


















September 2018 Audit Committee Meeting

Schedule	Wednesday, September 05, 2018, 09:30 AM — 10:00 AM CDT
Venue	Fountain View Board Room (UC 350)
Organizer	Melanie Murry

Agenda

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1. Call to Order

Presented by Carol Roberts

2. Roll Call

Presented by Melanie Murry

3. Approval of Minutes - June 6, 2018

Presented by Carol Roberts

THE UNIVERSITY OF MEMPHIS
BOARD OF TRUSTEES

MINUTES OF THE AUDIT COMMITTEE
June 6, 2018
Memphis, TN

The Audit Committee of The University of Memphis Board of Trustees met at 11:00 a.m. CDT, on Wednesday, June 6, 2018, on the University of Memphis main campus in Memphis, Tennessee.

I. CALL TO ORDER

Chair Carol Roberts called the meeting to order.

II. ROLL CALL AND DECLARATION OF QUORUM

Melanie Murry, Legal Counsel and Secretary of the Board, called the roll, and confirmed the following Audit Committee members were present, either in person or via telephone:

Trustee Doug Edwards*
Trustee Cato Johnson*
Trustee Carol Roberts*
Trustee Susan Springfield*

*Voting members

Secretary Murry announced the presence of a quorum.

III. APPROVAL OF MINUTES – MARCH 7, 2018

The motion to approve the March 7, 2018, Audit Committee meeting minutes was properly moved and seconded. A voice vote was taken, and the motion was unanimously approved.

IV. AUDIT COMMITTEE RESPONSIBILITIES FOR INTERNAL AUDIT

Chair Roberts recognized Vicki Deaton, Chief Audit Executive, to discuss all items on the Audit Committee agenda beginning with the Audit Committee Responsibilities for Internal Audit.

V. INTERNAL AUDIT CHARTER

Vicki Deaton presented the Office of Internal Audit and Consulting Charter for review and approval. Ms. Deaton explained that the office conducts audits based on state laws and in accordance with standards. The charter provides guidelines and standards by which the office conducts its business as well as defines the scope of the activities of the office. It gives an overview of the structure of the office and services it provides. Trustee Springfield raised a

question on one of the items within the charter and whether there should be a change to reflect audit responsibilities as an office. There was further discussion on the language in the charter. Secretary Murry added that the charter should be reviewed to make sure the documents do not conflict and any motion for approval should reflect any change or modification if necessary. Chair Roberts moved to accept the internal audit charter subject to correction to reflect any changes that are necessary. The motion was properly seconded. A voice vote was taken, and the motion carried.

VI. FY2019 AUDIT PLAN

Ms. Deaton provided an overview of the FY2019 Audit Plan and how the plan was developed. Ms. Deaton explained that Higher Education is categorized by three functional areas: Academic, Administrative and Other. The office evaluates audits over a five-year period to determine which areas should be subjected to Audit, and based on that data, the plan is formulated. There was a question as to whether Internal Audit would be notified of audits done with external entities, and Ms. Deaton explained there is a policy which requires notice to be given to Internal Audit of external audits. The completed report should also be provided to Internal Audit once completed. There was discussion on the University's broader compliance efforts and challenges and the Audit Committee's responsibility beyond normal audit functions. There was additional discussion on establishing benchmarks for the all areas under the committee, as well as showing, within the audit documentation, areas that were covered by external audits. Secretary Murry noted that Trustee Alan Graf entered the meeting. Chair Roberts asked for any final discussion on the audit plan. Raaj Kurapati, Chief Financial Officer, noted the risk assessment process is a critical component to how we manage risk and engaging management and having an active, continual conversation is one way to address risks that were not an issue that could possibly become more prominent through the course of the year; this would lead to a more successful process. Trustee Edwards asks how we include the Lambuth campus in the Audit Plan. Ms. Deaton noted Lambuth does get pulled in, and over the past few years, her department has gone up there to have a presence on campus.

Chair Roberts calls for a motion to approve the FY2019 Audit Plan. The motion is properly moved and seconded, and the motion was unanimously approved.

VII. FY2019 INTERNAL AUDIT BUDGET

Ms. Deaton notes 92% of the proposed budget is for people (e.g., salaries, etc.), a little bit of money for travel to conferences, and a small bit for the office's operating expenses. Chair Roberts asks Ms. Deaton to review the staff requests she has, knowing that it is early in the process for FY2019. Ms. Deaton states there is some money in an undistributed salary account, but it would not be enough to fund a staff audit position; therefore, she asked for additional funds to make up that difference to be able to add a staff member. It is her understanding that it will be in the Fall, after the final tuition numbers have come in, whether her request for additional funds for a staff auditor will be approved. Trustee Edwards expresses his hopes that

the additional funds are approved and adds additional comments about the importance of Internal Audit.

Chair Roberts calls for a motion to approve the FY2019 Internal Audit Budget. The motion is properly moved, seconded and unanimously approved.

VIII. CONSULTING PROJECT REPORTS ISSUED

Ms. Deaton discussed a consulting project completed this quarter as requested by the University of Memphis Foundation management. The Foundation requested that Internal Audit perform a physical verification of Institute of Egyptian Art and Archaeology Center of Excellence assets. The Institute is part of the Department of Art within the College of Communication and Fine Arts. After completing the verification, Internal Audit found no exceptions and verified everything they had on their list to verify. The Center owns art worth about \$340,000, and the Foundation has received donations in the past and own some of the art and artifacts. The items on the Foundation's books are on loan to the University.

Trustee Edwards asks how the Foundation has come to acquire the art that they have and brings up the fact that we do not want to be pulled into something that we do not want to be a part of. President Rudd states we took in the artifacts a long time ago and gives the floor to Byron Morgan, Managing Director of the Foundation, to explain how the University has come to acquire the artifacts. Mr. Morgan notes the transaction happened about 25-30 years ago, and the Foundation is in the process of transferring the artifacts to the University, but is being met with some resistance from the Fine Arts Department.

IX. SUMMARY OF INVESTIGATIONS – 4Q FY2018

In this time period, Ms. Deaton notes 10 new reports of fraud, waste, or abuse. Two (2) reports were referred to other entities at the University and have been resolved. Five (5) investigation memos were issued, and three (3) are still under investigation. One investigation from last quarter was completed, and a memo was issued. Since the materials have been put together, Internal Audit has received three more reports.

X. AUDIT ISSUE FOLLOW-UP – 4Q FY2018

Ms. Deaton notes all of the issues from the Department of Psychology financial compliance audit and the Theatre and Dance financial compliance audit have been completed, and eight of the ten action plans from the School of Public Health financial compliance audit have been completed. The two outstanding issues from the School of Public Health audit have to do with policy revisions, which take a little more time.

XI. EXTERNAL PROJECT SUMMARY – DONOR PLEDGE PROCESS

Ms. Deaton states the Foundation management engaged an independent, external CPA firm to do this special project; their goal was to review internal controls over pledges and donations, to identify any internal control weaknesses, and to make recommendations because the Foundation management wanted to ensure the pledge receivable donation data provided by the University to the Foundation was accurate and clearly stated. The external CPA firm found there were no significant internal control weaknesses. They did make quite a few observations and made recommendations to the management of both the Foundation and the University. Ms. Deaton has communicated with the Foundation and the University, and both management teams have committed to addressing the observations in the report.

Chair Roberts reflects on where we were one year ago. She notes how we have ramped up our tools and expectations for communication and how we have come a long way; progress can always be made. Trustee Springfield and Trustee Johnson echo Chair Roberts' praise, especially praise for Ms. Deaton and her team.

XII. BOT PRESIDENT EXPENDITURE POLICY

Chair Roberts recognizes Secretary Murry. Secretary Murry introduces the President Expenditure policy; this policy memorializes the process of review of the President's expenditures, whether through the Foundation or the University.

Chair Roberts calls for a motion to approve the President Expenditure Policy. The motion was properly moved, seconded and unanimously approved.

XIII. ADDITIONAL COMMITTEE BUSINESS

There was no additional committee business.

XIV. ADJOURNMENT

Chair Roberts adjourned the Audit Committee meeting at 11:45 a.m. CDT.

XV. EXECUTIVE SESSION

Board of Trustees convened in Executive Session.

Respectfully Submitted,

Melanie Murry
Board Secretary

4. Summary of Audit Reports Issued

Report

Presented by Vicki Deaton

Report to the Audit Committee of the Board of Trustees

The University of Memphis Audit Committee
Report
For Information

Date: September 5, 2018

Committee: Audit Committee

Report Title: Summary of Audit Reports Issued 1st Quarter FY2019

Presented by: Vicki D. Deaton, Chief Audit Executive

Report Synopsis:

Four public audit reports were issued this quarter. The Cash Balances Audit Report and Inventory Observation Audit Report opinions were Effective with No issues. The Center for Applied Earth Science and Engineering Research (CAESER) Financial and Compliance Audit Report and Sponsored Research Disclosure of Financial Interest Policy Compliance Audit Report opinions were Effective with the Opportunity for Improvement.

Audit Reports Issued - 1st Quarter FY2019

Name of Audit	Date of Audit Report	Audit Engagement Report Opinion	Minor Issues - Addressed Verbally	Minor Issues	Moderate Issues	Major Issues	Issues Outstanding from Prior Audit
Cash Balances Audit	7/27/2018	Effective, No Issues	0	0	0	0	0
Inventory Observation Audit	8/6/2018	Effective, No Issues	0	0	0	0	0
Center for Applied Earth Science and Engineering Research (CAESER) Financial & Compliance Audit	8/6/2018	Effective with the Opportunity for Improvement	2 (issues resolved prior to audit completion)	0	0	0	0
Sponsored Research Disclosure of Financial Interest Policy Compliance Audit	8/6/2018	Effective with the Opportunity for Improvement	0	3	0	0	0

Audit Committee Meeting

Vicki D. Deaton
Chief Audit Executive

September 5, 2018
University Center



Report: Summary of Audit Reports Issued

Audit Reports Issued - 1st Quarter FY2019

Name of Audit	Date of Audit Report	Audit Engagement Report Opinion	Minor Issues - Addressed Verbally	Minor Issues	Moderate Issues	Major Issues	Issues Outstanding from Prior Audit
Cash Balances Audit	7/27/2018	Effective, No Issues	0	0	0	0	0
Inventory Observation Audit	8/6/2018	Effective, No Issues	0	0	0	0	0
Center for Applied Earth Science and Engineering Research (CAESER) Financial & Compliance Audit	8/6/2018	Effective with the Opportunity for Improvement	2 (issues resolved prior to audit completion)	0	0	0	0
Sponsored Research Disclosure of Financial Interest Policy Compliance Audit	8/6/2018	Effective with the Opportunity for Improvement	0	3	0	0	0

Report: Summary of Investigations

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

Investigations

UOM Investigation Summary 1st Qu FY2019								
Case Number	Date Received	Allegation Received by	Description of Allegation	Status	Investigation Outcome	\$ Loss	Date of Final Action by Internal Audit	Additional Explanation
18-022	2/19/18	Letter to Audit Committee	Athlete Friendly Curriculum	Presentation to Audit Committee-Case Closed	Informational Presentation at 9/5/18 Audit Committee Meeting	NA	9/5/2018	
18-023/TN Comp #17-0472	2/20/18	TN Comp Hotline (allegations reported on 2/15/2018)	Fraudulent Employee Leave Reporting	Memo Issued-Case Closed	No Evidence of Fraudulent Leave Reporting, Paid for More Leave than Earned	\$5,042	7/31/2018	Employee Debt to the UofM
18-028	5/3/18	Phone Call from College Dean	Duplicate Requests for Travel Reimbursement	Memo Issued-Case Closed	Employee Negligence and Possible Deception in Filing Travel Claims	\$875	6/11/2018	Loss Recovered, Employee Terminated
18-029	5/9/18	Verbal Allegation to Dr. Rudd	Research Issues Related to Student Surveys	Referred to Provost Office, Case Closed by Internal Audit	Per the Provost Office-Issues Resolved	NA	6/18/2018	
18-030	5/18/18	Internal Audit FWA Report	Mismanagement of Employees, Waste of Resources	Referred to Human Resources	Per HR-Issues Addressed with Appropriate Management	NA	5/21/2018	
18-031	6/5/18	Internal Audit FWA Report	Fraudulent Employee Leave Reporting	Memo Issued-Case Closed	Insufficient Information to Determine Accuracy of Leave Reporting	NA	7/30/2018	
18-032	6/19/2018	Internal Audit FWA Report	Academic Nepotism, Misuse of University Assets	ongoing				Academic Nepotism Issues Referred to Graduate School and Appropriate College
19-001	7/16/2018	Phone Call to Internal Audit	Employee May Have Misrepresented Information on FAFSA	ongoing				FAFSA = Free Application for Federal Student Aid

Report: Audit Issue Follow Up

All of the action plans addressing audit issues from the School of Law Financial and Compliance Audit have been completed.

Follow Up on Audit Issues - 1st Quarter FY2019								
Action Plan Estimated Completion Date	Name of Audit	Date of Audit Report	Audit Engagement Opinion	Issue #	Issue Description	Issue Rating	Party Responsible for Action Plan Completion	Current Status (as of August, 2018)
NA - No Specific Date Required with Prior Internal Audit Procedures (action plan estimated completion date by planned audit follow up of 5/1/2018)	School of Law Financial and Compliance Audit	5/16/2017	NA - No Engagement Opinion Assigned with Prior Internal Audit Procedures	Law 1	Insufficient Controls over Purchasing Cards	NA - No Rating with Prior Internal Audit Procedures	School of Law Management	Complete
NA - No Specific Date Required with Prior Internal Audit Procedures (action plan estimated completion date by planned audit follow up of 5/1/2018)	School of Law Financial and Compliance Audit	5/16/2017	NA - No Engagement Opinion Assigned with Prior Internal Audit Procedures	Law 2	Insufficient Controls over Fixed Assets	NA - No Rating with Prior Internal Audit Procedures	School of Law Management	Complete
NA - No Specific Date Required with Prior Internal Audit Procedures (action plan estimated completion date by planned audit follow up of 5/1/2018)	School of Law Financial and Compliance Audit	5/16/2017	NA - No Engagement Opinion Assigned with Prior Internal Audit Procedures	Law 3	Insufficient Controls over Outside Employment	NA - No Rating with Prior Internal Audit Procedures	School of Law Management	Complete
NA - No Specific Date Required with Prior Internal Audit Procedures (action plan estimated completion date by planned audit follow up of 5/1/2018)	School of Law Financial and Compliance Audit	5/16/2017	NA - No Engagement Opinion Assigned with Prior Internal Audit Procedures	Law 4	Insufficient Facility Access Controls - Guest List and Terminating Access	NA - No Rating with Prior Internal Audit Procedures	School of Law Management	Complete

Report: External Project Report - The University of Memphis Foundation Financial Statements, Years Ended June 30, 2017 and 2016

In accordance with requirements of the Tennessee Comptroller of the Treasury, the most recent audit of the University of Memphis Foundation's (Foundation) financial statements was conducted for the fiscal years ending June 30, 2017 and 2016. The Foundation engaged Dixon Hughes Goodman, LLP, an independent external CPA firm, to conduct the audit in accordance with accounting principles generally accepted in the United States of America.

Report: External Project Report - The University of Memphis Foundation Financial Statements, Years Ended June 30, 2017 and 2016

- 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.
- The auditors did not identify any deficiencies in internal control that would be considered material weaknesses during their limited consideration of internal control over financial reporting. There were no instances of noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that were tested.

Report: External Project Report - The University of Memphis Research Foundation Financial Statements, June 30, 2017 and 2016

In accordance with requirements of the Tennessee Comptroller of the Treasury, the most recent audit of the University of Memphis Research Foundation's (UMRF) financial statements was conducted for the fiscal year ending June 30, 2017. The UMRF engaged Frazee Ivy Davis, a local independent external CPA firm, to conduct the audit in accordance with generally accepted accounting principles and standards applicable to financial audits contained in Government Audit Standards.

Report: External Project Report - The University of Memphis Research Foundation Financial Statements, June 30, 2017 and 2016

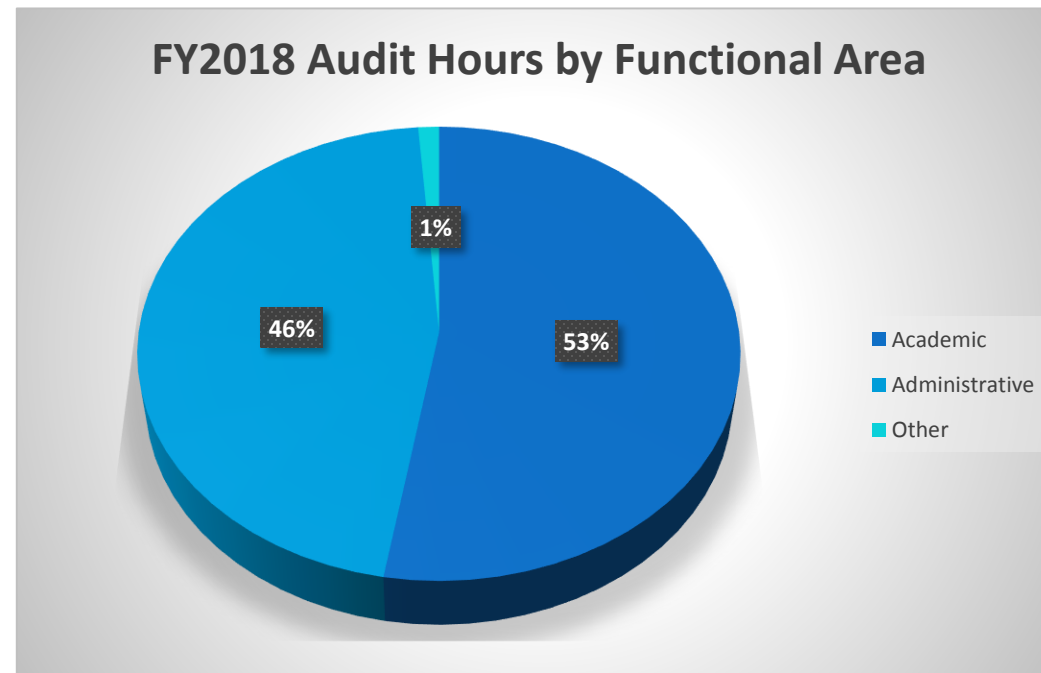
- The independent auditor's opinion stated that the financial statements present fairly, in all material respects, the financial position of the business-type activity of the UMRF as of June 30, 2017, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.
- The auditors did not identify any deficiencies in internal control that would be considered material weaknesses during their limited consideration of internal control over financial reporting. A finding of noncompliance with State of Tennessee statute was identified related to collateralization of cash deposits.

Report: External Project Report - The University of Memphis Research Foundation Financial Statements, June 30, 2017 and 2016

Finding, Recommendation, and Management Response

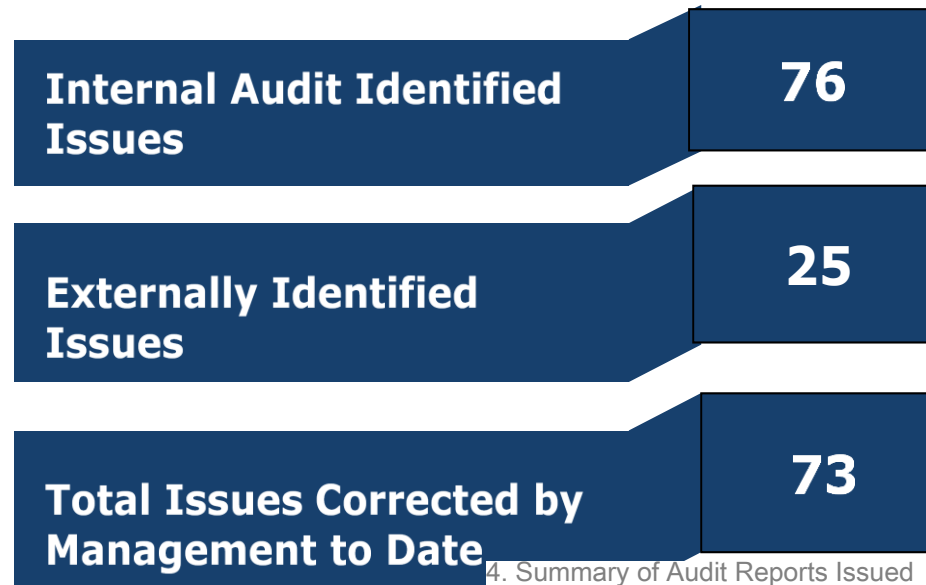
UMRF FINDING 2017 -1			
• Criteria	• Cause/Condition	• Recommendation	• Management Response
Cash deposits held by the UMRF’s financial/banking institution were not secured by federal depository insurance nor collateralized as required by State statute.	<ul style="list-style-type: none"> The UMRF maintained cash at a banking institution that does not participate in the State’s Bank Collateral Pool nor security pledges to collateralize accounts Cash in excess of the \$250K limit covered by federal depository insurance, was not insured 	The UMRF should continue to follow through with its plans to transfer uninsured cash to investments that are secured by federal depository insurance or the Securities Investment Protection Corporation	The UMRF instituted a cash investment policy under which the majority of its cash would be moved to investments covered by federal depository insurance or the Securities Investment Protection Corporation

Presentation: Internal Audit & Consulting FY2018 Year End Report



Presentation: Internal Audit & Consulting FY2018 Year End Report

Audit Recommendation Summary for FY2018



Presentation: Internal Audit & Consulting FY2018 Year End Report

Investigation Summary for FY2018



Report: Quality Assurance and Improvement Program Update

Per the University of Memphis Office of Internal Audit and Consulting Charter:

- All Internal Audit activities are conducted in accordance with all state statutes relative to Internal Audit and Audit Committees.
- The state statutes require that Internal Audit activities are governed by adherence to The Institute of Internal Auditor's (IIA) mandatory guidance, which includes the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*.

The IIA's mandatory guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of the internal audit activity's performance.

A Quality Assurance and Improvement Program (QAIP) includes:

- Ongoing Internal Monitoring
- Periodic Internal Assessments
- External Quality Assessments

A quality assessment, or QA, evaluates compliance with the *Standards*, the definition of internal auditing, the Code of Ethics, the internal audit & audit committee charters, the organization's governance, risk and control assessment, and the use of successful practices.

- External Assessments require an outside team of independent reviewers.
- Every internal audit activity must have an external quality assessment at least every five years.

The last external quality assessment performed for the UofM audit activity was in 2013, as part of the Tennessee Board of Regents System-Wide Internal Audit quality assessment.

An external quality assessment provides information to answer the following:

- Do we meet professional standards?
- Can things be done better?
- Should more be done?
- Is maximum value being received for each dollar of expense?
- Can we add more value to management and the audit committee?
- Can we enhance our image, perceptions, and credibility within the organization?

The UofM Office of Internal Audit and Consulting is in the process of identifying and retaining members of an external quality assessment team. The Chair of the Audit Committee will be informed as this initiative progresses.

Assessors and Validators Should:

- Be competent, certified audit professionals.
- Be well versed in the best practices of the profession.
- Have at least three years of recent experience in the practice of internal auditing at a management level.
- Have additional competence gained from working previously as a team member on an external quality assessment.
- Be free from any obligation to, or interest in, the organization whose internal audit activity is the subject of the assessment.

Informational Presentation: Monitoring Student-Athlete Academics

UofM Monitoring Mechanisms

- Faculty Athletics Committee – faculty advisory group to the President to foster academic integrity in Athletics.
- Faculty Athletics Representative – faculty member who provides institutional oversight of student-athlete academics, chairs the Faculty Athletics Committee, and interacts with the NCAA on the behalf of the UofM.

UofM Monitoring Mechanisms

- Center for Athletic Academic Services – mission to provide the necessary academic support services for all student-athletes to be successful in the classroom and pursue an undergraduate degree while competing as an athlete.
- Office of Institutional Research – provides reports and tools to monitor student-athlete courses, majors, and success rates.

The Center for Athletic Academic Services provides academic advising to help student-athletes match desired careers with majors and prepare for life after college.

The Center monitors and provides the following information to the Faculty Athletics Committee:

- Distribution of student-athletes in each University major
- Distribution of student-athletes in each University major compared to distribution of non-athlete students in each University major
- Course sections with more than 30% of the students being student-athletes (course sections with more than 30% student-athletes are investigated to determine why there is a large percentage of student-athletes in the class)
- Student-athlete GPAs
- Student-athlete success rates

Spring 2018 University of Memphis Majors of Student-Athlete vs. Non-Athlete Students

Spring 2018 University of Memphis Majors of Student-Athlete vs. Non-Athlete Students							
	Number of Student-Athletes	Percentage of Student-Athletes		Number of Non-Athlete Students	Percentage of Non-Athlete Students		Difference Student Athletes to Non-Athletes
Fogelman College of Business and Economics	122	26.9%		2823	13.8%		13.1%
School of Health Studies	74	16.3%		1007	4.9%		11.4%
College of Arts and Sciences	60	13.2%		4524	22.1%		-8.9%
All Academic Focus Areas	49	10.8%		3551	17.4%		-6.6%
Kemmons Wilson School of Hospitality and Resort Management	41	9.0%		277	1.4%		7.7%
University College	39	8.6%		1033	5.0%		3.5%
College of Communications and Fine Arts	21	4.6%		1608	7.9%		-3.2%
Herff College of Engineering	20	4.4%		1361	6.7%		-2.2%
Loewenberg College of Nursing	17	3.7%		2039	10.0%		-6.2%
College of Education	7	1.5%		1343	6.6%		-5.0%
Undeclared	4	0.9%		305	1.5%		-0.6%
Communication Science and Disorders*	0	0.0%		108	0.5%		-0.5%
School of Public Health*	0	0.0%		189	0.9%		-0.9%
Law*	0	0.0%		288	1.4%		-1.4%
				20456	100.0%		

Note: *Are only at the graduate level

5. Summary of Investigations Completed

Report

Presented by Vicki Deaton

Report to the Audit Committee of the Board of Trustees

The University of Memphis Audit Committee
Report
For Information

Date: September 5, 2018

Committee: Audit Committee

Report Title: Summary of Investigations 1st Quarter FY2019

Presented by: Vicki D. Deaton, Chief Audit Executive

Report Synopsis:

Six new reports of fraud, waste, or abuse, noncompliance with law, or conflict of interest were received by the Office of Internal Audit and Consulting this quarter. Two reports were referred to other University Offices for resolution. Two of the allegation reports received were investigated and resulted in reports issued by Internal Audit. Two of the allegation reports are under investigation, and two investigations initiated last quarter were completed and reports issued this quarter.

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

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

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

UOM Investigation Summary 1st Qu FY2019								
Case Number	Date Received	Allegation Received by	Description of Allegation	Status	Investigation Outcome	\$ Loss	Date of Final Action by Internal Audit	Additional Explanation
18-022	2/19/18	Letter to Audit Committee	Athlete Friendly Curriculum	Presentation to Audit Committee-Case Closed	Informational Presentation at 9/5/18 Audit Committee Meeting	NA	9/5/2018	
18-023/TN Comp #17-0472	2/20/18	TN Comp Hotline (allegations reported on 2/15/2018)	Fraudulent Employee Leave Reporting	Memo Issued-Case Closed	No Evidence of Fraudulent Leave Reporting, Paid for More Leave than Earned	\$5,042	7/31/2018	Employee Debt to the UofM
18-028	5/3/18	Phone Call from College Dean	Duplicate Requests for Travel Reimbursement	Memo Issued-Case Closed	Employee Negligence and Possible Deception in Filing Travel Claims	\$875	6/11/2018	Loss Recovered, Employee Terminated
18-029	5/9/18	Verbal Allegation to Dr. Rudd	Research Issues Related to Student Surveys	Referred to Provost Office, Case Closed by Internal Audit	Per the Provost Office-Issues Resolved	NA	6/18/2018	
18-030	5/18/18	Internal Audit FWA Report	Mismanagement of Employees, Waste of Resources	Referred to Human Resources	Per HR-Issues Addressed with Appropriate Management	NA	5/21/2018	
18-031	6/5/18	Internal Audit FWA Report	Fraudulent Employee Leave Reporting	Memo Issued-Case Closed	Insufficient Information to Determine Accuracy of Leave Reporting	NA	7/30/2018	
18-032	6/19/2018	Internal Audit FWA Report	Academic Nepotism, Misuse of University Assets	ongoing				Academic Nepotism Issues Referred to Graduate School and Appropriate College
19-001	7/16/2018	Phone Call to Internal Audit	Employee May Have Misrepresented Information on FAFSA	ongoing				FAFSA = Free Application for Federal Student Aid

6. Audit Issue Follow Up

Report

Presented by Vicki Deaton

Report to the Audit Committee of the Board of Trustees

The University of Memphis Audit Committee
Report
For Information

Date: September 5, 2018

Committee: Audit Committee

Report Title: Audit Issue Follow Up

Presented by: Vicki D. Deaton, Chief Audit Executive

Report Synopsis:

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

Follow Up on Audit Issues - 1st Quarter FY2019

Action Plan Estimated Completion Date	Name of Audit	Date of Audit Report	Audit Engagement Opinion	Issue #	Issue Description	Issue Rating	Party Responsible for Action Plan Completion	Current Status (as of August, 2018)
NA - No Specific Date Required with Prior Internal Audit Procedures (action plan estimated completion date by planned audit follow up of 5/1/2018)	School of Law Financial and Compliance Audit	5/16/2017	NA - No Engagement Opinion Assigned with Prior Internal Audit Procedures	Law 1	Insufficient Controls over Purchasing Cards	NA - No Rating with Prior Internal Audit Procedures	School of Law Management	Complete
NA - No Specific Date Required with Prior Internal Audit Procedures (action plan estimated completion date by planned audit follow up of 5/1/2018)	School of Law Financial and Compliance Audit	5/16/2017	NA - No Engagement Opinion Assigned with Prior Internal Audit Procedures	Law 2	Insufficient Controls over Fixed Assets	NA - No Rating with Prior Internal Audit Procedures	School of Law Management	Complete
NA - No Specific Date Required with Prior Internal Audit Procedures (action plan estimated completion date by planned audit follow up of 5/1/2018)	School of Law Financial and Compliance Audit	5/16/2017	NA - No Engagement Opinion Assigned with Prior Internal Audit Procedures	Law 3	Insufficient Controls over Outside Employment	NA - No Rating with Prior Internal Audit Procedures	School of Law Management	Complete
NA - No Specific Date Required with Prior Internal Audit Procedures (action plan estimated completion date by planned audit follow up of 5/1/2018)	School of Law Financial and Compliance Audit	5/16/2017	NA - No Engagement Opinion Assigned with Prior Internal Audit Procedures	Law 4	Insufficient Facility Access Controls - Current List and Terminating Access	NA - No Rating with Prior Internal Audit Procedures	School of Law Management	Complete

7. External Audit Report - University of Memphis Foundation

Report

Presented by Vicki Deaton

Report to the Audit Committee of the Board of Trustees

The University of Memphis Audit Committee
Report
For Information

Date: September 5, 2018

Committee: Audit Committee

Report Title: External Audit Report - University of Memphis Foundation Financial Statements, Years Ended June 30, 2017 and 2016

Presented by: Vicki D. Deaton, Chief Audit Executive

Report Synopsis:

The University is subject to external audits, program reviews, and similar activities by various agencies and other organizations. According to UofM Policy GE2016 Notification of External Audits and Reviews, it is the responsibility of the primary contact person for the program or activity being reviewed to notify Internal Audit of an external audit or review as early in the process as possible. After the audit or review is complete, the primary contact will usually receive notice of the results in writing. The primary contact (or designee) should forward a copy of the results to Internal Audit. The responsibility for Internal Audit under this policy includes reporting occurrences of external reviews and audits to the Audit Committee, Division of State Audit and others as the circumstances may dictate. Also, T.C.A. § 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 1, 2017, the University of Memphis Foundation Financial Statements, Years Ended June 30, 2017 and 2016, were issued. The financial statements have not been provided to the Audit Committee in the past, and they are presented at this time for informational purposes.

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

The Foundation engaged an independent external CPA firm, Dixon Hughes Goodman, 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

The University of Memphis Foundation

Financial Statements

Years Ended June 30, 2017 and 2016

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Board of Directors

Thomas G. Kadien, President
Benjamin C. Bryant, Jr., Vice President
George T. Johnson, Treasurer/Secretary
Robert F. Fogelman
Carolyn Hardy
James D. Lackie
Jason Little
James E. McGehee, Jr.
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Douglas G. Scarboro
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Harry L. Smith
Jeannie Smith
Fred Towler
James L. Vining
J. Thomas Watson

Financial/Administrative Directors

Byron Morgan, Managing Director
Tarit Lim, Associate Director

Independent Auditors' Report

Board of Directors
The University of Memphis Foundation
Memphis, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of The University of Memphis Foundation (the "Foundation"), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2017, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Memphis, Tennessee
November 1, 2017

The University of Memphis Foundation
 Statements of Financial Position
 June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 1,389,394	\$ 314,948
Contributions receivable, net	10,261,776	18,684,359
Accrued interest, dividends, and other receivables	109,413	169,503
Investments	134,323,156	130,940,632
Cash surrender value of life insurance	390,289	366,454
Donated works of art and other property	584,956	604,465
	<u> </u>	<u> </u>
Total assets	<u>\$ 147,058,984</u>	<u>\$ 151,080,361</u>
LIABILITIES		
Accounts payable, primarily to The University of Memphis	\$ 8,685,530	\$ 8,794,465
Gift annuity obligations	144,287	157,655
	<u> </u>	<u> </u>
Total liabilities	8,829,817	8,952,120
NET ASSETS		
Unrestricted	7,390,811	6,464,443
Temporarily restricted	58,640,909	66,945,038
Permanently restricted	72,197,447	68,718,760
	<u> </u>	<u> </u>
Total net assets	<u>138,229,167</u>	<u>142,128,241</u>
Total liabilities and net assets	<u>\$ 147,058,984</u>	<u>\$ 151,080,361</u>

The University of Memphis Foundation
Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and other revenue:				
Contributions	\$ 363,104	\$ 14,987,779	\$ 2,489,107	\$ 17,839,990
Investment income	795,824	788,739	-	1,584,563
Net realized and unrealized gains on investments	843,505	10,268,820	-	11,112,325
Other income	44,122	708,499	-	752,621
	<u>2,046,555</u>	<u>26,753,837</u>	<u>2,489,107</u>	<u>31,289,499</u>
Net assets released from restrictions	<u>34,118,386</u>	<u>(34,118,386)</u>	<u>-</u>	<u>-</u>
Total support and other revenue	36,164,941	(7,364,549)	2,489,107	31,289,499
Expenses:				
University support	27,047,845	-	-	27,047,845
Awards and scholarships	8,099,254	-	-	8,099,254
Investment fees and expenses	33,066	-	-	33,066
Bad debt expense	8,408	-	-	8,408
Total expenses	<u>35,188,573</u>	<u>-</u>	<u>-</u>	<u>35,188,573</u>
Change in net assets before donor modifications of restrictions	976,368	(7,364,549)	2,489,107	(3,899,074)
Donor modifications of restrictions	<u>(50,000)</u>	<u>(939,580)</u>	<u>989,580</u>	<u>-</u>
Change in net assets	926,368	(8,304,129)	3,478,687	(3,899,074)
Net assets, beginning of year	<u>6,464,443</u>	<u>66,945,038</u>	<u>68,718,760</u>	<u>142,128,241</u>
Net assets, end of year	<u>\$ 7,390,811</u>	<u>\$ 58,640,909</u>	<u>\$ 72,197,447</u>	<u>\$ 138,229,167</u>

The University of Memphis Foundation
Statement of Activities
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and other revenue:				
Contributions	\$ 215,572	\$ 25,120,695	\$ 2,859,663	\$ 28,195,930
Investment income	700,030	509,590	-	1,209,620
Net realized and unrealized losses on investments	(563,019)	(4,569,833)	-	(5,132,852)
Other income	-	995,233	-	995,233
	<u>352,583</u>	<u>22,055,685</u>	<u>2,859,663</u>	<u>25,267,931</u>
Net assets released from restrictions	<u>21,279,826</u>	<u>(21,279,826)</u>	<u>-</u>	<u>-</u>
 Total support and other revenue	 21,632,409	 775,859	 2,859,663	 25,267,931
Expenses:				
University support	14,329,543	-	-	14,329,543
Awards and scholarships	9,054,006	-	-	9,054,006
Investment fees and expenses	31,508	-	-	31,508
Bad debt expense	288,734	-	-	288,734
	<u>23,703,791</u>	<u>-</u>	<u>-</u>	<u>23,703,791</u>
 Change in net assets before donor modifications of restrictions	 (2,071,382)	 775,859	 2,859,663	 1,564,140
Donor modifications of restrictions	<u>-</u>	<u>502,204</u>	<u>(502,204)</u>	<u>-</u>
 Change in net assets	 (2,071,382)	 1,278,063	 2,357,459	 1,564,140
Net assets, beginning of year	<u>8,535,825</u>	<u>65,666,975</u>	<u>66,361,301</u>	<u>140,564,101</u>
 Net assets, end of year	<u>\$ 6,464,443</u>	<u>\$ 66,945,038</u>	<u>\$ 68,718,760</u>	<u>\$ 142,128,241</u>

The University of Memphis Foundation
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (3,899,074)	\$ 1,564,140
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized loss (gain) on investments	(11,112,325)	5,132,852
Bad debt expense	8,408	288,734
Contributions restricted for endowment	(2,489,107)	(2,859,663)
Changes in operating assets and liabilities:		
Contributions receivable	8,414,175	(3,450,127)
Accrued interest, dividends, and other receivables	60,090	(88,424)
Donated assets	19,508	(8,238)
Cash surrender value of life insurance	(23,835)	(5,878)
Accounts payable, primarily to The University of Memphis	(108,935)	(68,781)
Gift annuity obligations	(13,368)	(4,790)
	<u>(5,245,389)</u>	<u>(1,064,315)</u>
Net cash provided by (used in) operating activities	(9,144,463)	499,825
Cash flows from investing activities:		
Proceeds from sale of investments	97,212,922	52,914,133
Purchases of investments	<u>(89,483,120)</u>	<u>(57,035,262)</u>
Net cash provided by (used in) investing activities	7,729,802	(4,121,129)
Cash flows from financing activities:		
Contributions restricted for endowment	<u>2,489,107</u>	<u>2,859,663</u>
Net cash provided by financing activities	<u>2,489,107</u>	<u>2,859,663</u>
Net increase (decrease) in cash	1,074,446	(761,641)
Cash, beginning of year	<u>314,948</u>	<u>1,076,589</u>
Cash, end of year	<u>\$ 1,389,394</u>	<u>\$ 314,948</u>

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.

Support and revenue

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending upon the existence or nature of any donor restrictions. Donor restrictions can be modified only by submission of a written request from the original donor or other authorized party. Support that is not restricted by the donor is reported as an increase in unrestricted net assets. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending upon the nature of the restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted net assets as of June 30, 2017 and 2016 totaled \$58,640,909 and \$66,945,038, respectively. Temporarily restricted net assets include net contributions receivable of \$9,954,131 and \$17,870,311 as of June 30, 2017 and 2016, respectively. Remaining temporarily restricted net assets consist primarily of investments. These assets are to be used for a specific program or purpose for future years.

Permanently restricted net assets totaled \$72,197,447 and \$68,718,760 as of June 30, 2017 and 2016, respectively. Permanently restricted net assets originated with contributions received to establish perpetual endowments. The endowment gift is permanently restricted with the capital appreciation and earnings thereon to be used to provide financial assistance to deserving scholars, salary supplements and awards to attract and retain outstanding faculty members, visiting artists and lecturers and to provide for various departmental and University needs. Permanently restricted net assets include net contributions receivable of \$307,645 and \$814,048 as of June 30, 2017 and 2016, respectively. Remaining permanently restricted net assets consist of investments.

Donated property

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

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 receivable.

The University of Memphis Foundation

Notes to Financial Statements

Conditional promises to give are not included as revenue until the conditions are substantially met. The Foundation had received conditional promises to give of \$1,412,931 and \$1,902,931 at June 30, 2017 and 2016, respectively. 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 4 for a discussion of fair value measurements.

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

Administrative fee

In order to cover expenses of the Foundation's operations and provide unrestricted funds for University support, an administrative fee of 2.0% was assessed on the carrying value of accounts invested in the endowment pool for the years ended June 30, 2017 and 2016. The fee covers the cost of business office operations, provides support for University of Memphis fundraising activities, and assists with other University of Memphis needs. Administrative fees earned were approximately \$1,765,000 and \$1,696,000 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016.

The Foundation has determined that it does not have any material uncertain tax positions as of June 30, 2017, and there is no interest or penalties related to income tax assessments.

Endowment funds

The Foundation classifies net assets of donor-restricted endowment funds in accordance with Accounting Standard Codification ("ASC") 205, *Presentation of Financial Statements*. ASC 205 provides guidance on net asset classification of donor-restricted endowment funds and improves disclosures on both an organization's donor-restricted and board-designated endowment funds. The Uniform Prudent Management of Institutional Funds Act ("UPMIFA") establishes guidelines for prudent management of costs and expenditures of funds in relation to the whole economic situation of the charitable institution and was enacted by the State of Tennessee effective July 1, 2007. An organization, whether or not it is subject to an enacted version of UPMIFA, shall disclose information to enable users of financial statements to understand net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies of its endowment funds. See Note 7 for required disclosures of endowment funds.

Use of estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America ("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.

Recent accounting pronouncements

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent). The ASU removes certain disclosures and the requirement to categorize within the fair value hierarchy investments for which fair value is measured using the net asset value ("NAV") per share practical expedient provided by Topic 820, Fair Value Measurement. The ASU is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The ASU should be applied retrospectively to all periods presented.

The FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The most significant changes within the ASU impact the following areas:

1. **Net Asset Classes** - Net asset classification has been reduced from three classes of net assets (unrestricted, temporarily restricted and permanently restricted) to net assets with donor restrictions and net assets without donor restrictions.
2. **Investment Return** - Investment return will be reported net of external and direct internal investment expenses and those netted expenses are no longer required to be disclosed.
3. **Expenses** - Expenses by both their natural classification and their functional classification will be presented either on the face of the statement of activities, as a separate statement or in the notes to the financial statements.
4. **Liquidity and Availability of Resources** - The ASU requires disclosures that communicate qualitative information of how a not-for-profit entity manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date, as well as quantitative information that communicates the availability of a not-for-profit entity's financial assets at the statement of financial position date to meet cash needs for general expenditures with one year of the statement of financial position date.
5. **Presentation of Operating Cash Flows** - Not-for-profit entities can continue to present the statement of cash flows using either the direct method or indirect method. The ASU removes the requirement to present or disclose the indirect method when using the direct method of reporting cash flows.

The above changes only impact the presentation and disclosures within the financial statements. However, within the ASU, there is one change in the accounting requirements for not-for-profit entities. The placed-in-service approach will now be required for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset. The ASU eliminates the current option that, in the absence of explicit donor stipulations, had allowed a not-for-profit entity to delay reporting of an expiration of a donor imposed restriction for the acquisition or construction of a long-lived asset by electing to report the expiration over time (as the asset is used or consumed, i.e. to match the depreciation expense on the asset) rather than when placed in service.

Subsequent events

The Foundation has evaluated the effect subsequent events would have on the financial statements through November 1, 2017, which is the date the financial statements were available to be issued. No subsequent events have been recognized or disclosed.

2. Contributions Receivable

As of June 30, 2017 and 2016, contributors to the Foundation have unconditionally promised to give as follows:

	<u>2017</u>	<u>2016</u>
Within one year	\$ 3,322,834	\$ 7,858,804
One to five years	6,481,770	10,634,136
More than five years	<u>1,210,773</u>	<u>1,579,830</u>
Total unconditional promises to give	11,015,377	20,072,770
Less present value component	133,850	272,068
Less allowance for uncollectible contributions receivable	<u>619,751</u>	<u>1,116,343</u>
	<u><u>\$ 10,261,776</u></u>	<u><u>\$ 18,684,359</u></u>

Contributions receivable beyond one year have been discounted to their net present value using imputed interest rates of 1.74% and .90% as of June 30, 2017 and 2016, respectively.

3. Investments

Investments as of June 30, 2017 and 2016, are summarized as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 1,748,812	\$ 1,748,812	\$ 908,006	\$ 908,006
Limited partnerships and LLCs	69,574,365	88,660,668	80,251,028	88,863,475
Mutual funds	39,839,598	40,200,712	37,028,561	37,051,022
U.S. government securities	179,916	178,486	188,715	190,090
Corporate bonds	<u>3,524,010</u>	<u>3,534,478</u>	<u>3,925,907</u>	<u>3,928,039</u>
	<u><u>\$ 114,866,701</u></u>	<u><u>\$ 134,323,156</u></u>	<u><u>\$ 122,302,217</u></u>	<u><u>\$ 130,940,632</u></u>

4. Fair Value Measurements

The carrying amounts in the statements of financial position for accounts payable approximate fair value due to their short maturities. The carrying amounts for contributions receivable approximate fair value as amounts expected to be collected in future years have been discounted to present value and the receivable has been reduced by an allowance for doubtful accounts (Note 2). The carrying amounts of other financial instruments approximate fair value.

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: Significant unobservable inputs that reflect the Foundation's investment managers' own assumptions used to determine the fair value of investments.

Level 2 investment securities include certain U.S. government and agency obligations and corporate bonds for which quoted prices are not available in active markets for identical instruments. Because quoted prices in active markets for identical assets are not available, these prices are determined using observable market information such as quotes from less active markets and/or quoted prices of securities with similar characteristics. Level 2 investments in 2017 include fixed income funds with observable inputs.

The Foundation uses the net asset value (NAV) or capital balances of its interest in Level 3 investments as a practical expedient to determine the fair value of Level 3 investment funds. These funds do not have a readily determinable fair value and either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company. Because of the inherent uncertainty of valuations of Level 3 investments, their estimated values may differ significantly from the values that would have been used had a ready market for the Level 3 investments existed, and the difference could be material. Additional information about the major categories of Level 3 investments is presented below.

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, 2017 and 2016.

Assets at Fair Value as of June 30, 2017				
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 1,748,812	\$ -	\$ -	\$ 1,748,812
Limited partnerships and LLCs:				
Hedge strategies-hedged equity	-	-	33,840,897	33,840,897
Private equity	-	-	5,471,483	5,471,483
Real assets	4,414,319	-	3,951,307	8,365,626
U.S. equity	-	-	12,626,108	12,626,108
International equity	-	-	13,767,626	13,767,626
Emerging markets equity	-	-	8,107,957	8,107,957
Opportunistic	-	-	2,684,276	2,684,276
Fixed income	-	-	3,796,695	3,796,695
Total limited partnerships and LLCs	4,414,319	-	84,246,349	88,660,668
Mutual funds:				
Fixed income-short term	36,971,051	-	-	36,971,051
U.S. equity	3,229,661	-	-	3,229,661
Total mutual funds	40,200,712	-	-	40,200,712
U.S. government securities	-	178,486	-	178,486
Corporate bonds	-	3,534,478	-	3,534,478
Total	<u>\$ 46,363,843</u>	<u>\$ 3,712,964</u>	<u>\$ 84,246,349</u>	<u>\$134,323,156</u>

Assets at Fair Value as of June 30, 2016				
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 908,006	\$ -	\$ -	\$ 908,006
Limited partnerships and LLCs:				
Hedge strategies-hedged equity	-	-	39,346,431	39,346,431
Private equity	-	-	5,347,887	5,347,887
Real assets	4,143,608	-	4,004,144	8,147,752
U.S. equity	-	-	10,871,718	10,871,718
International equity	-	-	11,017,388	11,017,388
Emerging markets equity	-	-	6,819,759	6,819,759
Opportunistic	-	-	2,576,640	2,576,640
Fixed income	-	-	4,735,900	4,735,900
Total limited partnerships and LLCs	4,143,608	-	84,719,867	88,863,475
Mutual funds:				
Fixed income-short term	34,258,556	-	-	34,258,556
Hedge strategies-real return	2,792,466	-	-	2,792,466
Total mutual funds	37,051,022	-	-	37,051,022
U.S. government securities	-	190,090	-	190,090
Corporate bonds	-	3,928,039	-	3,928,039
Total	<u>\$ 42,102,636</u>	<u>\$ 4,118,129</u>	<u>\$ 84,719,867</u>	<u>\$130,940,632</u>

The University of Memphis Foundation
Notes to Financial Statements

The following table illustrates the activity of Level 3 assets from July 1, 2015 to June 30, 2017:

Fair value July 1, 2015	\$ 91,534,659
Realized losses	(431,518)
Change in unrealized losses	(3,270,216)
Purchases	1,632,195
Sales/distributions	<u>(4,745,253)</u>
Fair value June 30, 2016	84,719,867
Realized gains	385,778
Change in unrealized gains	9,949,940
Purchases	4,169,921
Sales/distributions	<u>(14,979,157)</u>
Fair value June 30, 2017	<u>\$ 84,246,349</u>

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

	<u>Fair Value June 30, 2017</u>	<u>Fair Value June 30, 2016</u>	<u>Unfunded Commitments at June 30, 2017</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Hedged equity ^(a)	\$ 33,840,897	\$ 39,346,431	\$ -	Annually/Upon Liquidation	90 days
Private equity ^(b)	5,471,483	5,347,887	6,430,051	At Manager's discretion	N/A
Real assets ^(c)	3,951,307	4,004,144	3,855,284	At Manager's discretion	N/A
U.S. equity ^(d)	12,626,108	10,871,718	-	Quarterly	60 days
International equity ^(e)	13,767,626	11,017,388	-	Quarterly	60 days
Emerging markets equity ^(f)	8,107,957	6,819,759	-	Annually	90 days
Opportunistic ^(g)	2,684,276	2,576,640	-	Annually	90 days
Fixed Income ^(h)	<u>3,796,695</u>	<u>4,735,900</u>	<u>-</u>	Monthly	15 days
Total	<u>\$ 84,246,349</u>	<u>\$ 84,719,867</u>	<u>\$ 10,285,335</u>		

^{a)} **Hedged Equity** - This category consists of funds of funds that make long and short position equity investments. The bulk of the investment is subject to semi-annual or annual redemption.

^{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.

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

- e) **International Equity** - This category will generally consist of managers that invest primarily in equity securities of corporations domiciled in foreign countries. International equity may include multiple styles (growth, value) and market capitalizations (small, mid, large). These investments will primarily be long-only.
- f) **Emerging Markets** - This category will generally consist of managers that invest primarily in equity securities of corporations domiciled in emerging foreign countries. Emerging markets equity may include multiple styles (growth, value) and market capitalizations (small, mid, large). These investments will primarily consist of long-only investments and hedged equity investments (long and short).
- g) **Opportunistic** - This category may include any strategy that offers exceptional risk/reward opportunities. This category is designed to provide the Investment Committee with the flexibility to select investments for a relatively small part of an overall allocation, which may not fit into the other designed allocation categories.
- h) **Fixed Income** - This category will generally consist of managers that invest primarily in fixed income securities of governments, government agencies, and corporations. These securities may include US and foreign government bonds, corporate bonds, asset-backed securities, mortgages (residential and commercial), municipal bonds, commercial paper, money market funds, preferred stock and closed-end funds. As the fixed income allocation is designed to provide capital preservation and liquidity, it will largely consist of investment grade securities. High yield bonds may be utilized.

5. Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of the following components/use restrictions as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Alumni relations	\$ 735,271	\$ 658,609
Awards	1,151,593	795,257
Capital improvements	8,408,861	15,998,657
Centers, institutes and labs	3,687,902	4,119,518
Contributions receivable, net	9,954,131	17,870,311
Departmental/academic enrichment	7,634,200	6,689,972
Gift annuities	42,509	45,597
Operations	252,650	142,778
Professorships/chairs/visiting scholars	5,245,967	3,866,105
Scholarships/fellowships	12,623,739	9,840,606
Special projects/lecture series/workshops	8,904,086	6,917,628
	<u>\$ 58,640,909</u>	<u>\$ 66,945,038</u>

6. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity. The components of the permanently restricted net asset balances and the purposes the income is expendable to support as of June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Alumni relations	\$ 586,163	\$ 543,663
Awards	2,370,804	2,233,094
Centers, institutes and labs	1,477,366	1,369,111
Contributions receivable, net	307,645	814,048
Departmental/academic enrichment	10,762,105	10,692,535
Professorships/chairs/visiting scholars	14,746,271	13,449,840
Scholarships/fellowships	30,780,630	29,481,316
Special projects/lecture series/workshops	11,166,463	10,135,153
	<u>\$ 72,197,447</u>	<u>\$ 68,718,760</u>

7. Endowment Funds

The University of Memphis Foundation's endowment accounts consist of donor-restricted endowment funds and include approximately 520 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 University of Memphis Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment funds and (b) the original value of subsequent gifts to the permanent endowment funds. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

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

The University of Memphis Foundation
Notes to Financial Statements

Endowment net asset composition by type of fund as of June 30, 2017:

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

Endowment net asset composition by type of fund as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1,284,926)	\$ 15,080,916	\$ 68,718,760	\$ 82,514,750
Board-designated endowment funds	<u>4,956,726</u>	<u>-</u>	<u>-</u>	<u>4,956,726</u>
Total funds	<u>\$ 3,671,800</u>	<u>\$ 15,080,916</u>	<u>\$ 68,718,760</u>	<u>\$ 87,471,476</u>

Changes in endowment net assets for the period of July 1, 2015 through June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
July 1, 2015	\$ 6,143,859	\$ 21,318,671	\$ 66,361,301	\$ 93,823,831
Investment return:				
Investment income (loss)	(68,404)	(1,091,692)	-	(1,160,096)
Net depreciation (realized and unrealized)	<u>(297,605)</u>	<u>(4,572,751)</u>	<u>-</u>	<u>(4,870,356)</u>
Total investment return	(366,009)	(5,664,443)	-	(6,030,452)
Contributions	-	201,218	2,859,663	3,060,881
Appropriation of endowment assets for expenditure	(1,163,450)	(2,310,253)	-	(3,473,703)
Other changes:				
Investment deficiencies reclassified to unrestricted net assets	(942,600)	942,600	-	-
Modifications of restrictions	<u>-</u>	<u>593,123</u>	<u>(502,204)</u>	<u>90,919</u>
June 30, 2016	3,671,800	15,080,916	68,718,760	87,471,476
Investment return:				
Investment income (loss)	(36,343)	(871,226)	-	(907,569)
Net appreciation (realized and unrealized)	<u>405,006</u>	<u>10,271,286</u>	<u>-</u>	<u>10,676,292</u>
Total investment return	368,663	9,400,060	-	9,768,723
Contributions	-	196,087	2,489,107	2,685,194
Appropriation of endowment assets for expenditure	(1,589,477)	(2,375,465)	-	(3,964,942)
Other changes:				
Investment deficiencies reclassified to unrestricted net assets	941,367	(941,367)	-	-
Modifications of restrictions	<u>-</u>	<u>20,000</u>	<u>989,580</u>	<u>1,009,580</u>
June 30, 2017	<u>\$ 3,392,353</u>	<u>\$ 21,380,231</u>	<u>\$ 72,197,447</u>	<u>\$ 96,970,031</u>

All of the permanently restricted endowment funds are required to be retained permanently either by explicit donor stipulation or UPMIFA. The portion of the temporarily restricted endowment funds subject to time and purpose restrictions was \$21,380,231 and \$15,080,916 as of June 30, 2017 and 2016, respectively. There were no temporarily restricted endowment funds only subject to time restrictions as of June 30, 2017 and 2016.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the Foundation is required to retain in a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and/or continued appropriation for fees and expenditures. At June 30, 2017 and 2016, deficiencies of this nature totaled \$343,559 and \$1,284,926, respectively.

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 2017 and 2016, 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.

8. 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 24% and 33% of the Foundation's contributions receivable balance at June 30, 2017 and 2016 was due from two and three donors, respectively.

9. Interfund Advances

The Foundation has agreed to advance up to \$7.6 million to a Foundation fund as an interfund advance benefiting the Athletic Department of The University of Memphis at a 2.2% annual interest rate for the purpose of providing financial support to allow the Athletic Department to undertake construction of a basketball practice facility in advance of receiving payment of donor funding commitments. The advance is to be repaid in full not later than June 30, 2020, and is secured by certain future collections of receivables and other collections related to certain Foundation funds benefiting the Athletic Department. No advances had been made as of June 30, 2017.

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors
The University of Memphis Foundation
Memphis, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of Memphis Foundation (the "Foundation"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, and cash flows and the related notes to the financial statements for the year then ended, and have issued our report thereon dated November 1, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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



There were no prior year findings reported.

We noted certain other matters that we have reported to management of the Foundation in a separate letter dated November 1, 2017.

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.

Dixon Hughes Goodman LLP

Memphis, Tennessee
November 1, 2017

8. External Audit Report - University of Memphis Research Foundation

Report

Presented by Vicki Deaton

Report to the Audit Committee of the Board of Trustees

The University of Memphis Audit Committee
Report
For Information

Date: September 5, 2018

Committee: Audit Committee

Report Title: External Audit Report - University of Memphis Research Foundation Financial Statements, June 30, 2017 and 2016

Presented by: Vicki D. Deaton, Chief Audit Executive

Report Synopsis:

On October 31, 2017, the University of Memphis Research Foundation Financial Statements, June 30, 2017 and 2016, were issued. The financial statements have not been provided to the Audit Committee in the past, and they are presented at this time per the responsibilities for Internal Audit under UofM Policy GE2016 Notification of External Audits and Reviews, which includes reporting occurrences of external reviews and audits to the Audit Committee, Division of State Audit and others as the circumstances may dictate.

From the Audit Report's Management Discussion and Analysis: The University of Memphis Research Foundation (UMRF) is a nonprofit corporation established on June 16, 2006, to develop and administer sponsored research and other sponsored projects conducted by the faculty and staff of the University. In addition, the UMRF may seek and hold patents and copyrights, negotiate and administer licenses, and collect and distribute royalties on behalf of the University. As of June 30, 2017, 32 patents had been assigned to the UMRF by the University. The UMRF's Board of Directors approves the annual operating budget for the UMRF's administrative expenses. Sponsored projects' budgets are passed through to the University. The UMRF utilizes University facilities and personnel to perform sponsored projects and for operating the UMRF. The University is reimbursed quarterly for expenses incurred on behalf of the UMRF.

The UMRF engaged an independent external CPA firm, Frazee Ivy Davis, PLC, to perform an audit of the financial statements of the business-type activity of the UMRF. The independent auditor's opinion stated that the financial statements present fairly, in all material respects, the financial position of the business-type activity of the UMRF as of June 30, 2017, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The auditors did not identify any deficiencies in internal control that would be considered material weaknesses during their limited consideration of internal control over financial reporting. A finding of noncompliance with State of Tennessee statute was identified related to collateralization of cash deposits. In response to the finding, UMRF management planned to move the cash to investments where it would be under federal depository insurance or the Securities Investment Protection Corporation.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION
FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

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THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

Board of Directors and Management Officials

June 30, 2017

BOARD OF DIRECTORS

Andrew Meyers	Executive Director
David Scully	Secretary/Treasurer
Tony Alexander	Director
Oscar Atkinson	Director
Richard Bloomer	Director
John Campbell	Director
Lakita Cavin	Director
Jasbir Dhaliwal	Director
Robert Jackson	Director
Abby Parrill	Director
Jeannie Smith	Director
Scott Vogel	Director

MANAGEMENT OFFICIALS

Andrew Meyers	Executive Director
Debra Cummings	Administrative Support
Angela Fair	Accountant



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activity of The University of Memphis Research Foundation as of and for the year ended June 30, 2017, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity of The University of Memphis Research Foundation, as of June 30, 2017, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Prior Year Information

The financial statements of The University of Memphis Research Foundation for the year ended June 30, 2016, were audited by another auditor whose report dated October 31, 2016, expressed an unmodified opinion on those statements.

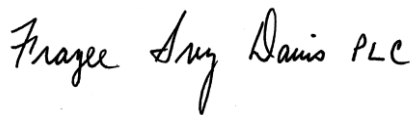
We were not engaged to audit, review, or apply any procedures to the 2016 financial statements of the entity and, accordingly, we do not express an opinion or any other form of assurance on the 2016 financial statements as a whole.

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017 on our consideration of The University of Memphis Research Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The University of Memphis Research Foundation's internal control over financial reporting and compliance.



Memphis, Tennessee
October 31, 2017

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

Management's Discussion and Analysis

June 30, 2017 and 2016

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and the results of operations of The University of Memphis Research Foundation (the "Foundation") for the year ended June 30, 2017. We encourage you to read this MD&A section in conjunction with the accompanying audited financial statements and notes to the financial statements.

About the Financial Statements

As an affiliate unit of The University of Memphis (the "University"), the Foundation has implemented the governmental accounting standards for state and local governments and for public colleges and universities. Because the Foundation is not supported by governmental tax revenues, the Foundation presents its financial reports in a single column "business-type activity" format appropriate for college and university enterprise funds. Governmental accounting standards define business-type activities as those financed in whole or in part by fees charged to external parties for goods and services.

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

The statement of net position is the Foundation's balance sheet. It reflects the total assets, liabilities, and net position (similar to equity) of the Foundation as of June 30, 2017. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as noncurrent. Net position is grouped in the following categories:

- Restricted
- Unrestricted

The statement of revenues, expenses, and changes in net position is similar to an income statement. It details how net position has increased (or decreased) during the fiscal year ended June 30, 2017.

The statement of cash flows details how cash has increased (or decreased) during the year ended June 30, 2017. It breaks out the sources and uses of Foundation cash into the following categories:

- Operating activities
- Investing activities

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

The notes to the financial statements provide additional details on the numbers 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, 2017, thirty-two (32) patents had been assigned to the Foundation by the University. The Foundation's Board of Directors approves the annual operating budget for the Foundation's administrative expenses. Sponsored projects' budgets are passed through to the University. The Foundation utilizes University facilities and personnel to perform sponsored projects and for operating the Foundation. The University is reimbursed quarterly for expenses incurred on behalf of the Foundation.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

Management's Discussion and Analysis

June 30, 2017 and 2016

Financial Highlights and Key Trends

During fiscal year 2017, the Foundation implemented its investment policy strategy to address a longstanding issue of holding significantly large non-collateralized bank cash balances while simultaneously providing funding to meet the future needs related to the mission of the Foundation. With an investment strategy that considers risk tolerance, return objectives, liquidity requirements, and time horizon, the Foundation, as advised by an investment consultant, instituted a diversified investment portfolio which includes cash, fixed income, equity, and alternative assets. With this goal in mind, as the certificates of deposit held by the Foundation matured, funds were transferred to the investment custodial account (Schwab) for investment/asset allocation as recommended by the investment consultant.

Operating expenses for the year ended June 30, 2017 were paid with funds from accumulated and current year interest income and contributions from The University of Memphis Foundation.

Statement of Net Position

Current assets include cash, including certificates of deposit, investments, and billed and unbilled receivables expected to be collected in the coming year. Current liabilities include payables and deferred revenue. There are no long-term liabilities as of June 30, 2017. The amount of unrestricted net position is income after payment of operating expenses, while restricted net position is the amount of grant revenue being held for expenditure by the University.

At June 30, 2017, the certificates of deposit held by the Foundation totaled \$1,327,696 and funds held in investments totaled \$631,176.

A summary of the major components of the net position of the Foundation as of June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Assets	\$ 2,791,169	\$ 4,824,977
Liabilities	930,523	1,484,800
Net position		
Restricted for research	612,846	1,761,880
Unrestricted	<u>1,247,800</u>	<u>1,578,297</u>
Total net position	<u>\$ 1,860,646</u>	<u>\$ 3,340,177</u>

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

Management's Discussion and Analysis

June 30, 2017 and 2016

Statement of Revenues, Expenses and Changes in Net Assets

A summary of the statement of revenue, expenses and changes in net position for the years ended June 30, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 859,624	\$ 1,723,478
Operating expenses	<u>(2,374,453)</u>	<u>(2,729,859)</u>
Operating loss	(1,514,829)	(1,006,381)
Nonoperating income (expense)		
Royalty income	23,496	25,326
Interest income	14,350	21,614
Net investment loss	<u>(2,548)</u>	<u>-</u>
Change in net position	<u>\$ (1,479,531)</u>	<u>\$ (959,441)</u>

The significant decrease in operating revenue in 2017 compared to 2016 was largely attributable to fewer sponsored projects being processed through the Foundation. This activity aligns with management's decision to streamline all sponsored projects directly through the University.

Consistent with the reduction in revenue activity, the decrease in expense activity is also primarily attributable to fewer projects being processed through the Foundation.

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

The Statement of Cash Flows

In 2017, the source of cash receipts to fund operating activities came from sponsored project revenue, contributions, interest income, and royalty income. Certain operating activities (personnel, travel, supplies, postage, etc.) of the Foundation were incurred as expenses by the University and reimbursed by the University of Memphis Foundation. Cash outflows for certain other operating activities (insurance premiums, licenses, audit, and legal fees) are paid directly by the Foundation. All sponsored project expenses are incurred by the University and reimbursed by the Foundation.

Future

Management will continue to streamline most projects directly through the University. Consistent with the Foundation's decision to proceed with an initiative to establish a new for-profit start-up entity, UMRF Ventures, Incorporated, which is a wholly-owned subsidiary of the Foundation, began its initial year of operation. Through UMRF Ventures, the University implemented a partnership with FedEx Corporation to initiate a student-operated call center as part of an economic development initiative to provide real and transferable opportunity to students in the Memphis community. In the forthcoming year(s), as we anticipate the continued expansion of research infrastructure at the University, we will continue to explore opportunities to support this infrastructure growth and lead us to our research university goals.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

Statements of Net Position

June 30, 2017 and 2016

ASSETS		<u>2017</u>	<u>2016</u>
Current assets			
Cash and cash equivalents		\$ 1,486,330	\$ 4,267,018
Investments		631,176	-
Accounts receivable, net		298,048	263,760
Unbilled revenue		75,463	993
		<hr/>	<hr/>
Total current assets		2,491,017	4,531,771
Patents, net		300,152	293,206
		<hr/>	<hr/>
Total assets		<u>\$ 2,791,169</u>	<u>\$ 4,824,977</u>
 LIABILITIES AND NET POSITION			
Current liabilities			
Payable to The University of Memphis		\$ 460,983	\$ 894,781
Deferred revenue		469,540	590,019
		<hr/>	<hr/>
Total current liabilities		930,523	1,484,800
		<hr/>	<hr/>
Net position			
Restricted for research		612,846	1,761,880
Unrestricted		1,247,800	1,578,297
		<hr/>	<hr/>
Total net position		1,860,646	3,340,177
		<hr/>	<hr/>
Total liabilities and net position		<u>\$ 2,791,169</u>	<u>\$ 4,824,977</u>

See accompanying notes to the financial statements.

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THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

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

For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues		
Sponsor project revenue	\$ 791,080	\$ 1,082,580
Grants and contributions	43,906	596,663
Patent contributions	24,638	44,235
	<u>859,624</u>	<u>1,723,478</u>
Total operating revenues		
Operating expenses		
Project expenses	2,302,080	2,710,122
Amortization expense	17,692	16,343
Other expenses	29,465	3,394
Salaries	25,216	-
	<u>2,374,453</u>	<u>2,729,859</u>
Total operating expenses		
Operating loss	<u>(1,514,829)</u>	<u>(1,006,381)</u>
Non-operating income (expense)		
Royalty income	23,496	25,326
Interest income	14,350	21,614
Net investment loss	(2,548)	-
	<u>35,298</u>	<u>46,940</u>
Total non-operating income, net		
Decrease in net position	(1,479,531)	(959,441)
Net position, beginning of year	<u>3,340,177</u>	<u>4,299,618</u>
Net position, end of year	<u><u>\$ 1,860,646</u></u>	<u><u>\$ 3,340,177</u></u>

See accompanying notes to the financial statements.

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THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

Statements of Cash Flows

For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Cash received from contributions	\$ 18,690	\$ 596,663
Cash received from project sponsors	1,374,704	2,101,963
Cash payments to the University of Memphis	(3,561,239)	(3,850,767)
Cash payments to suppliers	<u>(16,965)</u>	<u>(15,894)</u>
Net cash used in operating activities	<u>(2,184,810)</u>	<u>(1,168,035)</u>
Cash flows from investing activities		
Purchases of investments	(1,440,632)	-
Proceeds from sales of investments	806,583	-
Income from interest and royalties	37,846	46,920
Income from investments, net of fees	<u>325</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>(595,878)</u>	<u>46,920</u>
Net decrease in cash	(2,780,688)	(1,121,115)
Cash and cash equivalents, beginning of year	<u>4,267,018</u>	<u>5,388,133</u>
Cash and cash equivalents, end of year	<u>\$ 1,486,330</u>	<u>\$ 4,267,018</u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (1,514,829)	\$ (1,006,381)
Adjustments to reconcile operating loss to net cash flows used in operating activities:		
Amortization	17,692	16,343
Bad debt (recoveries)	12,500	(12,500)
Contribution of patents	(24,638)	(44,235)
Changes in operating assets and liabilities		
Accounts receivable	(46,788)	130,341
Unbilled revenue	(74,470)	9,110
Payable to the University of Memphis	(433,798)	353,622
Deferred revenue	<u>(120,479)</u>	<u>(614,335)</u>
Net cash used in operating activities	<u>\$ (2,184,810)</u>	<u>\$ (1,168,035)</u>

See accompanying notes to the financial statements.

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Note 1 – Summary of Significant Accounting Policies

Organization and Activities

The University of Memphis Research Foundation (the "Foundation") is a not-for-profit educational 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.

Basis of Presentation

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

Basis of Accounting

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

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable represent amounts due from grants and services rendered on contracts as of June 30, 2017 and 2016.

The Foundation records accounts receivable at their estimated net realizable value. An allowance for doubtful accounts is recorded based upon management's estimate of uncollectible accounts, determined by analysis of specific customer accounts. Past due balances and delinquent receivables are charged against the allowance when they are determined to be uncollectible by management. The allowance for doubtful accounts was \$15,000 as of June 30, 2017. There was no allowance as of June 30, 2016.

Investment Securities

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

Note 1 – Summary of Significant Accounting Policies (continued)

Patents

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

It is the goal of the Foundation to license patents to companies with the expertise and capability to commercialize inventions covered by the patents. At least annually, or if a determination is made that there is no accessible market for a patent, an impairment assessment is performed and the carrying value of the patent may be adjusted. Management does not consider the value of any of the patents to be impaired as of June 30, 2017.

Net Position

The Foundation's net position is classified as follows:

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

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

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

Revenue Recognition

The Foundation's revenues are derived from grants, sponsorship contracts, and contributions which provide support for the Foundation. The Foundation recognizes sponsorship project "contract" revenue once services have been rendered. Deferred revenue consists of amounts collected in advance for sponsorship project revenue for future expenditures and is recognized as qualified expenditures are made for the project. 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, sponsorship contracts and contributions are reported as operating revenues. Transactions that are investment-related are reported as non-operating income. Interest and royalties are recorded when earned and are reported as non-operating income.

Income Taxes

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

Note 1 – Summary of Significant Accounting Policies (continued)

Fair Value Measurements

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

Reclassifications

Certain 2016 amounts have been reclassified to conform to the 2017 presentation with no effect on net position or changes in net position.

Use of Estimates

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

Subsequent Events

Management has evaluated subsequent events through October 31, 2017, the date the financial statements were available to be issued.

Note 2 – Deposits with Financial Institutions

Deposits with financial institutions consist of demand deposits, certificates of deposit, and money market accounts held by investment brokers. The certificates of deposit mature in less than one year. Cash and cash equivalents consisted of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 158,634	\$ 2,422,354
Certificates of deposit	<u>1,327,696</u>	<u>1,844,664</u>
	<u>\$ 1,486,330</u>	<u>\$ 4,267,018</u>

Custodial credit risk is the risk that in the event of bank failure, the Foundation's deposits may not be returned. The Foundation does not have a policy for custodial credit risk. As of June 30, 2017 and 2016, the Foundation had deposits totaling \$1,486,330 and \$4,267,018, respectively. As of June 30, 2017 and 2016, bank balances in excess of federally insured limits totaled \$1,124,683 and \$4,820,697, respectively.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2017 and 2016

Note 3 – Investment Securities

Investment securities consisted of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Brokered certificates of deposit	<u>\$ 631,176</u>	<u>\$ -</u>

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; however, all investments are held in third-party safekeeping at a qualified institution.

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

Net investment loss for the years ended June 30, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Net loss for the year	\$ (2,873)	\$ -
Interest and dividend income	450	-
Investment fees	<u>(125)</u>	<u>-</u>
Net investment loss	<u>\$ (2,548)</u>	<u>\$ -</u>

Note 4 – Fair Value Measurements

The Foundation held no investments at June 30, 2016. The following table presents the Foundation's financial assets measured at fair value on a recurring basis as of June 30, 2017.

	<u>Fair Value</u>	<u>Other Observable Market Data (Level 2)</u>
Brokered certificates of deposit	<u>\$ 631,176</u>	<u>\$ 631,176</u>

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

Brokered Certificates of Deposit

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

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2017 and 2016

Note 4 – Fair Value Measurements (continued)

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

Note 5 – Patents

At June 30, 2017 and 2016, patents consisted of the following:

	<u>2017</u>	<u>2016</u>
Patents	\$ 371,998	\$ 347,359
Accumulated amortization	<u>(71,846)</u>	<u>(54,153)</u>
Patents, net	<u>\$ 300,152</u>	<u>\$ 293,206</u>
Amortization expense for the year	<u>\$ 17,692</u>	<u>\$ 16,343</u>

The future estimated amortization expense of patents held as of June 30, 2017 is as follows:

For the years ending June 30,

2018	\$ 18,600
2019	18,600
2020	18,600
2021	18,600
2022	18,600
Thereafter	<u>207,152</u>
	<u>\$ 300,152</u>

As of June 30, 2017, the weighted average amortization period for patents is 15.7 years.

Note 6 – Concentrations

The Foundation recorded approximately fifty-six percent (56%) of total contract billings from two funding sources during the year ended June 30, 2017, and approximately fifty-eight percent (58%) of total revenues from three funding sources during the year ended June 30, 2016.

As of June 30, 2017, approximately fifty-two percent (52%) of total receivables was from two funding sources and, as of June 30, 2016, approximately sixty-two percent (62%) of total receivables was from three funding sources.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

Notes to the Financial Statements

June 30, 2017 and 2016

Note 7 – Related Party Transactions

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

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

During the years ended June 30, 2017 and 2016, the Foundation made cash transfers to the University in the amount of \$3,541,175 and \$3,859,721, respectively. The Foundation had payables to the University totaling \$460,983 and \$894,781 as of June 30, 2017 and 2016, respectively. In addition, the Foundation received a transfer of patents from the University with total fair value of \$24,638 and \$44,235, respectively.

The University allocates salary expense attributable to the Foundation which totaled \$25,216 for the year ended June 30, 2017. The University is reimbursed for these expenses directly by the University of Memphis Foundation, which is recorded as contribution revenue by the Foundation.

Note 8 – Subsequent Events

In October 2017, the University announced a new partnership with FedEx. To accomplish this, the University created a for-profit entity called UMRF Ventures Inc., which became a wholly-owned subsidiary of the Foundation. The project, a student-operated call center, is part of an economic development initiative to provide real and transferable opportunities to students in the Memphis community. Approximately 20 students will initially be employed to handle calls from FedEx team members, including “first level” technical support, like phone configuration and basic application and computing device troubleshooting. The Foundation believes that the call center will serve as a template for future opportunities that benefit students of the University.



**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance With Government Auditing Standards**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activity of The University of Memphis Research Foundation as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise The University of Memphis Research Foundation's basic financial statements, and have issued our report thereon dated October 31, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The University of Memphis Research Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. We identified an instance of noncompliance, which is described in the accompanying schedule of findings and recommendations as item 2017-1.

The Foundation's Response to Finding

The Foundation's response to the finding identified in our audit is described in the accompanying schedule of findings and recommendations. The Foundation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

A handwritten signature in black ink that reads "Frayee Amy Davis PLC". The signature is written in a cursive, flowing style.

Memphis, Tennessee
October 31, 2017

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

Schedule of Findings and Recommendations

For the years ended June 30, 2017 and 2016

Finding 2017-1:

Criteria

Cash deposits are required by State statute to be secured and collateralized by the Foundation's financial institutions. The collateral must meet certain requirements and must have a total minimum market value of 105% of the value of the deposits placed in the institutions less the amount protected by federal depository insurance or the bank must be a member of the State's Bank Collateral Pool.

Condition

Neither of the Foundation's financial institutions participate in the Collateral Pool. Amounts held at the Foundation's financial institutions that are not covered by federal depository insurance totaled \$1,124,683.

Cause

The Foundation kept all its cash at one financial institution in order to avoid having cash at multiple institutions. This particular institution did not participate in the Collateral Pool, nor did it have securities pledge to collateralize the Foundation's accounts. In order to mitigate the risk associated with uninsured cash, the Foundation has begun to move some of its cash into investments that are insured.

Effect or Potential Effect

In the event of a bank failure, the Foundation could lose any uninsured deposit. However, the Foundation has not incurred any losses from uncollateralized accounts.

Recommendation

It is recommended that the Foundation follow through with the plans to transfer uninsured cash to investments that are insured.

Views of Responsible Officials

Management has indicated that it is their intention to move the cash to investments where it will be under federal depository insurance or the Securities Investment Protection Corporation ("SIPC").

Auditor's Evaluation of the Views of Responsible Officials

Management's response is appropriate to address the noncompliance.

9. FY2018 Internal Audit Year End Report

Presentation

Presented by Vicki Deaton

Presentation to the Audit Committee of the Board of Trustees

The University of Memphis Audit Committee
Presentation
For Information

Date: September 5, 2018

Committee: Audit Committee

Presentation Title: FY2018 Office of Internal Audit and Consulting Year End Report

Presented by: Vicki D. Deaton, Chief Audit Executive

Synopsis:

Please see the University of Memphis Office of Internal Audit and Consulting Year End Report for the Fiscal Year Ended June 30, 2018.

YEAR END REPORT

For the Fiscal Year
Ended June 30, 2018



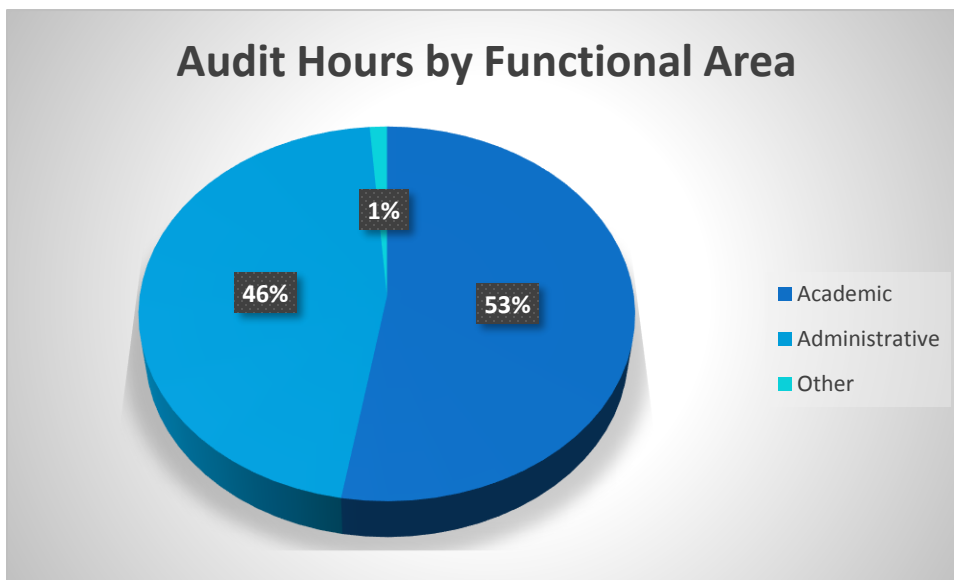
UNIVERSITY OF MEMPHIS

YEAR END REPORT
FOR THE FISCAL YEAR
ENDED JUNE 30, 2018

DISTRIBUTION OF AUDIT HOURS

The Office of Internal Audit and Consulting classifies audits by functional area. This allows us to report to the Board of Trustees and management what segments of the university community we are serving. Below is a chart showing the distribution of audit hours by functional area:

FY2018 Audit Hours by Functional Area

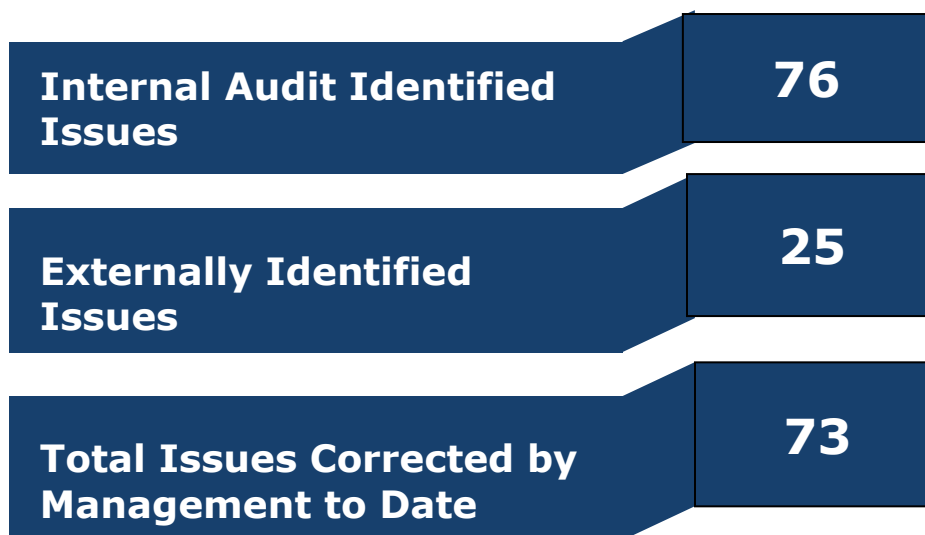




AUDIT ISSUES TRACKED BY INTERNAL AUDIT

Audits often discover opportunities for management to improve operations. Significant opportunities are generally included in the audit report as recommendations. Less significant opportunities may not be included in the audit report but discussed with the appropriate staff.

Audit Recommendation Summary for FY2018



INVESTIGATION SUMMARY

The University of Memphis Office of Internal Audit and Consulting has an established process for receiving reports of illegal activity or reports of fraud, waste, or abuse. Internal Audit performs confidential investigations of reports received or refers the report to the appropriate organization. If Internal Audit performs an investigation, a confidential report will be provided to the Audit Committee, the Tennessee Comptroller of the Treasury, and University of Memphis upper management.

Fraud, waste, abuse, or illegal activity reports are referred to other organizations because Internal Audit does not conduct criminal investigations, get involved in personnel complaints, personnel actions, matters related to tenure, or investigate reports of discrimination or sexual assault. Any reports from this process that involve potential or actual criminal acts will be referred to University Legal Counsel and the appropriate law enforcement agency for investigation. Personnel issues will be referred to Human Resources. Reports of discrimination or sexual assault issues will be referred to University Legal Counsel and the Office of Institutional Equity (OIE) for investigation. Matters relating to tenure of faculty will be referred to the Office of the Provost. Internal Audit may assist and provide information to University Legal Counsel, law enforcement, Human Resources, the Provost Office, or OIE if requested.



Fraud awareness is promoted across the University Campus community in various ways. Each semester, the President sends an email to all faculty and staff stressing the responsibility of all employees of the UOM to ensure that our resources are properly managed and safeguarded against inappropriate use by reporting activities that could be fraud, waste, or abuse. The last email was sent on September 11, 2017, and the letter is posted on the Office of the President’s website. Tennessee Comptroller of the Treasury hotline posters are displayed in multiple locations across Campus.

Internal Audit promotes reporting of fraud, waste, or abuse by meeting with employee and student groups across Campus. An Internal Audit brochure titled Reporting Fraud, Waste and Abuse is provided to groups during presentations and to audit clients during the audit process. The brochure is posted on the Office of Internal Audit and Consulting’s website, which contains a page devoted to reporting fraud, waste, and abuse of University resources. A link to submit a report online is provided, as well as other reporting options. Recently, Internal Audit worked with Human Resources to include a brief fraud awareness section in UOM new employee orientation. Below is a summary of the investigative activity for fiscal year 2018:

Investigation Summary for FY2018



Occasionally, internal audit reports contain sensitive information that may create a security concern if released in a public report. In these instances, state law allows for internal audit reports to be classified as “Limited Official Use” (LOU) reports. LOU reports are only made available to those who have a need to know the information in the performance of their official university duties. LOU reports are not subject to public inspection.

OTHER SIGNIFICANT ACCOMPLISHMENTS

The FOCUS transition and the formation of the University of Memphis Audit Committee of the Board of Trustees led to the following new procedures and increased communications with stakeholders.

- ☑ Audit Communication Procedures
- ☑ Audit Issue Action Plan Procedures
- ☑ Development of Audit Committee Charter
- ☑ Development of Internal Audit Charter
- ☑ Engagement Opinion Methodology & Issue Rating System
- ☑ Management of External Audit Reports and Issue Follow Up
- ☑ Promoting Reporting of FWA
- ☑ Quality Assurance Improvement Program

Additionally, Internal Audit staff has served on the following committees and advisory boards:

- ✓ Board of Trustees Transition Task Force
- ✓ Conflict of Interest Committee
- ✓ Compliance Committee
- ✓ Information Security Advisory Committee
- ✓ Payments Process Review Committee
- ✓ Policy Review Board
- ✓ Risk Assessment Advisor
- ✓ Safety Committee

10. Quality Assurance and improvement Program Update

Presentation

Presented by Vicki Deaton

Presentation to the Audit Committee of the Board of Trustees

The University of Memphis Audit Committee
Presentation
For Information

Date: September 5, 2018

Committee: Audit Committee

Presentation Title: Quality Assurance and Improvement Program Update

Presented by: Vicki D. Deaton, Chief Audit Executive

Synopsis:

Per the University of Memphis Office of Internal Audit and Consulting Charter:

All Internal Audit activities are conducted in accordance with all state statutes relative to Internal Audit and Audit Committees. In addition, the state statutes require that Internal Audit activities are governed by adherence to The Institute of Internal Auditor's (IIA) mandatory guidance, which includes the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*.

The IIA's mandatory guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of the internal audit activity's performance.

A Quality Assurance and Improvement Program includes ongoing internal monitoring, periodic internal assessments, and external quality assessments. A quality assessment evaluates compliance with the *Standards*, the definition of internal auditing, the Code of Ethics, the internal audit & audit committee charters, the organization's governance, risk and control assessment, and the use of successful practices.

The last external quality assessment performed for the UofM audit activity was in 2013, as part of the Tennessee Board of Regents System-Wide Internal Audit quality assessment. The UofM Office of Internal Audit and Consulting is in the process of identifying and retaining members of an external quality assessment team. The Chair of the Audit Committee will be informed as this initiative progresses.

11. Monitoring Student-Athlete Academics

Presentation

Presented by Vicki Deaton

Presentation to the Audit Committee of the Board of Trustees

The University of Memphis Audit Committee
Presentation
For Information

Date: September 5, 2018

Committee: Audit Committee

Presentation Title: Monitoring Student-Athlete Academics

Presented by: Vicki D. Deaton, Chief Audit Executive

Synopsis:

A letter addressed to the Board of Trustees Audit Committee questioned the University's oversight of student-athlete academics. This is an informational presentation that includes various mechanisms that the University employs to monitor and promote the welfare and educational success of the University's student-athletes.



Office of Internal Audit and Consulting

Informational Presentation to Audit Committee

September 5, 2018

University of Memphis
Informational Presentation to Audit Committee
9/5/2018

Case No. 18-022

Descriptions of Concern(s):

A letter addressed to the Board of Trustees Audit Committee questioned the University's oversight of student-athlete academics. This is an informational presentation that includes various mechanisms that the University employs to monitor and promote the welfare and educational success of the University's student-athletes.

UofM Monitoring Mechanisms:

Faculty Athletics Committee and Faculty Athletics Representative

According to their charge/purpose document, "the Faculty Athletics Committee serves as the faculty advisory group to the President on institutional issues related to intercollegiate athletics. It fosters the University's commitment to academic integrity within the athletic department, strives to ensure that the athletic department operates in consonance with the University's educational mission, and actively promotes the welfare and educational success of our student-athletes."

The Faculty Athletics Committee (FAC) meets monthly and is chaired by the Faculty Athletics Representative (FAR). NCAA regulations require a FAR who has academic rank and no association with the Athletics Department. The FAR has access to all institutional reports to the NCAA, meets regularly with the Athletic Director and Athletics Compliance Office staff, and provides institutional oversight of student-athlete academics. The FAR serves as a liaison between faculty and Athletics, and FAC members from across the University seek to increase the dialogue between Athletics and academics.

In 2017, the FAC formed a subcommittee to investigate student-athlete access to classes. The concern was that there could be specific majors where scheduling classes for student-athletes could be a problem given course or practicum schedules. The subcommittee found that with the assistance of the Center for Athletic Academic Services, a student-athlete can arrange class schedules to major in all but a few University degree programs.

The Athletics department conducts exit interviews with graduating student-athletes. The FAR participates in the exit interviews when possible. Student-athletes are questioned about their selection of a major and whether they majored in what they desired. No concerns or complaints from exit interviews have been forwarded to the Center for Athletic Academic Services for review.

Center for Athletic Academic Services (CAAS)

The mission of the Center for Athletic Academic Services at the University of Memphis is to provide the necessary academic support services for all student-athletes to be successful in the classroom and pursue an undergraduate degree while competing as an athlete. The center is also dedicated to the personal and professional development of all student-athletes. Academic support services are provided in a variety of ways, including orientation programs, tutoring, mentoring, academic counseling, study hall, and academic advising. The Faculty Athletics Committee provides oversight of CAAS.

Each semester, student-athletes meet with not only their College advisor, but also their assigned Athletic Academic Counselor. They discuss major selection and degree completion with their

Athletic Academic Counselor. This process requires a partnership between the counselor and the student-athlete to ensure student-athletes continually make timely progress toward graduation.

Through various forms of communication with professors, including telephone calls, emails, and grade reports, Athletic Academic Counselors monitor the grades and academic progress of student-athletes on their respective teams. Professors with high student-athlete percentages are identified and communications are increased to address any concerns.

Athletic Academic Counselors assist student-athletes in preparing for future careers. Through academic advising, weekly meetings, general conversations, and the student-athlete development program, counselors help student-athletes match desired careers with majors and refer student-athletes to other campus resources such as Career and Employment Services to assist in preparing for life after college.

CAAS monitors and provides the following information to the Faculty Athletics Committee:

- Distribution of student-athletes in each University major
- Distribution of student-athletes in each University major compared to distribution of non-athlete students in each University major
- Course sections with more than 30% of the students being student-athletes (course sections with more than 30% student-athletes are investigated to determine why there is a large percentage of athletes in the class)
- Student-athlete GPAs
- Student-athlete success rates

The Office of Institutional Research (OIR) also provides information to CAAS. The OIR provides the following information that may be used by University management to monitor student-athlete academics:

- Student-athletes headcount by major
- Majors with unusual numbers of independent-study style classes
- Majors with unusual numbers of online classes
- Review of grade distributions and grading patterns
- Course sections with very high student passage rates



Chief Audit Executive

12. Additional Committee Business

13. Adjournment