Financial and Compliance Audit Report

The University of Memphis

For the Year Ended June 30, 2020

Jason E. Mumpower
Comptroller of the Treasury

Division of State Audit

Katherine J. Stickel, CPA, CGFM
Deborah V. Loveless, CPA, CGFM, CGMA
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Assistant Director

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In-Charge Auditor

Davis Griffin
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Technical Manager

Amy Brack
Editor

Amanda Adams
Assistant Editor

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

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Jason E. Mumpower
Comptroller

February 11, 2021

The Honorable Bill Lee, Governor
Members of the General Assembly
Dr. M. David Rudd, 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, 2020. 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,

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

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Audit Report

The University of Memphis

For the Year Ended June 30, 2020

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Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

The audit report contains no findings.

Tennessee Comptroller of the Treasury

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Comptroller

Jason E. Mumpower
Deputy Comptroller

Independent Auditor's Report

The Honorable Bill Lee, Governor
Members of the General Assembly
Dr. M. David Rudd, President

Report on the Financial Statements

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, 2020, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those statements were audited by other auditors, whose reports have been furnished to us. Our opinions, insofar as they relate to the amounts included for the foundations, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the university's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Memphis and its discretely presented component units as of June 30, 2020; and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2020, 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 3, the financial statements of the Herff Trust Investments, a blended component unit of the University of Memphis, include investments valued at $1,323,150 (0.2% of the net position of the university), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

As discussed in Note 21, the financial statements of the University of Memphis Foundation, a discretely presented component unit of the University of Memphis, include investments valued at $22,634,309 (16.8% of the 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 15; the schedule of the University of Memphis's proportionate share of the net pension liability – Closed State and Higher Education Employee Pension Plan within TCRS on page 70; 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 71; the schedule of the University of Memphis's contributions – Closed State and Higher Education Employee Pension Plan within TCRS on page 72; the schedule of the University of Memphis's contributions – State and Higher Education Employee Retirement Plan within TCRS on page 73; the schedule of the University of Memphis's proportionate share of the collective net OPEB liability – Closed State Employee Group OPEB Plan on page 74; the schedule of the University of Memphis's contributions – Closed State Employee Group OPEB Plan on page 75; and the schedule of the University of Memphis's proportionate share of the collective total OPEB liability – Closed Tennessee OPEB Plan on page 76 be presented to supplement the basic financial statements. Such information, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the university's basic financial statements. The supplementary schedule of cash flows – component unit on page 77 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary schedule of cash flows – component unit is the responsibility of the university's management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit and the procedures performed as described above, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2020, 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 11, 2020

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, 2020, with comparative information presented for the fiscal years ended June 30, 2019. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and the notes. The financial statements, notes, and this discussion are the responsibility of management.

The university has included a blended component unit, the Herff Trust (the trust). The university also has three discretely presented component units: the University of Memphis Foundation (UMF), the University of Memphis Research Foundation (UMRF), and the Auxiliary Services Foundation. More detailed information about the foundations is presented in Notes 20, 21, 22, and 23 to the financial statements. This discussion and analysis focuses on the university and trust and does not include the other component units.

Overview of the Financial Statements

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The financial statements are presented on a consolidated basis to focus on the university as a whole. The full scope of the university's activities is considered 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, 2020, and June 30, 2019.

Summary of Net Position
(in thousands of dollars)

	2020	2019
Assets:		
Current assets	$ 40,388	$ 44,053
Capital assets, net	602,931	574,251
Other assets	243,831	223,336
Total Assets	**887,150**	**841,640**
Deferred Outflows of Resources		
Deferred amount on debt refunding	2,345	2,565
Deferred outflows related to OPEB	5,813	5,764
Deferred outflows related to pension	12,352	16,231
Total Deferred Outflows of Resources	**20,510**	**24,560**

Liabilities:		
Current liabilities	55,360	57,619
Noncurrent liabilities	250,221	251,406
Total Liabilities	**305,581**	**309,025**
Deferred Inflows of Resources		
Deferred amount on debt refunding	65	71
Deferred inflows related to OPEB	10,218	2,013
Deferred inflows related to pension	4,760	1,808
Total Deferred Inflows of Resources	**15,043**	**3,892**
Net Position:		
Net investment in capital assets	411,592	395,320
Restricted – nonexpendable	3,959	3,933
Restricted – expendable	39,269	36,542
Unrestricted	132,216	117,488
Total Net Position	**$587,036**	**$553,283**

Comparison of FY 2020 to FY 2019

- Current assets decreased by $3.32 million. This was primarily attributed to lower receivables for athletics from the UMF. Gifts for athletics were severely impacted by COVID-19.
- Capital assets net of accumulated depreciation increased by $28.7 million. Capital additions of $50.3 million represent $18 million of projects in progress and $32.4 million in completed projects. Completed projects primarily consist of the indoor football practice facility ($10.4 million), the land bridge and parking garage ($3.1 million), dining facilities improvements ($4.3 million), improvements and safety updates ($9 million), equipment ($4.3 million) and others ($1.3 million). Projects in progress include the student recreation facility ($10.5 million) and additional investment in dining facilities ($1.5 million), among others.
- Other assets increased by $20.1 million. This was primarily due to the strategic transfer of $17.2 million in noncurrent cash resources to investments and related appreciation in fair value of the portfolio by $3.2 million.
- Deferred outflows of resources related to pensions decreased by $3.8 million. This was due to improvements in actual experience ($1.6 million) and from change in assumptions ($2.2 million).
- Deferred inflows of resources related to OPEB increased by $8.2 million primarily because of a change in assumptions ($3.6 million) and changes in proportion of liability and benefits paid ($4.4 million). Deferred inflows of resources related to pension increased by $2.9 million because of a change in assumptions.
- Net investment in capital assets increased by $16.2 million. Although additions to capital assets were $28.7 million, a portion of those additions were funded by debt or unearned revenue and would, therefore, not affect net investment in capital assets.

- Restricted expendable assets increased by $2.7 million because of funding received for the Natatorium project ($2 million) and the increase in Investment in Tennessee Retirement Group Trust ($0.7 million).
- Unrestricted net position increased by $14.7 million as a result of funds set aside for strategic and academic initiatives ($6.9 million), planned capital projects such as the land bridge and student recreation center ($3 million), and deferred maintenance for academic and auxiliary facilities ($4.8 million).

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

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

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

A summary of the university's revenues, expenses, and changes in net position for the years ended June 30, 2020, and June 30, 2019, follows.

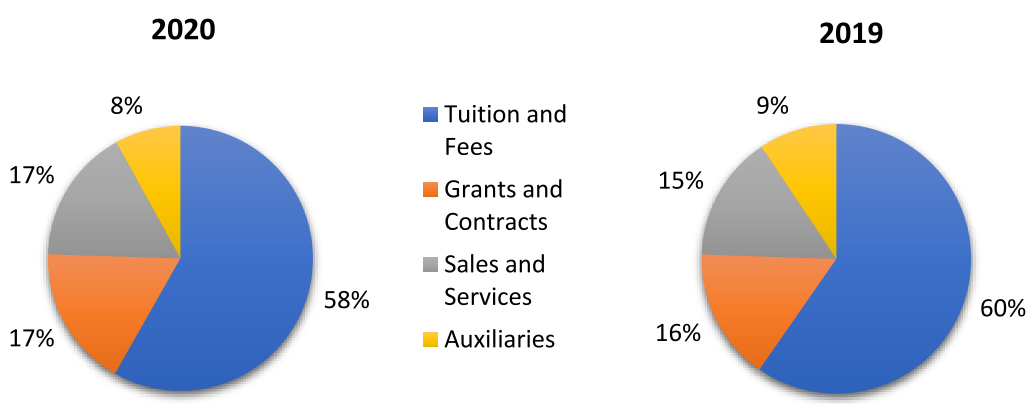
Summary of Revenues, Expenses, and Changes in Net Position
(in thousands of dollars)

	2020	2019
Operating revenues	$235,973	$225,945
Operating expenses	(460,636)	(438,794)
Operating loss	**(224,663)**	**(212,849)**

Nonoperating revenues and expenses	237,806	224,854
Income before other revenues, expenses, gains, or losses	13,143	12,005
Other revenues, expenses, gains, or losses	20,610	13,447
Increase in net position	**33,753**	**25,452**
Net position at beginning of year	553,283	502,575
Prior period adjustment	-	25,256
Net position at end of year	**$587,036**	**$553,283**

Operating Revenues

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

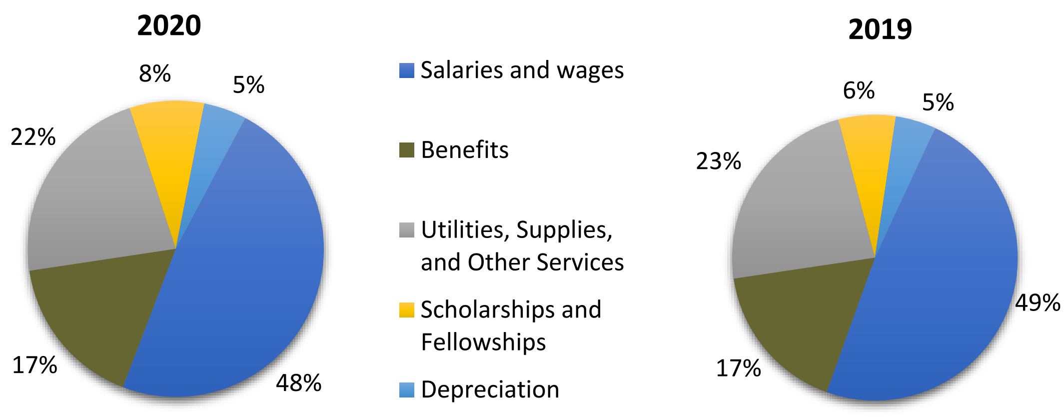


Comparison of FY 2020 to FY 2019

- Net tuition and fee revenues increased by $2.5 million in fiscal year 2020. This was primarily because of a 2.38% tuition increase for the 2019-20 academic year. It was also impacted by a restructure of student fees and changes to the method of assessing tuition and fees.
- Grants and contracts revenue increased by $5 million because of increases in research and public service projects ($3 million) and support for the Natatorium Project ($2 million).
- Sales and services income increased by $4.7 million primarily due to higher athletics conference distribution and improved ticket sales.
- Auxiliary revenues decreased by $2.2 million primarily due to refunds to students for housing and parking as a result of COVID-19 and the related decrease in revenue of auxiliary operations.

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:

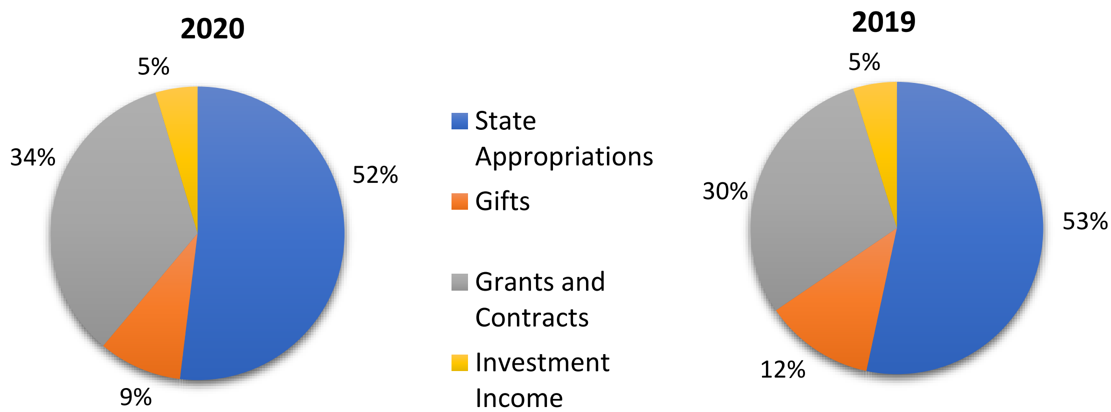


Comparison of FY 2020 to FY 2019

- Salaries and wages expenditures increased by $8.3 million due to salary increases and adjustments ($4.5 million) and investments in research faculty, graduate assistants, and other personnel for educational initiatives ($3.8 million) specifically toward achieving the Carnegie I strategic goal.
- Benefits expenditures increased by $2.1 million primarily because of additional accrual for compensated absences ($1.3 million) and benefits on salary increases and new positions ($0.8 million).
- Scholarships and fellowships expense increased by $9 million because of student aid under Higher Education Emergency Relief Fund (HEERF) ($7.8 million) and additional scholarships provided to graduate assistants ($1.2 million).
- Additional depreciation expense of $1.4 million was because of the recently completed buildings ($1 million) such as the football practice facility, the land bridge and parking garage, and dining and lighting improvements ($0.4 million).

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:

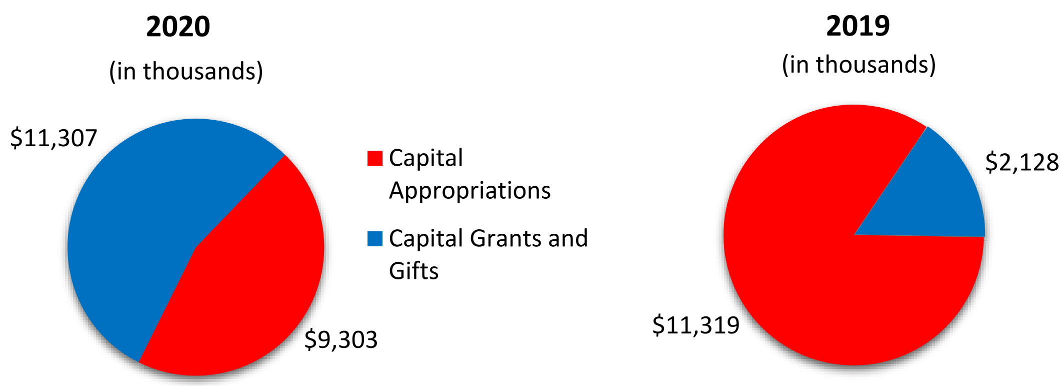


Comparison of FY 2020 to FY 2019

- A net increase of $4.2 million in state appropriations was the combined effect of an increase in appropriations, used primarily to fund salary increases ($5.3 million), and a decrease because of a health insurance premium holiday ($1.1 million).
- Gifts decreased by $5.4 million as a direct result of COVID-19 with $4.5 million of that decrease directly related to cash gifts to athletics.
- Federal and state education grants increased by $15.4 million. Of the increase, $12.3 million represents HEERF aid for the university and students. Pell grants and state grants increased by $1 million and $2.1 million, respectively, because of an annual increase in Pell awards and an additional number of students who qualified for state grants.

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:



Comparison of FY 2020 to FY 2019

- Capital appropriations of $9.3 million, compared to the previous year's amount of $11.3 million, was for the Lambuth campus classroom conversion and various building repair and roof replacement projects.
- Capital grants and gifts increased by $9.2 million because of the Football Practice Facility completed in 2020.

Capital Assets and Debt Administration

Capital Assets

The University of Memphis had $602.9 million invested in capital assets, net of accumulated depreciation of $308.5 million at June 30, 2020; and $574.2 million invested in capital assets, net of accumulated depreciation of $295.9 million at June 30, 2019. Depreciation charges totaled $21.6 and $20.2 million for the years ended June 30, 2020, and June 30, 2019, respectively.

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

	2020	2019
Land	$ 19,060	$ 18,817
Land improvements & infrastructure	97,151	87,566
Buildings	439,345	389,946
Equipment	15,282	14,309
Library holdings	3,945	4,327
Intangible assets	1,223	1,282
Art and Historical Collections	2,166	2,166
Projects in progress	24,759	55,838
Total	$602,931	$574,251

At June 30, 2020, outstanding commitments under construction contracts totaled $73.3 million for the Rudi E. Scheidt School of Music building and various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $53.9 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 $187.8 million and $181.4 million in debt outstanding at June 30, 2020, and June 30, 2019, respectively. The table below summarizes these amounts by type of debt instrument.

Outstanding Debt
(in thousands of dollars)

	2020	2019
TSSBA Bonds Payable	$186,270	$142,629
TSSBA Revolving Credit Facility	-	36,758
GO Commercial Paper	1,577	2,037
Total	$187,847	$181,424

The TSSBA issued bonds with interest rates ranging from 1.9% 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 $186.3 million outstanding at June 30, 2020, is $7.8 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, 2020, is $1.5 million.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2020, 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 8 to the financial statements.

Economic Factors That Will Affect the Future

For fiscal year 2020-2021, the university's state appropriations remained at the same level as 2019-20. The university will receive $3 million in capital maintenance funding for 2020-21 and $32.9 million to fund the STEM Research and Classroom Building.

On March 11, 2020, the World Health Organization declared the COVID-19 virus to be a global pandemic. The university created the Health Preparedness Committee and was proactively monitoring the outbreak. This committee was coordinating with appropriate State of Tennessee authorities regarding recommendations, guidelines and preparations for any potential impact of the virus.

In addition to following guidelines from the Centers for Disease Control and Prevention (CDC), the university made operational changes and put in place mitigation strategies to manage, to the extent practical, the transmission of the virus on the university campus. All spring 2020 and summer 2020 classes were moved to an on-line delivery format, and students were encouraged to return home where feasible. Housing and dining services continued to support students who remained in campus housing and continued with their course work. On the issuance of the shelter in place orders by the county and upon the issue of the governor's safety directives, all non-essential personnel were asked to work from home. International travel was discontinued, and domestic travel was severely restricted. In the best interest of public health, athletics activities were suspended, and university sponsored events were either cancelled, postponed, or reformatted to comply with CDC guidelines.

The operational changes implemented along with mandates from federal, state and local authorities have resulted in a drastic decline in economic activity. The financial strain which impacted fiscal year 2020 is expected to continue into future periods. The following financial strategies are being employed to secure the university's well-being during this time:

- Moratorium on all non-essential employment actions
- Planned reduction of operating expenses
- Targeted personnel actions to reduce expenses, particularly in auxiliary units

The long-term impact of COVID-19 on the university's finances and operations cannot be fully determined at this time. It could have a negative impact on the state's funding for higher education, university enrollment, the fair value of university's investments, and demand for on-campus housing and dining and other auxiliary services and units which rely on fee or other self-generated revenues. The university is actively monitoring and employing strategies to mitigate the negative impacts on the institution's finances to the extent practical.

UNIVERSITY OF MEMPHIS
Statement of Net Position
June 30, 2020

	University	University of Memphis Foundation	University of Memphis Research Foundation	The Auxiliary Services Foundation
Assets				
Current assets:				
Cash and cash equivalents (Notes 2, 20, 21, 22, and 23)	$ 7,643,779.96	$ 4,666,916.00	$ 1,147,639.00	$ 3,924,227.00
Accounts, notes, and grants receivable (net) (Note 5)	21,160,306.40	-	813,260.00	-
Due from affiliate	-	-	-	2,100,870.00
Due from State of Tennessee	2,992,717.17	-	-	-
Due from component units	5,786,939.00	-	-	-
Pledges receivable (net) (Note 21)	-	4,672,060.00	-	-
Inventories	572,694.84	-	-	-
Prepaid expenses	1,173,596.08	-	4,770.00	-
Accrued interest receivable	1,058,256.46	187,498.00	-	-
Total current assets	40,388,289.91	9,526,474.00	1,965,669.00	6,025,097.00
Noncurrent assets:				
Cash and cash equivalents (Note 2)	34,243,359.22	-	-	-
Investment in Tennessee Retiree Group Trust	1,248,624.00	-	-	-
Investments (Notes 3, 4, 20, 21, and 22)	204,006,216.33	128,003,339.00	2,032,106.00	-
Accounts, notes, and grants receivable (net) (Note 5)	2,917,973.44	-	-	-
Due from component units	340,805.00	-	-	-
Pledges receivable (net) (Note 21)	-	4,489,645.00	-	-
Capital assets (net) (Notes 6, 22, and 23)	602,930,879.43	-	693,208.00	750,000.00
Net pension asset (Note 11)	1,071,365.00	-	-	-
Other assets	2,500.00	135,022.00	109,548.00	324,649.00
Total noncurrent assets	846,761,722.42	132,628,006.00	2,834,862.00	1,074,649.00
Total assets	887,150,012.33	142,154,480.00	4,800,531.00	7,099,746.00
Deferred outflows of resources				
Deferred amount on debt refunding	2,345,653.91	-	-	-
Deferred outflows related to OPEB (Note 12)	5,812,971.00	-	-	-
Deferred outflows related to pensions (Note 11)	12,352,491.00	-	-	-
Total deferred outflows of resources	20,511,115.91	-	-	-
Liabilities				
Current liabilities:				
Accounts payable (Note 7)	5,621,040.68	345,442.00	20,406.00	1,230,614.00
Accrued liabilities	16,000,857.88	148,925.00	129,491.00	-
Due to affiliate	-	2,100,870.00	-	-
Due to State of Tennessee	1,313,700.89	-	-	-
Due to UOM (Notes 21, 22, and 23)	-	5,083,331.00	574,608.00	129,000.00
Student deposits	2,711,711.68	-	-	-
Unearned revenue (Note 8)	16,670,804.02	-	619,189.00	-
Compensated absences (Note 8)	2,903,859.29	-	-	-
Accrued interest payable	1,327,192.76	-	-	-
Long-term liabilities, current portion (Notes 8 and 22)	7,858,269.19	-	363,515.00	-
Deposits held in custody for others	791,063.06	-	-	-
Other liabilities	161,148.00	-	-	-
Total current liabilities	55,359,647.45	7,678,568.00	1,707,209.00	1,359,614.00
Noncurrent liabilities:				
Due to UOM (Note 22)	-	-	340,805.00	-
Net OPEB liability (Note 12)	19,196,730.00	-	-	-
Net pension liability (Note 11)	27,602,054.00	-	-	-
Unearned revenue (Note 8)	5,457,683.86	-	-	-
Compensated absences (Note 8)	9,713,795.94	-	-	-
Long-term liabilities (Note 8, 22)	179,988,571.26	-	366,301.00	-
Due to grantors (Note 8)	3,662,245.37	-	-	-
Other liabilities	4,600,742.65	-	-	-
Total noncurrent liabilities	250,221,823.08	-	707,106.00	-
Total liabilities	305,581,470.53	7,678,568.00	2,414,315.00	1,359,614.00
Deferred inflows of resources				
Deferred amount on debt refunding	65,050.04	-	-	-
Deferred inflows related to OPEB (Note 12)	10,218,419.00	-	-	-
Deferred inflows related to pensions (Note 11)	4,759,528.00	-	-	-
Total deferred inflows of resources	15,042,997.04	-	-	-
Net position				
Net investment in capital assets	411,592,392.00	-	693,208.00	750,000.00
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	1,371,942.91	39,868,252.00	-	-
Research	-	2,256,227.00	-	-
Instructional department uses	-	22,960,359.00	-	-
Loans	2,526,942.56	-	-	-
Other	60,000.00	18,134,250.00	-	-
Expendable:				
Scholarships and fellowships	1,047,391.80	10,701,803.00	-	-
Research	1,391,659.45	3,342,768.00	218,780.00	-
Instructional department uses	1,769,031.18	17,975,670.00	-	-
Loans	2,476,955.70	5,501,087.00	-	-
Capital projects	38,710.60	11,577,851.00	-	1,896,280.00
Pension	1,071,365.00	-	-	-
Herff assets for university support	25,940,905.00	-	-	-
Other	5,533,019.37	-	-	3,093,852.00
Unrestricted	132,216,345.10	2,157,645.00	1,474,228.00	-
Total net position	$ 587,036,660.67	$ 134,475,912.00	$ 2,386,216.00	$ 5,740,132.00

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, 2020

	University	University of Memphis Foundation	University of Memphis Research Foundation	The Auxiliary Services Foundation
Revenues				
Operating revenues:				
Student tuition and fees (Note 13)	$ 137,218,723.59	$ -	$ -	$ -
Gifts and contributions	-	9,270,419.00	132,511.00	-
Contributions from affiliate	-	-	-	6,745,435.00
Governmental grants and contracts	34,799,338.88	-	-	-
Nongovernmental grants and contracts (including $755,472.00 from component units)	6,004,187.18	-	5,773,180.00	-
Sales and services of educational activities (Note 13)	3,318,192.39	-	-	-
Sales and services of other activities (Note 13)	35,532,337.05	6,009,798.00	85,427.00	-
Auxiliary enterprises:				
Residential life (Note 13)	4,057,988.99	-	-	-
Bookstore	607,200.00	-	-	-
Food service	9,003,942.89	-	-	-
Other auxiliaries (Note 13)	5,270,051.36	-	-	-
Interest earned on loans to students (Note 13)	161,601.96	-	-	-
Total operating revenues	235,973,564.29	15,280,217.00	5,991,118.00	6,745,435.00
Expenses				
Operating expenses (Notes 18, 21, 22, and 23):				
Salaries and wages	221,299,288.22	427,014.00	3,631,337.00	10,966.00
Benefits	77,421,301.83	146,928.00	306,725.00	3,903.00
Utilities, supplies, and other services	102,877,411.72	91,876.00	641,716.00	42,295.00
Scholarships and fellowships	37,442,851.50	-	-	-
Depreciation expense	21,594,935.39	-	144,093.00	-
Payments to or on behalf of UOM	-	25,134,705.00	943,072.00	10,482,108.00
Total operating expenses	460,635,788.66	25,800,523.00	5,666,943.00	10,539,272.00
Operating income (loss)	(224,662,224.37)	(10,520,306.00)	324,175.00	(3,793,837.00)
Nonoperating revenues (expenses)				
State appropriations	126,729,637.50	-	-	-
Gifts, including $17,800,906.00 from component unit	22,416,559.89	-	-	-
Grants and contracts	83,631,866.23	-	-	-
Investment income (expense) (net of investment expense for the university of $296,861.92, $454,852.00 for the UOMF, and $19,878.00 for the UMRF)	11,300,063.58	(615,046.00)	8,801.00	115,577.00
Interest on capital asset-related debt	(6,316,036.85)	-	-	-
Bond issuance costs	(195,274.98)	-	-	-
Other nonoperating revenues (expenses)	238,820.92	-	141,474.00	-
Total nonoperating revenues (expenses)	237,805,636.29	(615,046.00)	150,275.00	115,577.00
Income (loss) before other revenues, expenses, gains, or losses	13,143,411.92	(11,135,352.00)	474,450.00	(3,678,260.00)
Capital appropriations	9,302,386.80	-	-	-
Capital grants and gifts, including $11,059,208.00 from the component unit	11,307,240.59	-	-	750,000.00
Additions to permanent endowments	-	3,059,802.00	-	-
Total other revenues	20,609,627.39	3,059,802.00	-	750,000.00
Increase in net position	33,753,039.31	(8,075,550.00)	474,450.00	(2,928,260.00)
Net position - beginning of year	553,283,621.36	142,551,462.00	1,911,766.00	8,668,392.00
Net position - end of year	$ 587,036,660.67	$ 134,475,912.00	$ 2,386,216.00	$ 5,740,132.00

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, 2020

Cash flows from operating activities	
Tuition and fees	$ 135,678,517.11
Grants and contracts	36,907,688.83
Sales and services of educational activities	2,141,929.78
Sales and services of other activities	34,599,066.43
Payments to suppliers and vendors	(104,160,302.52)
Payments to employees	(221,976,443.05)
Payments for benefits	(75,517,425.70)
Payments for scholarships and fellowships	(37,442,851.50)
Collection of loans from students	(120,058.23)
Interest earned on loans to students	170,582.25
Funds received for deposits held for others	1,028,920.65
Funds disbursed for deposits held for others	(1,123,773.06)
Auxiliary enterprise charges:	
Residence halls	4,243,208.60
Bookstore	607,200.00
Food services	9,003,942.89
Other auxiliaries	5,313,167.73
Net cash used for operating activities	(210,646,629.79)
Cash flows from noncapital financing activities	
State appropriations	126,659,800.00
Gifts and grants received for other than capital or endowment purposes	110,409,610.88
Federal student loan receipts	103,730,095.00
Federal student loan disbursements	(103,730,095.00)
Net cash provided by noncapital financing activities	237,069,410.88
Cash flows from capital and related financing activities	
Capital grants and gifts received	469,012.95
Proceeds from sale of capital assets	186,865.83
Purchases of capital assets and construction	(10,407,682.41)
Principal paid on capital debt	(7,041,565.14)
Interest paid on capital debt	(7,292,132.28)
Net cash used for capital and related financing activities	(24,085,501.05)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	86,084,063.19
Income on investments	14,826,145.32
Purchase of investments	(111,860,342.74)
Other investing receipts	44,235.00
Net cash used for investing activities	(10,905,899.23)
Net decrease in cash and cash equivalents	(8,568,619.19)
Cash and cash equivalents - beginning of year	50,455,758.37
Cash and cash equivalents - end of year	$ 41,887,139.18

UNIVERSITY OF MEMPHIS
Statement of Cash Flows (continued)
For the Year Ended June 30, 2020

Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (224,662,224.37)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Noncash operating expenses	22,189,846.61
Change in assets, liabilities, and deferrals:	
Receivables, net	(8,228,944.05)
Inventories	27,524.08
Prepaid items	519,315.14
Net pension asset	(118,406.00)
Deferred outflows of resources	3,829,065.11
Accounts payable	(1,209,361.61)
Accrued liabilities	(563,454.75)
Unearned revenues	680,908.21
Deposits	(914,132.44)
Compensated absences	1,758,706.69
Net pension liability	(4,465,983.00)
Net OPEB liability	(10,551,666.00)
Deferred inflows of resources	11,157,029.00
Other	(94,852.41)
Net cash used for operating activities	$ (210,646,629.79)

Noncash investing, capital, or financing transactions		
Gifts in-kind - capital	$	10,838,227.64
Unrealized gains on investments	$	3,490,500.47
Loss on disposal of capital assets	$	(67,939.19)
Proceeds from capital debt	$	14,500,986.12
Capital appropriations	$	9,054,389.92
Purchase of capital assets and construction	$	(23,555,376.04)

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The University of Memphis (the university) is a part of the State University and Community College System of Tennessee (the system). The Focus on College and University Success Act of 2016 removed the six universities from the governance of the Tennessee Board of Regents, but they remain part of the system. The universities have their own local governing boards that provide governance, approve policies, set tuition and fee rates, and hire presidents. The system had limited oversight responsibilities during the transition period and 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 *Comprehensive Annual Financial Report*. That report is available at https://www.tn.gov/finance/rd-doa/fa-accfin-cafr.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 (foundation), the Auxiliary Services Foundation (ASF), and the University of Memphis Research Foundation (UMRF) are also considered component units of the university, but are discretely presented. Although the university does not control the timing or amount of receipts from the foundations, the majority of resources, or income thereon, that these organizations hold and invest are restricted to the activities of the university by their donors. Because these restricted resources held by the foundations and the resources of the ASF and the UMRF 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 20, 21, 22, and 23 for more detailed information about the component units and how to obtain their respective 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).

Basis of Accounting

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

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

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

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

Cash Equivalents

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

Inventories

Inventories are valued on an average cost basis.

Compensated Absences

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

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, and intangible assets, are reported in the statement of net position at historical cost or at acquisition value at date of donation, less accumulated depreciation/amortization. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

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

These assets, with the exception of works of art and historical treasures/collections deemed inexhaustible and land, are depreciated/amortized using the straight-line method over the estimated useful lives, which range from 5 to 60 years.

Pensions

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

Other Postemployment Benefits

For purposes of measuring the net other postemployment benefits liability (OPEB), 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 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

This classification includes demand deposits and petty cash on hand. At June 30, 2020, cash consisted of $6,711,555.78 in bank accounts, $34,835.00 of petty cash on hand, $33,735,829.92 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, $867,187.48 in LGIP deposits for capital projects, and $537,731.00 in investment broker accounts.

The LGIP is administered by the State Treasurer and is measured at amortized cost. The LGIP is part of the State Pooled Investment Fund. The fund's required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

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

Note 3. Investments

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

Interest Rate Risk

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

At June 30, 2020, the university had the following debt investments and maturities:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasury	$ 80,445,212.41	$2,160,190.00	$ 77,768,626.82	$ 516,395.59	$ -
U.S. agencies	78,461,109.73	1,895,972.50	76,565,137.23	-	-
Corporate bonds	2,675,209.22	14,147.70	1,914,041.99	560,592.45	186,427.08
Asset-backed securities	687,656.47	-	209,775.23	-	477,881.24
Total debt investments	$162,269,187.83	$4,070,310.20	$156,457,581.27	$1,076,988.04	$664,308.32

Credit Risk

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

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

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

At June 30, 2020, the university's investments were rated as follows:

			Credit Quality Rating			
Investment Type	Balance	AAA	AA	A	BBB	Unrated
LGIP (amortized cost)	$33,735,829.92	$ -	$ -	$ -	$ -	$33,735,829.92
LGIP – capital projects (amortized cost)	867,187.48	-	-	-	-	867,187.48
U.S. government agencies	78,461,109.73	-	78,461,109.73	-	-	-
Corporate bonds	2,675,209.22	371,785.71	299,296.97	1,911,155.54	92,971.00	-
Asset-backed securities	687,656.47	-	-	-	-	687,656.47
Total	$116,426,992.82	$371,785.71	$78,760,406.70	$1,911,155.54	$92,971.00	$35,290,673.87

Alternative Investments

The university had investments in hedge funds and a private fund. The estimated fair value of these assets was $1,323,150 at June 30, 2020. The university also had investments in real estate investment funds and limited partnerships. The estimated fair value of these assets was $167,581.63 and $1,552,301, respectively.

The university believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2020. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the university's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques.

Note 4. Fair Value Measurement

The university categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The university has the following recurring fair value measurements as of June 30, 2020:

	June 30, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets by Fair Value Level				
Debt securities:				
U.S. Treasury	$80,445,212.41	$78,609,286.60	$ 1,835,925.81	$ -
U.S. agencies	78,461,109.73	-	78,461,109.73	-
Corporate bonds	2,675,209.22	-	2,675,209.22	-
Asset-backed securities	687,656.47	-	687,656.47	-
Total debt securities	162,269,187.83	78,609,286.60	83,659,901.23	-
Equity securities:				
Domestic equities	7,264,025.76	7,264,025.76	-	-
Foreign equities	3,638,954.78	3,638,954.78	-	-
Mutual funds	4,285,196.33	4,285,196.33	-	-
Money market funds	1,706,319.00	1,706,319.00	-	-
Real estate investment funds	167,581.63	-	-	167,581.63
Alternative investments	1,323,150.00	-	-	1,323,150.00
Limited partnership	1,552,301.00	-	-	1,552,301.00
Total equity securities	19,937,528.50	16,894,495.87	-	3,043,032.63
Total assets at fair value	$182,206,716.33	$95,503,782.47	$83,659,901.23	$3,043,032.63

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

Investments measured at fair value as reflected in the above spreadsheet total $182,206,716.33. Investments as reported on the Statement of Net Position totaled $204,006,216.33. The difference between these amounts represents certificates of deposit totaling $21,799,500 which are not included in the above schedule as they are not measured at fair value. The certificates of deposit are time deposits measured at amortized cost.

Note 5. Receivables

Receivables at June 30, 2020, included the following:

Student accounts receivable	$12,817,670.00
Grants receivable	9,363,331.19
Notes receivable	476,673.95
Athletics receivable	1,366,972.66
Auxiliary receivable	1,697,938.10
Other receivables	862,998.97
Subtotal	26,585,584.87
Less allowance for doubtful accounts	(5,425,278.47)
Total receivables	$21,160,306.40

Federal Perkins Loan Program funds at June 30, 2020, included the following:

Perkins loans receivable	$4,548,307.88
Less allowance for doubtful accounts	(1,630,334.44)
Total	$2,917,973.44

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 18,816,735.99	$ 243,527.00	$ -	$ -	$ 19,060,262.99
Land improvements and infrastructure	144,426,556.42	13,278,711.49	3,202,111.54	-	160,907,379.45
Buildings	577,244,560.50	13,846,032.76	45,905,366.61	-	636,995,959.87
Equipment	51,583,594.94	4,288,734.45	-	7,749,265.52	48,123,063.87
Library holdings	10,865,944.97	672,781.37	-	1,281,181.19	10,257,545.15
Intangible assets:					
Easement	1,200,000.00	-	-	-	1,200,000.00
Software	7,975,115.72	-	-	-	7,975,115.72

Art and historical collections	2,165,700.00	-	-	-	2,165,700.00
Projects in progress	55,838,057.85	18,039,231.49	(49,107,478.15)	10,642.00	24,759,169.19
Total	870,116,266.39	50,369,018.56	-	9,041,088.71	911,444,196.24
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	56,860,342.58	6,896,306.97	-	-	63,756,649.55
Buildings	187,298,480.58	10,352,246.96	-	-	197,650,727.54
Equipment	37,274,183.20	3,248,598.10	-	7,681,326.33	32,841,454.97
Library holdings	6,538,707.00	1,054,826.51	-	1,281,181.19	6,312,352.32
Intangible assets:					
Software	7,893,518.34	58,614.09	-	-	7,952,132.43
Total	295,865,231.70	21,610,592.63	-	8,962,507.52	308,513,316.81
Capital assets, net	$574,251,034.69	$28,758,425.93	$ -	$ 78,581.19	$602,930,879.43

Note 7. Accounts Payable

Accounts payable at June 30, 2020, included the following:

Vendors payable	$4,989,882.71
Other payables	631,157.97
Total accounts payable	$5,621,040.68

Note 8. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$122,772,420.29	$36,898,360.18	$ 6,572,839.14	$153,097,941.33	$ 7,858,269.19
Unamortized bond premium	19,856,767.10	14,577,586.98	1,262,400.26	33,171,953.82	-
Revolving credit facility	36,758,055.06	97,312.78	36,855,367.84	-	-
General obligation debt:					
Commercial paper	2,037,421.30	8,250.00	468,726.00	1,576,945.30	-
Subtotal	181,424,663.75	51,581,509.94	45,159,333.24	187,846,840.45	7,858,269.19

Other liabilities:					
Compensated absences	10,858,948.54	6,924,990.72	5,166,284.03	12,617,655.23	2,903,859.29
Due to grantor	3,995,521.54	86,315.76	419,591.93	3,662,245.37	-
Unearned revenue	15,675,328.82	7,714,855.68	1,261,696.62	22,128,487.88	16,670,804.02
Subtotal	30,529,798.90	14,726,162.16	6,847,572.58	38,408,388.48	19,574,663.31
Total long-term liabilities	$211,954,462.65	$66,307,672.10	$52,006,905.82	$226,255,228.93	$27,432,932.50

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 1.9% to 5.0%, 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 10 for further details. The bonded indebtedness with the TSSBA included in long-term liabilities on the statement of net position is shown net of unexpended debt proceeds. Unexpended debt proceeds were $15,988,090.73 at June 30, 2020.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2020, are as follows:

Year Ending June 30	Principal	Interest	Total
2021	$ 7,858,269.19	$ 7,911,728.78	$ 15,769,997.97
2022	7,546,379.84	7,568,257.12	15,114,636.96
2023	7,852,392.18	7,222,722.56	15,075,114.74
2024	8,094,841.22	6,864,567.18	14,959,408.40
2025	8,820,574.83	6,483,746.20	15,304,321.03
2026–2030	38,804,017.83	26,757,415.41	65,561,433.24
2031–2035	22,323,687.60	19,731,899.90	42,055,587.50
2036–2040	25,168,217.06	13,860,530.44	39,028,747.50
2041–2045	24,832,348.11	7,655,368.43	32,487,716.54
2046–2050	1,797,213.47	1,974,086.57	3,771,300.04
Total	$153,097,941.33	$106,030,322.59	$259,128,263.92

TSSBA Debt – Revolving Credit Facility

The Tennessee State School Bond Authority (TSSBA) receives loans from the revolving credit facility to finance the costs of various capital projects during the construction phase. When projects are placed in service, TSSBA issues long-term, fixed-rate debt to finance the project over its useful payback period and repays the revolving credit facility debt.

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, acquisition of certain sites and existing structures for expansion purposes on behalf of the university. The amount outstanding for projects at the university was $1,576,945.30 at June 30, 2020. More detailed information regarding the commercial paper can be found in the notes to the financial statements in Tennessee's *Comprehensive Annual Financial Report*, which is available on the state's website at www.tn.gov/finance/rd-doa/fa-accfin-cafr.html.

Note 9. Endowments

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

The university chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the university, all interest earnings, with the exception of five endowment accounts that require any interest generated in excess of expenses be reapplied to the principal, 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, 2020, net appreciation of $359,868.17 is available to be spent, of which $134,644.24 is included in restricted net position expendable for scholarships and fellowships, $12,268.65 is included in restricted net position expendable for instructional department uses, $209,493.63 is included in restricted net position expendable for loans, and $3,461.65 is included in restricted net position expendable for other.

Note 10. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $153,097,941.33 in revenue bonds issued from May 1992 to September 2019 (see Note 8 for further detail). Proceeds from the bonds provided financing for construction and renovation of various facilities, as well as building systems and equipment. The bonds are payable through 2050. Annual principal and interest payments on the bonds are expected to require 2.54% of available revenues. The total principal and interest remaining to be paid on the bonds is $259,128,263.92. Principal and interest paid for the current year and total available revenues were $14,372,591.13 and $438,707,286.93, respectively.

Note 11. Pension Plans

Defined Benefit Plans

Closed State and Higher Education Employee Pension Plan

General Information About the Pension Plan

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

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

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

Average of member's highest compensation for 5 consecutive years (up to Social Security integration level)	x	1.50%	x	Years of Service Credit	x	105%
Plus:						
Average of member's highest compensation for 5 consecutive years (over the Social Security integration level)	x	1.75%	x	Years of Service Credit	x	105%

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

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, 2020, to the Closed State and Higher Education Employee Pension Plan were $8,476,846, which is 19.66% of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension liability – At June 30, 2020, the university reported a liability of $27,602,054 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2019, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2019, measurement date, the university's proportion was 1.954592%. The proportion measured as of June 30, 2018, was 1.985131%.

Pension expense – For the year ended June 30, 2020, the university recognized a pension expense of $10,883,390.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2020, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,297,658	$ 436,364
Net difference between projected and actual earnings on pension plan investments	-	3,630,520

Changes in assumptions	1,985,518	-
Changes in proportion of net pension liability	25,656	549,124
The University of Memphis's contributions subsequent to the measurement date of June 30, 2019	8,476,846	-
Total	$11,785,678	$4,616,008

Deferred outflows of resources, resulting from the university's employer contributions of $8,476,846 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2021	$ 2,239,951
2022	$(2,482,747)
2023	$ (946,679)
2024	$ (117,701)

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, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with mortality improvement projected six years beyond each actuarial valuation date.

The actuarial assumptions used in the June 30, 2019, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. 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, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using 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 future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	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 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25%. 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 7.25%, 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 (6.25%) or 1 percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
University's proportionate share of the net pension liability	$66,610,665	$27,602,054	$(4,131,776)

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 www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2020, the university reported a payable of $722,252.96 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2020.

State and Higher Education Employee Retirement Plan

General Information About the Pension Plan

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

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

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

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. University employees contribute 5% of their salary to the State and Higher Education Employee Retirement Plan. The higher education institutions make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the university for the year ended June 30, 2020, to the State and Higher Education Employee Retirement Plan were $503,051, which is 1.73% of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension asset – At June 30, 2020, the university reported an asset of $1,071,365 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2019, 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, 2019, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2019, measurement date, the university's proportion was 2.583001%. At the June 30, 2018, measurement date, the university's proportion was 2.470528%.

Pension expense – For the year ended June 30, 2020, the university recognized a pension expense of $342,298.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2020, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 23,886	$ 34,752
Net difference between projected and actual earnings on pension plan investments	-	44,252

Changes in assumptions	29,615	-
Changes in proportion of net pension asset	10,261	64,516
The University of Memphis's contributions subsequent to the measurement date of June 30, 2019	503,051	-
Total	$566,813	$143,520

Deferred outflows of resources, resulting from the university's employer contributions of $503,051 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2021	$(19,391)
2022	$(24,954)
2023	$(13,347)
2024	$ (6,983)
2025	$ (1,765)
Thereafter	$(13,318)

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, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with generational mortality improvement.

The actuarial assumptions used in the June 30, 2019, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. 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, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best estimate of expected 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 future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	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 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25%. 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 7.25%, 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 (6.25%) or 1 percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
University's proportionate share of the net pension asset	($175,510)	$1,017,365	$2,009,353

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 www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2020, the university reported a payable of $44,095.91 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2020.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2020, for all state government defined benefit pension plans was $11,225,688.

Defined Contribution Plans

Optional Retirement Plans

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

Funding policy – For employees employed prior to July 1, 2014, plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. For employees hired after June 30, 2014, plan members will contribute 5% to the ORP and the university will contribute 9% of the employee's base salary. Pension expense equaled the required contributions made to the ORP and was $10,736,668 for the year ended June 30, 2020, and $10,451,456 for the year ended June 30, 2019. Contributions met the requirements for each year.

Members are immediately 100% vested in the employer contributions made pursuant to the ORP. The Treasury Department has selected three investment vendors who offer a variety of investment products in which members are responsible for selecting how the contributions are invested. Each member makes the decision when to reallocate future contributions or when to transfer funds from one investment product to another. Funds are held by the investment vendor in the name of the member, not in the name of the State of Tennessee. The State of Tennessee has no discretion over these funds other than to make the initial contributions. Accordingly, the State of Tennessee is not acting in a trustee capacity, nor does it have a fiduciary responsibility for the funds held by the investment vendors.

Payable to the plan – At June 30, 2020, the university reported a payable of $138,477.45 for the outstanding amount of legally required contributions to the plan required for the year ended June 30, 2020.

Deferred Compensation Plans

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

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

During the year ended June 30, 2020, contributions totaling $4,279,884 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $2,454,630 for employer contributions. During the year ended June 30, 2019, contributions totaling $4,053,677 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $2,190,830 for employer contributions.

At June 30, 2020, the university reported a payable of $32,032.38 for the outstanding amount of legally required contributions to the plan required for the year ended June 30, 2020.

Note 12. 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 chose coverage, were provided with pre-65 retiree health insurance benefits through the Closed State Employee Group OPEB Plan (EGOP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The employers participating in this plan include the State of Tennessee (primary government), the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee, and the institutions that make up the State University and Community College System. The State of Tennessee Postemployment Benefits Trust (OPEB Trust) was established to accumulate resources to pay for the retiree benefits of EGOP participants. The OPEB Trust prepares a stand-alone financial report that can be found at https://www.tn.gov/finance/rd-doa/opeb22121.html.

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

Contributions – Annually, an insurance committee, created in accordance with Title 8, Chapter 27, Section 201, *Tennessee Code Annotated*, establishes the required contributions to the plan by member employees through the premiums established to approximate claims cost for the year. Pre-age 65 retired members of the EGOP pay a premium based on a blended rate that considers the cost of active and retired employees as well as their individual years of service. Therefore, retirees pay either 20%, 30%, 40%, or 100% of the appropriate premium rate. These payments are deposited into the OPEB Trust. Employers contribute to the OPEB Trust based on an actuarially determined contribution (ADC) rate calculated in a manner to meet the funding goals of the state. The total ADC rate for plan employers for the year ended June 30, 2020, was $145.4 million. The university's share of the ADC was $3,346,796. During the fiscal year, the university contributed

$3,346,796 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 $19,196,730. At the June 30, 2019, measurement date, the university's proportion of the collective net OPEB liability was 2.016082%. The proportion existing at the prior measurement date was 2.147529%. This resulted in a change in proportion of (0.13144764%) 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, 2019, and a measurement date of June 30, 2019.

OPEB expense – For the year ended June 30, 2020, the university recognized OPEB expense of $951,043.90.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2020, the university reported deferred outflows of resources and deferred inflows of resources related to OPEB paid by the EGOP from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 1,222,316
Changes in assumptions	1,049,178	4,585,468
Net difference between actual and projected investment earnings	14,094	-
Changes in proportion and differences between benefits paid and proportionate share of benefits paid	1,402,903	4,410,635
Contributions subsequent to the measurement date	3,346,796	-
Total	$5,812,971	$10,218,419

Deferred outflows of resources, resulting from the university's employer contributions of $3,346,796 subsequent to the measurement date, will be recognized as a decrease in the collective net OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30	
2021	$(1,282,868)
2022	$(1,282,868)
2023	$(1,282,868)
2024	$(1,282,870)
2025	$(1,286,392)
Thereafter	$(1,334,378)

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, 2019, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.2%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Healthcare cost trend rates	6.03% for 2020, decreasing annually to an ultimate rate of 4.5% for 2029 and later years
Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation, a weighted average has been used with weights derived from the current distribution of members among plans offered.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2019, valuations were the same as those employed in the July 1, 2017, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012, through June 30, 2016. 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. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. 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.

Long-term expected rate of return – The long-term expected rate of return of 6% on OPEB plan 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 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. TCA 8-27-802 establishes the responsibility of the trustees to adopt written investment policies authorizing how assets in the OPEB Trust may be invested and reinvested by the State Treasurer. The treasurer may invest trust assets in any security or investment in which the Tennessee Consolidated Retirement System (TCRS) is permitted to invest, provided that investments by the OPEB Trust shall be governed by the investment policies and guidelines adopted by the trustees. Any changes to the investment policy will be the responsibility of the established trustees. The OPEB Trust investment policy target asset allocation and allocation range for each major asset class is summarized in the following table:

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

The best estimates of geometric real rates of return for each major asset class included in the target asset allocation as of June 30, 2019, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
U.S. equity	4.75%
Private equity and strategic lending	4.60%
U.S. fixed income	0.63%
Real estate	4.28%
Developed market and international equity	5.63%
Emerging market international equity	5.95%

Discount rate – The discount rate used to measure the total OPEB liability was 6%. This represents an increase of 2.38% over the 3.62% used at the prior measurement date. The projection of cash flows used to determine the single discount rate assumed that employer contributions will be made at rates equal to the ADC rates pursuant to an actuarial valuation in accordance with the state's funding goals. Inactive plan members are assumed to contribute their share of the premium rate for the coverage option in which they are enrolled. Based on those assumptions, the OPEB Trust fiduciary net position was projected to be available to make all projected future benefit payments of 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. The change in discount rate used is due to the transition of the EGOP from a pay-as-you-go arrangement to a prefunding arrangement through a qualified trust.

Changes in assumptions – The discount rate was changed from 3.62% as of the beginning of the measurement period to 6% as of June 30, 2019. This change in assumption decreased the total OPEB liability. Other minor changes in assumptions were made; however, the impact on the net OPEB liability was considered to be insignificant.

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 (expressed in thousands):

	1% Decrease (5%)	Current Discount Rate (6%)	1% Increase (7%)
University's proportionate share of the collective net OPEB liability	$20,896,040	$19,196,730	$17,621,314

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 (5.03% decreasing to 3.5%) or 1 percentage point higher (7.03% decreasing to 5.5%) than the current rate (expressed in thousands):

	1% Decrease (5.03% decreasing to 3.5%)	Healthcare Cost Trend Rates (6.03% decreasing to 4.5%)	1% Increase (7.03% decreasing to 5.5%)
University's proportionate share of the collective net OPEB liability	$16,980,978	$19,196,730	$21,768,820

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

Closed Tennessee OPEB Plan

General Information About the OPEB Plan

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

Benefits provided – The TNP is offered to help fill most of the coverage gaps created by Medicare and is the only postemployment benefit provided to eligible post-65 retired and disabled employees of participating employers. This plan does not include pharmacy. In accordance with Title 8, Chapter 27, Section 209, *Tennessee Code Annotated*, benefits are established and amended by cooperation of insurance committees created by Sections 8-27-201, 301, and 701, *Tennessee Code Annotated*. Retirees and disabled employees of the state, component units, local education agencies, and certain local governments, who have reached the age of 65, are Medicare-eligible, and also receive a benefit from the Tennessee Consolidated Retirement System, may participate in this plan. All plan members receive the same plan benefits at the same premium rates. Many retirees receive direct subsidies toward their premium cost; however, participating employers determine their own policy in this regard. The primary government contributes to the premiums of component unit retirees based on years of service. Therefore, retirees with 30 years of service receive $50 per month; 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25. The university does not provide any subsidies for retirees in the TNP. The primary government paid $214,937.50 for OPEB as the benefits came due during the reporting period. This plan is funded on a pay-as-you-go basis, and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement 75.

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

Total OPEB Liability and OPEB Expense

Proportionate share – The primary government is entirely responsible for the TNP OPEB liability associated with the university's employees. The primary government's proportionate share of the total OPEB liability associated with the university was $5,037,419. At the June 30, 2019, measurement date, the proportion of the collective total OPEB liability associated with the university was 2.88%. This represents a change of (0.20%) from the prior proportion of 3.08%. 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, 2019, and measurement date of June 30, 2019.

Actuarial assumptions – The total OPEB liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.2%
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, 2018, valuations were the same as those employed in the July 1, 2017, 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, 2012, through June 30, 2016. 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. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. 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.

Discount rate – The discount rate used to measure the total OPEB liability was 3.51%. 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 as shown on the Fidelity 20-Year Municipal GO AA index.

Changes in assumptions – The discount rate was changed from 3.62% as of the beginning of the measurement period to 3.51% as of June 30, 2019. This change in assumption increased the total OPEB liability.

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 (2.51%) or 1 percentage point higher (4.51%) than the current rate. The university does not report a proportionate share of the OPEB liability for employees in the TNP.

	1% Decrease (2.51%)	Current Discount Rate (3.51%)	1% Increase (4.51%)
Primary government's proportionate share of the collective total OPEB liability	$5,663,273	$5,037,419	$4,511,763

OPEB expense – For the year ended June 30, 2020, the primary government recognized OPEB expense of $194,975 for employees of the university participating in the TNP.

Total OPEB Expense

The total OPEB expense for the year ended June 30, 2020, was $1,146,018.90, which consisted of OPEB expense of $951,043.90 for the EGOP and $194,975.00 paid by the primary government for the TNP.

Note 13. Revenues

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

Revenue Source	Gross Revenue	Less Scholarship Allowances	Less Uncollectible Debts	Net Revenue
Operating revenues:				
Tuition and fees	$213,556,335.31	$75,353,103.81	$984,507.91	$137,218,723.59
Sales and services of educational activities	3,338,011.82	-	19,819.43	3,318,192.39
Sales and services of other activities	35,567,319.23	-	34,982.18	35,532,337.05
Residential life	14,465,314.24	10,225,229.28	182,095.97	4,057,988.99
Other auxiliaries	5,288,552.38	-	18,501.02	5,270,051.36
Interest earned on loans to students	166,361.35	-	4,759.39	161,601.96
Total	$272,381,894.33	$85,578,333.09	$1,244,665.90	$185,558,895.34

Note 14. Insurance-related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, medical malpractice liability, and workers' compensation. By statute, the maximum liability for general liability, automobile liability, and medical malpractice liability is $300,000 per person and $1,000,000 per occurrence. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The state purchases commercial insurance for real property, crime and fidelity coverage on the state's officials and employees, and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The RMF is responsible for property losses for the annual aggregate deductible of $7.5 million for perils other than earthquake and flood. Purchased insurance coverage is responsible for losses exceeding the $7.5 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The university participates in the RMF. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2020, is presented in Tennessee's *Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/rd-doa/fa-accfin-cafr.html. At June 30, 2020, the RMF held $231 million in cash designated for payment of claims.

At June 30, 2020, the scheduled coverage for the university was $1,739,366,083 for buildings and $502,910,115 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 15. Commitments and Contingencies

Sick Leave

The university records the cost of sick leave when paid. The dollar amount of unused sick leave was $84,707,710.43 at June 30, 2020.

Operating Leases

The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were $3,370,661.84 and expenses for personal property were $1,248,320.35 for the year ended June 30, 2020. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2020, outstanding commitments under construction contracts totaled $73,340,498.04 for the Rudi E. Scheidt School of Music, electric and gas utility updates, campus-wide building envelopes repairs, campus-wide boilers and hot water pipes repair, student recreation center re-roof and repairs, multiple building roof replacements, multiple building interior repairs, ADA Compliance 2020, and Lambuth Campus classroom conversion capital projects, of which $53,954,909.28 will be funded by future state capital outlay appropriations.

Litigation

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

Note 16. Chairs of Excellence

The university had $89,317,882.14 on deposit at June 30, 2020, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

Note 17. Funds Held in Trust by Others

The university is a beneficiary under the Van Vleet, Pope M. Farrington, C.M. Gooch, Mike Driver, and Herman Bensdorf trusts. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received $202,333.82 from these funds during the year ended June 30, 2020.

Note 18. Natural Classification With Functional Classifications

The university's operating expenses for the year ended June 30, 2020, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 94,085,892.97	$ 31,438,389.68	$ 12,264,267.87	$ -	$ -	$137,788,550.52
Research	36,143,047.45	15,118,215.87	11,387,993.79	-	-	62,649,257.11
Public service	6,521,301.83	1,983,179.93	3,178,104.96	-	-	11,682,586.72
Academic support	19,954,734.70	7,284,482.67	5,878,044.73	-	-	33,117,262.10
Student services	29,764,448.32	8,549,035.71	28,486,421.28	-	-	66,799,905.31
Institutional support	17,202,298.23	6,086,608.05	7,663,592.16	-	-	30,952,498.44
Maintenance and operation	15,093,838.07	6,193,871.69	16,787,942.60	-	-	38,075,652.36
Scholarships and fellowships	-	-	-	37,442,851.50	-	37,442,851.50
Auxiliary	2,533,726.65	767,518.23	17,231,044.33	-	-	20,532,289.21
Depreciation	-	-	-	-	21,594,935.39	21,594,935.39
Total	$221,299,288.22	$77,421,301.83	$102,877,411.72	$37,442,851.50	$21,594,935.39	$460,635,788.66

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services, and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling $12,461,930.62 were reallocated from academic support to the other functional areas.

Note 19. On-behalf Payments

During the year ended June 30, 2020, the State of Tennessee made payments of $214,937.50 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 12. The plan is reported in Tennessee's *Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/rd-doa/fa-accfin-cafr.html.

Note 20. 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, expenses, and changes in net position.

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

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

Herbert Herff Trust
Condensed Statement of Net Position
June 30, 2020

Assets:	
Current assets	$ 657,247
Other assets	25,477,127
Total Assets	26,134,374
Liabilities:	
Current liabilities	193,469
Total Liabilities	193,469
Net Position:	
Restricted - expendable	25,940,905
Total Net Position	$25,940,905

Herbert Herff Trust
Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2020

Nonoperating revenues and expenses	$ 121,293
Increase in net position	121,293
Net position at beginning of year	25,819,612
Net position at end of year	$25,940,905

Herbert Herff Trust
Condensed Statement of Cash Flows
For the Year Ended June 30, 2020

CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	$6,194,262
Income on investments	418,280
Purchase of investments	(6,877,605)
Other investing payments	(56,457)
Net cash used for capital and related financing activities	(321,520)
Net decrease in cash and cash equivalents	(321,520)
Cash and cash equivalents - beginning of year	859,251
Cash and cash equivalents - end of year	$ 537,731
Non-cash investing transactions	
Unrealized losses on investments	$ (717)

Note 21. Component Unit – The University of Memphis Foundation

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

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

During the year ended June 30, 2020, the foundation made distributions of $25,134,705 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from the Managing Director, 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. The following table categorizes the recurring fair value measurements for assets at June 30, 2020.

	June 30, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Investments Measured at the Net Asset Value (NAV)
Money market funds	$ 619,568	$ 619,568	$ -	$ -
U.S. equity	69,452,242	69,452,242	-	-
Fixed income	35,115,736	35,115,736	-	-
U.S. government securities	181,484	-	181,484	-
Interest in limited partnerships/LLCs	22,634,309	-	-	22,634,309
Total	$128,003,339	$105,187,546	$181,484	$22,634,309

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

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

Level 2 valuations are based on inputs other than quoted prices included in Level 1 that are observable for assets, either directly or indirectly. These inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active (i.e., markets in which there are few transactions for the assets, the prices are not current, or price quotes vary substantially either over time or among market makers), and modeling techniques based on inputs that are observable for the assets.

Level 3 valuations are based on modeling techniques using significant assumptions that are not observable in the market. The assumptions reflect the foundation’s own assumptions that market participants would use in pricing the assets.

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

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

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

	Fair Value at June 30, 2020	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Assets Measured at the NAV				
Hedged strategies-hedged equity	$1,893,212	$ -	Monthly/Quarterly /Annually	60-90 days
Private equity	7,691,582	4,877,187	Upon Liquidation	N/A
Real assets	6,523,733	4,024,093	Upon Liquidation	N/A
U.S. equity	4,781,925	-	Quarterly	60-90 days
International equity	1,743,857	-	Monthly/Quarterly	30-90 days

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.

U.S. Equity - This category generally consists of managers that invest primarily in equity securities of U.S. corporations. U.S. equity may include multiple styles (growth, value) and market capitalizations (small, mid, large). These investments will primarily be long-only.

International Equity - This category will generally consist of managers that invest primarily in equity securities of corporations domiciled in foreign countries. International equity may include multiple styles (growth, value) and market capitalizations (small, mid, large). These investments will primarily be long-only.

Cash and Cash Equivalents

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

Investments

Investments are recorded on the date of contribution and are stated at fair value. Unrealized gains and losses are determined by the difference between fair values at the beginning and end of the year.

Investments held at June 30, 2020, were as follows:

	Cost	Fair Value
Money market funds	$ 627,845	$ 619,568
U.S. equity	69,452,242	69,452,242
Fixed income	35,115,736	35,115,736
U.S. government securities	179,955	181,484
Interest in limited partnerships/LLC	20,280,896	22,634,309
Total investments	$125,656,674	$128,003,339

Alternative investments – The foundation had investments in certain limited partnerships and LLC's. The estimated fair value of these assets was $22,634,309 at June 30, 2020.

The foundation believes the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2020. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques.

Pledges Receivable

Pledges receivable at June 30, 2020, are summarized below net of the estimated uncollectible allowance of $550,775:

Current pledges	$4,672,060
Pledges due in one to five years	5,008,960
Pledges due after five years	154,250
Subtotal	9,835,270

Less allowance for uncollectible pledges	(550,775)
Less unamortized present value discount	(122,790)
Total pledges receivable, net	$9,161,705

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 20, 2020 was $642,159. Foundation operations are funded by the annual endowment administrative fee.

Endowments

The University of Memphis Foundation's endowments consist of approximately 580 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, is classified and reported based on the existence or absence of donor-imposed restrictions.

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

Endowment Net Asset Composition by Type of Fund
As of June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$96,488,206	$96,488,206
Total funds	$ -	$96,488,206	$96,488,206

Changes in Endowment Net Assets
As of June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 2,977,905	$99,850,700	$102,828,605
Investment return, net	-	(3,520,946)	(3,520,946)
Contributions	-	2,523,525	2,523,525
Appropriation of endowment assets for expenditure	(2,977,905)	(2,365,073)	(5,342,978)
Endowment net assets, end of year	$ -	$96,488,206	$ 96,488,206

Underwater endowment funds – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the foundation to retain as a fund of perpetual duration. Deficiencies of this nature exist in 168 donor-restricted endowment funds, which together have an original gift value of $35,226,728, a current value of $32,957,557, and a deficiency of $2,269,171 as of June 30, 2020. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the foundation's board.

Return objectives and risk parameters – The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds. Under this policy, as approved by the Board of 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 greater 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 twelve quarters through the fiscal year-end one year preceding the fiscal year in which the expenditure is planned. This percentage was 4% for fiscal years 2020. In establishing this policy, the foundation considered the long-term expected return on its endowment funds. Accordingly, over the long-term, the foundation expects the current spending policy to allow its 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 from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. The Board of Directors appropriated for expenditure $69,038 from underwater endowment funds during the year ended June 30, 2020, which represents 3% 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, 2020, are as follows:

Functional Classification	Salaries	Benefits	Other Operating	Payments made to/on-half of the UOM	Total
Program services	$ -	$ -	$ -	$25,134,705	$25,134,705
Support activities	427,014	146,928	91,876	-	665,818
Total	$427,014	$146,928	$91,876	$25,134,705	$25,800,523

The Foundation does not have a type of expense that requires any type of allocation.

Related Party Transactions

The foundation provided direct support to the university for general departmental expenditures, scholarships, and awards which totaled $25,959,130 for the year ended June 30, 2020. The foundation had accounts payable to the university in the amount of $5,083,330 as of June 30, 2020.

Interfund Advance

The foundation has agreed to advance up to $10,976,899 to a foundation fund as an interfund advance benefiting the athletic department of the university at a 4% annual interest rate for the purpose of providing financial support to allow the athletic department to undertake construction of a football practice facility in advance of receiving payment of donor funding commitments. The advance is to be repaid in full not later than June 30, 2025, and is secured by certain future collections of receivables and other collections related to certain Foundation funds benefiting the athletic department. Interfund advances totaling $8,067,510 were outstanding as of June 30, 2020.

Contributing Services

Based upon an operating agreement between the university and the foundation, the university provides office space and donation collection and processing services for the foundation. The university provided contributed services under the terms of the operating agreement in the amount of $216,819 for the year ended June 30, 2020.

Concentrations of Risk

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

Approximately 28% of the foundation's contributions receivable balance at June 30, 2020 was due from one donor.

Subsequent Events

On October 15, 2020, the foundation approved a resolution to transfer future donated funds designated for university athletics over to an affiliated foundation within the university. The affiliated foundation intends to secure an unsecured loan for $12,000,000 for the purpose of providing financial support to university athletics due to short term financial shortfalls within university athletics due to the impact of COVID-19 on the university's athletics revenue. The foundation is not a party to the loan agreement with the bank but has agreed to transfer future donations designated for university athletics to the affiliated foundation to cover the debt service based upon direction and approval from the university. The university has submitted the financing arrangement to the Tennessee State School Bond Authority (TSSBA) for approval, and the TSSBA approved the loan on November 12, 2020, for the university's affiliated foundation.

Note 22. Component Unit – The University of Memphis Research Foundation

The University of Memphis Research Foundation (UMRF) is a legally separate, tax-exempt organization supporting the University of Memphis. The UMRF acts primarily as 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 11-member board of the UMRF is self-perpetuating and consists of friends, and 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, this report consolidates the financial results of operations of the two entities. The exclusion of the wholly-owned subsidiary from the UMRF's reporting entity would render its financial statements incomplete. The assets, liabilities, revenues, and expenses of UMRF Ventures are included in the UMRF's statement of net position and statement of revenues, expenditures, and changes in net position. However, the condensed stand-alone statements for Ventures are shown in this report as well as a description of a notes payable to the UMRF, the most significant inter-entity activity that was eliminated during the consolidation process. Upon dissolution of the wholly-owned subsidiary, the assets shall be distributed to the UMRF.

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

During the year ended June 30, 2020, the UMRF made distributions of $943,072 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the UMRF can be obtained from Dr. Jasbir Dhaliwal, Executive Director; 365 Innovation Drive, Suite 303; Memphis, TN 38152.

Cash and Cash Equivalents

At June 30, 2020, cash consists of $1,147,639 in demand deposit accounts or with banks affiliated with the foundation's investment broker.

Investments

The UMRF is authorized to invest funds in accordance with its board of directors' policies. In accordance with GASB Statement 31, 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.

At June 30, 2020, the UMRF had the following investments:

	Fair Value
Non-fixed Income Investments:	
Mutual funds	$1,438,558
Brokered certificates of deposit	593,548
Total investments	$2,032,106

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

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

Fair Value Measurement - The UMRF categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The UMRF has the following recurring fair value measurements as of June 30, 2020:

	June 30, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets by Fair Value Level			
Equity securities:			
Mutual funds	$1,438,558	$1,438,558	$ -
Other assets:			
Brokered certificates of deposit	593,548	-	593,548
Total assets at fair value	$2,032,106	$1,438,558	$593,548

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

Capital Assets

Capital asset activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Asset:				
Leasehold improvements	$175,901	$ -	$ -	$175,901
Equipment	223,150	-	-	223,150
Patents	445,858	132,511	-	578,369
Total	844,909	132,511	-	977,420

Less accumulated depreciation/amortization:				
Leasehold improvements	22,367	58,634	-	81,001
Equipment	4,659	44,630	-	49,289
Patents	113,093	40,829	-	153,922
Total accumulated depreciation/amortization	140,119	144,093	-	284,212
Capital assets, net	$704,790	($11,582)	$ -	$693,208

Line of Credit

At June 30, 2020, UMRF Ventures had available a revolving line of credit of $55,000 with a local bank which expires on March 26, 2022. Borrowings under this line of credit agreement bear interest at 2.25% per annum. Interest is payable monthly. The line is collateralized by a deposit account held at the bank. There were no borrowings outstanding under this line of credit at June 30, 2020.

Long-term liabilities

Long term liability activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Loans	$ -	$729,816	$ -	$729,816	$363,515
Total long-term liabilities	$ -	$729,816	$ -	$729,816	$363,515

Loans Payable – UMRF Ventures borrowed funds from Paragon Bank under the Small Business Administration Paycheck Protection Program to maintain staffing during the COVID 19 pandemic and avoid employee lay-offs. The loan bears a 1% interest rate, has a principal amount of $689,700, a minimum debt service of $38,621, and a due date of March 22, 2022. The balance owed was $689,700 at June 30, 2020. Additionally, the UMRF Ventures borrowed funds from Steelcase Financial Services, Inc. to purchase operating equipment. This loan bears a 1% interest rate, has a principal amount of $40,116, a minimum debt service of $1,689, and a due date of June 30, 2022. The balance owed was $40,116 at June 30, 2020.

Debt service requirements to maturity for all loans payable at June 30, 2020, are as follows:

	Principal	Interest	Total
For the years ending June 30:			
2021	$363,515	$7,789	$371,304
2022	366,301	1,553	367,854
Total	$729,816	$9,342	$739,158

The SBA Paycheck Protection loan may be forgiven in part or in full after an eight-week period beginning on the initial disbursement date of the loan. UMRF Ventures believes is has incurred a level of payroll costs and other qualifying expenses during the eight-week period in order to obtain full forgiveness of the loan; however, the application for forgiveness has not been submitted as of September 30, 2020.

Equities Held in Licensees

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

Concentrations

The UMRF recorded approximately 77% of total contract billings from one funding source during the year ended June 30, 2020.

Related Party Debt

Related party debt for the UMRF as of June 30, 2020, include the following:

Note Payable:	Balance
UMRF Ventures note payable to UOM, bearing interest at 4%, due in quarterly payments beginning January 1, 2020, and maturing on December 31, 2023	$ 455,763
Less: Current portion	(114,958)
Total related party debt – long term	$ 340,805

In September 2018, the UMRF loaned UMRF Ventures $225,000 for working capital support to expand its services. This loan bears interest at 5% per annum and is due September 20, 2022. The UMRF received interest relating to this loan totaling $11,250 during the year ended June 30, 2020. The UMRF received rent in the amount of $41,667 from UMRF Ventures during the year ended June 30, 2020. This loan was eliminated as part of internal activity.

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

	Principal	Interest	Total
For the years ending June 30			
2021	$114,958	$16,522	$131,480
2022	119,628	11,852	131,480
2023	124,483	6,995	131,478
2024	96,694	1,940	98,634
Total	$455,763	$37,309	$493,072

Leases with Related Party

UMRF Ventures leases rooms with workstations under various lease agreements with UOM, a related party, expiring through July 31, 2021. During 2019, UMRF Ventures moved its operations into a facility on the university's South Campus and also rented space on the University's Lambuth Campus to house its expanding operations. For the year ended June 30, 2020, rent expense was $255,075.

Minimum rental commitments under the leases are as follows:

2021	$286,282
2022	4,420
Total	$290,702

Other Related Party Transactions

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

Residual balance payments are paid annually to UOM 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.

The UMRF paid rent to UOM for the use of office space in the amount of $14,783 during 2020.

In addition to rent, UMRF Ventures pays the university for other operating expenses. During the year ended June 30, 2020, UMRF Ventures incurred expenses from the university totaling $9,576 in data usage fees, $4,972 in parking, and $2,882 in other office expenses. As of June 30, 2020, UMRF Ventures had $815 due to the university for data usage fees.

UMRF Ventures rents space from the UMRF. UMRF Ventures paid rent in the amount of $41,667 to the UMRF for the year ended June 30, 2020. These transactions were eliminated as part of internal activity.

Concentrations

UMRF Ventures recorded approximately 96% of total revenue and 90% of total receivables from FedEx during the year ended June 30, 2020.

UMRF Ventures has two contracts with FedEx expiring in May 2021. Management expects to be able to renew the contracts on favorable terms.

Blended Component Unit

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

UMRF Ventures, Inc.
Condensed Statement of Net Position
June 30, 2020

Assets:	
Current assets	$1,789,849
Capital assets, net	268,761
Other assets	109,548
Total Assets	2,168,158
Liabilities:	
Current liabilities	716,359
Noncurrent liabilities	932,108
Total Liabilities	1,648,467
Net Position:	
Net investment in capital assets	268,761
Unrestricted	250,930
Total Net Position	$ 519,691

UMRF Ventures, Inc.
Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2020

Operating revenues	$4,866,152
Operating expenses	(4,670,291)
Operating income	195,861
Income before other revenues, expenses, gains or losses	195,861
Other revenues, expenses, gains or losses	113,047
Increase in net position	308,908
Net position at beginning of year	210,783
Net position at end of year	$ 519,691

UMRF Ventures, Inc.
Condensed Statement of Cash Flows
For the Year Ended June 30, 2020

Cash Flows Used for Operating Activities	
Grants and contracts	$4,297,136
Payments to suppliers and vendors	(286,964)
Payments to employees	(3,571,887)
Payments for benefits	(327,553)
Payments to the University of Memphis	(273,357)
Other receipts (payments)	(32,755)
Net cash used for operating activities	(195,380)
Cash Flows Provided by Noncapital Financing Activities	
Proceeds from noncapital debt	689,700
Principal paid on noncapital debt	(44,235)
Net cash provided by noncapital financing activities	645,465
Net increase in cash and cash equivalents	450,085
Cash and cash equivalents – beginning of year	525,200
Cash and cash equivalents – end of year	$ 975,285

Reconciliation of operating income to net cash used for operating activities	
Operating income	$ 195,861
Adjustments to reconcile operating income to net cash used for operating activities:	
Noncash operating expenses	103,264
Other adjustments	40,116
Changes in assets and liabilities:	
Receivables, net	(454,854)
Prepaid/deferred items	(4,770)
Accounts payable	(13,605)
Accrued liabilities	59,064
Due to UOM	(6,294)
Unearned revenue	(114,162)
Net cash used for operating activities	$(195,380)

Note 23. Component Unit – 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 operate auxiliary enterprises which directly affect the university. The 5-member board of the ASF is self-perpetuating and consists of friends and staff of the university. Although the university does not control the timing or amount of receipts from the ASF, the majority of resources, or income thereon, that the ASF holds and invests are restricted to support activities of the university. Because these restricted resources held by the ASF can only be used by, or for the benefit of, the university, the ASF is considered a component unit of the university and is discretely presented in the university's financial statements.

During the year ended June 30, 2020, the ASF made distributions of $10,482,108 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the ASF can be obtained from Byron Morgan, Executive Director; 107 Alumni Drive; Memphis, TN 38152.

The ASF is a nonprofit organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the Auxiliary Services Foundation's financial information in the university's financial report for these differences.

Cash

At June 30, 2020, cash consists of $3,924,227 in demand deposit accounts.

Liquidity and Availability

All financial assets of the ASF are restricted for the support of the university. Of the cash balance referenced in the preceding paragraph, $868,872 is restricted specifically for the construction and design of the indoor football practice facility.

The foundation does not have a liquidity management plan.

Capital Assets

Capital assets at year-end is comprised of the donation of a historical document valued at $750,000. The document is the entire speech of Dr. Martin Luther King, Jr. delivered on July 6, 1965, at the fifth General Synod of the United Church of Christ in Chicago.

Natural Classifications with Functional Classifications

The ASF operating expenses by functional classification for the year ended June 30, 2020, are as follows:

	Natural Classification				
Functional Classification:	Salaries	Benefits	Other Operating	Payments made to or on-behalf of UOM	Total
Support activities	$10,966	$3,903	$42,295	$ -	$ 57,164

Payments to UOM	-	-	-	10,482,108	10,482,108
Total expenses	$10,966	$3,903	$42,295	$10,482,108	$10,539,272

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

Related Party Transactions

The ASF received the following transfers from organizations affiliated with the university during the period ending June 30, 2020:

University of Memphis Foundation	$4,619,715
University of Memphis Research Foundation	25,713
	$4,645,428

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

At June 30, 2020, the foundation was due $2,100,870 from the University of Memphis Foundation and had a balance due to the University of Memphis in the amount of $129,000. At June 30, 2020, accounts payable includes $14,869 due to the University of Memphis Foundation for its proportionate share of salaries and benefits for employees.

Commitments

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

	Contract Amount	Expended through June 30, 2020	Commitment Remaining June 30, 2020
Indoor Football Practice Facility Phase 2 Construction	$10,181,899	$9,313,027	$868,872

Subsequent Events

The ASF is in the process of entering into an unsecured loan for $12,000,000 for the purpose of providing financial support to university athletics due to short-term financial shortfalls specific to athletic operations due to the impact of COVID-19 on revenues. An affiliate organization, not a party to the loan agreement with the bank, has agreed to transfer future donations designated for university athletics to the ASF to cover the debt service based upon direction and approval from the university. The university has submitted the financing arrangement to the Tennessee State School Bond Authority (TSSBA) for approval, and the TSSBA approved the loan on November 12, 2020, for the ASF.

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

	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2020	1.954592%	$27,602,054	$44,069,482	62.63%	91.67%
2019	1.985131%	32,068,037	45,932,958	69.81%	90.26%
2018	1.981436%	35,459,769	47,429,941	74.76%	88.88%
2017	2.053060%	37,459,409	50,178,303	77.68%	87.96%
2016	1.964990%	25,334,267	51,130,490	49.37%	91.26%
2015	2.010010%	13,868,034	54,942,068	25.24%	95.11%

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

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

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
2020	2.583001%	$1,071,365	$24,223,099	4.42%	122.36%
2019	2.470528%	952,959	18,163,681	5.25%	132.39%
2018	2.337078%	484,675	12,324,169	3.93%	131.51%
2017	2.497908%	210,436	7,702,818	2.73%	130.56%
2016	2.108964%	58,650	2,296,586	2.55%	142.55%

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

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

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
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	-	45,932,956	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%
2014	8,253,251	8,253,251	-	54,942,068	15.03%
2013	8,364,880	8,364,880	-	55,654,558	15.03%
2012	8,338,696	8,338,696	-	55,926,868	14.91%
2011	8,072,256	8,072,256	-	54,139,877	14.91%

Notes to Schedule:

Changes of assumptions: In 2017, the following assumptions were changed: decreased inflation rate from 3% to 2.5%; decreased the investment rate of return from 7.5% to 7.25%; decreased the cost-of-living adjustment from 2.5% to 2.25%; and decreased salary growth graded ranges from an average of 4.25% to an average of 4%.

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

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
2020	$503,051	$503,051	$ -	$29,077,960	1.73%
2019	402,220	402,220	-	24,223,099	1.66%
2018	708,946	708,946	-	18,163,681	3.90%
2017	483,152	483,152	-	12,356,829	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:

Changes of assumptions: In 2017, the following assumptions were changed: decreased inflation rate from 3% to 2.5%; decreased the investment rate of return from 7.5% to 7.25%; decreased the cost-of-living adjustment from 2.5% to 2.25%; and decreased salary growth graded ranges from an average of 4.25% to an average of 4%.

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

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

UNIVERSITY OF MEMPHIS
Required Supplementary Information
Schedule of the University of Memphis's Proportionate Share of the Collective 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
2020	2.016082%	$19,196,730	$ 91,875,711	20.89%
2019	2.147529%	29,748,396	119,564,847	24.88%
2018	2.003563%	26,898,652	103,838,371	25.90%

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.

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

	Actuarially Determined Contributions	Contributions in Relation to Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered-employee Payroll	Contributions as a Percentage of Covered-employee Payroll
2020	$3,346,796	$3,346,796	$ -	$ 91,875,711	3.64%
2019	3,253,335	2,808,396	444,939	119,564,847	2.35%

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.

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	University's Proportionate Share of the Collective Total OPEB Liability	Primary Government's Proportionate Share of the Collective Total OPEB Liability	Total OPEB Liability Associated With the University	University's Covered-employee Payroll	University's Proportionate Share of the Collective Total OPEB Liability as a Percentage of Its Covered-employee Payroll
2020	0.00%	$ -	$5,037,419	$ -	$114,003,275	4.42%
2019	0.00%	-	5,321,549	-	99,528,541	5.35%
2018	0.00%	-	4,931,306	-	106,767,792	4.62%

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.

UNIVERSITY OF MEMPHIS
Supplementary Schedules of Cash Flows - Component Units
For the Year Ended June 30, 2020

	University of Memphis Foundation	University of Memphis Research Foundation	The Auxiliary Services Foundation
Cash flows from operating activities			
Gifts and contributions	$ 18,612,945	$ 9,432	$ -
Contributions from affiliate	-	-	4,645,428
Grants and contracts	-	6,062,649	-
Sales and services of other activities	6,009,798	91,405	-
Payments to suppliers and vendors	(9,167,765)	(578,588)	(9,785,843)
Payments to affiliate		(19,863)	
Payments to employees	-	(3,571,887)	-
Payments for benefits	-	(327,553)	-
Payments to the University of Memphis	(18,963,087)	(1,415,770)	-
Net cash provided by (used for) operating activities	(3,508,109)	249,825	(5,140,415)
Cash flows from noncapital financing activities			
Proceeds from noncapital debt	-	689,700	-
Private gifts for endowment purposes	3,059,802	-	-
Principal paid on noncapital debt to UOM	-	(44,235)	-
Other noncapital financial payments	-	(21,505)	-
Net cash provided by noncapital financing activities	3,059,802	623,960	-
Cash flows from investing activities			
Proceeds from sales and maturities of investments	221,313,231	596,000	-
Income on investments	2,169,957	32,006	93,518
Purchases of investments	(218,959,766)	(959,330)	-
Net cash provided by (used for) investing activities	4,523,422	(331,324)	93,518
Net increase (decrease) in cash and cash equivalents	4,075,115	542,461	(5,046,897)
Cash and cash equivalents - beginning of year	591,801	605,178	8,971,124
Cash and cash equivalents - end of year	$ 4,666,916	$ 1,147,639	$ 3,924,227
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	$ (10,520,306)	$ 324,175	$ (3,793,837)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Noncash operating activities	-	144,093	-
Other adjustments	-	(92,395)	-
Change in assets, liabilities, and deferrals:			
Receivables	9,342,526	(299,277)	-
Due from affiliate	-	-	(2,100,007)
Prepaid items	-	(4,770)	-
Accounts payable	-	(4,730)	609,560
Accrued liabilities	2,220,224	58,324	-
Due to UOM	438	213,071	129,000
Due to affiliate	-	-	14,869
Unearned revenues	(4,550,991)	(88,666)	-
Deposits	-	-	-
Net cash provided by (used for) operating activities	$ (3,508,109)	$ 249,825	$ (5,140,415)
Noncash investing, capital, or financing transactions			
Unrealized gains on investments	$ (5,112,718)	$ 1,220	$ -
Donation of Martin Luther King historical document	$ -	$ -	$ 750,000

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. M. David Rudd, 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, 2020, 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 11, 2020. 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.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.

Katha J. Stickel

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
December 11, 2020