



2022

The University of Tennessee Foundation, Inc.

FINANCIAL STATEMENTS and INDEPENDENT AUDITOR'S REPORT

Year Ended June 30, 2022

The University of Tennessee Foundation, Inc.

Financial Statements

June 30, 2022

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INTRODUCTORY SECTION

The University of Tennessee Foundation, Inc.

Schedule of Board of Directors and Officials

June 30, 2022

Board of Directors:

Philip A. Wenk, Chair
Ronald E. Frieson, Vice Chair
Hans N. Airee
Isaac Bennett
Alexis G. Bogo
Christopher B. Bollinger
Randal D. Boyd
Phillip A. Clendenin
Gregory E. Cox
Kimberly W. Cross
Robert F. Decosimo
Judith Herbert
Renee Iacona
Debbie Ingram
Mark La Branche
Kathy W. Ledbetter
Donde A. Plowman
Tim Tucker
Charles A. Wagner, III
Richard Warren
Jamie Woodson

Officers:

Kerry Witcher, President and CEO
Adam Heller, CPA, Treasurer and CFO
Rachael R. LeBlanc, Secretary

FINANCIAL SECTION

BROWN JAKE & McDANIEL, PC

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 FRANK D. McDANIEL, CPA, CGFM, CGMA
 TERRY L. MOATS, CPA, CGFM, CGMA
 JAMES E. BOOHER, CPA, CGMA
 HALEY S. SLAGLE, CPA, CGMA

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of The
 University of Tennessee Foundation, Inc.
 Knoxville, Tennessee

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of The University of Tennessee Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of The University of Tennessee Foundation, Inc. as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2022, on our consideration of The University of Tennessee Foundation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The University of Tennessee Foundation, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The University of Tennessee Foundation, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Brown Wake & McDaniel, PC". The signature is written in a cursive, flowing style.

Knoxville, Tennessee
November 14, 2022

The University of Tennessee Foundation, Inc.

Statement of Financial Position

June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Assets:			
Cash and cash equivalents	\$ -	\$ 75,570,582.97	\$ 75,570,582.97
Cash surrender value of life insurance	-	624,810.21	624,810.21
Accounts receivable	16,491,946.31	5,086,392.55	21,578,338.86
Unconditional promises to give	-	146,416,653.71	146,416,653.71
Investments	34,946,378.06	499,318,445.92	534,264,823.98
Other assets	376,000.00	1,875,475.91	2,251,475.91
	<u>\$ 51,814,324.37</u>	<u>\$ 728,892,361.27</u>	<u>\$ 780,706,685.64</u>
Liabilities and net assets:			
Liabilities:			
Accounts payable	\$ 236,362.80	\$ 17,163.83	\$ 253,526.63
Due to University	16,971,162.63	-	16,971,162.63
Annuity payable	-	11,373,691.82	11,373,691.82
Compensated absences	2,446,127.85	-	2,446,127.85
Note payable	-	-	-
	<u>19,653,653.28</u>	<u>11,390,855.65</u>	<u>31,044,508.93</u>
Net assets:			
Without donor restrictions	32,160,671.09	-	32,160,671.09
With donor restrictions:			
Non-Endowment - net assets	-	247,857,108.29	247,857,108.29
Endowment - net assets	-	469,644,397.33	469,644,397.33
	<u>32,160,671.09</u>	<u>717,501,505.62</u>	<u>749,662,176.71</u>
Total net assets	<u>\$ 51,814,324.37</u>	<u>\$ 728,892,361.27</u>	<u>\$ 780,706,685.64</u>
Total liabilities and net assets	<u>\$ 51,814,324.37</u>	<u>\$ 728,892,361.27</u>	<u>\$ 780,706,685.64</u>

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

The University of Tennessee Foundation, Inc.

Statement of Activities

Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:			
Contributions	\$ 1,807,433.43	\$ 158,184,448.16	\$ 159,991,881.59
Interest and investment income	2,919,901.57	17,074,089.95	19,993,991.52
Net realized/unrealized gains and losses	(11,829,943.91)	(46,985,811.48)	(58,815,755.39)
Change in actuarial value of gift annuity	-	(855,695.42)	(855,695.42)
Contract revenue	47,379,066.00	90,118.00	47,469,184.00
Other	21,231.00	-	21,231.00
Net assets released from restrictions and restricted during the year	103,513,316.26	(103,513,316.26)	-
Total revenue	<u>143,811,004.35</u>	<u>23,993,832.95</u>	<u>167,804,837.30</u>
Expenses:			
Program expenses			
Salary and benefits	7,464,703.88	-	7,464,703.88
Travel	940,521.46	-	940,521.46
Printing	138,902.80	-	138,902.80
Utilities	111,905.15	-	111,905.15
Communications	114,010.99	-	114,010.99
Professional Services	5,309,333.02	-	5,309,333.02
Financial aid awards	35,993,673.60	-	35,993,673.60
Entertainment	855,089.61	-	855,089.61
Capital Projects	36,982,198.44	-	36,982,198.44
Supplies	2,461,380.43	-	2,461,380.43
Other	17,692,524.20	-	17,692,524.20
Total program expenses	<u>108,064,243.58</u>	<u>-</u>	<u>108,064,243.58</u>
General and administrative			
Salary and benefits	26,287,822.50	-	26,287,822.50
Travel	657,523.89	-	657,523.89
Printing	585,285.79	-	585,285.79
Communications	477,966.39	-	477,966.39
Professional Services	3,487,220.55	-	3,487,220.55
Supplies	1,516,181.73	-	1,516,181.73
Entertainment	1,543,989.38	-	1,543,989.38
Other	2,783,213.85	-	2,783,213.85
Total general and administrative expenses	<u>37,339,204.08</u>	<u>-</u>	<u>37,339,204.08</u>
Total expenses	<u>145,403,447.66</u>	<u>-</u>	<u>145,403,447.66</u>
Change in net assets	(1,592,443.31)	23,993,832.95	22,401,389.64
Net assets at beginning of year	<u>33,753,114.40</u>	<u>693,507,672.67</u>	<u>727,260,787.07</u>
Net assets at end of year	<u>\$ 32,160,671.09</u>	<u>\$ 717,501,505.62</u>	<u>\$ 749,662,176.71</u>

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

The University of Tennessee Foundation, Inc.

Statement of Cash Flows

Year Ended June 30, 2022

Cash flows from operating activities:	
Change in net assets	\$ 22,401,389.64
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net realized/unrealized gains and losses	58,815,755.39
Non-cash contributions	(1,144,775.91)
Cash paid to annuitants	(1,372,732.13)
Change in actuarial values	855,695.42
Decrease in cash surrender value of life insurance	20,945.38
Increase in receivables	(21,369,419.08)
Decrease in unconditional promises to give	24,847,733.39
Increase in accounts payable	10,843,439.86
Increase in annuity payable	5,048,560.82
Increase in compensated absences	320,123.23
	99,266,716.01
Cash flows from investing activities:	
Purchase of shares in the university's investment pools	(88,149,378.36)
Purchase of investments	(139,800,945.68)
Proceeds from sale of real estate	3,465,000.00
Proceeds from sale of investments	122,260,586.54
	(102,224,737.50)
Net decrease in cash and cash equivalents	(2,958,021.49)
Cash and cash equivalents at beginning of year	78,528,607.46
Cash and cash equivalents at end of year	\$ 75,570,585.97

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

The University of Tennessee Foundation, Inc.**Notes to Financial Statements****June 30, 2022****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Organization and Nature of Activities**

The University of Tennessee Foundation, Inc. (the “Foundation”) is a not-for-profit organization exempt from federal income tax under Section 501 (c) (3) of the Internal Revenue Code. The Foundation was formed to support The University of Tennessee (the “University”) and to provide flexibility for the University in carrying out its mission of teaching, research, and public research. The Foundation receives contributions from individuals, corporations, alumni, and other donors. The Foundation also conducts the development and alumni affairs operations for the University.

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables, and other liabilities. The Foundation reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Tax Status

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1).

The Foundation follows the provisions of FASB ASC 740-10-25. Under this standard, an organization must recognize that tax benefit associated with tax taken for tax return purposes when it is more likely than not the position will be sustained. The implementation of this standard has had no impact on the Foundation’s financial statements. The Foundation does not believe there are any material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits. For the year ended June 30, 2022, there were no interest or penalties recorded or included in its financial statements.

The University of Tennessee Foundation, Inc.

**Notes to Financial Statements
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts and other instruments that are readily convertible to cash.

Unconditional Promises to Give

Unconditional promises to give, less an allowance for doubtful accounts, are recognized as contribution revenue in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flow.

Investments

Investments are recorded on the date of contribution and are stated at fair value. Fair values are determined by national securities exchanges, other active markets, or assumptions utilized by asset managers. Unrealized gains and losses are determined by the difference between market values at the beginning and end of the year. These amounts are included in the change in net assets in the accompanying statement of activities.

The Foundation's policy regarding investment income and realized and unrealized gains and losses for net assets with donor restrictions is to record such revenues as support without donor restrictions to the extent that restrictions are met in the same reporting period.

Other Assets - Property

Purchased property is capitalized at cost. Donations of property are recorded as contributions at their estimated fair value as determined by appraisal. Such donations are reported as contributions without donor restrictions unless the donor has restricted the donated asset or use of the proceeds from the sale of the donated asset to a specific purpose.

Compensated Absences

Pursuant to the Employment Services Agreement (discussed at Note 8), the Foundation leases employees from the University for the development and alumni affairs operations.

The University of Tennessee Foundation, Inc.**Notes to Financial Statements
(Continued)****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Compensated Absences (Continued)**

These employees accrue annual leave at varying rates, depending on length of service. Some employees also earn compensatory time. Generally, all permanent full-time employees and certain part-time employees are entitled to accrue and carry forward calendar year maximums of 42 days annual vacation leave. The amount of these liabilities and their related benefits are reported in the statement of financial position.

Contributions

Contributions received are recorded as support without donor restrictions or support with donor restrictions depending on the existence or nature of any donor restrictions.

The Foundation reports gifts of cash, donated property and all other assets as support without donor restrictions unless explicit donor stipulations limit the use of the donated assets. When a donor restriction expires, that is, when the stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Donated gifts are recorded at fair value at the time of donation and are reported as restricted support if it is received with donor imposed restrictions.

Donated Facilities and Services

Donation of rent, including utilities, cleaning, security and maintenance, and technology and accounting services as provided by the University of Tennessee to the Foundation are recorded at their estimated fair values on an annual basis. The estimated value of these in-kind contributions for the year ended June 30, 2022 totaled \$2,117,920.79 and is included in contributions without donor restrictions and other general and administrative expense in the Statement of Activities.

Date of Management's Review

Subsequent events were evaluated through November 14, 2022, which is the date the financial statements were available to be issued.

The University of Tennessee Foundation, Inc.

**Notes to Financial Statements
(Continued)**

2. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are summarized below, net of the allowance for doubtful accounts:

	Non-Endowment Promises to give With Donor Restrictions	Endowment Promises to give With Donor Restrictions	Total Promises to give With Donor Restrictions
Current (within one year)	\$ 16,058,556.56	\$ 6,952,289.23	\$ 23,010,845.79
Due in one to five years	65,038,008.54	48,815,220.04	113,853,228.58
Due after five years	<u>12,868,667.19</u>	<u>8,984,505.91</u>	<u>21,853,173.10</u>
	93,965,232.29	64,752,015.18	158,717,247.47
Less discounts to net present value	<u>(7,104,126.84)</u>	<u>(5,196,466.92)</u>	<u>(12,300,593.76)</u>
Total unconditional promises to give, net	<u>\$ 86,861,105.45</u>	<u>\$ 59,555,548.26</u>	<u>\$ 146,416,653.71</u>

The allowance for doubtful accounts at June 30, 2022 was 902,135.56. Interest rates used in the determination of present value discounts range from 2.92% to 3.04%.

Promises to give that are for the creation of a donor restricted endowment that is perpetual in nature are considered endowment funds by the Foundation.

The University of Tennessee Foundation, Inc.

**Notes to Financial Statements
(Continued)**

3. INVESTMENTS

Investments held at June 30, 2022 were as follows:

	<u>Fair Value</u>	<u>Cost</u>
Endowment funds:		
Held by the University:		
Consolidated Investment Pool	\$ 414,870,463.38	\$ 408,234,248.30
Held by the Foundation:		
Cash	59,296.02	59,296.02
Equities	<u>2,673,558.64</u>	<u>2,432,106.61</u>
Total held by the Foundation	<u>2,732,854.66</u>	<u>2,491,402.63</u>
Total endowment funds	<u>417,603,318.04</u>	<u>410,725,650.93</u>
Other investments:		
Held by the Foundation:		
Cash	7,249,923.67	7,249,923.67
Equities	53,363,770.42	57,428,539.75
Fixed Income	<u>36,484,373.55</u>	<u>40,663,322.73</u>
Total brokerage account	<u>97,098,067.64</u>	<u>105,341,786.15</u>
Gift annuity program:		
Cash	1,693,537.36	1,693,537.36
Equities	12,357,777.23	14,778,909.44
Fixed Income	<u>5,512,123.71</u>	<u>6,275,108.37</u>
Total gift annuity program	<u>19,563,438.30</u>	<u>22,747,555.17</u>
Total investments	<u>\$ 534,264,823.98</u>	<u>\$ 538,814,992.25</u>

At June 30, 2022, the fair values of investments held by the University are based on valuations prepared by the University. The fair value of these investments is estimated based on a review of all available information provided by investment and cash management pool managers. These estimates are evaluated on a regular basis and are susceptible to revisions as more information becomes available.

The University of Tennessee Foundation, Inc.

**Notes to Financial Statements
(Continued)**

3. INVESTMENTS (Continued)

Endowment Funds

The Foundation's endowment funds consist of cash, investments held by the University, investments held by the Foundation, and unconditional promises to give. The majority of the Foundation's invested endowment funds are invested in the University of Tennessee Consolidated Investment Pool (CIP). These funds are invested according to the policies of the University. A portion of the earnings from these funds are provided to the University to be used as stipulated in the endowment agreements. The cost and fair value for these endowment funds were \$408,234,248.30 and \$414,870,463.38, which resulted in a cumulative unrealized gain of \$6,636,215.08. Five endowments are separately invested by the Foundation. The cost and fair value for these endowments was \$2,491,402.63 and \$2,732,854.66, which resulted in a cumulative unrealized gain of \$241,452.03. All endowments at the Foundation are donor restricted. Endowment earnings transferred to the University were \$15,634,486.62 for fiscal year 2022.

The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Foundation classifies as endowment funds (1) the original value of gifts to the endowment, (2) the original value of subsequent gifts to the endowment, (3) accumulations to the endowment made in accordance with the gift instrument until the endowment is vested in the CIP. Below is a schedule of endowments by fund type:

	Non-Endowment Portion of Endowment Funds	Endowment Portion of Endowment Funds	Total
Beginning balance	\$ 49,525,902.28	\$ 424,516,921.01	\$ 474,042,823.29
Contributions received	-	40,598,402.51	40,598,402.51
Transfers to endowments	-	3,647,604.77	3,647,604.77
Investment earnings	15,734,717.70	881,469.04	16,616,186.74
Net gain/loss	(42,025,358.10)	-	(42,025,358.10)
Disbursements	(15,680,695.51)	-	(15,680,695.51)
Ending balance	<u>\$ 7,554,566.37</u>	<u>\$ 469,644,397.33</u>	<u>\$ 477,198,963.70</u>

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 UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature

The University of Tennessee Foundation, Inc.

**Notes to Financial Statements
(Continued)**

3. INVESTMENTS (Continued)

Endowment Funds (Continued)

are reported as non-endowment net assets with donor restrictions. As of June 30, 2022, the fair value of underwater endowments was \$145,462,530.19 and the amount of the level required to be maintained by donor stipulations was \$151,463,315.14 for a difference of \$6,000,784.95

The University calculates its spending policy distributions by taking 4.5% of a seven-year moving average each December 31.

The assets are to be managed in a manner that will meet the long-term investment objective, while at the same time attempting to limit the volatility in year-to-year spending.

The University's Investment Advisory Committee believes that investing in securities with higher return expectations outweighs their short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities. Fixed income securities and other low volatility strategies (e.g. absolute return hedge funds) will be used to lower the short-term volatility of the portfolio and to provide stability, especially during periods of negative equity markets. Cash is not a strategic asset of the portfolio, but is a residual to the investment process and used to meet short-term liquidity needs.

Disciplined management of the asset allocation is necessary and desirable. Diversification of investments among assets that are not similarly affected by economic, political, or social developments is highly desirable. The general policy shall be to diversify investments so as to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset or investment category.

Endowment Funds investments held by the University were as follows at June 30, 2022:

Debt Securities (including Pooled Inv. Vehicles - Bonds	8.56%
Corporate Stock – Domestic	1.88%
Corporate Stock – International	0.16%
Pooled Investment Vehicles – Equity	38.54%
Alternative Investments:	
Pooled Investment Vehicles – Real Estate	0.74%
Private Capital Investments	35.26%
Hedge Funds	<u>14.86%</u>
Total Endowment Funds investments held by the University	<u>100.00%</u>

The Investment Advisory Committee is responsible for adopting the provisions of the Investment Advisory Committee Charter. This responsibility includes advising the Treasurer on the investment strategy, asset allocations, and spending rates; the hiring and firing of

The University of Tennessee Foundation, Inc.**Notes to Financial Statements
(Continued)****3. INVESTMENTS (Continued)****Endowment Funds (Continued)**

investment managers, custodians and investment consultants; and monitoring performance of the investment portfolio on a regular basis (at least quarterly). The Committee will maintain sufficient knowledge about the portfolio and its managers so as to be reasonably assured of their compliance with the Policy and Charter. The committee is comprised of the, Chair of the Finance and Administration Committee of the University of Tennessee Board of Trustees, the Treasurer, Chief Financial Officer, a Member of the University of Tennessee Foundation board of directors, and four at large members elected by the committee. The plan consultant is Cambridge Associates headquartered in Boston, Massachusetts.

The total fair value for the CIP at June 30, 2022 was \$1,285,782,590.27

The total cost of the CIP at June 30, 2022 was \$1,125,861,818.62

Gift Annuity

In May 2008, the Foundation launched its own gift annuity program. The Foundation has placed \$500,766.11 as a reserve for the annuity program. As of June 30, 2022, the Foundation has executed 98 gift annuity contracts totaling \$23,598,526.51 with 13 annuity contracts maturing. The funds are held in trust at Bank of NY Mellon and invested. The fair value for the invested gift annuities and reserve at June 30, 2022 was \$19,981,309.78, which resulted in a cumulative unrealized loss of \$3,617,216.73. The investments consist of cash, equity index funds, and fixed income funds.

Fair Value Measures

The Foundation follows the provisions of FASB ASC 820-10, which defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States, and enhances disclosures about fair value measurements.

FASB ASC 820-10 establishes a framework for measuring fair value and a three-level hierarchy for fair value measurements based upon the inputs to value the assets and liabilities. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data based on the best available information in the circumstances. The three levels are defined as follows:

The University of Tennessee Foundation, Inc.

**Notes to Financial Statements
(Continued)**

3. INVESTMENTS (Continued)

Fair Value Measures (Continued)

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access.

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

Level 3 – Significant unobservable inputs that reflect management’s assumptions that market participants would use in pricing an asset or liability.

The table below presents the recorded amount of assets and liabilities measured at fair value:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments held by the University	\$ -	\$ -	\$ 414,870,463.38	\$ 414,870,463.38
Investments held by the Foundation	<u>113,992,445.23</u>	<u>5,401,915.37</u>	<u>-</u>	<u>119,394,360.60</u>
Total investments	<u>\$ 113,992,445.23</u>	<u>\$ 5,401,915.37</u>	<u>\$ 414,870,463.38</u>	<u>\$ 534,264,823.98</u>

The Foundation does not hold any Level 3 investments directly, therefore; the schedule of annual financial activities for Level 3 investments represents investments held by the University measured at their fair value on a recurring basis from reliance on Level 3 inputs for determining their fair value.

Beginning Balance	\$ 384,063,522.79
Total Realized and unrealized gains and losses included in earnings	(25,099,577.71)
Net Purchases, issuances, settlements and other	<u>55,906,518.30</u>
Ending Balance	<u>\$ 414,870,463.38</u>

The University of Tennessee Foundation, Inc.

**Notes to Financial Statements
(Continued)**

4. OTHER ASSETS

During the year, the Foundation acquired three residential properties in Knox County appraised at \$890,000.00 and two subsequently sold at \$60,000.00 loss, residential property in Benton County appraised at \$210,000.00 and subsequently sold at \$17,500.00 loss. The Foundation sold the following properties during the year:

<u>County</u>	<u>Carrying Value</u>	<u>Sales Price</u>	<u>Gain (Loss)</u>
Knox	\$ 1,700,000.00	\$ 1,700,000.00	\$ -
Van Buren	90,000.00	25,000.00	(65,000.00)
Union	52,000.00	25,000.00	(27,000.00)
Sequatchie	60,000.00	35,000.00	(25,000.00)
Knox	310,000.00	280,000.00	(30,000.00)
Knox	210,000.00	180,000.00	(30,000.00)
Benton	210,000.00	192,500.00	(17,500.00)
Van Buren	1,867,500.00	950,000.00	(917,500.00)
Landrum, SC	78,000.00	78,000.00	-
Total	<u>\$ 4,577,500.00</u>	<u>\$ 3,465,500.00</u>	<u>\$ (1,112,000.00)</u>

At June 30, 2022, the Foundation holds the following real property:

<u>County</u>	<u>Property Type</u>	<u>Amount</u>
Monroe	Commercial	\$ 1,700.00
Weakley/Obion	Agricultural	376,000.00
Roane	Lexlin Ranch	1,430,000.00
Claibourne	Rock Harbor Lot	29,000.00
Knox	Residential	414,775.91
		<u>\$ 2,251,475.91</u>

The University of Tennessee Foundation, Inc.**Notes to Financial Statements
(Continued)****5. OFFICE SPACE AND SERVICES AGREEMENTS**

The Foundation entered into a lease agreement with the University during the fiscal year ending June 30, 2016 for office space and services (parking, mail services, interior maintenance and custodial services, exterior maintenance to facilities and parking areas, security, etc.) at 1525 and 1610 University Avenue. The new agreement required the Foundation and the University of Tennessee Alumni Association to fund the purchase of furniture, fixtures and equipment not to exceed \$315,000.00 for the new leased facilities. The University committed to assist with these expenditures by contributing \$117,880.00 from their capital campaign funds. The new agreement term is for the life of the facilities in perpetuity until the Foundation voluntarily vacates the facilities or the Foundation and the University mutually agree upon other office space and services arrangements. The agreement requires payments in the amount of \$1,668.00 per month or \$20,016.00 annually. The agreement stipulates there will not be an increase in the annual amount for the initial five years of the agreement. The total rent expense paid to the University during the fiscal year ending June 30, 2022 totaled \$20,016.00.

The University of Tennessee Foundation, Inc.

**Notes to Financial Statements
(Continued)**

6. NET ASSETS WITH DONOR RESTRICTIONS

Non-endowment net assets with donor restrictions are available for scholarships or other academic purposes, real estate, support for University construction, artwork, and contributions for the farm lease payment. Total non-endowment net assets with donor restrictions at June 30, 2022 were \$247,857,108.29. Endowment net assets with donor restrictions are available for scholarships or other academic purposes. Total endowment net assets with donor restrictions at June 30, 2022 were \$469,644,397.33

Non-endowment and endowment net assets with donor restrictions consisted of the following categories as of June 30, 2022:

	<u>Non-endowment</u>	<u>Endowment</u>
Other	\$ 92,558,518.22	\$ 37,557,109.39
Academic Support	33,872,321.36	141,597,376.90
Library	-	1,250,727.54
Research	22,435,767.81	4,826,119.05
Instruction	13,879,669.62	153,592,187.43
Public Service	5,298,971.37	-
Institutional Support	4,658,288.24	-
Student Services	2,367,479.40	-
Capital Projects	50,897,050.87	-
Physical Plant	2,447,244.08	-
Scholarships and Fellowships	<u>19,441,797.32</u>	<u>130,820,877.02</u>
Net Assets	<u>\$ 247,857,108.29</u>	<u>\$ 469,644,397.33</u>

The University of Tennessee Foundation, Inc.

**Notes to Financial Statements
(Continued)**

7. CONCENTRATION OF CREDIT RISK

The Foundation had concentrated its credit risk for cash and temporary investments by maintaining deposits at a financial institution, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC).

The Foundation has a master repurchase agreement with the financial institution where at the end of each day cash is invested in overnight securities and the securities are repurchased the next day. The Foundation purchases the securities in its name. The Repurchase Agreement Account is not insured by FDIC insurance, but rather the financial institution provides the securities purchased as the underlying security for the Repurchase Agreement Account. The Repurchase Agreement Account as of June 30, 2022 totaled \$74,799,528.31 and this amount is included in cash and cash equivalents in the Statement of Net Position.

8. DEVELOPMENT AND ALUMNI AFFAIRS OPERATIONS

On July 1, 2011, the University transferred its development and alumni affairs operations to the Foundation. Pursuant to the University's Board of Trustees and the Foundation's Board of Directors approval and the enabling legislation, *Tennessee Code Annotated*, Section 49-9-113, the University and the Foundation signed an Affiliation and Services Agreement and an Employee Services Agreement to affect the transfer.

Affiliation and Services Agreement – the University and the Foundation agreed that all gifts, unless directed otherwise by the donor, be deposited into the Foundation bank account and that the University pay the Foundation direct support and a 100 basis point endowment assessment fee (less investment expenses) as compensation for performing the fundraising function. The direct support amount is to be reviewed every two years, and the Foundation President and Chief Executive Officer coordinates fundraising goals and objectives of the Foundation with the University. For FY 2022, the University provided the Foundation direct support of \$20,894,789 and endowment assessment fees of \$9,979,277.

Employee Services Agreement – the Foundation has paid to the University the amounts incurred by the University to pay the direct expenses relating to the Development and Alumni Affairs employees, including wages, salaries, and fringe benefits. These payroll expenses totaled \$25,999,225.03.

The University of Tennessee Foundation, Inc.

**Notes to Financial Statements
(Continued)**

9. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Foundation's financial assets as of June 30, 2022, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date:

Cash and cash equivalents	\$ 75,570,582.97
Cash surrender value of life insurance	624,810.21
Accounts receivable	21,578,338.86
Unconditional promises to give	146,416,653.71
Investments	<u>534,264,823.98</u>
 Total financial assets	 778,455,209.73
 Less those unavailable for general expenditures within one year due to:	
Donor-imposed restrictions	<u>(717,501,505.62)</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 60,953,704.11</u>

As of June 30, 2022, \$717,501,505.62 of financial assets are subject to donor restrictions that generally make them unavailable for expenditure within one year of the balance sheet date. However, the majority of program expenses are funded by non-endowed cash gifts and collections of unconditional promises to give, which are expected to cover total program expenditures for the next year, estimated at \$80 million. Average operating expenses, other than program expenses, are approximately \$35 million. The majority of that is funded by an existing contract with the University. As a result, the Foundation believes that the remaining unrestricted financial assets are sufficient to fund normal operating activities within the next year.

INTERNAL CONTROL AND COMPLIANCE SECTION

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

To the Board of Directors of
The University of Tennessee Foundation, Inc.
Knoxville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of Tennessee Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, and functional expenses cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2022.

Report on Internal Control over Financial Reporting

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

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

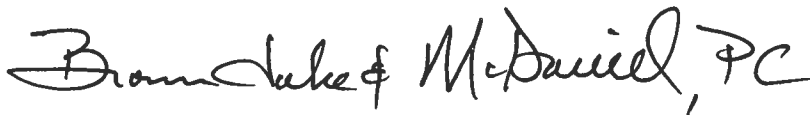
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Report on Compliance and Other Matters

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

Purpose of This Report

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

A handwritten signature in black ink that reads "Brian Duke & McDaniel, PC". The signature is written in a cursive, flowing style.

Knoxville, Tennessee
November 14, 2022

The University of Tennessee Foundation, Inc.

Summary Schedule of Prior Audit Findings

June 30, 2022

There were no findings in the prior year.