













December 2020 Audit Committee Meeting

Schedule	Monday, November 30, 2020 9:00 AM — 11:00 AM CST
Venue	Zoom Video Conference
Organizer	Sparkle Burns

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14. Adjournment

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Presented by Susan Springfield

1. Call to Order and Opening Remarks

Presented by Susan Springfield

2. Roll Call and Declaration of Quorum

Presented by Melanie Murry

3. Approval of Meeting Minutes for August 26, 2020

Presented by Susan Springfield

THE UNIVERSITY OF MEMPHIS

BOARD OF TRUSTEES

MINUTES OF THE AUDIT COMMITTEE MEETING

August 26, 2020

Memphis, TN

The Audit Committee of the University of Memphis Board of Trustees met at 9 a.m. CST, on Wednesday, August 26, 2020 virtually using the video conferencing system Zoom.

I. CALL TO ORDER

Trustee Springfield called the meeting to order.

Trustee Springfield expressed her appreciation to Vicki Deaton and her team and Dr. Rudd and his team for being flexible during the pandemic and learning how to navigate audit controls during the pandemic through a remote environment.

II. ROLL CALL AND DECLARATION OF QUORUM

Melanie Murry, University Counsel and Board Secretary, called the roll and confirmed the following board members were present.

Board secretary Melanie Murry called for a motion for the meeting of necessity, moved by Trustee Roberts and properly seconded. A voice vote was taken and unanimously approved.

Being that the Board of Trustees meeting was held electronically each Trustee had to verify that they could hear clearly and if they were alone. Secretary Murry called the roll for the committee membership first and then called the roll for the other Trustees that were present in the Audit committee meeting. All Trustees present affirmed that they could hear clearly and were alone.

Trustee Edwards
Trustee Graf
Trustee Roberts
Trustee Springfield

****Additional Trustees Present****

Chairman North
Trustee Kemme

Secretary Murry announced the presence of a quorum.

III. APPROVAL OF MINUTES – March 4, 2020

Trustee Springfield called for a motion to approve the March 4, 2020 minutes. The motion was made by Trustee Edwards and properly seconded. Springfield called for discussion or edits to the minutes, and none was provided. A voice vote was taken, and the motion was unanimously approved.

IV. SUMMARY OF AUDIT REPORTS ISSUED

Trustee Springfield recognized Chief Audit Executive Vick Deaton. Ms. Deaton said this quarter four audit reports were issued. Ms. Deaton provided summarized information on the three public audit reports that were in a table on PowerPoint slide. She also mentioned that the Student Accounts Receivable Review audit report opinion was insufficient and required improvement. In the communications plan, when there is a report with that opinion, the complete report is provided to all members of the Audit Committee. The Chair of the Audit gets copies of all reports issued and can ask for any report to be shared with the full committee.

Ms. Deaton presented the table with the three public audit reports that were issued. The Cash Balances audit report and the Inventory Observation audit report are two small projects that were conducted at the request of management, because it is required by the External Division of State Audit. At the fiscal year end, Internal Audit does a Cash Balance count and completes an inventory observation. The Cash Balances and Inventory Observation reports showed no issues found with those audits. The last audit report on the table was the Student Accounts Receivable Review and the entire report was submitted in the meeting materials. Student Accounts Receivable are amounts owed to the University of Memphis from students. These amounts could come from various fees and services such as: tuition, mandatory fees, housing fees, food service fees, other electives fees, and other charges billed to students. Ms. Deaton gave an idea of the types of things that are looked for in Student Accounts Receivable for it to be effective accounts receivable management and administration such as good policies and procedures for collecting the past due accounts, complying with any applicable regulations and accounting principles, and having controls to make sure the accounts receivable and allowance for doubtful accounts are accurate, timely, and fairly presented in the University's financial statements.

The University's Division of Business and Finance and University and Student Business Services (also referred to as the Bursars office) is responsible for developing the collections procedures in compliance with any laws and regulations that might apply to accounts receivable in collection of debt, and insuring there's an adequate system of internal control over the management and collection of accounts receivable. The University and Student Business Services office is responsible for setting those procedures, even if the accounts receivable could be generated in various departments. University and Student Business Services ultimately gathers all the information and sets accounts receivable and collection policies and procedures with the approval of management.

The primary objective of the audit was to follow-up on management's actions in response to a state audit finding. Ms. Deaton referenced a discussion of the Fiscal Year (FY) 2019 Financial Compliance Audit which included a couple of findings. One of the findings was related to accounts receivable. It was determined by the auditors to be a finding of

significant deficiency, but not a material weakness. The significant deficiency found that the University of Memphis did not have adequate policies for the collections of accounts receivable. Whenever the University has a finding from the Division of State Audit, management must complete a Corrective Action Plan and Internal Audit is asked to follow-up on the plan. Internal Audit's follow-up concluded that University management has completed the Corrective Action Plan for the finding. The University now has a policy that has been approved and published for any debtors and the University community to inform them of how the University will manage its accounts receivable.

When the audit was being conducted the primary objective was to follow-up on the state findings, but Internal Audit also looked at internal controls over the management, collection, and reporting of accounts receivable, particularly student accounts receivable. Internal Audit believed those controls were not sufficient and they needed improvement. Ms. Deaton presented a brief list of the findings and that management developed Corrective Action Plans for those findings.

All the action plans have estimated completion dates of September 30th except for number six, which has a completion date of December 31st. Ms. Deaton asked the committee if they had any questions about the audit or any of the findings of the state audit. Trustee Edwards asked how often Mr. Raaj Kurapati reviewed the aging reports. Ms. Deaton responded to Trustee Edwards stating that was one of the things Internal Audit found. University and Student Business Services has a collections person reviewing the aging reports on a periodic basis, but it was not formalized so there was no particular time period those accounts receivable were reviewed by management and Internal Audit identified that as a problem. Ms. Deaton stated that it is good to have a lower collections coordinator reviewing, and she does so monthly, but Internal Audit felt that different levels of management need to review different things. Internal Audit has asked that a plan be created to identify the time and the person that will be reviewing and the objectives. Internal Audit has also asked that the review procedures be documented so completion can be verified.

Dr. Rudd asked if Mr. Kurapati wanted to address the issue of getting the Bursar to follow through on the action plans. While waiting for Mr. Kurapati to speak, Trustee Edwards commented that it seemed too difficult to collect debt from people that are no longer affiliated with the University and he knows there are procedures in place but mentioned that it would be good to have a system where late payments could be identified early, refer those to an area where they could provide assistance and aid, or have them clear the debt on their account, which requires timely reporting on where the University is on receivables and a formalized aging process. Dr. Rudd agreed with Trustee Edwards and stated there has been a practice about debt write-offs that were problematic in terms of the overall volume. The University has taken steps in the last year and just recently had some issues regarding follow through in that office.

Mr. Kurapati commented that in 2018 the auditors raised concern that were not considered a significant deficiency or finding in the actual audit report, but the auditors noted that the allowance was greater than those of the University's peers. As a result, the University started to review where they were and noticed that while the University was recording an allowance for receivables, they were not being written off. Since then the

University had written off close to \$4 million in old debt that was being carried on the books and the allowance is now more aligned with the University's peers; however, that does not show a correct net receivables collection view. Mr. Kurapati commented that even though it is good for the University to be aligned with their peers, the University has its own unique circumstances and the University's allowance should reflect those circumstance rather than being aligned with other institutions in the state of Tennessee. This is where some of the challenges occur - making sure the allowances are being reviewed appropriately and being calculated with the current estimations of what the different buckets of allowance should be based on the receivables balance. That is where the difficulties have been. There is a process now in place to make sure that these are reviewed on a quarterly basis on Mr. Kurapati's level and presented to him quarterly as well. Direct oversight was provided to the Controller over that function given the magnitude of receivable and tuition and fees overall as a percentage of the University's budget, this is a critical piece of the University's overall financial standing. The Controller will work directly with the University Services and Business Service office to ensure the aging is conducted on a quarterly basis, and current estimations are reviewed to ensure the allowance is adequate. The basis of the allowance was evaluated in 2014 and Mr. Kurapati has been asking to have that updated to verify those percentages are still valid and current. Since January, Mr. Kurapati has not received that information. The Controller is now involved to make sure this gets done and Mr. Kurapati expects to have a formal report to show that the University has evaluated and comfortable with the allowances by the end of September.

Trustee Springfield asked Mr. Kurapati if he felt good that the five-points Ms. Deaton made will be addressed and in place by the end of September and number six by the end of December. Mr. Kurapati said she has his commitment to get this done because it is a critical issue for the University. Trustee Springfield commented to make sure students are given access to referrals and financial aid office or financial literacy training and counseling for when they need to address past due accounts. This can be discussed in a follow-up in the next meeting as well as financial aid offered to students beyond COVID-19 and help position students for handling finances in the future. Dr. Rudd agreed with Trustee Springfield's comment and recommended maybe adding financial literacy training to new student orientation, maybe having a section that is optional and a limited section that is mandatory. Trustee Roberts commented that getting the accounting right so the books and records are correct is important because it will give visibility of how students are helped and what the University's policies are if you have an unpaid bill and the implications of having a balance on your account. The consistency of how the University helps students and at the same time collects fees and tuition that are owed to the University is important. It is a larger issue than just getting the number right, it leads to how do you facilitate success not only for the University but the students too. Mr. Kurapati stated that it was important to point out that these issues were identified by management. Due to that, Internal Audit was asked to review this as a follow up of outstanding issues on the external audit that was conducted by the state auditor's office, to verify if the findings were accurate so the University knows if they have a clear articulated plan that can be presented to the Board of Trustees.

Trustee Springfield asked if there were any more questions or comments. None were provided. Trustee Springfield asked if Mr. Kurapati had any more comments. He responded that he did not.

V. SUMMARY OF FRAUD, WASTE, ABUSE REPORTS RECEIVED

Trustee Springfield recognized Chief Audit Executive, Vicki Deaton. Ms. Deaton presented the summary of fraud, waste, and abuse reports. In the meeting materials, a table was provided to give summary information about the reports of possible fraud, waste, and abuse, noncompliance, and conflict of interest received since the last audit committee meeting. There were four items on the table, and several came from the Tennessee Comptroller's Office. The third column on the table shows how the allegations were received. There are different ways people can report fraud, waste, and abuse to Internal Audit. The most common way is through internal reporting and the people are anonymous and report online on Internal Audit's website. Internal Audit also gets reports from the Comptroller's office, which is what the table shows. Two reports were distributed to other offices on campus for them to investigate and two memos were issued by Internal Audit. All four items have been resolved. Ms. Deaton stated that the items will be discussed in the executive session if the Board had any questions.

VI. FY2020 INTERNAL AUDIT and CONSULTING YEAR END REPORT

Ms. Deaton went on to report on the Office of Internal Audit and Consulting fiscal year (FY) 2020 year-end report with the permission of Trustee Springfield. According to the Audit Committee Charter it states that Internal Audit must review the results of the years' work with the committee. The fiscal year 2020 annual report gives information on audit hours by functional areas, the number of audit issues and recommendations, investigations, committees Internal Audit has served on, other consulting type work, and any other projects Internal Audit has completed during the year. The chart shows information pulled from the report and where Internal Audit spent their time. Three areas are considered as the audit universe: the academic area, administrative area, and other. Other refers to other entities such as other foundations. Ms. Deaton discussed the pie chart from last year and Internal Audit showed what was academic and administrative. Ms. Deaton stated that Trustee Springfield commented last year that there is so much administrative that a little more information would be helpful to separate the administrative function. Internal Audit made changes based on Trustee Springfield's recommendation for the pie chart this year with more categories including academic, advancement, athletics, business and finance, information technology services, office of the president, operations and facilities, and research. Internal Audit spent a large amount of their time during FY 2020 with the Division of Business and Finance.

Trustee Springfield expressed her appreciation for the pie chart being separated because it showed a better view of the audit efforts.

The next slide showed the summary information on the issues and recommendations provided to management. These issues and recommendations can come from the audit reports and from issues and recommendations from large investigations, and during this fiscal year those were added together. Internal Audit identified 57 issues and recommendations. There are also external audit entity issues like the findings the University had with the Division of State Audit. Those findings are included in the total 25 under the

externally identified issues. Usually Internal Audit would present an external audit report where an issue was identified, and Internal Audit sometimes assists management with completing the corrective action plans. Ms. Deaton wanted to make sure those were included. Internal Audit tries to determine the total issues that have been corrected by management to-date through the follow-ups or information management provides. There could be issues out there but the estimated completion date has not passed. It does not mean there is a problem with the total number because the issues are not expected to be corrected yet. The total issues corrected by management to date is 55.

The next slide showed information that is provided at every quarterly audit meeting and provides investigation summary information. The information shows the number of reports that Internal Audit received throughout the fiscal year (16), the reports that were referred to other offices (5), and investigations Internal Audit completed and issued an investigation report, which the Audit committee gets copies of throughout the year. Internal Audit issued 11 memos.

Ms. Deaton stated that the Board was provided a copy of the full report and if the Board had any questions about the slides or report she would answer those questions.

Trustee Springfield asked for any questions or comments. None was provided.

VII. ANNUAL REVIEW OF AUDIT COMMITTEE CHARTER

Trustee Springfield gave the approval to move on to the annual review of the Audit Committee Charter.

Ms. Deaton mentioned that the Board is responsible for review of the work Internal Audit has done for the year and the Audit Committee must review and assess the adequacy of the Audit Committee Charter to approve changes that have been proposed. A copy of the current charter was provided to the Board to review. This is an opportunity for the Audit Committee to review the charter and propose anything that needs to be changed.

Trustee Springfield asked if there were any questions or recommendations from the Charter provided in the meeting materials. None was provided. Trustee Springfield asked Board Secretary Melanie Murry if this item needed to have a vote, Board Secretary Melanie Murry said that the item would only need to be voted on if there were changes. Since no changes were made the item did not require a vote. Board Secretary Melanie Murry did recommend to Ms. Deaton that a record of the review was done for audit purposes and there is documentation that it was done aside from it being included in the minutes.

Ms. Deaton responded saying she had kept agenda items being presented in the committee meeting on her calendar and she would have the minutes. Board Secretary Melanie Murry discussed a document that she is working on for all the actions of the Board approved since inception, so it is a running list, and creating a calendar to show when certain items are presented to the Board on a reoccurring basis. This information will be compiled for future Trustees and administration. Board Secretary Melanie Murry recommended any ideas from the Board.

Chairman North commented that the review of the Charter is an important activity and when Trustee Springfield reports in the Trustee meeting that that would be a good time for the Board to ask has the charter been reviewed and if the committee is comfortable with the overview, and the resources being provided. Chairman North thinks this is a good annual check and expressed his appreciation for the Audit Committee reviewing the Charter and affirming they feel comfortable with the current charter. This can be acknowledged in the Board minutes as well. Trustee Springfield thought Chairman North's comments were a great idea.

Ms. Deaton concluded the presentation.

VIII. UPDATE ON BUSINESS CONTINUITY PLANNING

Trustee Springfield recognized Chief Financial Officer, Raaj Kurapati. Mr. Kurapati explained there was a deficiency in the internal audit review that was presented to the Board at the March meeting. Mr. Kurapati provided an overview of the updates on where the University is regarding the plan. A timeline was presented for this fiscal year and the next fiscal year to formalize the business continuity planning process. Mr. Kurapati said the Business Continuity Plan has never been more important as it is now because of the pandemic and how the University can ensure continuity for the safely return to campus of faculty, staff, and students. Everything that was scheduled to be done was accomplished in August. The development of the business continuity planning strategy was finalized, the license for Kuali Ready was acquired which will be the official technology that the University will be using to maintain and update the business continuity plan and the prior business continuity plan was gathered and reviewed. The finding did note that the University did not have a consolidated effort, there were places of efforts across the University, but it was not formalized in a central place.

The University went through the existing business continuity plans. The crisis management plan was reviewed to ensure that it was included in the overall business continuity plan and several administrative units were selected including Business and Finance to ensure the business continuity plans were completed. In the next three to four months the plan is to complete business continuity plans for the academic departments. The morning of August 26th all but two business continuity plans were submitted. The Board requested that someone should be leading the effort towards the business continuity plan and an executive director level position has been created to oversee business continuity and crisis management and the University is currently in the process of filling the position. The next steps are to formalize the business continuity plan and establish policies and standards. From December 2020 to June 2021 the University plans to implement Kuali Ready through the departmental and divisional plans and formalize those into Kuali Ready. All the plans will be brought to the business continuity plan committee, which will be established. The business continuity plan is an ongoing effort and is a breathing document. The University will ensure that the plan is reviewed periodically and update the Board at appropriate intervals.

Trustee Springfield commented that business continuity planning, since the pandemic, has shown the need for what the University does. She expressed her appreciation on Mr. Kurapati's leadership on the business continuity plan. She also

commented that this cannot be a stagnate process, it must be dynamic because things change depending on the crisis and the University may need to collaborate to think differently.

Trustee Springfield asked if there were any questions, suggestions, or discussions. Chairman North commented on how he has been reading and been exposed to the increase in cyber-attacks that have been happening because of COVID-19. The increase of people working from home are causing more vulnerabilities and he wanted to heighten the awareness of this issues for the business continuity and crisis response issue. Trustee Springfield expressed her appreciation for Chairman North discussing this issue and said that Chief Information Officer Robert Jackson might discuss this issue because it is something everyone has seen, and the information technology departments are addressing that issue. Trustee Springfield asked Mr. Kurapati if Mr. Jackson wanted to respond to Chairman North's comment.

Mr. Jackson responded to Chairman North's comment and said that Information Technology Services has seen this issue at the University, since the spring semester with the COVID-19 outbreak. Every month or every 6 weeks, Mr. Jackson sends an email reminder out to the campus community. Students are being targeted with emails soliciting participation in a COVID-19 test study and some students have fallen victim to these attacks. Information Technology Services identifies suspected account compromises within the email system, and it is usually because someone clicked a link or fell victim to those emails. There are Virtual Private Network (VPN) measures in place to make sure there are secure connections from people's home computers to the University network. Defense-in-depth is used and must be authorized to have access to different systems. Information Technology Services will be adding later this year the requirement of multi-factor authentication for the VPN. The upgrade to the VPN is currently happening for the multi-factor authentication feature which should add another layer of protection. Information Services recognizes the potential for increased risk with working from home and steps are being taken to decrease the problem.

Trustee Springfield asked if there were any other questions or comments, none was provided.

IX. INFORMATION SECURITY PROGRAM UPDATE

Trustee Springfield recognized Chief Information Officer, Robert Jackson to present the information security program update. Mr. Jackson discussed the phishing attacks, and the plans Information Technology Services intends to take over the next few months to collaborate with Marketing and Communications to get more students to opt-in to use the multi-factor authentication. Both departments are working together to create a marketing campaign to contact students and parents to encourage students to sign-up for the added layer of security. Pending review through the University's appropriate governance structure, in January 2021, Duo authentication will be required for all accounts, including student accounts. Information Technology Services believes this will decrease the phishing attempts. The Security Awareness training will be increased and expanded with the purchase of additional licenses that will allow an increase in student participation in the training. The Security Communications Coordinator is preparing for some fall semester presentations where she will conduct outreach efforts in different meetings, such as Focus

on Finance and Human Resources Partners, meeting with individual academic departments, and engaging with different student organizations. It will be a busy year for improving educational outreach efforts but also technical components that is anticipated to be implemented by January 2021.

A chart was presented of email statistics. Fifty (50) percent of the emails received are identified as spam or an email containing malicious content. Mr. Jackson said this is an ongoing battle that does happen, even though the system restricts, and rejects known advertising content, the scammers and phishers are getting much better at targeting people. The email administrators manually go in and create a rule to identify certain words or phrases, but the challenge is if the email administrator put in a phrase that is too broad then legitimate emails can be trapped so Information Technology Services must be careful in that regard.

The fourth quarter fiscal year 2020 security engagement report was presented. The classifications were listed and there is a note at the bottom showing the numbers that Mr. Jackson mentioned. There is an engagement process happening to identify suspicious behavior and when those are detected the accounts are disabled. There were 92 accounts disabled for the fourth quarter. The classifications showed the emails reported to Information Technology Services. The classifications that were minor involved phishing attempts and spam, but people did not report them as spam, they reported them as security incidents. Information Technology did review and investigate and determined it was a phishing or spam attempt, nobody accessed anything inappropriate. The item in the moderate column was brought to Information Technology Services attention. That item was investigated and was determined that there was no breach of sensitive information.

Mr. Jackson presented an overview of initiatives Information Technology Services has done over the last part of this year and the last couple of months. Information Services implemented Single Sign-on for the email system for duo authentication support for all employees. When the students start to use Duo, their email will also be protected. The fiscal year 2020 network core and firewall update was completed. This will be taken further to provide additional upgrades to Virtual Private Network (VPN) to support the Duo multi-factor authentication. The project to improve the network resiliency was completed. These projects were not directly related to information security, but it does improve the Universities fiber network upgrade design and provide redundancy, which goes to the business continuity plan mentioned earlier in the meeting. A redundant internet circuit was added at south campus so if anything happened to disrupt communication between the main campus and south campus there would still be an external connection on south campus. Diversifying the infrastructure is being reviewed using the Amazon Web Services cloud and progress is being made on that pilot with the hopes to be able to bring more information at the December Board meeting with a status update. The upcoming projects the Information Technology Services department has are possibly integrating the University's endpoint security and email security into a single platform to be used to strengthen the insight into those two components and this project is in the early stages. The integration project is related to the sides with the email statistics and this could possibly give the University an even better system at a lower cost. The other projects are the Duo multi-factor authentication for students which is planned to take effect January 2021 and to continue to work with other units to expand the University's compliance

efforts as the University is continuing to reach Carnegie R1 status. Information Technology services is preparing to see NIH grants and DOD grants, so the department is working with other offices on campus to make sure those compliance efforts are strengthened.

Mr. Jackson welcomed the Board to ask any questions regarding the presentation. Trustee Springfield asked if there were any questions, comments, or suggestions, none was provided.

Trustee Springfield expressed her appreciation for Mr. Jackson and his team for the work that they have done since the Board was formed and the level of detail provided to the board and keeping the Board updated as the University faces potential issues, especially during the Coronavirus pandemic by making sure faculty, staff and students have the connectivity needed. Dr. Rudd agreed with Trustee Springfield's comments. Dr. Rudd commented that Mr. Jackson and his team are proactive on these issues and there have been very few problems. They have also communicated well as the campus moves forward on the Duo authentication and other measures the department has and they have gotten good buy in and have done an excellent job.

X. COMPLAINT TRIAGE TEAM

Trustee Springfield recognized Director of Institutional Equity and Chief Compliance Officer, Tiffany Cox. Since the addition of Ms. Cox joining the University's team, ways to streamline the compliance process have been reviewed to ensure there is control oversight for issues related to compliance to make sure nothing is overlooked and to make sure those issues are addressed in a structured process. To ensure this structured process, the Office of Legal Counsel, Office of Institutional Equity, and Office of Internal Audit will communicate with each other on a regular basis, so when complaints come in, they are triaged to the correct department and follow-ups are being conducted. Ms. Cox explained that there are three main offices that receive compliance related complaints and the Chief Human Resource Officer will be added to the complaint triage team as well. Meetings will take place as needed to triage any complaints that are received to the appropriate office, follow up to ensure the appropriate actions have been taken, and allow for the complaints received to be tracked throughout the University. This will allow for identification of any weaknesses and identify training opportunities, so that employees are aware of their responsibilities and have the tools they need to execute their responsibilities.

Trustee Springfield mentioned that she met with Tiffany Cox, Melanie Murry, and Vicki Deaton to discuss this approach in the efforts of transparency and efficiency of the groups by making sure the right expertise is in place investigating any type of complaint. This will allow for follow-ups more quickly but also have the expertise that needs to be involved in the engagement as well. Trustee Springfield asked if Ms. Cox, Ms. Murry, or Ms. Deaton if they had any additional comments. Ms. Cox stated she did not have any other comments but was open to answer any questions.

Trustee Springfield asked if the Board had any questions, comments, or suggestions.

Trustee Springfield made the comment that they look forward to coming back to the Audit Committee when the triage team goes into action and she thinks it will be an

improvement in the process for investigations. She expressed her appreciation for the leadership of the Complaint Triage Team coming to the Board with this idea and she thinks it will make the University more efficient. Trustee Roberts offered comments stating this was an excellent move because the task of overseeing complaints is a lot to look after and she applauded Trustee Springfield and the team for creating this approach.

Trustee Edwards suggested to Ms. Deaton that an organization chart be created to share so the Board will know who is responsible for each assignment within Internal Audit. That may help the Board recognize if there are additional resources needed and give them a better opportunity to address things timely. Trustee Edwards recalls having this conversation about the resources available to Internal Audit about a year ago and recognizes things are not getting any easier, and as things move forward, the University may want to identify things that need to be addressed. Ms. Deaton responded that this was attempted with the audit plan by looking at management's risk assessment and determining where those risks are. This is something Trustee Springfield is hoping the triage team will help Internal Audit with, by keeping Internal Audit focused on those areas that they need to be focused on, especially with the risk areas so Internal Audit can be working on the audit plan.

Trustee Springfield acknowledged Trustee Edwards' suggestion and commented that she will meet with Ms. Deaton to discuss and bring it back to the committee.

Trustee Springfield asked if there was any other discussion, none was provided.

XI. ADDITIONAL BUSINESS

No additional business.

XII. ADJOURNMENT

Trustee Springfield adjourned the meeting to executive session.

4. Summary of Audit Reports Issued

Presentation

Presented by Vicki Deaton

The University of Memphis Board of Trustees

Presentation

For Information

Date: November 30, 2020

Committee: Audit Committee

Presentation Title: Summary of Audit Reports Issued

Presented by: Vicki D. Deaton, Chief Audit Executive

Background:

Five audit reports were issued since the last meeting. Summarized information is included in the attached table.

Name of Audit	Date of Audit Report	Audit Engagement Report Opinion	Observations	Minor Issues - Addressed Verbally	Minor Issues	Moderate Issues	Major Issues	Recommendations for Consideration by University Management	Issues Outstanding from Prior Audit
Report of Action on State Audit Finding - Accounts Receivable	10/14/2020	Status: Complete	0	0	NA	NA	NA	NA	1 *
Report of Action on State Audit Finding - Journal Entries	10/14/2020	Status: Complete	0	0	NA	NA	NA	NA	1 *
Contract Monitoring Controls Audit	11/11/2020	Effective with the Opportunity for Improvement	0	1	5	1	0	1	NA
Department of Instruction and Curriculum Leadership Revenue and Expense Audit	11/17/2020	Effective with the Opportunity for Improvement	0	3	4	0	0	0	NA
Audit of President's Expenses	11/19/2020	Effective	2	0	0	0	0	0	0

* Prior Audit Issue - Division of State Audit's FY2019 Financial and Compliance Audit finding of significant deficiency

5. Summary of Investigations Completed

Presentation

Presented by Vicki Deaton

The University of Memphis Board of Trustees

Presentation

For Information

Date: November 30, 2020
Committee: Audit Committee
Presentation Title: Summary of Internal Audit Investigations Completed
Presented by: Vicki D. Deaton, Chief Audit Executive

Background:

One new report of fraud, waste, and abuse was assigned by the Complaint Triage Team to the Office of Internal Audit and Consulting for investigation since the last quarterly meeting. The investigation was completed, and a memo was issued. Attached is a summary of the investigation information.

Pursuant to the protection afforded by Tennessee Code Annotated §§ 10-7-504(i) and 10-7-508(a), this information shall be used for Limited Official Use purposes only. Because this document has been designated **“Limited Official Use Only”**, it may only be made available to those who have a need to know the information in the performance of their official duties for the University. This information must be safeguarded and protected from unauthorized disclosure. This information and any referenced materials are considered part of our confidential working papers not open to public inspection pursuant to state law. Our sharing of this information with you is pursuant to the internal processes of this engagement and is not intended as a publication or distribution of this information. Therefore, you are requested to appropriately safeguard its confidentiality and appropriately restrict its further disclosure. Please notify us of any requests for this information as it is under restricted access.

You may share and distribute within the University to those that have a need to have this information.

CONFIDENTIAL AUDIT INFORMATION

Allegation Received by	Date Allegation Received	Description of Allegation	Date Assigned to Internal Audit by Complaint Triage Team	Internal Audit Investigation Number	Investigation Status	Investigation Outcome	\$ Loss	Date of Final Action by Internal Audit
Anonymous FWA Email to Chief Audit Executive	10/11/2020	Inaccurate Leave Reporting	10/14/2020	21-001	Investigation Complete - Internal Audit Investigation Memo Issued	No Evidence of Inaccurate Leave Reporting	none	11/16/2020

6. External Audit Report-University of Memphis Foundation Financial Statements, 6/30/2020

Presentation

Presented by Vicki Deaton

The University of Memphis Board of Trustees

Presentation
For Information

Date: November 30, 2020
Committee: Audit Committee
Presentation Title: External Audit Report - University of Memphis Foundation Financial Statements, June 30, 2020 and 2019
Presented by: Vicki D. Deaton, Chief Audit Executive

Background:

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 17, 2020, the University of Memphis Foundation Financial Statements, June 30, 2020 and 2019 were issued. The University of Memphis Foundation (Foundation) is considered a component unit of the University and is discretely presented in the University's financial statements. The Foundation's financial statements are presented for informational purposes.

The 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years 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 that are required to be reported under Government Auditing Standards.

The University of Memphis Foundation

FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019



REYNOLDS BONE & GRIESBECK PLC
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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June 30, 2020 and 2019

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BOARD OF DIRECTORS AND FINANCIAL/ADMINISTRATIVE DIRECTORS

The University of Memphis Foundation
June 30, 2020 and 2019

Board of Directors

Harry Smith, President
Fred Towler, Vice President
John Wilfong, Secretary
David Perdue, Treasurer
Judith Edge
Robert Fogelman
Fred Hodges
Tanya Hart
James Lackie
Jason Little
Dr. Douglas Scarboro
David Tate
Monica Wharton
James Wiertelak
John Robinson
Dr. M. David Rudd
Raaj Kurapati

Financial/Administrative Directors

Byron Morgan, Managing Director
Carolyn Stanley, Foundation 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 statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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 of America. 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2020, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Reynolds, Bone & Griesbeck PLLC

November 17, 2020

STATEMENTS OF FINANCIAL POSITION

The University of Memphis Foundation
June 30, 2020 and 2019

	2020	2019
ASSETS		
Cash	\$ 4,666,916	\$ 591,801
Contributions receivable, net	9,161,705	18,504,231
Accrued interest, dividends, and other receivables	187,498	233,300
Investments, at fair value	128,003,339	133,103,818
Cash surrender value of life insurance	135,022	127,210
Total assets	<u>\$ 142,154,480</u>	<u>\$ 152,560,360</u>
LIABILITIES AND NET ASSETS		
Accounts payable, primarily to The University of Memphis	\$ 7,529,643	\$ 9,860,411
Gift annuity obligations	148,925	148,487
Total liabilities	<u>7,678,568</u>	<u>10,008,898</u>
Net assets		
Without donor restrictions	2,157,645	6,007,712
With donor restrictions	132,318,267	136,543,750
Total net assets	<u>134,475,912</u>	<u>142,551,462</u>
Total liabilities and net assets	<u>\$ 142,154,480</u>	<u>\$ 152,560,360</u>

See notes to financial statements.

STATEMENTS OF ACTIVITIES

The University of Memphis Foundation
Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Contributions	\$ 159,335	\$ 12,170,886	\$ 12,330,221
Investment income	584,476	1,694,216	2,278,692
Net realized and unrealized gains (losses) on investments	201,810	(3,040,426)	(2,838,616)
Other income	-	6,009,798	6,009,798
Net assets released from restrictions	21,059,957	(21,059,957)	-
Total revenues, gains and other support	22,005,578	(4,225,483)	17,780,095
Operating expenses:			
University support and operational cost	18,391,258	-	18,391,258
Awards and scholarships	6,847,457	-	6,847,457
Management and general	720,415	-	720,415
Total operating expenses	25,959,130	-	25,959,130
Change in net assets from operating activities	(3,953,552)	(4,225,483)	(8,179,035)
Nonoperating activities:			
Interest expense	424,312	-	424,312
Bad debt recoveries	(527,797)	-	(527,797)
Change in net assets from nonoperating activities	(103,485)	-	(103,485)
Change in net assets	(3,850,067)	(4,225,483)	(8,075,550)
Net assets at beginning of year	6,007,712	136,543,750	142,551,462
Net assets at end of year	\$ 2,157,645	\$ 132,318,267	\$ 134,475,912

See notes to financial statements.

STATEMENTS OF ACTIVITIES

The University of Memphis Foundation
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Contributions	\$ 325,122	\$ 26,181,394	\$ 26,506,516
Investment income	725,764	2,363,257	3,089,021
Net realized and unrealized gains on investments	108,901	1,058,809	1,167,710
Other income	-	7,442,356	7,442,356
Net assets released from restrictions	33,030,833	(33,030,833)	-
Total revenues, gains and other support	34,190,620	4,014,983	38,205,603
Operating expenses:			
University support and operational cost	22,668,132	-	22,668,132
Awards and scholarships	11,010,108	-	11,010,108
Management and general	722,987	-	722,987
Total operating expenses	34,401,227	-	34,401,227
Change in net assets from operating activities	(210,607)	4,014,983	3,804,376
Nonoperating activities:			
Interest expense	120,757	-	120,757
Bad debt expense	517,400	-	517,400
Change in net assets from nonoperating activities	638,157	-	638,157
Change in net assets	(848,764)	4,014,983	3,166,219
Net assets at beginning of year	6,856,476	132,528,767	139,385,243
Net assets at end of year	\$ 6,007,712	\$ 136,543,750	\$ 142,551,462

See notes to financial statements.

STATEMENTS OF FUNCTIONAL EXPENSES

The University of Memphis Foundation
Year Ended June 30, 2020

	Program Services			Support Services	
	University Support and Operational Cost	Awards and Scholarships	Total	Management and General	Total Expenses
Salaries and benefits	\$ 1,142,043	\$ -	\$ 1,142,043	\$ 573,941	\$ 1,715,984
Moving expenses	7,705	-	7,705	-	7,705
Conferences and travel	140,210	-	140,210	252	140,462
Supplies	540,607	-	540,607	5,262	545,869
Postage	15,441	-	15,441	864	16,305
Printing	160,529	-	160,529	122	160,651
Telephone and communications	5,956	-	5,956	1,879	7,835
Maintenance and repairs	959	-	959	-	959
Audit services	-	-	-	29,664	29,664
Legal services	-	-	-	4,240	4,240
Annuity expenses	17,425	-	17,425	-	17,425
Professional services	1,347,064	-	1,347,064	6,909	1,353,973
Publicity/public relations	2,278,164	-	2,278,164	-	2,278,164
Rental fees	124,544	-	124,544	-	124,544
Insurance other	16,013	-	16,013	25,371	41,384
Other expenses	3,517,498	-	3,517,498	100	3,517,598
Dues and memberships subscriptions	275,833	-	275,833	-	275,833
Meals and entertainment	654,026	-	654,026	1,169	655,195
Tickets	14,283	-	14,283	-	14,283
Sponsorships and donations	76,916	-	76,916	-	76,916
Gifts and flowers	53,301	-	53,301	175	53,476
Fees	592,029	-	592,029	70,467	662,496
Honorariums	14,000	-	14,000	-	14,000
University support	2,086,121	-	2,086,121	-	2,086,121
USA grants special projects	3,677,737	-	3,677,737	-	3,677,737
USA chairs professorships	-	500,523	500,523	-	500,523
Awards	-	198,502	198,502	-	198,502
Furniture and equipment	643,908	-	643,908	-	643,908
Construction and renovation	667,669	-	667,669	-	667,669
USA capital improvements	321,277	-	321,277	-	321,277
Scholarships	-	6,017,859	6,017,859	-	6,017,859
Fellowships	-	46,334	46,334	-	46,334
Interns and graduate assistants	-	84,239	84,239	-	84,239
	<u>\$ 18,391,258</u>	<u>\$ 6,847,457</u>	<u>\$ 25,238,715</u>	<u>\$ 720,415</u>	<u>\$ 25,959,130</u>

See notes to financial statements.

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STATEMENTS OF FUNCTIONAL EXPENSES

The University of Memphis Foundation
Year Ended June 30, 2019

	Program Services			Support Services	
	University Support and Operational Cost	Awards and Scholarships	Total	Management and General	Total Expenses
Salaries and benefits	\$ 867,825	\$ -	\$ 867,825	\$ 544,728	\$ 1,412,553
Moving expenses	2,000	-	2,000	-	2,000
Conferences and travel	349,821	-	349,821	481	350,302
Supplies	353,492	-	353,492	10,419	363,911
Postage	23,644	-	23,644	1,967	25,611
Printing	271,690	-	271,690	73	271,763
Telephone and communications	6,443	-	6,443	1,630	8,073
Maintenance and repairs	9,238	-	9,238	4,870	14,108
Audit services	-	-	-	24,215	24,215
Legal services	4,533	-	4,533	4,590	9,123
Annuity expenses	17,425	-	17,425	-	17,425
Professional services	1,866,829	-	1,866,829	7,914	1,874,743
Publicity/public relations	19,910	-	19,910	-	19,910
Rental fees	132,459	-	132,459	-	132,459
Insurance other	14,534	-	14,534	12,205	26,739
Other expenses	91,913	-	91,913	539	92,452
Dues and memberships subscriptions	161,332	-	161,332	533	161,865
Meals and entertainment	775,296	-	775,296	1,401	776,697
Tickets	22,065	-	22,065	-	22,065
Sponsorships and donations	116,258	-	116,258	1,166	117,424
Gifts and flowers	65,201	-	65,201	133	65,334
Fees	316,134	-	316,134	89,717	405,851
Honorariums	22,700	-	22,700	-	22,700
University support	3,326,718	-	3,326,718	-	3,326,718
USA grants special projects	4,062,498	-	4,062,498	15,493	4,077,991
USA chairs professorships	-	382,347	382,347	-	382,347
Awards	-	266,668	266,668	913	267,581
Furniture and equipment	167,831	-	167,831	-	167,831
Construction and renovation	9,460,292	-	9,460,292	-	9,460,292
USA capital improvements	140,051	-	140,051	-	140,051
Scholarships	-	10,209,584	10,209,584	-	10,209,584
Fellowships	-	39,360	39,360	-	39,360
Interns and graduate assistants	-	112,149	112,149	-	112,149
	<u>\$ 22,668,132</u>	<u>\$ 11,010,108</u>	<u>\$ 33,678,240</u>	<u>\$ 722,987</u>	<u>\$ 34,401,227</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

The University of Memphis Foundation
Years Ended June 30, 2020 and 2019

	2020	2019
Operating activities		
Change in net assets	\$ (8,075,550)	\$ 3,166,219
Adjustments to reconcile the change in net assets to net cash used for operating activities		
Net realized and unrealized losses (gains) on investments	2,838,616	(1,167,710)
Provision for bad debts (recoveries)	(527,797)	517,400
Contributions restricted for endowment	(2,523,525)	(4,401,080)
Gifts of donated assets to the University of Memphis	-	882,517
Changes in operating assets and liabilities:		
Contributions receivable	9,870,323	(6,566,014)
Accrued interest, dividends, and other receivables	45,802	16,057
Accounts payable, primarily to the University of Memphis	(2,330,768)	226,550
Gift annuity obligations	438	6,155
Net cash used for operating activities	(702,461)	(7,319,906)
Investing activities		
Change in cash surrender value of life insurance	(7,812)	(22,212)
Proceeds from sale of investments	221,221,629	59,575,368
Purchases of investments	(218,959,766)	(57,049,088)
Net cash provided by investing activities	2,254,051	2,504,068
Financing activity - contributions restricted for endowment	2,523,525	4,401,080
Net change in cash	4,075,115	(414,758)
Cash at beginning of year	591,801	1,006,559
Cash at end of year	<u>\$ 4,666,916</u>	<u>\$ 591,801</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

*The University of Memphis Foundation
June 30, 2020 and 2019*

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 Notes 3 and 5 for discussions of the present value discounts and fair value measurements, respectively. 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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

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:

Net assets without donor restrictions – Net assets not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. The Foundation's board may designate assets without restrictions for specific operational purposes from time to time.

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NOTES TO FINANCIAL STATEMENTS

The University of Memphis Foundation
June 30, 2020 and 2019

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resources was restricted has been fulfilled, or both.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expiration of net assets with donor restrictions (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 years ended June 30, 2020 and 2019, the Foundation released net assets with donor restrictions for scholarships, academic enrichment, capital improvements, and various other projects. See Note 6 for releases by purpose.

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 income on net assets with or without restrictions depending on the donor stipulations. See Note 7 for required disclosures of endowment funds.

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.

Continued

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NOTES TO FINANCIAL STATEMENTS

The University of Memphis Foundation
June 30, 2020 and 2019

Contributions receivable 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 contribution 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 \$12,557,111 and \$10,266,778 at June 30, 2020 and 2019, respectively. These potential contributions, if received, would generally be restricted for specific purposes stipulated by the donors.

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 5 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 and losses on investments include the Foundation's gains and losses on investments bought and sold as well as held during the year and are included in revenues, gains and other support on the statements of activities.

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, 2020 and 2019.

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 2020 or 2019. The Foundation is subject to routine audits by taxing authorities; however, there are currently no audits for any tax periods in progress.

Continued

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NOTES TO FINANCIAL STATEMENTS

The University of Memphis Foundation
June 30, 2020 and 2019

Administrative Fee

In order to cover expenses of the Foundation's operations and provide 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, 2020 and 2019. 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 \$1,775,000 and \$1,905,000 for the years ended June 30, 2020 and 2019, respectively.

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.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program and support services benefited. The method of allocation for salaries and benefits was time and effort. All other expenses were allocated based on a full-time equivalent since they are incurred through invoices submitted by the University.

Adoption of Accounting Principle

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies the criteria for evaluating whether contributions are unconditional (and thus recognized immediately in income) or conditional (for which income recognition is deferred) and applies to all entities that receive or make contributions, including business entities. For transactions in which a non-public entity serves as a resource recipient, the entity should apply the amendments in ASU No. 2018-08 on contributions received to annual periods beginning after December 15, 2018. For transactions in which a non-public entity serves as a resource provider, the entity should apply the amendments in ASU No. 2018-08 on contributions made to annual periods beginning after December 15, 2019. The Foundation adopted ASU No. 2018-08 as of July 1, 2019 using the modified retrospective transition method, the effects of which were insignificant.

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NOTES TO FINANCIAL STATEMENTS

The University of Memphis Foundation
June 30, 2020 and 2019

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, 2019 (see ASU 2020-05). 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, 2022. 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 Foundation has elected not to early implement ASU No. 2016-13 at this time. The effects of adopting ASU No. 2016-13 have not been determined.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. It is intended to improve transparency of contributed nonfinancial assets through additional presentation and disclosures. The amendments of this ASU require that a non-for-profit entity present contributed nonfinancial assets as a separate line item in the statements of activities, as well as enhanced disclosures regarding each type of contributed nonfinancial asset. The disclosures must discuss qualitative information about whether the assets were monetized or utilized, the entity's policy regarding monetizing rather than utilizing the nonfinancial assets, information regarding if there were any donor-imposed restrictions, how the entity arrived at the fair values of the nonfinancial assets and the principal market used to arrive at the fair value measurements. The new guidance is effective for reporting periods beginning after June 15, 2021 and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted. The Foundation has elected not to early implement ASU No. 2020-07 at this time. The effects of adopting ASU No. 2020-07 have not been determined.

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NOTES TO FINANCIAL STATEMENTS

The University of Memphis Foundation
June 30, 2020 and 2019

In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities*, as part of its efforts to assist entities as they cope with the COVID-19 pandemic. ASU No. 2020-05 defers the effective date of FASB ASC 606 for certain entities that have not yet issued their financial statements (or made financial statements available for issuance) for annual reporting periods beginning after December 15, 2019, and for interim reporting periods beginning after December 15, 2020. However, those entities may elect to follow the original effective date of annual reporting periods beginning after December 15, 2018, and interim reporting periods beginning after December 15, 2019. For FASB ASC 842, Leases, ASU No. 2020-05 deferred the effective date by one year for private companies and private not-for-profits, to fiscal year beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application of FASB ASC 842 continues to be permitted.

Subsequent Events

The recent outbreak of COVID-19 in the United States is expected to cause business disruption across a range of industries. The extent of the impact of COVID-19 on the Foundation's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and the impact on related parties and employees, all of which are uncertain and cannot be predicted. The extent to which COVID-19 may impact the Foundation's financial condition or results of operations is unknown at this time.

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

Management has reviewed events occurring through November 17, 2020, the date the financial statements were available to be issued, and no other subsequent events occurred requiring accrual or disclosure.

2. LIQUIDITY AND AVAILABILITY

All assets of the Foundation are restricted for University support and expended for specific uses within the University. The budget allocation for Foundation operations for the years ended June 30, 2020 and 2019 was \$642,159 and \$650,790, respectively. Foundation operations are funded by the annual endowment administrative fee.

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NOTES TO FINANCIAL STATEMENTS

The University of Memphis Foundation
June 30, 2020 and 2019

3. CONTRIBUTIONS RECEIVABLE, NET

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

	2020	2019
Amounts due in:		
Less than one year	\$ 4,672,060	\$ 7,435,886
One to five years	5,008,960	12,036,725
More than five years	154,250	635,823
Gross promises to give	9,835,270	20,108,434
Less allowance for uncollectible pledges	(550,775)	(1,126,072)
Less unamortized present value discount	(122,790)	(478,131)
Contributions receivable, net	<u>\$ 9,161,705</u>	<u>\$ 18,504,231</u>

Contributions receivable beyond one year have been discounted to their net present value using imputed interest rates of 0.28% to 2.67% and 0.90% to 2.67% as of June 30, 2020 and 2019, respectively.

4. INVESTMENTS

Investments as of June 30 are summarized as follows:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 627,845	\$ 619,568	\$ 752,887	\$ 752,904
Public U.S. equity	-	-	3,000,000	3,135,921
Public global equity	-	-	1,350,000	2,220,445
Mutual funds	104,567,978	104,567,978	49,268,310	48,381,474
U.S. government securities	179,955	181,484	5,697,585	5,720,454
Corporate bonds	-	-	26,448,223	26,482,068
Limited partnerships and LLCs	20,280,896	22,634,309	40,924,711	46,410,552
	<u>\$ 125,656,674</u>	<u>\$ 128,003,339</u>	<u>\$ 127,441,716</u>	<u>\$ 133,103,818</u>

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NOTES TO FINANCIAL STATEMENTS

The University of Memphis Foundation
June 30, 2020 and 2019

5. 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.
- 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.

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NOTES TO FINANCIAL STATEMENTS

The University of Memphis Foundation
June 30, 2020 and 2019

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

Money market fund: Valued at the daily closing price as reported by the fund. Money market funds held by the Foundation are open-ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (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 at quoted prices 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, 2020 and 2019

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

<u>Assets at Fair Value as of June 30, 2020</u>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 619,568	\$ -	\$ -	\$ 619,568
Mutual funds				
U.S. equity	69,452,242	-	-	69,452,242
Fixed income	35,115,736	-	-	35,115,736
Total mutual funds	104,567,978	-	-	104,567,978
U.S. government securities	-	181,484	-	181,484
Limited partnerships measured at NAV	-	-	-	22,634,309
Total	<u>\$ 105,187,546</u>	<u>\$ 181,484</u>	<u>\$ -</u>	<u>\$ 128,003,339</u>

<u>Assets at Fair Value as of June 30, 2019</u>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 752,904	\$ -	\$ -	\$ 752,904
Public U.S. equity	3,135,921	-	-	3,135,921
Public global equity	2,220,445	-	-	2,220,445
Mutual funds				
U.S. equity	10,226,953	-	-	10,226,953
Emerging markets equity	7,178,703	-	-	7,178,703
Real assets	2,172,108	-	-	2,172,108
Opportunistic	2,598,383	-	-	2,598,383
International equity	14,566,077	-	-	14,566,077
Fixed income	11,639,250	-	-	11,639,250
Total mutual funds	48,381,474	-	-	48,381,474
U.S. government securities	-	5,720,454	-	5,720,454
Corporate bond securities	-	26,482,068	-	26,482,068
Limited partnerships measured at NAV	-	-	-	46,410,552
Total	<u>\$ 54,490,744</u>	<u>\$ 32,202,522</u>	<u>\$ -</u>	<u>\$ 133,103,818</u>

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NOTES TO FINANCIAL STATEMENTS

The University of Memphis Foundation
June 30, 2020 and 2019

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, 2020 and 2019, respectively:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
<i>June 30, 2020</i>				
Hedge strategies-hedged equity ^(a)	\$ 1,893,212	\$ -	Monthly/Quarterly/Annually	60-90 days
Private equity ^(b)	7,691,582	4,877,187	Upon Liquidation	N/A
Real assets ^(c)	6,523,733	4,024,093	Upon Liquidation	N/A
U.S. equity ^(d)	4,781,925	-	Quarterly	60-90 days
International equity ^(e)	1,743,857	-	Monthly/Quarterly	30-90 days
<i>June 30, 2019</i>				
Hedge strategies-hedged equity ^(a)	\$ 15,355,668	\$ -	Monthly/Quarterly/Annually	3-90 days
Private equity ^(b)	6,204,416	4,340,748	Upon Liquidation	N/A
Real assets ^(c)	7,786,416	3,043,562	Upon Liquidation	N/A
U.S. equity ^(d)	5,808,284	-	Quarterly	60-90 days
International equity ^(e)	7,425,665	-	Monthly/Quarterly	30-90 days
Emerging markets equity ^(f)	1,201,851	-	Monthly	30 days
Opportunistic ^(g)	2,628,252	-	Monthly	60-90 days

- (a) This category consists of a fund 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.
- (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 date 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.

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NOTES TO FINANCIAL STATEMENTS

The University of Memphis Foundation
June 30, 2020 and 2019

- (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.

6. NATURE AND AMOUNTS OF NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes as of June 30:

	2020	2019
Subject to expenditure for a specified purpose:		
Alumni relations	\$ 491,509	\$ 664,340
Awards	349,995	355,384
Centers, institutes, and labs	2,329,479	2,161,611
Capital improvements	5,501,087	-
Contributions receivable, net	7,270,712	16,222,914
Departmental/academic enrichment	6,356,937	5,950,912
Operating	291,887	-
Gift annuities	23,876	37,628
Professorships/chairs/visiting scholars	255,809	290,059
Scholarships/fellowships	4,395,400	2,998,907
Special projects/lecture series/workshops	8,563,370	8,011,295
	<u>35,830,061</u>	<u>36,693,050</u>

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NOTES TO FINANCIAL STATEMENTS

The University of Memphis Foundation
June 30, 2020 and 2019

	2020	2019
Endowments:		
Subject to expenditure for a specified purpose:		
Alumni relations	\$ 114,131	\$ 166,764
Awards	489,905	660,038
Centers, institutes, and labs	1,013,289	1,199,234
Departmental/academic enrichment	1,671,990	2,304,175
Professorships/chairs/visiting scholars	3,129,927	4,015,213
Scholarships/fellowships	5,466,503	8,782,779
Special projects/lecture series/workshops	1,383,373	2,143,873
	<u>13,269,118</u>	<u>19,272,076</u>
Perpetual in nature:		
Alumni relations	760,880	677,423
Awards	2,816,095	2,662,943
Centers, institutes, and labs	2,256,227	2,254,265
Contributions receivable, net	1,890,982	2,281,317
Departmental/academic enrichment	10,177,570	10,114,572
Professorships/chairs/visiting scholars	15,482,388	15,232,687
Scholarships/fellowships	37,052,157	35,389,728
Special projects/lecture series/workshops	12,782,789	11,965,689
	<u>83,219,088</u>	<u>80,578,624</u>
Total endowment	<u>96,488,206</u>	<u>99,850,700</u>
Total net assets with donor restrictions	<u>\$ 132,318,267</u>	<u>\$ 136,543,750</u>

Net assets with donor restrictions that are perpetual in nature originated with contributions received to establish perpetual endowments. The endowment gift is to be held in perpetuity 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.

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NOTES TO FINANCIAL STATEMENTS

The University of Memphis Foundation
June 30, 2020 and 2019

Releases from donor restrictions for the years ended June 30, 2020 and 2019 are as follows:

	2020	2019
Subject to expenditure for a specified purpose:		
Alumni relations	\$ 457,669	\$ 427,700
Awards	32,545	114,434
Capital improvements	2,080,899	10,292,417
Centers, institutes, and labs	1,304,984	1,171,914
Contributions receivable, net	-	517,412
Departmental/academic enrichment	2,537,147	2,732,677
Gift annuities	17,950	18,045
Operations	-	10,221
Professorships/chairs/visiting scholars	49,250	71,225
Scholarships/fellowships	7,262,445	10,177,449
Special projects/lecture series/workshops	1,974,090	4,632,409
	<u>15,716,979</u>	<u>30,165,903</u>
Endowments:		
Subject to expenditure for a specified purpose:		
Alumni relations	24,431	35,635
Awards	46,692	89,961
Capital improvements	2,062	-
Centers, institutes, and labs	85,094	89,835
Departmental/academic enrichment	3,176,094	702,705
Professorships/chairs/visiting scholars	463,716	763,947
Scholarships/fellowships	1,436,238	1,042,507
Special projects/lecture series/workshops	108,651	140,340
	<u>5,342,978</u>	<u>2,864,930</u>
	<u>\$ 21,059,957</u>	<u>\$ 33,030,833</u>

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NOTES TO FINANCIAL STATEMENTS

The University of Memphis Foundation
June 30, 2020 and 2019

7. ENDOWMENT FUNDS

The Foundation's endowment accounts consist of donor-restricted endowment funds and include approximately 580 individual funds established for a variety of purposes. As required by U.S. 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 net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment funds and (b) the original value of subsequent gifts to the perpetual endowment funds. 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

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

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

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NOTES TO FINANCIAL STATEMENTS

The University of Memphis Foundation
June 30, 2020 and 2019

Changes in Endowment Net Assets for the Year Ended June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 2,977,905	\$ 99,850,700	\$ 102,828,605
Investment return:			
Investment loss	-	(480,520)	(480,520)
Net change (realized and unrealized)	-	(3,040,426)	(3,040,426)
Total investment return	-	(3,520,946)	(3,520,946)
Contributions	-	2,523,525	2,523,525
Appropriation of endowment assets for expenditure	(2,977,905)	(2,365,073)	(5,342,978)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 96,488,206</u>	<u>\$ 96,488,206</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 99,850,700	\$ 99,850,700
Board-designated endowment funds	2,977,905	-	2,977,905
	<u>\$ 2,977,905</u>	<u>\$ 99,850,700</u>	<u>\$ 102,828,605</u>

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NOTES TO FINANCIAL STATEMENTS

The University of Memphis Foundation
June 30, 2020 and 2019

Changes in Endowment Net Assets for the Year Ended June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 3,191,044	\$ 96,666,152	\$ 99,857,196
Investment return:			
Investment income	6,946	263,330	270,276
Net change (realized and unrealized)	29,118	1,058,809	1,087,927
Total investment return	36,064	1,322,139	1,358,203
Contributions	-	4,478,136	4,478,136
Appropriation of endowment assets for expenditure	(249,203)	(2,615,727)	(2,864,930)
Endowment net assets, end of year	<u>\$ 2,977,905</u>	<u>\$ 99,850,700</u>	<u>\$ 102,828,605</u>

Underwater Endowments

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 U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of net assets with donor restrictions contributions and/or continued appropriation for fees and expenditures. At June 30, 2020, deficiencies of this nature existed in 168 donor-restricted endowment funds, which together have an original gift value of \$35,226,728, a current fair value of \$32,957,557, and a deficiency of \$2,269,171. At June 30, 2019, deficiencies of this nature existed in 58 donor-restricted endowment funds, which together have an original gift value of \$13,608,607, a current fair value of \$12,806,243, and a deficiency of \$802,364.

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.

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NOTES TO FINANCIAL STATEMENTS

The University of Memphis Foundation
June 30, 2020 and 2019

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 4% for fiscal years 2020 and 2019. 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.

The Foundation has a policy that permits spending underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. The Board of Directors appropriated for expenditures \$69,038 and \$51,068 from underwater endowment funds during the years ended June 30, 2020 and 2019, respectively, which represents 3% of the 12 quarter moving average, not the 4% it generally draws from its endowment.

8. RELATED PARTY TRANSACTIONS

The Foundation provided direct support to the University for general departmental expenditures, scholarships, and awards which totaled \$25,959,130 and \$34,401,227 for the years ended June 30, 2020 and 2019, respectively. The Foundation had accounts payable to the University in the amount of \$5,083,330 and \$9,634,322 as of June 30, 2020 and 2019, respectively.

Interfund Advance

The Foundation has agreed to advance up to \$10,976,899 to a Foundation fund as an interfund advance benefiting the athletic department of the University at a 4.00% annual interest rate for the purpose of providing financial support to allow the athletic department to undertake construction of a football practice facility in advance of receiving payment of donor funding commitments. The advance is to be repaid in full not later than June 30, 2025 and is secured by certain future collections of receivables and other collections related to certain Foundation funds benefitting the athletic department. Interfund advances totaling \$8,067,510 and \$10,715,069 were outstanding as of June 30, 2020 and 2019, respectively.

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NOTES TO FINANCIAL STATEMENTS

The University of Memphis Foundation
June 30, 2020 and 2019

Contributed Services

Based upon an operating agreement between the University and Foundation, the University provides office space and donation collection and processing services for the Foundation. The University provided contributed services under the terms of the operating agreement in the amount of \$216,819 and \$186,171 for the years ended June 30, 2020 and 2019, respectively.

9. CONCENTRATIONS OF RISK

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

Approximately 28% and 22% of the Foundation's contributions receivable balance at June 30, 2020 and 2019, respectively, was due from one donor.



**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 statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated DATE, 2020.

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) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

There were no prior year findings reported.

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 & Grishbeck PLC

November 17, 2020

7. External Audit Report- University of Memphis Research Foundation Financial Statements, 6/30/2020

Presentation

Presented by Vicki Deaton

The University of Memphis Board of Trustees

Presentation

For Information

Date: November 30, 2020

Committee: Audit Committee

Presentation Title: External Audit Report - University of Memphis Research Foundation Financial Statements, June 30, 2020

Presented by: Vicki D. Deaton, Chief Audit Executive

Background:

On September 30, 2020, the University of Memphis Research Foundation Financial Statements, June 30, 2020 were issued. The financial statements are presented for your information according to 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 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 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, 2020, 43 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. Budgets for sponsored projects are administered by the University. The UMRF utilizes University facilities and personnel to perform sponsored projects and for operating the UMRF. The UMRF reimbursed the University quarterly for expenses incurred on behalf of the UMRF. The UMRF is an affiliate of the University of Memphis.

The UMRF's financial report incorporates the financial statements and activities of the UMRF's wholly-owned subsidiary, UMRF Ventures, Inc. as a discretely presented 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. At fiscal year-end, UMRF Ventures employed approximately 210 students with a monthly payroll in excess of \$300,000.

The UMRF will continue to explore opportunities to support the advancement of research excellence and the expansion of research infrastructure at the University. The strategic focus will be on technology licensing and equity holdings in subsidiary ventures as the primary means for generating funds.

The UMRF engaged an independent external CPA firm, Fouts and Morgan, PC, to perform an audit of the financial statements of the business-type activities 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 activities and the discretely

presented component unit of the UMRF as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 that are required to be reported under Government Auditing Standards.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

FINANCIAL STATEMENTS

JUNE 30, 2020

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

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JUNE 30, 2020

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THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION
BOARD OF DIRECTORS AND MANAGEMENT OFFICIALS
JUNE 30, 2020

BOARD OF DIRECTORS

David Scully	Secretary/Treasurer
Richard Bloomer	Director
Jan Bouten	Director
Lakita Cavin	Director
Robert Jackson	Director
Raajkumar Kurapati	Director
Abby Parrill-Baker	Director
Brad Phillips	Director
Ted Townsend	Director
Scott Vogel	Director
Tim Whitehorn	Director

MANAGEMENT OFFICIALS

Jasbir Dhaliwal	Executive Director
Angela Bunch	Accountant

INDEPENDENT AUDITOR'S REPORT

To the 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 activities and discretely presented component unit of The University of Memphis Research Foundation as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Foundation's 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 activities and the discretely presented component unit of The University of Memphis Research Foundation as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

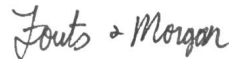
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2020, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The University of Memphis Research Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The University of Memphis Research Foundation's internal control over financial reporting and compliance.



FOUTS & MORGAN
Certified Public Accountants

Memphis, Tennessee
September 30, 2020



THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS PRIMARY GOVERNMENT

JUNE 30, 2020

The following Management's Discussion and Analysis ("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, 2020. 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 statements 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.

The financial statements incorporate the activities of the Foundation's wholly-owned subsidiary, UMRF Ventures, Inc., 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 of the Foundation as of June 30, 2020. 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:

- Net investment in capital assets
- Restricted
- Unrestricted

The statement of revenues, expenses, and changes in net position details how net position has increased (or decreased) during the fiscal year ended June 30, 2020.

The statement of cash flows details how cash has increased (or decreased) during the fiscal year ended June 30, 2020. It classifies 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 primarily result from operating activities and investment income.

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

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, 2020, forty-three (43) 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. Budgets for sponsored projects are administered by the University. The Foundation utilizes University facilities and personnel to perform sponsored projects and for operating the Foundation. The Foundation reimburses the University quarterly for expenses incurred on behalf of the Foundation.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS PRIMARY GOVERNMENT - Continued

JUNE 30, 2020

Financial Highlights and Key Trends

During fiscal year 2020, the Foundation continued to manage sponsored projects processed through the Foundation and to operate the UMRF Research Park established in December 2018. The Foundation created the UMRF Ventures Professorship and made awards of \$12,000 each to four University faculty members. Funding for these awards was provided by the dividend that the Foundation received from UMRF Ventures, Inc. in the prior fiscal year. The Foundation also provided funding of \$19,000 to be used for facility improvements and further development of the UMRF Research Park.

Effective in fiscal year 2020, the Foundation no longer receives support 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. Other assets include patents, notes receivable and equity interest in UMRF Ventures, Inc. Current liabilities include payables, unearned revenue expected to be recognized in the next fiscal year, and security deposits from UMRF Research Park residents. There were no long-term liabilities as of June 30, 2020.

Net position is divided into three categories. The first category, net investment in capital assets, represents the Foundation's investment in patents, net of accumulated amortization. The next category is restricted. This amount is available for expenditure by the Foundation but must be spent in accordance with restrictions imposed by external third parties. The last category is unrestricted, which may be used by the Foundation to meet expenses for any lawful purpose.

At June 30, 2020, funds held by an investment broker on behalf of the Foundation totaled \$2,054,132. Of this amount, \$2,032,106 represents investments at fair value and \$22,026 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, 2020 and 2019 is as follows:

	2020	2019
Assets		
Current assets	\$ 2,207,926	\$ 1,879,788
Other assets	1,169,138	768,548
Total assets	<u>\$ 3,377,064</u>	<u>\$ 2,648,336</u>
Liabilities	<u>\$ 990,848</u>	<u>\$ 741,570</u>
Net position		
Net investment in capital assets	\$ 424,447	\$ 332,765
Restricted, expendable for research	218,780	231,551
Unrestricted	<u>1,742,989</u>	<u>1,342,450</u>
Total net position	<u>\$ 2,386,216</u>	<u>\$ 1,906,766</u>

The increase in net investment in capital assets is due to identification and capitalization of costs related to patents held by the Foundation. The decrease in restricted net position is attributable to the expenditure in the current fiscal year of funds recorded as revenue in a prior fiscal year. The increase in unrestricted net position is primarily due to the increase in the equity interest in UMRF Ventures, Inc.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS PRIMARY GOVERNMENT - Continued

JUNE 30, 2020

Statement of Revenues, Expenses, and Changes in Net Position

A summary of the statement of revenues, expenses, and changes in net position for the years ended June 30, 2020 and 2019, is as follows:

	2020	2019
Operating revenues	\$ 1,167,458	\$ 364,551
Operating expenses	(1,068,181)	(587,071)
Operating income (loss)	99,277	(222,520)
Nonoperating income (expense)		
Royalty income	17,177	14,265
Net investment income	54,063	41,718
Increase (decrease) equity interest in subsidiary	308,908	396,568
Miscellaneous	25	-
Change in net position	\$ 479,450	\$ 230,031

The significant increase in operating revenues and expenses in fiscal 2020 compared to fiscal 2019 is mainly due to completion of sponsored projects greater in both number and award amount, recording of more patents, and operation of the UMRF Research Park for the full fiscal year..

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

Statement of Cash Flows

In fiscal 2020, cash inflows came from sponsored project revenue, contributions, UMRF Research Park revenue, and interest and royalty income. Cash outflows were primarily for sponsored project expenses. All sponsored project expenses are incurred by the University and reimbursed by the Foundation.

Future

The Foundation will continue to explore opportunities to support the advancement of research excellence and the expansion of research infrastructure at the University. The strategic focus will be on technology licensing and equity holdings in subsidiary ventures as the primary means for generating funds.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS COMPONENT UNIT

JUNE 30, 2020

UMRF Ventures, Inc. (the "Company") is a wholly-owned subsidiary of The University of Memphis Research Foundation (the "Foundation"). 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, 2020. 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 began operation 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

At the beginning of fiscal year 2020, the Company had in operation two IT helpline call centers employing 110 students on the University's main campus and 40 students on the Lambuth campus, an IT Command Center employing 40 graduate students on the main campus, and an Information Security Center employing 15 graduate students on the main campus in support of FedEx's InfoSec group.

In November 2019, the Company started a venture supporting Northstar Partners with telephone sales support for their field sales force and in March 2020 the Company started another venture providing Sedgwick Claims Management with chat line support services.

As a result of the COVID-19 pandemic, the majority of the Company's employees work remotely from home. The Company lost approximately 10% of its business with its largest customer, and had to reduce prices as well, but the Company remains profitable. The Company applied for and received a Paycheck Protection Program ("PPP") loan from the Small Business Administration (the "SBA"), in April 2020, which has been used for employee payroll and rent. Under the current rules of the SBA, the PPP loan is expected to be forgiven in fiscal year 2021.

As the Company enters its fourth fiscal year, it employs approximately 210 students and has a monthly payroll in excess of \$300,000.

Statement of Net Position

Current assets include cash, receivables expected to be collected in the coming year, and prepaid expenses. Long-term assets consist of property and equipment and federal and state income tax benefit. Current liabilities include payables, accrued payroll and unearned revenue expected to be recognized in the next fiscal year. Long-term liabilities include loans received from the Foundation, the University and third parties.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS COMPONENT UNIT – Continued

JUNE 30, 2020

A summary of the major components of the net position of the Company as of June 30, 2020 and 2019 is as follows:

	2020	2019
Assets		
Current assets	\$ 1,789,849	\$ 880,140
Capital assets	268,761	372,025
Income tax benefit	109,548	-
Total assets	\$ 2,168,158	\$ 1,252,165
Liabilities		
Current liabilities	\$ 716,359	\$ 275,491
Long-term liabilities	932,108	765,891
Total liabilities	\$ 1,648,467	\$ 1,041,382
Net position		
Net investment in capital assets	\$ 268,761	\$ 372,025
Unrestricted	250,930	(161,242)
Total net position	\$ 519,691	\$ 210,783

Statement of Revenues, Expenses, and Changes in Net Position

A summary of the statement of revenues, expenses and changes in net position for the years ended June 30, 2020 and 2019 is as follows:

	2020	2019
Operating revenues	\$ 4,866,152	\$ 3,667,690
Operating expenses	(4,670,291)	(3,217,523)
Operating income (loss)	195,861	450,167
Income tax benefit (expense)	113,047	(53,599)
Change in net position before dividend	308,908	396,568
Dividend	-	(50,000)
Change in net position after dividend	\$ 308,908	\$ 346,568

The significant increase in operating revenues and expenses in fiscal 2020 compared to fiscal 2019 is primarily a result of the expansion in the size of the Company's call centers, as well as adding two new customers.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS COMPONENT UNIT – Continued

JUNE 30, 2020

Statement of Cash Flows

Fiscal 2020 cash inflows came from contract revenue and proceeds from a loan under the SBA Paycheck Protection Program. Cash outflows were for operating expenses and repayment toward a loan from the University.

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, 2020

	Primary Government	Component Unit
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 172,354	\$ 975,285
Investment securities	2,032,106	-
Accounts receivable	3,466	809,794
Prepaid expenses	-	4,770
Total current assets	<u>2,207,926</u>	<u>1,789,849</u>
Fixed Assets		
Property and equipment	-	399,051
Allowance for depreciation	-	(130,290)
Net fixed assets	<u>-</u>	<u>268,761</u>
Other Assets		
Notes receivable	225,000	-
Equity interest in subsidiary	519,691	-
Patents, net of amortization	424,447	-
Federal and state income tax benefit	-	109,548
Total other assets	<u>1,169,138</u>	<u>109,548</u>
Total Assets	<u><u>\$ 3,377,064</u></u>	<u><u>\$ 2,168,158</u></u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Current portion of long-term debt	\$ -	\$ 363,515
Current portion of related party debt	-	114,958
Payable to The University of Memphis	454,275	5,373
Accounts payable	10,610	3,784
Unearned revenue	519,297	99,892
Accrued payroll and other liabilities	6,666	122,825
State taxes payable	-	6,012
Total current liabilities	<u>990,848</u>	<u>716,359</u>
Long-term Liabilities		
Long-term debt	-	366,301
Related party debt - long term	-	565,807
Total long-term liabilities	<u>-</u>	<u>932,108</u>
Net Position		
Net investment in capital assets	424,447	268,761
Restricted, expendable for research	218,780	-
Unrestricted	1,742,989	250,930
Total net position	<u>2,386,216</u>	<u>519,691</u>
Total Liabilities and Net Position	<u><u>\$ 3,377,064</u></u>	<u><u>\$ 2,168,158</u></u>

See accompanying notes to the financial statements.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020

	Primary Government	Component Unit
Operating Revenue		
Contract revenue	\$ 906,159	\$ 4,866,152
Grants and contributions	1,694	-
Patent contributions	132,511	-
Income from Research Park	127,094	-
Total operating revenues	<u>1,167,458</u>	<u>4,866,152</u>
Operating Expenses		
Depreciation and amortization	40,829	103,264
General and administrative	-	31,601
Insurance	4,488	35,370
Interest	-	29,037
Network services	23,949	23,682
Office equipment	-	65,392
Other	360	43,443
Payroll taxes	-	306,725
Professional fees	21,700	87,986
Property improvements - Research Park	19,000	-
Rent	14,783	296,742
Repairs and maintenance	-	15,712
Research projects	934,237	-
Royalty distributions	8,835	-
Salaries	-	3,631,337
Total operating expenses	<u>1,068,181</u>	<u>4,670,291</u>
Operating Income	<u>99,277</u>	<u>195,861</u>
Other Income		
Royalty income	17,177	-
Net investment income	54,063	-
Increase in equity interest in subsidiary	308,908	-
Miscellaneous	25	-
Total other income	<u>380,173</u>	<u>-</u>
Income before Income Taxes	479,450	195,861
Income Tax Benefit	-	113,047
Change in Net Position	479,450	308,908
Net Position, Beginning of Year	<u>1,906,766</u>	<u>210,783</u>
Net Position, End of Year	<u><u>\$ 2,386,216</u></u>	<u><u>\$ 519,691</u></u>

See accompanying notes to the financial statements.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2020

	Primary Government	Component Unit
Cash flows from operating activities		
Cash received from contract customers	\$ 1,793,588	\$ 4,297,136
Cash received from contributions	9,432	-
Cash received from Research Park	91,405	-
Cash received from Component Unit	41,667	-
Cash payments to The University of Memphis	(1,477,231)	(273,357)
Cash payments to The Auxilliary Services Foundation	(19,863)	-
Cash payments to Primary Government	-	(41,667)
Cash payments to suppliers	(26,548)	(245,297)
Cash payments to employees	-	(3,899,440)
Cash paid for interest	-	(32,755)
Net cash provided by (used for) operating activities	412,450	(195,380)
Cash flows from investing activities		
Purchases of investments	(959,330)	-
Investment maturities	596,000	-
Income from royalties	17,177	-
Income from investments, net of fees	26,079	-
Net cash used for investing activities	(320,074)	-
Cash flows from noncapital financing activities		
Proceeds received from long-term-debt	-	689,700
Repayment of related party debt	-	(44,235)
Net cash provided by financing activities	-	645,465
Change in cash and cash equivalents	92,376	450,085
Cash and cash equivalents at beginning of year	79,978	525,200
Cash and cash equivalents at end of year	\$ 172,354	\$ 975,285

See accompanying notes to the financial statements.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

STATEMENT OF CASH FLOWS – Continued

FOR THE YEAR ENDED JUNE 30, 2020

	Primary Government	Component Unit
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities		
Operating income (loss)	\$ 99,277	\$ 195,861
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation and amortization	40,829	103,264
Office furniture financed	-	40,116
Patent contributions	(132,511)	-
Changes in operating assets and liabilities		
(Increase) decrease in operating assets:		
Accounts receivable	155,577	(454,854)
Prepaid expenses	-	(4,770)
Increase (decrease) in operating liabilities:		
Accounts payable	5,157	(13,605)
Payable to the University of Memphis	219,365	(6,294)
Accrued payroll and other liabilities	(740)	56,457
State taxes payable	-	2,607
Unearned revenue	25,496	(114,162)
Net cash provided by (used for) operating activities	<u>\$ 412,450</u>	<u>\$ (195,380)</u>

See accompanying notes to the financial statements.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

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 (GASB).

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 for rents as of June 30, 2020. 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. Management did not consider an allowance for doubtful accounts to be necessary as of June 30, 2020.

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 the net investment income 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.

NOTES CONTINUED

Note 1 - Summary of Significant Accounting Policies - Continued

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. Any impairment loss determined by management is included in the statement of revenues, expenses and changes in net position in the year in which impairment is determined. There was no impairment loss determined necessary for the year ended June 30, 2020.

Equity Interest in Subsidiary

In accordance with accounting principles issued by GASB, the Foundation's ownership of 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.

Net Position

The Foundation's net position is classified as follows:

Net investment in capital assets - This represents the total investment in capital assets, net of accumulated depreciation or amortization, and net of any outstanding debt obligations related to those capital assets.

Restricted, expendable 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. This classification includes any project residuals that are no longer restricted but have been designated for future research expenditures. There were \$451,458 of such residual funds available at June 30, 2020.

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.

Revenue Recognition

The Foundation's revenues are derived from grants, research contracts, contributions, and Research Park rent which provide support for the Foundation. The Foundation recognizes revenue from research contracts once the project has been completed. The Foundation maintains records of any amounts that are remaining at the conclusion of a project by transferring the funds to a residual balance account in the name of the project's principal investigator and holds these funds for future projects to be approved by the Foundation. Unearned 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, contributions, and rent 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.

NOTES CONTINUED

Note 1 - Summary of Significant Accounting Policies - Continued

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 the primary government 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.

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. As of June 30, 2020, the Foundation had no deposits in excess of federally insured limits.

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; therefore, the Foundation is exempt from Tennessee Code Annotated Section 9 requirements that all public deposits in excess of federally insured limits, if any, must be collateralized.

Note 3 - Investment Securities

The objective of the Foundation's investment policy is to preserve capital with a secondary objective of earning the highest possible total return (capital appreciation and income return) consistent with prudent levels of risk. At a minimum, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of these assets plus a modest gain to help offset the expense of running the Foundation. The portfolio should be constructed using a total return approach with the majority of the funds invested to seek protection of principal over time. The assets are to be invested for the long term but with significant liquidity.

The Chair and Treasurer jointly, with active assistance and recommendations from the Foundation's Investment Consultant, shall have responsibility for establishing overall financial objectives, setting investment policy, and setting parameters for asset allocation. Domestic and international equities both large and small capitalization, fixed income, cash equivalent securities and alternative investments in the form of diversified fund of funds hedge funds have been determined to be acceptable vehicles for investment.

As of June 30, 2020, investment securities consisted of brokered certificates of deposit and publicly traded mutual funds with fair values totaling \$2,032,106.

NOTES CONTINUED

Note 3 - Investment Securities - Continued

Custodial credit risk is the risk that the Foundation's investments may not be returned. The Foundation does not have a policy for custodial credit risk for its investments; however, all investments are held in third-party safekeeping at an institution that is a member of the Securities Investor Protection Corporation (SIPC). SIPC covers custodial risk up to \$500,000 per investor.

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.

Note 4 - Fair Value Measurements

As of June 30, 2020, the following table presents the Foundation's financial assets measured at fair value on a recurring basis:

	Fair Value	Level 1	Level 2	Level 3
Brokered Certificates of Deposit	\$ 593,548	\$ -	\$ 593,548	\$ -
Mutual Funds	1,438,558	1,438,558	-	-
	<u>\$ 2,032,106</u>	<u>\$ 1,438,558</u>	<u>\$ 593,548</u>	<u>\$ -</u>

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

Fair values for mutual funds are determined by reference to quoted market prices and other relevant information generated by market transactions.

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

Note 5 - Patents

As of June 30, 2020, patents consisted of the following:

	Patents, at Contributed Value	Accumulated Amortization	Patents, net
Balance, June 30, 2019	\$ 445,858	\$ (113,093)	\$ 332,765
Patents contributed by University of Memphis	132,511	-	132,511
Amortization	<u>-</u>	<u>(40,829)</u>	<u>(40,829)</u>
Balance, June 30, 2020	<u>\$ 578,369</u>	<u>\$ (153,922)</u>	<u>\$ 424,447</u>

Note 6 - Equity Held in Licensees

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

NOTES CONTINUED

Note 7 - Concentrations

The Foundation recorded approximately seventy-seven percent of total contract billings from one funding source during the year ended June 30, 2020.

Note 8 - Related Party Transactions

Expenditures to the University represent amounts paid by the Foundation to reimburse the University for certain expenses including project management, business office operations and personnel support, 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, 2020, the Foundation made cash transfers to the University in the amount of \$1,477,231. As of June 30, 2020, the Foundation had payables to the University totaling \$454,275.

The Foundation paid rent to the University for the use of office space in the amount of \$14,783 during 2020.

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

Note 9 - Component Unit

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. Significant disclosures related to the Company are included on pages 19 -23.

Note 10 - Other Matters

In March 2020, the World Health Organization declared the outbreak of novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. COVID-19 caused federal, state, and local governments and private entities to mandate various restrictions on activities, including restrictions on public gatherings, orders to stay at home, and advisory and quarantine of individuals who may have been exposed to the virus.

At this point, the Foundation cannot reasonably estimate the duration and severity of COVID-19, which could have a material, adverse impact on its financial position.

Note 11 - Subsequent Events

Management has evaluated subsequent events through September 30, 2020, the date the financial statements were available to be issued.

NOTES CONTINUED

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 of Component Unit

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, 2020. 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. No allowance for doubtful accounts was considered necessary at June 30, 2020, and no accounts were written off during the year ended June 30, 2020.

Property and Equipment

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.

Income Taxes

The Company follows the asset and liability approach to financial accounting and reporting for income taxes. The Company's federal and state tax returns are prepared on the cash basis of accounting, and the difference between the financial statements and tax bases of assets and liabilities is determined annually. 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 federal and state income tax benefit to the amount that will more likely than not be realized.

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.

Note 2 - Deposits with Banking Institutions

Deposits with financial institutions consist of demand deposits with local banks.

Custodial credit risk is the risk that, in the event of bank failure, the Company's deposits may not be returned. The Company has implemented a cash management policy to minimize custodial credit risk from banking institutions. As of June 30, 2020, the Company had deposits in excess of federally insured limits in the amount of \$699,147.

NOTES CONTINUED

Note 3 - Property and Equipment

As of June 30, 2020, property and equipment consisted of the following:

	Balance June 30, 2019	Additions	Dispositions	Balance June 30, 2020
Leasehold improvements	\$ 175,901	\$ -	\$ -	\$ 175,901
Furniture & fixtures	223,150	-	-	223,150
	399,051	-	-	399,051
Less Accumulated depreciation	(27,026)	(103,264)	-	(130,290)
Total Property and equipment	<u>\$ 372,025</u>	<u>\$ (103,264)</u>	<u>\$ -</u>	<u>\$ 268,761</u>

Note 4 - Line of Credit

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

Note 5 - Related Party Debt

Note payable to The University of Memphis Research Foundation for working capital support, bearing interest at 5.0 percent. Interest only payments are due semiannually, with the entire principal due September 20, 2022.

\$ 225,000

Note payable to The University of Memphis, bearing interest at 4.0 percent, due in quarterly payments beginning January 1, 2020 and maturing on December 31, 2023.

455,765

680,765

Less: Current portion

(114,958)

Related party debt - long term

\$ 565,807

Principal payments due on related party debt for the next five years ending June 30 are as follows:

2021	\$ 114,958
2022	119,628
2023	349,485
2024	96,694
2025	-
	<u>\$ 680,765</u>

Interest expense related to the above related party notes for the year ended June 30, 2020 amounted to \$11,250 for The University of Memphis Research Foundation and \$16,063 for The University of Memphis. At June 30, 2020 interest payable to The University of Memphis amounted to \$4,558.

NOTES CONTINUED

Note 6 - Long-term Debt

Note payable to a bank under the SBA Paycheck Protection Program, bearing interest at 1 percent, due in monthly payments of principal and interest of \$38,621 beginning October 9, 2020 and maturing on March 9, 2022

\$ 689,700

Note payable to a finance company, bearing interest at 1 percent, due in monthly payments of principal and interest of \$1,689 beginning July 31, 2020 and maturing on June 30, 2022. Secured by equipment.

40,116

729,816

Less: Current portion

(363,515)

Long-term debt

\$ 366,301

Principal payments due on long-term debt for the next five years ending June 30 are as follows:

2021	\$ 363,515
2022	366,301
	<u>\$ 729,816</u>

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

The following is a Schedule of Changes in Debt by Individual Issue:

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Final Maturity Date	Outstanding July 01, 2019	Issued During Period	Paid and/or Matured During Period	Outstanding June 30, 2020
Line of Credit - Bank	\$ 150,000	2.55%	03/28/18	03/26/20	\$ -	\$ -	\$ -	\$ -
Line of Credit - Bank	55,000	2.25%	06/05/20	03/26/22	-	-	-	-
Loan - University of Memphis Research Foundation	225,000	5.00%	09/20/18	09/20/22	225,000			225,000
Loan - University of Memphis	500,000	4.00%	01/16/19	12/31/23	500,000		44,235	455,765
Loan - Finance Company	40,116	1.00%	06/30/20	06/30/22	-	40,116	-	40,116
Loan - Bank - SBA - Paycheck Protection Program	679,700	1.00%	04/09/20	03/09/22	-	689,700	-	689,700
					<u>\$ 725,000</u>	<u>\$ 729,816</u>	<u>\$ 44,235</u>	<u>\$ 1,410,581</u>

UMRF Note 7 - Leases with Related Party

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

NOTES CONTINUED

Note 7 - Leases with Related Party - continued

Minimum rental commitments under the leases are as follows:

2021	\$	286,282
2022		4,420
	\$	<u>290,702</u>

Note 8 - Other Related Party Transactions

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

The Company rents space from The University of Memphis Research Foundation. The Company paid rent in the amount of \$41,667 to The University of Memphis Research Foundation for the year ended June 30, 2020.

Note 9 - Income Taxes

The Company evaluates and accounts for uncertain tax positions in accordance with Accounting Standards Codification (ASC) 740-10 and has evaluated its tax positions taken for all open tax years. The Company has filed returns with the Internal Revenue Service and the Tennessee Department of Revenue and considers these to be its major tax jurisdictions. Currently, the 2018, 2019 and 2020 tax years are open and subject to examination. However, the Company is not currently under audit nor has the Company been contacted by these jurisdictions.

The Company has \$479,364 of federal and \$556,408 of state net operating loss ("NOL") carryforwards available, respectively, to offset future taxable income.

As of June 30, 2020, the federal and state income tax benefit consists of the following:

	Federal	State	Total
Net operating loss carryforward	\$ 479,364	\$ 556,408	
Excess tax depreciation	<u>(99,217)</u>	<u>(99,217)</u>	
Future taxable loss	380,147	457,191	
Statutory rate	<u>21%</u>	<u>6.5%</u>	
Federal and state income tax benefit	<u>\$ 79,831</u>	<u>\$ 29,717</u>	<u>\$ 109,548</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 utilization of the prior year's net operating loss carryforward.

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, 2020.

Note 10 - Concentrations

The Company recorded approximately ninety-six percent of total revenue and ninety percent of total receivables from FedEx during the year ended June 30, 2020.

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

NOTES CONTINUED

Note 11 - Other Matters

In March 2020, the World Health Organization declared the outbreak of novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. COVID-19 caused federal, state, and local governments and private entities to mandate various restrictions on activities, including restrictions on public gatherings, orders to stay at home, and advisory and quarantine of individuals who may have been exposed to the virus. These restrictions and consideration of the safety and well-being of the community caused management to continue some activities previously conducted at its facilities by having some employees working remotely from home.

On March 19, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act (the Act) was signed into law. The Act contains several provisions, including the Paycheck Protection Program (PPP) administered by the Small Business Administration that is designed to allow small businesses to keep their employees on the payroll. This program was further expanded by legislation and signed into law on April 24, 2020. In accordance with this provision, UMRF Ventures applied for and received \$689,700 on April 13, 2020.

At this point, the Company cannot reasonably estimate the duration and severity of COVID-19, which could have a material, adverse impact on its financial position.

Note 12 - Subsequent Events

Management has evaluated subsequent events through September 30, 2020, the date the financial statements were available to be issued.

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

To the Board of Directors
The University of Memphis Research 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 business-type activities and the discretely presented component unit of The University of Memphis Research Foundation, as of and for the year ended June 30, 2020, 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 September 30, 2020.

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.

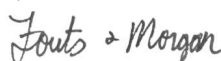
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The University 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.



FOUTS & MORGAN
Certified Public Accountants

Memphis, Tennessee
September 30, 2020

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2020

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

8. External Audit Report-University of Memphis Auxiliary Services Foundation Financial Statements, 6/30/2020

Presentation

Presented by Vicki Deaton

The University of Memphis Board of Trustees

Presentation
For Information

Date: November 30, 2020
Committee: Audit Committee
Presentation Title: External Audit Report - Auxiliary Services Foundation Financial Statements, June 30, 2020
Presented by: Vicki D. Deaton, Chief Audit Executive

Background:

On September 30, 2020, the Auxiliary Services Foundation Financial Statements, June 30, 2020, were issued. The financial statements are presented for your information according to 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.

The Auxiliary Services Foundation (Foundation) is a not-for-profit corporation that commenced operations in April 2019 as an agent to operate auxiliary enterprises which directly benefit the University of Memphis (University). The Foundation accepts, administers, applies, and uses property acquired by gift, grant, devise, bequest, or otherwise solely for the benefit of the University. Because the Foundation's resources can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University.

The Foundation is currently managing several capital projects for the University. The Foundation will continue to support the mission of the University to include the areas of capital projects, receipt of donations, contracts, auxiliary enterprises, and other activities which benefit the University.

The Auxiliary Services Foundation engaged an independent external CPA firm, Fouts and Morgan, PC, 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 Auxiliary Services Foundation as of June 30, 2020, and the changes in its net assets 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 that are required to be reported under Government Auditing Standards.

AUXILIARY SERVICES FOUNDATION
FINANCIAL STATEMENTS
JUNE 30, 2020

AUXILIARY SERVICES FOUNDATION

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JUNE 30, 2020

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AUXILIARY SERVICES FOUNDATION
BOARD OF DIRECTORS AND MANAGEMENT OFFICIAL
JUNE 30, 2020

BOARD OF DIRECTORS

Thomas G. Kadien	President
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MANAGEMENT OFFICIAL

Byron Morgan	Executive Director
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To the Board of Directors
Auxiliary Services Foundation
Memphis, Tennessee

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Auxiliary Services Foundation (a nonprofit organization) which comprise the statement of financial position as of June 30, 2020, 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Auxiliary Services Foundation as of June 30, 2020, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

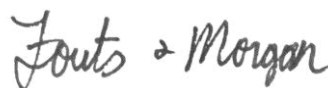
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 6 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2020, on our consideration of Auxiliary Services 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Auxiliary Services Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Auxiliary Services Foundation's internal control over financial reporting and compliance.



FOUTS & MORGAN
Certified Public Accountants

Memphis, Tennessee
September 30, 2020

AUXILIARY SERVICES FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and the results of operations of The Auxiliary Services Foundation (the "Foundation") for the year ended June 30, 2020. 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.

In addition to this MD&A section, the financial statements consist of a statement of financial position, a statement of activities, a statement of cash flows, and notes to the financial statements.

The statement of financial position is the Foundation's balance sheet. It reflects the total assets, liabilities, and net assets (similar to equity) of the Foundation as of June 30, 2020. 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 assets are grouped in the following categories:

- Restricted for capital projects
- Restricted for other University support
- Restricted in perpetuity

The statement of activities is similar to an income statement. It details how net assets have increased (or decreased) during the fiscal year ended June 30, 2020.

The statement of cash flows details how cash has increased (or decreased) during the year ended June 30, 2020. 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 net assets result primarily from operating activities.

General

The Foundation is a nonprofit corporation established in Tennessee. The Foundation is an exempt organization organized for charitable, scientific, literary and educational purposes pursuant to Internal Revenue Service code section 501(c)(3). The Foundation is organized to support the mission of the University which includes all activities, programs and operations within the University.

AUXILIARY SERVICES FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued JUNE 30, 2020

The Foundation's Board of Directors exercises financial oversight and reviews and approves the financial activity in accordance with the established bylaws. The Foundation is managed by a part-time Executive Director appointed by the Board to conduct business affairs for the Foundation. The Foundation reimburses the University for the cost associated with the Executive Director's compensation. The Executive Director and others within the University who provide support to the Foundation are University employees. The Foundation has no employees. The Foundation utilizes University facilities.

Financial Highlights and Key Trends

Fiscal 2020 was the second year of operation for the Foundation. The primary financial activities were:

Operating activities

- Transfers in of donations from affiliated University Foundations to pay expenses associated with University capital projects.
- Expenditures of various capital projects on behalf of the University of Memphis.

Statement of Net Assets

Current assets include cash and a receivable from the University of Memphis Foundation. Other assets include the cash value of life insurance policy and a donated historical document.

A summary of the major components of the net assets of the Foundation as of June 30, 2020 is as follows:

Assets

Current assets	\$ 6,025,097
Other Assets	1,074,649
Total assets	<u>\$ 7,099,746</u>

Liabilities	<u>\$ 1,359,614</u>
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Net Assets

With donor restrictions	
Restricted for capital projects	\$ 1,896,280
Restricted for other University support	3,093,852
Restricted in perpetuity	750,000
Total net assets	<u>\$ 5,740,132</u>

Statement of Activities

A summary of the statement of activities for the year ended June 30, 2020 is as follows:

Operating revenues	\$ 7,611,012
Operating expenses	10,539,272
Change in net assets	<u>\$ (2,928,260)</u>

AUXILIARY SERVICES FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued JUNE 30, 2020

Statement of Cash Flows

In 2020, the primary source of cash receipts to fund operations came from transfers in from other University affiliated Foundations (donated funds to those entities for University capital projects) and investment income. Primary outflows were for capital projects and activities at the University paid by the Foundation. Cash outflows for certain other operating activities (insurance premiums, administrative costs, audit, and legal fees) are paid directly by the Foundation.

Future

The Foundation will continue to support the mission of the University to include the areas of capital projects, receipt of donations, contracts, auxiliary enterprises and other activities which benefit the University. All support will in accordance with the charitable purposes of the Foundation, and in accordance with the charter and bylaws of the Foundation.

AUXILIARY SERVICES FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020

ASSETS

Current Assets

Cash		\$ 3,924,227
Due from affiliate		2,100,870
Total current assets		<u>6,025,097</u>

Other Assets

Cash value of life insurance	\$ 324,649	
Historical document	<u>750,000</u>	
Total other assets		<u>1,074,649</u>

Total Assets		<u>\$ 7,099,746</u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable		\$ 1,230,614
Due to affiliate		129,000
Total current liabilities		<u>1,359,614</u>

Net Assets

With donor restrictions		
Restricted for capital projects	\$ 1,896,280	
Restricted for other University support	3,093,852	
Restricted in perpetuity	<u>750,000</u>	
Net assets with donor restrictions		<u>5,740,132</u>

Total Liabilities and Net Assets		<u>\$ 7,099,746</u>
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See accompanying notes to the financial statements.

AUXILIARY SERVICES FOUNDATION

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Totals
Support and Revenue			
Transfers from affiliate organizations	\$ -	\$ 6,745,435	\$ 6,745,435
Contributions	-	750,000	750,000
Investment income	-	115,577	115,577
Total support and revenue	-	7,611,012	7,611,012
Net Assets Released from Restrictions	10,539,272	(10,539,272)	-
Total support and revenue and net assets released from restrictions	10,539,272	(2,928,260)	7,611,012
Expenses			
Program - University Support			
Natatorium facility improvements	534,658	-	534,658
Football Phase II - construction costs	8,802,430	-	8,802,430
FedEx locker room	440,309	-	440,309
Finch Plaza	191,500	-	191,500
Football field renovations	178,007	-	178,007
Athletics basketball program	150,000	-	150,000
Catalyst30-Union Row	50,000	-	50,000
Professional services	98,500	-	98,500
Research Park	17,000	-	17,000
AD Temporary living expenses	9,630	-	9,630
Research project	7,568	-	7,568
Event services	2,506	-	2,506
Total program	10,482,108	-	10,482,108
Management and general			
Insurance	10,975	-	10,975
Office	960	-	960
Professional fees	30,360	-	30,360
Salaries and benefits	14,869	-	14,869
Total management and general	57,164	-	57,164
Total expenses	10,539,272	-	10,539,272
Change in Net Assets	-	(2,928,260)	(2,928,260)
Net Assets at June 30, 2019	-	8,668,392	8,668,392
Net Assets at June 30, 2020	\$ -	\$ 5,740,132	\$ 5,740,132

See accompanying notes to the financial statements.

AUXILIARY SERVICES FOUNDATION

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2020

Cash Flows From Operating Activities

Cash received from transfers from University of Memphis Foundation	\$ 4,619,715
Cash received from transfers from University of Memphis Research Foundation	25,713
Cash received from investment income	93,518
Cash paid to vendors for University capital projects	(9,741,285)
Cash paid to vendors for general and administrative expenses	(44,558)
Net cash used in operating activities	<u>(5,046,897)</u>

Cash at beginning of year	<u>8,971,124</u>
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Cash at end of year	<u><u>\$ 3,924,227</u></u>
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Reconciliation of change in net assets to net cash used in operating activities:

Change in net assets	\$ (2,928,260)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:	
Non-cash contributions	(750,000)
Changes in operating assets and liabilities	
Decrease (increase) in operating assets:	
Due from affiliate	(2,100,007)
Cash surrender value of life insurance	(22,059)
Increase (decrease) in operating liabilities:	
Accounts payable	624,429
Due to affiliate	129,000
Net cash provided by (used in) operating activities	<u><u>\$ (5,046,897)</u></u>

See accompanying notes to the financial statements.

AUXILIARY SERVICES FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note A - Summary of Significant Accounting Policies

Organization and Activities

Auxiliary Services Foundation (the "Foundation") is a not-for-profit corporation that commenced operations in April 2019 as an agent to operate auxiliary enterprises which directly benefit The University of Memphis ("University"); and accept, administer, apply, and use property acquired by gift, grant, devise, bequest, or otherwise solely for the benefit of The University. Because the Foundation's resources can only be used by, or for the benefit of The University, the Foundation is considered a component unit of the University.

Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Cash and Cash Equivalents

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

Net Assets

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

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor restrictions. The board of directors may designate net assets for certain purposes from net assets without donor restrictions, depending on future needs in accordance with the strategic plans for The University.

Net Assets With Donor Restrictions - Net assets subject to donor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Restricted for capital projects - includes resources received by the Foundation for specified capital expenditures which have been restricted by the donors when contributed to the original recipient organization.

Restricted for other University support - includes resources received by the Foundation to be used to support and fund the present and future needs of The University.

NOTES CONTINUED

Note A - Summary of Significant Accounting Policies - Continued

Restricted in perpetuity - includes resources received by the Foundation to be used to support the needs of The University to be held and maintained in perpetuity.

Revenue Recognition

The Foundation's revenues are derived from organizations affiliated with The University and contributions which provide support for the Foundation. Transfers from affiliate organizations are recognized as revenue when the determination to transfer the assets is made by the transferring organization. Contribution revenue is recognized when written documentation is received and all conditions have been satisfied for the Foundation to be eligible to receive the contribution.

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 the primary government 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, and revenue and expenses. Accordingly, actual results could differ from estimates.

Note B - Deposits with Financial 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 the failure of a depository financial institution, the Foundation will not be able to recover deposits. The Foundation does not have a formal policy regarding custodial risk.

NOTES CONTINUED

Note B - Deposits with Financial Institutions - Continued

The Foundation had deposits held in financial institutions which were in excess of FDIC coverage by \$3,676,164 at June 30, 2020.

Note C - Related Party Transactions

The Foundation received the following transfers from organizations affiliated to The University during the year ended June 30, 2020:

University of Memphis Foundation	\$ 4,619,715
University of Memphis Research Foundation	25,713
	<u>\$ 4,645,428</u>

Expenditures made by the Foundation are in support of The University and are presented by activity on the statement of activities.

At June 30, 2020, the Foundation was due \$2,100,870 from the University of Memphis Foundation and had a balance due to the University of Memphis in the amount of \$129,000. At June 30, 2020, accounts payable includes \$14,869 due to the University of Memphis.

Note D - Historical Document

During the year ended June 30, 2020, the Foundation received a contribution of the entire speech of Dr. Martin Luther King, Jr, delivered on July 6, 1965 at the fifth General Synod of the United Church of Christ in Chicago. This is for the benefit of the University and is to remain the property of the Foundation in perpetuity. It is on display at the University of Memphis. The document is valued at fair value determined by an independent appraiser.

Note E - Net Assets with Donor Restrictions

Net assets are restricted for the following activities at June 30, 2020:

	Capital Projects	Other University Support	Restricted in Perpetuity	Total Net Assets with Donor Restrictions
Natatorium Facility Improvements	\$ 861,918	\$ -	\$ -	\$ 861,918
Indoor Football Practice Facility Phase 2	868,872	-		868,872
Finch Plaza	157,640			157,640
Research Park	7,850			7,850
University Support at the discretion of the Board of Directors		3,093,852		3,093,852
Historical Document	-	-	750,000	750,000
	<u>\$ 1,896,280</u>	<u>\$ 3,093,852</u>	<u>\$ 750,000</u>	<u>\$ 5,740,132</u>

NOTES CONTINUED

Note F - Commitments

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

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

Note G - Liquidity

All the net assets of the Foundation are restricted for the support of The University. The cash held in a financial institution in the amount of \$868,872 is restricted specifically for construction commitment noted above.

Note H - Other Matters

In March 2020, the World Health Organization declared the outbreak of novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. COVID-19 caused federal, state, and local governments and private entities to mandate various restrictions on activities, including restrictions on public gatherings, orders to stay at home, and advisory and quarantine of individuals who may have been exposed to the virus.

At this point, the Foundation cannot reasonably estimate the duration and severity of COVID-19, which could have a material, adverse impact on its financial position.

Note I - Subsequent Events

Management has evaluated subsequent events through September 30, 2020, the date the financial statements were available to be issued.

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

To the Board of Directors
Auxiliary Services 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 Auxiliary Services Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, 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 September 30, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Auxiliary Services 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Auxiliary Services Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of Auxiliary Services 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.

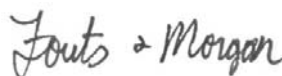
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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



FOUTS & MORGAN
Certified Public Accountants

Memphis, Tennessee
September 30, 2020

Board of Directors
Auxiliary Services Foundation

We have audited the financial statements of Auxiliary Services Foundation for the year ended June 30, 2020, and we will issue our report thereon dated September 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 1, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Auxiliary Services Foundation are described in Note A to the financial statements. Accounting policies prescribed by the Financial Accounting Standards Board (FASB) for nonprofit organizations were adopted in this first year of operations. We noted no transactions entered into by Auxiliary Services Foundation during the period for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements was:

Management's estimate of the fair value of the historical document is based on the opinion provided by an independent appraiser. We evaluated the key factors and assumptions used to develop the valuation estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were the disclosures regarding the net assets with donor restrictions and the commitments for capital projects.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. We were required to make several significant changes during the course of our engagement to comply with the presentation required by Tennessee Comptroller of the Treasury Local Government Audit Division (State Auditors).

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule presents an uncorrected misstatement of the financial statements. Management has determined that its effect is immaterial to the financial statements taken as a whole. *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 30, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Auxiliary Services Foundation's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

It is our understanding that you have consulted with the State Auditors in connection with the audit of the University of Memphis and the presentation of Auxiliary Services Foundation as a component unit of The University. The State Auditors have determined that since Auxiliary Services Foundation is structured as a nonprofit organization, its financial statements should be presented under the FASB model for nonprofit organizations rather than under the Governmental Accounting Standards Board model for state and local governments. The State Auditors have also required an adjustment to the financial statements of the Foundation to remove the balances and activity arising from the transfer of the Herff Trust assets, pending the issuance of the Tennessee Attorney General's opinion on the allowability of the transfer.

Other Audit Findings or Issues

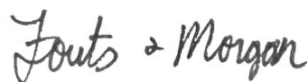
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as Auxiliary Services Foundation's auditors. In this case we also had several consultations with management after we were engaged as auditors and during the course of the engagement as a result of questions which arose from the State Auditors. These discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of the Board of Directors and management of Auxiliary Services Foundation and is not intended to be, and should not be, used by anyone other than these specified parties.



FOUTS & MORGAN
Certified Public Accountants

Memphis, Tennessee
September 30, 2020

9. External Audit Report- The Herff Trust Financial Statements, 6/30/2020

Presentation

Presented by Vicki Deaton

The University of Memphis Board of Trustees

Presentation

For Information

Date: November 30, 2020

Committee: Audit Committee

Presentation Title: External Audit Report – The Herff Trust Financial Statements, June 30, 2020

Presented by: Vicki D. Deaton, Chief Audit Executive

Background:

On September 30, 2020, the Herff Trust Financial Statements, June 30, 2020 were issued. The financial statements are presented in accordance with 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.

In 1964, Herbert Herff and his wife donated the money to establish the Herff College of Engineering at the University of Memphis. In 1965, Herbert Herff and Gov. Frank Clement entered into an agreement for Mr. Herff to provide \$350,000 for the benefit of the University under the terms and provisions of the Last Will and Testament of Herbert Herff. When he died in 1966, Herbert Herff left the bulk of his estate in trust with the State of Tennessee for the benefit of the University of Memphis (University).

According to terms of the trust agreement, a Committee ("Trustees") would be established to "manage and control" the bequest. The funds of the trust were to be used for the benefit of the School of Law and School of Engineering at the University, and such other uses as the committee may decide. The Trustees exercise financial oversight of Trust assets. An Investment Management Consultant advises the Trustees on investment selection and asset allocation. The business affairs of the Trust are managed by the University. The Trust has no employees. The Herbert Herff Trust was formed exclusively for the benefit of the University of Memphis. The Herff Trust is a component unit of the University of Memphis.

The Trustees intend to continue to support the University to maintain and expand its programs, by prudently managing the investments of the Trust. All support will be in accordance with the original agreement with Mr. Herff.

The Herff Trust engaged an independent external CPA firm, Fouts and Morgan, PC, to perform an audit of the financial statements of the Herff Trust. The independent auditor's opinion stated that the financial statements present fairly, in all material respects, the financial position of the Herff Trust as of June 30, 2020, and the changes in its 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 that are required to be reported under Government Auditing Standards.

THE HERFF TRUST
FINANCIAL STATEMENTS
JUNE 30, 2020

THE HERFF TRUST

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To the Board of Trustees
The Herff Trust
Memphis, Tennessee

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of The Herff Trust (a component unit of The University of Memphis) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise The Herff Trust's 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 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Herff Trust as of June 30, 2020, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

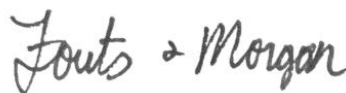
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 and 4 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2020, on our consideration of The Herff Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Herff Trust's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Herff Trust's internal control over financial reporting and compliance.



FOUTS & MORGAN
Certified Public Accountants

Memphis, Tennessee
September 30, 2020

THE HERFF TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2020

Management Discussion and Analysis for the Herff Trust

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and the results of operations of The Herff Trust (the "Trust") for the year ended June 30, 2020. We encourage you to read this MD&A section in conjunction with the accompanying audited financial statements and notes to the financial statements.

About the Financial Statements

As a component unit of The University of Memphis (the "University"), the Trust has implemented the governmental accounting standards for state and local governments and for public colleges and universities. Because the 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.

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 Trust's balance sheet. It reflects the total assets, liabilities, and net position (similar to net equity) of the Trust as of June 30, 2020. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as non-current. Net position is to be used for University of Memphis support.

The statement of revenues, expenses, and changes in net position is similar to an income statement. It details how net position has increased during the year ended June 30, 2020.

The statement of cash flows details how cash has decreased during the year. It breaks out the sources and uses of Trust cash into operating and investing activities. Cash flows associated with the Trust's net assets result from investment income and related investment activities.

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

General

In 1965 Herbert Herff and Gov. Frank Clement entered into an agreement for Mr Herff to provide \$350,000 for the benefit of the University under the terms and provisions of the Last Will and Testament of Herbert Herff. According to terms of the agreement a Committee ("Trustees") would be established to "manage and control" the bequest. The funds of the trust were to be used for benefit of the School of Law and School of Engineering at the University of Memphis, and such other uses as the committee may decide.

The Trustees exercise financial oversight of Trust assets. An Investment Management Consultant advises the Trustees on investment selection and asset allocation. The business affairs of the Trust are managed by the University. The Trust has no employees.

THE HERFF TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued JUNE 30, 2020

Statement of Net Position

Current assets include cash and the current portion of a note receivable.

At June 30, 2020, funds held by an investment broker on behalf of the Trust totaled \$24,121,750. Of this amount, \$23,584,019 represents investments at fair value and \$537,731 represents deposits with banks affiliated with the broker.

Current liabilities consist of an amount due to the University of Memphis for scholarships.

A summary of the major components of the net position of the Foundation as of June 30, 2020 is as follows:

Current Assets	\$ 657,247
Other Assets	25,477,127
Total Assets	<u>\$ 26,134,374</u>
Current Liabilities	<u>\$ 193,469</u>
Net Position	
Unrestricted	<u>\$ 25,940,905</u>

Statement of Revenues, Expenses, and Changes in Net Position

A summary of the statement of revenue, expenses and changes in net position for the year ended June 30, 2020 is as follows:

Net investment income	\$ 415,454
Other income	605,541
Student scholarships	(899,702)
Change in net position	<u>\$ 121,293</u>

The Statement of Cash Flows

In 2020, the cash receipts and expenses during the year primarily relate to investment activity - purchase, sale and investment income and expenses. Besides these, student scholarships paid to the University is the primary outflow.

Future

The Trust will continue to support the University to maintain and expand its programs, by prudently managing the investments of the Trust. All support will be in accordance with the original agreement with Mr. Herff.

THE HERFF TRUST
STATEMENT OF NET POSITION
JUNE 30, 2020

ASSETS

Current Assets

Cash and cash equivalents	\$ 537,731
Note receivable - related party	119,516
Total current assets	<u>657,247</u>

Other Assets

Investments	\$ 25,136,320	
Note receivable - related party	<u>340,807</u>	
		<u>25,477,127</u>

Total Assets	<u>\$ 26,134,374</u>
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LIABILITIES AND NET POSITION

Current Liabilities

Due to University of Memphis	\$ 193,469
------------------------------	------------

Net Position

Unrestricted	<u>25,940,905</u>
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Total Liabilities and Net Position	<u>\$ 26,134,374</u>
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See accompanying notes to the financial statements.

THE HERFF TRUST

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2020

Revenue

Investment income	\$ 549,582
Less: Investment expenses	(134,128)
Net investment income	<u>415,454</u>

Other income	<u>605,541</u>
--------------	----------------

Total Revenue	1,020,995
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Expenses

Student scholarships	<u>899,702</u>
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Change in Net Position	121,293
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Net Position, Beginning of Year	<u>25,819,612</u>
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Net Position, End of Year	<u><u>\$ 25,940,905</u></u>
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See accompanying notes to the financial statements.

THE HERFF TRUST

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2020

Cash Flows From Operating Activities

Investment income received	\$ 552,408
Other income received	605,541
Investment fees	(134,128)
Cash paid for scholarships	(706,233)
Net cash provided by operating activities	<u>317,588</u>

Cash Flows From Investing Activities

Purchases of investments	(6,877,605)
Sales of investments	5,725,262
Investment maturities	469,000
Repayments on note receivable - related party	44,235
Net cash used in investing activities	<u>(639,108)</u>

Change in cash and cash equivalents	(321,520)
-------------------------------------	-----------

Cash and cash equivalents at beginning of year	<u>859,251</u>
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Cash and cash equivalents at end of year	<u><u>\$ 537,731</u></u>
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Reconciliation of change in net position to net cash provided by operating activities:

Change in net position	\$ 121,293
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Net realized and unrealized loss on investments	717
Decrease in accrued interest included in note receivable	2,109
Changes in operating assets and liabilities	
Increase (decrease) in operating liabilities:	
Due to University of Memphis	193,469
Net cash provided by operating activities	<u><u>\$ 317,588</u></u>

See accompanying notes to the financial statements.

THE HERFF TRUST

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

Note A - Summary of Significant Accounting Policies

Organization and Activities

The Herbert Herff Trust (the "Trust") was formed exclusively for the benefit of The University of Memphis. In 1964 Herbert Herff and his wife, Minnie G. Herff, donated the money to establish the Herff College of Engineering at the University of Memphis. When he died in 1966, Herbert Herff left the bulk of his estate in trust with the State of Tennessee for the benefit of the University. More than forty years later, the Trust continues to help sustain and expand University programs.

Financial Reporting Entity

In determining the financial reporting entity, the Trust complies with the provisions of the Governmental Accounting Standards Board (GASB) No. 14, *The Financial Reporting Entity*. Based on this standard, the Trust was determined to be a component unit of the University of Memphis ("The University"), as it was created solely for the purpose of providing benefits to The University.

Basis of Presentation

As a component unit of The University, the financial statements of the Trust have been prepared in accordance with accounting principles generally accepted in the United States of America for public colleges and universities, as prescribed by (GASB).

Basis of Accounting

For financial statement purposes, the Trust is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Cash and Cash Equivalents

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

Investment Securities

The Trust 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 as well as investment expenses are included in the net investment income in the statement of revenues, expenses and changes in net position.

NOTES CONTINUED

Note A - Summary of Significant Accounting Policies - Continued

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, and revenues and expenses. Accordingly, actual results could differ from estimates.

Note B - Deposits with Investment Broker

Custodial credit risk is the risk that, in the event of institution failure, the Trust's deposits may not be returned. Balances held within cash accounts administered by its broker are covered by the Securities Investor Protection Corporation (SIPC) up to \$250,000 per account. None of these accounts exceeded the SIPC coverage as of June 30, 2020.

Note C - Investments

One objective of the Trust's investment policy is to obtain a favorable absolute return with the preservation of purchasing power with some emphasis on long term growth. Another objective is to provide cash for distribution to The University in amounts approximating four to six percent of the portfolio's average market value.

The Board of Trustees shall have responsibility for establishing overall financial objectives, setting investment policy, setting parameters for asset allocation, and selecting an Investment Management Consultant. Domestic and international equities, both large and small capitalization, fixed income, cash equivalent securities and alternative investments in the form of diversified funds of funds, hedge funds, and limited partnership interests have been determined to be acceptable vehicles for investment.

Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Trust will not be able to recover the value of investment securities that are in the possession of an outside party. The Trust does not have a policy for custodial credit risk for its investments. The Trust utilizes an American multinational independent investment bank and financial services company for its custodial services and has no investment securities from a single issuer valued in excess of five percent of the total investment portfolio at June 30, 2020.

NOTES CONTINUED

Note C - Investments - Continued

Interest rate risk is the risk that changes in the interest rates may adversely affect the fair value of a debt instrument. The following table represents the relative maturity dates of the fixed income securities held by the Trust at June 30, 2020:

<u>Maturity</u>	<u>Fair Value</u>	<u>Allocation Percentage</u>
Less than one year	\$ 14,148	0.27%
One to three years	1,622,839	31.22%
Three to seven years	2,081,558	40.04%
Seven to fourteen years	1,002,365	19.28%
More than fourteen years	477,881	9.19%
Total	<u>\$ 5,198,791</u>	<u>100.00%</u>

Credit risk is the possibility of a loss resulting from an issuer's inability to repay debt or meet contractual interest obligations. Credit quality ratings of the Trust's investment in debt securities at June 30, 2020 based on Moody's, S&P, and Fitch rating agencies are as follows:

<u>Security/Credit Rating</u>	<u>Fair Value</u>	<u>Allocation Percentage</u>
U.S. Treasury	\$ 1,835,926	35.31%
Asset-backed securities	687,656	13.23%
AAA	371,786	7.15%
AA	299,297	5.76%
A	1,911,155	36.76%
BAA	92,971	1.79%
Total	<u>\$ 5,198,791</u>	<u>100.00%</u>

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. All of the investments in foreign securities are denominated in U.S. dollars.

NOTES CONTINUED

Note D - Fair Value Measurements

The following table presents the Trust's financial assets measured at fair value on a recurring basis at June 30, 2020:

	Fair Value	Level 1	Level 2	Level 3
Money market fund	\$ 1,706,319	\$ 1,706,319	\$ -	-
Domestic equities	7,264,026	7,264,026	-	-
Foreign equities	3,638,955	3,638,955	-	-
U.S. Treasury notes	1,835,926	-	1,835,926	-
Corporate bonds	2,675,209	-	2,675,209	-
Asset-backed securites	687,656	-	687,656	-
Mutual funds	1,263,648	1,263,648	-	-
Exchange traded funds	3,021,548	3,021,548	-	-
Real estate investment trusts	167,583	-	-	167,583
Alternative investments	1,323,150	-	-	1,323,150
Limited partnership	1,552,301	-	-	1,552,301
	<u>\$ 25,136,321</u>	<u>\$ 16,894,496</u>	<u>\$ 5,198,791</u>	<u>\$ 3,043,034</u>

Money market mutual fund: Valued at the daily closing prices as reported by the fund. The money market mutual fund held by the Trust is an open-ended mutual fund that is registered with the Securities and Exchange Commission (SEC). This fund is required to publish its daily NAV and to transact at that price. The money market mutual fund held by the Trust is deemed to be actively traded.

Domestic and foreign equities: Valued at the unadjusted quoted market price within active markets.

U.S. Treasury notes, corporate bonds and asset-backed securities: Valued at quotes from less active markets and/or quoted prices of securities with similar characteristics.

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

Real estate investment trusts: Values are obtained from independent valuation services or information made public by the issuer. Investments are not listed on a securities exchange, do not have readily liquid markets or ascertainable prices, and generally must be held to termination to maximize returns.

Alternative investments: Held directly with the issuer, and valuation is derived from information provided by an external source.

Limited partnership: Valued using the capital balance as a practical expedient to determine the fair value.

NOTES CONTINUED

Note D - Fair Value Measurements - Continued

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2020:

	Real Estate Investment Trusts	Alternative Investments	Limited Partnership
Balance, June 30, 2019	\$ 317,220	\$ 1,992,208	\$ 1,659,718
Unrealized gain (loss)	(149,637)	(669,058)	(51,214)
Capital distributions	-	-	(56,203)
Balance, June 30, 2020	<u>\$ 167,583</u>	<u>\$ 1,323,150</u>	<u>\$ 1,552,301</u>

Note E - Related Party Transactions

The Trust was involved in the following transactions with organizations affiliated with The University during the period ending June 30, 2020:

Scholarships disbursed for the benefit of University of Memphis students	<u>\$ 899,702</u>
Loan receivable from UMRF Ventures, Inc.	<u>\$ 460,323</u>
Due to the University of Memphis	<u>\$ 193,469</u>

Note F - Net Position

All of the Trust's net position is to be used for the benefit of The University. The Board of Trustees expects to expend approximately four to six percent of the investments' average market values over the previous three years in support of The University for student scholarships on an annual basis. Other University support is determined at the discretion of the Board of Trustees.

Note G - Other Income

Between 2008 and 2010 the Herff Trust provided \$1,660,000 as a contribution towards the University's portion of the Perkins Loan program. With the Perkins loan program winding down, there was a distribution of assets. The University's share of \$605,541 was released from the revolving fund. Since the original corpus was funded by the Herff Trust, this amount was returned to the Herff Trust and has been included in other income for the year ended June 30, 2020.

NOTES CONTINUED

Note H - Other Matters

In March 2020, the World Health Organization declared the outbreak of novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. COVID-19 caused federal, state, and local governments and private entities to mandate various restrictions on activities, including restrictions on public gatherings, orders to stay at home, and advisory and quarantine of individuals who may have been exposed to the virus.

At this point, the Trust cannot reasonably estimate the duration and severity of COVID-19 on the value and performance of its investments, which could have a material, adverse impact on its financial position.

Note I - Subsequent Events

Management has evaluated subsequent events through September 30, 2020, the date the financial statements were available to be issued.



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

To the Board of Trustees
The Herff Trust
Memphis, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Herff Trust (a component unit of The University of Memphis), which comprise the statement of net position as of June 30, 2020, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise The Herff Trust's basic financial statements, and have issued our report thereon dated September 30, 2020.

Internal Control Over Financial Reporting

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

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

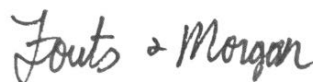
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Herff Trust's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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.



FOUTS & MORGAN
Certified Public Accountants

Memphis, Tennessee
September 30, 2020

THE HERFF TRUST

SCHEDULE OF FINDINGS AND RECOMMENDATIONS JUNE 30, 2020

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

10. Update on Risk Assessment

Presentation

Presented by Raajkumar Kurapati

The University of Memphis Board of Trustees

Report For Information

Date: November 30, 2020

Committee: Audit Committee

Presentation: Risk Assessment Update

Presented by: Raaj Kurapati, EVP/Chief Financial Officer

Background:

In accordance with the Tennessee Financial Integrity Act, University management is responsible for establishing adequate internal controls to achieve the objectives of the organization and execute an annual risk assessment (TCA-9-8-102).

Management's risk assessment process was established in 2006 and is currently facilitated by the Division of Business and Finance. The risk assessment process identifies business risks and measures, their potential impact to the university and their probability of occurrence. The assessment produces a risk heat map - a Risk Footprint that ranks the risks by impact and probability. Management then inventories mitigating actions that are designed to reduce the impact or probability of the risk. If management determines a risk is not being appropriately managed, a corrective action plan may be developed.

TCA 9-18-104 requires an annual report to the Commissioner of Finance and Administration and the Comptroller of the Treasury from the President on management's risk assessment. The attached presentation provides an update on the risk assessment exercise in 2020.

Risk Assessment Update

Audit Committee

Raaj Kurapati

Executive Vice President and Chief Financial Officer

November 30, 2020

Zoom Video Conference



DECEMBER 2020

Existing Risk Assessment Process

- 'Bottom-up' approach by facilitated discussion with process owners and department leaders.
- Process level risks identified and rated – Risk Footprint
- Process level controls identified – Control Footprint
- Senior management review - process level Risk Footprints
- Compile Enterprise Risk Footprint – summary of significant risks affecting the University
- Inventory of Mitigating Controls for Enterprise Risks

- Risk Matrix and Control Footprint updated in response to COVID-19
- Presented to Board of Trustees on April 15th, 2020
- Position created for Executive Director, Business Continuity and Risk Management
 - Candidate selected and is scheduled to begin December 7, 2020

COVID-19 Risk Update Summary

- Enterprise Risk Management is defined as a continuous process of identifying and responding to risks. Risk assessment is dynamic and the Risk Matrix is a living document.
- President Rudd organized a Risk Management Committee to identify and respond to COVID-19 risks:
 - EVP/Provost – Dr. Thomas Nenon
 - EVP for Marketing and External Relations – Ms. Tammy Hedges
 - University Counsel – Ms. Melanie Murry
 - CIO – Dr. Robert Jackson
 - Chief of Staff – Ms. Stephanie Beasley
 - EVP/CFO – Mr. Raaj Kurapati
- Updated Risk Matrix reviewed by President's Council and mitigating controls/strategies identified
- Risk Management Committee finalized Risk Matrix and compiled related controls based on feedback from President's Council
- Risk Matrix includes specific category on COVID-19 risks and inventory of related mitigating controls/strategies

Updated risks in response to COVID 19:

- State budget challenges due to economic impact of COVID-19
- Reduction in resources to pursue Carnegie 1 goal
- Significant enrollment decline and lack of growth in retention
- Data breach/sensitive data exposure
- Reduction in available student financial aid negatively affecting student affordability
- Lack of state funding support to develop adequate research spaces
- Inability to timely capitalize on stimulus funding
- Inadequate support for innovative programs including UM Global
- Disruption of revenue model of Auxiliary Operations i.e housing, dining, parking
- Title IX non-compliance

Risks identified with compensating actions/controls

Risk: State budget challenges due to economic impact of COVID-19

- Maintain relationship and communicate with Governor and members of legislature
- Identify areas for strategic reduction in expenditures to position University to recover from COVID-19 impact

Risk: Reduction in resources to pursue Carnegie 1 goal

- Strategic decisions that shift resources to areas that are identified as institutional priorities
- Identify academic growth opportunities and make investments accordingly to support retention and faculty hiring

Risk: Significant enrollment decline and lack of growth in retention

- Increase marketing about quality on-line and nationally ranked programs through UM Global
- Progress toward implementation of a simplified per credit hour fee structure starting with the waiver of the \$50 per credit hour online fee for summer courses
- Strategic use of federal funding under CARES Act to support students impacted by COVID-19
- Work with International partners to promote UofM Online offerings by employing non-traditional approaches and continue to attract out of state and international students to hybrid programs
- Continue to develop programs aimed at non-traditional students and partnerships with corporate/private sector

Risks identified with compensating actions/controls (cont.)

Risk: Reduction in available student financial aid negatively impacting affordability for all student markets

- Closely monitor student financial aid needs and trends and proactively engage with Federal and State student funding authorities and University Administration to manage potential changes in aid
- Effectively utilize Federal stimulus funds specifically designated for student financial relief
- Initiatives and incentives to reduce student time and cost to completion

Risk: Lack of state funding support to develop adequate research spaces

- Maintain relationship and communicate with Governor and members of legislature
- Explore opportunities to use Federal Stimulus Funds

Risk: Inability to timely capitalize on stimulus funding

- Monitor provisions of Federal Stimulus plan and position University to capitalize on its provisions; identify and maintain inventory of ‘shovel ready projects’
- Mechanism to capture expenses and lost opportunities directly related to COVID-19 to maximize reimbursement opportunities

Risk: Disruption of revenue model of Auxiliary Operations

- Look for federal funding opportunities including grants and low-cost financing opportunities for enterprises eligible for support (UMRFV, Holiday Inn, etc.)

• Identify opportunities to use idle assets for community support and establish partnerships for alternative uses/revenue generation

- Strategically capture costs that would qualify for student support component of CARES Act funding

Questions?

11. Compliance Program Update

Presentation

Presented by Tiffany Cox

The University of Memphis Board of Trustees

Presentation
For Information

Date: November 30, 2020

Committee: Audit Committee

Presentation: Compliance Program Update

Presented by: Tiffany Baker Cox, Director of Office for Institutional Equity and Chief Compliance Officer

Background:

This is a brief update on the development of the University's Compliance Program.

Compliance Program Update

Audit Committee

Tiffany Baker Cox, JD
Director, Office for Institutional Equity &
Chief Compliance Officer

November 30, 2020
Zoom Video Conference



DECEMBER 2020

Compliance Updates

- OIE Compliance Officer hired
- Chief Compliance Officer and Compliance officer attended SCCE Higher Education Virtual Compliance Conference on June 1- June 3
- One-on-one meetings with Compliance Council Representatives
- Complaint Triage Team Established
 - Chief Compliance Officer, Legal Counsel, Human Resources and Internal Audit

Compliance Council Meeting

First Compliance Council Meeting of 2020 on November 16:

- Fifteen members from high-risk areas across campus
 - Athletics, Business and Finance, Research, Institutional Research, Internal Audit, Human Resources, Academic Affairs, Environmental Health and Safety, Campus Planning, Procurement, Financial Aid
- Review and discussion of Code of Ethics
- Review and discussion of Compliance Policy
- Presentation to Policy Review Board on December 9
- Meeting monthly through FY2021 then quarterly

12. Information Security Program Update

Presentation

Presented by Robert Jackson

The University of Memphis Board of Trustees

Presentation
For Information

Date: November 30, 2020

Committee: Audit Committee

Presentation: Information Security Program Update

Presented by: Robert Jackson, Chief Information Officer

Background:

This is an update of the Information Security Program for the University of Memphis.

Information Security Program Update

Audit Committee

Dr. Robert Jackson
Chief Information Officer

November 30, 2020
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DECEMBER 2020

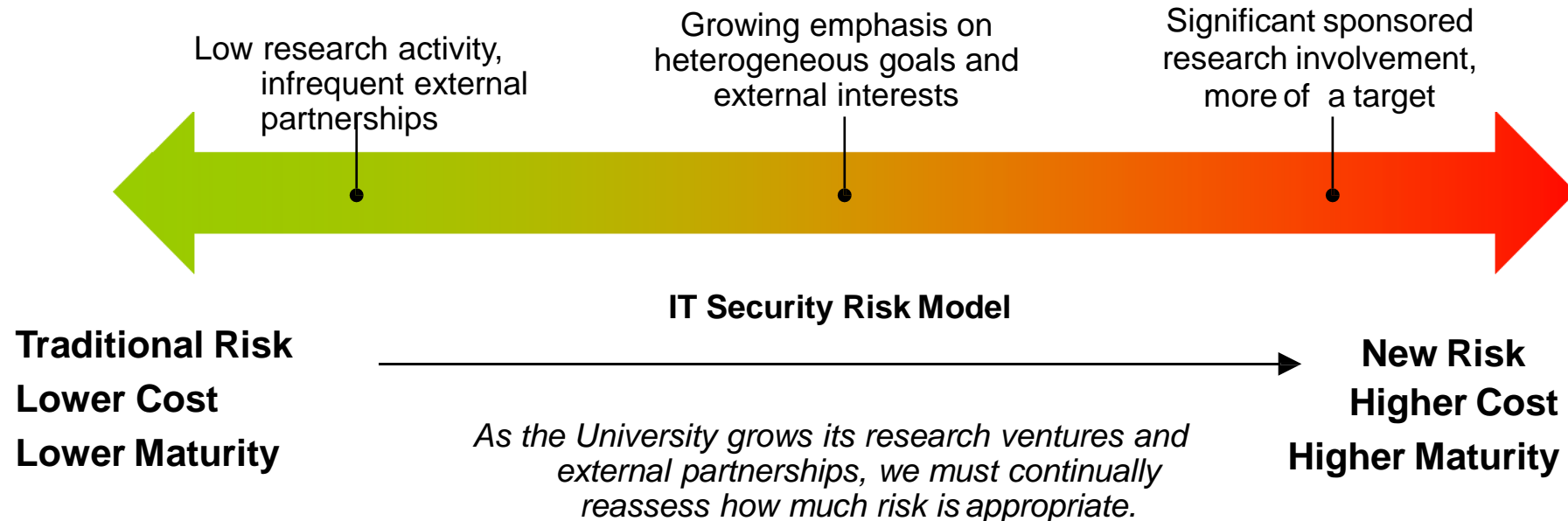
Why IT security is important

- Personal information (students, parents, employees, alumni; tax records, health records)
- Research data (intellectual property, non-disclosure agreements, data use agreements)
- Statutory requirements (FERPA, GLBA, HIPAA, TN Data Breach Notification Law)



- Openness
- Decentralization
- Consumerization of technology (IoT)
- Phishing, malware, social engineering
- Vendors / external partnerships
- Aging/donated/start-up technologies
- Sponsored research activity

There is no such thing as "perfect protection"



Our goal is to build a sustainable information security program that promotes the ambitions of the university while protecting its operations and resources.

Email Statistics



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Month-Year	Total Inbound Email	Rejections (includes viruses & spam)	Legit Inbound Email	% Rejections	Total Outbound Email	Total Internal Email
Nov - 2019	11,674,138	6,467,357	5,206,781	55.4 %	524,485	799,878
Dec - 2019	11,523,060	6,260,525	5,262,535	54.33 %	518,888	854,456
Jan - 2020	11,033,455	6,436,007	4,597,448	58.33 %	600,807	549,625
Feb - 2020	8,489,899	4,049,894	4,440,005	47.7 %	571,194	751,738
Mar - 2020	8,864,635	3,919,013	4,945,622	44.21 %	746,727	712,679
Apr - 2020	8,952,001	4,335,447	4,616,554	48.43 %	699,121	853,644
May - 2020	8,436,644	3,941,739	4,494,905	46.72 %	661,067	782,597
June - 2020	8,079,301	3,281,154	4,798,147	40.61 %	591,239	746,296
July - 2020	8,182,000	3,597,403	4,584,597	43.97 %	473,128	752,725
Aug - 2020	8,354,033	3,455,130	4,898,903	41.36 %	719,155	907,986
Sep - 2020	7,353,718	2,331,600	5,022,118	31.71 %	659,014	849,314
Oct - 2020	7,346,325	2,381,456	4,964,869	32.42 %	723,796	891,713
Total	108,289,209	50,456,725	57,832,484		7,488,621	9,452,651
Mean	9,024,101	4,204,727	4,819,373.5	45.43 %	624,051.75	787,720.94

FY2021 Q2 IT Security Engagements

The following table shows the number of issues by category reported to IT Security, and the escalation level and outcomes summary:

	Escalation Level						Total
	1- Very Minor	2- Minor	3 - Low	4 - Moderate	5 - High	6 - Very High	
Category							
Denial of Service							0
Malicious Code							0
Unauthorized Access			1				1
Inappropriate Usage			1				1
Personally Identifiable Information							0
Other			2				2
Total	0	0	4	0	0	0	4
Outcomes included:							
• No Action Required (1)							
• Issue Remediated (3)							

Note: 18 accounts were proactively disabled due to suspicious behavior during July – Sept 2020.

A Layered System of Security Controls



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Foundation Controls

- Perimeter (network security):
 - Firewalls
 - Intrusion prevention
- Access controls:
 - User provisioning (role-based)
 - Access management (two-factor)
- Vulnerability management:
 - Scanning
 - Patching
- IT Policies
- Organization:
 - Staff (delineation of duties)
 - Skills (certifications)
- Compliance:
 - Audit
 - Requirements management
 - E-Discovery

Good Controls

- Detection:
 - Log analysis (SIEM)
 - Email threat detection
 - End-point alerts
 - Data loss prevention
 - User reported
- Incident response plan
- Risk assessment:
 - Technology risks
 - Facility risks
 - Personnel risks
- Governance:
 - Governance committees
 - Change management
 - Strategic Planning
- End-point protection:
 - Data disposal guidelines
 - Encryption guidelines
 - Privileged access controls

Advanced/Nice to Have

- Business alignment:
 - Student, HR, & Finance processes
 - Research standards
- Ethical hacking
- IT Security awareness:
 - Annual Required Training
 - Program Expansion
- Risk management:
 - Enterprise risk
 - Accountability
 - Scenario / table-top exercises
 - External assessment

- Previous improvements
- Planned improvements

- University-wide adoption of multi-factor authentication
 - IT Governance reviews for student adoption completed
 - Student requirement planned for January 25, 2021
- Reviewing MS licensing agreement to enhance security controls
 - Increases value by improving functionality and decreasing IT spend
 - Creates opportunity to eliminate duplicated services
 - Tight-knit integration improves threat visibility
- Preparing for external assessment to support NIST compliance efforts
- Enhancing campus-wide guidelines for addressing security vulnerabilities
- Expanding usage of Amazon Web Services (AWS)

Our Cloud Expansion Offers Risk Management Benefits

- Improves Time to Value for new ventures (e.g., research projects) and reduces downtime for improvements
- Enhances disaster recovery and business resiliency
- Leverages native AWS infrastructure tools and security capabilities
- Produces a smaller “attack surface” to protect
- Promotes replication of resources across geographic zones

Our Cloud Expansion Offers Financial Rewards

- Transitions spending from CAPEX to OPEX for just-in-time, elastic services
- Moves the institution to a buy-what-you-need rather than a just-in-case posture
- Eases the annual impact of seasonal service variations
- Provides cost savings through elimination of existing DR site
- Provides more detailed financial visibility into infrastructure costs
- Realizes logistical efficiencies with vendors of software as a service (SaaS) offerings
- Achieves economies of scale by shifting maintenance burdens to large providers

Thank you

13. Additional Business

Presented by Susan Springfield

14. Adjournment

Presented by Susan Springfield