other inputs that can be corroborated by observable market data (Level 2), and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing.



### Use of Estimates

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

### Leases

The Foundation follows the provisions of Governmental Accounting Standards Board (GASB) Statement 87, *Leases*, which requires, lessees to recognize substantially all leases on the balance sheet as both right of use assets and lease liabilities. Right of use assets are amortized over the shorter of the term of the lease or the useful life of the underlying asset. Payments made under lease agreements are reported as reductions in the lease liability and outflows of resources in the form of interest expense.

The Foundation also holds several subleases and functions as a lessor. Lease related amounts are recognized at the inception of leases in which the Foundation is the lessor. The Foundation records corresponding lease receivables plus certain additional amounts received from the lessee at or before the commencement of the lease term that relate to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term. Deferred inflow of resources is recorded in an amount equal to that of the lease receivable at the inception of the lease, and inflow of resources (rental income) is recognized in a systematic and rational manner over the term of the lease.

### Date of Management's Review

The Foundation evaluated its June 30, 2024 financial statements for subsequent events through October 24, 2024, the date the financial statements were available to be issued. Management is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

## **NOTE 2 - DEPOSITS WITH BANKING INSTITUTIONS**

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

Custodial credit risk is the risk that, in the event of bank failure, the Foundation's deposits may not be returned. The Foundation has implemented an investment policy to minimize custodial credit risk from banking institutions. As of June 30, 2024, the Foundation had deposits which exceeded federally insured limits by \$530,710.

Although the Foundation qualifies for reporting as a governmental entity under the GASB framework, management has determined that the Foundation does not meet the definition of a "public depositor." Accordingly, management does not believe that the Foundation's deposits are available to be collateralized by its banking institutions; therefore, the Foundation is exempt from Tennessee Code Annotated Section 9 requirements that all public deposits in excess of federally insured limits, if any, must be collateralized.

## **NOTE 3 - INVESTMENT SECURITIES**

The objective of the Foundation's investment policy is to preserve capital with a secondary objective of earning the highest possible total return (capital appreciation and income return) consistent with prudent levels of risk. At a minimum, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of these assets plus a modest gain to help offset the expense of running the Foundation. The portfolio should be constructed using a total return approach with the majority of the funds invested to seek protection of principal over time. The assets are to be invested for the long term but with significant liquidity.

The Chair and Treasurer jointly, with active assistance and recommendations from the Foundation's Investment Consultant, shall have responsibility for establishing overall financial objectives, setting investment policy, and setting parameters for asset allocation. Domestic and international equities both large and small capitalization, fixed income, cash equivalent securities and alternative investments in the form of diversified fund of funds hedge funds have been determined to be acceptable vehicles for investment.

As of June 30, 2024, investment securities consisted of brokered certificates of deposit and publicly traded mutual funds with fair values totaling \$1,900,909.

Custodial credit risk is the risk that the Foundation's investments may not be returned. The Foundation does not have a policy for custodial credit risk for its investments; 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.

Interest rate risk is the risk that changes in the interest rates may adversely affect an investment's fair value. As a means of maximizing interest income while minimizing fair value losses and maintaining adequate liquidity, the Foundation has adopted an investment policy to invest excess operating cash in brokered certificates of deposit.

#### NOTE 4 - FAIR VALUE MEASUREMENTS

As of June 30, 2024, the following table presents the Foundation's financial assets measured at fair value on a recurring basis:

	Fair Value	Level 1	Level 2
Brokered Certificates of Deposit	\$ 941,514	\$ -	\$ 941,514
Mutual Funds	959,395	959,395	-
	<u>\$ 1,900,909</u>	<u>\$ 959,395</u>	<u>\$ 941,514</u>

Brokered certificates of deposit are traded on a secondary market, which generally values these instruments by discounting the related cash flows based on current yields of similar instruments with comparable durations, as reported by the custodian.

Fair values for mutual funds are determined by reference to quoted market prices and other relevant information generated by market transactions.

The methods described above may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair value. While the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions could result in a different fair value measurement at the reporting date.

#### NOTE 5 – CAPITAL ASSETS

As of June 30, 2024, capital assets consisted of the following:

	Balance June 30, 2023	Additions	Impairment	Balance June 30, 2024
Leasehold improvements	\$ 90,315	\$ 51,960	\$ -	\$ 142,275
Equipment	-	30,900	-	30,900
Right of use assets	70,096	-	-	70,096
Patents	820,575	45,350	(106,811)	759,114
	<u>980,986</u>	<u>128,210</u>	<u>(106,811)</u>	<u>1,002,385</u>
Less depreciation and amortization	<u>(245,401)</u>	<u>(69,565)</u>	<u>43,773</u>	<u>(271,193)</u>
	<u>\$ 735,585</u>	<u>\$ 58,645</u>	<u>\$ (63,038)</u>	<u>\$ 731,192</u>

#### NOTE 6 - EQUITY HELD IN LICENSEES

The Foundation 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.

## NOTE 7 – LEASES

### Lease Receivable

Sublease receivable from UMRF Ventures, Inc. for office space, computed using the subtenant's incremental borrowing rate of 4.0 percent with monthly lease payments of \$4,167 through maturity at August 2025. \$ 56,901

Subleases receivable from unrelated third parties for office space, computed using the incremental borrowing rate of 4.0 percent with monthly lease payments totaling \$6,728 with the largest sublease expiring April 2027. 155,250

212,151

Less: Current portion (118,132)

\$ 94,019

Deferred Inflows under Lease Agreements \$ 205,078

### Lease Liabilities

Lease payable to The University of Memphis for office space, computed using the incremental borrowing rate of 4.0 percent with quarterly lease payments of \$1,750 from September 2022 through maturity at August 2025. The office space is simultaneously subleased to UMRF Ventures, Inc..

Lease payable to The University of Memphis for office space, computed using the incremental borrowing rate of 4.0 percent with quarterly lease payments of \$1,946 from July 2022 through maturity at November 2029. Portions of this office space is subleased to unrelated third parties; some subtenants are under long-term subleases and others under month-to-month arrangements.

Total Lease Liabilities \$ 43,507

Less: Current portion (13,235)

Long-term lease liabilities \$ 30,272

Principal and interest payments due on related party leases for the next six years ending June 30 are as follows:

Year ending June 30,	Interest	Principal
2025	\$ 1,549	\$ 13,235
2026	1,115	6,668
2027	844	6,939
2028	561	7,222
2029	267	7,516
2030	19	1,927
	<u>\$ 4,355</u>	<u>\$ 43,507</u>

The following lists the changes in lease obligations for the year ended June 30, 2024:

Description of Indebtedness	Outstanding July 01, 2023	Additions	Reductions	Outstanding June 30, 2024	Due Within One year
Lease liabilities - University of Memphis - Highland Library/Defense Audit Building	<u>\$ 56,222</u>	<u>\$ -</u>	<u>\$ (12,715)</u>	<u>\$ 43,507</u>	<u>\$ 13,235</u>

## NOTE 8 - CONCENTRATIONS

The Foundation received all contract billings from two funding sources during the year ended June 30, 2024.

## NOTE 9 – NET POSITION

The unrestricted net position balance consists of two components, reserved and unreserved funds.

*Reserved* – amounts intended to be used by the Foundation for a specific purpose but are not restricted by external parties or enabling legislation. In accordance with policies of the University and the Foundation, the balances for the following items are considered reserved for the purposes specified below and are not available for general use:

1. Royalty income designated as:
  - a. Recovery of patent legal fees,
  - b. Distribution to The University of Memphis Office of Technology Transfer, or
  - c. Distribution to the FedEx Institute of Technology.
2. Project residuals that are no longer restricted but have been designated for future research expenditures for approved projects led by the original principal investigator.
3. Unexpended net cash flows from the Research Park which are intended for further development of the Research Park.

*Available* – represents the residual balance available for the general use of the Foundation.

As of June 30, 2024, the unrestricted net position is composed of the following balances:

### Unrestricted net position

#### Reserved

Accumulated royalty income	\$	174,132
Project residuals		402,897
Research park unexpended net cash flow		68,415
		<u>645,444</u>
Available		<u>2,044,243</u>

Total unrestricted net position	\$	<u>2,689,687</u>
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## NOTE 10 – OTHER RELATED PARTY TRANSACTIONS

Expenditures to The University represent amounts paid by the Foundation to reimburse The University for certain expenses including project management, business office operations and personnel support, incurred by The University on behalf of the Foundation.

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, 2024, the Foundation made cash transfers to The University in the amount of \$1,082,866. As of June 30, 2024, the Foundation had payables to The University totaling \$289,623.

During the year ended June 30, 2024, The Foundation received a payment of \$500,000 made erroneously which should have been paid directly to the University of Memphis Foundation. The Foundation remitted the \$500,000 to the University of Memphis Foundation in July 2024.

In September 2018, the Foundation loaned UMRF Ventures, Inc. \$225,000 for working capital support to expand its services. This loan bears interest at 5 percent per annum and is payable in three annual installments of \$75,000 beginning in 2025. The Foundation received interest relating to this loan totaling \$11,250 during the year ended June 30, 2024. The Foundation received rent payments of \$50,000 from UMRF Ventures, Inc. during the year ended June 30, 2024.

The Foundation received rent payments of \$29,136 from a company owned by a board member of the UMRF Ventures, Inc. during the year ended June 30, 2024.

## NOTE 11 - COMPONENT UNIT

The Foundation has one component unit, its wholly owned for-profit subsidiary, UMRF Ventures, Inc. (the "Company"). The Company is managed by its own board of directors and management. The Foundation has determined that the Company meets the requirements of a discretely presented component unit under GASB 14. Significant disclosures related to the Company are included on pages 19 - 22.

### COMPONENT UNIT

Where applicable, UMRF Ventures, Inc. (the "Company") has adopted the same or substantially similar accounting policies as the Foundation. Accordingly, the disclosures presented herein represent only the policies and disclosures that are unique to the Company's operations.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES OF COMPONENT UNIT

### Organization and Activities

The Company is a for-profit entity, which is wholly owned by the Foundation, that began operations on July 1, 2017, as part of an economic development initiative to provide real and transferable opportunities to students in the Memphis community through student-operated call centers. The Company believes that its call center model serves as a template for future opportunities that benefit students of The University.

### Accounts Receivable

Accounts receivable represent amounts due for services rendered as of June 30, 2024. The Company records accounts receivable at their estimated net realizable value. An allowance for doubtful accounts is recorded based upon management's estimate of uncollectible accounts, determined by analysis of specific customer accounts. Past due balances and delinquent receivables are charged against the allowance when they are determined to be uncollectible by management. No allowance for doubtful accounts was considered necessary at June 30, 2024.

### Investment Securities

The Foundation carries investments at fair value in the statement of net position. Investments are recorded on the trade-date basis. Realized and unrealized gains and losses are included in the net investment income in the statement of revenues, expenses, and changes in net position.

### Property and Equipment

Property, equipment, major renewals, and betterments are recorded at cost for individual items \$5,000 or greater and a useful life greater than one year. Expenditures for normal repair and maintenance are expensed to operations as they occur. Depreciation is provided through the straight-line method over the lease contract period of three years.

### Income Taxes

The Company follows the asset and liability approach to financial accounting and reporting for income taxes. The Company's federal and state tax returns are prepared on the cash basis of accounting, and the difference between the financial statements and tax bases of assets and liabilities is determined annually. Income tax assets and liabilities are computed for those differences that have future tax consequences using the currently enacted tax laws and rates that apply to the period in which they are expected to affect taxable income. Valuation allowances are established, if necessary, to reduce the federal and state income tax benefit to the amount that will more likely than not be realized.

### Date of Management's Review

The Foundation evaluated its June 30, 2024 financial statements for subsequent events through October 24, 2024, the date the financial statements were available to be issued. Management is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

## NOTE 2 - DEPOSITS WITH BANKING INSTITUTIONS

Deposits with financial institutions consist of demand deposits with local banks.

Custodial credit risk is the risk that, in the event of bank failure, the Company's deposits may not be returned. The Company has implemented a cash management policy to minimize custodial credit risk from banking institutions. As of June 30, 2024, the Company had deposits in excess of federally insured limits in the amount of \$751,105.

## NOTE 3 – CAPITAL ASSETS

As of June 30, 2024, capital assets consisted of the following:

	Balance June 30, 2023	Additions	Dispositions	Balance June 30, 2024
Leasehold improvements	\$ 183,396	\$ -	\$ -	\$ 183,396
Furniture & fixtures	363,525	30,099	-	393,624
Right of use assets	1,854,773	-	(257,127)	1,597,646
	2,401,694	30,099	(257,127)	2,174,666
Less depreciation and amortization	(803,316)	(347,247)	202,820	(947,743)
Total Capital Assets	<u>\$ 1,598,378</u>	<u>\$ (317,148)</u>	<u>\$ (54,307)</u>	<u>\$ 1,226,923</u>

## NOTE 4 - LONG-TERM DEBT

### Related Party Debt

Note payable to The University of Memphis Research Foundation for working capital support, bearing interest at 5.0 percent. Interest only payments are due semiannually, with the principal payable in annual installments of \$75,000 through 2027.

\$ 225,000

Less: Current portion

(75,000)

Related party debt - long term

\$ 150,000

Principal and interest payments due on related party debt for the next three years ending June 30 are as follows:

Year ending June 30,	Interest	Principal
2025	\$ 8,438	\$ 75,000
2026	4,688	75,000
2027	937	75,000
	<u>\$ 14,063</u>	<u>\$ 225,000</u>

Interest expense related to the above related party notes for the year ended June 30, 2024 amounted to \$11,250 for The University of Memphis Research Foundation.

### Other Long-Term Debt

Note payable to a finance company, bearing interest at 1 percent, due in monthly payments of principal and interest of \$2,113 beginning May 2022 and maturing April 2025. Secured by equipment with a book value of \$57,498.

\$ 21,034

Principal and interest payments due on other long-term debt for the year ending June 30, 2025 are \$21,034 and \$97, respectively.

The following lists the changes in long-term debt for the year ended June 30, 2024:

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Final Maturity Date	Outstanding July 01, 2023	Issued During Period	Matured During Period	Outstanding June 30, 2024	Due Within One year
Loan - University of Memphis Research Foundation	\$ 225,000	5.00%	09/20/18	09/20/24	\$ 225,000	\$ -	\$ -	\$ 225,000	\$ 75,000
Loan - University of Memphis - Herff Trust	500,000	4.00%	01/16/19	12/31/23	96,695	-	96,695	-	-
Loan - Finance Company	102,796	1.00%	06/30/20	09/01/23	9,476	-	9,476	-	-
Loan - Finance Company	76,664	1.00%	04/01/22	04/01/25	47,630	-	26,596	21,034	21,034
Total Loans					<u>\$ 378,801</u>	<u>\$ -</u>	<u>\$ 132,767</u>	<u>\$ 246,034</u>	<u>\$ 96,034</u>

There are no significant events of default, termination events or subjective acceleration clauses included in the agreements for any of the loans listed above.

#### NOTE 5 - LEASES WITH RELATED PARTIES

The Company subleases office space from The University of Memphis Research Foundation under a sublease executed in May 2023. The lease liabilities and related right of use asset arising from this lease are recorded on the books of the Company. The Company paid rent in the amount of \$50,000 to The University of Memphis Research Foundation for this space during the year ended June 30, 2024.

The Company leases other facilities from The University of Memphis, a related party. The lease liabilities and related right of use assets arising from these leases are also recorded on the books of the Company.

Information regarding these lease liabilities are as follows:

Lease payable to The University of Memphis for office space, computed using the incremental borrowing rate of 4.0 percent with monthly lease payments of \$18,337 July 2024 through November 2024; with annual use fee escalator of 3% through November 30, 2029.	\$ 1,163,091
Lease payable to The University of Memphis Research Foundation for office space, computed using the incremental borrowing rate of 4.0 percent with monthly lease payments of \$4,167 through maturity at August 2025.	<u>56,901</u>
	1,219,992
Less: Current portion	(229,993)
Long-term lease liabilities	<u>\$ 989,999</u>

Principal and interest payments due on related party leases for the next six years ending June 30 are as follows:

	Interest	Principal
2025	\$ 43,899	\$ 229,993
2026	35,013	203,929
2027	26,851	210,676
2028	18,112	226,541
2029	8,723	243,270
2030	704	105,583
	<u>\$ 133,302</u>	<u>\$ 1,219,992</u>

#### NOTE 6 - OTHER RELATED PARTY TRANSACTIONS

In addition to rent, the Company pays The University of Memphis for other operating expenses. During the year ended June 30, 2024, the Company incurred immaterial expenses from The University for data usage fees, parking and other office expenses. As of June 30, 2024, the Company had \$26,952 due to The University for various expenses and fees.

## NOTE 7- INCOME TAXES

The Company has filed returns with the Internal Revenue Service and the Tennessee Department of Revenue and considers these to be its major tax jurisdictions. Currently, the 2022, 2023 and 2024 tax years are open and subject to examination. However, the Company is not currently under audit nor has the Company been contacted by these jurisdictions.

As of June 30, 2024, the deferred income tax is attributable to the following:

Difference between book and tax (cash) basis of accounting	\$	517,776
Excess tax depreciation		<u>(79,309)</u>
Future taxable income		438,467
Statutory rate	-	<u>27.5%</u>
Deferred tax liability	\$	<u><u>120,578</u></u>

The income tax provision shown on the statement of revenues, expenses, and changes in net position differs from the amount that would result from applying statutory tax rates to income before provision for income taxes because the Company reports its contractual income on the cash basis for tax purposes. The provision is also affected by the utilization of the prior year's net operating loss and certain federal tax credit carryforwards.

Based on the evaluation of the Company's tax positions, management believes all positions taken would more likely than not be upheld under examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for the year ended June 30, 2024.

## NOTE 8 – CONCENTRATIONS

The Company provides services to three major customers who account for almost all of the revenue and related accounts receivable. One customer accounts for 45 percent and 30 percent of revenues and accounts receivable, respectively.



## **SUPPLEMENTAL INFORMATION**

**THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION**  
**SCHEDULE OF CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE**

For the Year ended June 30, 2024

**COMPONENT UNIT**

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Final Maturity Date	Outstanding July 01, 2023	Issued During Period	Paid and/or Matured During Period	Outstanding June 30, 2024	Due Within One year
Loan - University of Memphis Research Foundation	\$ 225,000	5.00%	09/20/18	09/20/24	\$ 225,000	\$ -	\$ -	\$ 225,000	\$ 75,000
Loan - University of Memphis - Herff Trust	500,000	4.00%	01/16/19	12/31/23	96,695	-	96,695	-	-
Loan - Finance Company	102,796	1.00%	06/30/20	09/01/23	9,476	-	9,476	-	-
Loan - Finance Company	76,664	1.00%	04/01/22	04/01/25	47,630	-	26,596	21,034	21,034
Total Loans					<u>\$ 378,801</u>	<u>\$ -</u>	<u>\$ 132,767</u>	<u>\$ 246,034</u>	<u>\$ 96,034</u>

**THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION**  
**SCHEDULE OF LONG-TERM DEBT, PRINCIPAL, AND INTEREST REQUIREMENTS**  
**BY FISCAL YEAR**

June 30, 2024

The note payable to the Primary Government will be repaid as follows:

Year ending June 30,	Interest	Principal
2025	\$ 8,438	\$ 75,000
2026	4,688	75,000
2027	937	75,000
	<u>\$ 14,063</u>	<u>\$ 225,000</u>

**THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION**  
**SCHEDULE OF CHANGES IN LEASE OBLIGATIONS**

For the Year Ended June 30, 2024

**PRIMARY GOVERNMENT**

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Final Maturity Date	Outstanding July 01, 2023	Issued During Period	Matured During Period	Outstanding June 30, 2024	Due Within One year
Lease liabilities - University of Memphis - Highland Library/Defense Audit Building	\$ 70,096	4.00%	07/01/22	11/30/29	\$ 56,222	\$ -	\$ (12,715)	\$ 43,507	\$ 13,235

**COMPONENT UNIT**

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Final Maturity Date	Outstanding July 01, 2023	Issued During Period	Paid and/or Matured During Period	Outstanding June 30, 2024	Due Within One year
Lease Liabilities- University of Memphis Research Foundation	\$ 107,415	4.00%	05/01/23	08/31/25	\$ 103,248	\$ -	\$ (46,347)	\$ 56,901	\$ 48,609
Lease liabilities - University of Memphis - FedEx Institute of Technology	\$ 105,434	4.00%	07/01/21	03/31/24	30,639	-	(30,639)	-	-
Lease liabilities - University of Memphis - Facilities Lease FIT 3rd Floor	\$ 154,652	4.00%	08/01/21	07/31/24	59,787	-	(59,787)	-	-
Lease liabilities - University of Memphis - South Campus	\$ 1,486,064	4.00%	07/01/22	11/30/29	1,326,550	-	(163,459)	1,163,091	181,384
Total Lease Liabilities					\$ 1,520,224	\$ -	\$ (300,232)	\$ 1,219,992	\$ 229,993

**THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION**  
**SCHEDULE OF LEASE OBLIGATIONS, PRINCIPAL, AND INTEREST REQUIREMENTS**  
**BY FISCAL YEAR**

June 30, 2024

**PRIMARY GOVERNMENT**

Principal and interest payments due on related party leases for the next six years are as follows:

Year ending June 30,	Interest	Principal
2025	\$ 1,549	\$ 13,235
2026	1,115	6,668
2027	844	6,939
2028	561	7,222
2029	267	7,516
2030	19	1,927
	<u>\$ 4,355</u>	<u>\$ 43,507</u>

**COMPONENT UNIT**

Principal and interest payments due on related party leases for the next six years are as follows:

	Interest	Principal
2025	\$ 43,899	\$ 229,993
2026	35,013	203,929
2027	26,851	210,676
2028	18,112	226,541
2029	8,723	243,270
2030	704	105,583
	<u>\$ 133,302</u>	<u>\$ 1,219,992</u>

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
The University of Memphis Research Foundation  
Memphis, Tennessee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and discretely presented component of The University of Memphis Research Foundation, a component unit of The University of Memphis, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise of The University of Memphis Research Foundation's basic financial statements, and have issued our report thereon dated October 24, 2024.

**Report on Internal Control over Financial Reporting**

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

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

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

**Report on Compliance and Other Matters**

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

**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.



Memphis, Tennessee  
October 24, 2024

**THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION**

**SCHEDULE OF FINDINGS AND RESPONSES**

JUNE 30, 2024

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No matters were reported as findings for the year ended June 30, 2024.

**THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION**  
**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES**

JUNE 30, 2024

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No matters were reported as findings for the year ended June 30, 2023.



## The University of Memphis Board of Trustees

Presentation  
For Information

**Date:** March 5, 2025

**Committee:** Finance and Audit Committee

**Presentation:** External Audit Report – Auxiliary Services Foundation Independent Auditor’s Report, Financial Statements, and Supplemental Schedules, June 30, 2024

**Presented by:** Angela Ross, Associate Vice President, and Chief Audit Executive

### Background:

The Auxiliary Services Foundation (the Foundation) Independent Auditor’s Report, Financial Statements, and Supplemental Schedules, June 30, 2024, were issued. The financial statements are presented for your information according to the responsibilities for Internal Audit under UofM Policy GE2016 Notification of External Audits and Reviews, which includes reporting occurrences of external audits and reviews to the Audit Committee, Division of State Audit and others as the circumstances may dictate.

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

The Foundation engaged an independent external CPA firm, ATA PLLC, to perform an audit of the financial statements of the Foundation. The independent auditor’s opinion, dated December 9, 2024, stated that the financial statements present fairly, in all material respects, the financial position of Auxiliary Services Foundation as of June 30, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

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

**AUXILIARY SERVICE FOUNDATION**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2024**

# AUXILIARY SERVICES FOUNDATION

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**AUXILIARY SERVICES FOUNDATION  
ORGANIZATIONAL DATA**

June 30, 2024

**BOARD OF DIRECTORS**

Richard A. Spell	President
John Hartney	Vice President
Fred A. Towler	Secretary/Treasurer
Rene Bustamante	Executive Vice President and Chief Operating and Financial Officer
Dr. Bill Hardgrave	University of Memphis President

**MANAGEMENT OFFICIALS**

Haley Roane Prewett	Senior Associate Athletic Director/Chief Financial Officer
Jeff Crane	Chief Executive Officer
Steve McDaniel	Retained Legal Counsel



## Independent Auditor's Report

To the Board of Directors  
Auxiliary Service Foundation  
Memphis, Tennessee

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the accompanying financial statements of Auxiliary Services Foundation (a component unit of The University of Memphis), which comprise the statement of financial position as of June 30, 2024, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Auxiliary Services Foundation as of June 30, 2024 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### Correction of Error

As described in Note 13 to the financial statements, a misstatement in the balances of restricted and unrestricted net assets was discovered by management in the current year. Accordingly, such amounts have been restated in the June 30, 2023 net assets now presented. Our opinion is not modified with regard to this matter.

#### Basis for Opinion

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

#### Responsibilities of Management for the Financial Statements

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

## **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements of Auxiliary Services Foundation as a whole. The accompanying supplemental schedule of changes in long-term debt and supplemental schedule of debt service requirements are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedule of changes in long-term debt and supplemental schedule of debt service requirements is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Information - Unaudited**

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

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the

basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated XXXX, 2024, on our consideration of Auxiliary Services Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Auxiliary Services Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Auxiliary Services Foundation's internal control over financial reporting and compliance.

*ATA, PLLC*

Memphis, Tennessee  
December 9, 2024

**AUXILIARY SERVICES FOUNDATION**  
**STATEMENT OF FINANCIAL POSITION**  
June 30, 2024

**Assets**

**Current Assets**

Cash	\$ 6,750,957
Due from affiliate	2,074,005
Other receivable	155
Total current assets	<u>8,825,117</u>

**Other assets**

Real estate assets	2,897,147
Cash value of life insurance	402,147
Historical document	750,000
Other investment	-
Total other assets	<u>4,049,294</u>

Fair value of derivative financial instrument	<u>474,064</u>
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<b>Total assets</b>	<u><u>\$ 13,348,475</u></u>
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**Liabilities and Net Assets**

**Current liabilities**

Accounts payable	\$ 82,918
Interest payable	27,852
Current portion of long-term debt	1,857,147
Total current liabilities	<u>1,967,917</u>

**Long-term liabilities**

Long-term debt, net of current portion	<u>4,944,641</u>
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<b>Total liabilities</b>	<u>6,912,558</u>
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**Net Assets**

Without donor restrictions	<u>5,472,286</u>
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With donor restrictions	
Restricted for capital projects	213,631
Restricted in perpetuity	750,000
Total net assets with donor restrictions	<u>963,631</u>
Total net assets	<u>6,435,917</u>

<b>Total liabilities and net assets</b>	<u><u>\$ 13,348,475</u></u>
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*The accompanying notes are an integral part of these financial statements.*



**AUXILIARY SERVICES FOUNDATION**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
For the Year Ended June 30, 2024

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Totals</b>
<b>Support and revenue</b>			
Transfers from affiliate organizations	\$ 2,352,051	\$ 1,807,671	4,159,722
Refunds of project expenses	25,905	-	25,905
Change in cash surrender value	21,608	-	21,608
Realized loss on investment	(7,875)	-	(7,875)
Interest income	326,909	-	326,909
Total support and revenue	<u>2,718,598</u>	<u>1,807,671</u>	<u>4,526,269</u>
Net assets released from restrictions	<u>2,433,865</u>	<u>(2,433,865)</u>	<u>-</u>
Total support and revenue and net assets releases from restrictions	<u>5,152,463</u>	<u>(626,194)</u>	<u>4,526,269</u>
<b>Expenses</b>			
Program - University support			
Altius NIL contract	285,576	-	285,576
Athletics communications software	77,000	-	77,000
Athletics debt interest	186,509	-	186,509
Benjamin Hooks Institute	396,782	-	396,782
FCBE renovation	197,278	-	197,278
Leftwich Tennis Center	861,089	-	861,089
Nations Group contract	75,000	-	75,000
Paradigm Four contract	112,500	-	112,500
Professional services	20,644	-	20,644
Rifle range targets project	26,218	-	26,218
Softball field renovations	179,973	-	179,973
Video board project	213,517	-	213,517
Wasserman contract	15,000	-	15,000
Total program expenses	<u>2,647,086</u>	<u>-</u>	<u>2,647,086</u>
Management and general			
Insurance	25,216	-	25,216
Office	23,667	-	23,667
Professional fees	86,646	-	86,646
Other expenses	2,500	-	2,500
Total management and general	<u>138,029</u>	<u>-</u>	<u>138,029</u>
Total expenses	<u>2,785,115</u>	<u>-</u>	<u>2,785,115</u>
Change in fair value of derivative financial instrument	<u>(262,867)</u>	<u>-</u>	<u>(262,867)</u>
Change in net assets	2,104,481	(626,194)	1,478,287
Net assets at June 30, 2023 (as restated)	<u>3,367,805</u>	<u>1,589,825</u>	<u>4,957,630</u>
Net assets at June 30, 2024	<u>\$ 5,472,286</u>	<u>\$ 963,631</u>	<u>\$ 6,435,917</u>

*The accompanying notes are an integral part of these financial statements.*

**AUXILIARY SERVICES FOUNDATION**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended June 30, 2024

<b>Cash flows from operating activities</b>	
Change in net assets	\$ 1,478,287
<b>Adjustments to reconcile change in net assets to net cash used in operating activities:</b>	
Change in fair value of derivative financial instrument	262,867
Realized loss on investment	7,875
Changes in assets and liabilities:	
Due from affiliates	(557,024)
Cash value of life insurance	(21,608)
Accounts payable	(523,156)
Accrued interest	(6,312)
Net cash provided by operating activities	<u>640,929</u>
<b>Cash flows from investing activities</b>	
Purchase of property, plant, and equipment	(428,659)
<b>Cash flows from financing activities</b>	
Payments on long-term debt	<u>(1,802,462)</u>
<b>Net change in cash</b>	<u>(1,590,192)</u>
<b>Cash at beginning of year</b>	<u>8,341,149</u>
<b>Cash at end of year</b>	<u><u>\$ 6,750,957</u></u>
<b>Supplemental disclosure of cash flow information</b>	
Cash paid during the year for interest	<u><u>\$ 568,876</u></u>

**AUXILIARY SERVICES FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2024

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization of Activities**

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

**B. Basis of Accounting**

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

**C. Cash and Cash Equivalents**

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

**D. Net Asset Classification**

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

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

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

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

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

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

## **AUXILIARY SERVICES FOUNDATION NOTES TO FINANCIAL STATEMENTS**

June 30, 2024

### **E. Support and Revenues**

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

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

### **F. Derivative Financial Instrument**

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

### **G. Income Taxes**

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

### **H. Investment Valuation and Income Recognition**

The Foundation's investments are stated at fair value. Fair value is the price that would be received to sell an asset in an ordinary business transaction between market participants at the measurement date. See Note 7 for a discussion of fair value measurements.

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

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

### **I. Use of Estimates**

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

### **J. Functional Expense Allocation**

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

**AUXILIARY SERVICES FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2024

**K. Adoption of New Accounting Standards**

In June 2016, the FASB issued ASU 2016-13 which amended in part by subsequent accounting standards updates (collectively ASC 326). This standard requires earlier recognition of credit losses while also providing additional transparency about credit risk. Further, the new credit losses model utilizes a lifetime expected credit loss measurement objective for the recognition of credit losses at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The Foundation adopted ASC 326 using the modified retrospective approach, effective July 1, 2023. The adoption of this standard did not have a material impact on the financial statements and related disclosures.

**L. Subsequent Events**

Management has evaluated subsequent events through December 9, 2024, the date the financial statements were available to be issued. Effective October 30, 2024, the City of Memphis and the Foundation entered into an agreement providing for the transfer of ownership of the Simmons Bank Liberty Stadium (Stadium) from the City of Memphis to the Foundation. In connection with the transfer a significant Stadium renovation project was begun by the City of Memphis and will be completed by the Foundation. The project is expected to be completed by the fall of 2026.

The renovation is being financed with \$120M transfer of funds from the State of Tennessee to the City of Memphis. Remaining construction funds will be transferred to the Foundation by the City of Memphis. Additional renovation costs of approximately \$105M will be come through fundraising. Subsequent to year end approximately \$75M has been raised for this purpose by an affiliated Foundation. If necessary, a short-term loan will be obtained to cover certain renovation costs due to deferred pledge payment schedules.

**NOTE 2 – DEPOSITS WITH FINANCIAL INSTITUTIONS**

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

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

The Foundation had deposits held in financial institutions which were in excess of FDIC coverage by \$6,563,942 at June 30, 2024

**NOTE 3 – RELATED PARTY TRANSACTIONS**

Administrative functions of the Foundation are provided by The University of Memphis and include general management, contract processing, accounting, and data processing. Additionally, all property and equipment used by the Foundation is owned and recorded by The University of Memphis. Accordingly, the accompanying financial statements may not be indicative of the conditions that would have existed if the Foundation operated as an unaffiliated organization.

**AUXILIARY SERVICES FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2024

The Foundation received transfers from the University of Memphis Foundation, an organization affiliated with the University, of \$4,159,722 during the year ended June 30, 2024.

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

At June 30, 2024, receivables include \$2,074,005 due from the University of Memphis Foundation.

**NOTE 4 – HISTORICAL DOCUMENT**

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

**NOTE 5 – OTHER INVESTMENT**

On September 15, 2020, the Foundation committed \$50,000 as a capital contribution to establish Palos Equity Ventures, LLC which provided 99% ownership. The investment was valued at cost due to the limited transactions during the initial startup of entity. The Foundation paid \$7,875 toward the commitment as of June 30, 2024. The Foundation recognized a realized loss of \$7,875 on the investment during the year ended June 30, 2024 as Palos Equity Ventures, LLC has been dissolved.

**NOTE 6 – REAL ESTATE ASSETS**

During the year ended June 30, 2024, the Foundation purchased property for \$428,787. Management is currently evaluating their plans for future use of the real estate properties.

**NOTE 7 – FAIR VALUE MEASUREMENTS**

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

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

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

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

**AUXILIARY SERVICES FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2024

The fair value measurement of the interest rate swap liability is based on other observable inputs (Level 2). The fair value of the Foundation's swap liability is provided by a third party who derives the valuation from a proprietary model based 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 table sets forth by level, within the fair value hierarchy, the Foundation's liabilities measured at fair value on a recurring basis as of June 30, 2024.

	Total	Assets at Fair Value as of June 30, 2024		
		Level 1	Level 2	Level 3
Interest rate swap	\$ 474,064	\$ -	\$ 474,064	\$ -

**NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets are donor restricted for the following activities at June 30, 2024:

	Capital Projects	Restricted in Perpetuity	Total Net Assets with Donor Restrictions
Larry Finch Center Updates	\$ 8,730	\$ -	\$ 8,730
Athletics Communications Tool	79,194	-	79,194
Olympic Weight Room	19,938	-	19,938
Hooks Institute	12,051	-	12,051
SBLs Strategic Consulting	29,500	-	29,500
Elma Roane Locker Room	582	-	582
Altius Contract	12,609	-	12,609
Paradigm Four Contract	6,000	-	6,000
Softball Stadium	45,027	-	45,027
Historical Document - MLK Speech	-	750,000	750,000
	<u>\$ 213,631</u>	<u>\$ 750,000</u>	<u>\$ 963,631</u>

During the year ended June 30, 2024, the Foundation released \$2,433,865 of restrictions by incurring expenditures related to the restricted capital projects.

**AUXILIARY SERVICES FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2024

**NOTE 9 – COMMITMENTS**

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

	<b>Contract Amount</b>	<b>Expended Through 6/30/2024</b>	<b>Commitment Remaining 6/30/2024</b>
Larry Finch Center Updates	\$ 250,000	\$ 241,270	\$ 8,730
Athletics Communications Tool	296,194	217,000	79,194
Olympic Weight Room	291,759	256,239	35,520
Benjamin Hooks Institute	428,933	416,882	12,051
Liberty Bowl Strategic Consulting	30,000	-	30,000
Elma Roane Locker Room	91,456	90,874	582
Altius Contract	1,913,573	285,576	1,627,997
Paradigm Four Contract	160,500	112,500	48,000
Nations Group Contract	75,000	75,000	-
Softball Stadium	225,000	179,973	45,027
Lambuth Madison High School	908,000	454,000	454,000
	<u>\$ 4,670,415</u>	<u>\$ 2,329,674</u>	<u>\$ 2,340,741</u>

**NOTE 10 – LIQUIDITY**

The Foundation has a policy to manage its liquidity and reserves following three guiding principles: operating within a prudent range of financial stability, maintaining adequate liquidity to fund near-term operations, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. All the assets of the Foundation are intended for the support of The University. The following table reflects the Foundation's financial assets (cash and cash equivalents and investments) as of June 30, 2024, reduced by amounts not available for general expenditures within one year.

Financial assets to meet cash needs for general expenditures within one year:	
Cash	\$ 6,750,957
Due from affiliate	2,074,005
	<u>8,824,962</u>
Less assets not available for general expenditures	<u>(213,631)</u>
Total financial assets available to meet cash needs for general expenditures in one year.	<u>\$ 8,611,331</u>



**AUXILIARY SERVICES FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2024

**NOTE 11 – LONG-TERM DEBT**

Long-term debt on June 30, 2024 consisted of the following:

Promissory note with a bank, in quarterly principal installments, accrues interest at a variable rate per annum equal to the thirty-day SOFR rate plus 2.20% (7.53% at June 30, 2024). Note matures on December 10, 2027	\$ 6,801,788
Less: Current portion	<u>(1,857,147)</u>
Debt, long-term	<u><u>\$ 4,944,641</u></u>

Future maturities of long-term debt are as follows:

2025	\$ 1,857,147
2026	1,913,492
2027	1,971,546
2028	1,059,603
2029	-
	<u><u>\$ 6,801,788</u></u>

For the year ended June 30, 2024, interest expense charged to operations and included as athletics debt interest in program expenses amounted to \$186,509, net of interest rate swap interest received of \$376,055, and interest payable as of June 30, 2024 amounted to \$27,852.

**NOTE 12 – DERIVATIVE FINANCIAL INSTRUMENT**

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

At June 30, 2024, the Foundation's interest rate swap contract was structured to pay fixed rates of interest (2.8% per annum) and receive variable rates of interest (based on percentage of SOFR) on a \$6,750,276 notional amount. The contract terminates on December 10, 2027.

**AUXILIARY SERVICES FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2024

**NOTE 13 – PRIOR PERIOD ADJUSTMENT**

The Foundation identified the following adjustments to be made in the prior year financial statements to reflect the balances of restricted and unrestricted net assets for capital projects.

	Total Net Assets with Donor Restrictions As Reported June 30, 2023	Adjustments	Total Net Assets with Donor Restrictions As Restated June 30, 2023
Natatorium Facility Improvements	(659,490)	659,490	-
Larry Finch Center Updates	5,580	3,150	8,730
Leftwich Tennis Center	222	(222)	-
Football Scouting Contract	(32)	32	-
Athletics Communication Tool	156,194	-	156,194
Olympic Weight Room	19,938	-	19,938
Benjamin Hooks Institute	331,325	-	331,325
Liberty Bowl Strategic Consulting	29,500	-	29,500
Elma Roane Locker Room	582	-	582
FCBE Renovation	269,465	(152,831)	116,634
Video Board Project	152,117	-	152,117
Real Estate Acquisitions	1,000,000	(1,000,000)	-
Rifle Range Targets	-	24,805	24,805
Historical document	750,000	-	750,000
	<u>2,055,401</u>	<u>(465,576)</u>	<u>1,589,825</u>

## **SUPPLEMENTARY INFORMATION**

**AUXILIARY SERVICES FOUNDATION**  
**SUPPLEMENTAL SCHEDULE OF CHANGES IN LONG-TERM DEBT**  
June 30, 2024

<u>Description of Indebtedness</u>	<u>Original Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Last Maturity Date</u>	<u>Outstanding July 1, 2023</u>	<u>Issue During Period</u>	<u>Paid and/or Matured During Period</u>	<u>Refunded During Period</u>	<u>Outstanding June 30, 2024</u>
Long-term debt	\$ 12,000,000	30 day SOFA +2.20%	12/10/2020	12/10/2027	\$ 8,604,250	\$ -	\$ (1,802,462)	\$ -	\$ 6,801,788

**AUXILIARY SERVICES FOUNDATION**  
**SUPPLEMENTAL SCHEDULE OF DEBT SERVICE REQUIREMENTS**  
June 30, 2024

<u>Fiscal Year</u>	<u>Long-Term Debt</u>
2025	\$ 1,857,147
2026	1,913,492
2027	1,971,546
2028	1,059,603
2029	-
	<u>\$ 6,801,788</u>

## **INTERNAL CONTROL AND COMPLIANCE SECTION**



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**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**

To the Board of Directors of  
Auxiliary Services Foundation  
Memphis, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Auxiliary Services Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2024, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 9, 2024.

**Report on Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and recommendations as item 2024-001 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and recommendations as item 2024-002 to be a significant deficiency.

## **Report on Compliance and Other Matters**

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

## **Auxiliary Services Foundation's Response to Findings**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*ATA, PLLC*

Memphis, Tennessee  
December 9, 2024



**AUXILIARY SERVICES FOUNDATION**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
June 30, 2024

**Section II – Financial Statement Findings**

The following represents a material weakness in internal control over financial reporting:

**2024-001 – Net asset classifications**

Condition: Net assets were not properly classified between net assets with donor restrictions and those without donor restrictions.

Criteria: Generally Accepted Accounting Principles requires net assets to be classified by net assets with donor restrictions and net assets without donor restrictions and does not allow for negative balances in any restricted net asset category.

Cause: There is currently no donor restricted net asset reconciliation being prepared summarizing the restricted balances and rolling forward the activity from the individual project tracking worksheets. The organization only has one category of net assets in the ledger, but maintains individual spreadsheets to track project expenses and the release of restrictions. Also, sometimes payments on projects are made in advance of receipt of expected restricted funds which resulted in negative balances being shown as restricted net assets. No errors were noted in the tracking details, but some of the details did not get properly accumulated resulting in some projects having overstatements of restricted net assets remaining and others having understated balances of restricted net assets remaining. Most of the errors were the result of timing issues related either the receipt of the donor restricted revenue or the satisfaction of the restriction as funds were spent for the designated purpose.

Effect: Errors in classification and allowing negative balances to be presented for certain projects, resulted in understating actual total restricted net asset balances. Errors relating to failure to remove donor restricted net assets when funds are spent resulted in overstating restricted net assets for some projects. These errors resulted in a material prior period reclassification between categories of net assets, however, they did not change prior year total net assets.

Recommendation: Develop a reconciliation process to ensure all restricted revenues and related activity are complete and properly classified and reported in the financials at year end. Create new accounts within the ledger for the categories of net assets as presented in the report and post the necessary adjustments to the ledger at least annually, ensuring the balances agree with the reconciliation.

The following represents a significant deficiency in internal control over financial reporting:

**2024-002 – Lack of bank reconciliations**

Condition: The absence of a year-end reconciliation led to discrepancies in the final balance, as outstanding checks written before year end weren't recorded until they cleared in the following month.

Criteria: Generally Accepted Accounting Principles require that transactions, including checks, be recorded in the correct accounting period to reflect the financial position accurately.

Cause: Bank reconciliation are not being performed

Effect: Cash was overstated and an adjusting journal entry was required to correct this issue.

Recommendation: It is recommended the controls be put in place to ensure monthly bank reconciliations are prepared and reconciled to the ledger and reviewed by someone other than the preparer.

**AUXILIARY SERVICES FOUNDATION**  
**SCHEDULE OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS**  
June 30, 2024

**2023 Financial Statement Findings**

2023-001: Audit Adjustments

- Recording of accounts payable – Corrected.  
(Original finding # 2022-001)



Haley Prewett  
Senior Associate Athletic Director/Chief Financial Officer  
University of Memphis Auxiliary Services Foundation  
570 Normal Street  
Memphis, TN 38152

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

*2024-001 – Net asset classifications*

The ASF will develop a monthly reconciliation process by project to ensure all restricted revenues and related activity is taken care of in a timely manner, properly classified, reported, and posted appropriately. We will ensure that all activity is tracked monthly and then aggregated to be reported annually at year end.

ASF management will also engage with our audit team to ensure we properly create new accounts within the ledger for net assets and post any needed adjustments at year end to ensure account reconciliation.

*2024-002 – Lack of bank reconciliations*

The ASF will ensure that monthly bank reconciliations are prepared and reconciled to the ledger by the Assistant AD for Finance and then reviewed by the Senior Associate AD/ASF CFO to ensure that all transactions are recorded in the correct accounting period and to reflect the financial position accurately in a timely manner and in accordance with GAAP.

**Contact Person:** Haley Prewett

**Expected Completion:** 6/30/2025

  
\_\_\_\_\_

Haley Prewett  
Senior Associate Athletic Director/CFO

In collaboration with:  
Rene Bustamante, University of Memphis COO/CFO

## 8. Internal Audit and Consultant Client Satisfaction Survey 2024

Presentation

Presented by Angela Ross

# The University of Memphis Board of Trustees

Presentation  
For Information

**Date:** March 5, 2025

**Committee:** Finance and Audit Committee

**Presentation:** Office of Internal Audit and Consulting Client Satisfaction Survey 2024

**Presented by:** Angela Ross, Associate Vice President & Chief Audit Executive

## Background:

According to our University of Memphis (UofM) Internal Audit Charter, all UofM internal audit activities are conducted in accordance with state statutes relative to audit committees and internal audit, which requires adherence to The Institute of Internal Auditor's (IIA) standards and guidance. The guidance includes an established Quality Assurance and Improvement Program (QAIP) that includes ongoing internal monitoring. Annually, Internal Audit Client Survey is used for ongoing monitoring of the efficiency and effectiveness of the internal audit activities by seeking input from clients and other stakeholders. The clients survey results are presented in the Committee materials to show that internal audit activities and responsibilities are being carried out.

During February 2025, feedback was solicited via our annual Client Satisfaction Survey that was distributed to 112 faculty and staff – audit clients, employees involved in investigations, and others who worked with Internal Audit or received Internal Audit communications during 2024. The participation rate for the anonymous survey was 21%. About 91% of the responses indicated that the audit clients were satisfied with the University's internal audit services or considered the University's internal audit services favorably. Survey results, including suggestions and concerns, will be used to improve internal audit operations.

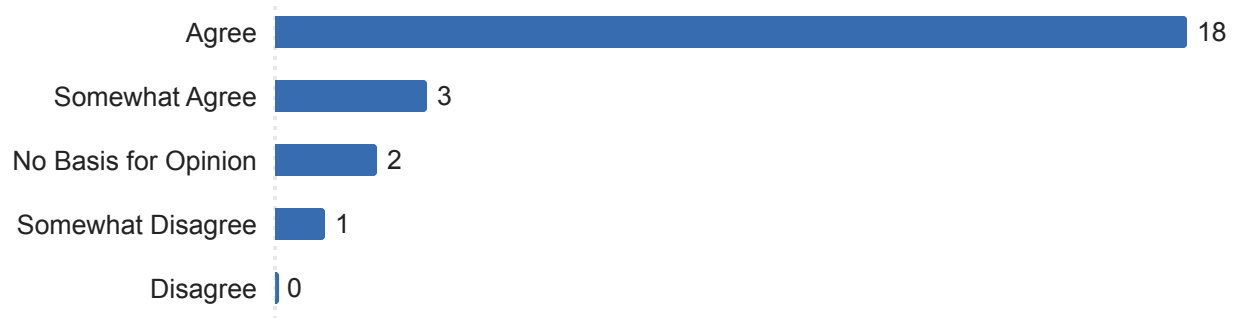
Please see attached University of Memphis 2024 Internal Audit and Consulting Client Satisfaction Survey Results Report for detailed information.

Q1 - Internal Audit staff demonstrated the skills and knowledge needed for the work performed.



Field	Choice Count	
Agree	88%	21
Disagree	8%	2
Somewhat Agree	4%	1
Somewhat Disagree	0%	0
Total		24

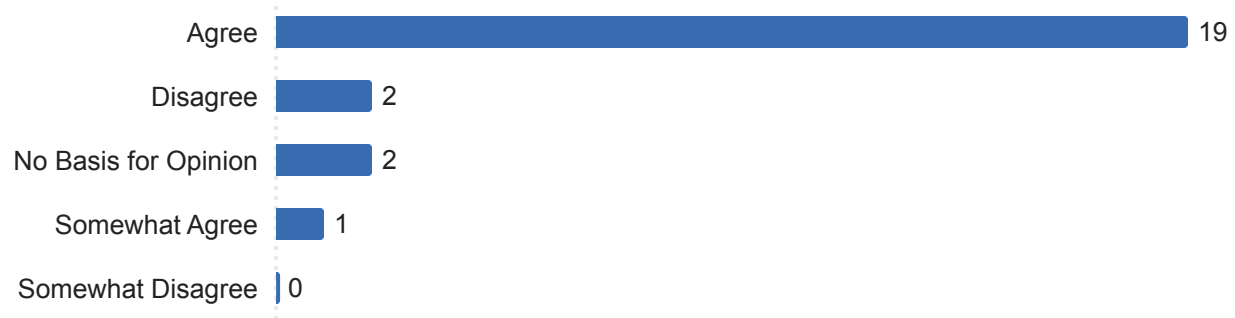
## Q2 - Internal Audit staff had sufficient knowledge of University policies and procedures.



Field	Choice Count	
Agree	75%	18
Somewhat Agree	13%	3
No Basis for Opinion	8%	2
Somewhat Disagree	4%	1
Disagree	0%	0
Total		24

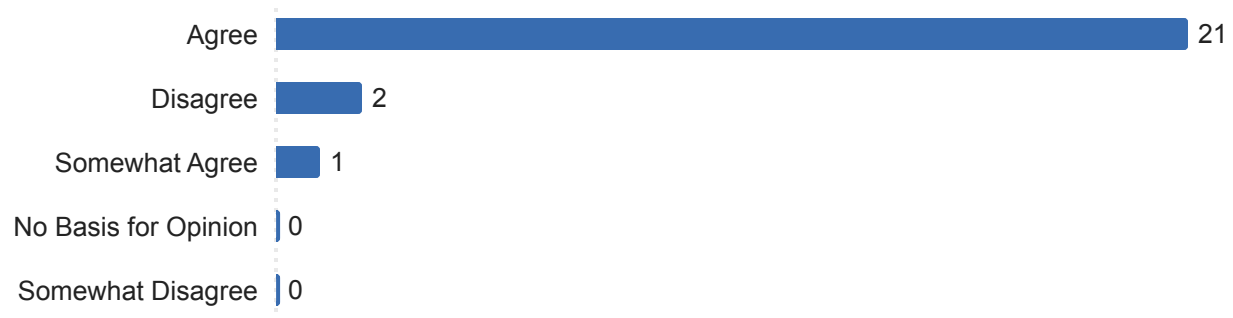


Q3 - Internal Audit staff was objective, reasonable and professional in their assessments, providing constructive and quality feedback.



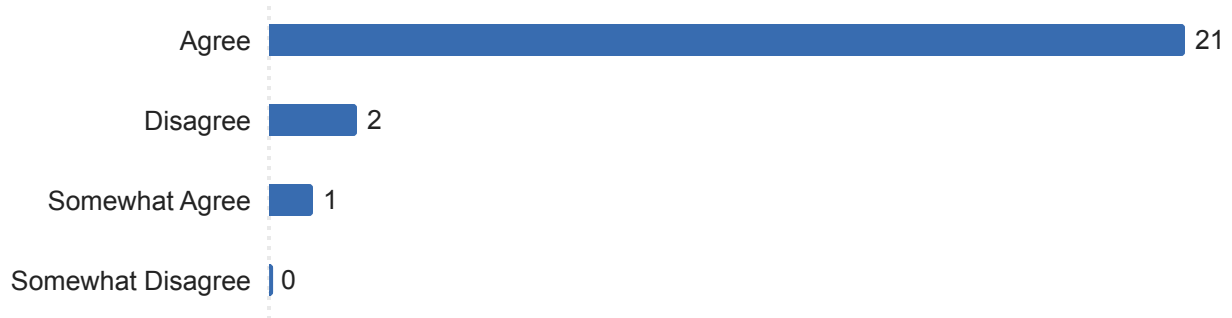
Field	Choice Count	
Agree	79%	19
Disagree	8%	2
No Basis for Opinion	8%	2
Somewhat Agree	4%	1
Somewhat Disagree	0%	0
Total		24

## Q4 - Communications from Internal Audit staff were clear and concise.



Field	Choice Count	
Agree	88%	21
Disagree	8%	2
Somewhat Agree	4%	1
No Basis for Opinion	0%	0
Somewhat Disagree	0%	0
Total		24

## Q5 - Internal Audit staff was honest, transparent, and collaborative.



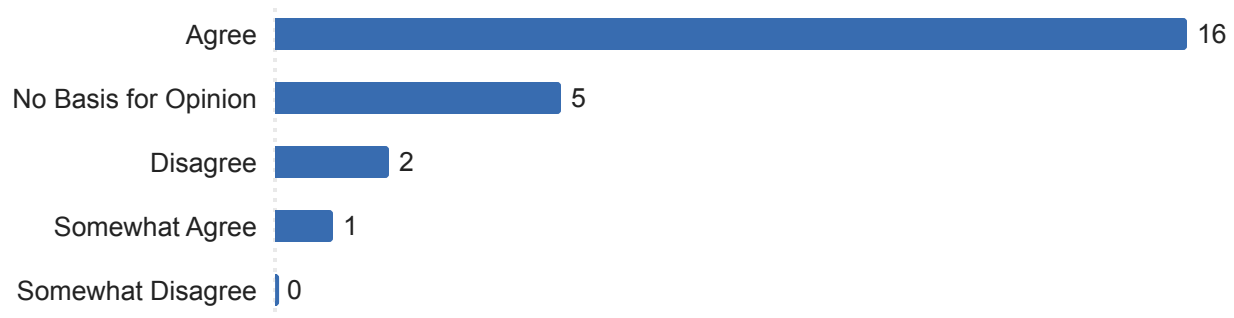
Field	Choice Count	
Agree	88%	21
Disagree	8%	2
Somewhat Agree	4%	1
Somewhat Disagree	0%	0
Total		24

Q6 - Internal Audit staff encouraged open communication and welcomed collaboration during our interaction.



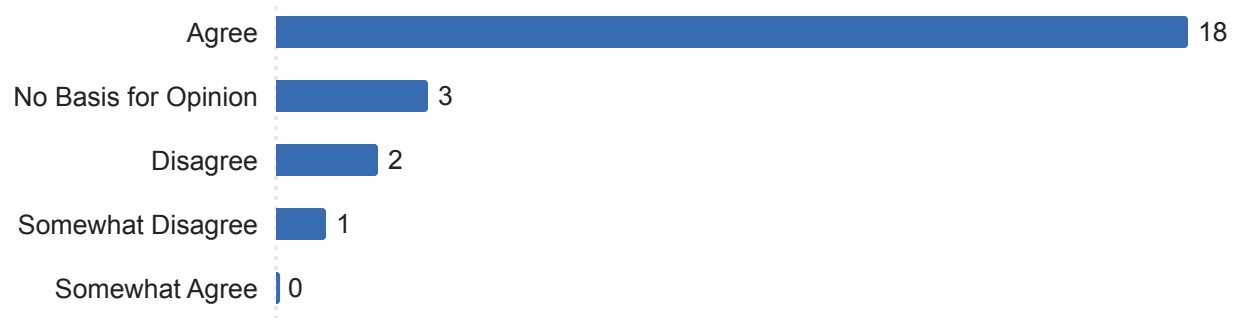
Field	Choice Count	
Agree	79%	19
No Basis for Opinion	8%	2
Somewhat Agree	8%	2
Disagree	4%	1
Somewhat Disagree	0%	0
Total		24

Q7 - Internal Audit staff understood the seriousness of unethical behavior in the workplace and was prepared to address such suspected behavior including fraud, waste, or abuse.



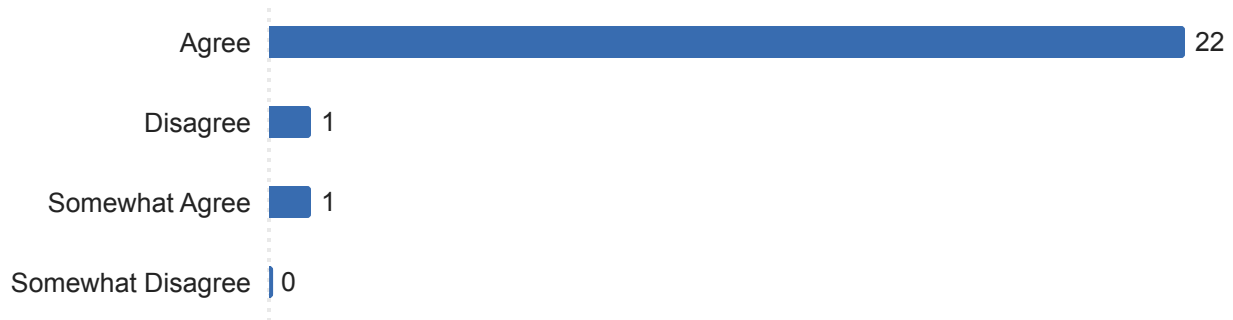
Field	Choice Count	
Agree	67%	16
No Basis for Opinion	21%	5
Disagree	8%	2
Somewhat Agree	4%	1
Somewhat Disagree	0%	0
Total		24

## Q8 - I was comfortable communicating sensitive information to Internal Audit staff.



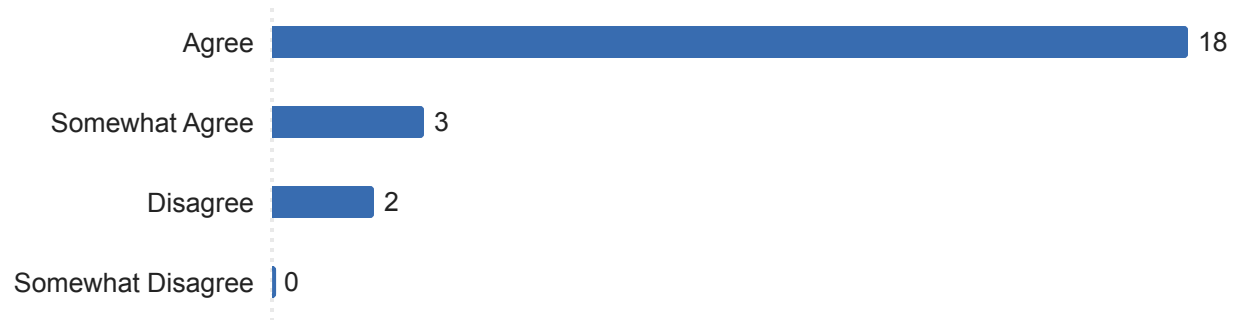
Field	Choice Count	
Agree	75%	18
No Basis for Opinion	13%	3
Disagree	8%	2
Somewhat Disagree	4%	1
Somewhat Agree	0%	0
Total		24

Q9 - Internal Audit staff conducted themselves in a courteous, positive, and professional manner.



Field	Choice Count	
Agree	92%	22
Disagree	4%	1
Somewhat Agree	4%	1
Somewhat Disagree	0%	0
Total		24

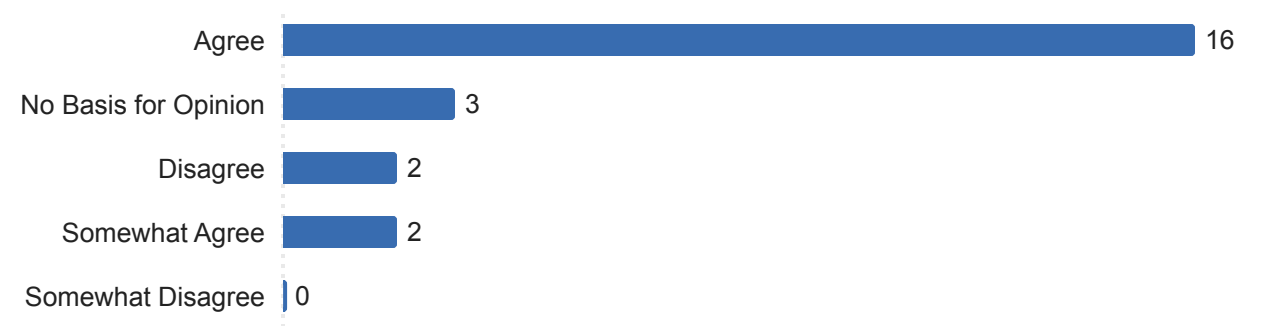
Q10 - The auditor's comments and recommendations will assist us to improve operations.



Field	Choice Count	
Agree	78%	18
Somewhat Agree	13%	3
Disagree	9%	2
Somewhat Disagree	0%	0
Total		23

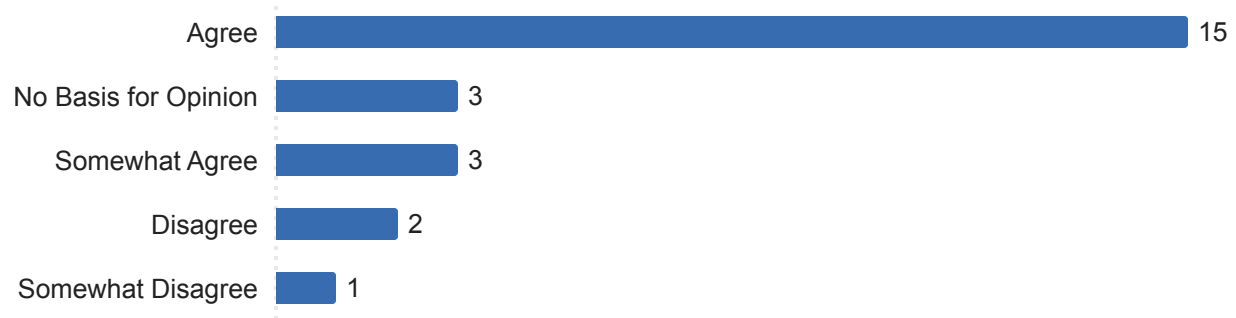


Q11 - The purpose, goals, objectives, scope, areas to be reviewed, and tentative dates of the project were clearly communicated.



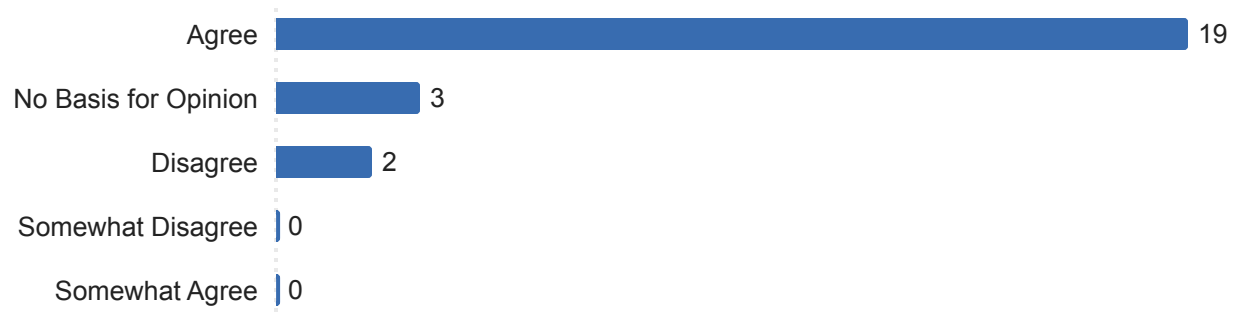
Field	Choice Count	
Agree	70%	16
No Basis for Opinion	13%	3
Disagree	9%	2
Somewhat Agree	9%	2
Somewhat Disagree	0%	0
Total		23

Q12 - Internal Audit staff had a reasonable understanding of the business area, college, or entity under review.



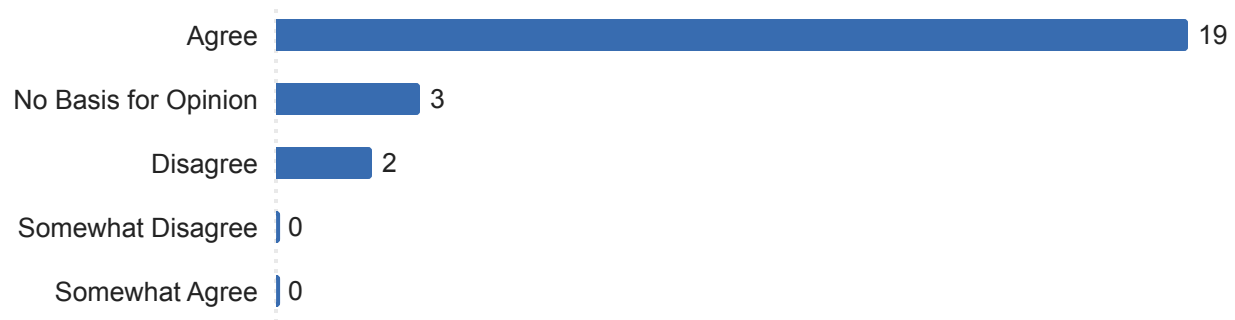
Field	Choice Count	
Agree	63%	15
No Basis for Opinion	13%	3
Somewhat Agree	13%	3
Disagree	8%	2
Somewhat Disagree	4%	1
Total		24

Q13 - Key business risks and concerns were considered during the project.



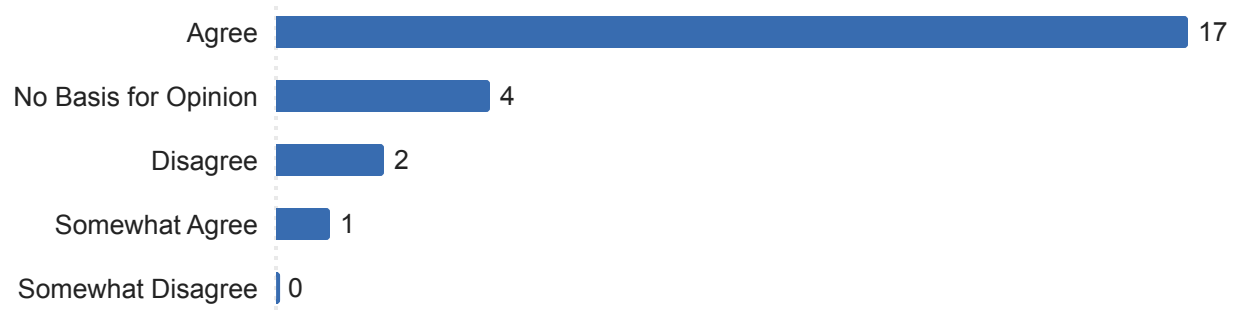
Field	Choice Count	
Agree	79%	19
No Basis for Opinion	13%	3
Disagree	8%	2
Somewhat Disagree	0%	0
Somewhat Agree	0%	0
Total		24

Q14 - Internal Audit staff actively listened and was responsive to my concerns and perspectives throughout the project or during our interactions.



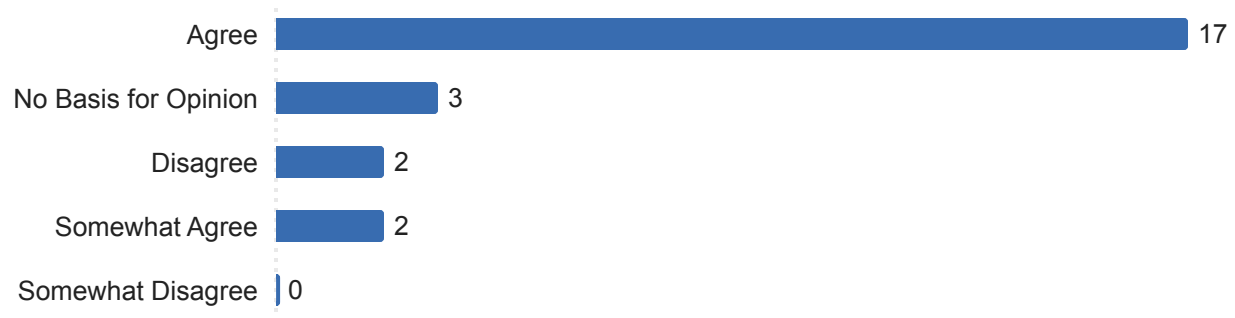
Field	Choice Count	
Agree	79%	19
No Basis for Opinion	13%	3
Disagree	8%	2
Somewhat Disagree	0%	0
Somewhat Agree	0%	0
Total		24

Q15 - The disruption of daily activities was minimized as much as possible during the project.



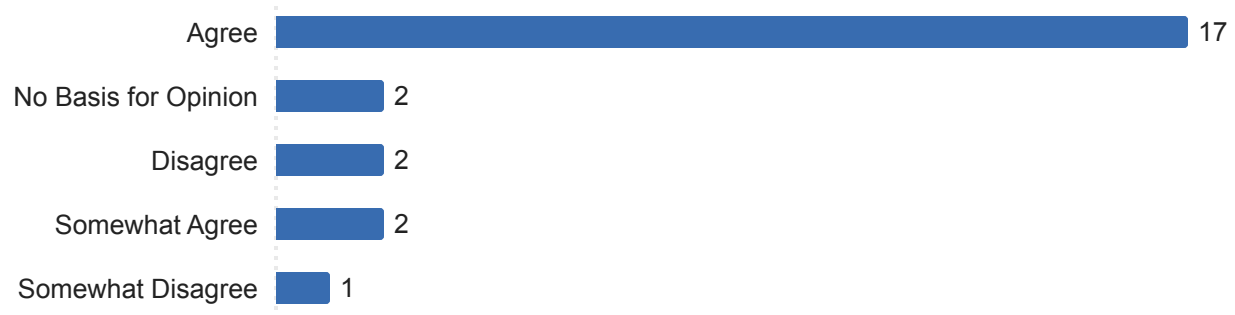
Field	Choice Count	
Agree	70.83%	17
No Basis for Opinion	16.67%	4
Disagree	8.33%	2
Somewhat Agree	4.17%	1
Somewhat Disagree	0.00%	0
Total		24

Q16 - Communication of project status during the engagement was timely and adequate.



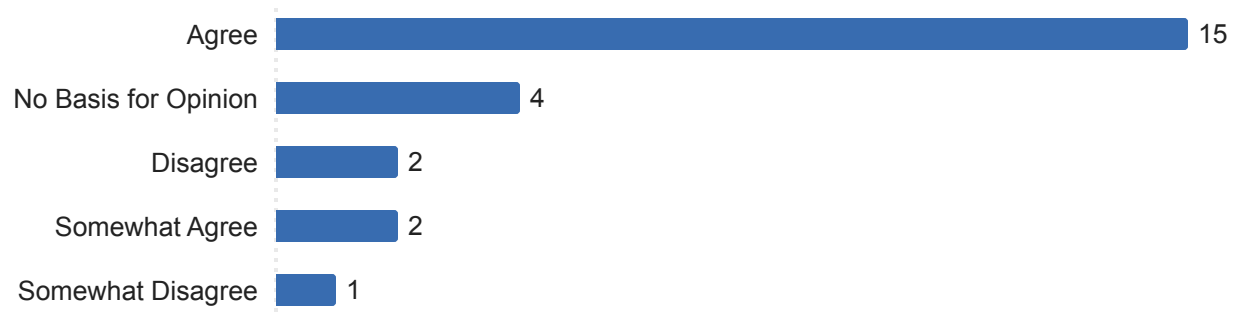
Field	Choice Count	
Agree	71%	17
No Basis for Opinion	13%	3
Disagree	8%	2
Somewhat Agree	8%	2
Somewhat Disagree	0%	0
Total		24

## Q17 - The project was completed in a reasonable time frame.



Field	Choice Count	
Agree	71%	17
No Basis for Opinion	8%	2
Disagree	8%	2
Somewhat Agree	8%	2
Somewhat Disagree	4%	1
Total		24

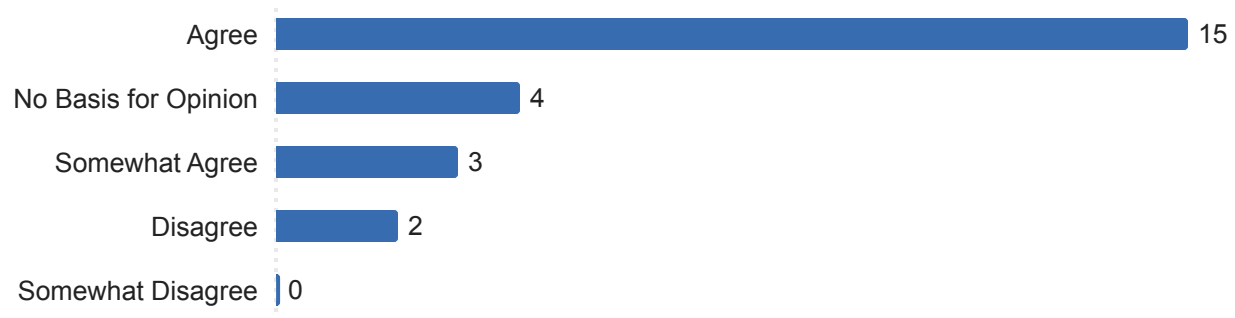
Q18 - Project results were clearly communicated prior to the conclusion of the engagement.



Field	Choice Count	
Agree	63%	15
No Basis for Opinion	17%	4
Disagree	8%	2
Somewhat Agree	8%	2
Somewhat Disagree	4%	1
Total		24

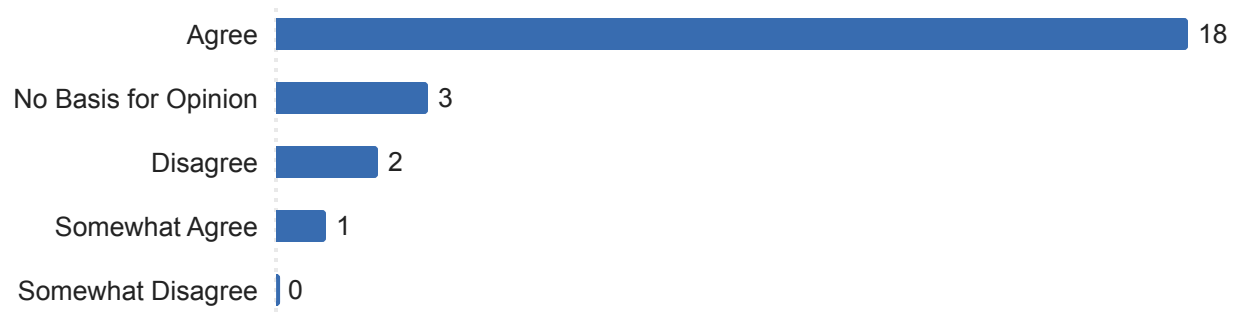


## Q19 - Management's perspective of project results and position was adequately considered.



Field	Choice Count	
Agree	63%	15
No Basis for Opinion	17%	4
Somewhat Agree	13%	3
Disagree	8%	2
Somewhat Disagree	0%	0
Total		24

Q20 - Project results were accurately reported, and appropriate perspective was provided in the report.



Field	Choice Count	
Agree	75%	18
No Basis for Opinion	13%	3
Disagree	8%	2
Somewhat Agree	4%	1
Somewhat Disagree	0%	0
Total		24

Q21 - Overall, how satisfied are you with the services of Internal Audit?



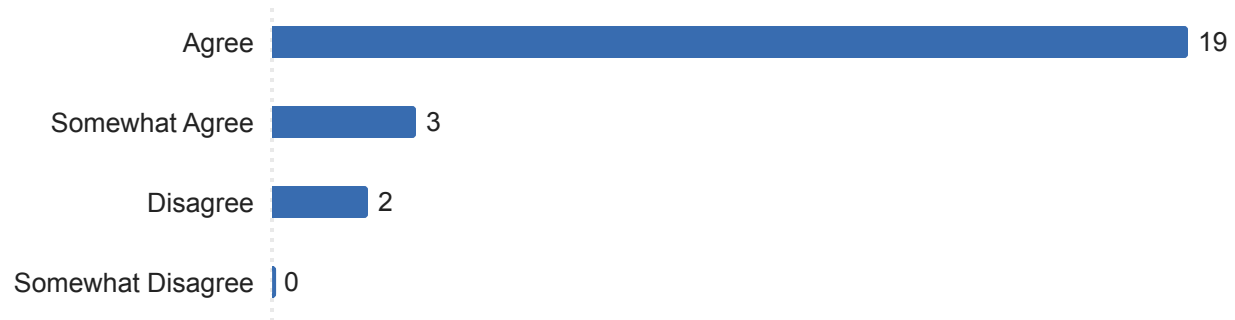
Field	Choice Count	
Satisfied	88%	21
Dissatisfied	8%	2
Somewhat Satisfied	4%	1
Somewhat Dissatisfied	0%	0
Total		24

Q22 - Which of the following words would you use to describe Internal Audit services? Check all that apply.



Field	Choice Count	
High Quality	32%	13
Valuable	29%	12
Effective	27%	11
Poor Quality	5%	2
Ineffective	5%	2
Impractical	2%	1
Total		41

### Q23 - Internal Audit is a resource I would use in the future.



Field	Choice Count	
Agree	79.17%	19
Somewhat Agree	12.50%	3
Disagree	8.33%	2
Somewhat Disagree	0.00%	0
Total		24

## Q24 - What suggestions do you have for improving the audit process? What has Internal Audit done that was particularly helpful that you would recommend we continue in the future?

What suggestions do you have for improving the audit process? What has Internal Audit done that was particularly helpful that you would recommend we continue in the future?

I am not familiar with the internal audit process enough to provide feedback.

I do not have any suggestions.

I feel IA did a good job. They were very thorough, but minimally disruptive. They asked good questions and made reasonable and positive suggestions. They also allowed adequate time to meet goals.

They need to be more transparent in the process.

NA

Communication was totally lacking. I was not given any updates and still have not been updated to this day on outcomes despite the fact that the investigation occurred almost one year ago.

none

No suggestions at the present time. The Audit and Investigation Reports with findings and recommendations has been a valuable tool to assist in Risk Management to ensure effective mitigation for issues.

Q7. Internal Audit staff understood the seriousness of unethical behavior in the workplace and was prepared to address such suspected behavior including fraud, waste, or abuse.

I like this wording, flowed well!

## Q25 - Are there any risks, issues, or areas of concern we should be aware of?

Are there any risks, issues, or areas of concern we should be aware of?

---

Not at this time.

No

None that I observed.

NA

NA

none

Vendor Contracts and Vendor Services could possibly be an area of need related to controls or evidence of controls

None





## 9. FY2024 Annual Financial Audit Report Presentation

Presented by Rene Bustamante

# **The University of Memphis Board of Trustees**

For Information

Presentation

**Date:** March 5, 2025

**Committee:** Finance and Audit

**Presentation:** 2024 Annual Financial Report and Internal Control Audit

**Presented by:** Rene Bustamante, Executive VP/COO/CFO

## **Background:**

The Office of the Comptroller of the Treasury, Division of State Audit, completed its audit of the University of Memphis (the University) on December 17, 2024. The audit was conducted in accordance with auditing standards generally accepted in the United States of America (GAAS) and standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. The audit opinions from the Division of State Audit will be unmodified. The objectives and scope of the audit were as described in the Engagement letter from the Comptroller of the Treasury, Division of State Audit.

The final draft of the audit report was released on February 5, 2025. It contained the audited financial statements of the University as of and for the year ended June 30, 2024, Management's Discussion and Analysis, Required Supplementary Information, and other Supplementary Information.

The exit conference with the auditors was held on February 12, 2025, and the final audit report is expected by late February.

Motion to be Made: No Motion

# *2024 Annual Financial Report & Internal Control Audit*

## *Finance and Audit Committee*

Rene Bustamante  
Executive Vice President and COO/CFO

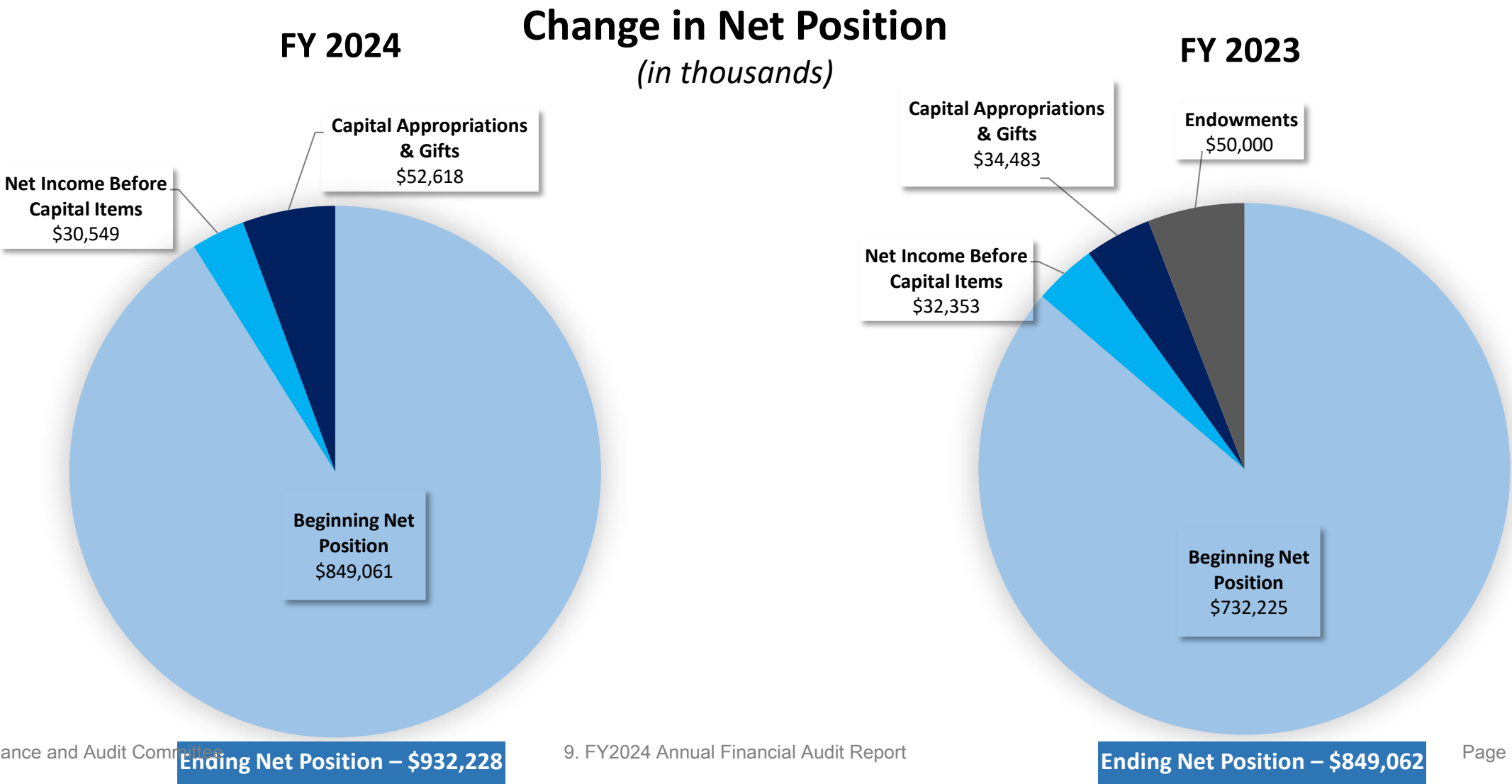
March 5, 2025  
Maxine A. Smith University Center



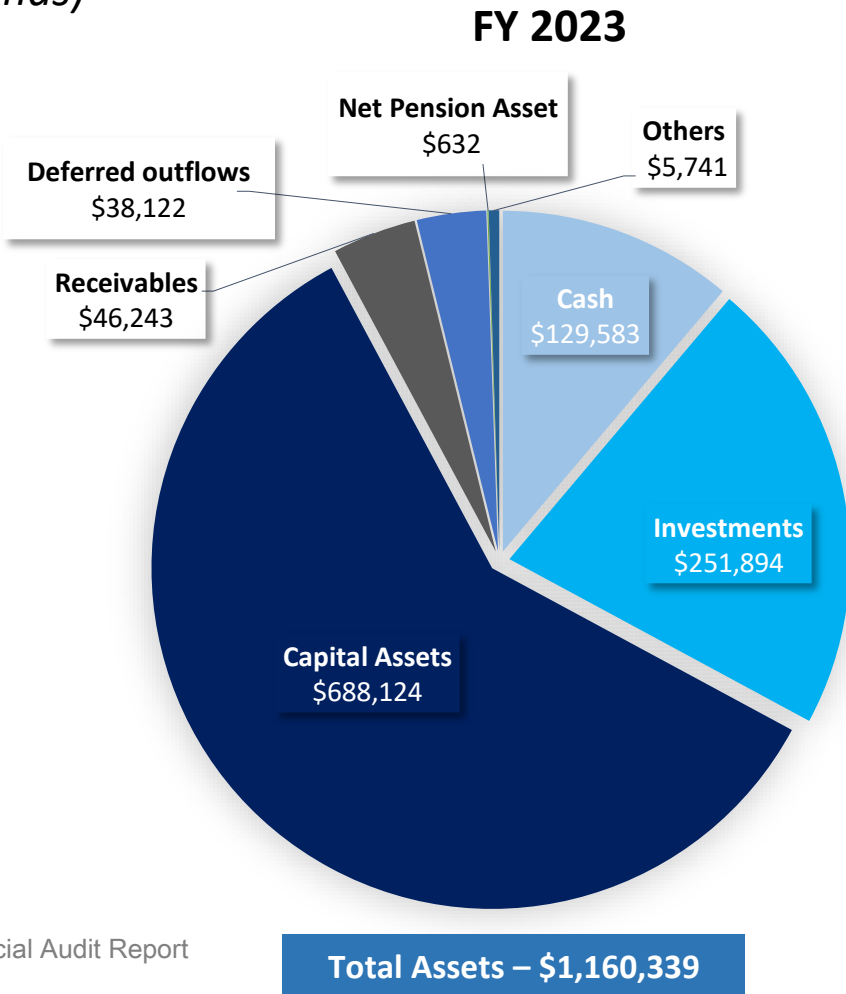
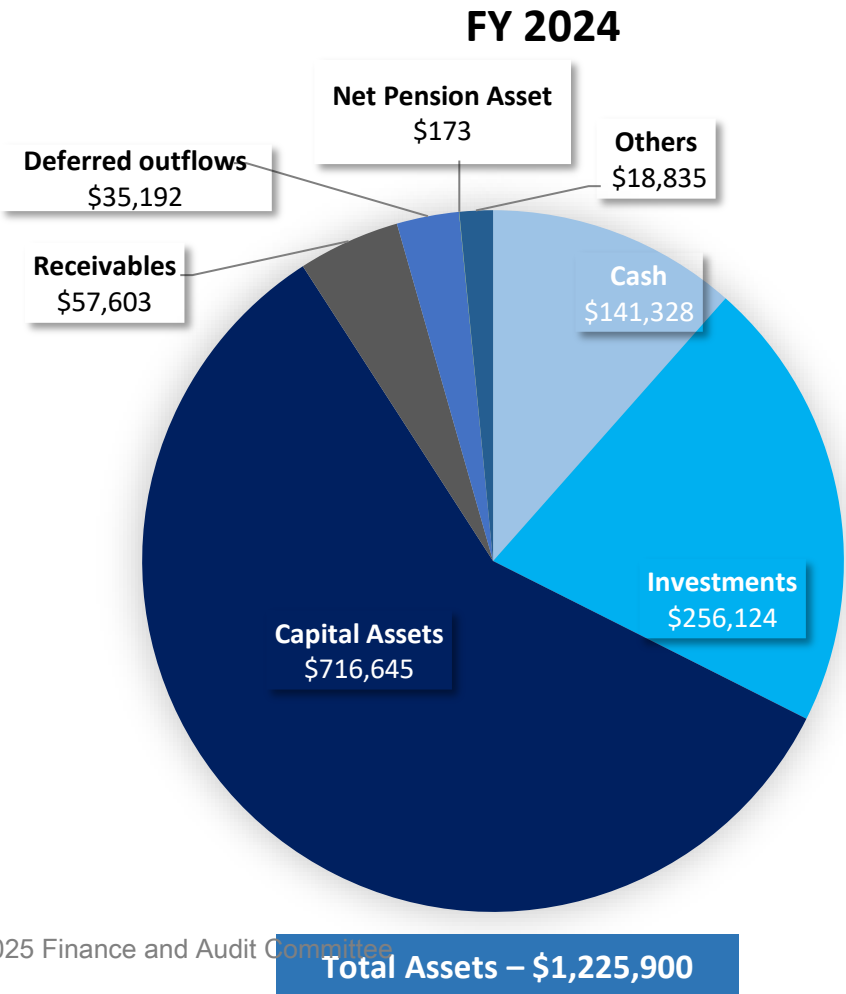
MARCH 2025

The University's operations are audited by the Division of State Audit under the Office of the State Comptroller. Additionally, independent audits are performed for each of its component units. Below are the summary results of the audits for Fiscal Year 2024:

- Unmodified clean audit opinions for the University as well as UM Foundation, Auxiliary Services Foundation, UM Research Foundation and Herff Trust.
- There were no adjustments to the University's financial statements as a result of the audit.
- Financial standing of the three foundations:
  - Total Assets grew by \$40.9M, due primarily to increases in the value of investments and cash/cash equivalents of the UM Foundation.
  - Net Position composite of the Foundations improved by \$39.7M.



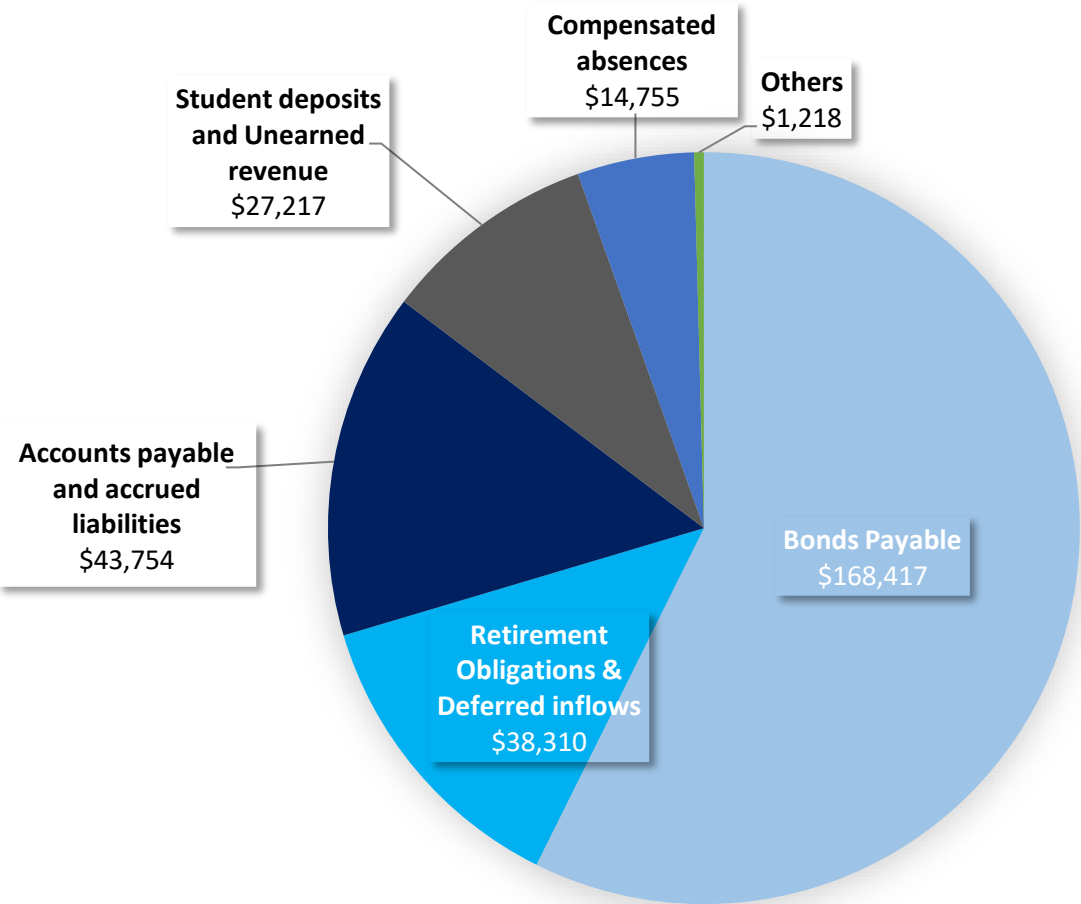
Composition of Assets  
*(in thousands)*





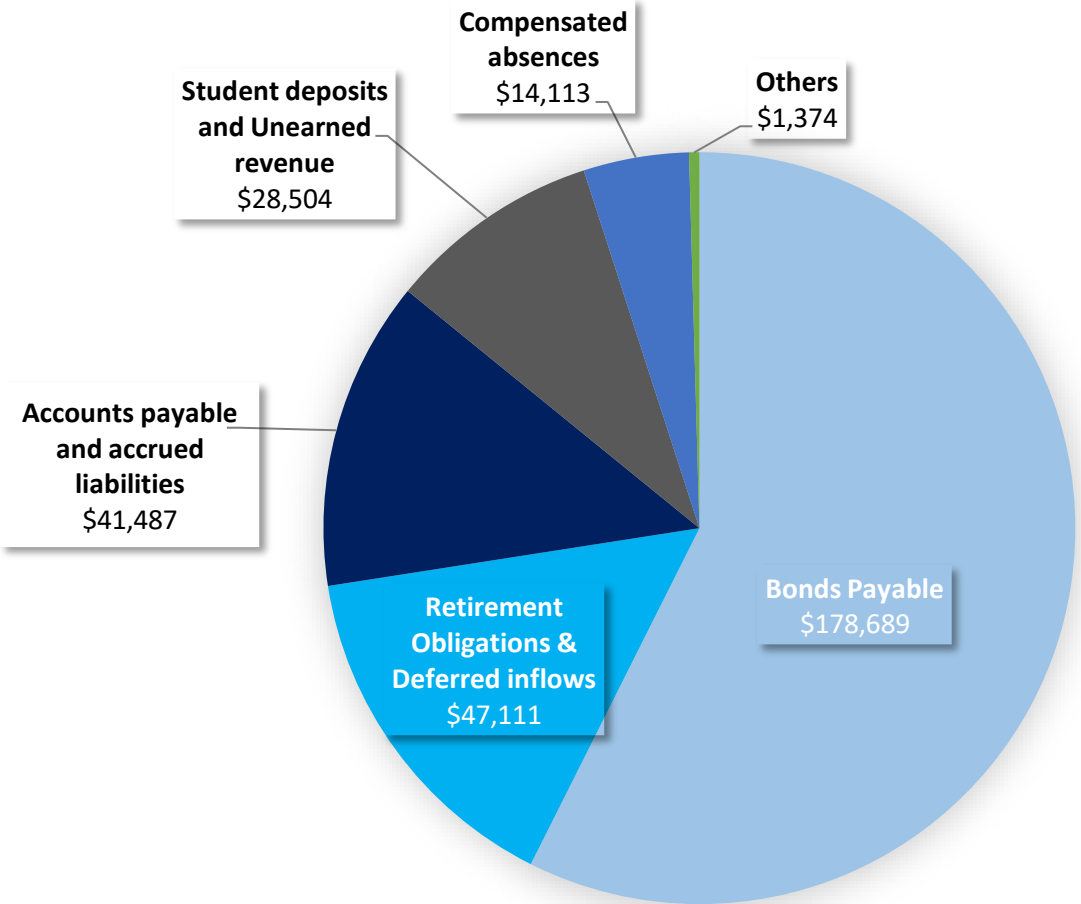
Composition of Liabilities  
*(in thousands)*

FY 2024



Total Liabilities - \$293,671

FY 2023

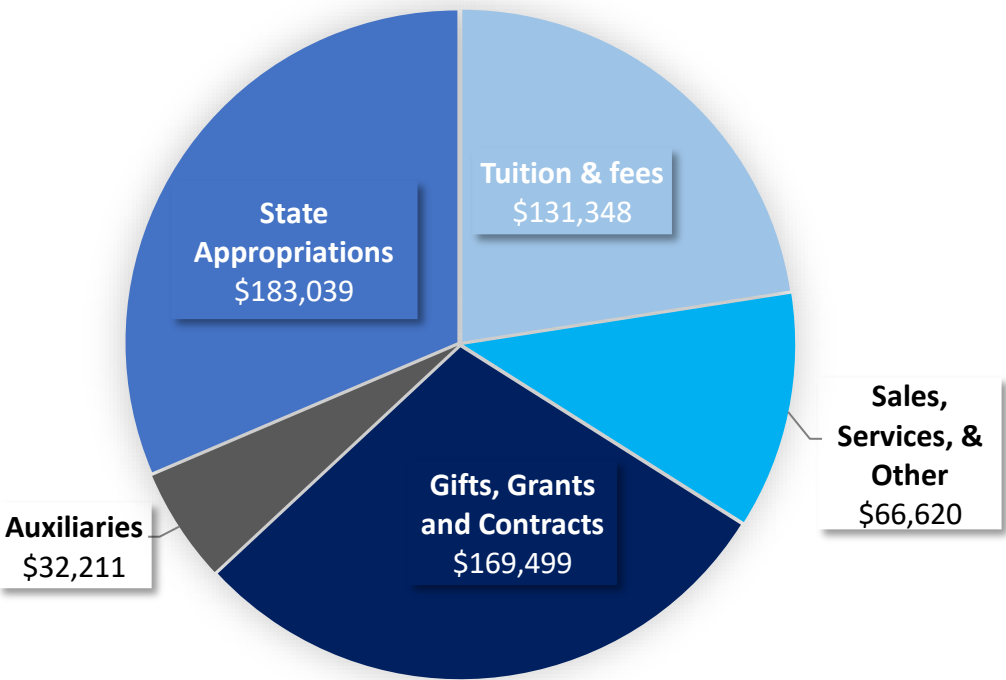


Total Liabilities - \$311,278

Sources Of Revenue\*  
(in thousands)

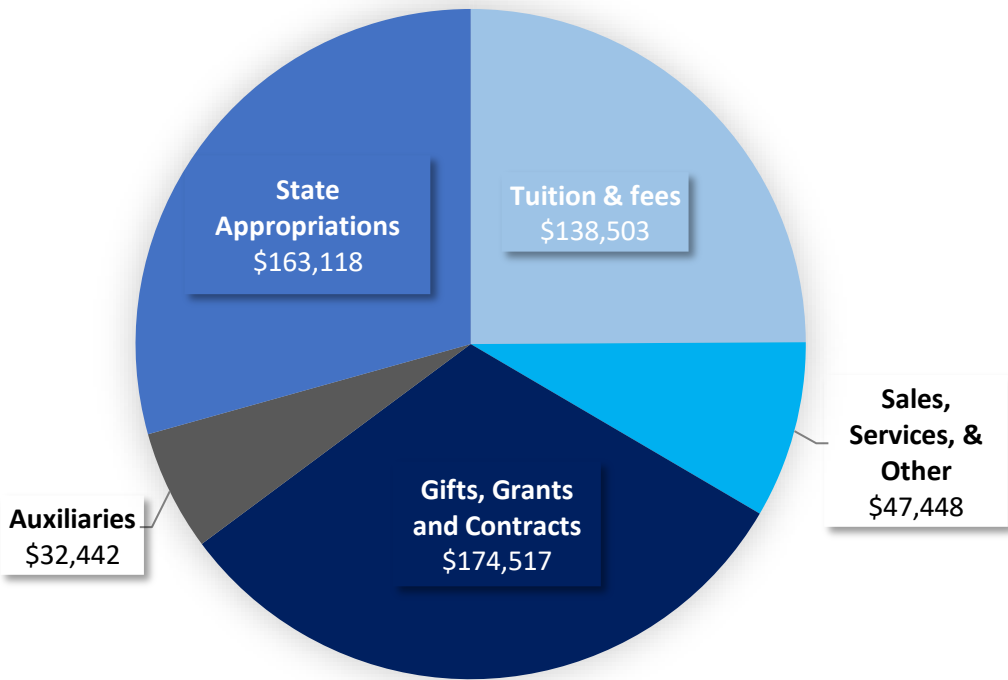
\*Does not include Capital Gifts and Appropriations

FY 2024



Total Revenues – \$582,717

FY 2023



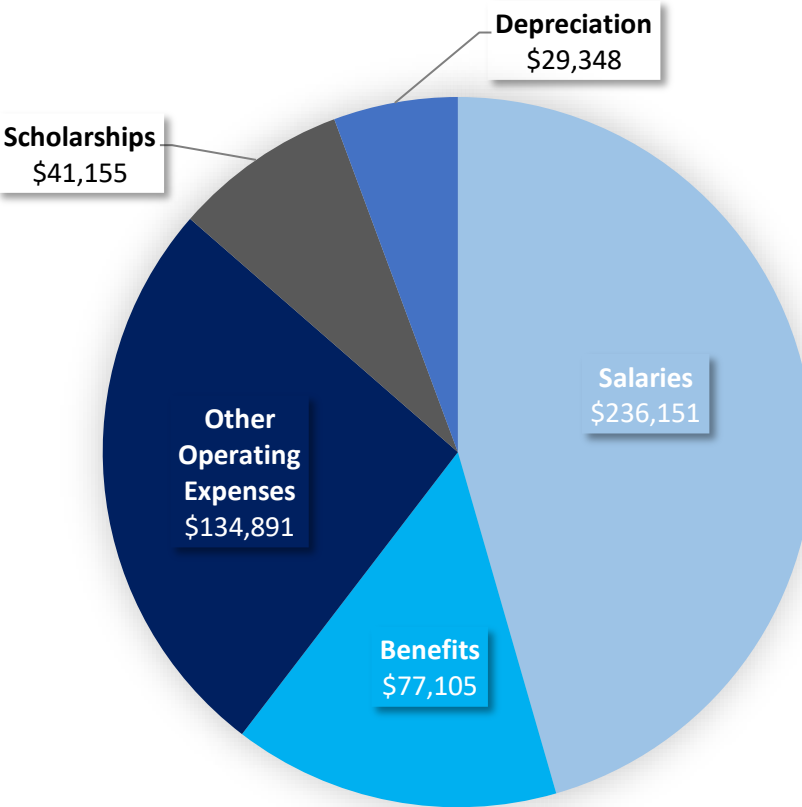
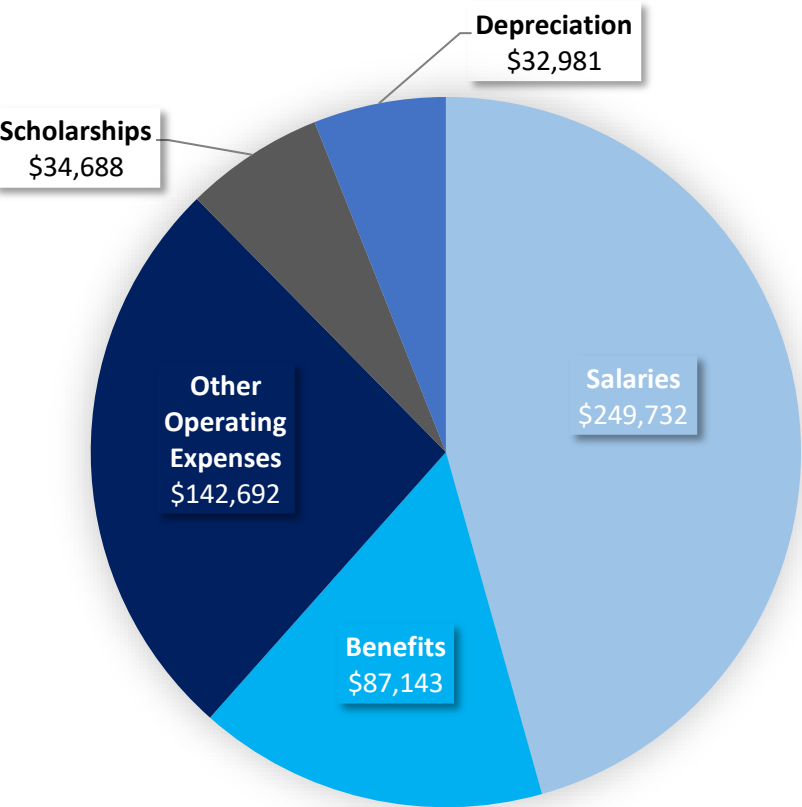
Total Revenues – \$556,028



Operating Expenses  
*(in thousands)*

FY 2024

FY 2023

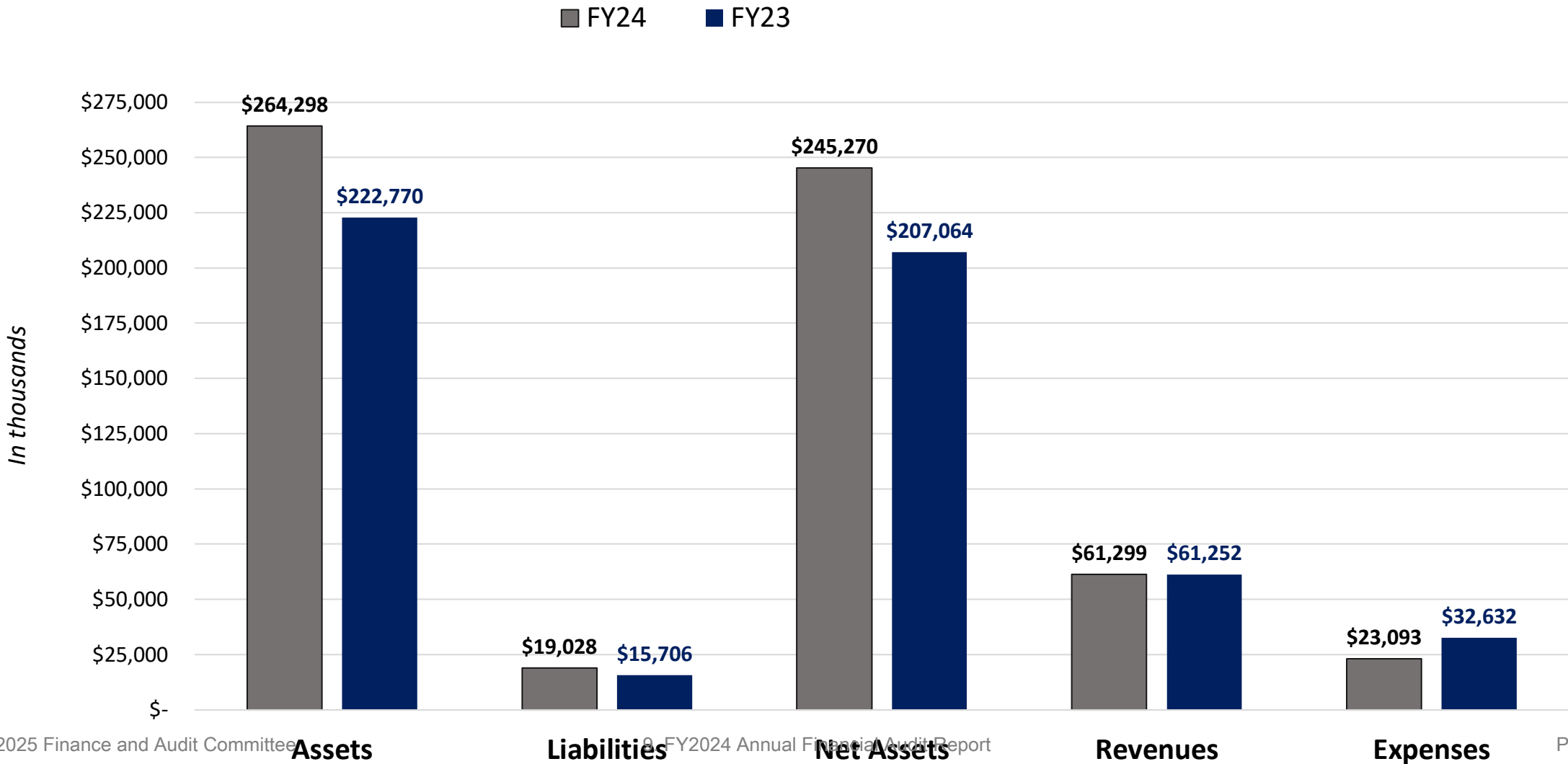


Total Expenses \$547,236

Total Expenses \$518,650

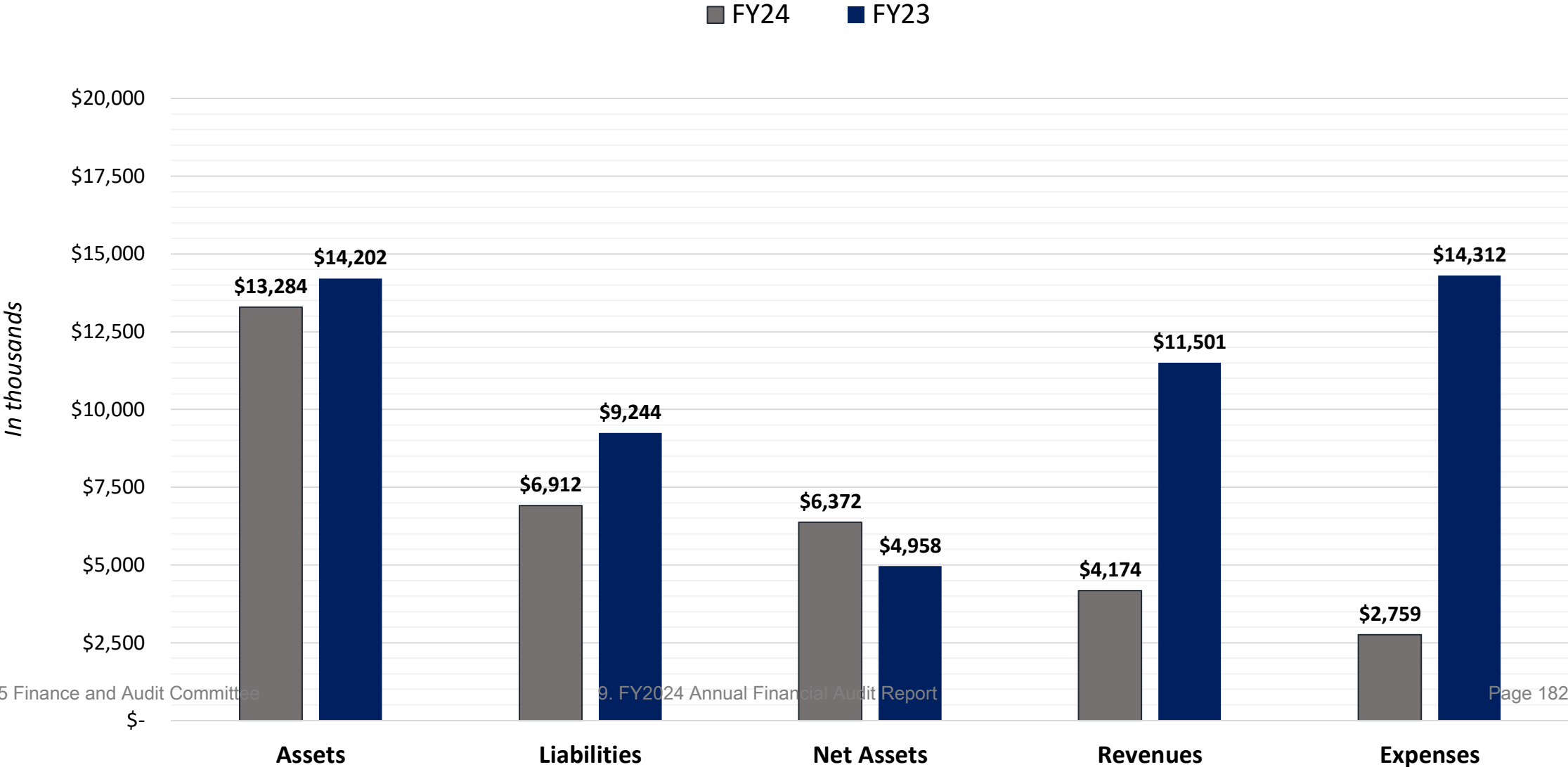
# U of M Foundation Financial Statement Summaries

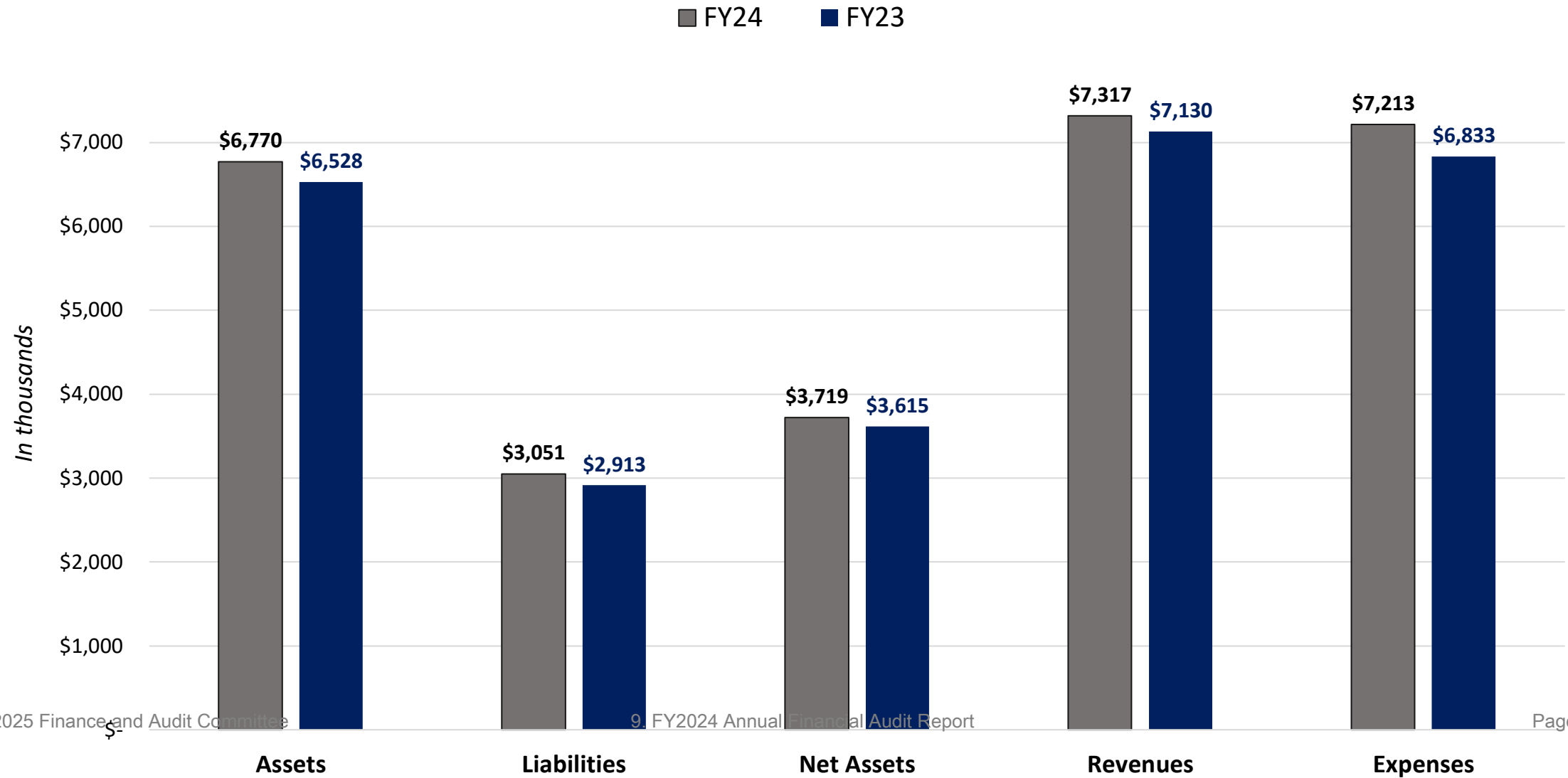
## Fiscal Years Ended June 30 2024 and 2023



# ASF Financial Statement Summaries

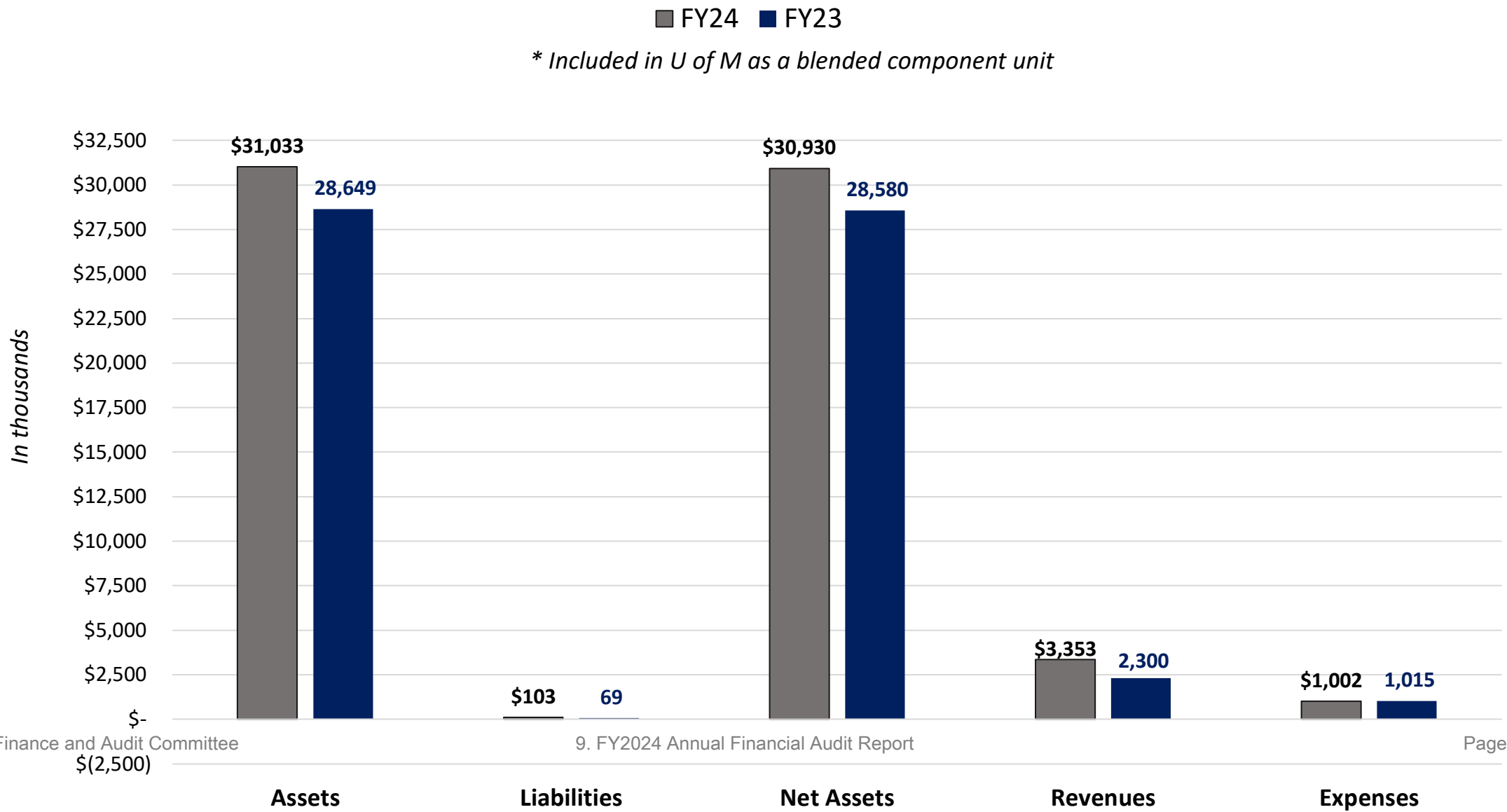
## Fiscal Years Ended June 30 2024 and 2023



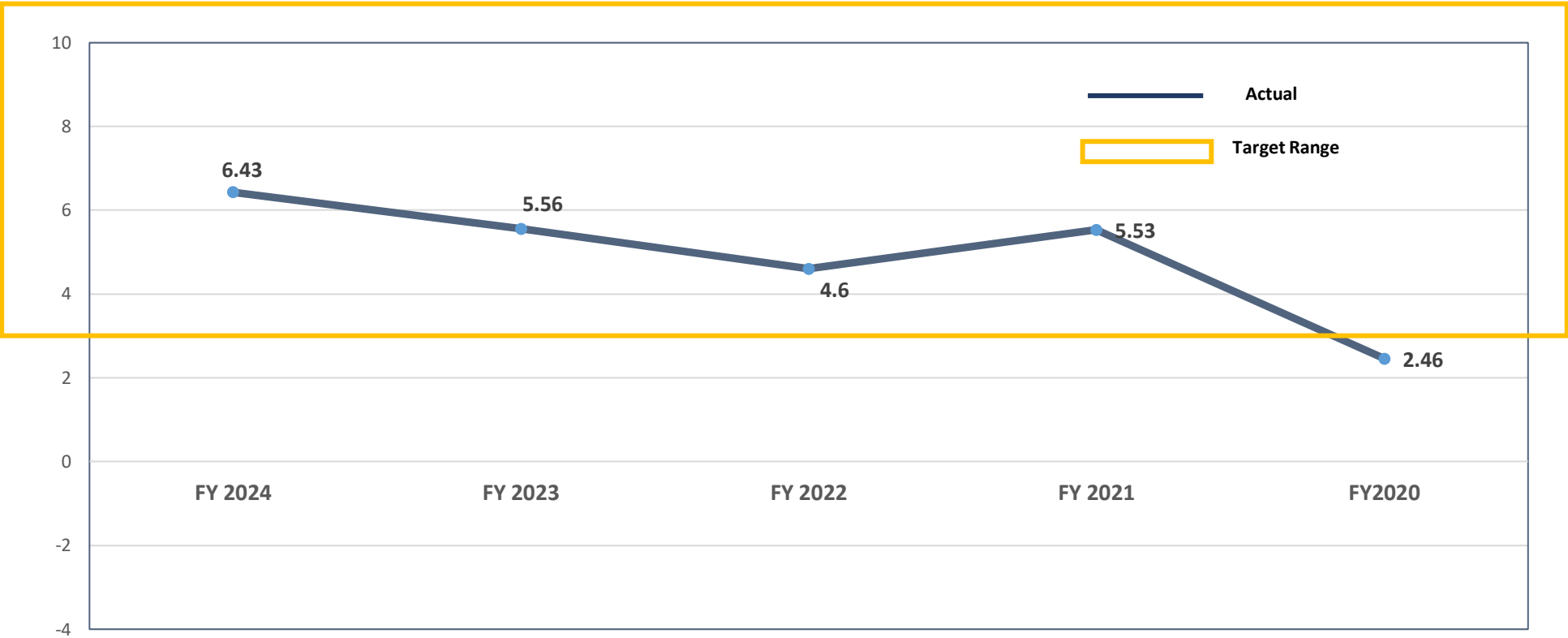


# Herff Trust\* Financial Statement Summaries

## Fiscal Years Ended June 30 2024 and 2023



# FY24 Composite Financial Index Trend



CFI score of 3 or above represents a relatively strong financial position

# Questions?





# **10. Annual Risk Assessment Process**

Presentation

Presented by Rene Bustamante and Mark Heath

# **The University of Memphis Board of Trustees**

Recommendation

Presentation - Report

**Date:** March 5, 2025

**Committee:** **Finance & Audit Committee**

**Presentation:** Annual Risk Assessment Process

**Presented by:** **Mark Heath, Executive Director, Safety, Business Continuity, and Risk Management**

## **Background:**

**As required under the Tennessee Financial Integrity Act (T.C.A. 98-18-102), the University of Memphis engages in an Annual Risk Assessment Process to ensure compliance with requirements for Internal Controls and reporting to the State of TN Comptroller's and the Department of Finance and Administration**

**Motion to be Made:** Adoption of the Annual Report

# *Annual Risk Assessment Process*

*Finance & Audit Committee*

*Mark Heath, Executive Director*

Safety, Business Continuity & Risk Management

March 5, 2025

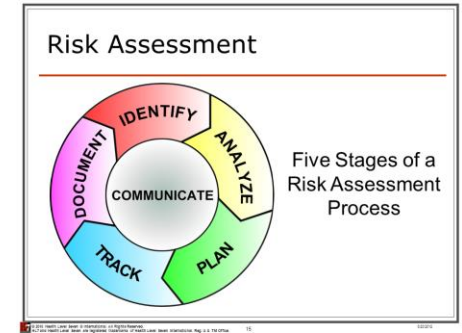
University Center



MARCH 2025

## Risk Management concentrated on five (5) key activities for the 2025 Annual Assessment Process

- Reaffirm with Process Owners That Identified Risks Aligned with the University Strategic Plan
- Evaluated Current Risk Trends (ex: NIL, Cybersecurity, Fraud)
- Identification of Potential Threats by Assessing Impact and Probability Associated with any Risk
- Reviewed, Updated, or Added Evidence of Controls for Active Response to Risks
- Provide Assurance to the State of Tennessee on the Effectiveness of How Risk are Managed



## 3 of 11 Key Risk Functions Audited

- Athletics
  - *Orientation in Progress - New Administration*
- *Facilities (10 Sessions)*
  1. Administration
  2. Utilities
  3. Major Construction/Repair
  4. Campus Planning & Design
  5. Inventory

*Emphasis on Risk Responses (Action Framework) to Manage Individual Risks using Controls for:*

- *Prevention – Avoid or Mitigate*
- *Detection – Irregularities*
- *Direction – Establish Desired Outcomes*
- *Correction – Restore Normal*



- Leadership and Compliance



# Risk Assessment Outcomes

- Timely Submission of Financial Integrity Letter to:
  - ✓ State of TN Comptroller's Office
  - ✓ Department of Finance & Administration
- Lines of Defense Reinforced for:
  1. Operational Management
  2. Risk Management and Compliance Functions
  3. Internal Audit

		Potential Severity Rating			
		Minor	Moderate	Significant	Catastrophic
Likelihood severity occurs	Very Likely	Moderate	High	Extreme	Extreme
	Likely	Low	Moderate	High	Extreme
	Unlikely	Very Low	Low	Moderate	High
	Rare	Very Low	Very Low	Low	Moderate

## RISK MANAGEMENT



Questions?





# 11. Capital Budget Request

For Approval

Presented by Rene Bustamante and Tony Poteet

# The University of Memphis Board of Trustees

For Approval

Presentation

**Date:** March 5, 2025  
**Committee:** Finance and Audit  
**Presentation:** Capital Budget Request for FY 26 / 27  
**Presented by:** Rene Bustamante, Executive VP/COO/CFO  
Tony Poteet, Chief University Planning Officer

## Background:

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

Categories of projects submitted to THEC in the annual Capital Budget Request are as follows:

**Capital Outlay:** In accordance with funding request guidelines annually disseminated by THEC staff, the Commission receives a prioritized list of capital outlay projects from each governing board for evaluation scoring into a single prioritized list for the state. These projects either provide new space or major renovations (or a combination of both), and respond to: state goals for education, strategic plans, space guidelines, facility assessments, program plans, business plans, and/or external funding and the campus master plan. One project is requested from each LGI for 26 / 27 along with a five-year plan for future projects. Match funding in the amount of 17% for new construction (of which 50% must be gift funds) or 6% for major renovations is required from the campus for each project.

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

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

**Committee Recommendation:** Motion to approve the Capital Budget Request for Fiscal Year 26 / 27 as detailed in the meeting materials.

# *Capital Budget Proposal*

## *Governance and Finance Committee*

*Rene Bustamante*

*Executive VP / COO & CFO*

*Tony Poteet, Chief University Planning Officer*

March 5, 2025

University Center Bluff Room



MARCH 2025

- **Capital Outlay**
- **Capital Maintenance**

## Capital Outlay – Five Year Plan

## Total Cost

## Match

### 1. Research Modernization

**\$ 75,000,000**

**\$ 4,500,000**

This project will modernize space in 18 buildings to support academic needs. Work includes lab renovations, infrastructure improvements and all associated work.

### 2. Business and Economics Addition

**\$ 60,000,000**

**\$ 30,000,000**

Construct a new addition to the Fogelman College of Business and Economics for enrollment growth, outreach, and student success.

### 3. Academic Building Replacement

**\$ 102,000,000**

**\$ 17,340,000**

This project will demolish Mitchell and Clement Hall on the main campus and replace with one modern academic instructional facility.

### 4. Research Core Facility Renovation

**\$ 74,000,000**

**\$ 4,440,000**

Renovate former conference facility into a core research facility for expanded academic activities in laboratory intensive programs. A vivarium is included with all support and infrastructure needs for an accredited facility.

### 5. Academic Renovation / Physical Plant Relocation

**\$ 36,000,000**

**\$ 2,160,000**

This project will demolish the Art building, relocate physical plant operations and renovate the existing facility for academic use by the visual arts department.



# Capital Outlay

## Research Modernization

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





# Capital Outlay

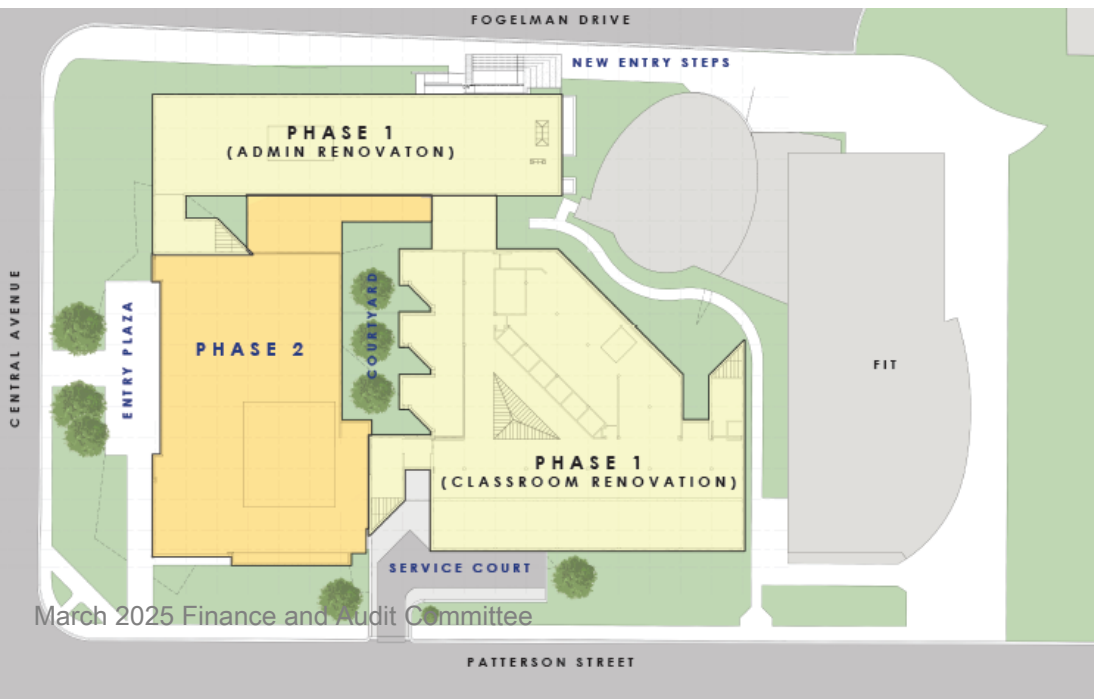


THE UNIVERSITY OF  
MEMPHIS®

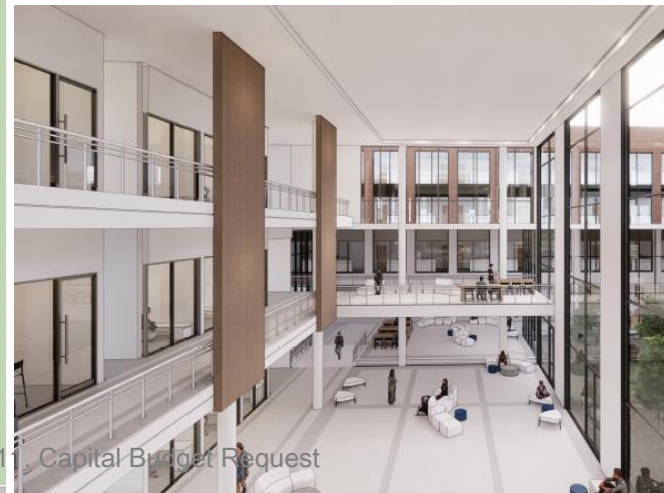
Board of  
Trustees

## Business and Economics Addition

- Construction of a new 58,000-square-foot facility for enrollment growth, faculty growth, student outreach, and success.
- \$ 30,000,000 state funds
- \$ 30,000,000 match funds (50% must be gifts)



March 2025 Finance and Audit Committee



1 Capital Budget Request



STUDENT COMMONS LOOKING WEST AT MONUMENTAL STAIR  
Page 201 of 205



# Capital Maintenance FY2026/2027

<b>1. ACB HVAC Replacement</b>	\$ 5,000,000
Replace existing variable refrigerant system with chilled and hot water VAV system.	
<b>2. Roof Replacement Mitchell and Clement</b>	\$ 3,000,000
Replace roofing, flashing, coping on Mitchell and Clement and any associated work.	
<b>3. HVAC Component Replacement Phase 2</b>	\$ 7,000,000
Replace major HVAC components in E and G buildings, including chillers, cooling towers, air handlers, fan coils, water heaters, rooftop units, and all associated work.	
<b>4. Field House HVAC Replacement</b>	\$ 9,000,000
Replace HVAC components in academic sections of the Field House.	
<b>5. Brick Repairs and Window Replacements</b>	\$ 4,000,000
Replace windows in Johnson Hall, Old Brister, Clement, and Mitchell, and repair bricks on several buildings to maintain a water-tight envelope.	
<b>6. Mitchell and Clement HVAC Replacement</b>	\$ 6,000,000
Replace all fan coil units, air handlers, piping, controls and all associated work.	
<b>7. HVAC Controls Replacement Various Buildings</b>	\$ 4,000,000
Replace outdated control systems, convert to digital from pneumatic, replace control valves.	



## 12. Additional Business

Presented by David McKinney



# 13. Adjournment

Presented by David McKinney



## 14. Declaration of Executive Session

Presented by Colton Cockrum