



FINANCIAL AND COMPLIANCE AUDIT REPORT

The University of Memphis

For the Year Ended June 30, 2024

Jason E. Mumpower
Comptroller of the Treasury



DIVISION OF STATE AUDIT

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JASON E. MUMPOWER
Comptroller

February 25, 2025

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

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the University of Memphis, an institution of the State University and Community College System of Tennessee, for the year ended June 30, 2024. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

Consideration of the internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

A handwritten signature in blue ink that reads 'Katherine J. Stickel'.

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

24/106

Audit Report
The University of Memphis
For the Year Ended June 30, 2024

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THE UNIVERSITY OF MEMPHIS

AUDIT HIGHLIGHTS

The University of Memphis's Mission

Produce well-rounded, successful graduates and cutting-edge research for the enrichment of our ever-changing society.

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

The audit report contains no findings.

Prior Audit Finding

A finding from the prior audit concerning student financial aid was resolved and was not repeated.



JASON E. MUMPOWER
Comptroller

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the University of Memphis, an institution of the State University and Community College System of Tennessee, which is a component unit of the State of Tennessee, and its discretely presented component units as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Memphis, and its discretely presented component units as of June 30, 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.

We did not audit the financial statements of the University of Memphis Foundation, the University of Memphis Research Foundation and the Auxiliary Services Foundation, discretely presented component units; and the Herbert Herff Trust, a blended component unit which represents 2.61%, 3.32%, and 0.53%, respectively, of the assets, net position, and revenues of the university as of June 30, 2024, and the respective changes in financial position and cash flows thereof for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinions, insofar as it relates to the amounts included for the university and its discretely presented component units, are based solely on the report of the other auditors.

Basis of Opinions

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

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's 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 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 do the following:

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

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

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

Emphasis of Matters

As discussed in Note 1, the financial statements of the University of Memphis, an institution of the State University and Community College System of Tennessee, are intended to present the financial position, the changes in financial position, and the cash flows of only the University of Memphis. They do not purport to, and do not, present fairly the financial position of the State University and Community College System of Tennessee as of June 30, 2024, and the changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the university implemented Governmental Accounting Standards Board Statement 100, *Accounting Changes and Error Corrections*, during the year ended June 30, 2024. Our opinion is not modified with respect to this matter.

As discussed in Note 25, the financial statements of the University of Memphis Foundation, a discretely presented component unit of the University of Memphis, include investments valued at \$29,013,360 at June 30, 2024 (11.8% of net position of the foundation), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

Other Matters

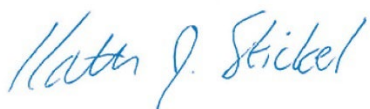
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 17; the schedule of the University of Memphis's proportionate share of the net pension liability (asset) – Closed State and Higher Education

Employee Pension Plan within TCRS on page 85; the schedule of the University of Memphis's proportionate share of the net pension asset – State and Higher Education Employee Retirement Plan within TCRS on page 86; the schedule of the University of Memphis's contributions – Closed State and Higher Education Employee Pension Plan within TCRS on page 87; the schedule of the University of Memphis's Contributions – State and Higher Education Employee Retirement Plan within TCRS on page 88; the schedule of the University of Memphis's proportionate share of the collective total/net OPEB liability – Closed State Employee Group OPEB Plan on page 89; the schedule of the University of Memphis's contributions – Closed State Employee Group OPEB Plan on page 90; and the schedule of the University of Memphis's proportionate share of the collective total OPEB liability – Closed Tennessee OPEB Plan on page 91 be presented to supplement the basic financial statements. Such information is the responsibility of management, and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2024, on our consideration of the university's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the university's internal control over financial reporting and compliance.



Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
December 12, 2024

THE UNIVERSITY OF MEMPHIS

Management's Discussion and Analysis

Introduction

This section of the University of Memphis's annual financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2024, with comparative information presented for the fiscal year ended June 30, 2023. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and notes. The financial statements, notes, and this discussion are the responsibility of management.

The university has a blended component unit, the Herff Trust (trust). The university also has three discretely presented component units, the University of Memphis Foundation (UMF), the Auxiliary Services Foundation (ASF), and the University of Memphis Research Foundation (UMRF). More detailed information about all component units is presented in notes 24, 25, 26, and 27 to the financial statements. This discussion and analysis focuses on the university and trust and does not include the foundations.

Overview of the Financial Statements

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

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

The Statement of Net Position

The statement of net position is a point-in-time financial statement. The statement of net position presents the financial position of the university at the end of the fiscal year. To aid the reader in determining the university's ability to meet immediate and future obligations, the statement includes all assets, liabilities, deferred outflows/inflows of resources, and net position of the university and segregates the assets and liabilities into current and noncurrent components. Current assets are those

that are available to satisfy current liabilities, inclusive of assets that will be converted to cash within one year. Current liabilities are those that will be paid within one year. The statement of net position is prepared under the accrual basis of accounting; assets and liabilities are recognized when goods or services are provided or received, despite when cash is actually exchanged.

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

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

The following table summarizes the university's assets, liabilities, deferred outflows/inflows of resources, and net position at June 30, 2024, and June 30, 2023.

Summary of Net Position

(in thousands of dollars)

	<u>2024</u>	<u>2023</u>
Assets:		
Current assets	\$ 87,683	\$ 61,285
Capital assets, net	716,645	688,124
Other assets	386,380	372,809
Total Assets	1,190,708	1,122,218
Deferred Outflows of Resources		
Deferred amount on debt refunding	4,070	4,769
Deferred outflows related to OPEB	5,955	5,720
Deferred outflows related to pensions	25,167	27,633
Total Deferred Outflows of Resources	35,192	38,122
Liabilities:		
Current liabilities	78,075	76,514
Noncurrent liabilities	204,009	224,234
Total Liabilities	282,084	300,748
Deferred Inflows of Resources		
Deferred amount on debt refunding	33	39
Deferred inflows related to OPEB	9,568	6,751
Deferred inflows related to pensions	780	2,268
Deferred inflows related to leases	1,207	1,473
Total Deferred Inflows of Resources	11,588	10,531
Net Position:		
Net investment in capital assets	539,741	502,631
Restricted - nonexpendable	54,088	54,678
Restricted - expendable	68,309	43,719
Unrestricted	270,090	248,033
Total Net Position	\$ 932,228	\$ 849,061

- Current assets increased significantly due to several factors. One factor was a large increase in prepaid expenses. The Leftwich Tennis Center lease was finalized and a prepayment of \$7,500,000 was made. After the current-year portion of the lease, there is a remaining lease

prepayment of \$7,200,000. Another increase was in current assets related to amounts due from the primary government, increasing by approximately \$3,800,000. This increase was primarily due to additional insurance grants in fiscal year 2024 for prior years' storm damage and delays in state appropriation payments. Current assets also increased due to an approximate \$2,945,000 increase in amounts due from component units. This was due to larger amounts of gifts and transfers due from the University of Memphis Foundation (UMF) toward the Athletics program along with other amounts due in support of university operations. Another factor in the increase was a rise in Athletics receivables of approximately \$1,500,000 due to the timing of the Learfield Multimedia Rights Share payment. Payment in the prior year was received prior to year-end, but the fiscal year 2024 payment was received after year-end. Additionally, grants receivables are up \$2,400,000, primarily due to an increase in the federal grants as discussed in the Operating Revenues section of this report.

- Capital assets, net of accumulated depreciation, increased approximately \$28,000,000. This increase was primarily due to approximately \$23,000,000 in additional building costs for the new Edwards Research and Innovation Center. Other capital costs were incurred for other projects including Campus School improvements.
- Other noncurrent assets increased approximately \$13,600,000 due to increases in noncurrent cash and cash equivalents and investments. These increases were primarily due to increased earnings which were reinvested. These earnings increases were reflective of favorable movements in the interest-rate environment and equity markets for both the university and the trust.
- Deferred outflows of resources related to pensions decreased, primarily due to the impact of changes in assumptions that occurred in the prior year. Such changes did not occur in the current-year actuarial valuation.
- Noncurrent liabilities decreased, primarily due to two reasons. The university had planned debt repayment of approximately \$11,000,000, which decreased the noncurrent liabilities. Additionally, the OPEB and pension plan liabilities decreased from fiscal year 2023 due to favorable investment earnings experience and actuarial valuation experience.
- The net investment in capital assets increased because of the capital assets additions and debt repayments as noted above. Additionally, the additions to capital assets were primarily financed by sources other than debt, such as capital appropriations and internal funds.
- Restricted expendable net assets increased in fiscal year 2024 due to \$20,000,000 received from the State of Tennessee for the development and implementation of a new enterprise resource planning (ERP) system. Other increases were primarily the result of increases in the investment earnings on the Herff assets for university support of approximately \$2,300,000.
- Unrestricted net position increased approximately \$22,000,000 in fiscal year 2024. The increase is a factor of the income before other revenues, expenses, and gains or losses. The

increase further relates to amounts set aside for various strategic initiatives and building repairs, and deferred maintenance for academic and auxiliary facilities.

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

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

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

A summary of the university's revenues, expenses, and changes in net position for the years ended June 30, 2024, and June 30, 2023, follows.

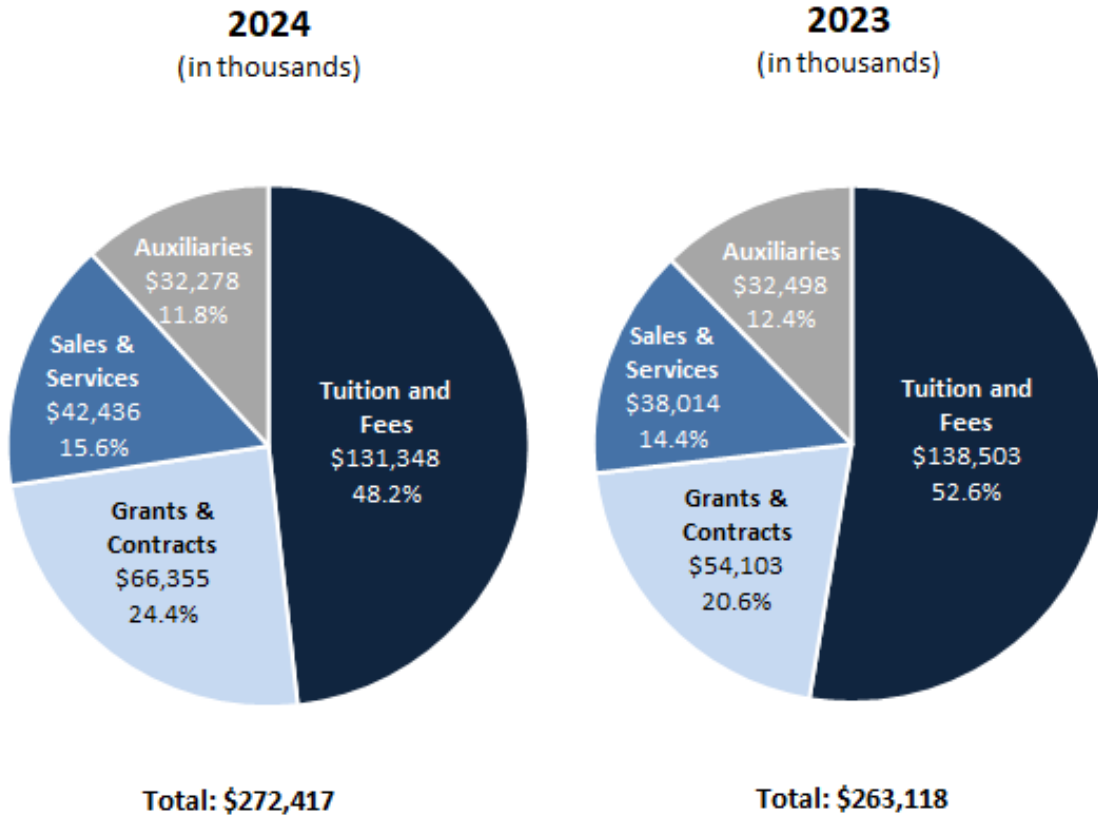
Summary of Revenues, Expenses, and Changes in Net Position

(in thousands of dollars)

	<u>2024</u>	<u>2023</u>
Operating revenues	\$ 272,417	\$ 263,118
Operating expenses	547,236	518,650
Operating loss	(274,819)	(255,532)
Nonoperating revenues and expenses	305,368	287,885
Income before other revenues, expenses, gains, or losses	30,549	32,353
Other revenues, expenses, gains, or losses	52,618	84,483
Increase in net position	83,167	116,836
Net position at beginning of year	849,061	732,225
Net position at end of year	\$ 932,228	\$ 849,061

Operating Revenues

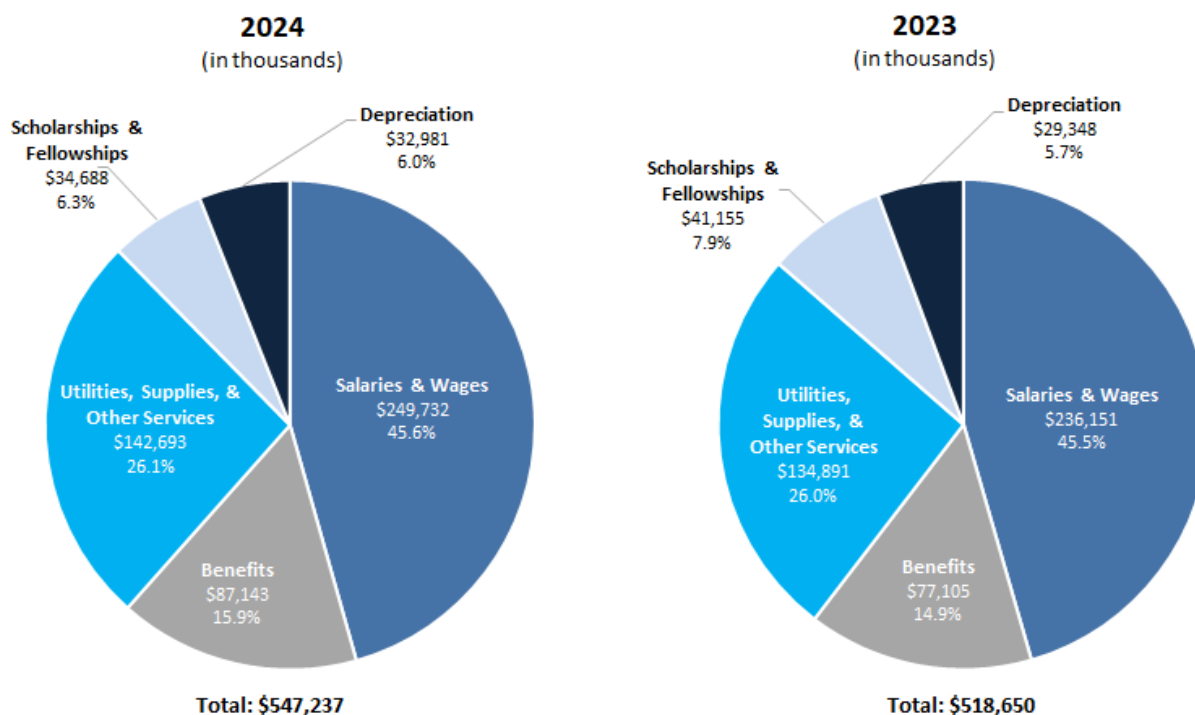
The following summarizes the operating revenues by source that were used to fund operating activities for the last two fiscal years:



- Student tuition and fees decreased approximately \$7,100,000 in fiscal year 2024. This decrease was primarily the result of a decline in the number of enrolled students and fewer credit hours in fiscal year 2024.
- Grants and contracts revenue increased approximately \$12,000,000 in fiscal year 2024. This additional revenue was due to additional federal grants from the Center for Disease Control and Prevention, U.S. Department of Health and Human Services, and the Economic Development Administration.
- Revenues from sales and services increased approximately \$4,000,000 in fiscal year 2024. The increase was primarily due to increases in Athletics revenues. These increases were the result of a combination of factors: American Athletic Conference revenues increased by approximately \$1,500,000; ticket sales increased approximately \$700,000, primarily due to being able to retain most of the football bowl game ticket proceeds; sponsorship revenues increased by approximately \$600,000 due to increased revenue sharing from our multimedia rights partner; and a football game guarantee payment of \$650,000 was made to the university for playing a football road game at Missouri.

Operating Expenses

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



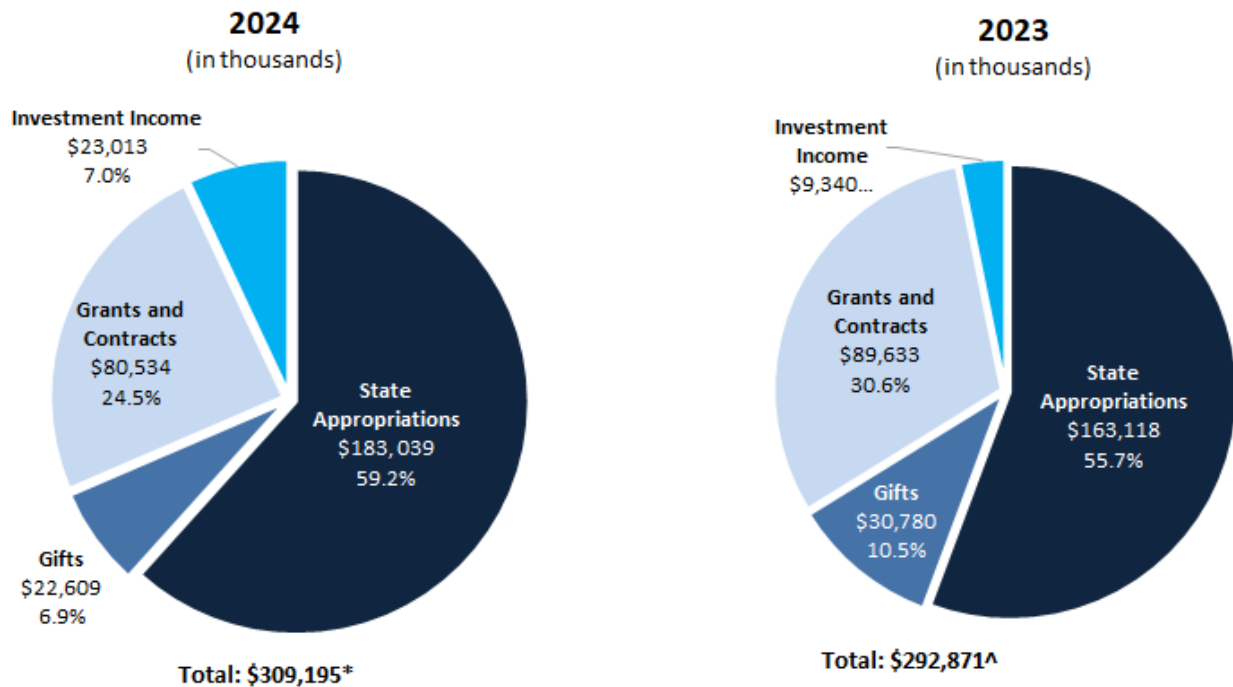
- Salaries and wages expenses increased approximately \$13,000,000 in fiscal year 2024. This was primarily the result of an across-the-board 3% increase in compensation and to a lesser extent, limited bonuses and other compensation increases.
- Benefits expenses increased approximately \$10,000,000, primarily due to increases in the state retirement expense. State retirement expense increased due to a swing in the pension expense based on actuarial studies. Benefits also increased due to a rise in insurance premiums for basic life, dental, and long-term disability benefits.
- Utilities, supplies, and other services expenses increased approximately \$7,800,000, which was a 5.8% increase. The increase was due to several factors. One factor was the first full year of the new textbook rental program, which increased both revenues and related expenses by approximately \$2,500,000. Additional smaller increases were due to increases in property insurance costs, noncapitalized software expenses, and the amounts for Athletic Department contracts.
- Scholarships and fellowships expenses decreased by approximately \$6,500,000, partially due to the HEERF student emergency grants ending in fiscal year 2023 and, therefore,

not being available for fiscal year 2024. Additionally, tuition assistance benefits provided under a prior-year Reduction in Force Plan expired at the beginning of fiscal year 2024.

- Depreciation increased, primarily due to the increase in depreciation charged on leased assets and SBITA assets. Such changes due to GASB 87 and 96 continue to increase capitalized assets and related depreciation expense. This was the second year for the capitalization of SBITA assets due to GASB 96.

Nonoperating Revenues and Expenses

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



*FY24: Excludes nonoperating expense of \$4,932.

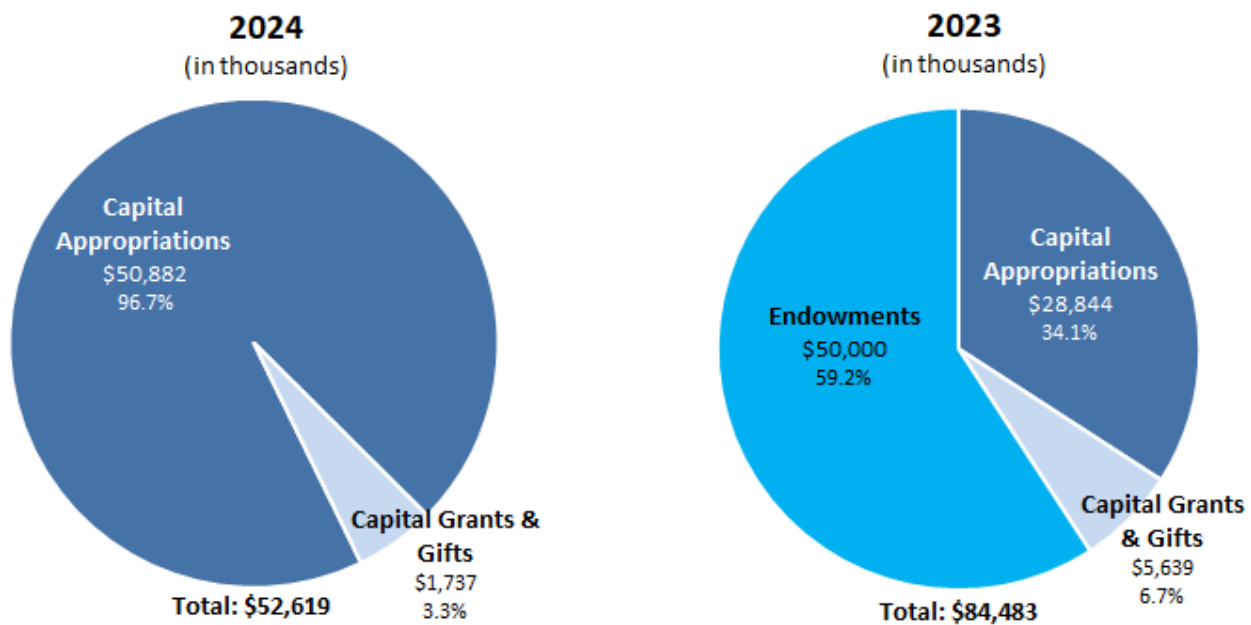
^FY23: Excludes nonoperating expense of \$4,986.

- State appropriations increased for the following reasons: The State of Tennessee provided approximately \$5,500,000 for one-time security system enhancements. Additionally, approximately \$9,900,000 was provided for a 3% salary increase and additional health benefits. The State of Tennessee also made payments of approximately \$5,000,000 for additional outcome funding and approximately \$1,000,000 for a funding formula adjustment.

- The decrease in gifts of approximately \$8,000,000 was largely because of lower gifts in kind from the Auxiliary Services Foundation as certain larger projects such as the Leftwich Tennis Center project and Hooks Center had been completed.
- Grants and contracts decreased, primarily due to HEERF COVID Relief funding ending in fiscal year 2023.
- Investment income increased by approximately \$13,600,000. This is attributable to the increases in interest income due to the favorable interest-rate environment and increases in the equity market for trust assets. A full year of investment of a fiscal year 2023 \$50,000,000 state-appropriated research grant also contributed to the increase.

Other Revenues

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



- Capital appropriations increased from the prior year, primarily due to increased funding for the new Edwards Research and Innovation Center and various building repair projects, and the state provided \$20,000,000 for the development and implementation of a new ERP system.
- Additions to permanent endowments decreased significantly in fiscal year 2024. This decrease was expected as fiscal year 2023 included a one-time \$50,000,000 state appropriation to fund an endowment for research.

- Capital grants and gifts for fiscal year 2024 were approximately \$1,700,000, which is less than capital grants and gifts for fiscal year 2023 of approximately \$5,600,000. This decrease was expected as fiscal year 2023 contained significant revenues for the Natatorium and other Athletics projects as well as revenues for the Edwards Research and Innovation Center.

Capital Assets and Debt Administration

Capital Assets

The University of Memphis had \$716.65 million invested in capital assets, net of accumulated depreciation of \$400.79 million, at June 30, 2024; and \$688.12 million invested in capital assets, net of accumulated depreciation of \$370.77 million, at June 30, 2023. Depreciation charges totaled \$32.98 million and \$29.34 million for the years ended June 30, 2024, and June 30, 2023, respectively.

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

	<u>2024</u>	<u>2023</u>
Land	\$ 19,060	\$ 19,060
Land improvements and infrastructure	124,439	115,827
Buildings	517,880	486,371
Equipment	16,930	15,375
Library holdings	3,008	3,247
Art and historical collections	296	2,166
Projects in progress	22,915	34,241
Intangible assets:		
Easement	1,200	1,200
Right-to-use - buildings	1,494	4,899
Right-to-use - equipment	1,625	-
SBITAs	7,798	5,738
Total	\$ 716,645	\$ 688,124

Significant additions to capital assets occurred in fiscal year 2024. These additions were primarily from additional building costs for the Edwards Research and Innovation Center.

At June 30, 2024, outstanding commitments under construction contracts totaled \$33 million for the Edwards Research and Innovation Center and various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund \$18 million of these costs.

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

Debt

The university had \$168.38 million and \$178.68 million in debt outstanding at June 30, 2024, and June 30, 2023, respectively. The table below summarizes these amounts by type of debt instrument.

Schedule of Outstanding Debt (in thousands of dollars)

	<u>2024</u>	<u>2023</u>
TSSBA Bonds	\$ 168,037	\$ 178,187
GO Commercial Paper	347	502
Total	\$ 168,384	\$ 178,689

The TSSBA issued bonds with interest rates ranging from 0.339% to 5% due through 2050 on behalf of the University of Memphis. The university is responsible for the debt service of these bonds. The current portion of the \$168.04 million outstanding at June 30, 2024, is \$9.62 million.

The Tennessee State Funding Board issued general obligation commercial paper with variable interest rates on behalf of the University of Memphis. The university is responsible for the debt service of these bonds. The outstanding amount at June 30, 2023, is \$0.347 million.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2024, were as follows:

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

More information about the university's long-term liabilities is presented in Note 10 to the financial statements.

Economic Factors That Will Affect the Future

For fiscal year 2025, the Governor has approved a budget for state appropriations, which includes a total increase of \$10 million for the following (operating increases \$3,844,600, 3% salary pool \$4,525,500, and insurance increases \$1,636,800). We are also receiving \$3.3 million for capital maintenance, and another \$5.4 million in safety and security funding.

Fall 2024 saw university-wide enrollments at census date down about 6%. This drop is attributable to the university's increased admission standards for undergraduate students as well as an ongoing trend of declining undergraduate and graduate traditional (onground) enrollments of Tennessee resident students. The areas of enrollment growth this fall are UofM Global (online), dual enrollments, and undergraduate international students. These trends are reflective of national enrollments driven by the impacts of an overall decline in college-going rates.

ERP System

The university began its process to transition its Enterprise Resource Planning system to Oracle for Finance and Human Resource Management. The process began in fiscal year 2024 and the process will continue through fiscal year 2025. Implementation of the new system is expected in July 2025. Funding for the project was received in fiscal year 2024.

Simmons Bank Liberty Stadium

Effective October 30, 2024, the City of Memphis and the Auxiliary Services Foundation (ASF), a component unit of the University of Memphis, entered into an agreement providing for the transfer of ownership of the Simmons Bank Liberty Stadium (Stadium) from the City of Memphis to ASF. In connection with the transfer, the City of Memphis has begun a significant stadium renovation project, which will be completed by ASF. The project is expected to be completed by the fall of 2026.

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

University of Memphis P3 Project

On August 12, 2024, the university entered into a P3 arrangement for the development and construction of a 542-bed student housing development on its Park Avenue Campus. Madrone Memphis Student Housing I, LLC (Madrone) will serve as the owner of the student housing development. As a part of this project, the university is leasing land to Madrone from 2024 through 2056. Rent will be paid from surplus cash flow, and if there is no cash flow, the rent will be zero. The university will assume ownership of the development after the lease term. The cost of the development is expected to be approximately \$58,000,000. The Health, Educational and Housing Facility Board of the County of Shelby, Tennessee and the underwriter will issue Student Housing Revenue Bonds to fund the cost of the project. The university will not be responsible for the debt. The university will operate the student housing facility, and its rent proceeds will be forwarded to a trust. The trust will facilitate required payments to bondholders. The developer and general contractor expect to have the project completed in time to house students in August 2026.

UNIVERSITY OF MEMPHIS
Statement of Net Position
June 30, 2024

	University	University of Foundation	University of Memphis Research Foundation	Auxiliary Services Foundation
Assets				
Current assets:				
Cash and cash equivalents (Notes 2, 25, 26, and 27)	\$ 17,427,803.57	\$ 17,215,894.00	\$ 2,015,935.00	\$ 6,750,957.00
Accounts, notes, and grants receivable (net) (Note 5)	28,384,417.11	-	587,299.00	155.00
Due from State of Tennessee	10,719,995.55	-	-	-
Due from component unit (Note 25)	16,941,123.00	-	-	-
Lease receivable from component unit (Note 26)	194,619.00	-	-	-
Due from affiliates (Notes 25 and 27)	-	500,000.00	-	2,010,283.00
Pledges receivable (net) (Note 25)	-	16,951,321.00	-	-
Inventories	539,832.65	-	-	-
Prepaid expenses	11,908,973.74	-	17,671.00	-
Accrued interest receivable	1,565,897.41	-	-	-
Total current assets	87,682,662.03	34,667,215.00	2,620,905.00	8,761,395.00
Noncurrent assets:				
Cash and cash equivalents (Note 2)	123,900,530.42	-	-	-
Investments (Notes 3, 4, 25, 26, and 27)	256,124,265.43	212,726,233.00	2,105,577.00	474,064.00
Investment in Tennessee Retiree Group Trust	4,817,403.58	-	-	-
Accounts, notes, and grants receivable (net) (Note 5)	351,164.50	-	85,727.00	-
Lease receivable from component unit (Note 26)	1,011,979.00	-	-	-
Pledges receivable (net) (Note 25)	-	16,705,632.00	-	-
Capital assets (net) (Notes 6, 26, and 27)	716,644,742.56	27,204.00	1,958,115.00	3,647,147.00
Net pension asset (Note 13)	172,655.00	-	-	-
Other assets	2,500.00	171,560.00	-	402,147.00
Total noncurrent assets	1,103,025,240.49	229,630,629.00	4,149,419.00	4,523,358.00
Total assets	1,190,707,902.52	264,297,844.00	6,770,324.00	13,284,753.00
Deferred outflows of resources				
Deferred amount on debt refunding	4,069,530.80	-	-	-
Deferred outflows related to pensions (Note 13)	25,167,297.00	-	-	-
Deferred outflows related to OPEB (Note 15)	5,954,832.84	-	-	-
Total deferred outflows of resources	35,191,660.64	-	-	-
Liabilities				
Current liabilities:				
Accounts payable (Note 9)	7,353,509.74	287,529.00	24,414.00	82,918.00
Accrued liabilities	17,924,236.28	105,593.00	260,483.00	-
Due to State of Tennessee	4,119,005.56	-	-	-
Due to UOM (Notes 25 and 26)	-	16,624,545.00	316,578.00	-
Due to affiliates (Notes 25 and 26)	-	2,010,283.00	500,000.00	-
Student deposits	599,913.79	-	-	-
Lease liability (Note 7)	3,153,223.81	-	-	-
Lease liability to the University of Memphis (Note 26)	-	-	194,619.00	-
SBITA liability (Note 8)	3,187,373.47	-	-	-
Unearned revenue	26,617,191.98	-	324,117.00	-
Compensated absences (Note 10)	3,378,973.49	-	-	-
Accrued interest payable	1,127,674.95	-	-	27,852.00
Long-term liabilities, current portion (Notes 10, 26, and 27)	9,620,845.48	-	21,034.00	1,857,147.00
Deposits held in custody for others	980,426.50	-	-	-
Other liabilities	12,150.00	-	128,982.00	-
Total current liabilities	78,074,525.05	19,027,950.00	1,770,227.00	1,967,917.00
Noncurrent liabilities:				
Lease liability (Note 7)	1,696,578.78	-	-	-
Lease liability to the University of Memphis (Note 26)	-	-	1,011,979.00	-
SBITA liability (Note 8)	3,638,090.31	-	-	-
Due to grantors (Note 10)	347,435.46	-	-	-
Compensated absences (Note 10)	11,376,063.41	-	-	-
Long-term liabilities (Notes 10 and 27)	158,763,354.93	-	-	4,944,641.00
Net pension liability (Note 13)	19,917,287.00	-	-	-
Net OPEB liability (Note 15)	8,045,339.32	-	-	-
Other liabilities	225,000.00	-	120,578.00	-
Total noncurrent liabilities	204,009,149.21	-	1,132,557.00	4,944,641.00
Total liabilities	282,083,674.26	19,027,950.00	2,902,784.00	6,912,558.00
Deferred inflows of resources				
Deferred inflows related to leases (Note 7 and 25)	1,206,598.00	-	148,177.00	-
Deferred amount on debt refunding	32,525.00	-	-	-
Deferred inflows related to pensions (Note 13)	780,336.00	-	-	-
Deferred inflows related to OPEB (Note 15)	9,568,020.51	-	-	-
Total deferred inflows of resources	11,587,479.51	-	148,177.00	-
Net position				
Net investment in capital assets	539,741,568.22	27,204.00	730,483.00	3,647,147.00
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	1,437,865.80	54,802,203.00	-	-
Research	50,000,000.00	6,839,437.00	-	-
Instructional department uses	-	31,796,860.00	-	-
Loans	2,590,404.95	-	-	-
Other	60,000.00	30,939,113.00	-	-
Expendable:				
Scholarships and fellowships	849,741.75	28,486,152.00	-	-
Research	3,697,512.84	6,468,393.00	285,088.00	-
Instructional department uses	1,127,020.03	34,562,129.00	-	-
Loans	2,391,977.38	-	-	-
Capital projects	17,156,499.94	2,629,007.00	-	213,631.00
Pension	172,655.00	-	-	-
Herff assets for university support	30,929,939.00	-	-	-
Other	11,983,416.98	41,150,298.00	-	-
Unrestricted	270,089,807.50	7,569,098.00	2,703,792.00	2,511,417.00
Total net position	\$ 932,228,409.39	\$ 245,269,894.00	\$ 3,719,363.00	\$ 6,372,195.00

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

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

	University	University of Memphis Foundation	University of Memphis Research Foundation	Auxiliary Services Foundation
Revenues				
Operating revenues:				
Student tuition and fees (Note 16)	\$ 131,348,047.01	\$ -	\$ -	\$ -
Gifts and contributions	-	23,716,191.00	45,350.00	-
Contributions from affiliates	-	-	-	4,096,000.00
Governmental grants and contracts	60,679,744.24	-	-	-
Nongovernmental grants and contracts	5,675,045.23	-	7,077,514.00	-
Sales and services of educational activities (Note 16)	4,154,964.66	-	-	-
Sales and services of other activities (Note 16)	38,280,973.63	5,364,108.00	100,755.00	-
Auxiliary enterprises:				
Residential life (Note 16)	9,196,407.24	-	-	-
Bookstore	8,068,100.71	-	-	-
Food service	9,369,684.74	-	-	-
Other auxiliaries (Note 16)	5,577,296.01	-	-	-
Interest earned on loans to students (Note 16)	66,367.25	-	-	-
Total operating revenues	272,416,630.72	29,080,299.00	7,223,619.00	4,096,000.00
Expenses				
Operating expenses (Notes 21, 25, and 27):				
Salaries and wages	249,731,684.48	524,497.00	3,582,641.00	-
Benefits	87,142,895.48	161,217.00	335,344.00	-
Utilities, supplies, and other services	142,692,528.17	569,452.00	477,406.00	158,673.00
Scholarships and fellowships	34,688,108.98	9,474,116.00	-	-
Depreciation expense	32,981,250.36	2,644.00	416,813.00	-
Payments to or on behalf of UOM	-	12,360,704.00	2,165,801.00	2,600,537.00
Total operating expenses	547,236,467.47	23,092,630.00	6,978,005.00	2,759,210.00
Operating income (loss)	(274,819,836.75)	5,987,669.00	245,614.00	1,336,790.00
Nonoperating revenues (expenses)				
State appropriations	183,039,417.00	-	-	-
Gifts	22,608,834.11	-	-	-
Grants and contracts	80,533,984.52	-	-	-
Investment income (expense)	23,013,296.22	26,589,606.00	94,183.00	77,775.00
Interest on capital asset-related debt	(4,932,195.00)	-	-	-
University support	-	239,775.00	-	-
Other nonoperating revenues (expenses)	1,104,874.98	-	(235,396.00)	-
Total nonoperating revenues (expenses)	305,368,211.83	26,829,381.00	(141,213.00)	77,775.00
Income before other revenues, expenses, gains, or losses	30,548,375.08	32,817,050.00	104,401.00	1,414,565.00
Capital appropriations	50,881,942.10	-	-	-
Capital grants and gifts	1,736,527.47	-	-	-
Additions to permanent endowments	-	5,389,023.00	-	-
Total other revenues	52,618,469.57	5,389,023.00	-	-
Increase in net position	83,166,844.65	38,206,073.00	104,401.00	1,414,565.00
Net position - beginning of year	849,061,564.74	207,063,821.00	3,614,962.00	4,957,630.00
Net position - end of year	\$ 932,228,409.39	\$ 245,269,894.00	\$ 3,719,363.00	\$ 6,372,195.00

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

UNIVERSITY OF MEMPHIS
Statement of Cash Flows
For the Year Ended June 30, 2024

Cash flows from operating activities

Tuition and fees	\$ 129,045,475.47
Grants and contracts	60,089,903.47
Sales and services of educational activities	4,104,758.69
Sales and services of other activities	36,530,581.47
Payments to suppliers and vendors	(154,827,897.89)
Payments to employees	(249,441,945.40)
Payments for benefits	(85,856,681.59)
Payments for scholarships and fellowships	(34,688,108.98)
Collection of loans from students	176,300.58
Interest earned on loans to students	75,209.70
Funds received for deposits held for others	417,304.85
Funds disbursed for deposits held for others	(241,045.44)
Auxiliary enterprise charges:	
Residential life	9,354,569.59
Bookstore	8,068,100.71
Food services	9,369,684.74
Other auxiliaries	6,040,638.43
Other receipts (payments)	(207,975.47)
Net cash used for operating activities	(261,991,127.07)

Cash flows from noncapital financing activities

State appropriations	177,438,300.00
Gifts and grants received for other than capital or endowment purposes	101,498,837.11
Federal student loan receipts	83,434,802.00
Federal student loan disbursements	(83,434,802.00)
Net cash provided by noncapital financing activities	278,937,137.11

Cash flows from capital and related financing activities

Capital appropriations	20,000,000.00
Capital grants and gifts received, including	164,215.74
Purchase of capital assets and construction	(21,710,054.66)
Principal paid on capital debt and leases	(16,626,942.78)
Interest paid on capital debt and leases	(5,764,171.54)
Other capital and related financing receipts (payments)	1,864,663.02
Net cash used for capital and related financing activities	(22,072,290.22)

Cash flows from investing activities

Proceeds from sales and maturities of investments	103,930,848.45
Income on investments	24,892,934.09
Purchase of investments	(113,390,579.63)
Other investing receipts (payments)	1,437,828.95
Net cash provided by investing activities	16,871,031.86

Net increase in cash and cash equivalents	11,744,751.68
Cash and cash equivalents - beginning of year	129,583,582.31
Cash and cash equivalents - end of year	\$ 141,328,333.99

UNIVERSITY OF MEMPHIS
Statement of Cash Flows (continued)
For the Year Ended June 30, 2024

Reconciliation of operating loss to net cash used for operating activities:

Operating loss	\$ (274,819,836.75)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Noncash operating expenses	45,016,944.93
Change in assets, liabilities, and deferrals:	
Receivables, net	(8,339,926.84)
Inventories	57,543.80
Prepaid items	(11,142,809.35)
Net pension asset	459,493.00
Deferred outflows of resources	(4,203,621.98)
Accounts payable	(1,503,866.45)
Accrued liabilities	450,327.69
Unearned revenue	(1,323,123.22)
Deposits	36,302.14
Compensated absences	641,501.42
Net pension liability	(2,409,081.00)
Net OPEB liability	(6,208,485.95)
Deferred inflows of resources	1,329,227.55
Due to grantors	(207,975.47)
Other	176,259.41
Net cash used for operating activities	\$ (261,991,127.07)

Noncash investing, capital, or financing transactions

Gifts in-kind - capital	\$ 1,572,311.73
Unrealized gains on investments	\$ 7,778,018.57
Loss on disposal of capital assets	\$ (1,937,027.57)
Capital appropriations	\$ 29,137,336.36
Purchase of capital assets and construction	\$ (29,137,336.36)
Acquisition of right-to-use assets through incurrence of lease liability	\$ 2,051,806.03
Acquisition of right-to-use assets through incurrence of SBITA liability	\$ 6,060,273.77

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

THE UNIVERSITY OF MEMPHIS

Notes to the Financial Statements

June 30, 2024

Note 1. Summary of Significant Accounting Policies

Reporting Entity

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

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

The Herbert Herff Trust (the trust) is considered a component unit of the university. The trust provides resources exclusively for the benefit of the university and is presented as a component unit using the blending method. The University of Memphis Foundation (the foundation), the University of Memphis Research Foundation (UMRF), and the Auxiliary Services Foundation (ASF) are also considered component units of the university. Although the university does not control the timing or amount of receipts from these organizations, the majority of resources, or income thereon, that these organizations holds and invests are restricted to the activities of the university by its donors. Because these restricted resources held by the foundations and the resources of the UMRF and ASF can only be used by, or for the benefit of, the university, these organizations are considered component units of the university and are discretely presented in the university's financial statements. See Notes 24, 25, 26, and 27 for more detailed information about the component units and how to obtain the reports.

Basis of Presentation

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

Notes to the Financial Statements (Continued)

Basis of Accounting

In June 2022, the GASB issued Statement 100, *Accounting Changes and Error Corrections*. This statement addresses changes in accounting principles, changes in accounting estimates, changes in the reporting entity, and error corrections. The university implemented this standard as of July 1, 2023.

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

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

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

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

Cash Equivalents

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

Inventories

Inventories are valued on an average cost basis.

Notes to the Financial Statements (Continued)

Compensated Absences

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

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

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, works of art, historical treasures/collections, intangible assets, lease assets, and Subscription-based Information Technology Arrangements (SBITA) assets, are reported in the statement of net position at historical cost or at acquisition value at date of donation or the present value of lease or SBITA payments plus other associated lease or SBITA costs less accumulated depreciation/amortization. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

A capitalization threshold of \$100,000 is used for buildings, and \$50,000 is used for infrastructure. Equipment is capitalized when the acquisition cost is \$5,000 or greater. The capitalization threshold for additions and improvements to buildings and land is set at \$50,000. The capitalization threshold for intangible assets is set at \$100,000. The capitalization threshold for art, historical treasures/collections, and similar assets is set at \$5,000. The capitalization threshold for leased assets is set at \$100,000. The capitalization threshold for SBITAs is set at \$60,000.

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

Pensions

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

Notes to the Financial Statements (Continued)

Other Postemployment Benefits

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

Net Position

The university's net position is classified as follows:

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

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

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

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, as well as certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the university and the amount that is paid by the student and/or third parties

Notes to the Financial Statements (Continued)

making payments on the student's behalf. Certain governmental grants, such as Pell grants and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the university's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the university has recorded a scholarship discount and allowance.

Note 2. Cash and Cash Equivalents

In addition to demand deposits and petty cash on hand, this classification includes instruments that are readily convertible to known amounts of cash and that have original maturities of three months or less. At June 30, 2024, cash and cash equivalents consisted of \$38,439,010.35 in bank accounts; \$46,753.17 of petty cash on hand; \$101,297,109.24 in the Local Government Investment Pool (LGIP) administered by the State Treasurer; \$93,275.85 in LGIP deposits for capital projects; and \$1,452,185.38 in investment broker accounts.)

The LGIP is administered by the State Treasurer and is measured at amortized cost. The LGIP is part of the State Pooled Investment Fund. There is no minimum or maximum limitations on withdrawals. The fund's required risk disclosures are presented in the financial statements for the State Pooled Investment Fund. That report is available on the state's website at <https://treasury.tn.gov/Explore-Your-TN-Treasury/About-the-Treasury/Department-Reports>.

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

Note 3. Investments

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

Notes to the Financial Statements (Continued)

Interest Rate Risk

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

At June 30, 2024, the university had the following debt investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 to 5	6 to 10	More than 10
U.S. Treasury	\$ 165,979,265.96	\$ 4,210,607.86	\$ 161,768,658.10	\$ -	\$ -
U.S. agencies	54,168,248.50	14,199,447.92	36,805,121.64	1,648,754.42	1,514,924.52
Certificates of deposit	4,764,014.22	890,744.26	3,873,269.96	-	-
Total debt investments	\$ 224,911,528.68	\$ 19,300,800.04	\$ 202,447,049.70	\$ 1,648,754.42	\$ 1,514,924.52

Credit Risk

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

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

Notes to the Financial Statements (Continued)

throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

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

At June 30, 2024, the university's investments were rated as follows:

Investment Type	Fair Value	Credit Quality Rating	
		AA	Unrated
LGIP (amortized cost)	\$ 101,297,109.24	\$ -	\$ 101,297,109.24
LGIP - Capital Projects (amortized co	93,275.85	-	93,275.85
U.S. Government Agencies	54,168,248.50	54,168,248.50	-
Certificates of Deposit	4,764,014.22	-	4,764,014.22
Total	\$ 160,322,647.81	\$ 54,168,248.50	\$ 106,154,399.31

LGIP investments are not rated by nationally recognized statistical ratings organizations.

Note 4. Fair Value Measurement

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

Notes to the Financial Statements (Continued)

Assets by fair value level	June 30, 2024	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Debt securities:			
U.S. Treasury	\$ 165,979,265.96	\$ 165,979,265.96	\$ -
U.S. agencies	54,168,248.50	-	54,168,248.50
Certificates of Deposit	4,764,014.22	-	4,764,014.22
Total debt securities	224,911,528.68	165,979,265.96	58,932,262.72
Other investments:			
Exchange traded funds	29,146,806.00	29,146,806.00	-
Money market fund	1,764,120.00	1,764,120.00	-
Total other investments	30,910,926.00	30,910,926.00	-
Total assets at fair value	\$ 255,822,454.68	\$ 196,890,191.96	\$ 58,932,262.72

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Assets classified in Level 2 of the fair value hierarchy are valued using significant observable inputs other than Level 1 prices.

Investments valued at fair value as reflected in the above schedule total \$255,822,454.68. Investments as reported on the statement of net position totaled \$256,124,265.43. The difference between these amounts represents certificates of deposit totaling \$301,810.75, which are not included in the above schedule as they are not measured at fair value. The certificates of deposit are time deposits measured at amortized cost.

Note 5. Receivables

Receivables included the following:

Notes to the Financial Statements (Continued)

	June 30, 2024
Student accounts receivable	\$ 8,886,717.47
Grants receivable	15,888,311.50
Federal Direct Loan receivable	3,165,544.00
Notes receivable	368,320.60
Athletics receivable	2,256,946.70
Auxiliary receivable	1,932,382.02
Other receivables	1,026,251.62
Subtotal	33,524,473.91
Less allowance for doubtful accounts	(5,140,056.80)
Total receivables	\$ 28,384,417.11

Federal Perkins Loan Program funds included the following:

	June 30, 2024
Perkins loans receivable	\$ 655,739.13
Less allowance for doubtful accounts	(304,574.63)
Total	\$ 351,164.50

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2024, was as follows:

Notes to the Financial Statements (Continued)

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	\$ 19,060,262.99	\$ -	\$ -	\$ -	\$ 19,060,262.99
Land improvements and infrastructure	204,914,587.42	10,566,131.53	8,385,114.20	-	223,865,833.15
Buildings	715,334,428.62	23,138,482.18	19,182,948.90	-	757,655,859.70
Equipment	49,362,654.76	4,877,262.01	-	2,018,706.09	52,221,210.68
Library holdings	7,927,720.64	502,107.08	-	1,020,848.64	7,408,979.08
Art and historical treasures	2,165,700.00	-	-	1,870,173.00	295,527.00
Projects in progress	34,240,577.53	16,242,824.27	(27,568,063.10)	-	22,915,338.70
Intangible assets					
Easement	1,200,000.00	-	-	-	1,200,000.00
Software	7,818,675.37	-	-	-	7,818,675.37
Right-to-use – buildings	8,543,236.39	-	-	-	8,543,236.39
Right-to-use – equipment	-	2,051,806.03	-	-	2,051,806.03
SBITA asset – software	8,334,802.53	6,060,273.77	-	-	14,395,076.30
Total	1,058,902,646.25	63,438,886.87	-	4,909,727.73	1,117,431,805.39
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	89,087,085.74	10,340,331.72	-	-	99,427,417.46
Buildings	228,963,395.54	10,812,713.93	-	-	239,776,109.47
Equipment	33,987,584.53	3,255,282.09	-	1,951,851.52	35,291,015.10
Library holdings	4,680,710.43	740,897.91	-	1,020,848.64	4,400,759.70
Intangible assets					
Software	7,818,675.37	-	-	-	7,818,675.37
Right-to-use – buildings	3,644,395.87	3,405,419.40	-	-	7,049,815.27
Right-to-use – equipment	-	426,520.48	-	-	426,520.48
SBITA asset – software	2,596,665.15	4,000,084.83	-	-	6,596,749.98
Total	370,778,512.63	32,981,250.36	-	2,972,700.16	400,787,062.83
Capital assets, net	\$ 688,124,133.62	\$ 30,457,636.51	\$ -	\$ 1,937,027.57	\$ 716,644,742.56

Note 7. Leases

Leases Receivable

The university leases office space to the UMRF and its blended component unit, Ventures Inc., the terms of which expire in various years through 2030. Payments increase annually by 3%.

Notes to the Financial Statements (Continued)

Revenue recognized under lease contracts during the year ended June 30, 2024, was \$260,134, which includes both lease revenue and interest.

Lease Liabilities

Lease assets are reported with capital assets, and lease liabilities are reported separately on the statement of net position.

The university leases equipment, classroom space, and a student housing facility, the terms of which expire in various years through 2028.

Lease liability activity for the university for the year ended June 30, 2024, is summarized as follows:

	Beginning			Ending	Current
	Balance	Additions	Reductions	Balance	Portion
Total lease liabilities	\$ 5,944,769.37	\$ 1,972,215.99	\$ 3,067,182.77	\$ 4,849,802.59	\$ 3,153,223.81

The following is a schedule by year of payments under the leases as of June 30, 2024:

Year Ending June 30	Principal	Interest	Total
2025	\$ 3,153,223.81	\$ 105,729.39	\$ 3,258,953.20
2026	1,170,961.38	35,060.24	1,206,021.62
2027	480,202.33	9,526.03	489,728.36
2028	45,415.07	154.24	45,569.31
Total	\$ 4,849,802.59	\$ 150,469.90	\$ 5,000,272.49

Note 8. Subscription-based Information Technology Arrangements

Subscription-based Information Technology Arrangements (SBITA) assets are reported with capital assets, and SBITA liabilities are reported separately in the statement of net position.

The university has entered into subscription-based arrangements for various types of software, the terms of which expire in various years through 2029.

SBITA liability activity for the university for the year ended June 30, 2024, is summarized below:

Notes to the Financial Statements (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
SBITA liabilities \$	4,805,309.00	\$ 5,666,264.61	\$ 3,646,109.83	\$ 6,825,463.78	\$ 3,187,373.47

The following is a schedule by year of payments under the subscription arrangements as of June 30, 2024:

Year Ending June 30	Principal	Interest	Total
2025	\$ 3,187,373.47	\$ 197,058.97	\$ 3,384,432.44
2026	1,961,234.14	96,274.39	2,057,508.53
2027	1,316,349.10	36,749.54	1,353,098.64
2028	346,193.42	4,477.02	350,670.44
2029	14,313.65	1.92	14,315.57
Total	\$ 6,825,463.78	\$ 334,561.84	\$ 7,160,025.62

Note 9. Accounts Payable

Accounts payable included the following:

	June 30, 2024
Vendors payable	\$ 6,736,460.39
Other payables	617,049.35
Total accounts payable	\$ 7,353,509.74

Note 10. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2024, was as follows:

Notes to the Financial Statements (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	\$ 154,869,172.89	\$ -	\$ 8,898,436.59	\$ 145,970,736.30	\$ 9,620,845.48
Unamortized bond premium/discount	23,318,559.78	-	1,252,159.56	22,066,400.22	-
General obligation debt:					
Commercial paper	501,627.89	-	154,564.00	347,063.89	-
Subtotal	178,689,360.56	-	10,305,160.15	168,384,200.41	9,620,845.48
Other liabilities:					
Compensated absences	14,113,535.48	6,884,017.03	6,242,515.61	14,755,036.90	3,378,973.49
Due to grantors	555,410.93	57,403.72	265,379.19	347,435.46	-
Subtotal	14,668,946.41	6,941,420.75	6,507,894.80	15,102,472.36	3,378,973.49
Total long-term liabilities	\$ 193,358,306.97	\$ 6,941,420.75	\$ 16,813,054.95	\$ 183,486,672.77	\$ 12,999,818.97

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 0.339% to 5%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2050 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations; see Note 12 for further details.

Debt service requirements to maturity for the university portion of TSSBA bonds at June 30, 2024, are as follows:

Notes to the Financial Statements (Continued)

Year Ending June 30	Principal	Interest	Total
2025	\$ 9,620,845.48	\$ 5,358,138.75	\$ 14,978,984.23
2026	8,703,979.64	4,978,371.08	13,682,350.72
2027	9,119,064.64	4,606,475.89	13,725,540.53
2028	9,352,622.99	4,216,746.51	13,569,369.50
2029	8,695,207.45	3,831,976.79	12,527,184.24
2030–2034	26,770,568.40	16,390,859.07	43,161,427.47
2035–2039	25,898,681.30	12,186,644.34	38,085,325.64
2040–2044	25,010,132.40	7,338,562.42	32,348,694.82
2045–2049	19,583,909.00	2,760,389.93	22,344,298.93
2050	3,215,725.00	80,393.13	3,296,118.13
Total	\$145,970,736.30	\$ 61,748,557.91	\$207,719,294.21

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

General Obligation Debt – Commercial Paper

The Tennessee State Funding Board issues commercial paper for the purpose of, among other things, acquiring certain sites and existing structures for the Tennessee Board of Regents' expansion purposes on behalf of the university. The amount outstanding for projects at the university was \$347,063.89 at June 30, 2024. More detailed information regarding the commercial paper can be found in the notes to the financial statements in Tennessee's *Annual Comprehensive Financial Report*, which is available on the state's website at <https://www.tn.gov/finance/rd-doa/fa-accfin-ar.html>.

Note 11. Endowments

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

Notes to the Financial Statements (Continued)

The university chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the university, all interest earnings, with the exception of five endowment accounts that require any interest generated in excess of expenses be reapplied to the principal, have been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2024, net appreciation of \$2,802,871.71 is available to be spent, of which \$173,945.55 is included in restricted net position expendable for scholarships and fellowships; \$2,179,121.07 is included in restricted net position expendable for research, \$32,199.13 is included in restricted net position expendable for instructional departmental uses; \$410,349.71 is included in restricted net position expendable for loans; and \$7,256.25 is included in restricted net position expendable for other.

Note 12. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay \$145,970,736.30 in revenue bonds issued from October 1998 to February 2021 (see Note 10 for further detail). Proceeds from the bonds provided financing for construction and renovation of various facilities as well as building systems and equipment. The bonds are payable through 2050. Annual principal and interest payments on the bonds are expected to require 1.72% of available revenues. The total principal and interest remaining to be paid on the bonds at June 30, 2024, is \$207,719,294.21. Principal and interest paid for fiscal year 2024 and total available revenues were \$14,574,479.87 and \$528,070,707.06, respectively.

Note 13. Pension Plans

Defined Benefit Plans

Closed State and Higher Education Employee Pension Plan

General Information About the Pension Plan

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

Notes to the Financial Statements (Continued)

Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

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

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

$$\begin{array}{ccccccc} \text{Average of member's highest} & & & & & & \\ \text{compensation for 5 consecutive} & & & & & & \\ \text{years (up to Social Security} & \times & 1.50\% & \times & \text{Years of Service} & \times & 105\% \\ \text{integration level)} & & & & \text{Credit} & & \end{array}$$

Plus:

$$\begin{array}{ccccccc} \text{Average of member's highest} & & & & & & \\ \text{compensation for 5 consecutive} & \times & 1.75\% & \times & \text{Years of Service} & \times & 105\% \\ \text{years (over the Social Security} & & & & \text{Credit} & & \\ \text{integration level)} & & & & & & \end{array}$$

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

Notes to the Financial Statements (Continued)

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The university's employees are noncontributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by the university for the year ended June 30, 2024, to the Closed State and Higher Education Employee Pension Plan were \$8,478,376. Additional contributions of \$5,336,292 were made to the pension plan by the State of Tennessee on behalf of the university. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension liability – At June 30, 2024, the university reported a liability of \$19,917,287 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The university's proportion of the net pension liability was based on a projection of the university's contributions during the year ended June 30, 2023, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2023, measurement date, the university's proportion was 1.804180%. At the June 30, 2022, measurement date, the university's proportion was 1.874023%.

Pension expense – For the year ended June 30, 2024, the university recognized pension expense of \$12,895,559.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2024, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Notes to the Financial Statements (Continued)

<u>Fiscal Year 2024</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 6,481,992.65	\$ -
Net difference between projected and actual earnings on pension plan investments	2,337,345.95	-
Changes in assumptions	-	-
Changes in proportion of net pension liability	-	584,740.00
Contributions subsequent to the measurement date	13,814,668.00	-
Total	\$ 22,634,006.60	\$ 584,740.00

Deferred outflows of resources, resulting from employer contributions of \$13,814,668 subsequent to the measurement date, will be recognized as a reduction in net pension liability in the year ending June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	
2025	\$ 4,066,182
2026	\$ (3,092,654)
2027	\$ 7,242,939
2028	\$ 18,132
2029	\$ -
Thereafter	\$ -

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

Actuarial assumptions – The total pension liability as of the June 30, 2023, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%

Notes to the Financial Statements (Continued)

Investment rate of return	6.75%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.125%

Mortality rates were based on actuarial experience including a projection of mortality improvement using Scale MP-2021 (generational projection).

The actuarial assumptions used in the June 30, 2023, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2016, through June 30, 2020. As a result of the 2020 actuarial experience study, investment and demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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

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

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

Notes to the Financial Statements (Continued)

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

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

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
University’s proportionate share of the net pension liability (asset)	\$62,943,153	\$19,917,287	\$(16,128,800)

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

Payable to the Pension Plan

At June 30, 2024, the university reported a payable of \$709,328.06 for the outstanding amount of legally required contributions to the pension plan required for the year then ended.

State and Higher Education Employee Retirement Plan

General Information About the Pension Plan

Plan description – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Pension Plan was closed effective June 30, 2014, and covers employees hired before July 1, 2014. Employees hired after June 30, 2014, are provided with pensions

Notes to the Financial Statements (Continued)

through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under Title 8, Chapters 34–37, *Tennessee Code Annotated*.

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

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

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of their salary to the State and Higher Education Employee Retirement Plan. The higher education institutions make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the university for the year ended June 30, 2024, to the State and Higher Education Employee Retirement Plan were \$1,287,432, which is 2.57% of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

Notes to the Financial Statements (Continued)

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

Pension asset – At June 30, 2024, the university reported an asset of \$172,655 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2023, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The university's proportion of the net pension asset was based on a projection of the university's contributions during the year ended June 30, 2023, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2023, measurement date, the university's proportion was 2.397035%. At the June 30, 2022, measurement date, the university's proportion was 2.534796%.

Pension expense – For the year ended June 30, 2024, the university recognized a pension expense of \$1,097,875.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2024, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Fiscal Year 2024</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 550,404	\$ 166,143
Net difference between projected and actual earnings on pension plan investments	204,781	-
Changes in assumptions	414,830	-
Changes in proportion of net pension asset	75,842	29,453
Contributions subsequent to the measurement date	1,287,432	-
Total	\$ 2,533,289	\$ 195,596

Deferred outflows of resources, resulting from the university's employer contributions of \$1,287,432 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Notes to the Financial Statements (Continued)

Year Ending June 30

2025	\$	122,734
2026	\$	93,054
2027	\$	401,492
2028	\$	134,141
2029	\$	140,610
Thereafter	\$	158,230

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

Actuarial assumptions – The total pension liability as of the June 30, 2023, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on actual experience, including a projection of mortality improvement using Scale MP-2021 (generational projection).

The actuarial assumptions used in the June 30, 2023, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2016, through June 30, 2020. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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

Notes to the Financial Statements (Continued)

the target asset allocation percentage and by adding expected inflation of 2.25%. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

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

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

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

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

	1% Decrease <u>(5.75%)</u>	Current Discount Rate <u>(6.75%)</u>	1% Increase <u>(7.75%)</u>
University's proportionate share of the net pension liability (asset)	\$3,914,305	\$(172,655)	\$(3,246,822)

Notes to the Financial Statements (Continued)

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

Payable to the Pension Plan

At June 30, 2024, the university reported a payable of \$344,290.61 for the outstanding amount of legally required contributions to the pension plan required for the year then ended.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2024, for all state and local government defined benefit pension plans was \$13,993,434.

Defined Contribution Plans

Optional Retirement Plans

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

Funding policy – For employees employed prior to July 1, 2014, plan members are noncontributory. The university contributes an amount equal to 10% of the employee’s base salary up to the social security wage base and 11% above the social security wage base. For employees hired after June 30, 2014, plan members will contribute 5% to the ORP and the university will contribute 9% of the employee’s base salary. Pension expense equaled the required contributions made to the ORP and was \$11,348,258.75 for the year ended June 30, 2024, and \$10,851,570.84 for the year ended June 30, 2023. Contributions met the requirements for each year.

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

Notes to the Financial Statements (Continued)

Payable to the plan – At June 30, 2024, the university reported a payable of \$131.22 for the outstanding amount of legally required contributions to the plan required for the year then ended.

Deferred Compensation Plan

The university, through the State of Tennessee, provides a deferred compensation plan pursuant to the Internal Revenue Code (IRC), Section 401(k). The plan is outsourced to a third-party vendor, and the administrative costs assessed by the vendor of this plan are the responsibility of plan participants. Section 401(k) plan assets remain the property of the contributing employees, and they are not presented in the accompanying financial statements. Section 401(k) establishes participation, contribution, and withdrawal provisions for the plan. The university provides up to a \$100 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of Public Acts of 2013, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan if they elect to be in the TCRS pension plan. Employees contribute 2% of their salary, with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

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

During the year ended June 30, 2024, contributions totaling \$6,274,753.41 were made by employees participating in the 401(k) plan, and the university recognized pension expense of \$4,623,162.37 for employer contributions. During the year ended June 30, 2023, contributions totaling \$5,675,010.14 were made by employees participating in the 401(k) plan, with contributions of \$4,404,844.50 made by the university.

At June 30, 2024, the university reported a payable of \$35,450.42 for the outstanding amount of legally required contributions to the plan required for the year then ended.

Notes to the Financial Statements (Continued)

Note 14. Other Employee Benefits

Deferred Compensation Plans

Employees are offered two deferred compensation plans that are not considered pension plans. The university, through the State of Tennessee, provides a plan pursuant to the *Internal Revenue Code* (IRC), Section 457, and another is administered by the university and was established in accordance with IRS, Section 403(b). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 403(b) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. Sections 403(b) and 457 establish participation, contribution, and withdrawal provisions for the plans.

Note 15. Other Postemployment Benefits

Closed State Employee Group OPEB Plan

General Information About the OPEB Plan

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

Benefits provided – The EGOP is offered to provide health insurance coverage to eligible retired and disabled participants and is the only postemployment benefit provided to eligible pre-65 participants. Benefits are established and amended by an insurance committee created by Section 8-27-201, *Tennessee Code Annotated*. All retirees and disabled employees of the primary government and certain component units, who are eligible and choose coverage, and who have not yet reached the age of 65, are enrolled in this plan. All members have the option of choosing between the premier preferred provider organization (PPO) plan, the standard PPO plan, or the wellness health savings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members receive the same plan

Notes to the Financial Statements (Continued)

benefits as active employees, at a blended premium rate that considers the cost of active and retired employees. This creates an implicit subsidy for the retirees. The retirees' cost is then directly subsidized, by the employers, based on years of service. Therefore, retirees with 30 years of service are subsidized 80%; 20 but less than 30 years, 70%; and less than 20 years, 60%.

Contributions – Annually, an insurance committee, created in accordance with Section 8-27-201, *Tennessee Code Annotated*, establishes the required contributions to the plan by member employees through the premiums established to approximate claims cost for the year. Pre-age 65 retired members of the EGOP pay a premium based on a blended rate that considers the cost of active and retired employees as well as their individual years of service. Therefore, retirees pay either 20%, 30%, 40%, or 100% of the appropriate premium rate. These payments are deposited into the OPEB Trust. Employers contribute to the OPEB Trust based on an actuarially determined contribution (ADC) rate calculated in a manner to meet the funding goals of the state. The total ADC rate for plan employers for the year ended June 30, 2024, was \$109.5 million. The university's share of the ADC was \$2,740,826 for 2024. For the year ended June 30, 2024, the university contributed \$2,740,826 to the OPEB Trust. The Tennessee General Assembly has the authority to change the contribution requirements of the employees participating in the EGOP.

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

Proportionate share – The university's proportionate share of the collective net OPEB liability related to the EGOP was \$8,045,339.32 at June 30, 2024. At the June 30, 2023, measurement date, the university's proportion of the collective net OPEB liability was 2.015918%. The proportion existing at the prior measurement date was 2.013315%. This resulted in a change in proportion of 0.002603% between the current and prior measurement dates. The university's proportion of the collective net OPEB liability was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2023, and a measurement date of June 30, 2023.

OPEB expense – For the year ended June 30, 2024, the university recognized negative OPEB expense of \$885,431.09.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2024, the university reported deferred outflows of resources and deferred inflows of resources related to OPEB paid by the EGOP from the following sources:

Notes to the Financial Statements (Continued)

<u>Fiscal Year 2024</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,036,184.00
Net difference between actual and projected investment earnings	254,216.00	-
Changes in assumptions	2,070,117.00	2,133,696.00
Changes in proportion and differences between benefits paid and proportionate share of benefits paid	889,673.84	6,398,140.51
Contributions subsequent to the measurement date	2,740,826.00	-
Total	\$ 5,954,832.84	\$ 9,568,020.51

Deferred outflows of resources, resulting from the university's employer contributions of \$2,740,826 subsequent to the measurement date, will be recognized as a decrease in net OPEB liability in the year ending June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30</u>	
2025	\$ (2,209,083)
2026	\$ (2,193,768)
2027	\$ (680,772)
2028	\$ (963,699)
2029	\$ (306,691)
Thereafter	\$ -

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

Actuarial assumptions – The collective total OPEB liability in the June 30, 2023, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Notes to the Financial Statements (Continued)

Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Healthcare cost trend rates	10.31% for 2024, decreasing annually to an ultimate rate of 4.50% for 2035 and later years
Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation, a weighted average has been used with weights derived from the current distribution of members among plans offered.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2023, valuations were the same as those employed in the July 1, 2022, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS) for Group I employees. These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2016, through June 30, 2020. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. For pre-retirement non-disabled general employees, the mortality rates employed in this valuation are taken from the PUB-2010 Headcount-Weighted Employee mortality table projected generationally with MP-2021 from 2010. Post-retirement tables are Headcount-Weighted Below Median Healthy Annuitant and adjusted with a 6% load for males and a 14% load for females, projected generationally from 2010 with MP-2021. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender-distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load, projected generationally with MP-2021.

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

Notes to the Financial Statements (Continued)

investment policies and guidelines adopted by the trustees. Any changes to the investment policy will be the responsibility of the established trustees. The OPEB Trust investment policy target asset allocation and allocation range for each major asset class is summarized in the following table:

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

The best estimates of geometric real rates of return for each major asset class included in the target asset allocation as of June 30, 2023, are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. equity	4.65%
Developed market international equity	4.55%
Emerging market international equity	4.94%
Cash (government)	1.32%
Private equity and strategic lending	5.43%
U.S. fixed income	2.59%
Real estate	4.16%

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

Notes to the Financial Statements (Continued)

Changes in assumptions – The medical and drug trend rate assumptions were updated to reflect more recent experience and a change in expected per capita health claims to reflect more recent information as of the measurement date. These changes increased the liability by 8.2%.

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

	1% Decrease (5%)	Current Discount Rate (6%)	1% Increase (7%)
University's proportionate share of the collective net OPEB liability	\$8,526,314.40	\$8,045,339.32	\$5,015,485.40

Sensitivity of the proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rate – The following presents the university's proportionate share of the collective net OPEB liability of the EGOP, as well as what the proportionate share of the collective net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (9.31% decreasing to 3.5%) or 1 percentage point higher (11.31% decreasing to 5.5%) than the current rate:

	1% Decrease (9.31% decreasing to 3.5%)	Healthcare Cost Trend Rates (10.31% decreasing to 4.5%)	1% Increase (11.31% decreasing to 5.5%)
University's proportionate share of the collective net OPEB liability	\$4,380,564.40	\$8,045,339.32	\$9,388,880.40

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

Notes to the Financial Statements (Continued)

Closed Tennessee OPEB Plan

General Information About the OPEB Plan

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

Benefits provided – The TNP is offered to help fill most of the coverage gaps created by Medicare and is the only postemployment benefit provided to eligible post-65 retired and disabled employees of participating employers. This plan does not include pharmacy. In accordance with Section 8-27-209, *Tennessee Code Annotated*, benefits are established and amended by cooperation of insurance committees created by Sections 8-27-201, 301, and 701, *Tennessee Code Annotated*. Retirees and disabled employees of the state, component units, local education agencies, and certain local governments, who have reached the age of 65, are Medicare-eligible, and also receive a benefit from the Tennessee Consolidated Retirement System, may participate in this plan. All plan members receive the same plan benefits at the same premium rates. Many retirees receive direct subsidies toward their premium cost; however, participating employers determine their own policy in this regard. The primary government contributes to the premiums of component unit retirees based on years of service. Therefore, retirees with 30 years of service receive \$50 per month; 20 but less than 30 years, \$37.50; and 15 but less than 20 years, \$25. The university does not provide any subsidies for retirees in the TNP. The primary government paid \$209,525 for OPEB as the benefits came due during the fiscal year ended June 30, 2024. This plan is funded on a pay-as-you-go basis, and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement 75.

In accordance with Section 8-27-209, *Tennessee Code Annotated*, the state insurance committees established by Sections 8-27-201, 301, and 701, *Tennessee Code Annotated*, determine the required payments to the plan by member employers and employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs are allocated to plan participants.

Notes to the Financial Statements (Continued)

Total OPEB Liability and OPEB Expense

Proportionate share – The primary government is entirely responsible for the TNP OPEB liability associated with the university's employees. The primary government's proportionate share of the total OPEB liability associated with the university was \$4,601,659 at June 30, 2024. At the June 30, 2023, measurement date, the proportion of the collective total OPEB liability associated with the university was 2.947572%. This represents a change of (0.022328)% from the prior proportion of 2.969900%. The proportion of the collective total OPEB liability associated with the university was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2023, and a measurement date of June 30, 2023.

Actuarial assumptions – The total OPEB liability in the June 30, 2023, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

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

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2023, valuations were the same as those employed in the July 1, 2022, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS) for Group I employees. These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2016, through June 30, 2020. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. For pre-retirement non-disabled general employees, the mortality rates employed in this valuation are taken from the PUB-2010 Headcount-Weighted Employee mortality table projected generationally with MP-2021 from 2010. Post-retirement tables are Headcount-Weighted Below Median Healthy Annuitant and adjusted with a 6% load for males and a 14% load for females, projected generationally from 2010 with MP-2021. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender-distinct table published in IRS Ruling 96-7 for disabled lives with a 10% load, projected generationally from 2018 with MP-2021.

Notes to the Financial Statements (Continued)

Discount rate – The discount rate used to measure the total OPEB liability was 3.65%. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Bond Buyer GO 20-Bond Municipal Bond index.

Changes in assumptions – The discount rate was changed from 3.54% to 3.65% as of June 30, 2023. This change in assumption decreased the total OPEB liability by 1.21%.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate – The following presents the primary government’s proportionate share of the university’s related collective total OPEB liability, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.65%) or 1 percentage point higher (4.65%) than the current rate. The university does not report a proportionate share of the OPEB liability for employees in the TNP.

	1% Decrease (2.65%)	Current Discount Rate (3.65%)	1% Increase (4.65%)
Primary government’s proportionate share of the collective total OPEB liability	\$5,113,671	\$4,601,659	\$4,165,765

OPEB expense – For the year ended June 30, 2024, the primary government recognized OPEB expense of \$94,786 for employees of the university participating in the TNP.

Total OPEB Expense

The total negative OPEB expense for the year ended June 30, 2024, was \$790,645.09, which consisted of negative OPEB expense of \$885,431.09 for the EGOP and OPEB expense of \$94,786.00 paid by the primary government for the TNP.

Note 16. Revenues

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

Notes to the Financial Statements (Continued)

Fiscal Year 2024 Revenue Source	Gross Revenue	Less Scholarship Allowances	Less Uncollectible Debts	Net Revenue
Operating revenues:				
Tuition and fees	\$ 213,349,734.38	\$ (80,683,074.00)	\$ (1,318,613.37)	\$ 131,348,047.01
Sales and services of educational activities	4,225,888.12	-	(70,923.46)	4,154,964.66
Sales and services of other activities	38,287,530.93	-	(6,557.30)	38,280,973.63
Residential life	18,622,770.23	(9,017,292.00)	(409,070.99)	9,196,407.24
Other auxiliaries	5,615,030.23	-	(37,734.22)	5,577,296.01
Interest earned on loans to students	62,582.91	-	3,784.34	66,367.25
Total	\$ 280,163,536.80	\$ (89,700,366.00)	\$ (1,839,115.00)	\$ 188,624,055.80

Note 17. Insurance-related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, medical malpractice liability, and workers' compensation. By statute, the maximum liability for general liability, automobile liability, and medical malpractice liability is \$300,000 per person and \$1,000,000 per occurrence. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The state self-insures against property and cyber liability losses through the RMF and the State of Tennessee Captive Insurance Company (TCIC). The state purchases commercial insurance for real property and crime and fidelity coverage on the state's officials and employees above the limits of the RMF and TCIC. For property coverage, the deductible for an individual state agency is based on a tiered deductible system that accounts for averaged losses over a three-year period and the type of loss. The RMF is responsible for property losses of \$2.5 million per occurrence for all perils. The TCIC is responsible for property losses in excess of the RMF limits up to an annual aggregate of \$25 million. Purchased insurance coverage is responsible for losses exceeding these limits to the maximum insurance coverage of \$600 million per year for perils other than earthquake and flood, which are capped at \$50 million each per year. For cyber coverage, the RMF is responsible for \$1.5 million per occurrence. The TCIC is responsible for losses in excess of the RMF limits up to an aggregate of \$10 million. Settled claims resulting from these risks have not exceeded maximum commercial insurance coverage in any of the three past fiscal years.

The university participates in the RMF. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. Information regarding the determination of the

Notes to the Financial Statements (Continued)

claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2024, is presented in Tennessee's *Annual Comprehensive Financial Report*, which is available on the state's website at <https://www.tn.gov/finance/rd-doa/fa-accfin-ar.html>. At June 30, 2024, the Risk Management Fund held \$241 million in cash designated for payment of claims.

At June 30, 2024, the scheduled coverage for the university was \$2,135,403,719 for buildings and \$563,553,099 for contents.

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

Note 18. Commitments and Contingencies

Sick Leave

The university records the cost of sick leave when paid. The dollar amount of unused sick leave was \$90,173,116.59 at June 30, 2024.

Construction in Progress

At June 30, 2024, outstanding commitments under construction contracts totaled \$33,024,846.12 for the STEM Research Building (Edward Research and Innovation Center), HVAC Compressor Replacement –multiple buildings, multiple buildings upgrades & repairs, Wilder Tower repairs, multiple buildings repairs 2023, multi-building elevator and fire alarms, Wilson Hotel roof, and other capital projects, of which \$18,020,452.99 will be funded by future state capital outlay appropriations.

Litigation

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

Notes to the Financial Statements (Continued)

Note 19. Chairs of Excellence

The university had \$114,188,077.12 on deposit at June 30, 2024, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in these financial statements.

Note 20. Funds Held in Trust by Others

The university is a beneficiary under the Van Vleet, Pope M. Farrington, C.M. Gooch, and Herman Bendsdorf trusts. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received \$162,630.41 from these funds during the year ended June 30, 2024.

Note 21. Natural Classification With Functional Classifications

The university's operating expenses for the year ended June 30, 2024, are as follows:

Functional Classification	Natural Classification					
	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	\$ 82,954,858.80	\$30,415,254.28	\$ 17,717,150.21	\$ -	\$ -	\$ 131,087,263.29
Research	58,982,123.24	20,775,202.29	18,287,186.73	-	-	98,044,512.26
Public service	5,809,301.63	1,608,020.46	4,659,609.09	-	-	12,076,931.18
Academic support	26,246,261.90	9,628,602.70	7,621,317.31	-	-	43,496,181.91
Student services	35,436,562.93	10,283,541.59	35,445,097.82	-	-	81,165,202.34
Institutional support	19,808,888.66	7,227,832.60	8,884,882.13	-	-	35,921,603.39
Maintenance and operation	17,629,708.87	6,548,748.93	25,278,399.88	-	-	49,456,857.68
Scholarships and fellowships	-	-	-	34,688,108.98	-	34,688,108.98
Auxiliary	2,863,978.45	655,692.63	24,798,885.00	-	-	28,318,556.08
Depreciation	-	-	-	-	32,981,250.36	32,981,250.36
Total	\$ 249,731,684.48	\$87,142,895.48	\$ 142,692,528.17	\$34,688,108.98	\$32,981,250.36	\$547,236,467.47

Notes to the Financial Statements (Continued)

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services, and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling \$13,806,758.03 for the year ended June 30, 2024, were reallocated from academic support to the other functional areas.

Note 22. On-behalf Payments

During the year ended June 30, 2024, the State of Tennessee made payments of \$209,525 on behalf of the university for retirees participating in the Closed Tennessee OPEB Plan. The Closed Tennessee OPEB Plan is a postemployment benefit healthcare plan and is discussed further in Note 15. The plan is reported in Tennessee's *Annual Comprehensive Financial Report*, which is available on the state's website at <https://www.tn.gov/finance/rd-doa/fa-accfin-ar.html>.

During the year ended June 30, 2024, the State of Tennessee also made payments of \$5,336,292 on behalf of the university for retirees participating in the Closed State and Higher Education Employee Pension Plan. The Closed State and Higher Education Employee Pension Plan is a defined benefit pension plan with membership in the Tennessee Consolidated Retirement System and is discussed further in Note 13. The TCRS issues a publicly available financial report that can be obtained at <https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies>.

Note 23. Subsequent Events

ERP System - The university began its process to transition its Enterprise Resource Planning system to Oracle for Finance and Human Resource Management. The process began in fiscal year 2024 and the process will continue through fiscal year 2025. Implementation of the new system is expected in July 2025. Funding for the project was received in fiscal year 2024.

University of Memphis P3 Project - On August 12, 2024, the university entered into a P3 arrangement for the development and construction of a 542-bed student housing development on its Park Avenue Campus. Madrone Memphis Student Housing I, LLC (Madrone) will serve as the owner of the student housing development. As a part of this project the university is leasing land to Madrone from 2024 through 2056. Rent will be paid from surplus cash flow and, if there is no cash flow, the rent will be zero. The university will assume ownership of the development after the lease term. The cost of the development is expected to approximate \$58,000,000. The Health, Educational and Housing

Notes to the Financial Statements (Continued)

Facility Board of the County of Shelby, Tennessee and the Underwriter will issue Student Housing Revenue Bonds to fund the cost of the project. The university will not be responsible for the debt. The university will operate the student housing facility, and its rent proceeds will be forwarded to a trust. The trust will facilitate required payments to bondholders. The developer and general contractor expect to have the project completed in time to house students in August 2026.

Note 24. Blended Component Unit – Herbert Herff Trust

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

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

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

Notes to the Financial Statements (Continued)

Herbert Herff Trust Condensed Statement of Net Position June 30, 2024

Assets:

Current assets	\$ 121,800
Other assets	30,910,925
Total Assets	31,032,725

Liabilities:

Current liabilities	102,786
Total Liabilities	102,786

Net Position:

Restricted - expendable	30,929,939
Total Net Position	\$ 30,929,939

Herbert Herff Trust Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Year Ended June 30, 2024

Nonoperating Revenues	\$ 3,353,006
Nonoperating Expenses	(1,002,892)
Increase in Net Position	2,350,114
Net position at beginning of year	28,579,825
Net position at end of year	\$ 30,929,939

Subsequent Event

Effective July 1, 2024, the trust was transitioned into The University of Memphis Foundation for oversight. The assets of the trust were transferred to a separate and clearly identifiable fund within The University of Memphis Foundation during August 2024.

Notes to the Financial Statements (Continued)

Note 25. Component Unit – The University of Memphis Foundation

The University of Memphis Foundation is a legally separate, tax-exempt organization supporting the University of Memphis. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the university in support of its programs. The 15-member board of the foundation is self-perpetuating and consists of graduates and friends of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements.

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

During the year ended June 30, 2024, the foundation made distributions of \$12,360,704 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Holly Ford, Chief Executive Officer Foundation, University of Memphis Foundation, 635 Normal Street, Memphis, Tennessee 38152-3750, or online at <http://www.memphis.edu/foundation/publicinfopolicy/statements/php>.

Fair Value Measurements

The foundation reports certain assets at fair value. Fair value has been determined using unadjusted quoted prices for identical assets in active markets that the foundation has the ability to access (Level 1); quoted prices for similar assets 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 inputs that are derived principally from or corroborated by observable market data by correlation or other means (Level 2); or inputs that are unobservable and significant to the fair value measurement (Level 3). The following table categorizes the recurring fair value measurements for assets at June 30, 2024.

Notes to the Financial Statements (Continued)

		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Investments Measured at the Net Asset Value (NAV)
	June 30, 2024			
Assets:				
U.S. equity	\$ 90,927,729	\$ 90,927,729	\$ -	\$ -
International equity	56,162,960	56,162,960	-	-
Fixed income	36,412,937	36,412,937	-	-
U.S. government securities	209,247	-	209,247	-
Interest in limited partnerships/LLC'	29,013,360	-	-	29,013,360
Total assets	\$ 212,726,233	\$ 183,503,626	\$ 209,247	\$ 29,013,360

The asset'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.

Financial assets measured at fair value included the following:

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.

Notes to the Financial Statements (Continued)

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

	Fair Value at June 30, 2024	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Assets Measured at the NAV				
Hedged strategies - hedged equity	\$ 162,900	\$ -	Annually	90 days
Private equity	19,676,600	35,662,877	At manager's discretion	N/A
Real assets	9,173,860	1,733,867	At manager's discretion	N/A

Hedged strategies – hedged equity – This category consists of funds-of-funds that make long and short position equity investments.

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.

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

Cash

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

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.

Investments

Investments are stated at fair value.

Investments held at June 30, 2024, were as follows:

Notes to the Financial Statements (Continued)

	Cost	Fair Value
Mutual funds	\$ 152,629,585	\$ 183,503,626
U.S. government securities	207,452	209,247
Limited partnerships	15,210,104	29,013,360
Total investments	\$ 168,047,141	\$ 212,726,233

Alternative investments – The foundation has investments in certain limited partnerships. The estimated fair value of these assets was \$29,013,360 at June 30, 2024.

The foundation believes the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2024. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques.

Pledges Receivable

Pledges receivable are summarized below, net of the estimated uncollectible allowance of \$2,796,205 at June 30, 2024:

	June 30, 2024
Current pledges	\$ 16,951,321
Pledges due in one to five years	20,367,417
Pledges due after five years	1,296,896
Subtotal	38,615,634
Less allowance for uncollectible pledges	(2,162,476)
Less discount to net present value	(2,796,205)
Total pledges receivable, net	\$ 33,656,953

Liquidity and Availability

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

Notes to the Financial Statements (Continued)

Endowments

The University of Memphis Foundation's endowment account consist of donor-restricted endowment funds and include approximately 700 individual funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds, is classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The University of Memphis Foundation is subject to the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee and thus classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the foundation's board appropriates such amounts for expenditures. Most of those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The foundation's board of directors has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the foundation retains in perpetuity (1) the original value of gifts donated to the permanent endowment funds and (2) the original value of subsequent gifts to the permanent endowment funds. 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 the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the foundation and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) the other resources of the foundation; and (7) the investment policies of the foundation.

Endowment Net Asset Composition by Type of Fund
As of June 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-designated endowment fund \$	-	\$ 173,630,261	\$ 173,630,261
Total funds \$	-	\$ 173,630,261	\$ 173,630,261

Notes to the Financial Statements (Continued)

Changes in Endowment Net Assets				
As of June 30, 2024				
	Without Donor	With Donor		Total
	Restrictions	Restrictions		
Endowment net assets, beginning of year	\$ -	\$ 151,085,321	\$	151,085,321
Investment return, net	-	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)
Endowment net assets, end of year	\$ -	\$ 173,630,261	\$	173,630,261

Underwater endowment funds – 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 fee 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.

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 organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce consistent long-term growth of capital without undue exposure to risk.

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

Spending policy and how the investment objectives relate – The foundation has a policy of budgeting for expenditure each year a percentage of its endowment funds' average fair value over the prior three

Notes to the Financial Statements (Continued)

calendar years preceding the fiscal year in which the expenditure is planned. For fiscal year 2024, this percentage was 4%. In establishing this policy, the foundation considered the long-term expected return on its endowment. 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 governing board appropriated for expenditure \$151,353 from underwater endowment funds during the year, which represents 2% of the 12-quarter moving average, not the 4% it generally draws from endowment.

Natural Classifications With Functional Classifications

The foundation's operating expenses by functional classification for the year ended June 30, 2024, are as follows:

Functional Classification	Natural Classification						Payments Made to or on Behalf		Total
	Salaries	Benefits	Other Operating	Scholarships	Depreciation		of the University		
Support activities	\$ 524,497	\$ 161,217	\$ 569,452	\$ 9,474,116	\$ 2,644		\$ -		\$ 10,731,926
Payments made to or on behalf of the university	-	-	-	-	-		12,360,704		12,360,704
Total expenses	\$ 524,497	\$ 161,217	\$ 569,452	\$ 9,474,116	\$ 2,644		\$ 12,360,704		\$ 23,092,630

Related Party Transactions

The foundation provided direct support to the university for general departmental expenditures, scholarships, and awards which totaled \$23,092,630 for the year ended June 30, 2024. The foundation had accounts payable to the university in the amount of \$16,624,545 as of June 30, 2024.

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

Notes to the Financial Statements (Continued)

donations designated for university athletics to the ASF to cover the debts service based on direction and approval from the university.

The foundation also had accounts payable due to ASF in the amount of \$2,010,283 as of June 30, 2024.

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% 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 were outstanding as of June 30, 2024.

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 for the year ended June 30, 2024.

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 specific geographic region or industry.

Approximately 32% of the foundation's contributions receivable was due from four donors at June 30, 2024.

Subsequent Event

Effective July 1, 2024, The Herff Trust (the "trust") was transitioned into 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.

Notes to the Financial Statements (Continued)

Note 26. Component – The University of Memphis Research Foundation

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

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

Since the UMRF is an affiliate 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 GASB.

During the year ended June 30, 2024, the UMRF made distributions of \$2,165,801 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Dr. Jasbir Dhaliwal, Executive Director, 365 Innovation Drive, Suite 303, Memphis, TN 38152.

Notes to the Financial Statements (Continued)

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:

	June 30, 2024	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:			
Equity Securities:			
Mutual Funds	\$ 1,009,223	\$ 1,009,223	\$ -
Other Assets:	-	-	-
Brokered certificates of deposit	1,096,354	-	1,096,354
Total assets	\$ 2,105,577	\$ 1,009,223	\$ 1,096,354

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.

Cash and Cash Equivalents

All highly liquid investments purchased with initial maturities of three months or less are considered to be cash equivalents. Deposits with financial institutions consist of demand deposits with local banks or with banks affiliated with the UMRF's investment broker. As of June 30, 2024, the UMRF had deposits which exceeded federally insured limits by \$530,710. As of June 30, 2024, UMRF Ventures had deposits in excess of federally insured limits in the amount of \$751,105.

Notes to the Financial Statements (Continued)

Investments

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

As of June 30, 2024, the UMRF had the following investments and maturities.

Investment Type	Fair Value
Non-Fixed Income Investment	
Mutual Funds	\$ 1,009,223
Certificates of deposit	1,096,354
Total investments	\$ 2,105,577

Interest rate risk – 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.

Custodial credit risk – 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.

Capital Assets

Capital assets were as follows:

Notes to the Financial Statements (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance
Leasehold improvements	\$ 273,711	\$ 51,960	\$ -	\$ 325,671
Equipment	363,525	60,999	-	424,524
Patents	820,577	45,348	(106,811)	759,114
Intangible assets				
Right-to-use – buildings	1,924,869	-	(257,127)	1,667,742
Total	3,382,682	158,307	(363,938)	3,177,051
Less accumulated depreciation/amortization:				
Leasehold improvements	183,396	16,367	-	199,763
Equipment	237,517	72,784	-	310,301
Patents	233,106	37,318	(43,773)	226,651
Intangible assets				-
Right-to-use – buildings	394,698	290,343	(202,820)	482,221
Total	1,048,717	416,812	(246,593)	1,218,936
Capital assets, net	\$ 2,333,965	\$ (258,505)	\$ (117,345)	\$ 1,958,115

Leases

Foundation as Lessor – The foundation leases office space to various third parties, the terms of which expire in various years through 2027. Revenue recognized under lease contracts during the year ended June 30, 2024, was \$74,516.36, which includes both lease revenue and interest.

Foundation as Lessee – Lease assets are reported with capital assets, and lease liabilities are reported separately in the statement of net position.

The UMRF and UMRF Ventures lease office space from the university, the terms of which expire in various years through 2030.

Lease liability activity for the UMRF for the year ended June 30, 2024, is summarized as follows:

Notes to the Financial Statements (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Total lease liabilities	\$ 1,473,198	\$ -	\$ 266,600	\$ 1,206,598	\$ 194,619
Less amounts due to the University of Memphis				(1,206,598)	(194,619)
Lease liabilities with external parties				\$ -	\$ -

The following is a schedule by year of payments under the leases as of June 30, 2024:

Year Ending June 30	Principal	Interest	Total
2025	\$ 194,619	\$ 45,448	\$ 240,067
2026	\$ 210,597	\$ 36,128	\$ 246,725
2027	\$ 217,615	\$ 27,695	\$ 245,310
2028	\$ 233,763	\$ 18,673	\$ 252,436
2029 and thereafter	\$ 350,004	\$ 9,713	\$ 359,717
Total	\$ 1,206,598	\$ 137,657	\$ 1,344,255

Long-term Liabilities

Long-term liabilities at June 30, 2024, consisted of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Notes	\$ 57,106	\$ -	\$ (36,072)	\$ 21,034	\$ 21,034
Total long-term liabilities	\$ 57,106	\$ -	\$ (36,072)	\$ 21,034	\$ 21,034

Notes payable – In fiscal year 2022, UMRF Ventures borrowed funds from a finance company to purchase operating equipment. The loan bears an interest rate of 1% interest rate, and had an original issue amount of \$76,664, a minimum monthly debt service of \$2,113, and matures in April 2025. The balance owed at June 30, 2024, was \$21,034.

Debt service requirements to maturity for notes payable at June 30, 2024, are as follows:

Year Ending June 30	Principal	Interest	Total
2025	\$ 21,034	\$ 97	\$ 21,131

Notes to the Financial Statements (Continued)

Equity Held in Licensees

The UMRF holds minor equity interests in research companies licensed to use the UMRF'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 UMRF.

Concentrations

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

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

Related-Party Debt

In September 2018, the UMRF loaned UMRF Ventures \$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 UMRF received interest relating to this loan totaling \$11,250 during the year ended June 30, 2024. The UMRF received rent payments of \$50,000 from UMRF Ventures during the year ended June 30, 2024.

Other Related-Party Transactions

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

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

During the year ended June 30, 2024, UMRF made cash transfers to the university in the amount of \$1,082,866. As of June 30, 2024, UMRF had payables to the university totaling \$289,623.

During the year ended June 30, 2024, UMRF 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.

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

Notes to the Financial Statements (Continued)

In addition to rent, UMRF Ventures pays the university 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, UMRF Ventures had \$26,952 due to the university for various expenses and fees.

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

UMRF Ventures, Inc. Condensed Statement of Net Position June 30, 2024

Assets:

Current assets	\$ 1,963,505
Capital assets, net	1,226,923
Total Assets	3,190,428

Liabilities:

Current liabilities	756,152
Noncurrent liabilities	1,260,577
Total Liabilities	2,016,729

Net Position:

Net investment in capital assets	(14,103)
Unrestricted	1,187,802
Total Net Position	\$ 1,173,699

Notes to the Financial Statements (Continued)

UMRF Ventures, Inc. Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Year Ended June 30, 2024

Operating revenues	\$ 4,862,489
Operating expenses	(4,668,828)
Operating income	193,661
Income before other revenues, expenses, gains, or losses	193,661
Other revenues, expenses, gains, or losses	(275,086)
Decrease in net position	(81,425)
Net position at beginning of year	1,255,124
Net position at end of year	\$ 1,173,699

Note 27. Component – The Auxiliary Services Foundation

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

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

Notes to the Financial Statements (Continued)

During the year ended June 30, 2024, the ASF made distributions of \$2,600,537 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the ASF can be obtained from Haley Prewett, Senior Associate Athletic Director, 570 Normal Street, Memphis TN 38152.

Cash and Cash Equivalents

Deposits with financial institutions consist of demand deposits with local banks or with banks affiliated with the foundation's investment broker. The foundation had deposits held in financial institutions which were in excess of FDIC coverage by \$6,563,942 at June 30, 2024.

Liquidity and Availability

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.

	At June 30, 2024
Financial assets to meet cash needs for general expenses within one year:	
Cash	\$ 6,750,957
Due from affiliate	2,074,005
Less assets not available for general expenses	(213,631)
Total	\$ 8,611,331

Capital Assets

Capital assets activity for the year ended June 30, 2024, was as follows:

Notes to the Financial Statements (Continued)

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	\$ 2,310,088.00	\$ -	\$ -	\$ -	\$ 2,310,088.00
Buildings	158,400.00	428,659.00	-	-	587,059.00
Art and historical treasures	750,000.00	-	-	-	750,000.00
Capital assets, net	\$ 3,218,488.00	\$ 428,659.00	\$ -	\$ -	\$ 3,647,147.00

Art and historical treasures is comprised of the donation of a historical document valued at \$750,000. The document is the entire speech of Dr. Martin Luther King Jr. delivered on July 6, 1965, at the fifth General Synod of the United Church of Christ in Chicago. The additions during the fiscal year included the purchase of property. As ASF management has not yet decided what will be done with this property or its other properties, they are currently not being depreciated.

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.

The foundation received transfers from the University of Memphis Foundation, an organization affiliated with the University, of \$4,095,950 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 revenues, expenses, and changes in net assets.

At June 30, 2024, receivables include \$2,010,283 due from the University of Memphis Foundation.

Commitments

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

Notes to the Financial Statements (Continued)

Commitments As of June 30, 2024

	Contract Amount	Expended through June 30, 2024	Commitment Remaining June 30, 2024
Larry Finch Center Updates	\$ 250,000	\$ 241,630	\$ 8,370
Athletics Communications Total	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 Counseling	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
Total	\$ 4,670,415	\$ 2,329,674	\$ 2,340,741

Long-term Liabilities

Long-term liabilities at June 30, 2024, consisted of the following:

	Ending Balance	Current Portion
Loans	\$ 6,801,788	\$ 1,857,147
Total long-term liabilities	\$ 6,801,788	\$ 1,857,147

Notes payable – The ASF owes money for a promissory note, repayable in quarterly principal installments, which accrues interest at a variable rate per annum equal to the 30-day SOFR rate plus 2.20% (7.53% at June 30, 2024). The note matures on December 10, 2027. The balance owed by the foundation was \$6,801,788 at June 30, 2024.

Notes to the Financial Statements (Continued)

Debt service requirements to maturity for loans payable at June 30, 2024, are as follows:

Year Ending June 30	Principal
2025	\$ 1,857,147
2026	1,913,492
2027	1,971,546
2028	1,059,603
Total	\$ 6,801,788

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.

Derivative Instruments and Fair Value Measurements

The ASF entered into an interest rate swap contract under which the ASF 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 ASF'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.

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

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

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

Notes to the Financial Statements (Continued)

The fair value measurement of the interest rate swap asset is based on other observable inputs (Level 2). The fair value of the foundation's swap asset is provided by a third party who derives the valuation from a proprietary model based upon recognized financial principles. Among other factors, the model takes into consideration the notional amount, number of payments, number of days, fixed interest rates, forward interest rates, and a present value discount factor.

The following tables set forth by level, within the fair value hierarchy, the foundation's asset measured at fair value on a recurring basis as of June 30, 2024:

	June 30, 2024	Observable Inputs (Level 2)
Assets:		
Interest rate swap	\$ 474,064	\$ 474,064
Total assets at fair value	\$ 474,064	\$ 474,064

Natural Classifications With Functional Classifications

The ASF's operating expenses by functional classification for the year ended June 30, 2024, are as follows:

Functional Classification	Other Operating	Payments Made to or on Behalf of the University	Total
Support activities	\$ 158,673	\$ -	\$ 158,673
Payments made to or on behalf of the university	-	2,600,537	2,600,537
Total expenses	\$ 158,673	\$ 2,600,537	\$ 2,759,210

Subsequent Events

Effective October 30, 2024, the City of Memphis and the ASF entered into an agreement providing for the transfer of ownership of the Simmons Bank Liberty Stadium (Stadium) from the City of Memphis to ASF. In connection with the transfer a significant stadium renovation project has begun by the City of Memphis and will be completed by ASF. The project is expected to be completed by the fall of 2026.

The renovation is being financed with \$120 million transfer of funds from the State of Tennessee to the City of Memphis. Remaining construction funds will be transferred to ASF by the City of Memphis. Additional renovation costs of approximately \$105 million will come through fundraising.

Notes to the Financial Statements (Continued)

Subsequent to year-end, approximately \$75 million 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 unpaid pledge payment schedules.

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

	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2024	1.804180%	\$ 19,917,287	\$ 38,466,943	51.78%	94.48%
2023	1.874023%	22,326,368	39,250,039	56.88%	93.80%
2022	1.976849%	(12,095,312)	41,724,304	28.99%	103.30%
2021	1.947908%	31,912,779	43,117,121	74.01%	90.58%
2020	1.954592%	27,602,054	44,069,482	62.63%	91.67%
2019	1.985131%	32,068,037	45,932,958	69.81%	90.26%
2018	1.981436%	35,459,769	46,572,218	76.14%	88.88%
2017	2.053060%	37,459,409	50,105,908	74.76%	87.96%
2016	1.964990%	25,334,267	51,295,006	49.39%	91.26%
2015	2.010010%	13,868,304	54,942,068	25.24%	95.11%

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

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

	Proportion of the Net Pension Asset	Proportionate Share of the Net Pension Asset	Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2024	2.397035%	\$ 172,655	\$ 43,701,569	0.40%	101.03%
2023	2.534796%	632,148	36,767,277	1.72%	104.81%
2022	2.539731%	2,152,333	32,165,085	6.69%	121.71%
2021	2.540327%	894,533	29,077,960	3.08%	112.90%
2020	2.583001%	1,071,365	24,223,009	4.42%	122.36%
2019	2.470528%	952,959	18,163,681	5.25%	132.39%
2018	2.337078%	484,675	12,356,829	3.92%	131.51%
2017	2.497908%	210,436	7,702,818	2.73%	130.56%
2016	2.108964%	58,650	2,390,611	2.45%	142.55%

- 1) To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.
- 2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information is available.

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

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2024	\$ 8,478,376	\$ 13,814,668	\$ (5,336,292)	\$ 38,625,859	35.77%
2023	8,416,567	14,851,144	(6,434,577)	38,466,943	38.61%
2022	8,046,292	12,731,350	(4,685,058)	39,250,039	32.44%
2021	8,440,840	8,440,840	-	41,724,304	20.23%
2020	8,476,846	8,476,846	-	43,117,121	19.66%
2019	8,474,745	8,474,745	-	44,069,482	19.23%
2018	8,667,550	8,667,550	-	45,932,958	18.87%
2017	6,995,147	6,995,147	-	46,572,218	15.02%
2016	7,530,918	7,530,918	-	50,105,908	15.03%
2015	7,709,639	7,709,639	-	51,295,006	15.03%

Notes to Schedule:

- 1) To correspond with the reporting date, the amounts presented were determined as of June 30 of the stated fiscal year.
- 2) Additional contributions were made to the plan by the State of Tennessee on behalf of the university for the years ended June 30, 2024, June 30, 2023, and June 30, 2022.

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

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2024	\$ 1,287,432	\$ 1,287,432	\$ -	\$ 50,094,630	2.57%
2023	1,083,557	1,083,557	-	43,701,569	2.48%
2022	683,858	683,858	-	36,767,277	1.86%
2021	578,804	578,804	-	32,165,085	1.80%
2020	503,051	503,051	-	29,077,960	1.73%
2019	402,220	402,220	-	24,223,009	1.66%
2018	708,946	708,946	-	18,163,681	3.90%
2017	483,152	483,152	-	12,356,829	3.91%
2016	283,442	283,442	-	7,702,818	3.68%
2015	92,517	92,517	-	2,390,611	3.87%

Notes to Schedule:

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

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

	University's Proportion of the Collective Total/Net OPEB Liability	University's Proportionate Share of the Collective Total/Net OPEB Liability	University's Covered- employee Payroll	University's Proportionate Share of the Collective Total/Net OPEB Liability as a Percentage of Its Covered-employee Payroll	OPEB Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2024	2.015918%	\$ 8,045,339	\$ 79,970,563	10.06%	68.44%
2023	2.013315%	14,253,826	82,489,326	17.28%	39.00%
2022	2.047646%	14,600,366	83,586,188	17.47%	39.00%
2021	2.023875%	16,941,383	89,308,913	18.97%	25.20%
2020	2.016082%	19,196,730	91,875,711	20.89%	18.33%
2019	2.147529%	29,748,396	119,564,847	24.88%	N/A
2018	2.003563%	26,898,652	103,838,371	25.90%	N/A

- 1) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.
- 2) The amounts reported for each fiscal year were determined as of the prior fiscal year-end.
- 3) During fiscal year 2019, the plan transitioned from a pay-as-you-go OPEB plan to a prefunding arrangement where assets are accumulated in a qualifying trust and benefits are paid from that trust. This change was reflected in the June 30, 2020, reporting period due to the one-year lookback on OPEB measurement.
- 4) The OPEB liability measured as of June 30, 2019, was measured with a 6% discount rate. This was a significant increase from the rate used in prior years and was due to the OPEB plan's transition from pay-as-you-go funding to a prefunding arrangement through a qualifying trust.

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

	Actuarially Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered-employee Payroll	Contributions as a Percentage of Covered-employee Payroll
2024	\$ 2,740,826	\$ 2,740,826	\$ -	\$ 75,233,828	3.64%
2023	2,871,248	2,871,248	-	79,970,563	3.59%
2022	3,127,668	3,127,668	-	82,489,326	3.79%
2021	3,441,007	3,441,007	-	83,586,188	4.12%
2020	3,346,796	3,346,796	-	89,308,913	3.75%
2019	3,253,335	2,808,396	444,939	91,875,711	3.06%

- 1) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.
- 2) Actuarially determined contribution rates are determined based on valuations as of June 30 two years prior to the fiscal year-end in which the contributions are reported.

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

	University's Proportion of the Collective Total OPEB Liability	Primary Government's Proportionate Share of the Collective Total OPEB Liability	University's Covered-employee Payroll	University's Proportionate Share of the Collective Total OPEB Liability as a Percentage of Its Covered- employee Payroll
2024	0.00%	\$ 4,601,659	\$ 99,301,058	0.00%
2023	0.00%	4,469,019	101,336,854	0.00%
2022	0.00%	5,286,168	102,151,546	0.00%
2021	0.00%	5,866,886	111,874,928	0.00%
2020	0.00%	5,037,419	114,003,275	0.00%
2019	0.00%	5,321,549	99,528,541	0.00%
2018	0.00%	4,931,306	106,767,792	0.00%

- 1) There are no assets accumulating in a trust that meets the criteria in paragraph 4 of GASB Statement 75 related to this OPEB plan.
- 2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.
- 3) The amounts reported for each fiscal year were determined as of the prior fiscal year-end.



JASON E. MUMPOWER
Comptroller

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

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

We have audited the financial statements of the University of Memphis, an institution of the State University and Community College System of Tennessee, which is a component unit of the State of Tennessee, and its discretely presented component units as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated December 12, 2024. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our report includes a reference to other auditors who audited the financial statements of the University of Memphis Foundation, the University of Memphis Research Foundation, the Auxiliary Services Foundation, and the Herbert Herff Trust, as described in our report on the University of Memphis's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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.

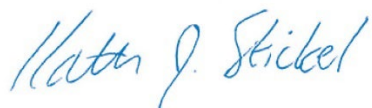
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 university's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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



Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
December 12, 2024