



The University of Memphis Foundation

Financial Statements

Years Ended June 30, 2021 and 2020



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Board of Directors*

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

Financial/Administrative Directors*

Holly Ford, Associate Vice President and Managing Director
Carolyn Stanley, Foundation Director

* As of November 2021



Independent Auditors' Report

Board of Directors
The University of Memphis Foundation
Memphis, Tennessee

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The listing of Board of Directors and Financial/Administrative Directors is presented for purposes of additional analysis and are not required parts of the financial statements. This other information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Prior Period Financial Statements

The financial statements of the Foundation as of June 30, 2020, and for the year then ended were audited by other auditors whose report dated November 17, 2020, expressed an unmodified opinion on those statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2021, on our consideration of the Foundation's internal control over financial reporting and 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 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.

Dixon Hughes Goodman LLP

Memphis, Tennessee
December 6, 2021

The University of Memphis Foundation
 Statements of Financial Position
 June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 1,581,356	\$ 4,666,916
Contributions receivable, net	13,103,196	9,161,705
Accrued interest, dividends, and other receivables	1,432	187,498
Investments, at fair value	160,567,903	128,003,339
Cash surrender value of life insurance	142,915	135,022
	<u>175,396,802</u>	<u>142,154,480</u>
Total assets	<u>\$ 175,396,802</u>	<u>\$ 142,154,480</u>
LIABILITIES AND NET ASSETS		
Accounts payable, primarily to The University of Memphis	\$ 4,268,756	\$ 7,529,643
Gift annuity obligations	147,750	148,925
	<u>4,416,506</u>	<u>7,678,568</u>
Total liabilities	4,416,506	7,678,568
Net assets:		
Without donor restrictions	4,044,010	2,157,645
With donor restrictions	166,936,286	132,318,267
	<u>170,980,296</u>	<u>134,475,912</u>
Total net assets	<u>170,980,296</u>	<u>134,475,912</u>
Total liabilities and net assets	<u>\$ 175,396,802</u>	<u>\$ 142,154,480</u>

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and other revenue:			
Contributions	\$ 212,023	\$ 31,764,147	\$ 31,976,170
Investment income, net of expenses	455,485	1,540,987	1,996,472
Net realized and unrealized gains on investments	868,886	32,563,813	33,432,699
Other income	282,463	1,145,983	1,428,446
	<u>1,818,857</u>	<u>67,014,930</u>	<u>68,833,787</u>
Net assets released from restrictions	<u>32,396,911</u>	<u>(32,396,911)</u>	<u>-</u>
Total support and other revenue	34,215,768	34,618,019	68,833,787
Operating expenses:			
University support and operational cost	25,365,531	-	25,365,531
Awards and scholarships	5,798,030	-	5,798,030
Management and general	882,782	-	882,782
	<u>32,046,343</u>	<u>-</u>	<u>32,046,343</u>
Total operating expenses	32,046,343	-	32,046,343
Change in net assets from operating activities	2,169,425	34,618,019	36,787,444
Nonoperating activities:			
Bad debt expense	283,060	-	283,060
	<u>283,060</u>	<u>-</u>	<u>283,060</u>
Change in net assets from nonoperating activities	283,060	-	283,060
Change in net assets	1,886,365	34,618,019	36,504,384
Net assets, beginning of year	<u>2,157,645</u>	<u>132,318,267</u>	<u>134,475,912</u>
Net assets, end of year	<u>\$ 4,044,010</u>	<u>\$ 166,936,286</u>	<u>\$ 170,980,296</u>

The University of Memphis Foundation
Statement of Activities
Year Ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and other revenue:			
Contributions	\$ 159,335	\$ 12,170,886	\$ 12,330,221
Investment income, net of expenses	160,164	1,694,216	1,854,380
Net realized and unrealized gains (losses) on investments	201,810	(3,040,426)	(2,838,616)
Other income	-	6,009,798	6,009,798
	<u>521,309</u>	<u>16,834,474</u>	<u>17,355,783</u>
Net assets released from restrictions	<u>21,059,957</u>	<u>(21,059,957)</u>	<u>-</u>
Total support and other revenue	21,581,266	(4,225,483)	17,355,783
Operating expenses:			
University support and operational cost	18,391,258	-	18,391,258
Awards and scholarships	6,847,457	-	6,847,457
Management and general	720,415	-	720,415
	<u>25,959,130</u>	<u>-</u>	<u>25,959,130</u>
Change in net assets from operating activities	(4,377,864)	(4,225,483)	(8,603,347)
Nonoperating activities:			
Bad debt recoveries	<u>(527,797)</u>	<u>-</u>	<u>(527,797)</u>
Change in net assets from nonoperating activities	(527,797)	-	(527,797)
Change in net assets	(3,850,067)	(4,225,483)	(8,075,550)
Net assets, beginning of year	<u>6,007,712</u>	<u>136,543,750</u>	<u>142,551,462</u>
Net assets, end of year	<u>\$ 2,157,645</u>	<u>\$ 132,318,267</u>	<u>\$ 134,475,912</u>

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

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

The University of Memphis Foundation
Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services			Support Services	
	University Support and Operational Cost	Awards and Scholarships	Total	Management and General	Total
Salaries and benefits	\$ 1,142,043	\$ -	\$ 1,142,043	\$ 573,941	\$ 1,715,984
Moving expenses	7,705	-	7,705	-	7,705
Conferences and travel	140,210	-	140,210	252	140,462
Supplies	540,607	-	540,607	5,262	545,869
Postage	15,441	-	15,441	864	16,305
Printing	160,529	-	160,529	122	160,651
Telephone and communications	5,956	-	5,956	1,879	7,835
Maintenance and repairs	959	-	959	-	959
Audit services	-	-	-	29,664	29,664
Legal services	-	-	-	4,240	4,240
Annuity expenses	17,425	-	17,425	-	17,425
Professional services	1,347,064	-	1,347,064	6,909	1,353,973
Publicity/public relations	2,278,164	-	2,278,164	-	2,278,164
Rental fees	124,544	-	124,544	-	124,544
Insurance other	16,013	-	16,013	25,371	41,384
Other expenses	3,517,498	-	3,517,498	100	3,517,598
Dues and membership subscriptions	275,833	-	275,833	-	275,833
Meals and entertainment	654,026	-	654,026	1,169	655,195
Tickets	14,283	-	14,283	-	14,283
Sponsorships and donations	76,916	-	76,916	-	76,916
Gifts and flowers	53,301	-	53,301	175	53,476
Fees	592,029	-	592,029	70,467	662,496
Honorariums	14,000	-	14,000	-	14,000
University support	2,086,121	-	2,086,121	-	2,086,121
USA grants special projects	3,677,737	-	3,677,737	-	3,677,737
USA chairs professorships	-	500,523	500,523	-	500,523
Awards	-	198,502	198,502	-	198,502
Furniture and equipment	643,908	-	643,908	-	643,908
Construction and renovation	667,669	-	667,669	-	667,669
USA capital improvements	321,277	-	321,277	-	321,277
Scholarships	-	6,017,859	6,017,859	-	6,017,859
Fellowships	-	46,334	46,334	-	46,334
Interns and graduate assistants	-	84,239	84,239	-	84,239
	<u>\$ 18,391,258</u>	<u>\$ 6,847,457</u>	<u>\$ 25,238,715</u>	<u>\$ 720,415</u>	<u>\$ 25,959,130</u>

The University of Memphis Foundation
 Statements of Cash Flows
 Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 36,504,384	\$ (8,075,550)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Net realized and unrealized loss (gain) on investments	(33,432,699)	2,838,616
Bad debt expense (recovery)	283,060	(527,797)
Contributions restricted for endowment	(10,860,668)	(2,523,525)
Changes in operating assets and liabilities:		
Contributions receivable	(4,224,551)	9,870,323
Accrued interest, dividends, and other receivables	186,066	45,802
Accounts payable, primarily to The University of Memphis	(3,260,887)	(2,330,768)
Gift annuity obligations	(1,175)	438
	<u>(51,310,854)</u>	<u>7,373,089</u>
Net cash used in operating activities	(14,806,470)	(702,461)
Cash flows from investing activities:		
Change in cash surrender value of life insurance	(7,893)	(7,812)
Proceeds from sale of investments	35,614,548	221,221,629
Purchases of investments	(34,746,413)	(218,959,766)
Net cash provided by investing activities	860,242	2,254,051
Cash flows from financing activities:		
Contributions restricted for endowment	10,860,668	2,523,525
Net cash provided by financing activities	10,860,668	2,523,525
Net increase (decrease) in cash	(3,085,560)	4,075,115
Cash, beginning of year	4,666,916	591,801
Cash, end of year	<u>\$ 1,581,356</u>	<u>\$ 4,666,916</u>

1. Summary of Significant Accounting Policies

Organization and activities

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

Basis of presentation

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

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

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by the actions of the Foundation or by the passage of time. Other donor-imposed restrictions are perpetual in nature, where by 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. Expenses are reported as decreases in net assets without donor 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, 2021 and 2020, the Foundation released net assets with donor restrictions for scholarships, academic enrichment, capital improvements, and various other projects. See Note 6 for releases by purpose.

Cash

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

Contributions receivable

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

The University of Memphis Foundation
Notes to Financial Statements

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 \$7,111,182 and \$12,557,111 at June 30, 2021 and 2020, respectively. These potential contributions, if received, would generally be restricted for specific purposes stipulated by the donors.

Investment valuation and income recognition

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

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

Administrative fee

In order to cover expenses of the Foundation's operations and provide unrestricted funds for University support, an administrative fee of 2.0% was assessed on the carrying value of accounts invested in the endowment pool for the years ended June 30, 2021 and 2020. Effective May 2021, the fee assessed on the carrying value of accounts invested in the endowment pool was reduced from 2.00% to 1.50%. The fee covers the cost of business office operations, provides support for University of Memphis fundraising activities, and assists with other University of Memphis needs. Administrative fees earned were approximately \$1,614,000 and \$1,775,000 for the years ended June 30, 2021 and 2020, respectively.

Income taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is similarly exempt from Tennessee state income taxes under applicable provisions of the Tennessee tax regulations. The Foundation's limited partnership investments generate unrelated business income or loss activity which is subject to federal income taxes. There was no unrelated business income tax expense ("UBIT") for the years ended June 30, 2021 and 2020.

The Foundation has determined that it does not have any material uncertain tax positions as of June 30, 2021.

Endowment funds

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

Use of estimates

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

Concentrations of credit risk

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

Functional allocation of expenses

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

Adoption of accounting principle

Effective July 1, 2020, the Foundation adopted Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* using the modified retrospective approach. The adoption of this standard resulted in no change to net assets as of July 1, 2020, and no changes in the way the Foundation recognizes revenue.

Reclassifications

Certain 2020 balances have been reclassified to conform to the 2021 presentation.

Recent accounting pronouncements

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

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. It is intended to improve transparency of contributed nonfinancial assets through additional presentation and disclosures. The amendments of this ASU require that a not-for-profit entity present contributed nonfinancial assets as a separate line item in the statements of activities, as well as enhanced disclosures regarding each type of contributed nonfinancial asset. The disclosures must discuss qualitative information about whether the assets were monetized or utilized, the entity's policy regarding monetizing rather than utilizing the nonfinancial assets, information regarding if there were any donor-imposed restrictions, how the entity arrived at the fair values of the nonfinancial assets and the principal market used to arrive at the fair value measurements. The new guidance is effective for reporting periods beginning after June 15, 2021. Early adoption is permitted. The effects of adopting ASU No. 2020-07 have not been determined.

Subsequent events

The Foundation has evaluated the effect subsequent events would have on the financial statements through December 6, 2021, which is the date the financial statements were available to be issued.

2. Liquidity and Availability

All assets of the Foundation are restricted for University support and expended for specific uses within the University. The budget allocation for Foundation operations for the years ended June 30, 2021 and 2020, was \$658,258 and \$642,159, respectively. Foundation operations are funded by the annual endowment administrative fee.

3. Contributions Receivable

As of June 30, 2021 and 2020, contributors to the Foundation have unconditionally promised to give as follows:

	<u>2021</u>	<u>2020</u>
Within one year	\$ 4,453,590	\$ 4,672,060
One to five years	9,727,003	5,008,960
More than five years	-	154,250
Total unconditional promises to give	<u>14,180,593</u>	<u>9,835,270</u>
Less allowances for uncollectible pledges	(808,835)	(550,775)
Less unamortized present value discount	<u>(268,562)</u>	<u>(122,790)</u>
	<u>\$ 13,103,196</u>	<u>\$ 9,161,705</u>

Contributions receivable beyond one year have been discounted to their net present value using interest rates of 0.28% to 2.67% as of June 30, 2021 and 2020, respectively.

4. Investments

Investments as of June 30, 2021 and 2020, are summarized as follows:

	<u>2021</u>		<u>2020</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ -	\$ -	\$ 627,845	\$ 619,568
Limited partnerships and LLCs	12,236,034	19,523,924	20,280,896	22,634,309
Mutual funds	115,277,907	140,851,952	104,567,978	104,567,978
U.S. government securities	191,487	192,027	179,955	181,484
	<u>\$ 127,705,428</u>	<u>\$ 160,567,903</u>	<u>\$ 125,656,674</u>	<u>\$ 128,003,339</u>

5. Fair Value Measurements

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

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

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

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

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

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

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

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

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

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

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

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The following tables set forth by level, within the fair value hierarchy, the Foundation's investments measured at fair value on a recurring basis as of June 30, 2021 and 2020.

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

Assets at Fair Value as of June 30, 2020				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 619,568	\$ -	\$ -	\$ 619,568
Mutual funds:				
U.S. equity	69,452,242	-	-	69,452,242
Fixed income	<u>35,115,736</u>	-	-	<u>35,115,736</u>
Total mutual funds	104,567,978	-	-	104,567,978
U.S. government securities	-	<u>181,484</u>	-	<u>181,484</u>
Total investments in the fair value hierarchy	<u>\$105,187,546</u>	<u>\$ 184,484</u>	<u>\$ -</u>	<u>\$105,372,030</u>
Limited partnerships measured at NAV				<u>22,634,309</u>
Total				<u>\$128,003,339</u>

The University of Memphis Foundation
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The following table provides information related to investments that are valued based on NAV:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
June 30, 2021				
Hedged strategies- hedged equity ^(a)	\$ 295,498	\$ -	Annually	90 days
Private equity ^(b)	9,621,123	13,990,963	At Manager's discretion	N/A
Real assets ^(c)	7,767,531	3,101,543	At Manager's discretion	N/A
U.S. equity ^(d)	<u>1,839,772</u>	-	Multi-year	90 days
	<u>\$ 19,523,924</u>			
June 30, 2020				
Hedged strategies- hedged equity ^(a)	\$ 1,893,212	\$ -	Monthly/Quarterly/Annually	60-90 days
Private equity ^(b)	7,691,582	4,877,187	Upon liquidation	N/A
Real assets ^(c)	6,523,733	4,024,093	Upon liquidation	N/A
U.S. equity ^(d)	4,781,925	-	Quarterly	60-90 days
International equity ^(e)	<u>1,743,857</u>	-	Monthly/Quarterly	30-90 days
	<u>\$ 22,634,309</u>			

- a) **Hedged Strategies-Hedged Equity** - This category consists of funds of funds that make long and short position equity investments.
- b) **Private Equity** - This category consists of partnerships that invest primarily in U.S. based private companies. These investments cannot be voluntarily redeemed and are subject to sale based on market demand.
- c) **Real Assets** - This category consists of investment partnerships and funds that invest primarily in U.S. and foreign commercial real estate and natural resources. Some investments in this category allow quarterly redemption, but distributions during periods of illiquidity are restricted by gate constraints.
- d) **U.S. Equity** - This category generally consists of managers that invest primarily in equity securities of U.S. corporations. U.S. equity may include multiple styles (growth, value) and market capitalizations (small, mid, large). These investments will primarily be long-only.
- e) **International Equity** - This category will generally consist of managers that invest primarily in equity securities of corporations domiciled in foreign countries. International equity may include multiple styles (growth, value) and market capitalizations (small, mid, large). These investments will primarily be long-only.

6. Nature and Amounts of Net Assets with Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Subject to expenditure for a specified purpose:		
Alumni relations	\$ 504,963	\$ 491,509
Awards	370,357	349,995
Capital improvements ⁽¹⁾	(3,979,573)	5,501,087
Centers, institutes and labs	2,263,311	2,329,479
Contributions receivable, net	7,220,657	7,270,712
Departmental/academic enrichment	7,146,626	6,356,937
Gift annuities	31,826	23,876
Operations	86,905	291,887
Professorships/chairs/visiting scholars	391,059	255,809
Scholarships/fellowships	5,067,007	4,395,400
Special projects/lecture series/workshops	<u>11,164,923</u>	<u>8,563,370</u>
	<u>30,268,061</u>	<u>35,830,061</u>
(1) The negative capital improvement balance is the result of the interfund advance discussed in note 8.		
Endowments:		
Subject to expenditure for a specified purpose:		
Alumni relations	392,187	114,131
Awards	1,567,460	489,905
Centers, institutes and labs	2,081,959	1,013,289
Departmental/academic enrichment	5,442,622	1,671,990
Professorships/chairs/visiting scholars	8,479,624	3,129,927
Scholarships/fellowships	19,071,858	5,466,503
Special projects/lecture series/workshops	<u>6,256,763</u>	<u>1,383,373</u>
	<u>43,292,473</u>	<u>13,269,118</u>
Perpetual in nature:		
Alumni relations	783,208	760,880
Awards	2,835,519	2,816,095
Centers, institutes and labs	2,783,933	2,256,227
Contributions receivable, net	5,882,539	1,890,982
Departmental/academic enrichment	10,191,966	10,177,570
Professorships/chairs/visiting scholars	15,613,447	15,482,388
Scholarships/fellowships	41,093,516	37,052,157
Special projects/lecture series/workshops	<u>14,191,624</u>	<u>12,782,789</u>
	<u>93,375,752</u>	<u>83,219,088</u>
Total endowment	<u>136,668,225</u>	<u>96,488,206</u>
Total net assets with donor restrictions	<u>\$ 166,936,286</u>	<u>\$ 132,318,267</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

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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.

Releases from donor restrictions for the years ended June 30, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for a specified purpose:		
Alumni relations	\$ 64,292	\$ 457,669
Awards	111,973	32,545
Capital improvements	17,574,275	2,080,899
Centers, institutes and labs	619,548	1,304,984
Departmental/academic enrichment	1,574,819	2,537,147
Contributions receivable, net	283,296	-
Gift annuities	18,795	17,950
Operations	270,587	-
Professorships/chairs/visiting scholars	342,229	49,250
Scholarships/fellowships	4,596,761	7,262,445
Special projects/lecture series/workshops	<u>3,328,845</u>	<u>1,974,090</u>
	28,785,420	15,716,979
Endowments:		
Subject to expenditure for a specified purpose:		
Alumni relations	26,460	24,431
Awards	71,240	46,692
Capital improvements	-	2,062
Centers, institutes and labs	77,728	85,094
Departmental/academic enrichment	1,123,268	3,176,094
Professorships/chairs/visiting scholars	800,462	463,716
Scholarships/fellowships	1,219,444	1,436,238
Special projects/lecture series/workshops	<u>292,889</u>	<u>108,651</u>
	<u>3,611,491</u>	<u>5,342,978</u>
	\$ 32,396,911	\$ 21,059,957

7. Endowment Funds

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

The Board of Directors of The University of Memphis Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment funds and (b) the original value of subsequent gifts to the permanent endowment funds. The remaining portion of the donor-restricted

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endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The 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

Endowment net asset composition by type of fund are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
June 30, 2021	<u>\$ -</u>	<u>\$136,668,225</u>	<u>\$136,668,225</u>
June 30, 2020	<u>\$ -</u>	<u>\$ 96,488,206</u>	<u>\$ 96,488,206</u>

Changes in endowment net assets for the period of July 1, 2019 through June 30, 2021, are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
July 1, 2019	\$ 2,977,905	\$ 98,850,700	\$102,828,605
Investment return:			
Investment loss	-	(480,520)	(480,520)
Net change (realized and unrealized)	-	<u>(3,040,426)</u>	<u>(3,040,426)</u>
Total investment return	-	(3,520,946)	(3,520,946)
Contributions	-	2,523,525	2,523,525
Appropriation of endowment assets for expenditure	<u>(2,977,905)</u>	<u>(2,365,073)</u>	<u>(5,342,978)</u>
June 30, 2020	-	96,488,206	96,488,206
Investment return:			
Investment income	-	366,040	366,040
Net appreciation (realized and unrealized)	-	<u>32,564,802</u>	<u>32,564,802</u>
Total investment return	-	32,930,842	32,930,842
Contributions	-	10,860,668	10,860,668
Appropriation of endowment assets for expenditure	-	<u>(3,611,491)</u>	<u>(3,611,491)</u>
June 30, 2021	<u>\$ -</u>	<u>\$136,668,225</u>	<u>\$136,668,225</u>

Underwater Endowments

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the Foundation is required to retain in a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of net assets with donor restrictions contributions and/or continued appropriation for fees and expenditures. At June 30, 2021, deficiencies of this nature existed in 3 donor-restricted endowment funds, which together have an original gift value of \$2,739,953, a current fair value of \$2,375,583, and a deficiency of \$364,370. At June 30, 2020, deficiencies of this nature existed in 168 donor-restricted endowment funds, which together have an original gift value of \$35,226,728, a current fair value of \$32,957,557, and a deficiency of \$2,269,171.

Return objectives and risk parameters

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

Strategies employed for achieving objectives

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

Spending policy and how the investment objectives relate to spending policy

The Foundation has a policy of budgeting for expenditure each year a percentage of its endowment funds' average fair value over the prior twelve quarters through the fiscal year-end one year preceding the fiscal year in which the expenditure is planned. For fiscal years 2021 and 2020, this percentage was 4.00%. In establishing this policy, the Foundation considered the long-term expected return on its endowment funds. Accordingly, over the long term, the Foundation expects the current spending policy to allow for endowment growth. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The Foundation has a policy that permits spending underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. The Board of Directors appropriated for expenditures \$64,250 and \$69,038 from underwater endowment funds during the years ended June 30, 2021 and 2020, respectively, which represents 3% of the 12 quarter moving average, not the 4% it generally draws from its endowment.

8. Related Party Transactions

The Foundation provided direct support to the University for general departmental expenditures, scholarships, and awards which totaled \$32,156,407 and \$25,959,130 for the years ended June 30, 2021 and 2020, respectively. The Foundation had accounts payable to the University in the amount of \$3,717,694 and \$5,083,330 as of June 30, 2021 and 2020, respectively.

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

Interfund advance

The Foundation has agreed to advance up to \$10,976,899 to a Foundation fund as an interfund advance benefiting the athletic department of the University at a 4.00% annual interest rate for the purpose of providing financial support to allow the athletic department to undertake construction of a football practice facility in advance of receiving payment of donor funding commitments. The advance is to be repaid in full not later than June 30, 2025, and is secured by certain future collections of receivables and other collections related to certain Foundation funds benefitting the athletic department. Interfund advances totaling \$7,600,907 and \$8,067,510 were outstanding as of June 30, 2021 and 2020, 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 \$282,463 and \$216,819 for the years ended June 30, 2021 and 2020, respectively.

9. Concentrations of Risk

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

Approximately 57% and 28% of the Foundation's contributions receivable balance at June 30, 2021 and 2020 was due from four and one donors, respectively.



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 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, 2021, and the related statements of activities, and cash flows and the related notes to the financial statements for the year then ended, and have issued our report thereon dated December 6, 2021.

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") to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

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

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



Compliance and Other Matters

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

There were no prior year findings reported.

We noted certain other matters that we have reported to management of the Foundation in a separate letter dated December 6, 2021.

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.

Dixon Hughes Goodman LLP

Memphis, Tennessee
December 6, 2021