















December 2023 Audit Committee Meeting

Schedule	Tuesday, December 12, 2023 9:30 AM — 10:05 AM CST
Venue	Maxine A. Smith University Center - Bluff Room (304)
Organizer	Colton Cockrum

Agenda

1. Call to Order and Open Remarks Presented by Carol Roberts	1
2. Roll Call and Declaration of Quorum Presented by Melanie Murry	2
3. Approval of September 6, 2023 Meeting Minutes For Approval - Presented by Carol Roberts	3
 Sept. 6 2023 Audit Minutes - Final.docx	4
4. Summary of Audit Reports Issued Presentation - Presented by Vicki Deaton	9
 Summary of Audit Report - Agenda Item.docx	10
 Audit Comm Slides from Int Audit Dec. 2023.pptx	11
 2 Summary of Audit Reports Issued.xlsx	24
5. Summary of Internal Audit Investigation Presentation - Presented by Vicki Deaton	25
 Sum of Internal Audit Invest. Agenda It.docx	26
 2 Summary of Investigations Completed.xlsx	27

6. External Audit Report - University of Memphis Foundation Financial Statements, Years Ended June 30, 2023 and 2022	28
Presentation - Presented by Vicki Deaton	
 Ext Audit UMF - Agenda Item.docx	29
 2 UOM Fnd Audit FY 2023.pdf	31
<hr/>	
7. External Audit Report – University of Memphis Research Foundation Financial Statements, Year Ended June 30, 2023	57
Presentation - Presented by Vicki Deaton	
 Ext Audit Rpt UMRF - Agenda Item.docx	58
 2 UMRF 2023 Audited Financial Statements.pdf	60
<hr/>	
8. Information Security Program Update	88
Presentation - Presented by Karen Bell	
 Information Security Update - Agenda Item.docx	89
 Information Security Update Powerpoint.pptx	90
<hr/>	
9. Risk Assessment Update	100
Presentation - Presented by Greg DuBois and Mark Heath	
 Risk Assessment Process Update - Agenda Item.docx	101
 Risk Assessment Update.pptx	102
<hr/>	
10. Additional Business	111
Presented by Carol Roberts	
<hr/>	
11. Adjournment	112
Presented by Carol Roberts	
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1. Call to Order and Open Remarks

Presented by Carol Roberts

2. Roll Call and Declaration of Quorum

Presented by Melanie Murry

3. Approval of September 6, 2023

Meeting Minutes

For Approval

Presented by Carol Roberts

THE UNIVERSITY OF MEMPHIS
AUDIT COMMITTEE MEETING MINUTES
September 6, 2023

I. CALL TO ORDER AND OPENING REMARKS

Trustee McKinney called the meeting to order and welcomed members of the community, faculty, and students. Trustee McKinney welcomed the students back to campus.

II. ROLL CALL AND DECLARATION OF QOURUM

Trustee McKinney recognized Board Secretary, Melanie Murry to call the roll. The following trustees were in attendance:

Trustee Roberts (verified she was present, could hear her, and was alone)
Trustee Johnson
Chairman McKinney
Trustee Clark
Trustee Springfield

Secretary Murry announced the presence of a quorum.

Secretary Murry acknowledged additional trustees in attendance:

Trustee North
Chairman Edwards
Trustee Marchetta

III. APPROVAL OF MEETING MINUTES FOR JUNE 14, 2023

Trustee McKinney called for a motion and second to approve the meeting minutes for June 14, 2023. The motion was made by Trustee Johnson and properly seconded. Trustee McKinney asked was there any discussion, none was provided. A roll call vote was taken and unanimously approved.

IV. SUMMARY OF AUDIT REPORTS ISSUED

Trustee McKinney recognized Chief Audit Executive, Vicki Deaton to present her agenda items.

Ms. Deaton presented the summary of report issued since the last meeting in June. Ms. Deaton explained that the College of Health Sciences Financial and Compliance Audit was considered a department audit of an academic area. Ms. Deaton informed the committee that the Inventory Observation Audit and Cash Balance Audit are completed annually. Ms. Deaton stated these audits assist with the University's annual financial audit performed by the Division of State Audit.

V. SUMMARY OF AUDIT ISSUE FOLLOW UP

Ms. Deaton informed the committee that the Office of Internal Audit and Consulting worked on closing open audit issues this past quarter. Ms. Deaton provided information and the status of those audit issues as of August 2023. Ms. Deaton informed the committee that a PCI Compliance Audit was completed a few years ago and stated quite a few issues were discovered. Ms. Deaton stated there were audit issues from the PCI Compliance Audit that the Office of Internal Audit and Consulting have not been able to determine are fully resolved yet. Ms. Deaton informed the committee that an external assessment was completed by a Qualified Security Advisor last Spring and the advisor identified items that needed work. Ms. Deaton stated the advisor is working with the office to create a remediation plan. Ms. Deaton stated that after reviewing the advisor's findings and actions plans, the office determined that once the open issues are remediated with Campus Guard it will take care of the open internal audit issues. Ms. Deaton stated Internal Audit is not considering those issues complete but instead deferring the issues for remediation.

VI. SUMMARY OF INTERNAL AUDIT INVESTIGATIONS COMPLETED

Ms. Deaton presented information about an investigation memo that was issued since the last quarterly meeting.

VII. FY23 INTERNAL AUDIT YEAR END REPORT

Ms. Deaton informed the Audit Committee that according to the Audit Committee Charter, they are required to review the year's work of the Chief Audit Executive. Ms. Deaton informed the committee that a fiscal year report was prepared and provided in the meeting materials. Ms. Deaton provided an overview of what was included in the report. Ms. Deaton informed the committee that the Office of Internal Audit and Consulting focused heavily on completing financial and compliance audits in academic units this year. Ms. Deaton also stated the office also focused on completing audits that reached multiple units.

Trustee McKinney asked Ms. Deaton to explain to the Board how much time was spent for FY23 compared to previous years. Ms. Deaton answered Trustee McKinney and stated in the future she could provide past information. Trustee McKinney responded and stated past information from 2 to 5 years would give a good comparison and provide appropriate context to see where time was spent. Ms. Deaton stated from her experience a lot of work was conducted in Business and Finance which is expected. Ms. Deaton stated it is not that the work done in academic units is not finance oriented, but the work is classified as academic because the office is working with an academic unit. Ms. Deaton also stated that due to the University's push for R1 years ago, there was a lot of work in the research area. Ms. Deaton gave the committee an overview of what the Office of Internal Audit and Consulting does when they create their annual audit plan.

Ms. Deaton presented the number of recommendations made by the Office of Internal Audit and Consulting, number of recommendations made by others, and recommendations that have been marked as resolved. Ms. Deaton discussed the investigation summary. Ms. Deaton informed the committee that when a complaint is assigned to the Office of Internal Audit and Consulting an investigation memo is not always generated because some issues have a simple resolution, but there are files and records stored if a resolution needs to be given. Ms. Deaton provided an overview of the advising and consulting work the Office of Internal Audit and Consulting does and showed the offices' accomplishments and challenges.

Trustee Springfield asked Ms. Deaton how many open positions she had in her office. Ms. Deaton responded by saying currently the office has one (1) and by Friday there would be two (2) open positions. Ms. Deaton also stated one position was advertised this summer, but the other position has not been advertised yet.

Ms. Deaton stated if there were no other questions she would move on the next item. No questions were provided.

VIII. ANNUAL REVIEW AND APPROVAL OF INTERNAL AUDIT CHARTER

Ms. Deaton gave an overview of the Office of Internal Audit and Consulting Charter and informed the Audit Committee of their responsibility to review and approve the charter. Ms. Deaton informed the committee a copy of the charter was provided in the meeting materials. Ms. Deaton informed the committee the charter was reviewed in June 2022 and the Office of Internal Audit and Consulting did propose some changes based on the quality self-assessment review observations. Ms. Deaton informed the committee there were no proposed changes this year. Ms. Deaton stated if anyone in the committee had any comments or changes, they could discuss.

Trustee McKinney gave comments and gave his appreciation to the Internal Audit team, faculty, and staff. Trustee McKinney called for a motion and a second to approve the Internal Audit Charter. The motion was made by Trustee Johnson and properly seconded. Trustee McKinney asked was there any discussion. None was provided. A roll call vote was taken and unanimously approved.

IX. ANNUAL REVIEW OF AUIT COMMITTEE CHARTER

Ms. Deaton gave an overview of the Audit Committee Charter and informed the Audit Committee of its responsibility to review and assess the charter. Ms. Deaton stated a copy of the charter was provided in the meeting materials. Ms. Deaton informed the committee no action needed to be taken unless the committee wanted to discuss the charter.

Ms. Deaton concluded her presentation.

X. INFORMATION SECURITY PROGRAM UPDATE

Trustee McKinney recognized Interim Chief Information Officer, Karen Bell. Ms. Bell provided an overview of the current status in Information Technology Services (ITS). Ms. Bell gave an update of the Network Access Control project. Ms. Bell stated ITS is in phase two and currently completing work in the academic buildings and informed the committee work has already been completed in the administration buildings. Ms. Bell informed the committee that ITS worked with an external party and received a recommendation that the University can self-attest that it is CMMC Level 1 certified. Ms. Bell informed the committee that ITS has policies and procedures ready for the Department of Defense to review. Ms. Bell stated due to the Department of Defense (DOD) changing its guidelines for self-attestation, ITS must wait on the new guidance to self-attest and to verify the University is CMMC Level 1 certified. Ms. Bell stated the external partner is monitoring the DOD's website and will let ITS know when the new guidelines are published. Ms. Bell informed the committee that the purpose of the certification is to support research.

Trustee North asked are the requirements posed to the University for grants reasonable and is the University in compliance to support its research. Trustee North also asked was there anything related to significant investment in technology being brought forth that the University may have to complete in support of the University's R1 status. Ms. Bell responded and stated there are processes to assist researchers to ensure they meet those requirements for research projects that require elevated security. Ms. Bell stated the CMMC Level 1 certification is enterprise wide and if the University needed to move up to level 2 or level 3 then that would occur on a project-by-project basis due to cost.

Trustee North offered additional comments. Dr. Hardgrave informed the committee that secured research requires prequalification.

Ms. Bell asked if there were any more questions, none were provided. Ms. Bell informed the committee that starting this fiscal year security awareness training compliance would be enforced and those individuals who do not complete the required training will have their accounts disabled until they complete the training. Ms. Bell stated the training compliance effected new hires on July 1st but now the training compliance will affect all employees. Ms. Bell informed the committee the upcoming annual training is scheduled for October 1 through February 28, 2024. Ms. Bell finalized her presentation the current status of ITS by informing the committee that ITS is working to address compliance gaps.

Ms. Bell presented the number IT Security incidents for the last 4 quarters and informed the committee that all the incidents reported were minor. Ms. Bell presented the number of email accounts that were disabled due to suspicious activity.

Ms. Bell provided an overview of ITS' next steps for the year. Ms. Bell stated the State Auditors came to the University and completed a GLBA audit and new safeguards went into effect over the summer. Ms. Bell informed the Board the state audited the University on GLBA compliance and ITS is waiting to receive the report. Ms. Bell informed the committee that ITS anticipates having a cyber liability insurance review conducted to evaluate if the University can receive cyber security insurance. Ms. Bell stated ITS acquired new features for security support with its Microsoft A5 licensing and gave a brief overview of what features will be implemented. Ms. Bell also informed the committee that a GDPR analysis that will occur in Spring 2024 to support international students and international privacy laws.

Ms. Bell concluded her presentation and opened for questions. There were none.

XI. ADDITIONAL BUSINESS

No additional business

XII. ADJOURNMENT

Trustee McKinney 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: December 12, 2023
Committee: Audit Committee
Presentation: Summary of Internal Audit Reports Issued
Presented by: Vicki D. Deaton, Chief Audit Executive

Background:

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

Internal Audit Agenda Items

Audit Committee

Vicki D. Deaton
Chief Audit Executive

December 12, 2023
Maxine A. Smith University Center



**Board of
Trustees**

DECEMBER 2023

Presentation: Summary of Internal Audit Reports Issued

Three audit reports were issued since the last meeting.

Name of Audit Report	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 - FY2022 State Financial & Compliance Audit Corrective Action Plan	10/3/2023	Corrective Action Plan Complete	0	0	0	0	0	0	0
School of Law Financial & Compliance Audit	11/8/2023	Effective with the Opportunity for Improvement	2	2	4	1	0	0	0
Audit of President's Expenses for the Period July 1, 2022 - June 30, 2023	11/14/2023	Effective	0	0	0	0	0	0	0

Presentation: Summary of Internal Audit Investigations Completed

Four Internal Audit investigations were completed since the last meeting.

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	Date of Final Action by Internal Audit
Referral from Chief Operating and Financial Officer	3/3/2023	Concerns with Financial Expenditures on Department of Education Grant	3/16/2023	23-002	Investigation Complete, Internal Audit Investigation Memo Issued	Lack of Timely Fiscal Monitoring Controls Led to Excessive Expenditures	9/20/2023
Referral from Legal and President's Office	7/24/2023 & 8/7/2023	Allegations of Overbilling and Improper Billing on Grant	7/26/2023	24-001 (ANTS 24-8116)	Investigation Complete, Internal Audit Investigation Memo Issued	No Evidence of Overbilling or Improper Billing on Grant	9/26/2023
UofM Online Fraud, Waste, or Abuse Report	7/25/2023	Allegations of Improper Grant Funding of Administrative Position	7/26/2023	24-002	Investigation Complete, Internal Audit Investigation Memo Issued	No Improper Grant Expenditures for Administrative Position	8/31/2023
UofM Online Fraud, Waste, or Abuse Report	8/29/2023	Allegations of Improper Grant Expenditure and Misclassification of Contract Workers	8/30/2023	24-003	Investigation Complete, Internal Audit Investigation Memo Issued	Allowable Grant Expenditure and No Misclassification of Workers	9/18/2023

Presentation: External Audit Report - The University of Memphis Foundation Financial Statements, Years Ended June 30, 2023 and 2022

In accordance with requirements of the Tennessee Comptroller of the Treasury, the most recent audit of the University of Memphis Foundation's (Foundation) financial statements was conducted for the fiscal year ending June 30, 2023 and 2022.

Presentation: External Audit Report - The University of Memphis Foundation Financial Statements, Years Ended June 30, 2023 and 2022

- 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.
- The University of Memphis Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

Presentation: External Audit Report - The University of Memphis Foundation Financial Statements, Years Ended June 30, 2023 and 2022

- The Foundation engaged Forvis, LLP, an independent external CPA firm, to conduct the audit in accordance with accounting principles generally accepted in the United States of America.
- The independent auditor's opinion dated November 7, 2023, stated that the financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Presentation: External Audit Report - The University of Memphis Foundation Financial Statements, Years Ended June 30, 2023 and 2022

- In accordance with Government Auditing Standards, the auditors also issued a report dated November 7, 2023, on their consideration of the Foundation's internal control over financial reporting and on compliance with certain provisions of laws, regulations, contracts and grant agreements.
- No opinion is expressed on the effectiveness of the Foundation's internal control over financial reporting or on compliance.

Presentation: External Audit Report - The University of Memphis Foundation Financial Statements, Years Ended June 30, 2023 and 2022

- 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.
- The auditors did not identify any instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Presentation: External Audit Report - The University of Memphis Research Foundation Financial Statements, June 30, 2023

In accordance with requirements of the Tennessee Comptroller of the Treasury, the most recent audit of the University of Memphis Research Foundation's (Foundation) financial statements was conducted for the fiscal year ending June 30, 2023.

Presentation: External Audit Report - The University of Memphis Research Foundation Financial Statements, June 30, 2023

- The University of Memphis Research Foundation is a private, nonprofit foundation established on June 16, 2006, to develop and administer sponsored research and other sponsored projects conducted by the faculty and staff of the University.
- The Foundation's financial report incorporates the financial statements and activities of the Foundation's wholly-owned subsidiary, UMRF Ventures, Inc. as a discretely presented component unit. UMRF Ventures was incorporated in 2017.
- The University of Memphis is the sole beneficiary of the Foundation.
- The Foundation is a component unit of the University and is discretely presented in the University's financial statements.

Presentation: External Audit Report - The University of Memphis Research Foundation Financial Statements, June 30, 2023

- The Foundation engaged Watkins Uiberall, PLLC, an independent external CPA firm, to conduct an audit of the financial statements of the business-type activities and aggregate discretely presented component unit of the Foundation.
- The independent auditor's opinion dated October 26, 2023, 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 Foundation as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Presentation: External Audit Report - The University of Memphis Research Foundation Financial Statements, June 30, 2023

- 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 with certain provisions of laws, regulations, contracts, grant agreements, or other matters that are required to be reported under Government Auditing Standards.

Questions?

Name of Audit Report	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 - FY2022 State Financial & Compliance Audit Corrective Action Plan	10/3/2023	Corrective Action Plan Complete	0	0	0	0	0	0	0
School of Law Financial & Compliance Audit	11/8/2023	Effective with the Opportunity for Improvement	2	2	4	1	0	0	0
Audit of President's Expenses for the Period July 1, 2022 - June 30, 2023	11/14/2023	Effective	0	0	0	0	0	0	0

5. Summary of Internal Audit Investigation

Presentation

Presented by Vicki Deaton

The University of Memphis Board of Trustees

Presentation
For Information

Date: December 12, 2023
Committee: Audit Committee
Presentation: Summary of Internal Audit Investigations Completed
Presented by: Vicki D. Deaton, Chief Audit Executive

Background:

Four investigations assigned to the Office of Internal Audit and Consulting by the Complaint Triage Team were completed this quarter and investigation memos were issued. Attached is a summary of the investigation information.

Restrictions on Report Use: Investigation reports are intended solely for the internal use of the University of Memphis Board of Trustees and the management of the University of Memphis. It is not intended to be, and should not be, used for any other purpose. The distribution of the report to external parties must be approved by the University of Memphis Office of Internal Audit and Consulting, and handled in accordance with institutional policies; however, this report is a matter of public record.

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	Date of Final Action by Internal Audit
Referral from Chief Operating and Financial Officer	3/3/2023	Concerns with Financial Expenditures on Department of Education Grant	3/16/2023	23-002	Investigation Complete, Internal Audit Investigation Memo Issued	Lack of Timely Fiscal Monitoring Controls Led to Excessive Expenditures	9/20/2023
Referral from Legal and President's Office	7/24/2023 & 8/7/2023	Allegations of Overbilling and Improper Billing on Grant	7/26/2023	24-001 (ANTS 24-8116)	Investigation Complete, Internal Audit Investigation Memo Issued	No Evidence of Overbilling or Improper Billing on Grant	9/26/2023
UofM Online Fraud, Waste, or Abuse Report	7/25/2023	Allegations of Improper Grant Funding of Administrative Position	7/26/2023	24-002	Investigation Complete, Internal Audit Investigation Memo Issued	No Improper Grant Expenditures for Administrative Position	8/31/2023
UofM Online Fraud, Waste, or Abuse Report	8/29/2023	Allegations of Improper Grant Expenditure and Misclassification of Contract Workers	8/30/2023	24-003	Investigation Complete, Internal Audit Investigation Memo Issued	Allowable Grant Expenditure and No Misclassification of Workers	9/18/2023

**6. External Audit Report - University of
Memphis Foundation Financial
Statements, Years Ended June 30, 2023
and 2022**

Presentation

Presented by Vicki Deaton

The University of Memphis Board of Trustees

Presentation
For Information

Date: December 12, 2023

Committee: Audit Committee

Presentation: External Audit Report – The University of Memphis Foundation Financial Statements, Years Ended June 30, 2023 and 2022

Presented by: Vicki D. Deaton, Chief Audit Executive

Background:

The University is subject to external audits, and 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 audits and reviews 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 7, 2023, the University of Memphis Foundation Financial Statements, Years Ended June 30, 2023 and 2022 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 to you 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. Leading citizens of the Mid-South area comprise an independent Board of Directors.

The Foundation engaged an independent external CPA firm, Forvis, LLP, 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, 2023 and 2022, 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.

In accordance with Government Auditing Standards, the auditors also issued a report dated November 7, 2023 on their consideration of the Foundation's internal control over financial reporting and on compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of the report is solely to describe the scope of the auditor's 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.

The auditors did not identify any deficiencies in internal control that they considered to be material weaknesses during their limited consideration of internal control over financial reporting. Also, the results of their tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.



The University of Memphis Foundation

Independent Auditor's Report and Financial Statements

June 30, 2023 and 2022

Table of Contents

Board of Directors and Financial/Administrative Directors	1
Independent Auditor's Report	2
Financial Statements:	
Statements of Financial Position	5
Statements of Activities	6
Statements of Functional Expenses	8
Statements of Cash Flows.....	10
Notes to Financial Statements.....	11
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	23

Board of Directors

Fred Towler, President
David Tate, Vice President
John Wilfong, Treasurer
Dr. Douglas Scarboro, Secretary
Harry Smith, Immediate Past President
Sudhir Agrawal
Rene Bustamante
Glynna Christian
Tyree Daniels
Tanya L. Hart
Raajkumar "Raaj" Kurapati
Daphne Large
Reginald Porter
John "Mickey" Robinson
Dr. Bill Hardgrave
Monica Wharton

Financial/Administrative Directors

Holly Ford, Foundation CEO
Mark Nicell, Foundation CBO

Independent Auditor's Report

Board of Directors
The University of Memphis Foundation
Memphis, TN

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The University of Memphis Foundation (the "Foundation"), a component unit of the University of Memphis, which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position the Foundation as of June 30, 2023 and 2022, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2023, on our consideration of The University of Memphis 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 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 Foundation's internal control over financial reporting and compliance.

FORVIS, LLP

**Memphis, Tennessee
November 7, 2023**

The University of Memphis Foundation
Statements of Financial Position
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash	\$ 11,536,780	\$ 3,528,866
Contributions receivable, net	30,379,261	29,200,192
Investments, at fair value	180,676,111	151,825,179
Cash surrender value of life insurance	<u>142,915</u>	<u>142,915</u>
Total assets	<u>\$ 222,735,067</u>	<u>\$ 184,697,152</u>
LIABILITIES AND NET ASSETS		
Accounts payable, primarily to The University of Memphis	\$ 15,539,125	\$ 6,111,706
Gift annuity obligations	<u>132,121</u>	<u>141,375</u>
Total liabilities	15,671,246	6,253,081
Net assets:		
Without donor restrictions	4,296,431	4,239,984
With donor restrictions	<u>202,767,390</u>	<u>174,204,087</u>
Total net assets	<u>207,063,821</u>	<u>178,444,071</u>
Total liabilities and net assets	<u>\$ 222,735,067</u>	<u>\$ 184,697,152</u>

The University of Memphis Foundation
Statement of Activities
Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Support and other revenue:			
Contributions	\$ 199,031	\$ 42,927,170	\$ 43,126,201
Investment income, net of expenses	724,763	2,666,842	3,391,605
Net realized and unrealized gains on investments	67,898	13,660,301	13,728,199
Other income (expense)	2,920,304	(1,913,909)	1,006,395
	<u>3,911,996</u>	<u>57,340,404</u>	<u>61,252,400</u>
Net assets released from restrictions	<u>28,777,101</u>	<u>(28,777,101)</u>	<u>-</u>
Total support and other revenue	32,689,097	28,563,303	61,252,400
Operating expenses:			
University support and operational cost	18,795,841	-	18,795,841
Awards and scholarships	12,684,362	-	12,684,362
Management and general	1,085,152	-	1,085,152
	<u>32,565,355</u>	<u>-</u>	<u>32,565,355</u>
Total operating expenses	32,565,355	-	32,565,355
Change in net assets from operating activities	123,742	28,563,303	28,687,045
Nonoperating activities:			
Bad debt expense	67,295	-	67,295
	<u>67,295</u>	<u>-</u>	<u>67,295</u>
Change in net assets from nonoperating activities	67,295	-	67,295
Change in net assets	56,447	28,563,303	28,619,750
Net assets, beginning of year	<u>4,239,984</u>	<u>174,204,087</u>	<u>178,444,071</u>
Net assets, end of year	<u>\$ 4,296,431</u>	<u>\$ 202,767,390</u>	<u>\$ 207,063,821</u>

The University of Memphis Foundation
Statement of Activities
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and other revenue:			
Contributions	\$ 188,179	\$ 52,016,092	\$ 52,204,271
Investment income, net of expenses	386,010	2,278,164	2,664,174
Net realized and unrealized losses on investments	212,796	(20,616,508)	(20,403,712)
Other income (expense)	2,741,951	(2,033,667)	708,284
	<u>3,528,936</u>	<u>31,644,081</u>	<u>35,173,017</u>
Net assets released from restrictions	<u>24,376,280</u>	<u>(24,376,280)</u>	<u>-</u>
Total support and other revenue	27,905,216	7,267,801	35,173,017
Operating expenses:			
University support and operational cost	18,237,134	-	18,237,134
Awards and scholarships	7,528,626	-	7,528,626
Management and general	908,945	-	908,945
	<u>26,674,705</u>	<u>-</u>	<u>26,674,705</u>
Total operating expenses	26,674,705	-	26,674,705
Change in net assets from operating activities	1,230,511	7,267,801	8,498,312
Nonoperating activities:			
Bad debt expense	1,034,537	-	1,034,537
	<u>1,034,537</u>	<u>-</u>	<u>1,034,537</u>
Change in net assets from nonoperating activities	1,034,537	-	1,034,537
Change in net assets	195,974	7,267,801	7,463,775
Net assets, beginning of year	<u>4,044,010</u>	<u>166,936,286</u>	<u>170,980,296</u>
Net assets, end of year	<u>\$ 4,239,984</u>	<u>\$ 174,204,087</u>	<u>\$ 178,444,071</u>

The University of Memphis Foundation
Statement of Functional Expenses
Year Ended June 30, 2023

	Program Services			Support Services	
	University Support and Operational Cost	Awards and Scholarships	Total	Management and General	Total
Salaries and benefits	\$ 167,609	\$ -	\$ 167,609	\$ 317,947	\$ 485,556
Conferences and travel	251,813	-	251,813	9,135	260,948
Supplies	435,541	-	435,541	9,005	444,546
Postage	8,543	-	8,543	1,203	9,746
Printing	112,061	-	112,061	117	112,178
Telephone and communications	1,950	-	1,950	77,077	79,027
Maintenance and repairs	-	-	-	376	376
Audit services	-	-	-	40,560	40,560
Legal services	3,200	-	3,200	9,755	12,955
Annuity expenses	19,281	-	19,281	-	19,281
Professional services	1,155,918	-	1,155,918	207,398	1,363,316
Publicity/public relations	1,970	-	1,970	-	1,970
Rental fees	281,789	-	281,789	-	281,789
Insurance other	27,824	-	27,824	30,762	58,586
Other expenses	10,992,596	-	10,992,596	249,554	11,242,150
Dues and membership subscriptions	209,224	-	209,224	3,627	212,851
Meals and entertainment	785,048	-	785,048	2,723	787,771
Tickets	10,712	-	10,712	-	10,712
Sponsorships and donations	96,804	-	96,804	-	96,804
Gifts and flowers	36,110	-	36,110	-	36,110
Fees	95,167	-	95,167	109,812	204,979
Honorariums	28,700	-	28,700	-	28,700
University support	2,538,606	-	2,538,606	-	2,538,606
USA grants special projects	1,416,210	-	1,416,210	-	1,416,210
USA chairs professorships	-	414,712	414,712	-	414,712
Awards	-	285,131	285,131	-	285,131
Furniture and equipment	17,772	-	17,772	16,101	33,873
Construction and renovation	101,393	-	101,393	-	101,393
Scholarships	-	11,850,436	11,850,436	-	11,850,436
Fellowships	-	116,509	116,509	-	116,509
Interns and graduate assistants	-	17,574	17,574	-	17,574
	<u>\$ 18,795,841</u>	<u>\$ 12,684,362</u>	<u>\$ 31,480,203</u>	<u>\$ 1,085,152</u>	<u>\$ 32,565,355</u>

The University of Memphis Foundation
Statement of Functional Expenses
Year Ended June 30, 2022

	Program Services			Support Services	
	University Support and Operational Cost	Awards and Scholarships	Total	Management and General	Total
Salaries and benefits	\$ 493,907	\$ -	\$ 493,907	\$ 603,517	\$ 1,097,424
Conferences and travel	97,898	-	97,898	386	98,284
Supplies	281,405	-	281,405	8,866	290,271
Postage	10,259	-	10,259	1,485	11,744
Printing	105,382	-	105,382	1,564	106,946
Telephone and communications	3,777	-	3,777	1,403	5,180
Maintenance and repairs	1,301	-	1,301	10	1,311
Audit services	-	-	-	40,863	40,863
Legal services	-	-	-	8,943	8,943
Annuity expenses	19,281	-	19,281	-	19,281
Professional services	1,581,741	-	1,581,741	87,416	1,669,157
Publicity/public relations	83,650	-	83,650	-	83,650
Rental fees	109,015	-	109,015	-	109,015
Insurance other	72,315	-	72,315	15,262	87,577
Other expenses	7,659,856	-	7,659,856	149,003	7,808,859
Dues and membership subscriptions	168,018	-	168,018	100	168,118
Meals and entertainment	420,403	-	420,403	1,665	422,068
Tickets	11,764	-	11,764	-	11,764
Sponsorships and donations	1,849,538	-	1,849,538	-	1,849,538
Gifts and flowers	40,259	-	40,259	261	40,520
Fees	695,196	-	695,196	(11,799)	683,397
Honorariums	24,550	-	24,550	-	24,550
University support	1,746,646	-	1,746,646	-	1,746,646
USA grants special projects	2,003,011	-	2,003,011	-	2,003,011
USA chairs professorships	-	547,081	547,081	-	547,081
Awards	-	294,953	294,953	-	294,953
Furniture and equipment	368,492	-	368,492	-	368,492
Construction and renovation	389,470	-	389,470	-	389,470
Scholarships	-	6,495,019	6,495,019	-	6,495,019
Fellowships	-	133,791	133,791	-	133,791
Interns and graduate assistants	-	57,782	57,782	-	57,782
	<u>\$ 18,237,134</u>	<u>\$ 7,528,626</u>	<u>\$ 25,765,760</u>	<u>\$ 908,945</u>	<u>\$ 26,674,705</u>

The University of Memphis Foundation
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Increase in net assets	\$ 28,619,750	\$ 7,463,775
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized and unrealized (gain) loss on investments	(13,728,199)	20,403,712
Bad debt expense	67,295	1,034,537
Contributions restricted for endowment	(13,513,175)	(11,619,262)
Changes in operating assets and liabilities:		
Contributions receivable	(1,246,364)	(17,131,533)
Accrued interest, dividends, and other receivables	-	1,432
Accounts payable, primarily to The University of Memphis	9,427,419	1,842,950
Gift annuity obligations	(9,254)	(6,375)
	<u>(19,002,278)</u>	<u>(5,474,539)</u>
Net provided by in operating activities	9,617,472	1,989,236
Cash flows from investing activities:		
Proceeds from sale of investments	7,595,045	29,706,896
Purchases of investments	(22,717,778)	(41,367,884)
Net cash used in investing activities	(15,122,733)	(11,660,988)
Cash flows from financing activities:		
Contributions restricted for endowment	13,513,175	11,619,262
Net cash provided by financing activities	13,513,175	11,619,262
Net increase in cash	8,007,914	1,947,510
Cash, beginning of year	3,528,866	1,581,356
Cash, end of year	<u>\$ 11,536,780</u>	<u>\$ 3,528,866</u>

Notes to Financial Statements

1. Summary of Significant Accounting Policies

Organization and activities

The University of Memphis Foundation (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"). Leading citizens of the Mid-South area comprise an independent Board of Directors.

Basis of presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which requires the Foundation to report information about its financial position and operations according to the following net asset classifications:

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

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by the actions of the Foundation or by the passage of time. Other donor-imposed restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires (i.e., the donor imposed stipulated purpose has been fulfilled or the stipulated time period has elapsed), net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Support and revenue

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed 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 are reported as reclassifications between the applicable classes of net assets. During the years ended June 30, 2023 and 2022, 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.

Cash

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

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

Receivables are stated at the amount management expects to collect from outstanding balances. Management monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based upon its assessments of the current status of individual accounts. Balances that are still outstanding after a reasonable period of time has elapsed are generally written off through a charge to the valuation allowance and a credit to the appropriate 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 \$5,350,850 at June 30, 2023. These potential contributions, if received, would generally be restricted for specific purposes stipulated by the donors.

Investment valuation and income recognition

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 (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 statement of activities. Investment expenses incurred on investments are included in investment income on the statement of activities.

Administrative fee

In order to cover expenses of the Foundation's operations and provide unrestricted funds for University support, an administrative fee of 1.50% was assessed on the carrying value of accounts invested in the endowment pool for the years ended June 30, 2023 and 2022. The fee covers the cost of business office operations, provides support for University fundraising activities, and assists with other University needs. Administrative fees earned were approximately \$1,856,000 and \$2,001,000 for the years ended June 30, 2023 and 2022, respectively.

Income taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is similarly exempt from Tennessee state income taxes under applicable provisions of the Tennessee tax regulations. 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 ("UBIT") for the years ended June 30, 2023 and 2022.

The Foundation has determined that it does not have any material uncertain tax positions as of June 30, 2023.

Endowment funds

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 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 endowments 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.

Use of estimates

Management uses estimates and assumptions in preparing financial statements in accordance with 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. 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. Actual results could differ from those estimates.

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 provided 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.

Recent accounting pronouncement

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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. The effects of adopting ASU No. 2016-13 have not been determined.

Subsequent events

The Foundation has evaluated the effect subsequent events would have on the financial statements through November 7, 2023, which is the date the financial statements were available to be issued.

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, 2023 and 2022, was \$774,076 and \$637,500, respectively. Foundation operations are funded by the annual endowment administrative fee.

3. Contributions Receivable

As of June 30, 2023 and 2022, contributors to the Foundation have unconditionally promised to give as follows:

	<u>2023</u>	<u>2022</u>
Within one year	\$ 14,058,802	\$ 10,649,131
One to five years	19,850,498	21,868,222
More than five years	<u>209,753</u>	<u>400,000</u>
Total unconditional promises to give	34,119,053	32,917,353
Less allowances for uncollectible pledges	(1,829,125)	(1,843,372)
Less unamortized present value discount	<u>(1,910,667)</u>	<u>(1,873,789)</u>
	<u>\$ 30,379,261</u>	<u>\$ 29,200,192</u>

Contributions receivable beyond one year have been discounted to their net present value using interest rates of 0.28% to 4.18% as of June 30, 2023 and 2022, respectively.

4. Investments

Investments as of June 30, 2023 and 2022, are summarized as follows:

	<u>2023</u>		<u>2022</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Limited partnerships and LLCs	\$ 11,134,962	\$ 22,564,353	\$ 9,163,855	\$ 19,977,808
Mutual funds	141,394,259	157,915,595	131,785,344	131,655,671
U.S. government securities	<u>192,553</u>	<u>196,163</u>	<u>191,700</u>	<u>191,700</u>
	<u>\$152,721,774</u>	<u>\$180,676,111</u>	<u>\$141,140,899</u>	<u>\$151,825,179</u>

5. Fair Value Measurements

Accounting Standards Codification (“ASC”) 820, *Fair Value Measurements and Disclosures*, provides a common definition of fair value and establishes a framework for measuring fair value. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. These inputs are summarized in three broad levels for financial statement purposes.

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

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

Level 3: Unobservable inputs about which little or no market data exists, therefore, requiring an entity to develop its own assumptions.

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

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

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

U.S. government securities: Valued at quoted prices from less active markets and/or quoted prices of securities with similar characteristics.

Limited partnerships: Valued using Net Asset Value (“NAV”) or capital balances provided by the general partner or investment manager as a practical expedient to 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.

The University of Memphis Foundation
Notes to Financial Statements

The following tables set forth by level, within the fair value hierarchy, the Foundation's investments measured at fair value on a recurring basis as of June 30, 2023 and 2022.

Assets at Fair Value as of June 30, 2023				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Fixed income	\$ 39,556,876	\$ -	\$ -	\$ 39,556,876
International Equity	45,036,160	-	-	45,036,160
U.S. equity	<u>73,322,559</u>	-	-	<u>73,322,559</u>
Total mutual funds	157,915,595	-	-	157,915,595
U.S. government securities	-	<u>196,163</u>	-	<u>196,163</u>
Total investments in the fair value hierarchy	<u>\$157,915,595</u>	<u>\$ 196,163</u>	<u>\$ -</u>	158,111,758
Limited partnerships measured at NAV				<u>22,564,353</u>
Total				<u>\$180,676,111</u>

Assets at Fair Value as of June 30, 2022				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Fixed income	\$ 36,937,553	\$ -	\$ -	\$ 36,937,553
International equity	38,397,076	-	-	38,397,076
U.S. equity	<u>56,321,042</u>	-	-	<u>56,321,042</u>
Total mutual funds	131,655,671	-	-	131,655,671
U.S. government securities	-	<u>191,700</u>	-	<u>191,700</u>
Total investments in the fair value hierarchy	<u>\$131,655,671</u>	<u>\$ 191,700</u>	<u>\$ -</u>	131,847,371
Limited partnerships measured at NAV				<u>19,977,808</u>
Total				<u>\$151,825,179</u>

**The University of Memphis Foundation
Notes to Financial Statements**

The following table provides information related to investments that are valued based on NAV:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
June 30, 2023				
Hedged strategies- hedged equity ^(a)	\$ 182,246	\$ -	Annually	90 days
Private equity ^(b)	12,994,695	29,642,504	At Manager's discretion	N/A
Real assets ^(c)	<u>9,387,412</u>	2,337,386	At Manager's discretion	N/A
	<u>\$ 22,564,353</u>			
June 30, 2022				
Hedged strategies- hedged equity ^(a)	\$ 275,571	\$ -	Annually	90 days
Private equity ^(b)	10,692,770	13,990,963	At Manager's discretion	N/A
Real assets ^(c)	<u>9,009,467</u>	3,101,543	At Manager's discretion	N/A
	<u>\$ 19,977,808</u>			

- a) **Hedged Strategies-Hedged Equity** - This category consists of funds of funds that make long and short position equity investments.
- b) **Private Equity** - This category consists of partnerships that invest primarily in U.S. based private companies. These investments cannot be voluntarily redeemed and are subject to sale based on market demand.
- c) **Real Assets** - This category consists of investment partnerships and funds that invest primarily in U.S. and foreign commercial real estate and natural resources. Some investments in this category allow quarterly redemption, but distributions during periods of illiquidity are restricted by gate constraints.

The University of Memphis Foundation
Notes to Financial Statements

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:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for a specified purpose:		
Alumni relations	\$ 429,235	\$ 545,825
Awards	423,544	402,023
Capital improvements (1)	(1,081,424)	(3,557,796)
Centers, institutes and labs	2,801,681	2,126,730
Contributions receivable, net	21,045,095	20,155,617
Departmental/academic enrichment	9,985,745	11,660,685
Gift annuities	15,252	18,556
Operations	330,194	114,393
Professorships/chairs/visiting scholars	1,153,872	382,359
Scholarships/fellowships	5,776,809	5,018,111
Special projects/lecture series/workshops	10,802,065	11,460,734
	<u>51,682,068</u>	<u>48,327,237</u>
(1) The negative capital improvement balance is the result of the interfund advance discussed in note 8.		
Endowments:		
Subject to expenditure for a specified purpose:		
Alumni relations	351,269	220,839
Awards	1,206,633	863,474
Centers, institutes and labs	1,661,234	1,038,985
Departmental/academic enrichment	4,095,229	2,636,746
Operations	(58,108)	(224,177)
Professorships/chairs/visiting scholars	7,236,452	4,462,557
Scholarships/fellowships	12,994,833	8,598,826
Special projects/lecture series/workshops	4,386,668	2,672,105
	<u>31,874,210</u>	<u>20,269,355</u>
Perpetual in nature:		
Alumni relations	985,515	870,128
Awards	2,877,001	2,846,284
Centers, institutes and labs	6,161,943	5,319,515
Contributions receivable, net	9,334,166	9,044,562
Departmental/academic enrichment	13,012,336	11,313,264
Operations	669,617	616,378
Professorships/chairs/visiting scholars	21,971,966	16,230,499
Scholarships/fellowships	47,470,334	43,864,159
Special projects/lecture series/workshops	16,728,233	15,502,706
	<u>119,211,111</u>	<u>105,607,495</u>
Total endowment	<u>151,085,321</u>	<u>125,876,850</u>
Total net assets with donor restrictions	<u>\$ 202,767,390</u>	<u>\$ 174,204,087</u>

The University of Memphis Foundation
Notes to Financial Statements

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.

Releases from donor restrictions for the years ended June 30, 2023 and 2022, are as follows:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for a specified purpose:		
Alumni relations	\$ 394,134	\$ 133,067
Awards	77,442	16,548
Capital improvements	6,392,334	5,581,937
Centers, institutes and labs	414,251	644,629
Departmental/academic enrichment	11,032,299	6,414,806
Contributions receivable, net	50,471	670,633
Gift annuities	19,281	19,281
Operations	(265,783)	(4,488)
Professorships/chairs/visiting scholars	140,687	100,500
Scholarships/fellowships	1,563,920	1,582,137
Special projects/lecture series/workshops	<u>6,158,477</u>	<u>6,449,515</u>
	25,977,513	21,608,565
 Endowments:		
Subject to expenditure for a specified purpose:		
Alumni relations	29,387	11,835
Awards	65,303	64,853
Centers, institutes and labs	130,974	(29,688)
Contributions receivable, net	16,824	363,904
Departmental/academic enrichment	246,679	244,642
Professorships/chairs/visiting scholars	505,372	369,985
Scholarships/fellowships	1,372,309	1,360,028
Special projects/lecture series/workshops	<u>432,740</u>	<u>382,156</u>
	2,799,588	2,767,715
	\$ 28,777,101	\$ 24,376,280

7. Endowment Funds

The Foundation's endowment accounts consist of donor-restricted endowment funds and include approximately 600 individual funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment funds and (b) the original value of subsequent gifts to the permanent endowment funds. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts

The University of Memphis Foundation
Notes to Financial Statements

are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

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

Changes in endowment net assets for the period of July 1, 2021 through June 30, 2023, are as follows:

	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</u>	
July 1, 2021	\$ -	\$136,668,225	\$136,668,225
Investment return:			
Investment income	-	307,442	307,442
Net depreciation (realized and unrealized)	-	<u>(20,616,341)</u>	<u>(20,616,341)</u>
Total investment return	-	(20,308,899)	(20,308,899)
Contributions	-	12,285,239	12,285,239
Appropriation of endowment assets for expenditure	-	<u>(2,767,715)</u>	<u>(2,767,715)</u>
June 30, 2022	-	125,876,850	125,876,850
Investment return:			
Investment income	-	833,439	833,439
Net depreciation (realized and unrealized)	-	<u>13,661,445</u>	<u>13,661,445</u>
Total investment return	-	14,494,884	14,494,884
Contributions	-	13,513,175	13,513,175
Appropriation of endowment assets for expenditure	-	<u>(2,799,588)</u>	<u>(2,799,588)</u>
June 30, 2023	<u>\$ -</u>	<u>\$151,085,321</u>	<u>\$151,085,321</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 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, 2023, deficiencies of this nature existed in 55 donor-restricted endowment funds, which together have an original gift value of \$13,090,464, a current fair value of \$12,032,112, and a deficiency of \$1,058,352. At June 30, 2022, deficiencies of this nature existed in 132 donor-restricted endowment funds, which together have an original gift value of \$27,918,831, a current fair value of \$25,226,167, and a deficiency of \$2,692,813.

Return objectives and risk parameters

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

Strategies employed for achieving objectives

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

Spending policy and how the investment objectives relate to spending policy

The Foundation has a policy of budgeting for expenditure each year a percentage of its endowment funds' average fair value over the prior twelve quarters through the fiscal year-end one year preceding the fiscal year in which the expenditure is planned. For fiscal years 2023 and 2022, this percentage was 4.00%. 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 \$44,103 and \$131,980 from underwater endowment funds during the years ended June 30, 2023 and 2022, respectively, which represents 2% 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 \$32,565,351 and \$26,674,706 for the years ended June 30, 2023 and 2022, respectively. The Foundation had accounts payable to the University in the amount of \$13,563,123 and \$5,351,290 as of June 30, 2023 and 2022, respectively.

During fiscal year 2021, the Foundation entered an agreement with the Auxiliary Services Foundation ("ASF"), an affiliate within the University, to transfer future donated funds designated for University Athletics to ASF. ASF then obtained an unsecured bank loan in the amount of \$12,000,000 for the purposes of providing financial support to University Athletics due to short term financial shortfalls within University Athletics due to the impact of COVID-19 on University Athletics revenue. The Foundation is not a party to the loan agreement with the bank but has agreed to transfer future donations designated for University Athletics to the ASF to cover the debts service based on direction and approval from the University.

The Foundation also had accounts payable due to ASF in the amount of \$1,517,136 as of June 30, 2023 and 2022, respectively.

Interfund advance

The Foundation has agreed to advance up to \$10,976,899 to an internal Foundation fund as an interfund advance benefiting the athletic department of the University at a 4.00% 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 \$3,949,433 and \$5,810,969 were outstanding as of June 30, 2023 and 2022, respectively.

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 \$249,509 and \$149,003 for the years ended June 30, 2023 and 2022, 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 36% and 52% of the Foundation's contributions receivable at June 30, 2023 and 2022, was due from six donors.

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, TN

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"), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise, and have issued our report thereon dated November 7, 2023.

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 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 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 were not identified.

FORVIS

Report on 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*.

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.

FORVIS,LLP

Memphis, Tennessee
November 7, 2023

7. External Audit Report – University of Memphis Research Foundation Financial Statements, Year Ended June 30, 2023

Presentation

Presented by Vicki Deaton

The University of Memphis Board of Trustees

Presentation
For Information

Date: December 12, 2023

Committee: Audit Committee

Presentation: External Audit Report - University of Memphis Research Foundation Financial Statements, June 30, 2023

Presented by: Vicki D. Deaton, Chief Audit Executive

Background:

On October 26, 2023, the University of Memphis Research Foundation Financial Statements, June 30, 2023 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 Foundation is a component unit of the University of Memphis.

From the Audit Report's Management Discussion and Analysis: The University of Memphis Research Foundation (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, 2022, the Foundation held fifty-two (52) patents assigned 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 Foundation's financial statements incorporate the activities of the Foundation's wholly owned subsidiary, UMRF Ventures, Inc., as a component unit. UMRF Ventures was incorporated in 2017 with the mission to create good paying, part-time jobs for UofM students in a professional on-campus environment, and to provide the students with financial resources, relevant job experience, and potential pathways to future full-time employment. UMRF Ventures started as a partnership with FedEx and now employs over 150 University of Memphis students working with FedEx, Raymond James, Sedgwick, the City of Memphis, and others. The goals of UMRF Ventures are to provide good-paying jobs and professional development that fill a talent pipeline for companies in our region, especially our partners; provide a high-quality service to our customers; and benefit the research efforts of the UofM, which supports its R1 status today and into the future.

The Foundation engaged an independent external CPA firm, Watkins Uiberall, PLLC, to perform an audit of the financial statements of the business-type activities and discretely presented component unit of the University of Memphis Research Foundation. 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 Foundation as of June 30, 2023, 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 with certain provisions of laws, regulations, contracts, grant agreements, or other matters that are required to be reported under Government Auditing Standards.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION
FINANCIAL STATEMENTS

June 30, 2023



TABLE OF CONTENTS

	PAGE
Board of Directors and Management Officials	1
Independent Auditor's Report	2
Management's Discussion and Analysis	4
Statement of Net Position	10
Statement of Revenues, Expenses, and Changes in Fund Net Position	11
Statement of Cash Flows	12
Notes to Financial Statements	14
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	24
Schedule of Findings and Responses	25
Summary Schedule of Prior Year Findings and Responses	26

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION
BOARD OF DIRECTORS AND MANAGEMENT OFFICIALS
JUNE 30, 2023

BOARD OF DIRECTORS

Bill Hardgrave	Chairman
David Scully	Secretary/Treasurer
Cody Behles	Director
Richard Bloomer	Director
Jan Bouten	Director
Lakita Cavin	Director
Erika Dillard	Director
Gary Emmert	Director
Tom Kadien	Director
Raajkumar Kurapati	Director
Brad Phillips	Director
Firouzeh Sabri	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 Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of The University of Memphis Research Foundation, a component unit of The University of Memphis, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise The University of Memphis Research Foundation's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of The University of Memphis Research Foundation, as of June 30, 2023, 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.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2023, 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 University of Memphis Research Foundation's internal control over financial reporting and compliance.

Watkins Mikusall, PLLC

Memphis, Tennessee
October 26, 2023

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS PRIMARY GOVERNMENT

JUNE 30, 2023

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, 2023. 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, 2023. 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 for research
- 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, 2023.

The statement of cash flows details how cash has increased or decreased during the fiscal year ended June 30, 2023. It classifies the sources and uses of Foundation cash into the following categories:

- Operating activities
- Investing activities
- Capital financing activities
- Noncapital 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, 2023, the Foundation held fifty-two patents assigned 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, 2023

Financial Highlights and Key Trends

During fiscal year 2023, the Foundation continued to manage sponsored projects processed through the Foundation and to operate the UMRF Research Park. The Foundation made capital improvements of \$90,315 to the research park and awarded \$20,000 to a UMRF Professorship recipient.

The financial statements reflect the implementation in fiscal year 2023 of Governmental Accounting Standards Board (GASB) Statement No. 87 *Leases*. Under this standard, the Foundation is required as lessee to recognize a lease liability and an intangible right of use asset, and as lessor, to recognize a lease receivable and a deferred inflow of resources.

Statement of Net Position

Current assets include cash, investments, and receivables expected to be collected in the coming year. Capital assets include patents, leasehold improvements, and right of use asset related to leases. Other assets include notes receivable, rent receivable under leases, and equity interest in UMRF Ventures, Inc. Current liabilities include payables, current portion of lease liabilities, unearned revenue expected to be recognized in the next fiscal year, and security deposits from UMRF Research Park residents. Long term liabilities are for lease obligations.

Net position is divided into three categories. The first category, net investment in capital assets, represents the Foundation's investment in capital assets, net of accumulated depreciation or amortization, and net of any outstanding debt or lease obligations related to those capital assets. The next category is restricted for research. 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 is comprised of reserved and unreserved funds. Reserved funds are designated for specific purposes; unreserved funds may be used to meet expenses for any lawful purpose. On June 30, 2023, reserved funds totaled \$648,114 and unreserved funds totaled \$2,445,806.

Funds held on June 30, 2023, by an investment broker on behalf of the Foundation totaled \$1,807,437. Of this amount, \$1,696,224 represents investments at fair value and \$111,213 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, 2023 and 2022 is as follows:

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
PRIMARY GOVERNMENT (CONTINUED)**

JUNE 30, 2023

	<u>2023</u>	<u>2022</u>
Assets		
Current assets	\$ 2,347,063	\$ 2,232,111
Capital Assets	735,587	594,172
Other assets	<u>1,744,492</u>	<u>1,470,784</u>
Total assets	<u>\$ 4,827,142</u>	<u>\$ 4,297,067</u>
Liabilities		
Current liabilities	\$ 877,515	\$ 978,976
Long-term liabilities	<u>43,506</u>	<u>-</u>
Total liabilities	<u>\$ 921,021</u>	<u>\$ 978,976</u>
Deferred inflows	<u>\$ 291,159</u>	<u>-</u>
Net position		
Net investment in capital assets	\$ 679,365	\$ 594,171
Restricted, expendable for research	216,435	216,435
Unrestricted	<u>2,719,162</u>	<u>2,507,485</u>
Total net position	<u>\$ 3,614,962</u>	<u>\$ 3,318,091</u>

The increase in total assets is primarily due to recording right of use asset and lease receivable, and increase in equity interest in subsidiary.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS PRIMARY GOVERNMENT (CONTINUED)

JUNE 30, 2023

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, 2023 and 2022, is as follows:

	<u>2023</u>	<u>2022</u>
Operating revenues	\$ 2,023,230	\$ 1,156,700
Operating expenses	<u>(1,899,168)</u>	<u>(956,762)</u>
Operating income (loss)	124,062	199,938
Nonoperating income (expense)		
Royalty income	24,511	23,548
Net investment income	58,958	(71,005)
Increase (decrease) equity interest in subsidiary	<u>89,340</u>	<u>(52,715)</u>
Change in net position	<u>\$ 296,871</u>	<u>\$ 99,766</u>

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

Operating revenues and expenses increased due to more projects being completed during the fiscal year.

The increase in net investment income resulted from a current year unrealized gain in the investment portfolio compared to a large unrealized loss in the prior year..

Statement of Cash Flows

In fiscal 2023, cash inflows came from sponsored project revenue, 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, 2023

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, 2023. 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

UMRF Ventures, Inc. is 6 years old. What started with a partnership with FedEx that employed 23 students, has become a company that employs over 150 University of Memphis students working additionally with Raymond James, Sedgwick, and the City of Memphis to name a few. Our goals are to provide good-paying jobs and professional development that fill a talent pipeline for companies in our region, especially our partners; provide a high-quality service to our customers; and benefit the research efforts of the University, which supports its R1 status today and into the future.

Despite additional cuts in contractual revenue by FedEx, the Company renewed 100% of existing agreements and signed new agreements, ending the fiscal year with a positive net income. In addition, the Board of Directors approved a resolution to issue a dividend payment of \$80,000 to the Foundation.

We anticipate growth with businesses in healthcare and utilities as well as new contracts with existing customers. For the fiscal year ending 2024, we are projecting modest revenue growth and an increase in profitability.

Statement of Net Position

Current assets include cash, receivables expected to be collected in the coming year and prepaid expenses. Other assets consist of capital assets and federal income tax benefit. Current liabilities include payables, accrued payroll and the current portion of loan and lease liabilities. Long-term liabilities include lease obligations and 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, 2023

A summary of the major components of the net position of the Company as of June 30, 2023 and 2022, is as follows:

	2023	2022
Assets		
Current assets	\$ 1,831,445	\$ 1,896,210
Capital assets	1,598,378	412,156
Income tax benefit	37,459	41,323
Total assets	\$ 3,467,282	\$ 2,349,689
Liabilities		
Current liabilities	\$ 664,738	\$ 615,486
Long-term liabilities	1,467,420	488,419
Total liabilities	\$ 2,132,158	\$ 1,103,905
Net position		
Net investment in capital assets	\$ 21,048	\$ 87,544
Unrestricted	1,314,076	1,158,240
Total net position	\$ 1,335,124	\$ 1,245,784

Capital assets and long-term liabilities increased due to the recording of right of use asset and the related lease liabilities in accordance with the provisions of Government Accounting Standards Board (GASB) Statement 87 *Leases*.

Statement of Revenues, Expenses, and Changes in Net Assets

A summary of the statement of revenues, expenses, and changes in net position for the years ended June 30, 2023 and 2022, is as follows:

	2023	2022
Operating revenues	\$ 5,094,007	\$ 5,780,699
Operating expenses	(5,002,067)	(5,850,117)
Operating income (loss)	91,940	(69,418)
Nonoperating income (expense)		
Income tax benefit (expense)	(2,100)	17,703
Charity	(500)	(1,000)
Change in net position	\$ 89,340	\$ (52,715)

The decrease in operating revenues and expenses is primarily due to contract cutbacks by FedEx. In addition, like many businesses, the Company was impacted by the continuing labor shortage.

Statement of Cash Flows

Cash inflows came from contract revenue. Cash outflows were for operating expenses, purchase of equipment and repayment toward loans.

Future

The long-range vision of the Company is to increase its brand awareness, grow annual revenue to \$10 million, provide jobs and financial resources to more than 500 students per year, and to dividend profits back to the Foundation.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

STATEMENT OF NET POSITION

FOR THE YEAR ENDED JUNE 30, 2023

	Primary Government	Component Unit
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 540,160	\$ 850,845
Investment securities	1,696,224	-
Accounts receivable	-	974,026
Leases receivable - current	110,679	-
Prepaid expenses	-	6,574
Total current assets	<u>2,347,063</u>	<u>1,831,445</u>
Capital Assets, net		
Property and equipment, net	90,315	126,008
Right of use asset	57,803	1,472,370
Patents, net of amortization	587,469	-
Total capital assets	<u>735,587</u>	<u>1,598,378</u>
Other Assets		
Notes receivable	225,000	-
Leases receivable	184,368	-
Equity interest in subsidiary	1,335,124	-
Federal income tax benefit	-	37,459
Total other assets	<u>1,744,492</u>	<u>37,459</u>
Total Assets	<u><u>\$ 4,827,142</u></u>	<u><u>\$ 3,467,282</u></u>
LIABILITIES , DEFERRED INFLOWS AND NET POSITION		
Current Liabilities		
Current portion of other long-term debt	\$ -	\$ 35,487
Current portion of related party debt	-	96,695
Current portion of lease liabilities	12,716	299,423
Payable to The University of Memphis	329,671	6,273
Accounts payable	1,444	10,692
Unearned revenue	525,718	-
Accrued payroll and other liabilities	7,966	216,168
Total current liabilities	<u>877,515</u>	<u>664,738</u>
Long-term Liabilities		
Long-term debt	-	21,619
Related party debt - long term	-	225,000
Lease liabilities	43,506	1,220,801
Total long-term liabilities	<u>43,506</u>	<u>1,467,420</u>
Deferred inflows under lease agreements	291,159	-
Net Position		
Net investment in capital assets	679,365	21,048
Restricted for research	216,435	-
Unrestricted	2,719,162	1,314,076
Total net position	<u>3,614,962</u>	<u>1,335,124</u>
Total Liabilities, Deferred Inflows and Net Position	<u><u>\$ 4,827,142</u></u>	<u><u>\$ 3,467,282</u></u>

See accompanying notes to the financial statements

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2023

	Primary Government	Component Unit
Operating Revenue		
Contract revenue	\$ 1,817,769	\$ 5,094,007
Patent contributions	58,638	-
Income from Research Park	146,823	-
Total operating revenues	<u>2,023,230</u>	<u>5,094,007</u>
Operating Expenses		
Depreciation and amortization	55,485	369,513
General and administrative	-	53,166
Insurance	4,849	85,223
Interest	2,392	87,867
Network services	22,462	35,491
Other	910	37,981
Payroll taxes	-	353,547
Professional fees	13,150	79,774
Rent	-	4,758
Repairs and maintenance	-	14,502
Research park expenses	6,913	-
Research projects	1,785,608	-
Royalty distributions	7,399	-
Salaries	-	3,880,245
Total operating expenses	<u>1,899,168</u>	<u>5,002,067</u>
Operating Income	<u>124,062</u>	<u>91,940</u>
Other Income (Expense)		
Royalty income	24,511	-
Net investment income	58,958	-
Increase in equity interest in subsidiary	89,340	-
Charity	-	(500)
Total other income (expense)	<u>172,809</u>	<u>(500)</u>
Income Before Income Taxes	296,871	91,440
Income Tax Expense	-	(2,100)
Change in Net Position	296,871	89,340
Net Position, Beginning of Year	<u>3,318,091</u>	<u>1,245,784</u>
Net Position, End of Year	<u>\$ 3,614,962</u>	<u>\$ 1,335,124</u>

See accompanying notes to the financial statements

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2023

	Primary Government	Component Unit
Cash flows from operating activities		
Cash received from sponsors	\$ 1,582,626	\$ -
Cash received from contracts	-	4,983,421
Cash received from Research Park	98,831	-
Cash received from Component Unit	42,906	-
Cash payments to The University of Memphis	(1,668,351)	(54,766)
Cash payments to Primary Government	-	(4,758)
Cash payments to suppliers	(27,425)	(274,798)
Cash payments to employees	-	(4,305,521)
Cash payments for state franchise taxes	-	(2,547)
Net cash provided by operating activities	<u>28,587</u>	<u>341,031</u>
Cash flows from capital and related financing activities		
Purchases of property and equipment	(90,315)	-
Payments to reduce lease liability	(16,080)	(310,941)
Repayment of long-term debt	-	(54,064)
Net cash used for capital and related financing activities	<u>(106,395)</u>	<u>(365,005)</u>
Cash flows from noncapital financing activities		
Repayment of related party debt	-	(124,484)
Cash payments for interest	-	(26,028)
Net cash used for noncapital financing activities	<u>-</u>	<u>(150,512)</u>
Cash flows from investing activities		
Purchases of investments	(720,000)	-
Investment maturities	460,000	-
Proceeds from the sale of investments	512,291	-
Income from royalties	24,511	-
Income from investments	23,313	-
Net cash provided by investing activities	<u>300,115</u>	<u>-</u>
Change in cash and cash equivalents	222,307	(174,486)
Cash and cash equivalents at beginning of year	<u>317,853</u>	<u>1,025,331</u>
Cash and cash equivalents at end of year	<u>\$ 540,160</u>	<u>\$ 850,845</u>
Noncash capital and related financing transactions		
Right of use assets acquired through long-term leases	<u>\$ 70,096</u>	<u>\$ 1,594,687</u>

See accompanying notes to the financial statements

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

STATEMENT OF CASH FLOWS (Continued)

FOR THE YEAR ENDED JUNE 30, 2023

	<u>Primary Government</u>	<u>Component Unit</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 124,062	\$ 91,940
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	43,190	369,513
Noncash termination of lease liability	-	40,171
Patent contributions	(58,638)	-
Patent impairment loss	22,151	-
Changes in operating assets and liabilities		
(Increase) decrease in operating assets:		
Accounts receivable	-	(110,780)
Prepaid expenses	-	865
Increase (decrease) in operating liabilities		
Accounts payable	(4,548)	6,443
Payable to the University of Memphis	(221,169)	(3,858)
Accrued payroll and other liabilities	(1,700)	(51,911)
State taxes payable	-	(1,352)
Unearned revenue	125,239	-
Net cash provided by operating activities	<u>\$ 28,587</u>	<u>\$ 341,031</u>

See accompanying notes to the financial statements.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2023

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. UMRV 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 a component unit 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 from services rendered on contracts and for certain rents as of June 30, 2023. 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, 2023.

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 cost incurred by The University, which approximates the estimated fair value on the date of donation.

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 impairment loss of \$22,151 for the year ended June 30, 2023.

Deferred Inflows of Resources

Deferred inflows of resources represents acquisitions of assets that apply to a future period which will not be recognized as inflows of resources (revenue) until that future period.

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 or lease 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. The policies of The University require that certain amounts be held in reserve for specified uses. Additional amounts are reserved due to Foundation policy.

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.

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.

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.

Leases

The Foundation follows the provisions of Governmental Accounting Standards Board (GASB) Statement 87, *Leases*, which requires, lessees to recognize substantially all leases on the balance sheet as both right of use assets and lease liabilities. Right of use assets are amortized over the shorter of the term of the lease or the useful life of the underlying asset. Payments made under lease agreements are reported as reductions in the lease liability and outflows of resources in the form of interest expense.

The Foundation also holds several subleases and functions as a lessor. Lease related amounts are recognized at the inception of leases in which the Foundation is the lessor. The Foundation records corresponding lease receivables plus certain additional amounts received from the lessee at or before the commencement of the lease term that relate to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term. Deferred inflow of resources is recorded in an amount equal to that of the lease receivable at the inception of the lease, and inflow of resources (rental income) is recognized in a systematic and rational manner over the term of the lease.

Date of Management's Review

The Foundation evaluated its June 30, 2023 financial statements for subsequent events through October 26, 2023, the date the financial statements were available to be issued. Management is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

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, 2023, the Foundation had deposits which exceeded federally insured limits by \$178,947.

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, 2023, investment securities consisted of U.S. Treasury notes, brokered certificates of deposit and publicly traded mutual funds with fair values totaling \$1,696,224.

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, 2023, the following table presents the Foundation's financial assets measured at fair value on a recurring basis:

	Fair Value	Level 1	Level 2
Brokered Certificates of Deposit	\$ 719,064	\$ -	\$ 719,064
Mutual Funds	977,160	977,160	-
	<u>\$ 1,696,224</u>	<u>\$ 977,160</u>	<u>\$ 719,064</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 U.S. Treasury notes and 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 – CAPITAL ASSETS

As of June 30, 2023, capital assets consisted of the following:

	Balance June 30, 2022	Additions	Impairment	Balance June 30, 2023
Leasehold improvements	\$ -	\$ 90,315	\$ -	\$ 90,315
Right of use assets		70,096		70,096
Patents	809,526	58,638	(47,587)	820,577
	<u>809,526</u>	<u>219,049</u>	<u>(47,587)</u>	<u>980,988</u>
Less depreciation and amortization	(215,352)	(55,485)	25,436	(245,401)
	<u>\$ 594,174</u>	<u>\$ 163,564</u>	<u>\$ (22,151)</u>	<u>\$ 735,587</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.

NOTE 7 – LEASES

Lease Receivable

Sublease receivable from UMRF Ventures, Inc. for office space, computed using the subtenant's incremental borrowing rate of 4.0 percent with monthly lease payments of \$4,167 through maturity at August 2025. \$ 103,248

Subleases receivable from unrelated third parties for office space, computed using the incremental borrowing rate of 4.0 percent with monthly lease payments totaling \$6,728 with the largest sublease expiring April 2027. 191,799

Less: Current portion (110,679)

191,799
<u>295,047</u>
<u>(110,679)</u>
<u><u>\$ 184,368</u></u>

Deferred Inflows under Lease Agreements \$ 291,159

Lease Liabilities

Lease payable to The University of Memphis for office space, computed using the incremental borrowing rate of 4.0 percent with quarterly lease payments of \$1,750 from September 2022 through maturity at August 2025. The office space is simultaneously subleased to UMRF Ventures, Inc..

Lease payable to The University of Memphis for office space, computed using the incremental borrowing rate of 4.0 percent with quarterly lease payments of \$1,946 from July 2022 through maturity at November 2029. Portions of this office space is subleased to unrelated third parties; some subtenants are under long-term subleases and others under month-to-month arrangements.

Total Lease Liabilities \$ 56,222

Less: Current portion (12,716)

Long-term lease liabilities \$ 43,506

<u>(12,716)</u>
<u><u>\$ 43,506</u></u>

Principal and interest payments due on related party leases for the next seven years ending June 30 are as follows:

	Interest	Principal
2024	\$ 2,067	\$ 12,716
2025	1,549	13,234
2026	1,115	6,668
2027	844	6,939
2028	561	7,222
2029-2030	286	9,443
	<u><u>\$ 6,422</u></u>	<u><u>\$ 56,222</u></u>

The following lists the changes in lease obligations by individual issue:

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Final Maturity Date	Outstanding July 01, 2022	Issued During Period	Matured During Period	Outstanding June 30, 2023	Due Within One year
Lease liabilities - University of Memphis -									
Highland Library/Defense									
Audit Building	\$ 70,096	4.00%	07/01/22	11/30/29	<u>\$ -</u>	<u>\$ 70,096</u>	<u>\$ 13,874</u>	<u>\$ 56,222</u>	<u>\$ 12,716</u>

NOTE 8 - CONCENTRATIONS

The Foundation received all contract billings from one funding source during the year ended June 30, 2023.

NOTE 9 – NET POSITION

The unrestricted net position balance consists of two components, reserved and unreserved funds.

Reserved – amounts intended to be used by the Foundation for a specific purpose but are not restricted by external parties or enabling legislation. In accordance with policies of the University and the Foundation, the balances for the following items are considered reserved for the purposes specified below and are not available for general use:

1. Royalty income designated as:
 - a. Recovery of patent legal fees,
 - b. Distribution to The University of Memphis Office of Technology Transfer, or
 - c. Distribution to the FedEx Institute of Technology.
2. Project residuals that are no longer restricted but have been designated for future research expenditures for approved projects led by the original principal investigator.
3. Unexpended net cash flows from the Research Park which are intended for further development of the Research Park.

Available – represents the residual balance available for the general use of the Foundation.

As of June 30, 2023, the unrestricted net position is composed of the following balances:

Unrestricted net position	
Reserved	
Accumulated royalty income	\$ 158,948
Project residuals	402,897
Research park unexpended net cash flow	86,269
	<u>648,114</u>
Available	<u>2,071,048</u>
Total unrestricted net position	<u>\$ 2,719,162</u>

NOTE 10 – OTHER 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, 2023, the Foundation made cash transfers to The University in the amount of \$1,684,431. As of June 30, 2023, the Foundation had payables to The University totaling \$329,671.

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, 2024. The Foundation received interest relating to this loan totaling \$11,250 during the year ended June 30, 2023. The Foundation received rent payments of \$50,000 from UMRF Ventures, Inc. during the year ended June 30, 2023.

NOTE 11 - 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 20 - 23.

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, 2023. 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, 2023.

Property and Equipment

Property, equipment, major renewals, and betterments are recorded at cost for individual items \$5,000 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.

Date of Management's Review

The Foundation evaluated its June 30, 2023 financial statements for subsequent events through October 26, 2023, the date the financial statements were available to be issued. Management is not aware of any subsequent events which would require recognition or disclosure in the 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, 2023, the Company had deposits in excess of federally insured limits in the amount of \$508,097.

NOTE 3 – CAPITAL ASSETS

As of June 30, 2023, capital assets consisted of the following:

	Balance June 30, 2022	Additions	Dispositions	Balance June 30, 2023
Leasehold improvements	\$ 183,396	\$ -	\$ -	\$ 183,396
Furniture & fixtures	363,525	-	-	363,525
Right of use assets	321,296	1,594,687	(61,210)	1,854,773
	<u>868,217</u>	<u>1,594,687</u>	<u>(61,210)</u>	<u>2,401,694</u>
Less depreciation and amortization	(456,061)	(369,513)	22,258	(803,316)
Total Capital Assets	<u>\$ 412,156</u>	<u>\$ 1,225,174</u>	<u>\$ (38,952)</u>	<u>\$ 1,598,378</u>

NOTE 4 - LONG-TERM DEBT

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, 2024.

\$ 225,000

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

96,695

321,695

Less: Current portion

(96,695)

Related party debt - long term

\$ 225,000

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

	Interest	Principal
2024	\$ 13,191	\$ 96,695
2025	2,527	225,000
	<u>\$ 15,718</u>	<u>\$ 321,695</u>

Interest expense related to the above related party notes for the year ended June 30, 2023 amounted to \$11,250 for The University of Memphis Research Foundation and \$6,995 for The University of Memphis – Herff Trust.

Other Long-Term Debt

Note payable to a finance company, bearing interest at 1 percent, due in monthly payments of principal and interest of \$2,707 beginning October 2020 and maturing September 2023. Secured by equipment with a book value of \$30,391.

\$ 9,476

Note payable to a finance company, bearing interest at 1 percent, due in monthly payments of principal and interest of \$2,672 beginning May 2022 and maturing April 2025. Secured by equipment with a book value of \$57,498.

47,630

57,106

Less: Current portion

(35,487)

Long-term debt

\$ 21,619

Principal and interest payments due on other long-term debt for the next two years ending June 30 are as follows:

	Interest	Principal
2024	\$ 6,097	\$ 35,487
2025	1,793	21,619
	<u>\$ 7,890</u>	<u>\$ 57,106</u>

The following lists the changes in debt by individual issue:

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Final Maturity Date	Outstanding July 01, 2022	Paid and/or		Outstanding June 30, 2023	Due Within One year
						Issued During Period	Matured During Period		
Loan - University of Memphis Research Foundation	\$ 225,000	5.00%	09/20/18	09/20/24	\$ 225,000	\$ -	\$ -	\$ 225,000	\$ -
Loan - University of Memphis - Herff Trust	500,000	4.00%	01/16/19	12/31/23	221,179	-	124,484	96,695	96,695
Loan - Finance Company	102,796	1.00%	06/30/20	09/01/23	41,218	-	31,742	9,476	9,476
Loan - Finance Company	76,664	1.00%	04/01/22	04/01/25	69,952		22,322	47,630	26,011
Total Loans					\$ 557,349	-	\$ 178,548	\$ 378,801	\$ 132,182

NOTE 5 - LEASES WITH RELATED PARTIES

The Company subleases office space from The University of Memphis Research Foundation. The sublease for the space expired in November 2021, and the Company continued to occupy the facilities on a month-to-month until a new sublease was executed in May 2023. The lease liabilities and related right of use asset arising from this lease are recorded on the books of the Company. The Company paid rent in the amount of \$50,000 to The University of Memphis Research Foundation for this space during the year ended June 30, 2023.

The Company leases other facilities from The University of Memphis, a related party. The lease liabilities and related right of use assets arising from these leases are also recorded on the books of the Company.

Information regarding these lease liabilities are as follows:

Lease payable to The University of Memphis for office space, computed using the incremental borrowing rate of 4.0 percent with monthly lease payments of \$3,262 July 2021 through March 2022; \$3,360 April 2022 through March 2023 and \$3,461 April 2023 through maturity at March 2024.	\$ 30,639
Lease payable to The University of Memphis for office space, computed using the incremental borrowing rate of 4.0 percent with monthly lease payments of \$17,284 July 2022 through November 2023; with annual use fee escalator of 3% through November 2024, with an option to renew through November 30, 2029.	1,326,550
Lease payable to The University of Memphis for office space, computed using the incremental borrowing rate of 4.0 percent with monthly lease payments of \$4,420 August 2021 through July 2022; \$4,553 August 2022 through July 2023 and \$4,690 August 2023 through July 2024. maturity at July 2024.	59,787
Lease payable to The University of Memphis Research Foundation for office space, computed using the incremental borrowing rate of 4.0 percent with monthly lease payments of \$4167 through maturity at August 2025.	<u>103,248</u>
	1,520,224
Less: Current portion	<u>(299,423)</u>
Long-term lease liabilities	<u>\$ 1,220,801</u>

Principal and interest payments due on related party leases for the next three years ending June 30 are as follows:

	Interest	Principal
2024	\$ 55,238	\$ 299,423
2025	44,518	234,064
2026	35,663	203,279
2027	27,551	209,976
2028	18,865	225,788
2029	10,585	347,694
	<u>\$ 192,420</u>	<u>\$ 1,520,224</u>

NOTE 6 - 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, 2023, the Company incurred immaterial expenses from The University for data usage fees, parking and other office expenses. As of June 30, 2023, the Company had \$6,273 due to The University for various expenses and fees.

NOTE 7- 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 2021, 2022 and 2023 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.

As of June 30, 2023, the federal income tax benefit consists of the following:

Net operating loss carryforward	\$ 138,021
Excess book depreciation	40,355
Future taxable loss	178,376
Statutory rate	21%
Federal and state income tax benefit	<u>\$ 37,459</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, 2023.

NOTE 8 – CONCENTRATIONS

The Company provides services to three major customers who account for almost all of the revenue and related accounts receivable. One customer accounts for sixty-six percent and seventy-five percent of revenues and accounts receivable, respectively.

**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 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 discretely presented component of The University of Memphis Research Foundation, a component unit of The University of Memphis, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise of The University of Memphis Research Foundation's basic financial statements, and have issued our report thereon dated October 26, 2023

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether The University of 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Watkins Uiberall, PLLC

Memphis, Tennessee
October 26, 2023

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2023

No matters were reported as findings for the year ended June 30, 2023.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
JUNE 30, 2023

No matters were reported as findings for the year ended June 30, 2022.

8. Information Security Program Update

Presentation

Presented by Karen Bell

The University of Memphis Board of Trustees

Date: 12/12/2023

Committee: Audit Committee

Presentation: Information Security Program Update

Presented by: Karen Bell

Background: Quarterly update on the Information Security Program.

Information Security Program Update Audit Committee

Karen Bell
Interim Chief Information Officer

December 12, 2023
Maxine A. Smith University Center



**Board of
Trustees**

- Gramm-Leach-Bliley Act (GLBA) Safeguard Rule
- UofM is subject to GLBA compliance
- Most rule changes were effective June 2023
- In Spring 2023, State of TN audit of GLBA controls

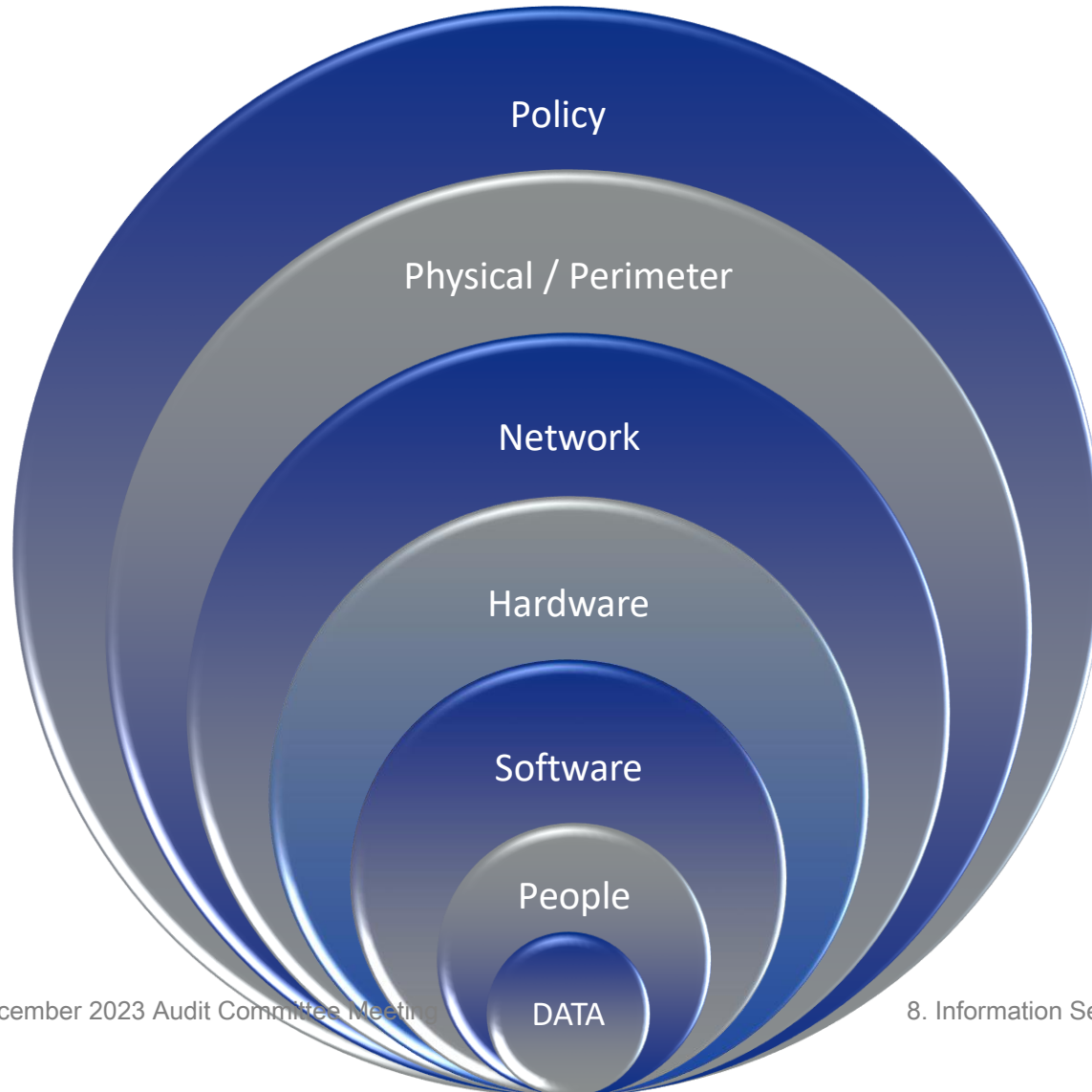
- Overall status of information security program: Effective with opportunities for improvement

- Examples of activities that support the information security program:
 - Risk assessment, management, and controls
 - Service Provider arrangement
 - Contractual language for information security
 - External assessments
 - Security events and incident responses
 - Information Security Training Compliance Policy
- This presentation fulfills the requirement to provide updates at least annually to institution's governing body.

- 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)



Defense in Depth at UofM



Policy

- Multi-factor authentication and passwords
- Purchasing controls
- Audit and access controls
- Security Awareness training

Physical / Perimeter

- Locks, security cameras, sensors, and environmental controls
- Redundancy
- Segmentation (e.g., Internet of Things)

Network

- Firewalls and VPN
- Network access control, blocking malicious activity
- Compartmentalization
- Encryption

Hardware

- Regular updates to equipment
- Encryption

Software

- Regular updates and patches
- Encryption

People

- Training and data loss prevention
- Access controls
- Multi-factor authentication
- Monitor for anomalies

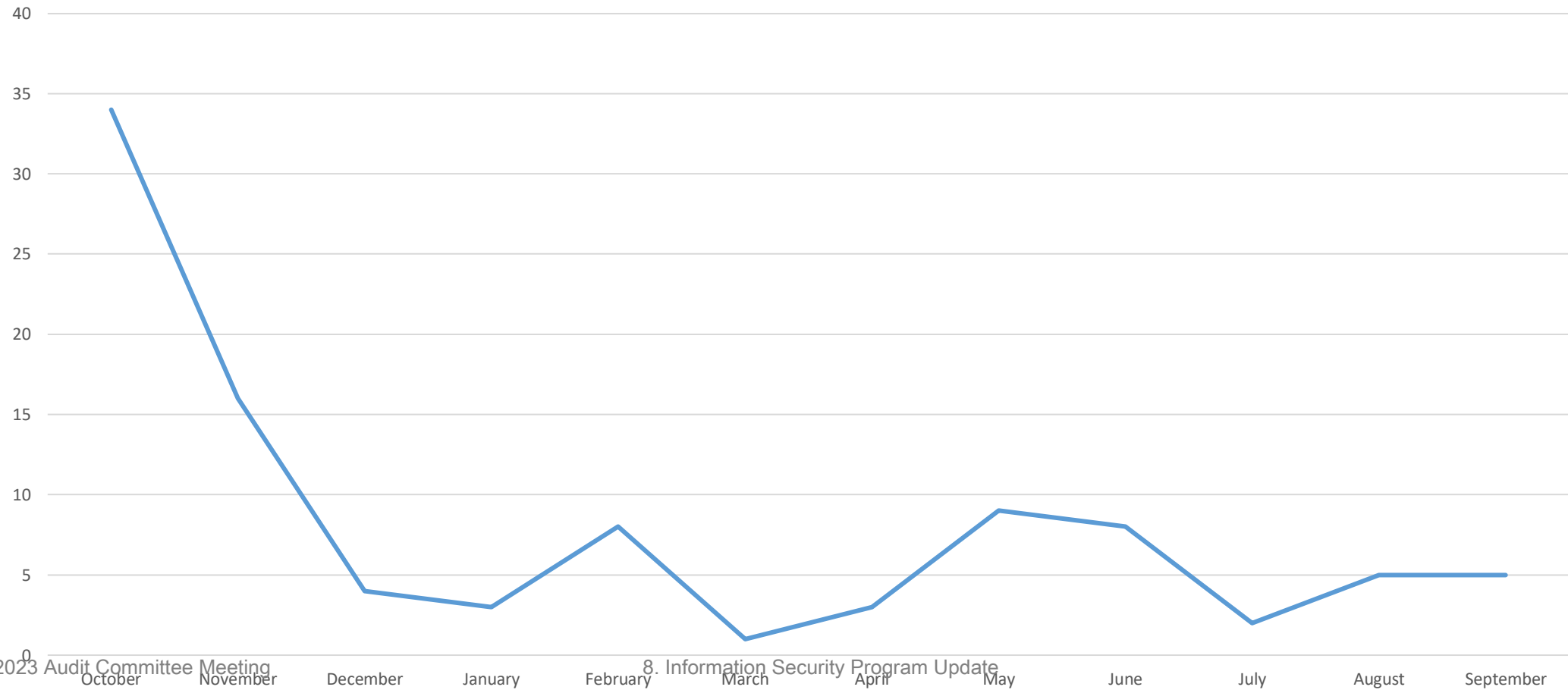
Data

- Encryption
- Access controls and auditing
- Least privileged access

- Network Access Control
 - Completed work in academic buildings
 - Planning for additional controls
- Security Awareness training cycle underway
 - Penalties for non-compliance
- Information Security Awareness Training Compliance Policy
- Addressing compliance gaps

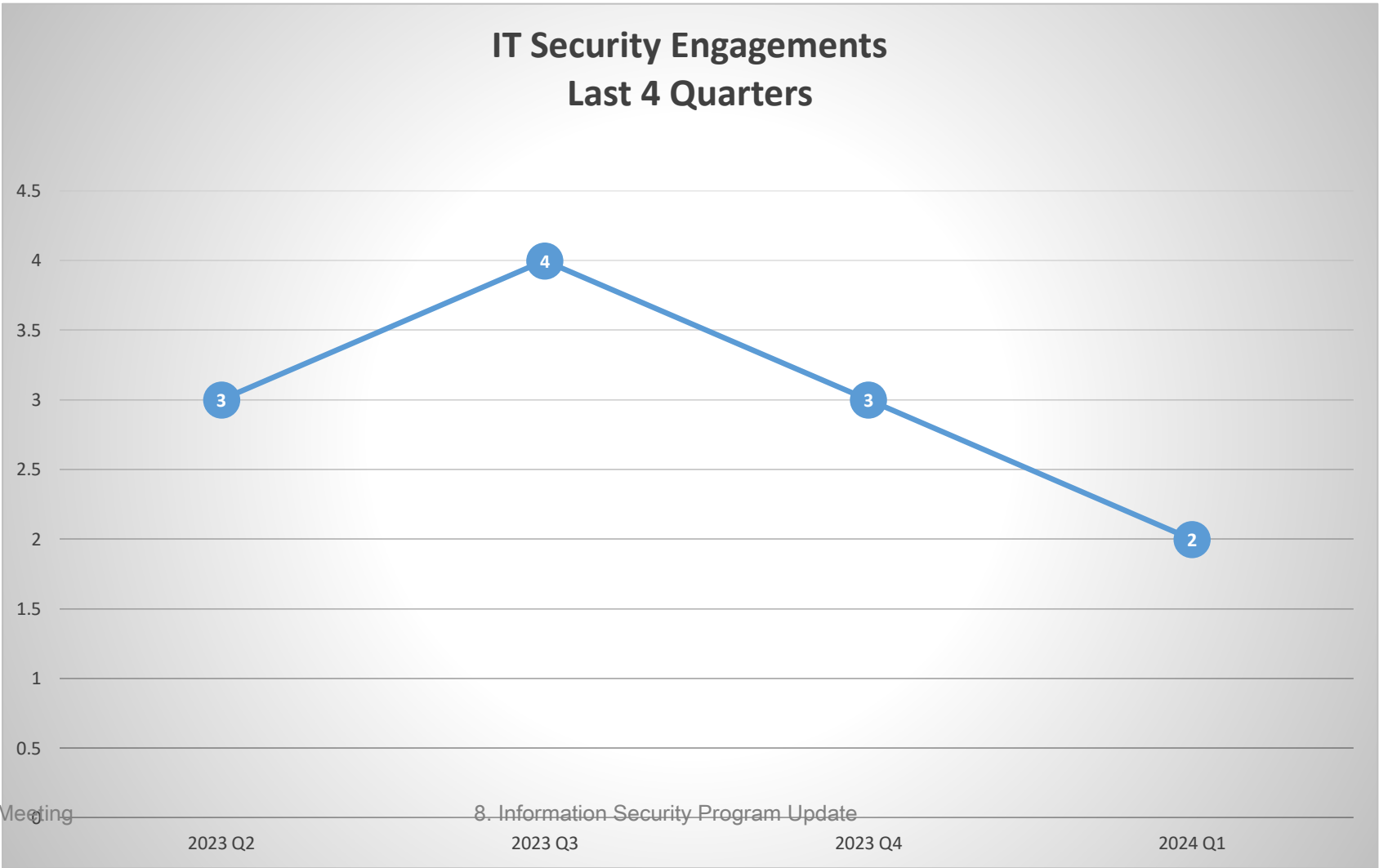
Suspicious Email Account Deactivations

Account Deactivations, Last 4 Quarters



December 2023 Audit Committee Meeting

8. Information Security Program Update



- Network Access Control
 - Enforce system patching
 - Vulnerability mitigation
- Data auditing for GLBA compliance
- Identify State of TN cybersecurity funding opportunities.
- Implement additional Microsoft A5 features
- External gap analysis for GDPR in February 2024

Thank You

9. Risk Assessment Update

Presentation

Presented by Greg DuBois and Mark Heath

The University of Memphis Board of Trustees

Recommendation

For Information

Date: December 12, 2023

Committee: Audit Committee

Presentation: Annual Risk Assessment Update

Presented by: Greg DuBois, Mark Heath

Background:

The presentation is an overview of the annual risk assessment process update, including information on ERM compliance and responsibility/accountability, assessment process steps, and risk assessment outcomes.

Risk Assessment Process Annual Update

Audit Committee

Greg Dubois

Executive Vice President & CFO/COO

December 12, 2023

University Center, Main Campus



**Board of
Trustees**

Rooted In Key Objectives:

- Ensure Risk Assessment Process *supports*:

- University Strategic Plan
- Overall Performance

- Framework **Committee on Sponsoring Agencies (COSO)**

- Designed to *enhance Strategic, Operational, and Compliance effectiveness* for (13) foundational areas of the University incorporating:

- Transparency
- Accountability



Benchmarks:

- Meet *Financial Reporting* requirements the **Sarbanes Oxley Act of 2002**
- Achieve *Compliance* for **U.S. Sentencing Guidelines for Organizations**
- Fulfill *Regulatory obligations and objectives* outlined by the State of Tennessee under **TCA 9-18-102**



- Process Owners
- Process Leaders
- Sub Process Teams

Research & Innovation

Leadership & Compliance

Enrollment Services

Finance & Personnel Management

Facilities

Athletics

Information Technology

Instruction & Academic Support

Student Academic Success

Financial Aid

Dean of Students

Revenue Generating Activities



• Provide Input & Support for the University Enterprise Risk Management

In weighing the affects of Risks, we are asking Process Owners and Process Leaders to engage in **Business Impact Analysis (BIA)** as a tool to:

- Better *Identify* Current Risks
- *Assess* Risks
- Utilize *Mitigation Strategies* to Reduce Risks
- *Transfer* the Risks
- *Accept* Certain Risks



BIA is also performed to determine:

- **Impact**
- Likelihood or **Probability** of each Risk
- Plan of Action (**Control**)
- Demonstrate **Evidence of Monitoring**
- Provide On-Going **Assurance** of Risks Measures



Beyond the BIA Process, we examine risk to minimize effects on the University as a whole in following areas:

1. **Strategic** – Affects on high-level strategy, goals and vision of the University
2. **Operational** - Affects on management processes
3. **Financial** - Affects on the financial well-being of the institution
4. **Compliance** - Affects on the University’s adherence to applicable laws and regulations or internal policies and guidelines
5. **Reputational** - Affects on our image, standing or character externally and internally

Targeted Objectives:

1. Updated **Risk Footprint** for each area
2. Updated **Control Footprint**
3. Update or Completion of **Evidence of Controls** Information
4. Verification of Risk Assessment **Plan Control Worksheet** listing:
 - a. Process Owners
 - b. Process Leaders
 - c. Sub-Processes (Ensure they are current or correct for your area)
 - d. Team Member Listing

Likelihood	Consequences				
	Insignificant <i>Risk is easily mitigated by normal day to day process</i>	Minor <i>Delays up to 20% of Schedule Additional cost up to 10% of Budget</i>	Moderate <i>Delays up to 30% of Schedule Additional cost up to 30% of Budget</i>	Major <i>Delays up to 50% of Schedule Additional cost up to 50% of Budget</i>	Catastrophic <i>Project abandoned</i>
Certain >90% chance	High	High	Extreme	Extreme	Extreme
Likely 50% - 90% chance	Moderate	High	High	Extreme	Extreme
Moderate 10% - 50% chance	Low	Moderate	High	Extreme	Extreme
Unlikely 3% - 10% chance	Low	Low	Moderate	High	Extreme
Rare <3% chance	Low	Low	Moderate	High	High

1. Continue meetings with Process Owners & Leaders (Nov – Dec 2023)
2. President's Certification re. Risk Process to State Treasurer and Department of Finance and Administration (December 31, 2023)
3. Review Departmental Updates to Risk Footprint/Mitigating controls and monitoring for consideration of President's Council for finalization of the Enterprise Risk Footprint
4. Provide overview of final Risk Footprint to BOT (March 2024)



10. Additional Business

Presented by Carol Roberts

11. Adjournment

Presented by Carol Roberts