

















# December 2018 Audit Committee Meeting

<b>Schedule</b>	Wednesday, December 5, 2018 11:15 AM — 12:00 PM CST
<b>Venue</b>	Wilder Student Union - Lambuth Campus
<b>Organizer</b>	Chelsea Connor

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# 1. Call to Order

Presented by Susan Springfield



## 2. Roll Call

Presented by Melanie Murry



### 3. Approval of Minutes - September 5, 2018

Presented by Susan Springfield

THE UNIVERSITY OF MEMPHIS  
BOARD OF TRUSTEES

MINUTES OF THE AUDIT COMMITTEE  
September 5, 2018  
Memphis, TN

The Audit Committee of The University of Memphis Board of Trustees met at 9:40 a.m. CDT, on Wednesday, September 5, 2018, on the University of Memphis main campus in Memphis, Tennessee.

**I. CALL TO ORDER**

Chair Carol Roberts called the meeting to order.

**II. ROLL CALL AND DECLARATION OF QUORUM**

Melanie Murry, Legal Counsel and Secretary of the Board, called the roll, and confirmed the following Audit Committee members were present:

Trustee Doug Edwards\*  
Trustee Marvin Ellison\*  
Trustee Alan Graf\*  
Trustee Cato Johnson\*  
Trustee Carol Roberts\*  
Trustee Susan Springfield\* (stepped out)  
Trustee Drew Gilmore

\*Voting members

Secretary Murry announced the presence of a quorum.

**III. APPROVAL OF MINUTES – JUNE 6, 2018**

The motion to approve the June 6, 2018, Audit Committee meeting minutes was properly moved and seconded. A voice vote was taken, and the motion was unanimously approved.

**IV. SUMMARY OF AUDIT REPORTS ISSUED**

Chair Roberts recognized Vicki Deaton, Chief Audit Executive, to present all reports of the Audit Committee.

Ms. Deaton first reported on the audit reports issued this quarter. Since the last Audit Committee meeting, four audit reports had been issued. There two minor issues with the CAESER audit, but both were resolved prior to the completion of the audit. There were some



minor issues identified on the Sponsored Research Disclosure of Financial Interest Policy Compliance Audit.

## **V. SUMMARY OF INVESTIGATIONS COMPLETED**

Ms. Deaton then presented a summary of investigations completed having to do with all of the reports of fraud, waste, abuse, non-compliance with law or conflict of interest. Some cases have been referred to others, and some cases have been worked on by Internal Audit, with memos being issued. Other cases are still ongoing. Ms. Deaton noted that we are now in FY2019 and have already received one report.

Chair Roberts commented that Ms. Deaton communicates with her regularly and the good news is that things are getting reported and keeping the University busy.

## **VI. AUDIT ISSUE FOLLOW-UP**

Ms. Deaton moved on to present on the audit issue follow-up. She noted there were four issues identified in a prior fiscal year from the School of Law Financial and Compliance Audit. As of August 2018, they have all been completed, which means the action plans that were identified with management of the School of Law have completed all those actions.

Trustee Springfield asked whether there is a University-wide control for purchasing cards (for example, the insufficient controls over purchasing cards in the School of Law). Ms. Deaton stated that there are controls; they take the University procedure as guidelines and look to see if they are being followed, particularly in the School of Law. They identify who the cardholders are, pull their transactions, and test that way.

## **VII. EXTERNAL AUDIT REPORT – UNIVERSITY OF MEMPHIS FOUNDATION**

Ms. Deaton then presented the UofM Foundation Financial Statements for years ended June 30, 2017 and 2016; she noted that the statements were older, but the Board had never previously received them and she wanted them to have the opportunity to review. An external CPA firm performed the report, and their opinion stated the financial statements presented fairly in all material respects the financial position of the Foundation. The auditors did not identify any deficiencies in internal controls that would be material weaknesses. There were also no instances of noncompliance in law, regs, or contracts that they actually looked at.

Ms. Deaton noted that not only did the Board have these opinions, but they were also provided with other opinions in the back.

## **VIII. EXTERNAL AUDIT REPORT – UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION**

Ms. Deaton presented the UofM Research Foundation Financial Statements for years ended June 30, 2017 and 2016. An external CPA firm completed the audit. Their opinion stated the

financial statements presented fairly in all material respects the financial position of the business-type activities of the UMRF, and no deficiencies in internal control were identified. But when looking at compliance with the State of Tennessee statutes, they did identify an issue related to collateralization: there were cash deposits in an institution that were not secured by either FDIC or collateralized as required by state statute. A recommendation was made, and management implemented an action to correct the issue. Ms. Deaton stated a person was there to answer questions about the collateralization issue if the Board had any. Trustee Kemme asked if the issue had been corrected, and Ms. Deaton stated that it had.

The audits for both entities – the Foundation and the Research Foundation – are getting ready to begin and can hopefully be shared at the December meeting.

#### **IX. FY2018 INTERNAL AUDIT YEAR END REPORT**

Ms. Deaton then reported on information relating to the office of Internal Audit and Consulting. She gave an overview of how the office spent its audit hours over the past year; it was close to 50/50 between academic and administrative. During the fiscal year, 76 issues were identified for correction, 25 externally identified issues, and 73 of the issues were corrected, which means some issues are still open. Further, during the fiscal year, there have been 35 cases opened, 9 of which were referred to others and 26 reports issued.

Chair Roberts asked on the cases that get referred to others, if President Rudd felt confident in the processes in place and if they are sufficient to close the issues and get then taken care of. President Rudd stated he felt confident and does not know of an instance where the University has not tracked the issues and made sure we have received a response. Secretary Murry added that she and Ms. Deaton usually consult about where the issues should be directed if it does not belong in Internal Audit. President Rudd stated he felt that the University has good procedures in place to make sure we track and there is closure. Secretary Murry stated in December it might be good to have some of the other areas (i.e., Office for Institutional Equity, Athletics compliance, Research compliance, etc.) come and speak about issues so the Board can have comfort that issues are being handled. President Rudd brought up that the University is putting together an institutional compliance council to address coordination across units; in the coming months, President Rudd stated he would be identifying a designated institutional compliance officer.

Trustee Edwards wished to go back to the two Foundations. He brought up to Ms. Deaton that to the extent they have funds, it seems to him that Raaj Kurapati, Chief Financial Officer, should have some oversight where the two Foundations establish banking relationships, where they invest their money; he stated they should be investing along the same lines as the University itself. Ms. Deaton acknowledged Raaj was in the room. Raaj stated by virtue of his position, he serves on both the Foundation board and the Research Foundation board. He has been in conversation with the Research Foundation, the investment committee, and the Foundation. Secretary Murry wanted to remind the Board that both entities – the Foundation and the Research Foundation – are separate from the University, which means the directors

have fiduciary responsibilities to those organizations. Trustee Kemme asked whether the University has any legal responsibility, liability, or obligations for the behavior if they misbehave. Secretary Murry stated we do not have obligations for their misbehavior; however, we can dissociate if we believe they are not operating in the best interests of the University. Right now, there is an operating agreement between the University and the Foundation and the Research Foundation that lays out the operating principles and guidelines as to how we do business with each other. If there are issues, we can bring it to the Board if necessary, but if we believe they are not acting in the best interests of the University, there are things that can be done to dissociate, but they are affiliated with the University. Trustee Kemme next asked if we should see the financials of both entities. Trustee Edwards stated it was maybe up to the board of the Foundations to take some actions that align their activities with those of the University and mandates that from their standpoint. He opined that the Foundations should follow what we do as a University. Dr. Jasbir Dhaliwal, Executive Vice President for Research and Innovation, added that the Research Foundation is talking to the state and seeing if they require the same audit; there is a state link to the financials. Raaj stated the financials were consolidated as component units for purposes of the presentation, and we do have some fiscal oversight.

Before moving on, Ms. Deaton added that she has also implemented a process to keep up with cases Internal Audit refers to others, and she will periodically send them a memo asking for an update of the status of the issue.

#### **X. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM UPDATE**

Next, Ms. Deaton mentioned to the Board that Internal Audit does have a Quality Assurance and Improvement Program. The University is getting ready to need to have a Quality Assurance review. Ms. Deaton gave a quick overview of information about the Institute of Internal Auditor Governance, the definition of internal auditing, and the Code of Ethics. The last quality assurance review was under TBR, and now that we are on our own, we need to have our own. Ms. Deaton stated she will continue to communicate with Chair Roberts about this review.

Chair Roberts added that it is important we continue to move forward with process and procedures, how we communicate, and the formats we use; it is important how we communicate and the rules of engagement. Ms. Deaton echoed Chair Roberts and stated she is always looking for ways to improve and get better.

#### **XI. MONITORING STUDENT-ATHLETE ACADEMICS**

The last item Ms. Deaton discussed was the monitoring of student-athlete academics. She provided a memo in the board book that talks about the different monitoring mechanisms the University has to monitor the academic success of the student-athletes. Ms. Deaton stated there is a Faculty Athletics Committee, which is an advisory group to Dr. Rudd to foster integrity in athletics; a faculty athletics representative, who is a faculty member separate from the Athletics department who chairs the Athletics committee and interacts with the NCAA on the University's behalf; and a Center for Athletic Academic Services, directed by Dr. Robert Baker.

The Office for Institutional Research provides tools to help in monitoring what courses they take, different majors, and success rates.

Ms. Deaton turned it over to Dr. Baker, Associate Athletic Director, Academic Services. Part of the mission of the Center for Athletic Academic Services is to ensure that student-athletes pursue a major that will lead to a career in life after sports. There are programs in place to expose them to career and leadership development. Dr. Baker stated he was proud in how diverse the student-athletes are in their majors. Ms. Deaton presented a comparison of student-athletes to non-student-athletes and their majors, stating that only 4 student-athletes are undeclared. Dr. Baker added that there is a NCAA rule that after the fifth semester, a student-athlete must be making progress (at least 40%) to a degree.

**XII. ADDITIONAL COMMITTEE BUSINESS**

There was no additional committee business.

**XIII. ADJOURNMENT**

Chair Roberts adjourned the Audit Committee meeting at 10:06 a.m. CDT.

**XIV. EXECUTIVE SESSION**

Board of Trustees convened in Executive Session at 10:15 a.m. CDT.

Respectfully Submitted,

Melanie Murry  
Board Secretary

## 4. Update on Information Security Program

Presented by Robert Jackson

# **The University of Memphis Board of Trustees**

Presentation

For Information

**Date:** December 5, 2018

**Committee:** Audit Committee

**Presentation Title:** Update on Information Security Program

**Presented by:** Dr. Robert Jackson, Chief Information Officer

# The University of Memphis Board of Trustees

Presentation

For Information

**Date:** December 5, 2018

**Committee:** Audit Committee

**Presentation Title:** Information Security Program Update

**Presented by:** Dr. Robert Jackson, Chief Information Officer

## Synopsis:

Information Technology Services (ITS) continues to strengthen the University's information security program. In balancing the need to protect with the need to conduct business, ITS has moved forward with 3 significant security program enhancements: (1) network border firewall configuration changes; (2) multi-factor authentication requirements; and (3) IT security awareness training requirements. Network configuration changes were implemented November 12 and resulted in significant improvements to network security. New employees are now required to use multi-factor authentication, to complete IT security awareness training, and are trained during the HR on-boarding process. Existing employee requirements are planned to take effect by February 2019. Future plans include strengthening desktop security, adding protections for email, improving protection for web applications, and hiring an additional IT Security employee.

# *Information Security Program Update*

## *Audit Committee*

Dr. Robert Jackson  
Chief Information Officer

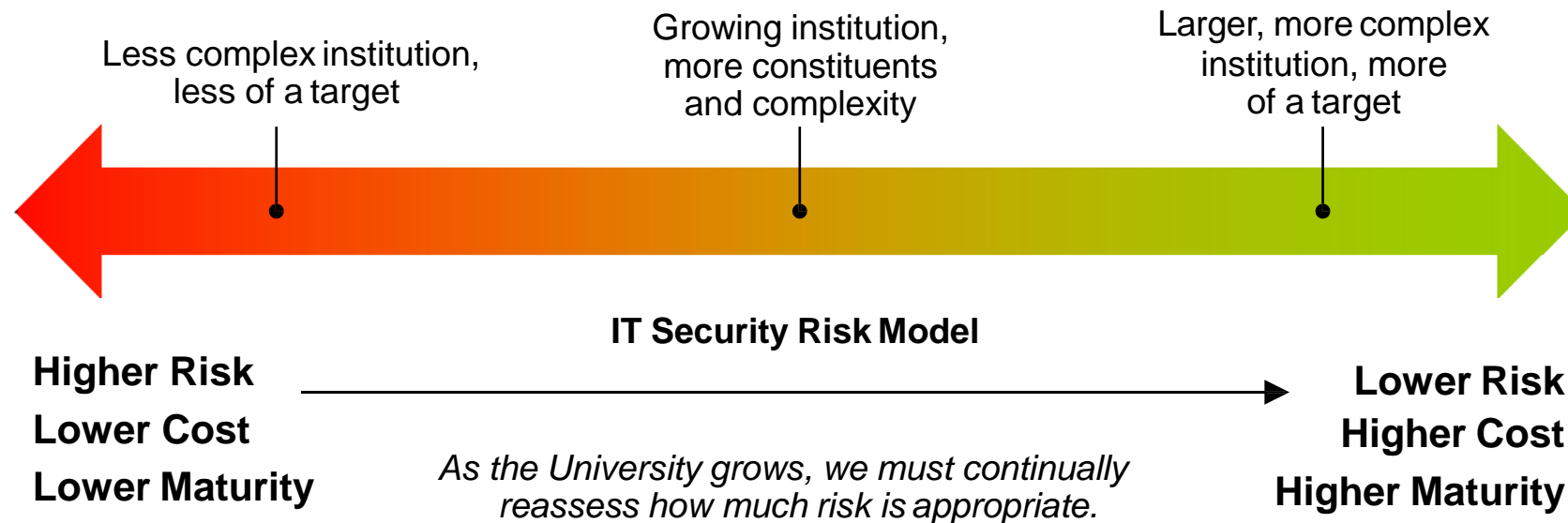
December 5, 2018  
Wilder Student Union  
UofM Lambuth





# Defining Appropriate IT Security Risk

There is no such thing as "perfect protection."



Our goal is to build a sustainable information security  
 program that balances the need to protect against the need  
 to conduct University business.

## Where are we now?

- ITS has identified areas for improvement.
  - Work teams identifying necessary changes to address recommendations
- Changes implemented to date:
  - Wifi encryption enabled
  - Email security gateway implemented
  - Firewall configuration change significantly decreased malicious traffic (Nov. 12)
  - Multi-factor authentication required for all employees
  - IT Security Awareness Training required for all employees

## Next Steps

- Continue collaborating with University community on further security improvements
  - Desktop security initiative (staff computers)
  - Additional protections for email
  - Continued outreach and training for departments
- Hire additional ITSEC staff member to assist with training and coordinating follow-up on security issues
- Conduct annual external assessment of our IT risk and information security program to identify gaps and opportunities for continual improvement
- Provide annual update on Information Security Program to the Audit Committee

## Summary

Significant enhancements have been made to strengthen the UofM information security program,

AND

ITS is continuing efforts to implement appropriate changes that balance the need to protect the University with the need to conduct University business.

# Thank you



## 5. OIE Overview and Compliance Committee

Presented by Kenneth Anderson

## The University of Memphis Board of Trustees

Presentation

For Information

**Date:** December 5, 2018

**Committee:** Audit Committee

**Presentation Title:** Office for Institutional Equity Overview and Title IX Compliance Updates

**Presented by:** Kenneth Anderson, Director, Office for Institutional Equity

### Synopsis:

The brief presentation will provide an overview of the Office for Institutional Equity (OIE) and its role in promoting a culture of non-discrimination and harassment for the entire University community through its affirmative action, prevention and enforcement activities. The presentation will center primarily on the work of the Title IX Prevention Center over the last six months since its establishment, as well as a review of OIE enforcement statistics for fiscal years 2015-16, 2016-17 and 2017-18 respectively. The presentation will conclude with a brief discussion of key pending developments and changes that will impact the University compliance efforts more broadly going forward.





# *Office for Institutional Equity*

## *Prevention and Enforcement Overview*

Kenneth Anderson

December 5, 2018

Wilder Student Union

UofM Lambuth



# OIE OVERVIEW

- OIE provides a range of services that support equity and diversity, as well as University compliance efforts in the areas of equal opportunity, affirmative action, harassment prevention, nondiscrimination and Title IX.
  - Providing information, consultation, training and other resources to the University community with regard to diversity, harassment and discrimination prevention, affirmative action, equal opportunity and disability matters
  - Providing a fair and impartial mechanism for resolving complaints of unlawful harassment, discrimination, sexual misconduct and retaliation; and
  - Providing oversight of and support for the University's efforts to comply with all applicable State and Federal civil rights laws and its affirmative action plan.





## Prevention is a Primary Mission...

- Established new Title IX Prevention Specialist and Faculty Prevention Fellow positions
- Opened Title IX Prevention Center in August 2018
- Trained, supported, and advised student organization, Sexual Assault Prevention and Awareness Coalition (SAPAC)
- Participated in city-wide committee sponsored by Shelby County Rape Crisis Center to share best practices regarding sexual assault prevention with Memphis-area colleges

## Programming & Training

### Walk a Mile in Her Shoes



Approximately **260 students** and community members gathered at the Ramesses statue on campus to kick-off Walk a Mile in Her Shoes on September 27, 2018. Walk a Mile in Her Shoes' goal is to reduce incidents of interpersonal violence and to **recognize men as allies in that goal**.

### Take Back the Night



On November 8, **100+ students** and community members attended Take Back the Night, a movement dating back to the 1960s that continues to **support survivors** in all forms of interpersonal violence. This year's activities included a Keynote speaker, speak-outs from

December 2018 Audit Committee Meeting  
 5. OIE Overview and Compliance Committee

5042

students completed online sexual assault prevention training module, an **85%** increase over last year

58

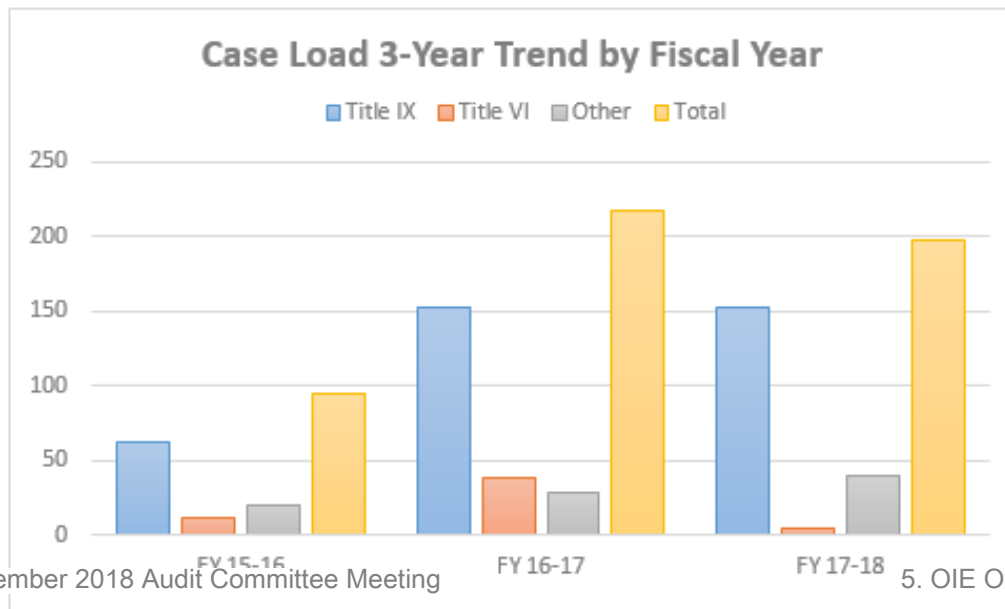
ACAD 1100 presentations on topics including healthy relationships, warning signs in relationships, sexual assault, bystander intervention, and resources/reporting options

90+%

of students participating in the ACAD presentation reported increased knowledge about resources, reporting options, and bystander intervention

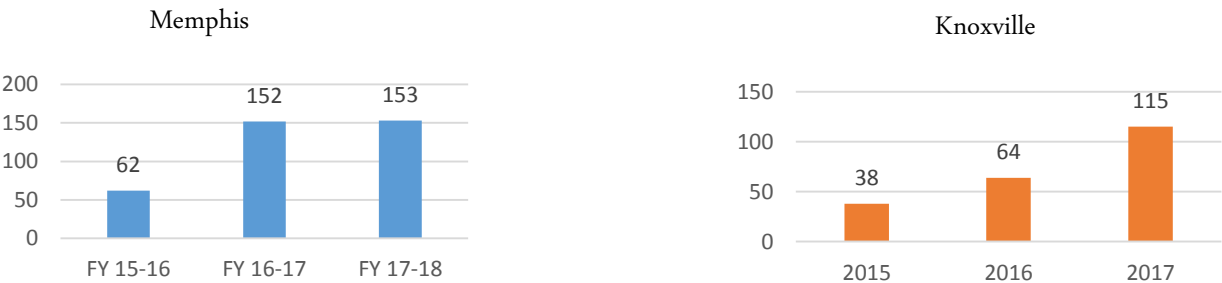


Case Load 3-Year Trend by Fiscal Year					
Fiscal Year	Title IX	Title VI	Other	Total	Title IX Trend
FY 15-16	62	12	20	94	
FY 16-17	152	38	28	218	↑
FY 17-18	153	5	40	198	↑

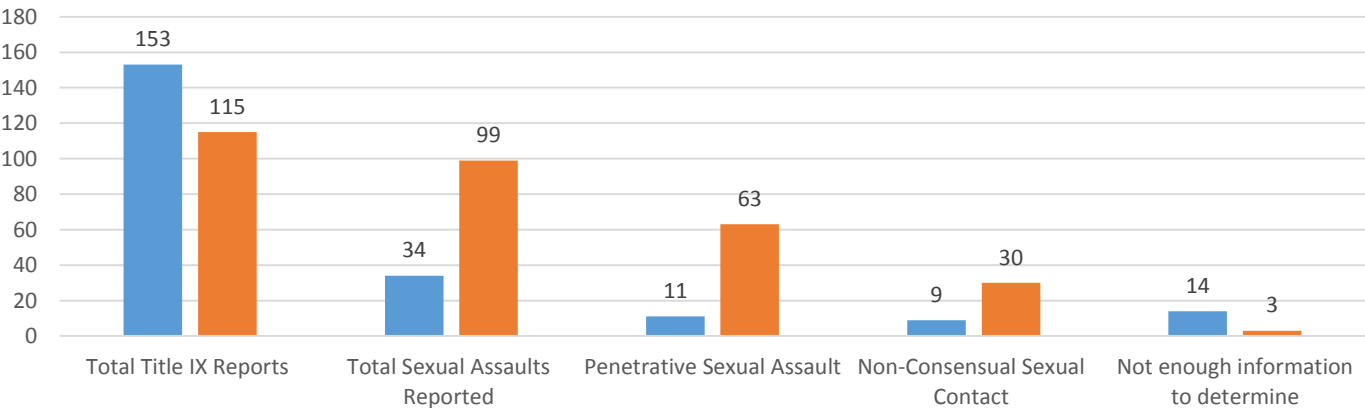


Title IX: Sexual Assaults reported by Fiscal Year		On campus
FY 15-16	12	
FY 16-17	28	8
FY 17-18	34	13

Quick Look: U of M and UT Knoxville  
Total Title IX Reports Over 3 Years



Most Recent Year: Sexual Assaults by Category



# Key Pending Developments & Changes

- TITLE IX LEGAL DEVELOPMENTS
  - DOE-OCR PROPOSED TITLE IX REGS ISSUED
    - Publicly announced on November 16<sup>th</sup> after more than a year of evaluation
    - Key changes include:
      - (1) What constitutes sexual harassment for purposes of rising to the level of a civil rights issue under Title IX;
      - (2) What triggers a school's legal obligation to respond to incidents or allegations of sexual harassment; and
      - (3) How a school must respond.
    - Final regulations will be put into effect after expiration of the 60-day comment period
    - TN legislature also enacted similar due process protections as federal regs in July 2018
  - The University has been anticipating some of the changes and is working to amend its Sexual Misconduct policy to ensure alignment with new requirements in coordination with OLC and the Office of Student Affairs.

# Pending Developments & Changes (con't)

- New OIE Compliance Oversight Role and Function
  - OIE Director named Chief Compliance Officer for University in November 2018
  - Will coordinate University's newly established Compliance Council made up of compliance designees from across the entire campus to establish a centralized compliance function that has direct reporting responsibility to the President's Council
  - Council is currently comprised of 18 members and held its first meeting on November 26, 2018
  - Council's primary goal is to create comprehensive compliance policies, practices and activities to ensure ongoing University compliance in an evolving compliance context.



# End of Presentation



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University of Memphis  
Memphis, TN 38152-3370  
Tel: (901) 678-2713  
E-mail: [oe@memphis.edu](mailto:oe@memphis.edu)



## 6. Summary of Investigations Completed

Presented by Vicki Deaton



## *Audit Committee*

Vicki D. Deaton, Chief Audit Executive

December 5, 2018

Wilder Student Union

UofM Lambuth



**Board** of  
**Trustees**

# Report: Summary of Investigations

Summary information is provided for the reports of possible fraud, waste, or abuse, noncompliance with law, and conflict of interest received by Internal Audit this quarter.

# Investigations

UofM Investigation Summary 2nd Qu FY2019								
Case Number	Date Received	Allegation Received by	Description of Allegation	Status	Investigation Outcome	\$ Loss	Date of Final Action by Internal Audit	Additional Explanation
18-032	6/19/2018	Internal Audit FWA Report	Misuse of University Assets	Memo Issued-Case Closed	No Evidence of Misuse of University Assets	NA	8/22/2018	
18-032	6/19/2018	Internal Audit FWA Report	Academic Nepotism	Referred to Graduate School and Appropriate College	Per Graduate School - No Evidence of Nepotism in Graduate Program Acceptance or Graduate Program Degree Completion	NA	11/9/2018	
19-001	7/16/2018	Phone Call to Internal Audit	Employee May Have Misrepresented Information on FAFSA	Memo Issued-Case Closed	No Evidence of Employee False Statements on FAFSA	NA	10/19/2018	FAFSA = Free Application for Federal Student Aid
19-002	8/30/2018	Phone Call to Internal Audit	Employee Received Fraudulent Emails Requesting Financial Transactions	Referred to Police Services	Police Services Investigation	\$800 employee loss	8/30/2018	
19-003	9/13/2018	Verbal Conversation with CAE	Contract Amendment Not Appropriately Reviewed/Approved, Possible COI Between Employee and Vendor	Memo Issued-Case Closed	Contract Amendment Was Not Appropriately Reviewed/Approved, COI Between Employee and Vendor	Actual Loss to Date = \$357,796	11/20/2018	Potential Loss of \$1.45 M
19-004	10/15/2018	Internal Audit FWA Report	Mismanagement of Employees, Waste of University Resources	Referred to Human Resources	Per HR - Actions Taken to Address and Monitor the Issue	NA	11/12/2018	
19-005	10/25/2018	Phone Call to Internal Audit	Possible Waste or Abuse Related to Employee Self-Approval of Leave Reports	Memo Issued-Case Closed	Employee Policy Violation and University-Wide Internal Control Weakness	NA	11/19/2018	
19-006	10/30/2018	Email to Internal Audit	Fraudulent Checks Paid on UofM Foundation Bank Account	Referred to Police Services	Police and Possibly FBI Investigation	\$4,060	11/7/2018	UofM Foundation is Filing Claim for Loss Reimbursement, Instituting Positive Pay
19-007	11/10/2018	Internal Audit FWA Report	Possible Student Privacy Violation	Referred to Provost Office	ongoing	NA	NA	



# Report: Audit Issue Follow-Up

All of the action plans addressing audit issues from the Department of Biological Sciences Financial and Compliance Audit have been completed.



Action Plan Estimated Completion Date	Name of Audit	Date of Audit Report	Audit Engagement Opinion	Issue #	Issue Description	Issue Rating	Party Responsible for Action Plan Completion	Current Status (as of October, 2018)
6/30/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 1	Security Awareness Training Compliance	Moderate = Insufficient and Requires Improvement	David A. Freeman, Chair, Department of Biological Sciences	Complete
3/30/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 2a	Insufficient Controls over Purchasing Cards	Moderate = Insufficient and Requires Improvement	David A. Freeman, Chair, Department of Biological Sciences	Complete
2/28/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 2b	Insufficient Controls over Purchasing Cards	Moderate = Insufficient and Requires Improvement	Edwina Washington, Assistant Vice President, Business Services	Complete
6/30/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 3	Insufficient Facility Access Controls - Incomplete and Inaccurate Key Control Records	Moderate = Insufficient and Requires Improvement	David A. Freeman, Chair, Department of Biological Sciences	Complete
3/30/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 4a	Insufficient Controls over Overtime and Time Reporting & Approval	Moderate = Insufficient and Requires Improvement	David A. Freeman, Chair, Department of Biological Sciences	Complete
3/30/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 4b	Insufficient Controls over Overtime and Time Reporting & Approval	Moderate = Insufficient and Requires Improvement	Terrice Watson, Assistant Controller	Complete
2/28/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 5	Insufficient Controls over Employee Indebtedness to University	Moderate = Insufficient and Requires Improvement	Latosha Dexter, UofM Deputy University Counsel, Greg Atkins, University Bursar, and Shelanda Gardner, Manager of Receivables and Student Accounts	Complete
3/30/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 6	Insufficient Controls over Purchasing Cards	Minor = Effective with Opportunity for Improvement	David A. Freeman, Chair, Department of Biological Sciences	Complete
3/30/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 7	Insufficient Travel Controls - No Prior Approval for Travel PO	Minor = Effective with Opportunity for Improvement	David A. Freeman, Chair, Department of Biological Sciences	Complete
3/30/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 8	Insufficient Controls over Meal Expenses	Minor = Effective with Opportunity for Improvement	David A. Freeman, Chair, Department of Biological Sciences	Complete
3/30/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 9	Insufficient Fund Disbursement Controls - No Approval for Purchase by Controller	Minor = Effective with Opportunity for Improvement	David A. Freeman, Chair, Department of Biological Sciences	Complete
3/30/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 10	Procurement Policy Non-compliance	Minor = Effective with Opportunity for Improvement	David A. Freeman, Chair, Department of Biological Sciences	Complete
3/30/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 11	Reporting Separation from Employment	Minor = Effective with Opportunity for Improvement	David A. Freeman, Chair, Department of Biological Sciences	Complete



# Report: External Audit Report - The University of Memphis Foundation Financial Statements, Years Ended June 30, 2018 and 2017

In accordance with requirements of the Tennessee Comptroller of the Treasury, the most recent audit of the University of Memphis Foundation's (Foundation) financial statements was conducted for the fiscal years ending June 30, 2018 and 2017. The Foundation engaged Reynolds Bone & Griesbeck PLC, an independent external CPA firm, to conduct the audit in accordance with accounting principles generally accepted in the United States of America.

# Report: External Audit Report - The University of Memphis Foundation Financial Statements, Years Ended June 30, 2018 and 2017

- The independent auditor's opinion stated that the financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2018, 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.
- The auditors did not identify any deficiencies in internal control that would be considered material weaknesses during their limited consideration of internal control over financial reporting. There were no instances of noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that were tested.

# Report: External Audit Report - The University of Memphis Research Foundation Financial Statements, June 30, 2018

In accordance with requirements of the Tennessee Comptroller of the Treasury, the most recent audit of the University of Memphis Research Foundation's (UMRF) financial statements was conducted for the fiscal year ending June 30, 2018. The UMRF engaged Frazee Ivy Davis, PLC, a local independent external CPA firm, to conduct an audit of the financial statements of the business-type activity and discretely presented component unit of the UMRF in accordance with accounting principles generally accepted in the United States of America.

# Report: External Audit Report - The University of Memphis Research Foundation Financial Statements, June 30, 2018

- The independent auditor's opinion stated that the financial statements present fairly, in all material respects, the respective financial position of the business-type activity and the discretely presented component unit of the UMRF as of June 30, 2018, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.
- The auditors did not identify any deficiencies in internal control that would be considered material weaknesses during their limited consideration of internal control over financial reporting. Also, they did not identify any instances of noncompliance or other matters with certain provisions of laws, regulations, contracts and grant agreements.

# Report: Quality Assurance and Improvement Program Update

An external quality assessment is planned which will include a self-assessment with independent validation. Independent reviewers have been identified for the external quality assessment team. The results of the external quality assessment will be shared with the Audit Committee when completed.

Blayne Clements, CIA, CFE, CRMA  
Chief Audit Officer  
Austin Peay State University

Amy Wilegus, CPA, CISA, CRISC, CISSP  
Audit Director

# The University of Memphis Board of Trustees

Presentation  
For Information

**Date:** December 5, 2018  
**Committee:** Audit Committee  
**Presentation Title:** Summary of Investigations Completed  
**Presented by:** Vicki D. Deaton, Chief Audit Executive

## Synopsis:

Six new reports of fraud, waste, or abuse, noncompliance with law, or conflict of interest were received by the Office of Internal Audit and Consulting this quarter. Three reports received last quarter were resolved this quarter. Five reports were referred to other University Offices for resolution, and all but one is resolved. Four investigation reports were issued by Internal Audit this quarter.

Attached is a summarized list of reports received by the UofM Office of Internal Audit and Consulting, with additional information regarding investigations completed by Internal Audit.

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# CONFIDENTIAL AUDIT INFORMATION

UofM Investigation Summary 2nd Qu FY2019								
Case Number	Date Received	Allegation Received by	Description of Allegation	Status	Investigation Outcome	\$ Loss	Date of Final Action by Internal Audit	Additional Explanation
18-032	6/19/2018	Internal Audit FWA Report	Misuse of University Assets	Memo Issued-Case Closed	No Evidence of Misuse of University Assets	NA	8/22/2018	
18-032	6/19/2018	Internal Audit FWA Report	Academic Nepotism	Referred to Graduate School and Appropriate College	Per Graduate School - No Evidence of Nepotism in Graduate Program Acceptance or Graduate Program Degree Completion	NA	11/9/2018	
19-001	7/16/2018	Phone Call to Internal Audit	Employee May Have Misrepresented Information on FAFSA	Memo Issued-Case Closed	No Evidence of Employee False Statements on FAFSA	NA	10/19/2018	FAFSA = Free Application for Federal Student Aid
19-002	8/30/2018	Phone Call to Internal Audit	Employee Received Fraudulent Emails Requesting Financial Transactions	Referred to Police Services	Police Services Investigation	\$800 employee loss	8/30/2018	
19-003	9/13/2018	Verbal Conversation with CAE	Contract Amendment Not Appropriately Reviewed/Approved, Possible COI Between Employee and Vendor	Memo Issued-Case Closed	Contract Amendment Was Not Appropriately Reviewed/Approved, COI Between Employee and Vendor	Actual Loss to Date = \$357,796	11/20/2018	Potential Loss of \$1.45 M
19-004	10/15/2018	Internal Audit FWA Report	Mismanagement of Employees, Waste of University Resources	Referred to Human Resources	Per HR - Actions Taken to Address and Monitor the Issue	NA	11/12/2018	
19-005	10/25/2018	Phone Call to Internal Audit	Possible Waste or Abuse Related to Employee Self-Approval of Leave Reports	Memo Issued-Case Closed	Employee Policy Violation and University-Wide Internal Control Weakness	NA	11/19/2018	
19-006	10/30/2018	Email to Internal Audit	Fraudulent Checks Paid on UofM Foundation Bank Account	Referred to Police Services	Police and Possibly FBI Investigation	\$4,060	11/7/2018	UofM Foundation is Filing Claim for Loss Reimbursement, Instituting Positive Pay
19-007	11/10/2018	Internal Audit FWA Report	Possible Student Privacy Violation	Referred to Provost Office	ongoing	NA	NA	





## 7. Audit Issue Follow-Up

Presented by Vicki Deaton

# **The University of Memphis Board of Trustees**

Presentation

For Information

**Date:** December 5, 2018

**Committee:** Audit Committee

**Presentation Title:** Audit Issue Follow-Up

**Presented by:** Vicki D. Deaton, Chief Audit Executive

## **Synopsis:**

Attached is a summarized list of audit issues that were evaluated for completion this quarter. All the action plans addressing audit issues from the Department of Biological Sciences Financial and Compliance Audit have been completed.

Action Plan Estimated Completion Date	Name of Audit	Date of Audit Report	Audit Engagement Opinion	Issue #	Issue Description	Issue Rating	Party Responsible for Action Plan Completion	Current Status (as of October, 2018)
6/30/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 1	Security Awareness Training Compliance	Moderate = Insufficient and Requires Improvement	David A. Freeman, Chair, Department of Biological Sciences	Complete
3/30/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 2a	Insufficient Controls over Purchasing Cards	Moderate = Insufficient and Requires Improvement	David A. Freeman, Chair, Department of Biological Sciences	Complete
2/28/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 2b	Insufficient Controls over Purchasing Cards	Moderate = Insufficient and Requires Improvement	Edwina Washington, Assistant Vice President, Business Services	Complete
6/30/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 3	Insufficient Facility Access Controls - Incomplete and Innaccurate Key Control Records	Moderate = Insufficient and Requires Improvement	David A. Freeman, Chair, Department of Biological Sciences	Complete
3/30/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 4a	Insufficient Controls over Overtime and Time Reporting & Approval	Moderate = Insufficient and Requires Improvement	David A. Freeman, Chair, Department of Biological Sciences	Complete
3/30/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 4b	Insufficient Controls over Overtime and Time Reporting & Approval	Moderate = Insufficient and Requires Improvement	Terrice Watson, Assistant Controller	Complete
2/28/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 5	Insufficient Controls over Employee Indebtedness to University	Moderate = Insufficient and Requires Improvement	Latosha Dexter, UofM Deputy University Counsel, Greg Atkins, University Bursar, and Shelanda Gardner, Manager of Receivables and Student Accounts	Complete
3/30/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 6	Insufficient Controls over Purchasing Cards	Minor = Effective with Opportunity for Improvement	David A. Freeman, Chair, Department of Biological Sciences	Complete
3/30/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 7	Insufficient Travel Controls - No Prior Approval for Travel PO	Minor = Effective with Opportunity for Improvement	David A. Freeman, Chair, Department of Biological Sciences	Complete
3/30/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 8	Insufficient Controls over Meal Expenses	Minor = Effective with Opportunity for Improvement	David A. Freeman, Chair, Department of Biological Sciences	Complete
3/30/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 9	Insufficient Fund Disbursement Controls - No Approval for Purchase by Controller	Minor = Effective with Opportunity for Improvement	David A. Freeman, Chair, Department of Biological Sciences	Complete
3/30/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 10	Procurement Policy Noncompliance	Minor = Effective with Opportunity for Improvement	David A. Freeman, Chair, Department of Biological Sciences	Complete
3/30/2018	Department of Biological Sciences Financial and Compliance Audit	1/30/2018	Effective with Opportunity for Improvement	Biology 11	Reporting Separation from Employment	Minor = Effective with Opportunity for Improvement	David A. Freeman, Chair, Department of Biological Sciences	Complete



## 8. External Audit Report - University of Memphis Foundation, 6/30/2018

Presented by Vicki Deaton

# The University of Memphis Board of Trustees

Presentation  
For Information

**Date:** December 5, 2018  
**Committee:** Audit Committee  
**Presentation Title:** External Audit Report - University of Memphis Foundation Financial Statements, Years Ended June 30, 2018 and 2017  
**Presented by:** Vicki D. Deaton, Chief Audit Executive

## Synopsis:

The University is subject to external audits, program reviews, and similar activities by various agencies and other organizations. According to UofM Policy GE2016 Notification of External Audits and Reviews, it is the responsibility of the primary contact person for the program or activity being reviewed to notify Internal Audit of an external audit or review as early in the process as possible. After the audit or review is complete, the primary contact will usually receive notice of the results in writing. The primary contact (or designee) should forward a copy of the results to Internal Audit. The responsibility for Internal Audit under this policy includes reporting occurrences of external reviews and audits to the Audit Committee, Division of State Audit and others as the circumstances may dictate. Also, TCA § 4-4-113 requires notification of federal award noncompliance or any deficiency related to compliance with federal statutes, regulations, or the terms and conditions of a federal award, to the Tennessee Comptroller of the Treasury and the Commissioner of Finance and Administration.

On November 8, 2018, the University of Memphis Foundation Financial Statements, Years Ended June 30, 2018 and 2017 were issued. The financial statements are presented for informational purposes.

The University of Memphis Foundation (Foundation) is a not-for-profit, tax-exempt corporation chartered in 1964 in the State of Tennessee. The Foundation accepts and manages private support to the University of Memphis (University).

The Foundation engaged an independent external CPA firm, Reynolds Bone & Griesbeck PLC, to perform an audit of the financial statements of the Foundation. The independent auditor's opinion stated that the financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2018, 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.

The auditors did not identify any deficiencies in internal control that would be considered material weaknesses during their limited consideration of internal control over financial reporting. There were no instances of noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that were tested.

# **The University of Memphis Foundation**

**FINANCIAL STATEMENTS**

**JUNE 30, 2018 and 2017**



**REYNOLDS BONE & GRIESBECK PLC**  
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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*The University of Memphis Foundation*  
*June 30, 2018 and 2017*

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## **BOARD OF DIRECTORS AND FINANCIAL/ADMINISTRATIVE DIRECTORS**

*The University of Memphis Foundation*  
*June 30, 2018 and 2017*

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### **Board of Directors**

George T. Johnson, President  
Harry L. Smith, Vice President  
Gary S. Shorb, Treasurer/Secretary  
Judith Edge  
Robert F. Fogelman  
Carolyn Hardy  
Fred Hodges  
Thomas G. Kadien  
Raaj Kurapati  
James D. Lackie  
Jason Little  
James E. McGehee, Jr.  
David C. Perdue  
Dr. M. David Rudd  
Douglas Scarboro  
Fred Towler  
James L. Vining  
James Wiertelak  
John Wilfong

### **Financial/Administrative Directors**

Byron Morgan, Managing Director  
Tarit Lim, Associate Director



## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
The University of Memphis Foundation  
Memphis, Tennessee

### Report on the Financial Statements

We have audited the accompanying financial statements of The University of Memphis Foundation (the Foundation) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. 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.

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 Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of Memphis Foundation as of June 30, 2018, 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.

### ***Prior Period Financial Statements***

The financial statements of The University of Memphis Foundation as of June 30, 2017, were audited by other auditors whose report dated November 1, 2017, expressed an unmodified opinion on those statements.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2018, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and do not 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 Foundation's internal control over financial reporting and compliance.

*Reynolds, Bone & Griesbeck PLLC*

November 8, 2018

## STATEMENTS OF FINANCIAL POSITION

*The University of Memphis Foundation*  
*June 30, 2018 and 2017*

	2018	2017
<b>ASSETS</b>		
Cash	\$ 1,006,559	\$ 1,389,394
Contributions receivable, net	12,455,617	10,261,776
Accrued interest, dividends, and other receivables	249,357	109,413
Investments, at fair value	134,462,388	134,323,156
Cash surrender of value of life insurance	407,588	390,289
Donated works of art and other property	579,927	584,956
Total assets	<u>\$ 149,161,436</u>	<u>\$ 147,058,984</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable, primarily to The University of Memphis	\$ 9,633,861	\$ 8,685,530
Gift annuity obligations	142,332	144,287
Total liabilities	<u>9,776,193</u>	<u>8,829,817</u>
Net assets		
Unrestricted	6,391,986	7,390,811
Temporarily restricted	56,625,630	58,640,909
Permanently restricted	76,367,627	72,197,447
Total net assets	<u>139,385,243</u>	<u>138,229,167</u>
Total liabilities and net assets	<u>\$ 149,161,436</u>	<u>\$ 147,058,984</u>

*See notes to financial statements.*

## STATEMENT OF ACTIVITIES

*The University of Memphis Foundation*  
*Year Ended June 30, 2018*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions	\$ 176,388	\$ 17,889,258	\$ 3,519,206	\$ 21,584,852
Investment income	666,442	1,614,864	-	2,281,306
Net realized and unrealized gains on investments	102,153	2,289,153	-	2,391,306
Other income	-	6,500,234	-	6,500,234
Net assets released from restrictions	29,657,814	(29,657,814)	-	-
Total revenues, gains and other support	30,602,797	(1,364,305)	3,519,206	32,757,698
Expenses:				
University support	21,029,984	-	-	21,029,984
Awards and scholarships	10,030,439	-	-	10,030,439
Investment fees and expenses	347,778	-	-	347,778
Bad debt expense	193,421	-	-	193,421
Total expenses	31,601,622	-	-	31,601,622
Change in net assets before donor modifications of restrictions	(998,825)	(1,364,305)	3,519,206	1,156,076
Donor modifications of restrictions	-	(650,974)	650,974	-
Change in net assets	(998,825)	(2,015,279)	4,170,180	1,156,076
Net assets at beginning of year	7,390,811	58,640,909	72,197,447	138,229,167
Net assets at end of year	\$ 6,391,986	\$ 56,625,630	\$ 76,367,627	\$ 139,385,243

*See notes to financial statements.*

## STATEMENT OF ACTIVITIES

*The University of Memphis Foundation*  
*Year Ended June 30, 2017*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions	\$ 363,104	\$ 14,987,779	\$ 2,489,107	\$ 17,839,990
Investment income	795,824	788,739	-	1,584,563
Net realized and unrealized gains on investments	843,505	10,268,820	-	11,112,325
Other income	44,122	708,499	-	752,621
Net assets released from restrictions	34,118,386	(34,118,386)	-	-
Total revenues, gains and other support	36,164,941	(7,364,549)	2,489,107	31,289,499
Expenses:				
University support	27,047,845	-	-	27,047,845
Awards and scholarships	8,099,254	-	-	8,099,254
Investment fees and expenses	33,066	-	-	33,066
Bad debt expense	8,408	-	-	8,408
Total expenses	35,188,573	-	-	35,188,573
Change in net assets before donor modifications of restrictions	976,368	(7,364,549)	2,489,107	(3,899,074)
Donor modifications of restrictions	(50,000)	(939,580)	989,580	-
Change in net assets	926,368	(8,304,129)	3,478,687	(3,899,074)
Net assets at beginning of year	6,464,443	66,945,038	68,718,760	142,128,241
Net assets at end of year	\$ 7,390,811	\$ 58,640,909	\$ 72,197,447	\$ 138,229,167

*See notes to financial statements.*

## STATEMENT OF CASH FLOWS

*The University of Memphis Foundation*  
*Years Ended June 30, 2018 and 2017*

	2018	2017
Operating activities		
Change in net assets	\$ 1,156,076	\$ (3,899,074)
Adjustments to reconcile the change in net assets to net cash and cash equivalents used for operating activities		
Net realized and unrealized gain on investments	(2,391,306)	(11,112,325)
Provision for bad debts	193,421	8,408
Contributions restricted for endowment	(3,519,207)	(2,489,107)
Changes in operating assets and liabilities:		
Contributions receivable	(2,387,262)	8,414,175
Accrued interest, dividends, and other receivables	(139,944)	60,090
Donated assets	5,029	19,508
Accounts payable, primarily to the University of Memphis	948,331	(108,935)
Gift annuity obligations	(1,955)	(13,368)
Net cash used for operating activities	(6,136,817)	(9,120,628)
Investing activities		
Change in cash surrender value of life insurance	(17,299)	(23,835)
Proceeds from sale of investment	282,838,665	97,212,922
Purchases of investments	(280,586,591)	(89,483,120)
Net cash provided by investing activities	2,234,775	7,705,967
Financing activity - contributions restricted for endowment	3,519,207	2,489,107
Net change in cash and cash equivalents	(382,835)	1,074,446
Cash and cash equivalents at beginning of year	1,389,394	314,948
Cash and cash equivalents at end of year	\$ 1,006,559	\$ 1,389,394

*See notes to financial statements.*

## NOTES TO FINANCIAL STATEMENTS

*The University of Memphis Foundation  
June 30, 2018 and 2017*

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Organization*

The University of Memphis Foundation (the Foundation) operates as a non-profit organization chartered in 1964 in the State of Tennessee. The Foundation accepts and manages private support to the University of Memphis (the University). Leading citizens of the Mid-South area comprise an independent Board of Directors.

#### *Use of Estimates*

Accounting principles generally accepted in the United States of America (U.S. GAAP) require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant financial statement estimates include those used in the valuation of certain investments, the allowance for uncollectible contributions, and the present value discount applied to contributions receivable. Management determines the estimate of the allowance for uncollectible contributions considering a number of factors, including historical experience and aging of accounts. See Note 4 for discussions of fair value measurements. Management believes that its estimates provided in the financial statements are reasonable. However, actual results could differ from those estimates.

#### *Financial Statements*

The Foundation prepares its financial statements on the accrual basis of accounting to focus on the Foundation as a whole by presenting balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of balances and transactions into three classes of net assets – permanently restricted, temporarily restricted and unrestricted.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that must be maintained permanently by the Foundation.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation or the passage of time.

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

*Continued*

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## NOTES TO FINANCIAL STATEMENTS

*The University of Memphis Foundation*  
*June 30, 2018 and 2017*

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Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expiration of temporary restrictions on net assets (i.e., the donor-imposed stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. During the year ended June 30, 2018 and 2017, the Foundation released temporarily restricted net assets for scholarships, academic enrichment, capital improvements, and various other projects.

### *Endowment Fund*

The Foundation is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which governs the state of Tennessee, the provisions of which apply to its endowment funds. Based on its interpretation of the provisions of UPMIFA, the Foundation is required to act prudently when making decisions to spend or accumulate donor-restricted endowment assets and in doing so to consider a number of factors including the duration and preservation of its donor-restricted endowment funds. Interest and dividend income from the endowment funds are recorded as temporarily or permanently restricted income depending on the donor stipulations.

### *Statements of Cash Flows*

For purposes of the statements of cash flows, the Foundation recognizes all demand deposit accounts as cash. All money market funds are considered to be investments and no amounts are classified as cash equivalents.

### *Contributions Receivable, Net*

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

Receivables are stated at the amount management expects to collect from outstanding balances. Management monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based upon its assessments of the current status of individual accounts. Balances that are still outstanding after a reasonable period of time has elapsed are generally written off through a charge to the valuation allowance and a credit to the appropriate receivable.

Conditional promises to give are not included as revenue until the conditions are substantially met. The Foundation had received conditional promises to give of \$693,000 and \$1,412,931 at June 30, 2018 and 2017, respectively. These potential contributions, if received, would generally be restricted for specific purposes stipulated by the donors.

*Continued*

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## NOTES TO FINANCIAL STATEMENTS

*The University of Memphis Foundation*  
*June 30, 2018 and 2017*

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### *Investments*

The Foundation's investments are stated at fair value. Fair value is the price that would be received to sell an asset in an ordinary transaction between market participants at the measurement date. See Note 4 for a discussion of fair value measurements.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded when earned and dividends are recorded on the ex-dividend date. Net realized and unrealized gains (losses) on investments include the Foundation's gains and losses on investments bought and sold as well as held during the year. Income producing assets have been pooled to enhance earnings power. The pool income is allocated pro rata to each participating account based on relative carrying value.

### *Donated Property*

Donated property is recorded as contributions at the estimated fair value on the date of donation. Donated investments are recorded at fair value on the date of donation.

### *Income Taxes*

The Internal Revenue Service has ruled that the Foundation qualifies under Section 501(c)(3) of the Internal Revenue Code and is, therefore, not subject to federal income tax under present income tax laws. The Foundation's limited partnership investments generate unrelated business income or loss activity which is subject to federal income taxes. There was no unrelated business income tax expense for the years ended June 30, 2018 and 2017.

In accordance with U.S. GAAP, if applicable, the Foundation recognizes interest expense and penalties related to uncertain tax positions as interest expense and penalties in operating expenses. No amounts have been recognized in operating expenses for 2018. The Foundation is subject to routine audits by taxing authorities; however, there are currently no audits for any tax periods in progress.

### *Administrative Fee*

In order to cover expenses of the Foundation's operations and provide unrestricted funds for University support, an administrative fee of 2.0% was assessed on the carrying value of accounts invested in the endowment pool for the years ended June 30, 2018 and 2017. The fee covers the cost of business office operations, provides support for University's fundraising activities, and assists with other needs of the University. Administrative fees earned were approximately \$1,931,000 and \$1,765,000 for the years ended June 30, 2018 and 2017, respectively.

*Continued*

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## NOTES TO FINANCIAL STATEMENTS

*The University of Memphis Foundation*  
*June 30, 2018 and 2017*

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### *Concentrations of Credit Risk*

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

### *Change in Accounting Principle*

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07: *Fair Value Measurement: Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This ASU eliminates the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share practical expedient. Further, it also removes the requirement to make certain disclosures. The ASU is effective for fiscal years beginning after December 15, 2016. The ASU is to be applied retrospectively. Effective July 1, 2017, the Foundation implemented ASU No. 2015-07. The adoption of this ASU resulted in changes to the disclosures in the notes to financial statements, but did not affect any of the amounts in the financial statements.

### *Recent Accounting Pronouncements*

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. It is intended to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP. The new guidance is effective for reporting periods beginning after December 15, 2018. Early application is permitted for periods beginning after December 15, 2016. The Foundation has elected not to early implement ASU No. 2014-09 at this time. The effects of adopting ASU No. 2014-09 have not been determined.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, which requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses on investments available for sale and purchased financial assets with credit deterioration. The new guidance is effective for reporting periods beginning after December 15, 2020. Early adoption of ASU No. 2016-13 is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The effects of adopting ASU No. 2016-13 have not been determined.

*Continued*

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## NOTES TO FINANCIAL STATEMENTS

*The University of Memphis Foundation*  
*June 30, 2018 and 2017*

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In August 2016, the FASB issued ASU No. 2016-14: *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. It is intended to simplify and improve how a not-for-profit entity classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application is permitted. The Foundation has elected not to early implement ASU No. 2016-14 at this time. The effects of adopting ASU No. 2016-14 have not been determined.

### *Subsequent Events*

Management has reviewed events occurring through November 8, 2018, the date the financial statements were available to be issued, and no subsequent events occurred requiring accrual or disclosure.

## 2. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable, net at June 30 consist of the following:

	2018	2017
Amounts due in:		
Less than one year	\$ 4,433,884	\$ 3,322,834
One to five years	8,239,420	6,481,770
More than five years	776,202	1,210,773
Gross promises to give	13,449,506	11,015,377
Less allowance for uncollectible pledges	(753,172)	(619,751)
Less unamortized present value discount	(240,717)	(133,850)
Contributions receivable, net	<u>\$ 12,455,617</u>	<u>\$ 10,261,776</u>

Contributions receivable beyond one year have been discounted to their net present value using imputed interest rates of 2.67% and 1.74% as of June 30, 2018 and 2017, respectively.

*Continued*

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## NOTES TO FINANCIAL STATEMENTS

*The University of Memphis Foundation*  
*June 30, 2018 and 2017*

### 3. INVESTMENTS

Investments as of June 30 are summarized as follows:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 2,484,063	\$ 2,483,907	\$ 1,748,812	\$ 1,748,812
Public U.S. equity	3,000,000	3,519,148	-	-
Public global equity	3,000,000	2,910,589	-	-
Limited partnerships and LLCs	39,497,206	44,840,176	69,574,365	88,660,668
Mutual funds	50,006,332	47,662,983	39,839,598	40,200,712
U.S. government securities	6,173,199	6,169,614	179,916	178,486
Corporate bonds	26,883,102	26,875,971	3,524,010	3,534,478
	<u>\$ 131,043,902</u>	<u>\$ 134,462,388</u>	<u>\$ 114,866,701</u>	<u>\$ 134,323,156</u>

### 4. FAIR VALUE OF ASSETS AND LIABILITIES

U.S. GAAP defines fair value and establishes a framework for measuring fair value. Fair value measurements apply to financial assets and liabilities, as well as non-financial assets and liabilities which are re-measured at least annually.

U.S. GAAP establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable market data, when available, and minimizes the use of unobservable inputs when determining fair value. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources. Unobservable inputs reflect the Foundation's assumptions about the assumptions market participants would use in pricing an asset or liability based on the best information available in the circumstances.

The Foundation groups its assets and liabilities 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 or liabilities.
- Level 2 valuations are based on inputs other than quoted prices included in Level 1 that are observable for assets or liabilities, either directly or indirectly. These inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active (i.e. markets in which there are few transactions for the assets or liabilities, 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 or liabilities.

*Continued*

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## NOTES TO FINANCIAL STATEMENTS

*The University of Memphis Foundation*  
*June 30, 2018 and 2017*

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- 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 or liabilities.

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

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

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

*Public U.S. and global equities:* Valued at the unadjusted quoted market price within active markets.

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

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

*Limited partnerships:* Valued using the NAV or capital balances as a practical expedient to determine the fair value.

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

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## NOTES TO FINANCIAL STATEMENTS

*The University of Memphis Foundation*  
*June 30, 2018 and 2017*

Information pertaining to investments measured at fair value on a recurring basis aggregated by valuation input level follows:

<b><u>Assets at Fair Value as of June 30, 2018</u></b>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 2,483,907	\$ -	\$ -	\$ 2,483,907
Public U.S. equity	3,519,148	-	-	3,519,148
Public global equity	2,910,589	-	-	2,910,589
Mutual funds				
U.S. equity	9,747,857	-	-	9,747,857
Emerging markets equity	8,152,761	-	-	8,152,761
Real assets	3,007,158	-	-	3,007,158
Opportunistic	2,465,673	-	-	2,465,673
International equity	16,925,688	-	-	16,925,688
Fixed income	7,363,846	-	-	7,363,846
Total mutual funds	47,662,983	-	-	47,662,983
U.S. government securities	-	6,169,614	-	6,169,614
Corporate bond securities	-	26,875,971	-	26,875,971
Limited partnerships measured at NAV	-	-	-	44,840,176
Total	<u>\$ 56,576,627</u>	<u>\$ 33,045,585</u>	<u>\$ -</u>	<u>\$ 134,462,388</u>

<b><u>Assets at Fair Value as of June 30, 2017</u></b>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 1,748,812	\$ -	\$ -	\$ 1,748,812
Mutual funds				
U.S. equity	3,229,661	-	-	3,229,661
Real assets	4,414,319	-	-	4,414,319
Fixed income	36,971,051	-	-	36,971,051
Total mutual funds	44,615,031	-	-	44,615,031
U.S. government securities	-	178,486	-	178,486
Corporate bonds	-	3,534,478	-	3,534,478
Limited partnerships measured at NAV	-	-	-	84,246,349
Total	<u>\$ 46,363,843</u>	<u>\$ 3,712,964</u>	<u>\$ -</u>	<u>\$ 134,323,156</u>

*Continued*

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## NOTES TO FINANCIAL STATEMENTS

*The University of Memphis Foundation*  
*June 30, 2018 and 2017*

### Changes in Fair Value Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair market hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. For the years ended June 30, 2018 and 2017 there were no significant transfers in or out of levels 1, 2, or 3.

### Investments Measured Using Net Asset Value Per Share Practical Expedient or Capital Balances

The following table summarizes investments for which fair value is measured using the NAV per share practical expedient or capital balances as of June 30, 2018 and 2017, respectively:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
<i>June 30, 2018</i>				
Hedge strategies-hedged equity <sup>(a)</sup>	\$ 18,484,516	\$ -	Monthly/Quarterly/Annually/ Upon Liquidation	3-95 days
Private equity <sup>(b)</sup>	5,804,430	6,285,368	Upon Liquidation	N/A
Real assets <sup>(c)</sup>	6,978,959	3,727,029	Upon Liquidation	N/A
U.S. equity <sup>(d)</sup>	5,013,114	-	Quarterly	60-90 days
International equity <sup>(e)</sup>	5,247,631	-	Monthly/Quarterly	60-90 days
Emerging markets equity <sup>(f)</sup>	893,462	-	Annually	90 days
Opportunistic <sup>(g)</sup>	2,418,064	-	Monthly/Annually	5-90 days
<i>June 30, 2017</i>				
Hedge strategies-hedged equity <sup>(a)</sup>	\$ 33,840,897	\$ -	Annually/Upon Liquidation	90 days
Private equity <sup>(b)</sup>	5,471,483	6,430,051	Upon Liquidation	N/A
Real assets <sup>(c)</sup>	3,951,307	3,855,284	Upon Liquidation	N/A
U.S. equity <sup>(d)</sup>	12,626,108	-	Quarterly	60 days
International equity <sup>(e)</sup>	13,767,626	-	Quarterly	60 days
Emerging markets equity <sup>(f)</sup>	8,107,957	-	Annually	90 days
Opportunistic <sup>(g)</sup>	2,684,276	-	Annually	90 days
Fixed income <sup>(h)</sup>	3,796,695	-	Monthly	15 days

(a) This category consists of funds of funds that make long and short position equity investments.

(b) 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.

*Continued*

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## NOTES TO FINANCIAL STATEMENTS

*The University of Memphis Foundation*  
*June 30, 2018 and 2017*

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- (c) This category consists of investment partnerships and funds that invest primarily in U.S. and foreign commercial real estate and natural resources. Some investments in this category allow quarterly redemption, but distributions during periods of illiquidity are restricted by gate constraints.
- (d) This category generally consists of managers that invest primarily in equity securities of U.S. corporations. U.S. equity may include multiple styles (growth, value) and market capitalizations (small, mid, large). These investments will primarily be long-only.
- (e) 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.
- (f) This category will generally consist of managers that invest primarily in equity securities of corporations domiciled in emerging foreign countries. Emerging markets equity may include multiple styles (growth, value) and market capitalizations (small, mid, large). These investments will primarily consist of long-only investments and hedged equity investments (long and short).
- (g) This category may include any strategy that offers exceptional risk/reward opportunities. This category is designed to provide the Investment Committee with the flexibility to select investments for a relatively small part of an overall allocation, which may not fit into the other designed allocation categories.
- (h) This category will generally consist of managers that invest primarily in fixed income securities of governments, government agencies, and corporations. These securities may include US and foreign government bonds, corporate bonds, asset-backed securities, mortgages (residential and commercial), municipal bonds, commercial paper, money market funds, preferred stock and closed-end funds. As the fixed income allocation is designed to provide capital preservation and liquidity, it will largely consist of investment grade securities. High yield bonds may be utilized.

*Continued*

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## NOTES TO FINANCIAL STATEMENTS

*The University of Memphis Foundation*  
*June 30, 2018 and 2017*

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### 5. NATURE AND AMOUNTS OF RESTRICTED NET ASSETS

Temporarily restricted net assets include net contributions receivable of \$11,920,703 and \$9,954,131 as of June 30, 2018 and 2017, respectively. Remaining temporarily restricted net assets consist primarily of investments. These assets are to be used for a specific program or purpose for future years which consist of the following at June 30:

	2018	2017
Alumni relations	\$ 758,653	\$ 735,271
Awards	1,124,482	1,151,593
Capital improvements	3,696,042	8,408,861
Centers, institutes and labs	3,406,501	3,687,902
Contributions receivable, net	11,920,703	9,954,131
Departmental/academic enrichment	8,163,390	7,634,200
Gift annuities	54,200	42,509
Operations	-	252,650
Professorships/chairs/visiting scholars	5,149,745	5,245,967
Scholarships/fellowships	12,849,565	12,623,739
Special projects/lecture series/workshops	9,502,349	8,904,086
	<u>\$ 56,625,630</u>	<u>\$ 58,640,909</u>

Permanently restricted net assets originated with contributions received to establish perpetual endowments. The endowment gift is permanently restricted with the capital appreciation and earnings thereon to be used to provide financial assistance to deserving scholars, salary supplements and awards to attract and retain outstanding faculty members, visiting artists and lecturers and to provide for various departmental and University needs. Permanently restricted net assets include net contributions receivable of \$534,914 and \$307,645 as of June 30, 2018 and 2017, respectively. Remaining permanently restricted net assets consist of investments.

*Continued*

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## NOTES TO FINANCIAL STATEMENTS

*The University of Memphis Foundation*  
*June 30, 2018 and 2017*

Permanently restricted net assets consist of the following as of June 30:

	2018	2017
Alumni relations	\$ 626,313	\$ 586,163
Awards	2,614,294	2,370,804
Centers, institutes and labs	1,484,600	1,477,366
Contributions receivable, net	534,914	307,645
Departmental/academic enrichment	10,241,231	10,762,105
Professorships/chairs/visiting scholars	16,016,870	14,746,271
Scholarships/fellowships	33,847,914	30,780,630
Special projects/lecture series/workshops	11,001,492	11,166,463
	<u>\$ 76,367,628</u>	<u>\$ 72,197,447</u>

### 6. ENDOWMENT FUNDS

The Foundation's endowment accounts consist of donor-restricted endowment funds and include approximately 540 individual funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

The Board of Directors of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment funds and (b) the original value of subsequent gifts to the permanent endowment funds. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

*Continued*

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## NOTES TO FINANCIAL STATEMENTS

*The University of Memphis Foundation*  
*June 30, 2018 and 2017*

### *Endowment Net Asset Composition by Type of Fund as of June 30, 2018:*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (464,489)	\$ 20,763,015	\$ 76,367,627	\$ 96,666,153
Board-designated endowment funds	3,191,043	-	-	3,191,043
	<u>\$ 2,726,554</u>	<u>\$ 20,763,015</u>	<u>\$ 76,367,627</u>	<u>\$ 99,857,196</u>

### *Endowment Net Asset Composition by Type of Fund as of June 30, 2017:*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (343,559)	\$ 21,380,231	\$ 72,197,447	\$ 93,234,119
Board-designated endowment funds	3,735,912	-	-	3,735,912
	<u>\$ 3,392,353</u>	<u>\$ 21,380,231</u>	<u>\$ 72,197,447</u>	<u>\$ 96,970,031</u>

*Continued*

## NOTES TO FINANCIAL STATEMENTS

*The University of Memphis Foundation*  
*June 30, 2018 and 2017*

### *Changes in Endowment Net Assets for the Year Ended June 30, 2018:*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 3,392,353	\$ 21,380,231	\$ 72,197,447	\$ 96,970,031
Investment return:				
Investment loss	(20,108)	(74,259)	-	(94,367)
Net change (realized and unrealized)	76,740	2,286,770	-	2,363,510
Total investment return	56,632	2,212,511	-	2,269,143
Contributions	-	147,211	3,519,206	3,666,417
Appropriation of endowment assets for expenditure	(601,500)	(2,286,739)	-	(2,888,239)
Other changes:				
Investment deficiencies reclassified to unrestricted net assets	(120,931)	120,931	-	-
Modifications of restrictions	-	(811,130)	650,974	(160,156)
Endowment net assets, end of year	<u>\$ 2,726,554</u>	<u>\$ 20,763,015</u>	<u>\$ 76,367,627</u>	<u>\$ 99,857,196</u>

*Continued*

## NOTES TO FINANCIAL STATEMENTS

*The University of Memphis Foundation*  
*June 30, 2018 and 2017*

### *Changes in Endowment Net Assets for the Year Ended June 30, 2017:*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 3,671,800	\$ 15,080,916	\$ 68,718,760	\$ 87,471,476
Investment return:				
Investment loss	(36,343)	(871,226)	-	(907,569)
Net change (realized and unrealized)	405,006	10,271,286	-	10,676,292
Total investment return	368,663	9,400,060	-	9,768,723
Contributions		196,087	2,489,107	2,685,194
Appropriation of endowment assets for expenditure	(1,589,477)	(2,375,465)	-	(3,964,942)
Other changes:				
Investment deficiencies reclassified to unrestricted net assets	941,367	(941,367)	-	-
Modifications of restrictions	-	20,000	989,580	1,009,580
Endowment net assets, end of year	<u>\$ 3,392,353</u>	<u>\$ 21,380,231</u>	<u>\$ 72,197,447</u>	<u>\$ 96,970,031</u>

All of the permanently restricted endowment funds are required to be retained permanently either by explicit donor stipulation or UPMIFA. The portion of the temporarily restricted endowment funds subject to time and purpose restrictions was \$20,763,015 and \$21,380,231 as of June 30, 2018 and 2017, respectively. There were no temporarily restricted endowment funds only subject to time restrictions as of June 30, 2018 and 2017.

### *Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the Foundation is required to retain in a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and/or continued appropriation for fees and expenditures. At June 30, 2018 and 2017, deficiencies of this nature totaled \$464,489 and \$334,559, respectively.

*Continued*

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## NOTES TO FINANCIAL STATEMENTS

*The University of Memphis Foundation  
June 30, 2018 and 2017*

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### *Return Objectives and Risk Parameters*

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

### *Strategies Employed for Achieving Objectives*

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

### *Spending Policy and How the Investment Objectives Relate to Spending Policy*

The Foundation has a policy of budgeting for expenditure each year a percentage of its endowment funds' average fair value over the prior twelve quarters through the fiscal year-end one year preceding the fiscal year in which the expenditure is planned. This percentage was 3.75% and 4.00% for fiscal years 2018 and 2017, respectively. In establishing this policy, the Foundation considered the long-term expected return on its endowment funds. Accordingly, over the long term, the Foundation expects the current spending policy to allow for endowment growth. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

## **7. INTERFUND ADVANCES**

The Foundation has agreed to advance up to \$7,600,000 to a Foundation fund as an interfund advance benefiting the Athletic Department of the University at a 2.2% annual interest rate for the purpose of providing financial support to allow the Athletic Department to undertake construction of a basketball practice facility in advance of receiving payment of donor funding commitments. The advance is to be repaid in full not later than June 30, 2020 and is secured by certain future collections of receivables and other collections related to certain Foundation funds benefitting the Athletic Department. Interfund advances totaling \$5,184,814 were outstanding as of June 30, 2018.



**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***

Board of Directors  
The University of Memphis Foundation  
Memphis, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of Memphis Foundation (the Foundation) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated DATE, 2018.

**Internal Control Over Financial Reporting**

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

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

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



## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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 Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Reynolds, Bone & Griesbeck PLC*

November 8, 2018



9. External Audit Report - University of  
Memphis Research Foundation,  
6/30/2018

Presented by Vicki Deaton

# The University of Memphis Board of Trustees

Presentation

For Information

**Date:** December 5, 2018

**Committee:** Audit Committee

**Presentation Title:** External Audit Report - University of Memphis Research Foundation Financial Statements, Years Ended June 30, 2018 and 2017

**Presented by:** Vicki D. Deaton, Chief Audit Executive

## Synopsis:

On October 31, 2018, the University of Memphis Research Foundation Financial Statements, June 30, 2018, were issued. The financial statements are presented per the responsibilities for Internal Audit under UofM Policy GE2016 Notification of External Audits and Reviews, which includes reporting occurrences of external reviews and audits to the Audit Committee, Division of State Audit and others as the circumstances may dictate.

From the Audit Report's Management Discussion and Analysis: The University of Memphis Research Foundation (UMRF) is a nonprofit corporation established on June 16, 2006, to develop and administer sponsored research and other sponsored projects conducted by the faculty and staff of the University. In addition, the UMRF may seek and hold patents and copyrights, negotiate and administer licenses, and collect and distribute royalties on behalf of the University. As of June 30, 2018, 38 patents had been assigned to the UMRF by the University. The UMRF's Board of Directors approves the annual operating budget for the UMRF's administrative expenses. Sponsored projects' budgets are passed through to the University. The UMRF utilizes University facilities and personnel to perform sponsored projects and for operating the UMRF. The University is reimbursed quarterly for expenses incurred on behalf of the UMRF.

This year's financial report incorporates the financial statements and activities of the UMRF's wholly-owned subsidiary, UMRF Ventures, Inc., as a component unit. UMRF Ventures was incorporated in 2017 with the mission to create good paying, part-time jobs for UofM students in a professional on-campus environment and to provide the students with financial resources, relevant job experience, and potential pathways to future full-time employment. UMRF's long-range vision is to operate a sustainably profitable enterprise, providing jobs and financial resources to over 500 students per year, and to dividend profits back to UMRF.

The UMRF engaged an independent external CPA firm, Frazee Ivy Davis, PLC, to perform an audit of the financial statements of the business-type activity and discretely presented component unit of the UMRF. The independent auditor's opinion stated that the financial statements present fairly, in all material respects, the respective financial position of the business-type activity and the discretely presented component unit of the UMRF as of June 30, 2018, and the respective changes in financial position and

cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The auditors did not identify any deficiencies in internal control that would be considered material weaknesses during their limited consideration of internal control over financial reporting. Also, they did not identify any instances of noncompliance or other matters with certain provisions of laws, regulations, contracts and grant agreements.

**THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION**

**FINANCIAL STATEMENTS**

**JUNE 30, 2018**

# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

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*June 30, 2018*

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# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

*Board of Directors and Management Officials*

*June 30, 2018*

## BOARD OF DIRECTORS

David Scully	Secretary/Treasurer
Raajkumar Kurapati	Director
Richard Bloomer	Director
John Campbell	Director
Lakita Cavin	Director
Robert Jackson	Director
Abby Parrill	Director
Scott Vogel	Director

## MANAGEMENT OFFICIALS

Jasbir Dhaliwal	Executive Director
Debra Cummings	Administrative Support
Angela Fair	Accountant





## **Independent Auditor's Report**

Board of Directors  
The University of Memphis Research Foundation  
Memphis, Tennessee

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activity and discretely presented component unit of The University of Memphis Research Foundation as of and for the year ended June 30, 2018, 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 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.

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 entity'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 the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity and the discretely presented component unit of The University of Memphis Research Foundation as of June 30, 2018, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

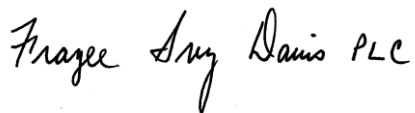
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

The schedule of findings and recommendations and schedule of prior findings and questioned costs have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2018 on our consideration of The University of Memphis Research Foundation'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 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 Memphis Research Foundation's internal control over financial reporting and compliance.



Memphis, Tennessee  
October 31, 2018

## **Management's Discussion and Analysis of the Primary Government**

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and the results of operations of The University of Memphis Research Foundation (the "Foundation") for the year ended June 30, 2018. We encourage you to read this MD&A section in conjunction with the accompanying audited financial statements and notes to the financial statements.

### ***About the Financial Statements***

As an affiliate unit of The University of Memphis (the "University"), the Foundation has implemented the governmental accounting standards for state and local governments and for public colleges and universities. Because the Foundation is not supported by governmental tax revenues, the Foundation presents its financial reports in a single column "business-type activity" format appropriate for college and university enterprise funds. Governmental accounting standards define business-type activities as those financed in whole or in part by fees charged to external parties for goods and services. This year's financial report will incorporate for the first time, the financial statements and activities of the Foundation's wholly-owned subsidiary, UMRV Ventures, Inc. (the "Company") as a component unit.

In addition to this MD&A section, the financial statements consist of a statement of net position, a statement of revenues, expenses, and changes in net position, a statement of cash flows, and notes to the financial statements.

The statement of net position is the Foundation's balance sheet. It reflects the total assets, liabilities, and net position (similar to equity) of the Foundation as of June 30, 2018. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as noncurrent. Net position is grouped in the following categories:

- Restricted
- Unrestricted

The statement of revenues, expenses, and changes in net position is similar to an income statement. It details how net position has increased (or decreased) during the fiscal year ended June 30, 2018.

The statement of cash flows details how cash has increased (or decreased) during the year ended June 30, 2018. It breaks out the sources and uses of Foundation cash into the following categories:

- Operating activities
- Investing activities
- Financing activities

Cash flows associated with the Foundation's unrestricted net assets result from operating activities and royalty income.

The notes to the financial statements provide additional details on the amounts reported in the financial statements.

# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

## *Management's Discussion and Analysis*

*June 30, 2018*

### ***General***

The Foundation is a nonprofit corporation established on June 16, 2006, to develop and administer sponsored research and other sponsored projects conducted by the faculty and staff of the University. In addition, the Foundation may seek and hold patents and copyrights, negotiate and administer licenses, and collect and distribute royalties on behalf of the University. As of June 30, 2018, thirty-eight (38) patents had been assigned to the Foundation by the University. The Foundation's Board of Directors approves the annual operating budget for the Foundation's administrative expenses. Sponsored projects' budgets are passed through to the University. The Foundation utilizes University facilities and personnel to perform sponsored projects and for operating the Foundation. The University is reimbursed quarterly for expenses incurred on behalf of the Foundation.

### ***Financial Highlights and Key Trends***

During fiscal 2018, the Foundation continued in its management of existing sponsored projects processed through the Foundation. The Foundation also continued with an investment policy strategy to address a longstanding issue of holding significantly large non-collateralized bank cash balances while simultaneously providing funding to meet the future needs related to the mission of the Foundation. Its diversified investment portfolio includes cash, fixed income, equity, and alternative assets.

A portion of the Foundation's operating expenses for the year ended June 30, 2018, were paid with funds from accumulated and current year interest income and contributions from The University of Memphis Foundation.

### ***Statement of Net Position***

Current assets include cash, investments, and receivables expected to be collected in the coming year. Current liabilities include payables and deferred revenue. There are no long-term liabilities as of June 30, 2018. The amount of unrestricted net position is income after payment of operating expenses, while restricted net position is the number of sponsored projects revenue being held for expenditure by the University.

At June 30, 2018, funds held by an investment broker on behalf of the Foundation totaled \$1,262,843. Of this amount, \$1,012,156 represents investments at fair value and \$250,687 represents deposits with banks affiliated with the broker.

A summary of the major components of the net position of the Foundation as of June 30, 2018 and 2017, is as follows:

	2018	2017
Assets	\$ 2,180,113	\$ 2,791,169
Liabilities	503,378	930,523
Net position		
Restricted for research	364,066	436,839
Unrestricted	1,312,669	1,423,807
Total net position	<u>\$ 1,676,735</u>	<u>\$ 1,860,646</u>

Net position – restricted for research as of June 30, 2017, was decreased by \$163,060 as a result of information obtained from the Foundation's legacy and current accounting systems. The result was an increase in net position – unrestricted as of June 30, 2017, of the same amount. This restatement is discussed in more detail at Note 9 to the financial statements.

# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

## *Management's Discussion and Analysis*

*June 30, 2018*

### ***Statement of Revenues, Expenses, and Changes in Net Assets***

A summary of the statement of revenue, expenses and changes in net position for the years ended June 30, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 2,814,318	\$ 859,624
Operating expenses	<u>(2,916,378)</u>	<u>(2,374,453)</u>
Operating loss	(102,060)	(1,514,829)
Nonoperating income (expense)		
Royalty income	42,916	23,496
Interest income	4,261	14,350
Net investment gain (loss)	6,857	(2,548)
Loss on investment in subsidiary	<u>(135,885)</u>	<u>-</u>
Change in net position	<u>\$ (183,911)</u>	<u>\$ (1,479,531)</u>

The significant increase in operating revenue in fiscal 2018 compared to fiscal 2017 was largely attributable to more sponsored projects being completed in fiscal 2018. Consistent with the increase in revenue activity, the increase in expense is also primarily attributable to more projects being completed in fiscal 2018.

The Foundation recognizes project revenue for grants upon receipt of cash or a pledge with no conditions. The Foundation recognizes sponsorship project revenue and expenses for contracts when projects are completed.

### ***The Statement of Cash Flows***

In 2018, the source of cash receipts to fund operating activities came from sponsored project revenue, contributions, interest income and royalty income. Certain operating activities (personnel, travel, supplies, postage, etc.) of the Foundation were incurred as expenses by the University and reimbursed by the University of Memphis Foundation. Cash outflows for certain other operating activities (insurance premiums, licenses, audit, and legal fees) are paid directly by the Foundation. All sponsored project expenses are incurred by the University and reimbursed by the Foundation.

### ***Future***

In the forthcoming year(s), as the Foundation anticipates the expansion of research infrastructure at the University, we will continue to explore opportunities to support such growth in advancing research excellence and in achieving the University's Carnegie I status goal.

The Foundation is actively working to support the University's research capacity in the coming year with the launch of the CommuniTech Research Park, a landing pad for growth stage and mature technology companies ready to call Memphis home. Providing aligned resources and office facilities for collaborators, CommuniTech's goal is to help companies from around the world see the value of operating in Memphis.

# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

## *Management's Discussion and Analysis*

*June 30, 2018*

### **Management's Discussion and Analysis of the Component Unit**

UMRF Ventures, Inc. (the "Company") does not prepare stand-alone financial statements. Accordingly, the following MD&A provides an overview of the financial position and the results of operations of the Company for the year ended June 30, 2018. We encourage you to read this MD&A section in conjunction with the accompanying audited financial statements and notes to the financial statements.

#### ***General***

The Company was incorporated in 2017 and started up its business on July 1, 2017 with the mission to create good-paying, part-time jobs for The University of Memphis' (the "University") students, in a professional on-campus environment, that provides the students with financial resources, relevant job experience, and potential pathways to future full-time employment.

#### ***Financial Highlights and Key Trends***

The Company's first venture was a call center located on the University's main campus, which provides IT helpline services to FedEx employees. The call center started up in August 2017 with 11 work stations and 23 student employees, and 1 full-time employee. It was expanded again in January 2018, adding 4 more work stations and additional employees. The second venture was a call center located on the Lambuth Campus in Jackson, Tennessee, with 15 work stations and 24 students, in May 2018. At the end of the fiscal year, the Company employed approximately 75 students in the two call centers and were handling over 300 calls per day from FedEx employees. Student wages approached \$100,000 in the month of June 2018, the twelfth month in operation. Further expansion occurred in July 2018, and there are plans in development for additional future expansion on to the South Campus.

A third venture started up in June 2018, the IT Command Center, located on the University's main campus, which provides data and analytical support to the FedEx IT Command Center. Approximately 40 University Graduate students, employed by the Company, take direction from the Company's Managing Director and FedEx employees, as well as proactively provide data analysis and problem solving for FedEx operations.

#### ***Statement of Net Position***

Current assets include cash and receivables expected to be collected in the coming year. Long-term assets consist of property and equipment and deferred taxes. Current liabilities include payables, accrued payroll, and deferred revenue expected to be recognized in the next fiscal year. Long-term liabilities included deferred revenue extending beyond one year and the line of credit, which matures in 2020. All net position is considered to be unrestricted as of June 30, 2018.

A summary of the major components of the net position of the Company as of June 30, 2018, is as follows:

	<u>2018</u>
Assets	\$ 544,861
Liabilities	680,646
Net position	
Common stock	100
Deficit	<u>(135,885)</u>
Total net position	<u>\$ (135,785)</u>

# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

## *Management's Discussion and Analysis*

*June 30, 2018*

### ***Statement of Revenues, Expenses, and Changes in Net Assets***

A summary of the statement of revenue, expenses and changes in net position for the year ended June 30, 2018, is as follows:

	<u>2018</u>
Operating revenues	\$ 921,862
Operating expenses	<u>(1,107,847)</u>
Operating loss	(185,985)
Income tax benefit	<u>50,100</u>
Change in net position	<u><u>\$ (135,885)</u></u>

Financially, the first year in operation (2017-2018) went better and faster than planned, though the faster growth brought with it some challenges. FedEx provided seed money for the start-up of the first call center (\$385,000) and the IT Command Center (\$352,000). The first call center became cash positive in January 2018, its sixth month in operation. The Lambuth call center became cash positive in July 2018, its third month of operation. The IT Command Center operated as a "cost plus mark-up" operation and issued its first invoice to FedEx at the end of June 2018. It is profitable and cash positive by design.

### ***The Statement of Cash Flows***

The challenge presented by faster growth is one of funding the working capital needs of the business. The Lambuth expansion was funded by the business, and the increase in student wages combined with the 60-day billing/receipt cycle caused the business to borrow \$150,000 from Paragon Bank to facilitate the growing working capital needs of the business. As the Company enters year two of operations, management is in discussions with FedEx about again doubling the size of the call center volume, doubling the number of student employees, and using the monthly profits to pay down debt within 12-18 months.

### ***Future***

The long-range vision for the Company is to operate a sustainably profitable enterprise, providing jobs and financial resources to over 500 students per year, and to dividend profits back to the Foundation.

# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

## *Statement of Net Position*

*June 30, 2018*

<b>ASSETS</b>		
	<u>Primary Government</u>	<u>Component Unit</u>
Current assets		
Cash and cash equivalents	\$ 822,333	\$ 284,956
Investment securities	1,012,156	-
Accounts receivable, net	63,408	197,947
Unbilled revenue	<u>664</u>	<u>-</u>
Total current assets	1,898,561	482,903
Patents, net	281,552	-
Property and equipment, net	-	11,858
Deferred income taxes	<u>-</u>	<u>50,100</u>
Total assets	<u><u>\$ 2,180,113</u></u>	<u><u>\$ 544,861</u></u>
<b>LIABILITIES AND NET POSITION</b>		
Current liabilities		
Payable to The University of Memphis	\$ 317,636	\$ 9,841
Accounts payable	-	20,914
Accrued payroll	-	44,605
Deferred revenue	<u>49,957</u>	<u>290,620</u>
Total current liabilities	<u>367,593</u>	<u>365,980</u>
Line of credit	-	100,612
Deferred revenue	-	214,054
Investment in subsidiary	<u>135,785</u>	<u>-</u>
Total liabilities	503,378	680,646
Net position		
Restricted for research	364,066	-
Unrestricted	1,312,669	-
Common stock - proprietary component unit, \$.001 par value, 2,000,000 shares authorized, 100,000 issued and outstanding as of June 30, 2018	-	100
Deficit - proprietary component unit	<u>-</u>	<u>(135,885)</u>
Total net position	<u>1,676,735</u>	<u>(135,785)</u>
Total liabilities and net position	<u><u>\$ 2,180,113</u></u>	<u><u>\$ 544,861</u></u>

*See accompanying notes to the financial statements.*

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# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

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

***For the year ended June 30, 2018***

	Primary Government	Component Unit
Operating revenues		
Contract revenue	\$ 2,783,244	\$ 921,862
Grants and contributions	31,074	-
Total operating revenues	<u>2,814,318</u>	<u>921,862</u>
Operating expenses		
Research projects	2,839,913	-
Salaries	23,142	738,182
Bad debt	21,270	-
Depreciation and amortization	18,600	5,217
General and administrative	-	186,220
Payroll taxes	-	72,788
Rent	-	59,653
Professional fees	10,277	20,994
Repairs and maintenance	-	13,256
Insurance	3,141	10,578
Interest	-	299
Other expenses	35	660
Total operating expenses	<u>2,916,378</u>	<u>1,107,847</u>
Operating loss	(102,060)	(185,985)
Non-operating income (expense)		
Royalty income	42,916	-
Interest income	4,261	-
Net investment income	6,857	-
Loss on investment in subsidiary	(135,885)	-
Loss before income taxes	(183,911)	(185,985)
Income tax benefit	<u>-</u>	<u>50,100</u>
Change in net position	(183,911)	(135,885)
Net position, beginning of year	<u>1,860,646</u>	<u>-</u>
Net position, end of year	<u><u>\$ 1,676,735</u></u>	<u><u>\$ (135,885)</u></u>

*See accompanying notes to the financial statements.*

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# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

## *Statement of Cash Flows*

*For the year ended June 30, 2018*

	Primary Government	Component Unit
Cash flows from operating activities		
Cash received from contract customers	\$ 593,350	\$ 1,014,535
Cash received from contributions	7,932	-
Cash payments to the University of Memphis	(924,780)	(72,313)
Cash payments to suppliers	(13,453)	(188,353)
Cash payments to employees	-	(766,305)
Cash paid for interest	-	(299)
Net cash used in operating activities	(336,951)	(12,735)
Cash flows from investing activities		
Purchases of investments	(2,437,672)	-
Proceeds from sales of investments	2,049,536	-
Income from interest and royalties	47,177	-
Income from investments, net of fees	13,913	-
Purchases of property and equipment	-	(17,075)
Net cash used in investing activities	(327,046)	(17,075)
Cash flows from financing activities		
Proceeds received from line of credit	-	100,612
Proceeds received from issuance of common stock	-	100
Net cash provided by financing activities	-	100,712
Change in cash and cash equivalents	(663,997)	70,902
Cash and cash equivalents, beginning of year	1,486,330	-
Cash and cash equivalents, end of year	\$ 822,333	\$ 70,902
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (102,060)	\$ (185,985)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	18,600	5,217
Provision for bad debt	21,270	-
Changes in operating assets and liabilities		
Accounts receivable	213,370	(197,947)
Unbilled revenue	74,799	-
Accounts payable	-	20,914
Payable to the University of Memphis	(143,347)	9,841
Accrued payroll	-	44,605
Deferred revenue	(419,583)	290,620
Net cash used in operating activities	\$ (336,951)	\$ (12,735)

*See accompanying notes to the financial statements.*

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**Primary Government**

**Note 1 – Summary of Significant Accounting Policies**

*Organization and Activities*

The University of Memphis Research Foundation (the "Foundation") is a not-for-profit corporation created in June 2006 as an agent to promote the development, implementation, and coordination of sponsored research solely for the benefit of The University of Memphis (the "University") in the furtherance of the University's research objectives. Operations for the Foundation commenced on July 1, 2007.

*Financial Reporting Entity*

In determining the financial reporting entity, the Foundation complies with the provisions of GASB No. 14, *The Financial Reporting Entity*. Based on this standard, the Foundation's wholly-owned for-profit entity was determined to be a component unit. UMRF Ventures, Inc. is a legally separate entity for which the Foundation is considered to be financially accountable.

*Basis of Presentation*

The University is a public institution governed by an independent board of trustees under the FOCUS Act, which is a component unit of the State of Tennessee. Therefore, as an affiliate of, and created solely for the benefit of, the University, the financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America for public colleges and universities, as prescribed by the Governmental Accounting Standards Board.

*Basis of Accounting*

For financial statement purposes, the Foundation 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 eligibility requirements imposed by the provider have been met.

*Cash and Cash Equivalents*

For purposes of the statements of cash flows, all highly liquid investments purchased with initial maturities of three months or less are considered to be cash equivalents.

*Accounts Receivable*

Accounts receivable represent amounts due from grants and services rendered on contracts as of June 30, 2018.

The Foundation records accounts receivable at their estimated net realizable value. An allowance for doubtful accounts is recorded based upon management's estimate of uncollectible accounts, determined by analysis of specific customer accounts. Past due balances and delinquent receivables are charged against the allowance when they are determined to be uncollectible by management. The allowance for doubtful accounts was \$36,270 as of June 30, 2018.

**Note 1 – Summary of Significant Accounting Policies (continued)**

*Investment Securities*

The Foundation carries investments at fair value in the statement of net position. Investments are recorded on the trade-date basis. Realized and unrealized gains and losses are included in net investment gain in the statement of revenues, expenses, and changes in net position.

*Patents*

Certain patents related to research projects have been donated to the Foundation by the University. Donated patents are recorded as contributions at the estimated fair value on the date of donation, which approximates the cost incurred by the University. Patents are amortized over their useful lives, estimated at twenty years, using the straight-line method and are stated net of accumulated amortization.

It is the goal of the Foundation to license patents to companies with the expertise and capability to commercialize inventions covered by the patents. At least annually, or if a determination is made that there is no accessible market for a patent, an impairment assessment is performed and the carrying value of the patent may be adjusted. Management does not consider the value of any of the Foundation's patents to be impaired as of June 30, 2018.

*Recently Implemented Accounting Standard*

During the current year, the Foundation early adopted GASB Statement No. 90, *Majority Equity Interests* ("GASB No. 90"), which requires that a majority equity interest in a legally separate organization be reported as an investment using the equity method so long as the government's holding of the equity interest meets the definition of an investment. GASB No. 90 is effective for reporting periods beginning after December 15, 2018 with early adoption encouraged. As UMRF Ventures, Inc. began operations in the current year, retrospective application is not applicable.

*Investment in Subsidiary*

In accordance with accounting principles issued by GASB, the Foundation's investment in its wholly-owned for-profit subsidiary is accounted for using the equity method; whereby the recorded amount includes the purchase price of the stock plus the Foundation's share (100% in this case) of the subsidiary's profit or loss. Accumulated losses in excess of the purchase price represent a liability of the Foundation.

*Net Position*

The Foundation's net position is classified as follows:

*Restricted for research* - includes resources which the Foundation is legally or contractually obligated to spend on research in accordance with restrictions imposed by external third parties.

*Unrestricted* - Unrestricted net position represents resources that do not meet the definition of restricted net position and may be used by the Foundation to meet expenses for any purpose.

When both restricted and unrestricted resources are available, it is the Foundation's policy to use restricted resources first, then unrestricted resources as they are needed.

**Note 1 – Summary of Significant Accounting Policies (continued)**

*Revenue Recognition*

The Foundation's revenues are derived from grants, research contracts, and contributions which provide support for the Foundation. The Foundation recognizes revenue from research contracts once the project has been completed. Deferred revenue consists of amounts billed on research contracts net of expenditures incurred to date. Grants and contribution revenue are recognized when written documentation is received and all conditions have been satisfied for the Foundation to be eligible to receive the grant or contribution.

Revenues derived from grants, research contracts, and contributions are reported as operating revenues. Transactions that are investment-related are reported as non-operating income. Interest and royalties are recorded when earned and are reported as non-operating income.

*Income Taxes*

The Internal Revenue Service has classified the Foundation as other than a private foundation, which is exempt from federal income taxes on its related purpose under Section 501(c)(3) of the United States Internal Revenue Code and is similarly exempt from state income taxes. Consequently, no federal or state income taxes have been provided for in these financial statements.

*Fair Value Measurements*

Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establish the framework for a fair value hierarchy. The fair value hierarchy gives the highest priority to observable inputs such as quoted prices in active markets for identical assets or liabilities (Level 1), the next highest priority to inputs (other than quoted prices within Level 1) such as quoted prices for similar assets or liabilities, quoted prices in inactive markets, or other inputs that can be corroborated by observable market data (Level 2), and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability.

*Use of Estimates*

Management uses estimates and assumptions in preparing financial statements in accordance with U.S. GAAP. Such estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenue and expenses. Accordingly, actual results could differ from estimates.

*Subsequent Events*

Management has evaluated subsequent events through October 31, 2018, the date the financial statements were available to be issued.

**Note 2 – Deposits with Banking Institutions**

Deposits with financial institutions consist of demand deposits with local banks or with banks affiliated with the Foundation's investment broker.

Custodial credit risk is the risk that, in the event of bank failure, the Foundation's deposits may not be returned. The Foundation has implemented an investment policy to minimize custodial credit risk from banking institutions (see Note 3). However, as of June 30, 2018, the Foundation had deposits totaling \$822,333 and bank balances in excess of federally insured limits totaling \$322,333.

# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2018

## Note 2 – Deposits with Banking Institutions (continued)

Although the Foundation qualifies for reporting as a governmental entity under the GASB framework, management has determined that the Foundation does not meet the definition of a “public depositor.” Accordingly, management does not believe that the Foundation’s deposits are available to be collateralized by its banking institutions and; therefore, the Foundation is exempt from Tennessee Code Annotated Section 9 requirements that all public deposits in excess of federally insured limits must be collateralized.

## Note 3 – Investment Securities

As of June 30, 2018, investment securities consisted of brokered certificates of deposit with fair values totaling \$1,012,156.

Custodial credit risk is the risk that the Foundation's investments may not be returned. The Foundation does not have a policy for custodial credit risk for its investments; however, all investments are held in third-party safekeeping at a qualified institution.

Interest rate risk is the risk that changes in the interest rates may adversely affect an investment’s fair value. As a means of maximizing interest income while minimizing fair value losses and maintaining adequate liquidity, the Foundation has adopted an investment policy to invest excess operating cash in brokered certificates of deposit.

As of June 30, 2018, net investment income consisted of the following:

Net loss for the year	\$	(7,056)
Interest and dividend income		15,420
Investment fees		<u>(1,507)</u>
Net investment income	\$	<u><u>6,857</u></u>

## Note 4 – Fair Value Measurements

As of June 30, 2018, the following table presents the Foundation’s financial assets measured at fair value on a recurring basis:

	<u>Fair Value</u>	<u>Other Observable Market Data (Level 2)</u>
Brokered certificates of deposit	<u>\$ 1,012,156</u>	<u>\$ 1,012,156</u>

# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

*Notes to the Financial Statements*

*June 30, 2018*

## **Note 4 – Fair Value Measurements (continued)**

The following method and assumption was used to estimate the fair value of the following:

### *Brokered Certificates of Deposit*

Brokered certificates of deposit are traded on a secondary market, which generally values these instruments by discounting the related cash flows based on current yields of similar instruments with comparable durations, as reported by the custodian.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value. While the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions could result in a different fair value measurement at the reporting date.

## **Note 5 – Patents**

As of June 30, 2018, patents consisted of the following:

Patents	\$ 371,997
Accumulated amortization	<u>(90,445)</u>
Patents, net	<u><u>\$ 281,552</u></u>
Amortization expense for the year	<u><u>\$ 18,600</u></u>

The future estimated amortization expense of patents held as of June 30, 2018, is as follows:

For the years ending June 30,

2019	\$ 18,600
2020	18,600
2021	18,600
2022	18,600
2023	18,600
Thereafter	<u>188,552</u>
	<u><u>\$ 281,552</u></u>

As of June 30, 2018, the weighted average amortization period for patents is 14.7 years.

## **Note 6 – Concentrations**

The Foundation recorded approximately ninety-three percent (93%) of total contract billings from two funding sources during the year ended June 30, 2018.

# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

*Notes to the Financial Statements*

*June 30, 2018*

## **Note 7 – Related Party Transactions**

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

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

During the year ended June 30, 2018, the Foundation made cash transfers to the University in the amount of \$924,780. As of June 30, 2018, the Foundation had payables to the University totaling \$317,636.

The University allocates salary expense attributable to the Foundation, totaling \$23,142 for the year ended June 30, 2018. The University is reimbursed for these expenses directly by the University of Memphis Foundation, which is recorded as contribution revenue by the Foundation.

In September 2018, the Foundation lent UMRF Ventures, Inc. \$225,000 for working capital support to expand its services. This loan bears interest at 5% per annum and is due September 20, 2020.

## **Note 8 – Component Unit**

As discussed in Note 1, the Foundation has one component unit, its wholly-owned for-profit subsidiary, UMRF Ventures, Inc. (the “Company”). The Company is managed by its own board of directors and management. The Foundation has determined that the Company meets the requirements of a discretely presented component unit under GASB 14. UMRF Ventures, Inc. does not prepare its own stand-alone financial statements. Accordingly, significant disclosures related to the Company are included on pages 19-22.

## **Note 9 – Restatement of Prior Period Net Assets**

During the year ended June 30, 2018, management determined that more restricted funds had been expended than previously reported based on an analysis of financial reports prepared from the Foundation’s current and legacy accounting systems. As a result, the Foundation determined that \$163,060 was improperly included in restricted net position as of June 30, 2017, and reclassified this amount to unrestricted net position. No other financial statement line items were affected.



### Component Unit

Where applicable, UMRF Ventures, Inc. (the “Company”) has adopted the same or substantially similar accounting policies as the Foundation. Accordingly, the disclosures presented herein represent only the policies and disclosures that are unique to the Company’s operations.

### Note 1 – Summary of Significant Accounting Policies

#### *Organization and Activities*

The Company is a for-profit entity, which is wholly-owned by the Foundation, that began operations on July 1, 2017, as part of an economic development initiative to provide real and transferable opportunities to students in the Memphis community through student-operated call centers. The Company believes that its call center model serves as a template for future opportunities that benefit students of the University.

#### *Accounts Receivable*

Accounts receivable represent amounts due for services rendered as of June 30, 2018.

The Company records accounts receivable at their estimated net realizable value. An allowance for doubtful accounts is recorded based upon management’s estimate of uncollectible accounts, determined by analysis of specific customer accounts. Past due balances and delinquent receivables are charged against the allowance when they are determined to be uncollectible by management. term. No allowance for doubtful accounts was considered necessary at June 30, 2018, and no accounts were written off during the year ended June 30, 2018.

#### *Property, Equipment, and Depreciation*

Property, equipment, major renewals, and betterments are recorded at cost for individual items \$2,500 or greater and a useful life greater than one year. Expenditures for normal repair and maintenance are expensed to operations as they occur. Depreciation is provided through the straight-line method over the lease contract period of three years.

#### *Revenue Recognition*

The Company’s revenues are derived from service contracts. Revenue is recognized once services have been rendered. Deferred revenue consists of amounts collected in advance for establishing the call centers and IT Command Center and is recognized evenly over the respective contract period.

#### *Income Taxes*

The Company follows the asset and liability approach to financial accounting and reporting for income taxes. The difference between the financial statements and tax bases of assets and liabilities is determined annually. Deferred income tax assets and liabilities are computed for those differences that have future tax consequences using the currently enacted tax laws and rates that apply to the period in which they are expected to affect taxable income. Valuation allowances are established, if necessary, to reduce the deferred tax asset to the amount that will more likely than not be realized.

The Company files income tax returns in the United States federal and Tennessee state jurisdictions and is not currently under tax examination.

# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

*Notes to the Financial Statements*

*June 30, 2018*

## **Note 1 – Summary of Significant Accounting Policies (continued)**

Based on the evaluation of the Company's tax positions, management believes all positions taken would more likely than not be upheld under examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for the year ended June 30, 2018.

### *Recently Issued Accounting Standard*

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, Leases ("GASB No. 87"), effective for reporting periods beginning after December 15, 2019, with early adoption permitted. GASB No. 87 requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or outflows of resources based on the payment provisions of the contract. Management is still evaluating the effects of this standard on its financial statements but anticipates successfully implementing these provisions for its fiscal 2021 financial statements.

### *Recently Implemented Accounting Standard*

During the current year, the Company early adopted GASB Statement No. 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements ("GASB No. 88"), which requires additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

## **Note 2 – Property and Equipment**

As of June 30, 2018, property and equipment consisted of the following:

Leasehold improvements	\$ 17,075
Accumulated depreciation	<u>(5,217)</u>
Property and equipment, net	<u>\$ 11,858</u>
Depreciation expense for the year	<u>\$ 5,217</u>

## **Note 3 – Line of Credit**

At June 30, 2018, the Company had available a revolving line of credit of \$150,000 with Paragon Bank which expires on March 26, 2020. Borrowings under this line of credit agreement bear interest at 2.55% per annum. Interest is payable monthly. The line is collateralized by a personal deposit account of a member of management. At June 30, 2018, borrowings under this line of credit totaled \$100,612. In the event of a default, the interest rate will be increased to 21.00% per annum (subject to maximum interest rate limitations under applicable law) and the lender has the right to declare any unpaid principal and interest immediately due along with any legal fees incurred to the lender for collection efforts.

In August 2018, the line of credit availability was increased to \$225,000. All other provisions of the agreement remain unchanged.

# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

## Notes to the Financial Statements

June 30, 2018

### Note 4 – Income Taxes

As of June 30, 2018, the effects of the significant temporary differences that give rise to the Company's net deferred tax asset are as follows:

Deferred income tax asset	
Net operating loss carryforward	\$ 84,700
Difference in basis of accounting	(33,700)
Difference in methods of depreciation	<u>(900)</u>
Net deferred income tax asset	<u>\$ 50,100</u>

The Company has approximately \$308,000 of federal and state net operating loss ("NOL") carryforwards available to offset future taxable income.

As of June 30, 2018, the income tax benefit consists of the following:

Federal	
Current expense	\$ -
Deferred benefit	<u>(38,300)</u>
Total federal	<u>(38,300)</u>
State	
Current expense	-
Deferred benefit	<u>(11,800)</u>
Total state	<u>(11,800)</u>
Income tax benefit	<u>\$ (50,100)</u>

The income tax provision shown on the statement of revenues, expenses, and changes in net position differs from the amount that would result from applying statutory tax rates to income before provision for income taxes because of the marginal tax rates used to compute deferred taxes, permanent and temporary differences between determining financial and taxable income, and the effect of state excise taxes, if any.

# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

*Notes to the Financial Statements*

*June 30, 2018*

## **Note 5 – Leases**

The Company leases rooms with workstations under various lease agreements with the University of Memphis, a related party, expiring through March 21, 2021. For the year ended June 30, 2018, rent expense was \$59,653.

Minimum rental commitments under the leases are as follow:

For the years ending June 30,

2019	\$ 106,927
2020	109,563
2021	<u>47,532</u>
	<u>\$ 264,022</u>

## **Note 6 – Concentrations**

The Company recorded approximately ninety-eight percent (98%) of total revenue and ninety-nine percent (99%) of total receivables from FedEx during the year ended June 30, 2018.

The Company has two contracts with FedEx expiring in May 2019 and May 2021. Management expects to be able to renew the contracts on favorable terms.

## **Note 7 – Related Party Transactions**

UMRF Ventures, Inc. pays the University monthly for rent and data usage. During the year ended June 30, 2018, the Company incurred expenses from the University totaling \$12,660 in data usage fees and \$59,653 for rent. As of June 30, 2018, the Company had payables of \$9,841 to the University.

In September 2018, the Foundation lent UMRF Ventures, Inc. \$225,000 for working capital support to expand its services. This loan bears interest at 5% per annum and is due September 20, 2020.



**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**

Board of Directors  
The University of Memphis Research Foundation  
Memphis, Tennessee

We have audited, 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, the financial statements of the business-type activity and discretely presented component unit of The University of Memphis Research Foundation as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise The University of Memphis Research Foundation's basic financial statements, and have issued our report thereon dated October 31, 2018.

***Internal Control over Financial Reporting***

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 of Memphis Research Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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.

*Frazier Amy Davis PLC*

Memphis, Tennessee  
October 31, 2018

# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

## *Schedule of Findings and Recommendations*

*For the year ended June 30, 2018*

Our audit disclosed no findings that are required to be reported herein  
under *Government Auditing Standards*.

# THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

## *Schedule of Prior Findings and Questioned Costs*

*For the year ended June 30, 2018*

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### **Prior Year Audit Findings**

Audit report, dated October 31, 2017, for the year ended June 30, 2017, issued by Frazee Ivy Davis PLC.

#### *Audit Finding 2017 – 1*

The Foundation had amounts held at financial institutions that were not covered by federal depository insurance. This was considered to be a violation of Tennessee state law for governmental entities.

#### *Status*

Although the Foundation is determined to be a governmental entity for purposes of financial reporting under the GASB framework, after further consideration, management has concluded that the Foundation does not meet the definition of a “public depositor” under State law and FDIC regulations. Federal and state regulations do not allow for the collateralization of non-public deposits. As such, management asserts that the Foundation is not subject to State statute regarding collateralization of public deposits and; therefore, is not in violation of State law. This finding is considered closed.



# 10. Quality Assurance and Improvement Program Update

Presented by Vicki Deaton

# **The University of Memphis Board of Trustees**

Presentation  
For Information

**Date:** December 5, 2018  
**Committee:** Audit Committee  
**Presentation Title:** Quality Assurance and Improvement Program Update  
**Presented by:** Vicki D. Deaton, Chief Audit Executive

## **Synopsis:**

A presentation on the Office of Internal Audit and Consulting Quality Assurance and Improvement Program was made at the last Audit Committee meeting.

An external quality assessment is planned, which will include a self-assessment with independent validation. Independent reviewers have been identified for the external quality assessment team. They are:

Blayne Clements, CIA, CFE, CRMA  
Chief Audit Officer  
Austin Peay State University

Amy Wilegus, CPA, CISA, CRISC, CISSP  
Audit Director  
University of Tennessee – West Tennessee Region

## **Certifications**

CFE: Certified Fraud Examiner  
CIA: Certified Internal Auditor  
CISA: Certified Information Systems Auditor  
CISSP: Certified Information Systems Security Professional  
CPA: Certified Public Accountant  
CRISC: Certified in Risk and Information Systems Control  
CRMA: Certification in Risk Management Assurance

The results of the external quality assessment will be shared with the Audit Committee when completed.

# 11. Additional Committee Business

Presented by Susan Springfield



## 12. Adjournment