

THE HERFF TRUST



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

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.

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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.¹

Memphis, Tennessee
November 15, 2024

¹ 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

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

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

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

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.

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Notes to Financial Statements
June 30, 2024

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.

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Notes to Financial Statements (Continued)
June 30, 2024

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.

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Notes to Financial Statements (Continued)
June 30, 2024

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			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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.

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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.¹

Memphis, Tennessee
November 15, 2024

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