












December 2021 Audit Committee Meeting



Schedule	Wednesday, December 8, 2021 11:00 AM — 12:00 PM CST
Venue	Lambuth Campus (Madison Academic Magnet High School), Jackson, TN
Organizer	Sparkle Burns



Agenda

1. Call to Order and Opening Remarks Presented by Susan Springfield	1
2. Roll Call and Declaration of Quorum Presented by Melanie Murry	2
3. Approval of Meeting Minutes for August 25, 2021 For Approval - Presented by Susan Springfield	3
 Audit Minutes August 25, 2021- Final.docx	4
4. Summary of Audit Reports Issued Presentation - Presented by Vicki Deaton	10
 1 Agenda Item - Summary of Audit Reports Issued.docx	11
 2 Audit Report Summary.xlsx	12
5. Summary of Audit Issue Follow-up Presentation - Presented by Vicki Deaton	13
 1 Agenda Item - Audit Issue Follow-up.docx	14
 2 -Audit Issue Follow-up List.xlsx	15
6. External Audit Report - University of Memphis Research Foundation Financial Statements, 6/30/2021 Presentation - Presented by Vicki Deaton	16
 1 Agenda Item - Research Foundation.docx	17
 UMRF 2021 Audited Financial Statements_1.pdf	19

7. External Audit Report - The Herff Trust Financial Statements, 6/30/2021 Presentation - Presented by Vicki Deaton	47
 1 Agenda Item - Herff Trust.docx	48
 Herff Trust Financial Statements FY21.pdf	50

8. Risk Assessment Process Update Report - Presented by Raajkumar Kurapati	69
 Agenda Item - Risk Assessment Process Update.docx	70
 Risk Assessment Process Update.pptx	71

9. Compliance and Complaint Triage Team Update Presentation - Presented by Ceecy Reed	81
 Agenda Item -Compliance Update & Triage Team Update.docx	82
 Compliance and Complaint Triage Team Update.pptx	83

10. Information Security Update Presentation - Presented by Robert Jackson	85
 Agenda Item - Information Security Program Update.docx	86
 Information Security Program Update.pptx	87

11. Additional Business Presented by Susan Springfield	96
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12. Adjournment Presented by Susan Springfield	97
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1. Call to Order and Opening Remarks

Presented by Susan Springfield

2. Roll Call and Declaration of Quorum

Presented by Melanie Murry

3. Approval of Meeting Minutes for August 25, 2021

For Approval

Presented by Susan Springfield

**THE UNIVERSITY OF MEMPHIS
BOARD OF TRUSTEES
AUDIT COMMITTEE MEETING MINUTES
AUGUST 25, 2021**

The Audit Committee of the University of Memphis Board of Trustees met on Wednesday, August 25, 2021, in-person and virtually using the video conferencing system Zoom.

I. CALL TO ORDER AND OPENING REMARKS

Trustee Springfield called the meeting to order.

Trustee Springfield expressed her appreciation to the members of the community joining online, the trustees that were present in-person and virtually, and the University of Memphis administration that were in attendance.

Trustee Springfield stated one of the reasons the University has had success is because of the focus on the student first. Trustee Springfield stated the continued improvement of the governance and controls is important to maintain the physical outcomes at the University.

II. ROLL CALL

Trustee Springfield recognized Board Secretary Melanie Murry.

Secretary Murry called the roll. The following Trustees were present:

Trustee Graf (attended virtually via Zoom and verified he was alone and could hear Secretary Murry)

Trustee Roberts

Trustee Johnson

Trustee Riley

Trustee Edwards

Trustee Springfield

Secretary Murry announced the presence of a quorum.

Additional Trustees:

Secretary Murry acknowledged Trustee Kemme's attendance after the discussion of the Audit Committee charter.

III. APPROVAL OF MEETING MINUTES FOR JUNE 2, 2021

Trustee Springfield called for a motion to approve the meeting minutes from June 2, 2021. The motion was made by Trustee Johnson and properly seconded. Trustee Springfield asked was there any discussion or edits to the minutes, none were provided.

A roll call vote was taken and unanimously approved.

IV. SUMMARY OF AUDIT REPORTS ISSUED

Trustee Springfield recognized Chief Audit Executive, Vicki Deaton to present agenda items four (4) through seven (7).

Ms. Deaton presented the summary of audit reports issued. Ms. Deaton stated that the Cash Balances Audit Report and Inventory Observation Audit Report are completed at the end of each fiscal year to provide assurance and audit services for the Division of State Audit. There were no issues with the Cash Balances Audit Report or Inventory Observation Audit Report. The Payment Card Industry Data Security Standards (PCI DSS) was a compliance audit and Ms. Deaton showed the results.

There were no questions for Ms. Deaton, so she proceeded to the next agenda item.

V. SUMMARY OF INTERNAL INVESTIGATIONS

Ms. Deaton presented the summary of internal investigations. The investigation summary covers the fiscal year 2021. Ms. Deaton stated the summary provides information about the investigations, the results, and if there were recommendations.

VI. FISCAL YEAR 2021 INTERNAL AUDIT AND CONSULTING YEAR-END REPORT

Ms. Deaton presented the Internal Audit and Consulting year-end report. Ms. Deaton stated this report is presented annually at each fall quarterly meeting. Ms. Deaton stated that included in the materials was the report for fiscal year 2021. Ms. Deaton referenced the Audit Committee Charter which states that the committee must review the results with the Chief Audit Executive. Ms. Deaton discussed what is included in the year-end report, such as:

- Where audit resources are used
- Number of recommendations
- How the recommendations are being implemented by management

Ms. Deaton discussed the audit hours by functional areas. Ms. Deaton discussed the issues and recommendations that were made from some of the audit reports. Ms. Deaton stated the University does have externally identified issues. Ms. Deaton stated that Internal Audit and Consulting requests copies of project reports (audits, assessments, reviews) completed by external auditors and assessors on the University's campus. Ms. Deaton stated she distributes those reports to the different stakeholders. Ms. Deaton stated that many of the reports have corrective action plans that have been filed with the governing agencies.

Ms. Deaton explained that many of the issues included in this year's report did not have a completion date that has passed yet, which causes the number for the "total issues corrected by management to date" to be low.

Ms. Deaton presented the investigation summary for fiscal year 2021, which showed the number of reports the Compliant Triage Team received, the number of reports that were assigned to Internal Audit and Consulting, and the number of investigation memos that were issued.

Ms. Deaton did not have any questions about the report and therefore proceeded to the next agenda item.

VII. ANNUAL REVIEW OF AUDIT COMMITTEE CHARTER

Ms. Deaton presented the annual review of the Audit Committee Charter. Ms. Deaton discussed what the audit committee charter states, which is the Audit Committee must annually review and assess the adequacy of the charter, and if there are any changes that need to be made, those proposed changes must be presented to the Board. Ms. Deaton provided in the meeting materials the most recent copy of the Audit Committee Charter and asked the committee members if they have any proposed changes that need to be made to the charter.

Trustee Springfield asked Secretary Murry if a vote needed to take place. Secretary Murry responded by saying that a vote was not needed if there are no changes.

Trustee Springfield asked if there were any suggested changes to the audit charter, none were provided.

Secretary Murry asked if she could make a recommendation. Secretary Murry recommended having a small group from the Audit Committee to work with Ms. Deaton and the representatives from the Complaint Triage Team to review the Audit Charter and present the recommendations to the committee, instead of having each individual board member review. Secretary Murry stated she would like the group to maybe present recommendations at the December or March Board of Trustees meeting.

Ms. Deaton mentioned that she discussed the Audit Committee Charter with the external auditor recently. Ms. Deaton stated that if changes are proposed, the committee has to remember there are guidelines set by the Tennessee Comptroller. The University' current charter has been reviewed and approved by the Comptroller.

Trustee Springfield asked if the committee had any question or comments.

Chairman Edwards commented that the current charter gives the committee flexibility on how the University approaches the audit function and wants to possibly discuss further. Chairman Edwards commented that he does not see a reason to change the Audit Committee Charter.

Secretary Murry responded to Chairman Edwards comment by saying that the Comptroller's review is to make sure the charter aligns with the statue.

VIII. COMPLIANCE UPDATE

Trustee Springfield recognized Director of Institutional Equity and Chief Compliance Officer, Tiffany Baker Cox. Ms. Cox presented the compliance update. Ms. Cox stated that the Complaint Triage Team does not have any open complaints. Ms. Cox stated that since the previous Board meeting in June the Compliance Triage Team received one (1) complaint, which is now closed.

Ms. Cox stated that the Office of Institutional Equity has created a new compliance portal. Ms. Cox stated that the portal is not ready to be launched yet and is being finalized. Ms. Cox stated the goal of the portal is to provide faculty and staff a centralized place to locate information related to compliance. Ms. Cox discussed that the compliance council meetings will move to quarterly meetings starting in September and the meeting dates will be posted on the compliance portal.

Ms. Cox stated the compliance assessments will being in fall 2021. Ms. Cox referenced her discussion at the previous audit committee meeting regarding the five (5) areas that will be assessed. Ms. Cox expressed her appreciation to Ms. Vicki Deaton for assisting the Office of Institutional Equity with structuring the compliance assessment process. Ms. Cox stated that she hopes to present the compliance portal at the next board meeting.

Ms. Cox concluded her presentation.

Trustee Springfield commented that she thinks that it would be good to see the compliance portal. Trustee Springfield asked if there were any questions or comments, none were provided.

IX. INFORMATION SECURITY PROGRAM UPDATE

Trustee Springfield recognized Chief Information Officer, Dr. Robert Jackson. Dr. Jackson presented the information security program update and opened with the current status. Dr. Jackson stated that endpoint security is working effectively, and Information Technology Services is working with the vendor to monitor the endpoints, and he stated no major issues have been detected. Dr. Jackson discussed the enhancements made to the password reset. Dr. Jackson stated people can now provide their personal email addresses to receive a code rather than answering security questions. Dr. Jackson discussed the completion of the external security assessment. Dr. Jackson stated that the external assessment was an evaluation of the University's tactical controls and compliance with the NIST SP 800-171 standards and guidelines. Dr. Jackson stated that NIST SP 800-171 is required for certain federal engagements and research opportunities. Dr. Jackson stated he and Ms. Deaton along with her team collaborated last year on the external assessment. To move forward in a more formal manner Dr. Jackson stated he and Dr. Jasbir Dhaliwal's office collaborated to address those concerns and those concerns have been completed. Dr. Jackson stated the external assessment is a follow-up to an assessment completed in 2017. Dr. Jackson stated significant changes were made, and the University received a favorable report. Dr. Jackson stated action plans will be developed from a

few items on the external assessment and the appropriate government structures will be consulted. Dr. Jackson stated that the governance conversations have already begun with Faculty Senate and the Academic Support Committee and more formal agenda item discussions will occur in those meetings during September.

Dr. Jackson discussed the graph of the suspicious email account deactivations. Dr. Jackson stated the graph shows the efforts that were made and because of those efforts, there continues to be a decrease in the email accounts Information Technology Services has to deactivate because of suspicious behavior. Dr. Jackson expressed his appreciation for everyone's support with the implementation of additional controls that had to be put in place. Dr. Jackson stated proactive detection of suspicious activity is identifying fewer items that Information Technology Services needs to act on. Dr. Jackson discussed the IT Security Engagements summary of the last four (4) quarters that Information Technology Services was asked to investigate due to items being reported. Dr. Jackson stated that there have been four (4) to six (6) items over the last four (4) quarters but were no major increases to issues that needed to be handled by Information Technology Services. Dr. Jackson stated the security team has been focusing on implementing additional products and projects around campus.

Dr. Jackson discussed the next steps of information security program such as:

- Continued work with the governance structures on the end-point security controls and the academic community along with the researchers on expanding the security controls.
- The implementation of network access controls which would prevent inappropriate devices from accessing the University's network.
- Expansion of the University's encryption, which is one of the recommendations in the external assessment.
- Moving to address concerns about administrative privileges.
- The move toward acquiring the Security Awareness Training portal which supports internal phishing. Dr. Jackson stated this was another recommendation for best practice and he stated discussions will also occur with the appropriate governing committees. Dr. Jackson discussed the look of the portal and the access to data reporting and analytics.
- Following through on NIST SP 800-171 report and continue to support Dr. Jasbir Dhaliwal's and the researchers' efforts along with those in the Office of Sponsored Programs. Dr. Jackson stated Information Technology Services are going to assist researchers who are looking to acquire federal grants and create formal processes.
- Begin working toward CMMC certification which is a five (5) level certification that opens doors to more federal research grants. Dr. Jackson stated that because of the completion of NIST SP 800-171 in its early stages the University is on its way to being in compliance with some of the lower levels of CMMC.
- Continue with the U.S. Department of Education's expectations to adopt the NIST SP 800-171 to secure and protect data and doing this gives the University leverage in that area.

Dr. Jackson concluded his presentation.

Trustee Springfield asked if there were any questions, none were provided. Trustee Springfield expressed her appreciation to all the presenters and the work they are doing for the University.

X. ADDITIONAL BUSINESS

No additional business.

Dr. Rudd expressed his appreciation to the Board and Trustee North for pushing the security issue for the University last 4 to 5 years. Dr. Rudd stated that the University has taken steps to that have been well placed and timed to protect the University.

XI. ADJOURNMENT

Trustee Springfield adjourned the meeting to executive session

4. Summary of Audit Reports Issued

Presentation

Presented by Vicki Deaton

The University of Memphis Board of Trustees

Presentation
For Information

Date: December 8, 2021

Committee: Audit Committee

Presentation: Summary of Audit Reports Issued

Presented by: Vicki D. Deaton, Chief Audit Executive

Background:

One consulting report and three audit reports were issued since the last meeting. Summarized information is included in the attached table.

Name of Audit Report	Date of Audit Report	Audit Engagement Report Opinion	Observations	Minor Issues - Addressed Verbally	Minor Issues	Moderate Issues	Major Issues	Recommendations for Consideration by University Management	Issues Outstanding from Prior Audit
Center for Innovative Teaching and Learning Financial and Compliance Audit Report	9/16/2021	Effective with the Opportunity for Improvement	0	4	4	1	0	0	0
Controls over Changes to Vendor Electronic Information "Limited Official Use Only" Consulting Project Report	10/29/2021	NA	3	0	0	0	0	1	0
University Libraries Financial and Compliance Audit Report	11/18/2021	Insufficient and Requires Improvement	0	2	7	2	0	0	0
Audit of President's Expenses Report	11/29/2021	Effective	0	0	0	0	0	0	0

5. Summary of Audit Issue Follow-up

Presentation

Presented by Vicki Deaton

The University of Memphis Board of Trustees

Presentation
For Information

Date: December 8, 2021

Committee: Audit Committee

Presentation: Summary of Audit Issue Follow Up

Presented by: Vicki D. Deaton, Chief Audit Executive

Background:

Attached is a summarized list of audit issues from the NIST SP 800-171 Compliance Readiness Assessment and the Contract Monitoring Controls Audit that were evaluated for completion this quarter.

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 November, 2021)
6/30/2021	NIST SP 800-171 Compliance Readiness Assessment - Limited Official Use Only	6/30/2020	Insufficient and Requires Improvement	NIST 2	Noncompliance with NIST Security Requirements	Moderate = Insufficient and Requires Improvement	Robert Jackson, Chief Information Officer & Jasbir Dhaliwal, Executive Vice President for Research and Innovation	Complete
11/30/2020	Contract Monitoring Controls Audit	11/11/2020	Effective with Opportunity for Improvement	Contract Monitoring 1	Noncompliance with State Requirement for Contract Monitoring Plan Retention	Moderate = Insufficient and Requires Improvement	Nick Pappas, Executive Director, Procurement and Contract Services	Complete
6/30/2021	Contract Monitoring Controls Audit	11/11/2020	Effective with Opportunity for Improvement	Contract Monitoring 2	Insufficient Controls-No Contract Routing Form	Minor = Effective with Opportunity for Improvement	Nick Pappas, Executive Director, Procurement and Contract Services	Complete
1/31/2021	Contract Monitoring Controls Audit	11/11/2020	Effective with Opportunity for Improvement	Contract Monitoring 3	Insufficient Controls-Designated Contract Monitor	Minor = Effective with Opportunity for Improvement	Nick Pappas, Executive Director, Procurement and Contract Services	Complete
6/30/2021	Contract Monitoring Controls Audit	11/11/2020	Effective with Opportunity for Improvement	Contract Monitoring 4	Insufficient Controls-Contract Monitoring Plans Not Completed and Retained	Minor = Effective with Opportunity for Improvement	Nick Pappas, Executive Director, Procurement and Contract Services	Complete
6/30/2021	Contract Monitoring Controls Audit	11/11/2020	Effective with Opportunity for Improvement	Contract Monitoring 5	Noncompliance with Policy Requirement for Contract Monitoring Provision in Contracts	Minor = Effective with Opportunity for Improvement	Nick Pappas, Executive Director, Procurement and Contract Services	Partially Complete - New Action Plan in Development
6/30/2021	Contract Monitoring Controls Audit	11/11/2020	Effective with Opportunity for Improvement	Contract Monitoring 6	Noncompliance with Policy Requirement for Right to Audit Clause in Contracts	Minor = Effective with Opportunity for Improvement	Nick Pappas, Executive Director, Procurement and Contract Services	Partially Complete - New Action Plan in Development

6. External Audit Report - University of Memphis Research Foundation Financial Statements, 6/30/2021

Presentation

Presented by Vicki Deaton

The University of Memphis Board of Trustees

Presentation
For Information

Date: December 8, 2021

Committee: Audit Committee

Presentation: External Audit Report - University of Memphis Research Foundation Financial Statements, June 30, 2021

Presented by: Vicki D. Deaton, Chief Audit Executive

Background:

On September 30, 2021, the University of Memphis Research Foundation Financial Statements, June 30, 2021, were issued. The financial statements are presented for your information according to the responsibilities for Internal Audit under UofM Policy GE2016 Notification of External Audits and Reviews, which includes reporting occurrences of external reviews and audits to the Audit Committee, Division of State Audit and others as the circumstances may dictate.

From the Audit Report's Management Discussion and Analysis: The Foundation is a nonprofit corporation established on June 16, 2006, to develop and administer sponsored research and other sponsored projects conducted by the faculty and staff of the University. In addition, the UMRF may seek and hold patents and copyrights, negotiate, and administer licenses, and collect and distribute royalties on behalf of the University. As of June 30, 2021, 42 patents had been assigned to the UMRF by the University. The UMRF's Board of Directors approves the annual operating budget for the UMRF's administrative expenses. Budgets for sponsored projects are administered by the University. The UMRF utilizes University facilities and personnel to perform sponsored projects and for operating the UMRF. The UMRF reimbursed the University quarterly for expenses incurred on behalf of the UMRF. The UMRF is an affiliate of the University of Memphis.

The UMRF's financial report incorporates the financial statements and activities of the UMRF's wholly-owned subsidiary, UMRF Ventures, Inc. as a discretely presented component unit. UMRF Ventures was incorporated in 2017 with the mission to create good paying, part-time jobs for UofM students in a professional on-campus environment, and to provide the students with financial resources, relevant job experience, and potential pathways to future full-time employment. As UMRF Ventures enters its fifth fiscal year, it employs more than 230 students and has a monthly payroll in excess of \$350,000.

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

The UMRF engaged an independent external CPA firm, Fouts and Morgan, PC, to perform an audit of the financial statements of the business-type activities and discretely presented component unit of the UMRF. The independent auditor's opinion stated that the financial statements present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of the UMRF as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION
FINANCIAL STATEMENTS
JUNE 30, 2021



THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

CONTENTS

JUNE 30, 2021

	PAGE
Board of Directors and Management Officials	1
Independent Auditor's Report	2 - 3
Management's Discussion and Analysis	4 - 9
Statement of Net Position	10
Statement of Revenues, Expenses, and Changes in Net Position	11
Statement of Cash Flows	12 - 13
Notes to Financial Statements	14 - 23
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	24
Supplemental Schedule	
Schedule of Findings and Responses	25
Schedule of Prior Year Findings and Responses	26

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION
BOARD OF DIRECTORS AND MANAGEMENT OFFICIALS
JUNE 30, 2021

BOARD OF DIRECTORS

M. David Rudd	Chairman
David Scully	Secretary/Treasurer
Richard Bloomer	Director
Jan Bouten	Director
Lakita Cavin	Director
Erika Dillard	Director
Raajkumar Kurapati	Director
Abby Parrill-Baker	Director
Brad Phillips	Director
Ted Townsend	Director
Scott Vogel	Director
Tim Whitehorn	Director

MANAGEMENT OFFICIALS

Jasbir Dhaliwal	Executive Director
Angela Bunch	Accountant



FOUTS & MORGAN
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

Douglas A. Garner, CPA
J. Donald Short, CPA
Michael T. Odom, CPA, CVA
Randal L. Gregory, CPA
Gary D. Purdy, CPA, CA
Jimmie D. Fouts, CPA (1941-2008)
Don W. Morgan, CPA (1939-2005)

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of The University of Memphis Research Foundation, as of and for the year ended June 30, 2021, 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

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of The University of Memphis Research Foundation, as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The University of Memphis Research Foundation's basic financial statements. The accompanying roster of the Board of Directors and Management Officials is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The roster of the Board of Directors and Management Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2021, on our consideration of The University of Memphis Research Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The University of Memphis Research Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The University of Memphis Research Foundation's internal control over financial reporting and compliance.

Fouts & Morgan

FOUTS & MORGAN
Certified Public Accountants

Memphis, Tennessee
September 30, 2021

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS PRIMARY GOVERNMENT

JUNE 30, 2021

The following Management's Discussion and Analysis ("MD&A") provides an overview of the financial position and the results of operations of The University of Memphis Research Foundation (the "Foundation") for the year ended June 30, 2021. We encourage you to read this MD&A section in conjunction with the accompanying audited financial statements and notes to the financial statements.

About the Financial Statements

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

The financial statements incorporate the activities of the Foundation's wholly owned subsidiary, UMRF Ventures, Inc., as a component unit.

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

The statement of net position is the Foundation's balance sheet. It reflects the total assets, liabilities, and net position of the Foundation as of June 30, 2021. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as noncurrent. Net position is grouped in the following categories:

- Net investment in capital assets
- Restricted
- Unrestricted

The statement of revenues, expenses, and changes in net position details how net position has increased (or decreased) during the fiscal year ended June 30, 2021.

The statement of cash flows details how cash has increased (or decreased) during the fiscal year ended June 30, 2021. It classifies the sources and uses of Foundation cash into the following categories:

- Operating activities
- Investing activities
- Financing activities

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

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

General

The Foundation is a nonprofit corporation established on June 16, 2006, to develop and administer sponsored research and other sponsored projects conducted by the faculty and staff of the University. In addition, the Foundation may seek and hold patents and copyrights, negotiate and administer licenses, and collect and distribute royalties on behalf of the University. As of June 30, 2021, the Foundation held forty-two (42) patents assigned by the University. The Foundation's Board of Directors approves the annual operating budget for the Foundation's administrative expenses. Budgets for sponsored projects are administered by the University. The Foundation utilizes University facilities and personnel to perform sponsored projects and for operating the Foundation. The Foundation reimburses the University quarterly for expenses incurred on behalf of the Foundation.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS PRIMARY GOVERNMENT - Continued

JUNE 30, 2021

Financial Highlights and Key Trends

During fiscal year 2021, the Foundation continued to manage sponsored projects processed through the Foundation and to operate the UMRF Research Park. The Foundation provided funding of \$24,476 to be used for facility improvements and further development of the Research Park and will provide an additional \$16,393 in fiscal year 2022 for the same purpose. The Foundation also awarded \$20,000 to each of three UMRF Ventures Professorship recipients. These awards will be funded primarily by the current year dividend received from UMRF Ventures, Inc.

Statement of Net Position

Current assets include cash, investments, and receivables expected to be collected in the coming year. Other assets include patents, notes receivable and equity interest in UMRF Ventures, Inc. Current liabilities include payables, unearned revenue expected to be recognized in the next fiscal year, and security deposits from UMRF Research Park residents. There were no long-term liabilities as of June 30, 2021.

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

At June 30, 2021, funds held by an investment broker on behalf of the Foundation totaled \$1,772,004. Of this amount, \$1,766,792 represents investments at fair value and \$5,212 represents deposits with banks affiliated with the broker.

A summary of the major components of the net position of the Foundation as of June 30, 2021 and 2020 is as follows:

	2021	2020
Assets		
Current assets	\$ 2,142,727	\$ 2,207,926
Other assets	1,964,373	1,169,138
Total assets	<u>\$ 4,107,100</u>	<u>\$ 3,377,064</u>
Liabilities	<u>\$ 888,775</u>	<u>\$ 990,848</u>
Net position		
Net investment in capital assets	\$ 440,874	\$ 424,447
Restricted, expendable for research	216,071	218,780
Unrestricted	<u>2,561,380</u>	<u>1,742,989</u>
Total net position	<u>\$ 3,218,325</u>	<u>\$ 2,386,216</u>

The increase in total assets and unrestricted net position is primarily due to the increase in the equity interest in UMRF Ventures, Inc. that resulted from an operating income increase and recognition of other income due to forgiveness of the Paycheck Protection Plan loan obtained in the prior year.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
PRIMARY GOVERNMENT - Continued

JUNE 30, 2021

Statement of Revenues, Expenses, and Changes in Net Position

A summary of the statement of revenues, expenses, and changes in net position for the years ended June 30, 2021 and 2020, is as follows:

	2021	2020
Operating revenues	\$ 660,192	\$ 1,167,458
Operating expenses	(752,314)	(1,068,181)
Operating income (loss)	(92,122)	99,277
Nonoperating income (expense)		
Royalty income	20,773	17,177
Net investment income	74,650	54,063
Increase (decrease) equity interest in subsidiary	828,808	308,908
Miscellaneous	-	25
Change in net position	\$ 832,109	\$ 479,450

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

Operating revenues and expenses decreased mainly due to fewer sponsored projects being completed during the fiscal year.

Contributing to the operating loss was the expenditure of internal funds of \$45,000 for renovation of a laboratory and \$67,046 for expenses of UMRF Ventures Professorship recipients. These internal funds accumulated from prior years' revenues or from UMRF Ventures, Inc. dividends.

Statement of Cash Flows

In fiscal 2021, cash inflows came from sponsored project revenue, contributions, UMRF Research Park revenue, UMRF Ventures, Inc. dividend, and interest and royalty income. Cash outflows were primarily for sponsored project expenses. All sponsored project expenses are incurred by the University and reimbursed by the Foundation.

Future

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

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS COMPONENT UNIT

JUNE 30, 2021

UMRF Ventures, Inc. (the "Company") is a wholly owned subsidiary of The University of Memphis Research Foundation (the "Foundation"). The following MD&A provides an overview of the financial position and the results of operations of the Company for the year ended June 30, 2021. We encourage you to read this MD&A section in conjunction with the accompanying audited financial statements and notes to the financial statements.

General

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

Financial Highlights and Key Trends

The Board of Directors selected a full-time CEO to manage the day-to-day operations of the Company. Pierre Landaiche was hired on September 1, 2020, after having managed the Jacksonville, Florida Convention Center, the Memphis Cook Convention Center, and the Memphis Sports Hall of Fame.

At the beginning of fiscal year 2021, the Company employed approximately 210 students and had agreements with FedEx, Raymond James Financial and Sedgwick Claims Management. During the fiscal year the Company signed new agreements with Banded Holdings, Chime Solutions, FedEx Trade Networks, OmniBiotics and the City of Memphis.

The uncertainty and volatility of the COVID-19 pandemic and the increasing competition in the local workforce has impacted the ability to recruit and retain a full complement of students for the Company's ventures. The Company has implemented more targeted recruiting and incentive campaigns to maintain adequate levels of coverage for our customers.

Approximately 73% of the Company's employees work from home. The Company's Paycheck Protection Program ("PPP") loan from the Small Business Administration (the "SBA"), was forgiven in the fiscal year. The funds were used for employee payroll and rent.

As the Company enters its fifth fiscal year, it employs more than 230 students and has a monthly payroll in excess of \$350,000.

Statement of Net Position

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

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
COMPONENT UNIT – Continued**

JUNE 30, 2021

A summary of the major components of the net position of the Company as of June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Assets		
Current assets	\$ 2,000,411	\$ 1,789,849
Capital assets	220,360	268,761
Income tax benefit	24,124	109,548
Total assets	<u><u>\$ 2,244,895</u></u>	<u><u>\$ 2,168,158</u></u>
Liabilities		
Current liabilities	\$ 453,524	\$ 716,359
Long-term liabilities	492,872	932,108
Total liabilities	<u><u>\$ 946,396</u></u>	<u><u>\$ 1,648,467</u></u>
Net position		
Net investment in capital assets	\$ 220,360	\$ 268,761
Unrestricted	1,078,139	250,930
Total net position	<u><u>\$ 1,298,499</u></u>	<u><u>\$ 519,691</u></u>

Statement of Revenues, Expenses, and Changes in Net Position

A summary of the statement of revenues, expenses and changes in net position for the years ended June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Operating revenues	\$ 5,512,543	\$ 4,866,152
Operating expenses	(5,285,743)	(4,670,291)
Operating income (loss)	226,800	195,861
Nonoperating income (expense)		
Paycheck Protection Program loan forgiveness	689,700	-
Income tax benefit (expense)	(87,692)	113,047
Change in net position before dividend	828,808	308,908
Dividend	(50,000)	-
Change in net position after dividend	<u><u>\$ 778,808</u></u>	<u><u>\$ 308,908</u></u>

The increase in operating revenues and expenses in fiscal 2021 compared to fiscal 2020 is primarily a result of additional business from existing customers and new contracts.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
COMPONENT UNIT – Continued**

JUNE 30, 2021

Statement of Cash Flows

Fiscal 2021 cash inflows came from contract revenue and loan proceeds from a third party. Cash outflows were for operating expenses, purchase of property and equipment, repayment toward loans, and payment of a dividend to the Foundation.

Future

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

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

STATEMENT OF NET POSITION

JUNE 30, 2021

	Primary Government	Component Unit
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 172,125	\$ 1,082,302
Investment securities	1,766,792	-
Accounts receivable	203,810	908,214
Prepaid expenses	-	9,895
Total current assets	<u>2,142,727</u>	<u>2,000,411</u>
Fixed Assets		
Property and equipment	-	464,277
Allowance for depreciation	-	(243,917)
Net fixed assets	<u>-</u>	<u>220,360</u>
Other Assets		
Notes receivable	225,000	-
Equity interest in subsidiary	1,298,499	-
Patents, net of amortization	440,874	-
Federal income tax benefit	-	24,124
Total other assets	<u>1,964,373</u>	<u>24,124</u>
Total Assets	<u><u>\$ 4,107,100</u></u>	<u><u>\$ 2,244,895</u></u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Current portion of long-term debt	\$ -	\$ 30,853
Current portion of related party debt	-	123,036
Payable to The University of Memphis	313,293	4,301
Accounts payable	18,163	4,080
Unearned revenue	553,281	-
Accrued payroll and other liabilities	4,038	283,157
State taxes payable	-	8,097
Total current liabilities	<u>888,775</u>	<u>453,524</u>
Long-term Liabilities		
Long-term debt	-	44,425
Related party debt - long term	-	446,179
State taxes payable	-	2,268
Total long-term liabilities	<u>-</u>	<u>492,872</u>
Net Position		
Net investment in capital assets	440,874	220,360
Restricted, expendable for research	216,071	-
Unrestricted	2,561,380	1,078,139
Total net position	<u>3,218,325</u>	<u>1,298,499</u>
Total Liabilities and Net Position	<u><u>\$ 4,107,100</u></u>	<u><u>\$ 2,244,895</u></u>

See accompanying notes to the financial statements.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2021

	Primary Government	Component Unit
Operating Revenue		
Contract revenue	\$ 474,435	\$ 5,512,543
Grants and contributions	8,238	-
Patent contributions	65,627	-
Income from Research Park	111,892	-
Total operating revenues	<u>660,192</u>	<u>5,512,543</u>
Operating Expenses		
Depreciation and amortization	34,305	113,627
General and administrative	-	50,483
Insurance	4,614	63,852
Interest	-	28,076
Network services	23,947	26,746
Office equipment	-	45,508
Other	477	43,435
Payroll taxes	-	345,426
Professional fees	12,750	90,816
Property improvements - Research Park	40,869	-
Rent	14,783	375,540
Repairs and maintenance	-	34,337
Research projects	615,261	-
Royalty distributions	5,308	-
Salaries	-	4,067,897
Total operating expenses	<u>752,314</u>	<u>5,285,743</u>
Operating Income (Loss)	<u>(92,122)</u>	<u>226,800</u>
Other Income		
Royalty income	20,773	-
Net investment income	74,650	-
Increase in equity interest in subsidiary	828,808	-
Paycheck Protection Program loan forgiveness	-	689,700
Total other income	<u>924,231</u>	<u>689,700</u>
Income Before Income Taxes	832,109	916,500
Income Tax Expense	-	(87,692)
Change in Net Position	832,109	828,808
Net Position, Beginning of Year	2,386,216	519,691
Dividends Paid	-	(50,000)
Net Position, End of Year	<u>\$ 3,218,325</u>	<u>\$ 1,298,499</u>

See accompanying notes to the financial statements.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2021

	Primary Government	Component Unit
Cash flows from operating activities		
Cash received from contract customers	\$ 863,923	\$ 5,314,231
Cash received from contributions	500	-
Cash received from Research Park	61,306	-
Cash received from Component Unit	50,000	-
Cash payments to The University of Memphis	(1,344,414)	(338,135)
Cash payments to The Auxilliary Services Foundation	(24,476)	-
Cash payments to Primary Government	-	(50,000)
Cash payments to suppliers	(17,805)	(331,287)
Cash payments to employees	-	(4,266,952)
Cash payments for interest	-	(29,226)
Net cash provided by (used for) operating activities	<u>(410,966)</u>	<u>298,631</u>
Cash flows from investing activities		
Purchases of property and equipment	-	(65,226)
Purchases of investments	(105,998)	-
Investment maturities	357,000	-
Proceeds from the sale of investments	72,500	-
Income from royalties	20,773	-
Income from investments, net of fees	66,462	-
Net cash provided by (used for) investing activities	<u>410,737</u>	<u>(65,226)</u>
Cash flows from noncapital financing activities		
Repayment of long-term debt	-	(27,518)
Proceeds received from long-term-debt	-	62,680
Repayment of related party debt	-	(111,550)
Dividends paid	-	(50,000)
Net cash provided by (used for) financing activities	<u>-</u>	<u>(126,388)</u>
Change in cash and cash equivalents	(229)	107,017
Cash and cash equivalents at beginning of year	<u>172,354</u>	<u>975,285</u>
Cash and cash equivalents at end of year	<u>\$ 172,125</u>	<u>\$ 1,082,302</u>

See accompanying notes to the financial statements.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

STATEMENT OF CASH FLOWS – Continued

FOR THE YEAR ENDED JUNE 30, 2021

	<u>Primary Government</u>	<u>Component Unit</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities		
Operating income (loss)	\$ (92,122)	\$ 226,800
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation and amortization	34,305	113,627
Patent contributions	(65,627)	-
Patent impairment loss	14,895	-
Changes in operating assets and liabilities		
(Increase) decrease in operating assets:		
Accounts receivable	(200,344)	(98,420)
Prepaid expenses	-	(5,125)
Increase (decrease) in operating liabilities:		
Accounts payable	7,553	296
Payable to the University of Memphis	(140,982)	(1,072)
Accrued payroll and other liabilities	(2,628)	160,332
State taxes payable	-	2,085
Unearned revenue	33,984	(99,892)
Net cash provided by (used for) operating activities	<u>\$ (410,966)</u>	<u>\$ 298,631</u>

See accompanying notes to the financial statements.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

PRIMARY GOVERNMENT

Note 1 - Summary of Significant Accounting Policies

Organization and Activities

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

Financial Reporting Entity

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

Basis of Presentation

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

Basis of Accounting

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

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable represent amounts due from services rendered on contracts and for rents as of June 30, 2021. The Foundation records accounts receivable at their estimated net realizable value. An allowance for doubtful accounts is recorded based upon management's estimate of uncollectible accounts, determined by analysis of specific customer accounts. Past due balances and delinquent receivables are charged against the allowance when they are determined to be uncollectible by management. Management did not consider an allowance for doubtful accounts to be necessary as of June 30, 2021.

Investment Securities

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

Patents

Certain patents related to research projects have been donated to the Foundation by the University. Donated patents are recorded as contributions at the cost incurred by the University, which approximates the estimated fair value on the date of donation.

NOTES CONTINUED

Note 1 - Summary of Significant Accounting Policies - Continued

Patents are amortized over their useful lives, estimated at twenty years, using the straight-line method and are stated net of accumulated amortization.

It is the goal of the Foundation to license patents to companies with the expertise and capability to commercialize inventions covered by the patents. At least annually, or if a determination is made that there is no accessible market for a patent, an impairment assessment is performed and the carrying value of the patent may be adjusted. Any impairment loss determined by management is included in the statement of revenues, expenses, and changes in net position in the year in which impairment is determined. There was impairment loss of \$14,895 for the year ended June 30, 2021.

Equity Interest in Subsidiary

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

Net Position

The Foundation's net position is classified as follows:

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

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

Unrestricted - Unrestricted net position represents resources that do not meet the definition of restricted net position and may be used by the Foundation to meet expenses for any purpose. This classification includes any project residuals that are no longer restricted but have been designated for future research expenditures. There were \$402,936 of such residual funds available at June 30, 2021.

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

Revenue Recognition

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

Grants and contribution revenue are recognized when written documentation is received and all conditions have been satisfied for the Foundation to be eligible to receive the grant or contribution.

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

Income Taxes

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

NOTES CONTINUED

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.

Use of Estimates

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

Note 2 - Deposits with Banking Institutions

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

Custodial credit risk is the risk that, in the event of bank failure, the Foundation's deposits may not be returned. The Foundation has implemented an investment policy to minimize custodial credit risk from banking institutions. As of June 30, 2021, the Foundation had no deposits in excess of federally insured limits.

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

Note 3 - Investment Securities

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

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

As of June 30, 2021, investment securities consisted of brokered certificates of deposit and publicly traded mutual funds with fair values totaling \$1,766,792.

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

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

NOTES CONTINUED

Note 4 - Fair Value Measurements

As of June 30, 2021, the following table presents the Foundation's financial assets measured at fair value on a recurring basis:

	Fair Value	Level 1	Level 2	Level 3
Brokered Certificates of Deposit	\$ 232,559	\$ -	\$ 232,559	\$ -
Mutual Funds	1,534,233	1,534,233	-	-
	<u>\$ 1,766,792</u>	<u>\$ 1,534,233</u>	<u>\$ 232,559</u>	<u>\$ -</u>

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

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

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

Note 5 - Patents

As of June 30, 2021, patents consisted of the following:

	Patents, at Contributed Value	Accumulated Amortization	Patents, net
Balance, June 30, 2020	\$ 578,369	\$ (153,922)	\$ 424,447
Patents contributed by University of Memphis	65,627	-	65,627
Impairment loss	(22,502)	7,607	(14,895)
Amortization	-	(34,305)	(34,305)
Balance, June 30, 2021	<u>\$ 621,494</u>	<u>\$ (180,620)</u>	<u>\$ 440,874</u>

Note 6 - Equity Held in Licensees

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

Note 7 - Concentrations

The Foundation recorded one hundred percent of total contract billings from one funding source during the year ended June 30, 2021.

NOTES CONTINUED

Note 8 - Related Party Transactions

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

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

During the year ended June 30, 2021, the Foundation made cash transfers to the University in the amount of \$1,344,414. As of June 30, 2021, the Foundation had payables to the University totaling \$313,293.

The Foundation paid rent to the University for the use of office space in the amount of \$14,783 during 2021.

In September 2018, the Foundation loaned UMRF Ventures, Inc. \$225,000 for working capital support to expand its services. This loan bears interest at 5 percent per annum and is due September 20, 2022. The Foundation received interest relating to this loan totaling \$11,250 during the year ended June 30, 2021. The Foundation received rent in the amount of \$50,000 from UMRF Ventures, Inc. during the year ended June 30, 2021.

Note 9 - Component Unit

The Foundation has one component unit, its wholly owned for-profit subsidiary, UMRF Ventures, Inc. (the "Company"). The Company is managed by its own board of directors and management. The Foundation has determined that the Company meets the requirements of a discretely presented component unit under GASB 14. Significant disclosures related to the Company are included on pages 19 - 23.

Note 10 - Subsequent Events

Management has evaluated subsequent events through September 30, 2021, the date the financial statements were available to be issued.

NOTES CONTINUED

COMPONENT UNIT

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

Note 1 - Summary of Significant Accounting Policies of Component Unit

Organization and Activities

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

Accounts Receivable

Accounts receivable represent amounts due for services rendered as of June 30, 2021. The Company records accounts receivable at their estimated net realizable value. An allowance for doubtful accounts is recorded based upon management's estimate of uncollectible accounts, determined by analysis of specific customer accounts. Past due balances and delinquent receivables are charged against the allowance when they are determined to be uncollectible by management. No allowance for doubtful accounts was considered necessary at June 30, 2021, and no accounts were written off during the year ended June 30, 2021.

Property and Equipment

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

Income Taxes

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

Recently Issued Accounting Standard

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, Leases ("GASB No. 87"), effective for fiscal years beginning after June 15, 2021, with early adoption permitted. GASB No. 87 requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or outflows of resources based on the payment provisions of the contract. Management is still evaluating the effects of this standard on its financial statements but anticipates successfully implementing these provisions for its fiscal 2022 financial statements.

Note 2 - Deposits with Banking Institutions

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

Custodial credit risk is the risk that, in the event of bank failure, the Company's deposits may not be returned. The Company has implemented a cash management policy to minimize custodial credit risk from banking institutions. As of June 30, 2021, the Company had deposits in excess of federally insured limits in the amount of \$575,419.

NOTES CONTINUED

Note 3 - Property and Equipment

As of June 30, 2021, property and equipment consisted of the following:

	Balance June 30, 2020	Additions	Dispositions	Balance June 30, 2021
Leasehold improvements	\$ 175,901	\$ 7,495	\$ -	\$ 183,396
Furniture & fixtures	223,150	57,731	-	280,881
	399,051	65,226	-	464,277
Less Accumulated depreciation	(130,290)	(113,627)	-	(243,917)
Total Property and equipment	<u>\$ 268,761</u>	<u>\$ (48,401)</u>	<u>\$ -</u>	<u>\$ 220,360</u>

Note 4 - Line of Credit

At June 30, 2021, the Company had available a revolving line of credit of \$55,000 with a local bank which expires on March 26, 2022. Borrowings under this line of credit agreement bear interest at 2.25% per annum. Interest is payable monthly. The line is collateralized by a deposit account held at the bank. There were no borrowings outstanding under this line of credit at June 30, 2021.

Note 5 - Related Party Debt

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

\$ 225,000

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

344,215

569,215

Less: Current portion

(123,036)

Related party debt - long term

\$ 446,179

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

2022	\$ 123,036
2023	349,484
2024	96,695
2025	-
2026	-
	<u>\$ 569,215</u>

Interest expense related to the above related party notes for the year ended June 30, 2021 amounted to \$11,250 for The University of Memphis Research Foundation and \$15,372 for The University of Memphis - Herff Trust. At June 30, 2021 interest payable to The University of Memphis - Herff Trust amounted to \$3,408.

NOTES CONTINUED

Note 6 - Long-term Debt

Note payable to a finance company, bearing interest at 1 percent, due in monthly payments of principal and interest of \$1,689 beginning July 31, 2020 and maturing on September 1, 2023. Secured by equipment.

\$ 75,278

Less: Current portion

(30,853)

Long-term debt

\$ 44,425

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

2022	\$ 30,853
2023	32,879
2024	11,546
	<u>\$ 75,278</u>

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

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Final Maturity Date	Outstanding July 01, 2020	Issued During Period	Paid and/or Matured During Period	Outstanding June 30, 2021
Line of Credit - Bank	55,000	2.25%	06/05/20	03/26/22	-	-	-	-
Loan - University of Memphis Research Foundation	225,000	5.00%	09/20/18	09/20/22	225,000	-	-	225,000
Loan - University of Memphis - Herff Trust	500,000	4.00%	01/16/19	12/31/23	455,765	-	111,550	344,215
Loan - Finance Company	40,116	1.00%	06/30/20	09/01/23	40,116	62,680	27,518	75,278
					<u>\$ 720,881</u>	<u>\$ 62,680</u>	<u>\$ 139,068</u>	<u>\$ 644,493</u>

Note 7 - Leases with Related Party

The Company leases rooms with workstations under various lease agreements with The University of Memphis, a related party, expiring through July 31, 2024. During 2019, the Company moved its operations into a facility on the University's South Campus and rented space on the University's Lambuth Campus to house its expanding operations. For the year ended June 30, 2021, rent expense was \$325,540.

Minimum rental commitments under the leases are as follows:

2022	\$ 137,614
2023	120,284
	<u>\$ 257,898</u>

NOTES CONTINUED

Note 8 - Other Related Party Transactions

In addition to rent, the Company pays The University of Memphis for other operating expenses. During the year ended June 30, 2021, the Company incurred expenses from the University totaling \$9,256 in data usage fees, \$11,484 in parking and \$3,909 in other office expenses. As of June 30, 2021, the Company had \$893 due to the University for data usage fees.

The Company rents space from The University of Memphis Research Foundation. The Company paid rent in the amount of \$50,000 to The University of Memphis Research Foundation for the year ended June 30, 2021.

Note 9 - Income Taxes

The Company evaluates and accounts for uncertain tax positions in accordance with Accounting Standards Codification (ASC) 740-10 and has evaluated its tax positions taken for all open tax years. The Company has filed returns with the Internal Revenue Service and the Tennessee Department of Revenue and considers these to be its major tax jurisdictions. Currently, the 2019, 2020 and 2021 tax years are open and subject to examination. However, the Company is not currently under audit nor has the Company been contacted by these jurisdictions.

The Company has \$167,731 of federal and \$10,955 of state net operating loss ("NOL") carryforwards available, respectively, to offset future taxable income.

As of June 30, 2021, the federal income tax benefit and state income tax liability consist of the following:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Net operating loss carryforward	\$ 167,731	\$ 10,955	
Excess tax depreciation	<u>(52,857)</u>	<u>(45,850)</u>	
Future taxable loss (income)	114,874	(34,895)	
Statutory rate	<u>21%</u>	<u>6.5%</u>	
Federal and state income tax benefit (liability)	<u>\$ 24,124</u>	<u>\$ (2,268)</u>	<u>\$ 21,856</u>

The income tax provision shown on the statement of revenues, expenses, and changes in net position differs from the amount that would result from applying statutory tax rates to income before provision for income taxes because of utilization of the prior year's net operating loss carryforward.

Based on the evaluation of the Company's tax positions, management believes all positions taken would more likely than not be upheld under examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for the year ended June 30, 2021.

Note 10 – Concentrations

The Company recorded approximately seventy-nine percent of total revenue and seventy-six percent of total receivables from FedEx during the year ended June 30, 2021.

The Company has two contracts with FedEx expiring in May 2022. Management expects to be able to renew the contracts on favorable terms.

NOTES CONTINUED

Note 11 - Other Matters

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. This has resulted in federal, state and local governments and private entities mandating various restrictions, including restrictions on public gatherings, stay at home orders and advisories, and quarantining of people who may have been exposed to the virus. The Company has implemented and continues to monitor risk mitigation tactics for its operations related to its transactions with customers, vendors, and others within and outside of the Company.

On March 19, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act (the "Act") was signed into law. The Act contains several provisions, including the Paycheck Protection Program (PPP). This program was further expanded by legislation signed into law on April 24, 2020. The PPP is a loan program administered by the Small Business Administration that is designed to allow small businesses to keep their employees on the payroll.

In accordance with this provision, the Company applied for and received approximately \$689,700 on April 9, 2020. The PPP loan was eligible for forgiveness after a twenty-four-week period given that 60% of the loan was spent on payroll during this time. The Company maintained its normal level of payroll costs during the twenty-four-week grace period and obtained full forgiveness of the loan as of November 10, 2020. Accordingly, the Company has recognized this amount as other income for the year ended June 30, 2021.

Note 12 - Subsequent Events

Management has evaluated subsequent events through September 30, 2021, the date the financial statements were available to be issued.



FOUTS & MORGAN
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

Douglas A. Garner, CPA

J. Donald Short, CPA

Michael T. Odom, CPA, CVA

Randal L. Gregory, CPA

Gary D. Purdy, CPA, CA

Jimmie D. Fouts, CPA (1941-2008)

Don W. Morgan, CPA (1939-2005)

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of The University of Memphis Research Foundation, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise The University of Memphis Research Foundation's basic financial statements, and have issued our report thereon dated September 30, 2021.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Fouts & Morgan

FOUTS & MORGAN
Certified Public Accountants

Memphis, Tennessee
September 30, 2021

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2021

No matters were reported as findings and responses for the year ended June 30, 2021.

THE UNIVERSITY OF MEMPHIS RESEARCH FOUNDATION
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
JUNE 30, 2021

No matters were reported as findings and responses for the year ended June 30, 2020.

7. External Audit Report - The Herff Trust Financial Statements, 6/30/2021

Presentation

Presented by Vicki Deaton

The University of Memphis Board of Trustees

Presentation
For Information

Date: December 8, 2021
Committee: Audit Committee
Presentation: External Audit Report – The Herff Trust Financial Statements, June 30, 2021
Presented by: Vicki D. Deaton, Chief Audit Executive

Background:

On September 30, 2021, The Herff Trust Financial Statements, June 30, 2021, were issued. The financial statements are presented in accordance with the responsibilities for Internal Audit under UofM Policy GE2016 Notification of External Audits and Reviews, which includes reporting occurrences of external reviews and audits to the Audit Committee, Division of State Audit and others as the circumstances may dictate.

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

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

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

The Herff Trust engaged an independent external CPA firm, Fouts and Morgan, PC, to perform an audit of the financial statements of the Herff Trust. The independent auditor's opinion stated that the financial statements present fairly, in all material respects, the financial position of the Herff Trust as of June 30, 2021, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The auditors did not identify any deficiencies in internal control that would be considered material weaknesses during their limited consideration of internal control over financial reporting. Also, they did

not identify any instances of noncompliance with certain provisions of laws, regulations, contracts, grant agreements, or other matters that are required to be reported under Government Auditing Standards.

THE HERFF TRUST
FINANCIAL STATEMENTS
JUNE 30, 2021

THE HERFF TRUST

TABLE OF CONTENTS JUNE 30, 2021

	PAGE
Board of Directors and Management Officials	1
Independent Auditor's Report	2 - 3
Management's Discussion and Analysis	4 - 5
Statement of Net Position	6
Statement of Revenues, Expenses and Changes in Net Position	7
Statement of Cash Flows	8
Notes to Financial Statements	9 - 13
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 <i>Government Auditing Standards</i>	14 - 15
Supplemental Schedule	
Schedule of Findings and Recommendations	16
Schedule of the Disposition of Prior Year Findings	17

THE HERFF TRUST

BOARD OF DIRECTORS JUNE 30, 2021

BOARD OF DIRECTORS

Thomas G. Kadien	President
Richard A. Spell	Vice President
Fred A. Towler	Secretary
Raajkumar Kurapati	Treasurer
Dr. M. David Rudd	Director
John Hartney	Director
Tim Argo	Director
Steve McDaniel	Director

MANAGEMENT OFFICIALS

Byron Morgan	Executive Director
Holly Ford	AVP

To the Board of Trustees
The Herff Trust
Memphis, Tennessee

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of The Herff Trust (a component unit of The University of Memphis), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise The Herff Trust's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Herff Trust, as of June 30, 2021, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 and 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Herff Trust's basic financial statements. The accompanying roster of the Board of Directors and Management Officials is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The roster of the Board of Directors and Management Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2021, on our consideration of The Herff Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Herff Trust's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Herff Trust's internal control over financial reporting and compliance.

Fouts & Morgan

FOUTS & MORGAN
Certified Public Accountants

Memphis, Tennessee
September 30, 2021

THE HERFF TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2021

Management Discussion and Analysis for the Herff Trust

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and the results of operations of The Herff Trust (the "Trust") for the year ended June 30, 2021. We encourage you to read this MD&A section in conjunction with the accompanying audited financial statements and notes to the financial statements.

About the Financial Statements

As a component unit of The University of Memphis (the "University"), the Trust has implemented the governmental accounting standards for state and local governments and for public colleges and universities. Because the Trust is not supported by governmental tax revenues, the Trust presents its financial reports in a single column "business-type activity" format appropriate for college and university enterprise funds.

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

The statement of net position is the Trust's balance sheet. It reflects the total assets, liabilities, and net position (similar to net equity) of the Trust as of June 30, 2021. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as non-current. Net position is to be used for University of Memphis support.

The statement of revenues, expenses, and changes in net position is similar to an income statement. It details how net position has increased during the year ended June 30, 2021.

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

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

General

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

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

THE HERFF TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued JUNE 30, 2021

Statement of Net Position

Current assets include cash and the current portion of a note receivable and other income receivable from related party transactions (Note E).

At June 30, 2021, funds held by an investment broker on behalf of the Trust totaled \$28,849,266. Of this amount, \$27,685,102 represents investments at fair value and \$1,164,124 represents deposits with banks affiliated with the broker.

A summary of the major components of the net position of the Trust as of June 30, 2021 is as follows:

Current Assets	\$ 1,752,327
Other Assets	29,044,506
Total Assets	<u>\$ 30,796,833</u>
Current Liabilities	<u>\$ 76,492</u>
Net Position	
Unrestricted	<u>\$ 30,720,341</u>

Statement of Revenues, Expenses, and Changes in Net Position

A summary of the statement of revenue, expenses, and changes in net position for the year ended June 30, 2021 is as follows:

Net investment income	\$ 5,232,621
Other income	465,168
Student scholarships & other expenses	(918,353)
Change in net position	<u>\$ 4,779,436</u>

The Statement of Cash Flows

In 2021, the cash receipts and expenses during the year primarily relate to investment activity - purchase, sale and investment income and expenses. Besides these, student scholarships paid to the University is the primary outflow.

Future

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

THE HERFF TRUST
STATEMENT OF NET POSITION
JUNE 30, 2021

ASSETS

Current Assets

Cash and cash equivalents	\$ 1,164,124
Note receivable - related party	123,035
Other receivable - University of Memphis	465,168
Total current assets	<u>1,752,327</u>

Other Assets

Investments	\$ 28,823,328	
Note receivable - related party	<u>221,178</u>	
		<u>29,044,506</u>

Total Assets	<u>\$ 30,796,833</u>
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LIABILITIES AND NET POSITION

Current Liabilities

Due to University of Memphis	\$ 76,492
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Net Position

Unrestricted	<u>30,720,341</u>
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Total Liabilities and Net Position	<u>\$ 30,796,833</u>
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See accompanying notes to the financial statements.

THE HERFF TRUST

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2021

Revenue

Investment income	\$ 5,371,232
Less: Investment expenses	(138,611)
Net investment income	<u>5,232,621</u>

Other income - University of Memphis	<u>465,168</u>
--------------------------------------	----------------

Total Revenue	5,697,789
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Expenses

Program Expenses	
Student scholarships	910,053
Management and general	
Professional fees	<u>8,300</u>

Total Expenses	918,353
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Change in Net Position	4,779,436
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Net Position, Beginning of Year	<u>25,940,905</u>
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Net Position, End of Year	<u><u>\$ 30,720,341</u></u>
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See accompanying notes to the financial statements.

THE HERFF TRUST

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2021

Cash Flows From Operating Activities

Investment income received	\$ 529,688
Professional fees	(8,300)
Investment fees	(138,611)
Cash paid for scholarships	(1,027,030)
Net cash used in operating activities	(644,253)

Cash Flows From Investing Activities

Purchases of investments	(33,206,725)
Sales of investments	34,132,759
Investment maturities	229,652
Repayments on note receivable - related party	114,960
Net cash provided by investing activities	1,270,646

Change in cash and cash equivalents

626,393

Cash and cash equivalents at beginning of year

537,731

Cash and cash equivalents at end of year

\$ 1,164,124

Reconciliation of change in net position to net cash provided by operating activities:

Change in net position	\$ 4,779,436
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Net realized and unrealized loss on investments	(4,842,694)
Decrease in accrued interest included in note receivable	1,150
Changes in operating assets and liabilities	
Increase (decrease) in operating assets:	
Other receivable - University of Memphis	(465,168)
Increase (decrease) in operating liabilities:	
Due to University of Memphis	(116,977)
Net cash provided by operating activities	\$ (644,253)

See accompanying notes to the financial statements.

THE HERFF TRUST

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

Note A - Summary of Significant Accounting Policies

Organization and Activities

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

Financial Reporting Entity

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

Basis of Presentation

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

Basis of Accounting

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

Cash and Cash Equivalents

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

Investment Securities

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

NOTES CONTINUED

Note A - Summary of Significant Accounting Policies - Continued

Fair Value Measurements

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

Use of Estimates

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

Note B - Deposits with Investment Broker

Custodial credit risk is the risk that, in the event of institution failure, the Trust's deposits may not be returned. Balances held within cash accounts administered by its broker are covered by the Securities Investor Protection Corporation (SIPC) up to \$250,000 per account. None of these accounts exceeded the SIPC coverage as of June 30, 2021.

Note C - Investments

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

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

Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Trust will not be able to recover the value of investment securities that are in the possession of an outside party. The Trust does not have a policy for custodial credit risk for its investments. The Trust utilizes an American multinational independent investment bank and financial services company for its custodial services and has no investment securities from a single issuer valued in excess of five percent of the total investment portfolio at June 30, 2021.

NOTES CONTINUED

Note D - Fair Value Measurements

The following table presents the Trust's financial assets measured at fair value on a recurring basis at June 30, 2021:

	Fair Value	Level 1	Level 2	Level 3
Money market fund	\$ 1,513,000	\$ 1,513,000	\$ -	\$ -
Exchange traded funds	24,607,435	24,607,435		
Alternative investments	1,564,667	-	-	1,564,667
Limited partnership	1,138,226	-	-	1,138,226
	<u>\$ 28,823,328</u>	<u>\$ 26,120,435</u>	<u>\$ -</u>	<u>\$ 2,702,893</u>

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

Alternative investments: Held directly with the issuer, and valuation is derived from information provided by an external source. The alternative investments are funds that invest in hedge funds.

Limited partnership: Valued using the capital balance as a practical expedient to determine the fair value. The limited partnership invests in land and timber.

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2021:

	Real Estate Investment Trusts	Alternative Investments	Limited Partnership
Balance, June 30, 2020	\$ 167,583	\$ 1,323,150	\$ 1,552,301
Unrealized gain (loss)	-	241,517	(93,721)
Capital distributions	(167,583)	-	(320,354)
Balance, June 30, 2021	<u>\$ -</u>	<u>\$ 1,564,667</u>	<u>\$ 1,138,226</u>

NOTES CONTINUED

Note E - Related Party Transactions

The Trust was involved in the following transactions with organizations affiliated with The University during the period ending June 30, 2021:

Scholarships disbursed for the benefit of University of Memphis students	\$	910,053
Other income - University of Memphis	\$	465,168
Other receivable - University of Memphis	\$	465,168
Due to the University of Memphis	\$	76,492

Note F - Note Receivable – Related Party

Note receivable from UMRF Ventures, Inc., bearing interest at 4.0 percent, due in quarterly payments beginning January 1, 2020 and maturing on December 31, 2023.	\$	344,213
Less: Current portion		123,035
Related party receivable - long term	\$	<u>221,178</u>

Principal payments due from related party receivable for the next three years ending June 30 are as follows:

2022	\$	123,035
2023		124,482
2024		96,696
	\$	<u>344,213</u>

Interest income related to the above related party receivable for the year ended June 30, 2021 amounted to \$15,372 from UMRF Ventures, Inc.

Note G - Net Position

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

Note H - Other Income – University of Memphis

Between 2008 and 2010 the Herff Trust provided \$1,660,000 as a contribution towards the University's portion of the Perkins Loan program. With the Perkins loan program winding down, there was a distribution of assets. The University's share of \$465,168 was released from the revolving fund. Since the original corpus was funded by the Herff Trust, this amount was returned to the Herff Trust and has been included in other income for the year ended June 30, 2021.

NOTES CONTINUED

Note I - Other Matters

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. This has resulted in federal, state, and local governments and private entities mandating various restrictions, including restrictions on public gatherings, stay at home orders and advisories, and quarantining of people who may have been exposed to the virus. The Trust has implemented and continues to monitor risk mitigation tactics for its operations related to its transactions with customers, vendors, and others within and outside of the Company.

Note J - Subsequent Events

Management has evaluated subsequent events through September 30, 2021, the date the financial statements were available to be issued.



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

To the Board of Trustees
The Herff Trust
Memphis, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Herff Trust (a component unit of The University of Memphis), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise The Herff Trust's basic financial statements, and have issued our report thereon dated September 30, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



FOUTS & MORGAN
Certified Public Accountants

Memphis, Tennessee
September 30, 2021

THE HERFF TRUST

SCHEDULE OF FINDINGS AND RECOMMENDATIONS JUNE 30, 2021

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

THE HERFF TRUST

SCHEDULE OF THE DISPOSITION OF PRIOR YEAR FINDINGS JUNE 30, 2021

There were no prior year findings reported.

8. Risk Assessment Process Update

Report

Presented by Raajkumar Kurapati

The University of Memphis Board of Trustees

Report For Information

Date: December 8, 2021

Committee: Audit Committee

Presentation: Risk Assessment Process Update

Presented by: Raaj Kurapati, Executive Vice President and Chief Financial Officer

Background:

The 2021 Risk Assessment Process includes information and actions for Process Owners and Process Leaders to meet annual requirements from the State of Tennessee Comptroller Office under the Financial Integrity Act of 1983 (TCA 9-18-101) for establishing, maintaining, and assessing internal control effectiveness related to risk.

The 2021 Risk Assessment Process will focus not only on identification, analysis, and evaluation of proper risk responses, but will also incorporate a GAP Analysis to determine the effectiveness or ineffectiveness of the current model as well as potential areas for improving the ability to achieve strategic objectives and performance by addressing significant risks.

Risk Assessment Process Update

Audit Committee

Raaj Kurapati
Executive Vice President and Chief Financial
Officer

December 8, 2021

Lambuth Campus (Madison Academic Magnet
High School)



DECEMBER 2021

A Comprehensive Risk Control Process is:

1. Fundamental to sound University Governance & Management
2. Assures a strategic approach to achieving compliance with applicable laws, regulations and policies
3. Essential to Strategic Management and Achievement of University Objectives
4. Increases Institutional Efficiency and Effectiveness

State of TN Requirements

- Compliance with Financial Integrity Act of 1983
 - Implement ERM practices
 - Establish, maintain, and assess internal control effectiveness focused on ERM
- Documentation to prove compliance with:
 - **State Regulations, specifically TCA 9-18-102**
 - COSO 2013 and Green Book – Standards for Internal Control in the Federal Government
- Annual *TN Financial Integrity Act* report for management's responsibility and informed judgement about effectiveness of internal controls

Current Risk Assessment Platform

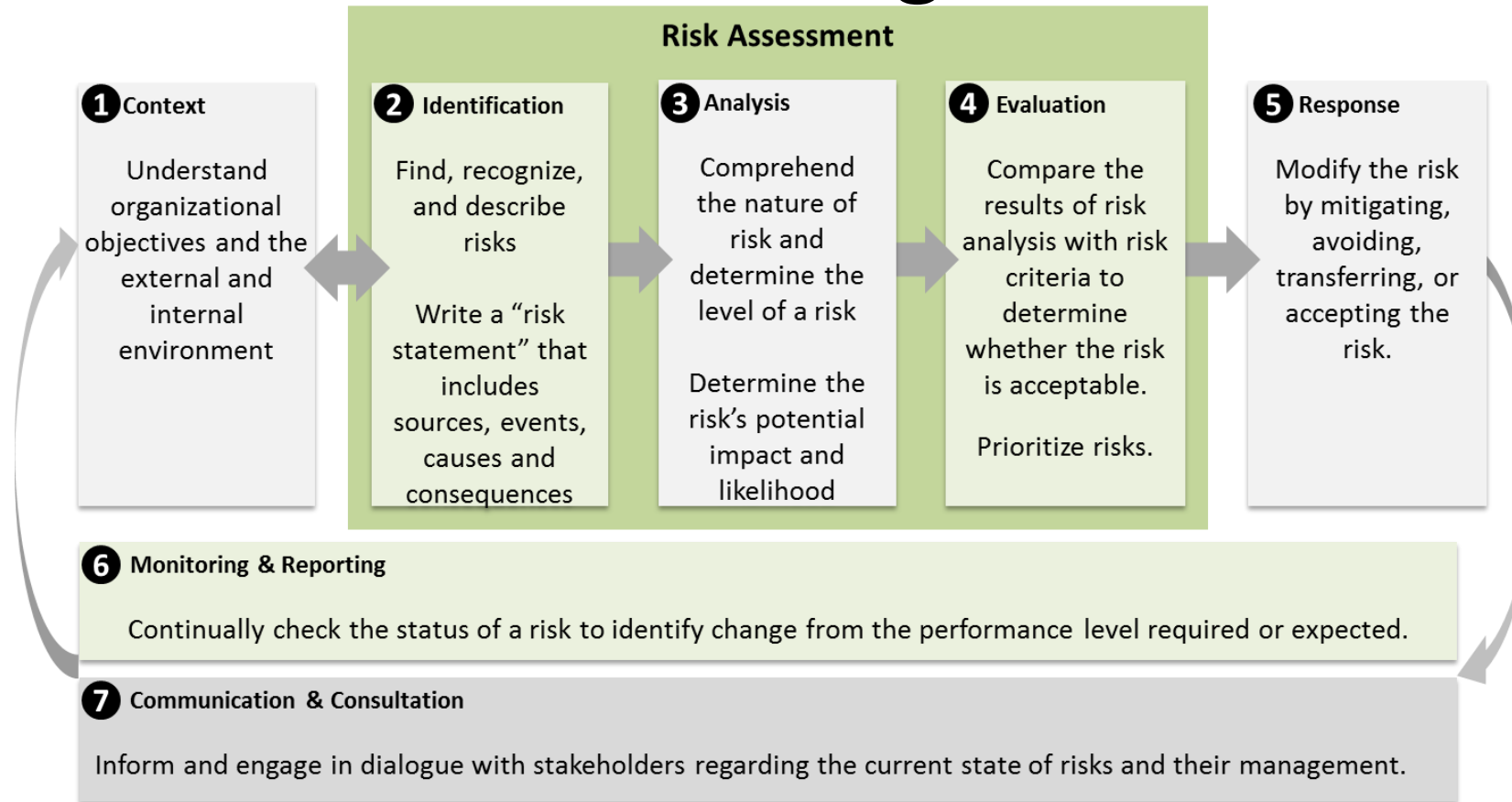
- Based on the Crawford Model employed by the Tennessee Board of Regents
- Outputs
 - Risk Footprint
 - Control Footprint

Limitations of current platform (we will discuss further our plans to address such):

- **A heavily manual process**
- **Limits our ability to actively monitor the Control Footprint & related reporting**

- **Static Documentation and requires extensive effort to update**

Risk Assessment – An Integral Part of ERM



Assessment Expectations - 2021

- ERM incorporated into Strategic Planning should yield more active controls and reduction of potential risk for the University
- 2021 Risk Assessment Process will include meetings with Process Owners and Process Leaders to discuss and evaluate our current model. This will include a survey to determine if we effectively identify, assess, manage, and report risks
- Additionally, the 2021 process will explore potential methods to provide more effective action plans and matching controls. A key concern is whether our current internal controls (Risk Footprint) are appropriately structured to manage risks and increase the likelihood that University goals & objectives are obtained
- The overall goal is to perform a GAP Analysis to determine relative strengths and weaknesses of our endeavors to manage risk.



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Key Assessment Questions

Risk Assessment Process



- Are we Nimble and Flexible as a University to Address Risk on the Fly?
- What are the Lessons Learned from Covid 19 and the 2020 Risk Assessment?
- What is our Risk Appetite? “The broad-based combined amount of risk the University is willing to accept in pursuit of our mission, vision, business objectives, and strategic goals.
- What is our Risk Attitude? “Risk Attitude is a disposition toward uncertainty, that is adopted explicitly or implicitly by individuals and groups, usually driven by perception, and evidenced by observable behavior.” Example: Approaches to Coronavirus
- What are the “Pain Points” or Areas of Greatest Concern for the University? (Vulnerabilities, Threats, etc.)
- Are We Accurately and Adequately Capturing Risks on an Enterprise Basis?
- Have We Adequately Trained or Communicated Risk Assessment Strategies to Departments?
- What Does our Risk Response (Action Framework) Reflect? What Changes Should be Incorporated?

Desired Outcomes

Evaluate our Current Enterprise Risk Management Efforts to Measure the Effectiveness of the Risk Assessment Process. As Part of Internal or External Reviews, We Want to Ensure:

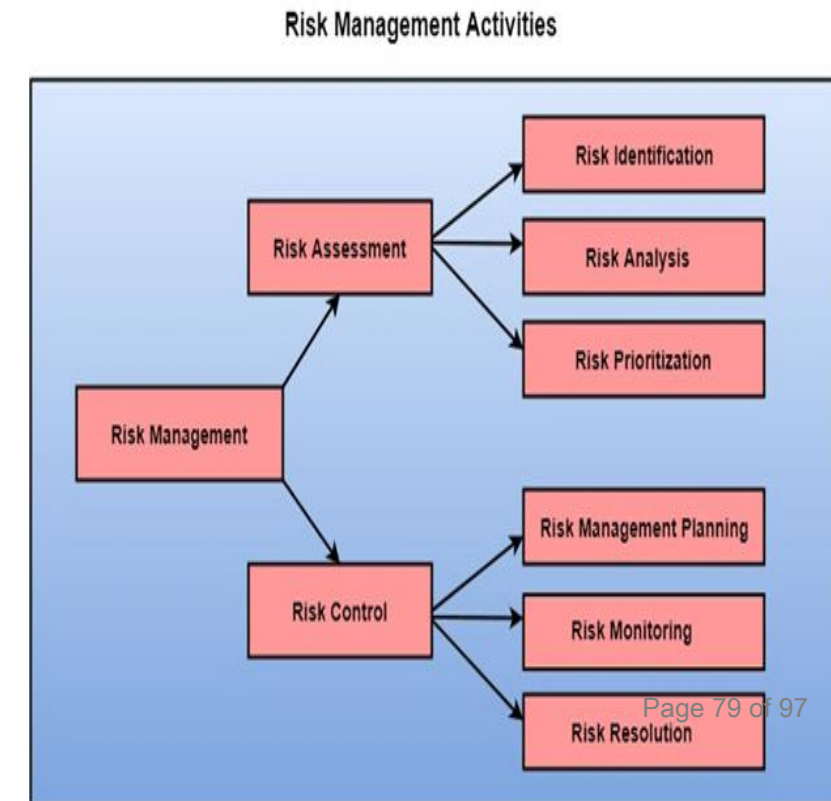
- Organizational Objectives Support and Align with the University's Mission
- Significant Risks are Identified and Assessed
- Appropriate Risk Responses are Selected that Align Risks with the University' Risk Appetite
- Relevant and Timely risk information is Captured and Communicated Across the University, Enabling Staff, Management, and the Board to Carry Out Their Responsibilities.



Enhancing the Risk Assessment Process

Pursue a GRC platform that leverages technology for the University to achieve mission critical governance, risk, and compliance processes by enhancing controls and increasing flexibility to better address and reduce risk.

- Create a dynamic iterative process risk management
- Automate assessments to business owners
- Modify processes to become a “living document”
- Analyze and remediate issues with intelligent reporting
- Add a layer of accountability via automated follow-ups
- Provide for customization to meet our environment



Risk Assessment Process - 2021 Timeline

- Oct 7 Notification for Risk Assessment Process Owners sent to Process Owners
- Oct 7-14 Verify or select Process Leaders and finalize subprocess team members
- Oct 19 President's Council presentation with an overview and timeline of the Risk Assessment Process
- Oct 20-29 Process Leaders to meet with team members and give them an overview and timeline for completion of the Risk Assessment Process.
- Nov 1-22 Schedule meetings with Process Leads & Subprocess Team Members regarding Risk Attitude, Risk Appetite and Risk Assessment methods to identify gaps, needs, and improvements. At the process level risk assessment meetings with subprocess team members, the Risk Footprint will be updated and prioritized based on impact and probability.
- Dec 8 Risk Assessment Update BOT
- Dec 14 Risk Management to receive updated Process Control Footprints from Process Leads
- Dec 17 First Draft of Updated Enterprise Risk Footprint
- Dec 20 Financial Integrity Letter forwarded to the Executive Vice-President of Business & Finance and CFO to review with the President and submission to the State Treasurer
- Dec 21 Updated Process Level Control Footprints
- Mar 2022 BOT Presentation on Results of Risk Assessment

9. Compliance and Complaint Triage Team Update

Presentation

Presented by Ceecy Reed

The University of Memphis Board of Trustees

Presentation
For Information

Date: December 8, 2021

Committee: Audit Committee

Presentation: Compliance and Compliant Triage Team Update

Presented by: Ceecy J. Reed, Interim Director for Office of Institutional Equity

Background:

This will be a brief update on the Office for Institutional Equity's web page, Compliance Assessments, and the Compliance Triage Team activity.

Compliance and Complaint Triage Team Update

Audit Committee

Ceecy J. Reed
Interim Director for Office for Institutional
Equity

December 8, 2021
Lambuth Campus (Madison Academic Magnet
High School)



DECEMBER 2021

- First Compliance Assessment Initiated
- Compliance Assessments scheduled through AY 2021-2022
- Compliance Council Fall Meeting
- Complaint Triage Team (CTT) currently has two (2) open investigations
- Compliance web page is live

10. Information Security Update

Presentation

Presented by Robert Jackson

The University of Memphis Board of Trustees

Presentation
For Information

Date: December 8, 2021

Committee: Audit Committee

Presentation: Information Security Program Update

Presented by: Dr. Robert Jackson, Chief Information Officer

Background:

This presentation is an overview of ITS security measures, statistics, and projects, shared with Audit Committee regularly.

Information Security Program Update

Audit Committee

Robert Jackson, EdD
Chief Information Officer

December 8, 2021
Lambuth Campus (Madison Academic Magnet
High School)



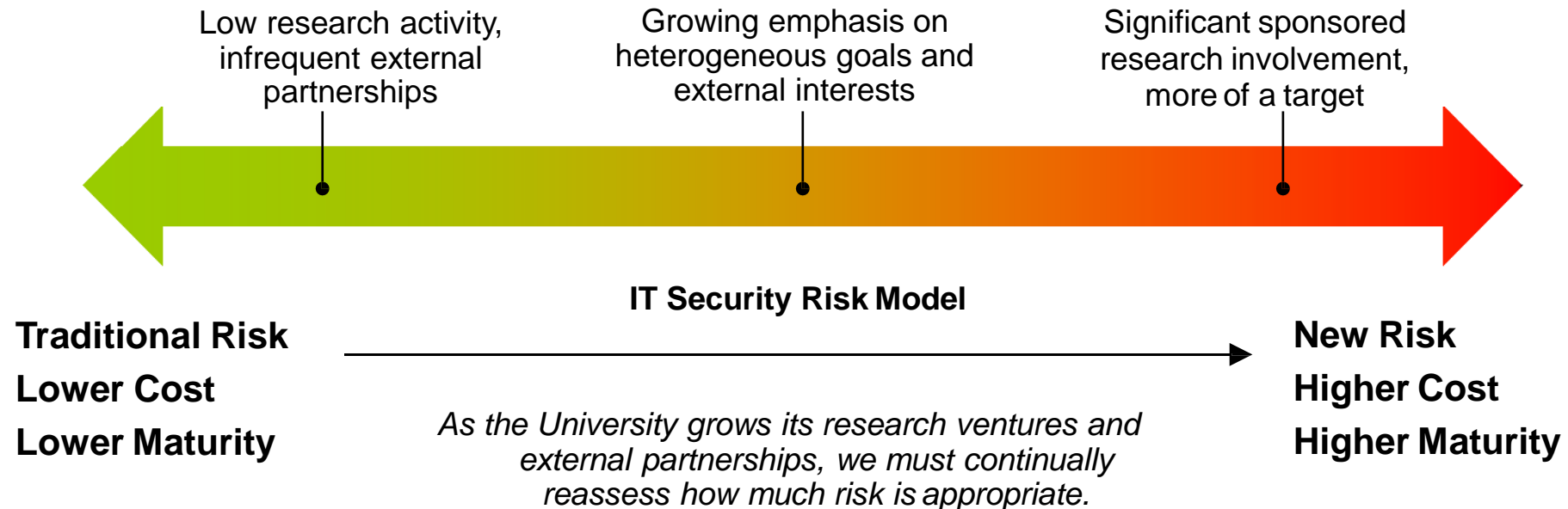
DECEMBER 2021

Why IT security is important

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



There is no such thing as "perfect protection"



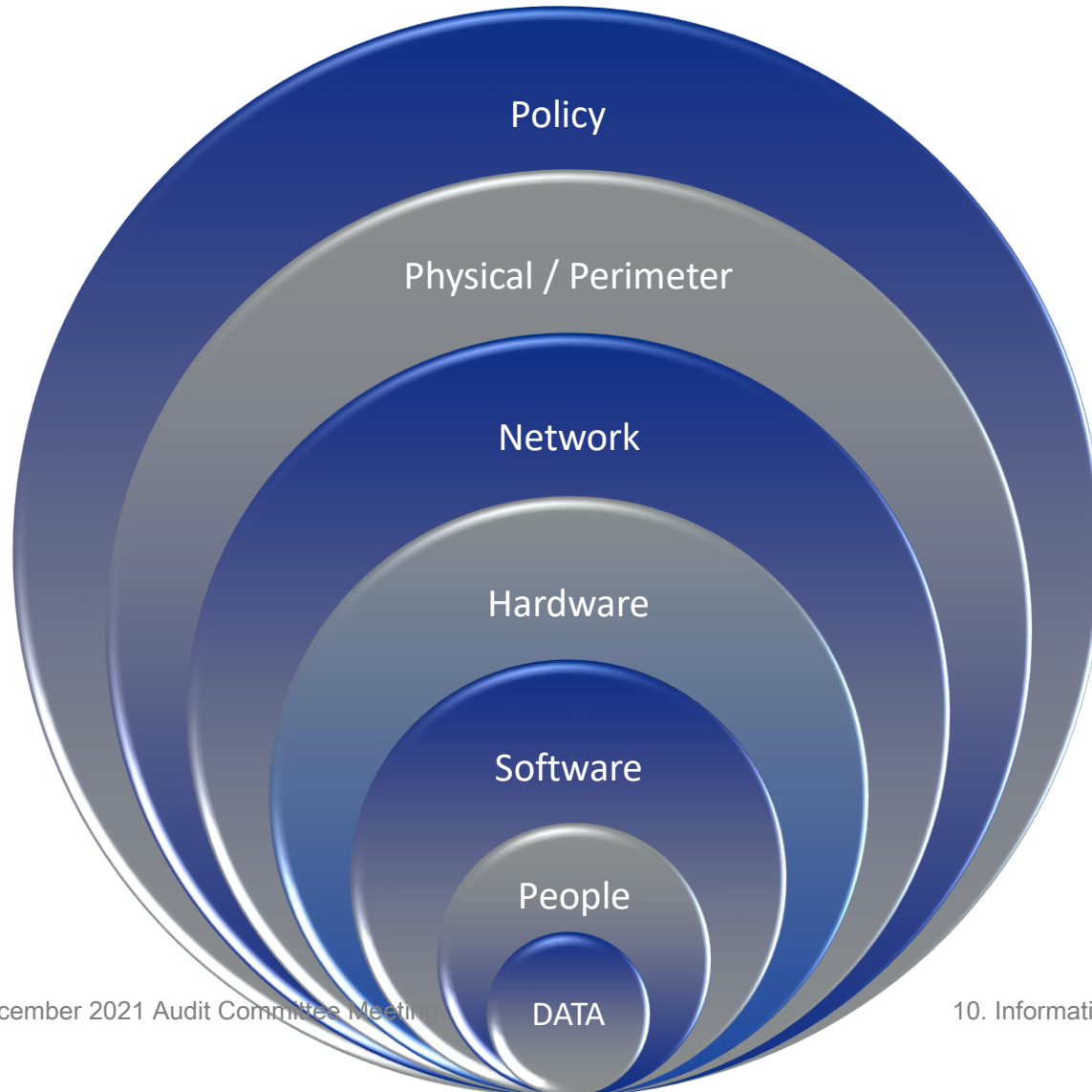
Our goal is to build a sustainable information security program that promotes the ambitions of the university while protecting its operations and resources.

Defense in Depth at UofM



THE UNIVERSITY OF
MEMPHIS®

Board of
Trustees



Policy

- Multi-factor authentication and passwords
- Purchasing controls
- Audit and access controls

Physical / Perimeter

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

Network

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

Hardware

- Regular updates to equipment
- Encryption

Software

- Regular updates and patches
- Encryption

People

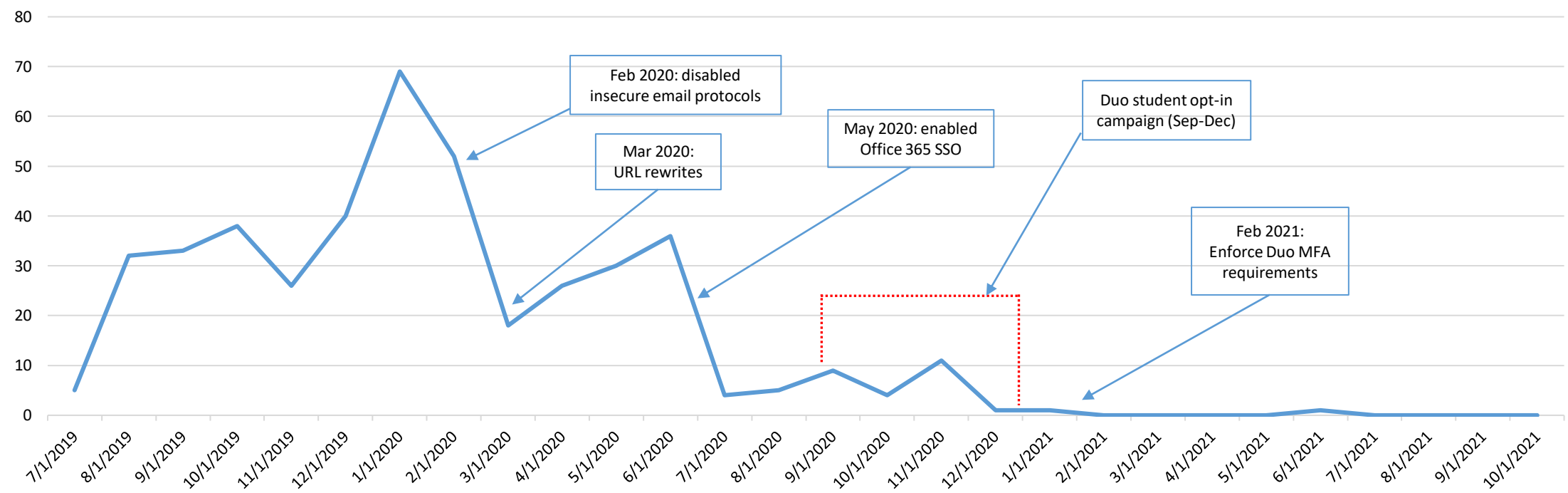
- Training and data loss prevention
- Access controls
- Multi-factor authentication
- Monitor for anomalies

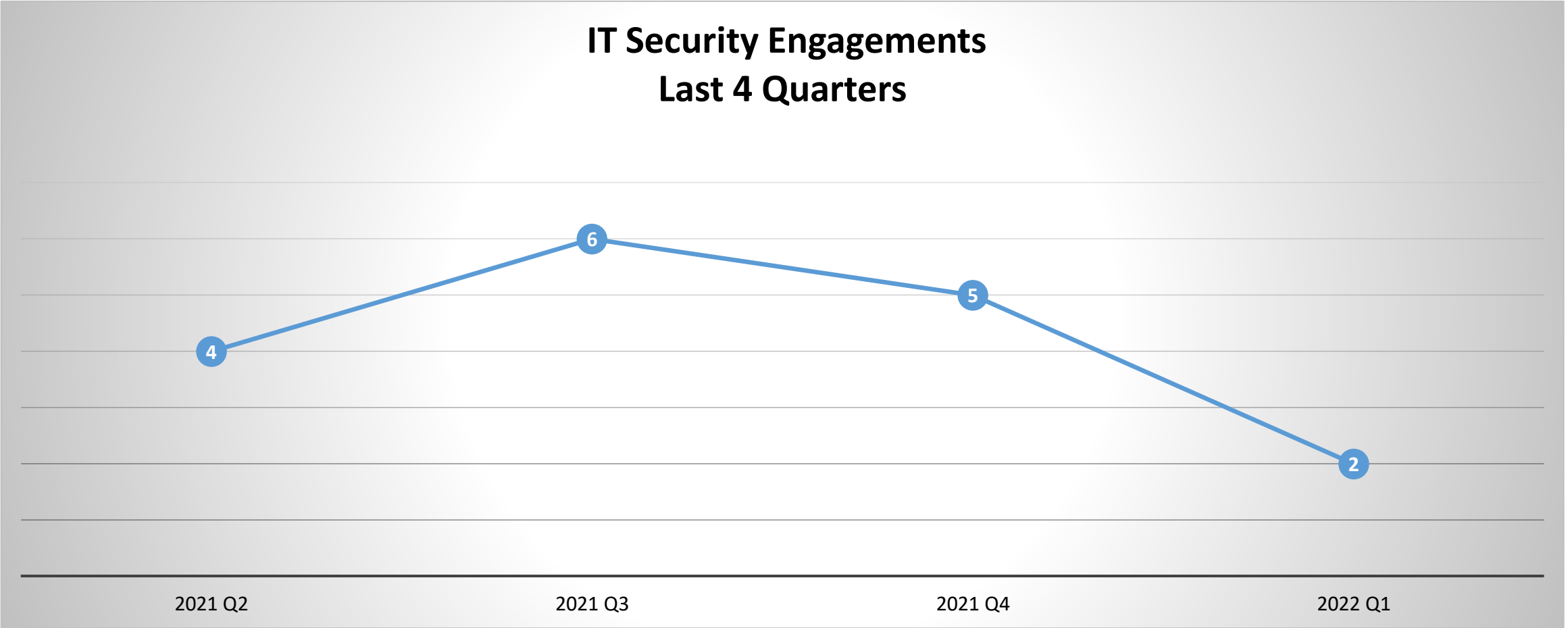
Data

- Encryption
- Access controls
- Least privileged access

- Enhanced enterprise database encryption standards
- Executed research compliance initiative
 - Collaborate with Office of Sponsored Programs
 - Contract review
 - Developed system security plan template
 - Training outreach
- Deployed new IT security awareness training portal that supports internal phishing training
- Communicating additional endpoint security controls for academics (network access controls, encryption, administrative privileges, etc.)
- Expanded capabilities to detect endpoint vulnerabilities
- Managed endpoint detection and response (EDR) services are providing increased protections

Suspicious Email Account Deactivations, FY2020 to present





- Cyber liability insurance revisions
 - Increased deductibles
 - Expanded multi-factor authentication (which UofM began deploying in 2017)
 - Expanded endpoint detection and response requirements
 - Expanded backup, disaster recovery, and incident response requirements
- Enhance suspicious account activity monitoring and procedures for mitigating newly identified endpoint vulnerabilities
- Disaster recovery enhancements to improve security and resiliency
- Prepare for future CMMC certification efforts to support federal research grants (builds on NIST SP 800-171 efforts to date)
- Identify ITS resource needs for FY2023 SRI budget planning

Thank you.

11. Additional Business

Presented by Susan Springfield

12. Adjournment

Presented by Susan Springfield