

**Tennessee Board of Regents
The University of Memphis**

**For the Year Ended
June 30, 2002**

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**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

April 24, 2003

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and

Dr. Shirley Raines, President
The University of Memphis
Memphis, Tennessee 38152

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, The University of Memphis, for the year ended June 30, 2002. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/mb
03/012

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
The University of Memphis
For the Year Ended June 30, 2002

AUDIT OBJECTIVES

The objectives of the audit were to consider the university's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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Audit Report
Tennessee Board of Regents
The University of Memphis
For the Year Ended June 30, 2002

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**Tennessee Board of Regents
The University of Memphis
For the Year Ended June 30, 2002**

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, The University of Memphis. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

In 1909, The General Assembly of Tennessee enacted a general educational law providing for the establishment and maintenance of three normal schools in the state, one of which was to be located in Memphis. On September 15, 1912, West Tennessee State Normal School opened and, in 1925, became a senior college. On July 1, 1957, the institution was designated Memphis State University, and on July 1, 1994, the name was changed to The University of Memphis.

The university is a fully accredited institution of higher education and comprises the Cecil C. Humphreys School of Law, the graduate school, and the six undergraduate colleges: the College of Arts and Sciences, the Fogelman College of Business and Economics, the College of Education, the Herff College of Engineering, the College of Communication and Fine Arts, and University College.

ORGANIZATION

The governance of The University of Memphis is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The

chief administrative officer of the university is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 2001, through June 30, 2002, and was conducted 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. Financial statements are presented for the year ended June 30, 2002. The University of Memphis is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the university's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.

PRIOR AUDIT FINDING

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The university filed its report with the Department of Audit on July 5, 2002. A follow-up of the prior audit finding was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the university has corrected the previous audit finding concerning proper completion of bank reconciliations.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 2002, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by 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. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the university's financial statements.



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT**

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**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

December 6, 2002

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of The University of Memphis, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the year ended June 30, 2002, and have issued our report thereon dated December 6, 2002. 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. As discussed in Note 11, the university implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The university also implemented GASB Statement 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement 38, *Certain Financial Statement Note Disclosures*.

Compliance

As part of obtaining reasonable assurance about whether the university's financial statements are free of material misstatement, we performed tests of the university's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

The Honorable John G. Morgan
December 6, 2002
Page Two

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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the university's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting, which we have reported to the university's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." in a cursive style.

Arthur A. Hayes, Jr., CPA,
Director

AAH/mb



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT**

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Independent Auditor's Report

December 6, 2002

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying statement of net assets of The University of Memphis, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 2002, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the university's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, The University of Memphis, as of June 30, 2002, and the revenues, expenses, and changes in net assets and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Honorable John G. Morgan
December 6, 2002
Page Two

As discussed in Note 11, the university implemented GASB Statement 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities*. The university also implemented GASB Statement 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement 38, *Certain Financial Statement Note Disclosures*.

Management’s discussion and analysis on pages 8 through 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2002, on our consideration of the university’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA,
Director

AAH/mb

Management's Discussion and Analysis

This section of The University of Memphis annual financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2002. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

Since this is a transition year for the new financial reporting format required by the Governmental Accounting Standards Board's Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, only one year of information is presented in the financial statements and this discussion. Comparative information will be presented in future years.

Using This Annual Report

This report consists of three basic financial statements. The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows provide information on The University of Memphis as a whole and present a long-term view of the University's finances.

The Statement of Net Assets

The Statement of Net Assets presents the financial position of the university at the end of the fiscal year and includes all assets and liabilities of the university. The difference between total assets and total liabilities—net assets—is an indicator of the current financial condition of the university. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, includes the university's equity in property, plant and equipment owned by the university. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the university but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the university for any lawful purpose of the institution.

Statement of Net Assets (thousands of dollars)

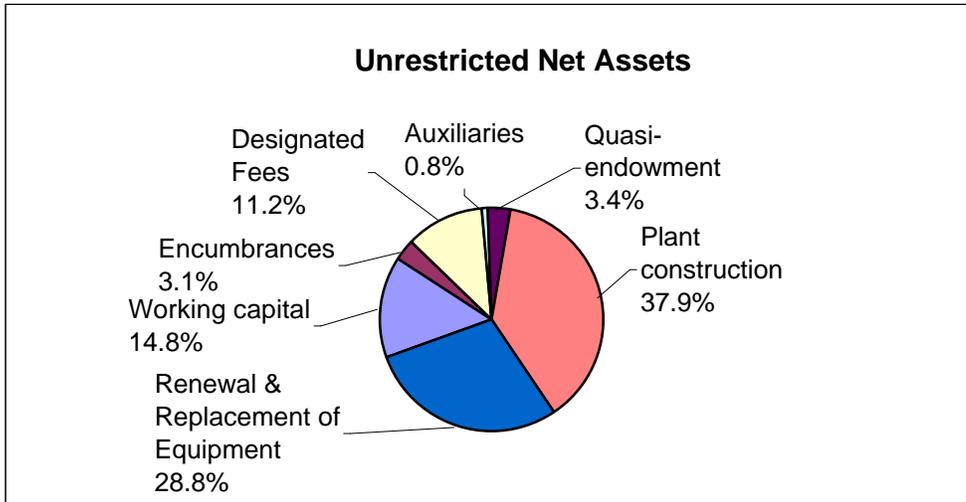
	<u>2002</u>
Assets:	
Current assets	\$ 81,164
Capital assets, net	170,126
Other assets	<u>44,619</u>
Total Assets	<u>\$ 295,909</u>
Liabilities:	
Current liabilities	\$ 40,677
Noncurrent liabilities	<u>60,124</u>
Total Liabilities	<u>\$ 100,801</u>
Net Assets:	
Invested in capital assets, net of related debt	\$ 113,104
Restricted – expendable	30,008
Restricted – nonexpendable	4,159
Unrestricted	<u>47,837</u>
Total Net Assets	<u>\$ 195,108</u>

Current assets of the university consist primarily of unrestricted cash and cash equivalents, operating investments, and accounts receivable, net of allowances. Other assets include restricted cash and cash equivalents, funds on deposit for capital projects, and notes and loans receivable, net of allowances.

Current liabilities are comprised of vendor payables, accrued liabilities, deferred revenue, and the current portion of long-term liabilities for bonds payable and compensated absences.

Assets include receivables of \$10.6 million from donors, who have contracted to fund the semi-annual debt on the Kemmons Wilson School of Hospitality and Resort Management building. This receivable equals the amount of debt included in liabilities for the construction cost of the building.

Much of the university's unrestricted net assets have been designated or reserved for specific purposes such as reserves for working capital, encumbrances, designated student fees and auxiliary contingencies; plant construction, and equipment renewal and replacement. The following graph shows unrestricted net assets, including funds designated or reserved for specific purposes:



The Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the University, as well as the non-operating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered non-operating revenues according to generally accepted accounting principles.

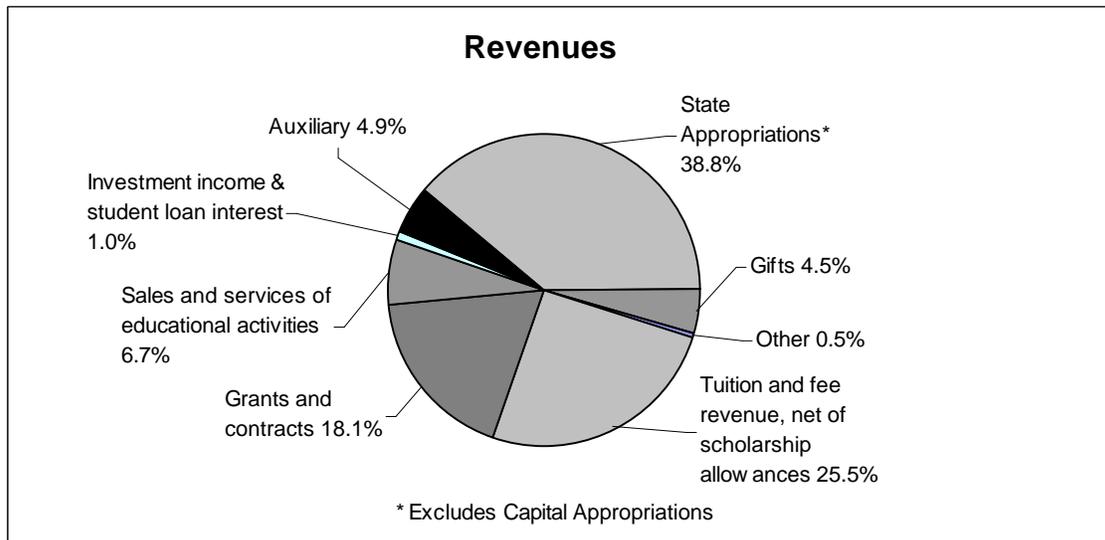
Statement of Revenues, Expenses, and Changes in Net Assets (thousands of dollars)

	2002
Operating revenues:	
Net tuition and fees	\$ 68,155
Auxiliary	13,103
Grants and contracts	46,172
Other	18,312
Total operating revenues	\$ 145,742
Operating expenses:	\$ (253,939)
Operating loss	\$ (108,197)
Non-operating revenues and expenses:	
State appropriations	\$ 103,717
Gifts	11,924
Investment income	4,623
Other revenues and expenses	(1,952)
Total non-operating revenues and expenses	\$ 118,312
Income before other revenues, expenses, gains, or losses	\$ 10,115

Other revenues, expenses, gains, or losses:	
Capital appropriations	\$ 14,414
Other	(8,644)
Total revenues, expenses, gains, or losses	<u>\$ 5,770</u>
Increase in net assets:	<u>\$ 15,885</u>
Net assets at beginning of year, as originally reported:	\$ 360,676
Cumulative effect of changes in accounting principle:	<u>(181,453)</u>
Net assets at beginning of year, restated:	<u>\$ 179,223</u>
Net assets at end of year:	<u><u>\$ 195,108</u></u>

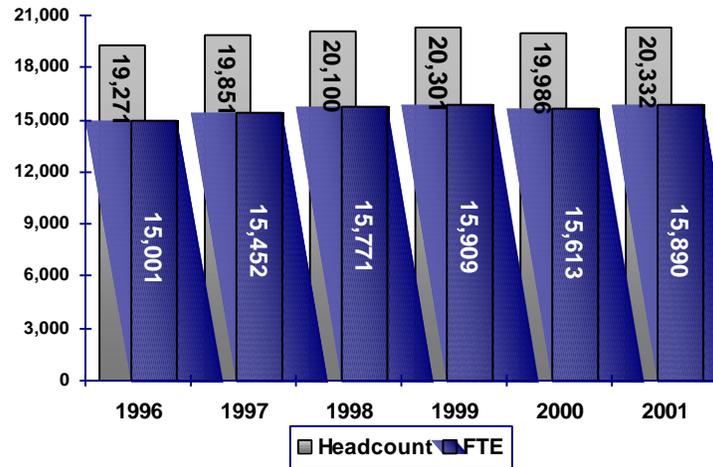
Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), used to fund the university's operating activities for the year ended June 30, 2002.



Operating revenues include the following:

- Tuition and fee revenue, net of scholarship allowances, includes a student maintenance fee increase of 15% for the year ended June 30, 2002. With the increase in fees, the university is still below the average of maintenance fees for institutions in its primary peer group. Enrollment remains stable at 20,332 (headcount), as shown in the following graph.



- Grant and contract revenue includes \$32.7 million in federal grants and contracts.
- Sales and services of educational activities include revenue from intercollegiate athletics of \$13 million.
- Auxiliary revenues include income from student housing, university bookstore operations, food services (contracted and vending) and parking services (included in Other Auxiliaries).

Non-operating revenues include the following:

- State appropriations with general appropriations of \$99.8 million and appropriations restricted for centers of excellence and desegregation programs of \$3.9 million. The state subsidy per student was \$6,556.
- Gifts include \$6.2 million for the FedEx Technology Institute building and \$.9 million for the Athletic Training Center addition.
- Investment income, net of investment expense.

Other revenues include State capital appropriations for the FedEx Technology Institute building, John S. Wilder Tower Renovation, instructional laboratory upgrades, and other facility maintenance.

EXPENSES

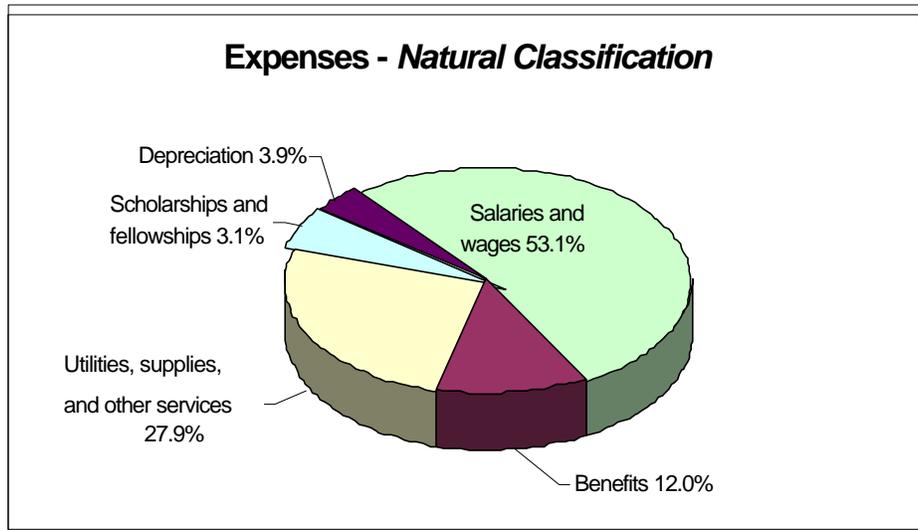
Operating expenses can be displayed in two formats: natural classification and program classification. Both formats are displayed below.

Natural Classification

- Personal service costs are the largest component of operating expenses and represent 68% of the university’s budget. During the year, across the board salary increases of 2.5% were implemented. Health insurance benefit costs increased 25% during the year.
- Scholarships and fellowships increased proportionately with the 15% increase in tuition and fees.
- Depreciation expense is recognized for the first time this year and includes the current year estimate for equipment, buildings, improvements, and library holdings.

Natural Classification (in thousands of dollars)

	<u>2002</u>
Operating Expenses:	
Salaries and wages	\$ 134,814
Benefits	30,383
Utilities, supplies, and other services	71,081
Scholarships and fellowships	7,836
Depreciation	9,825
Total Operating Expenses	<u><u>\$ 253,939</u></u>

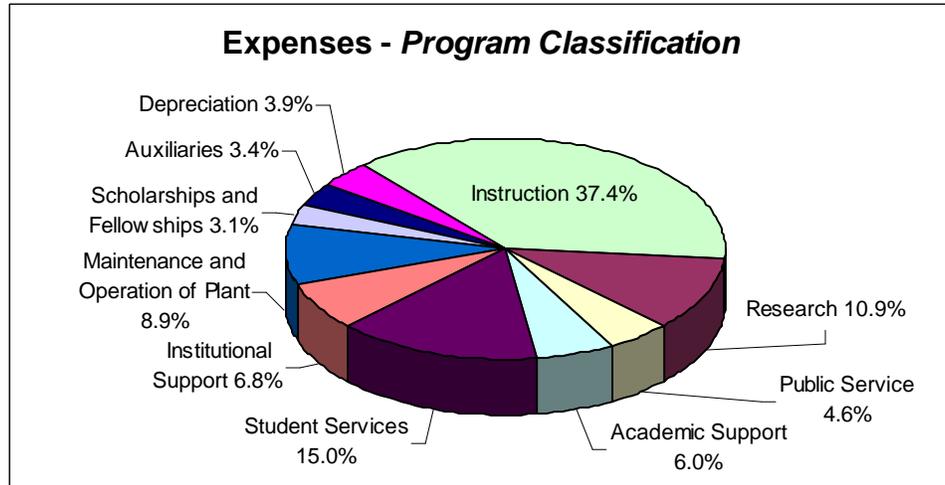


Program Classification

- During the year, the university contracted with the Wilson Conference Center Group to manage operations of the Kemmons Wilson School of Hospitality and Resort Management hotel and the Fogelman Executive Conference Center.
- Student Service expense includes intercollegiate athletic costs of \$20 million.
- Maintenance and Operation of Plant expense includes utility costs of \$7 million.

Program Classification (in thousands of dollars)

	<u>2002</u>
Operating Expenses:	
Instruction	\$ 94,988
Research	27,730
Public Service	11,934
Academic Support	15,150
Student Services	38,143
Institutional Support	17,181
Maintenance and Operation of Plant	22,632
Scholarships and Fellowships	7,836
Auxiliaries	8,520
Depreciation	9,825
Total Operating Expenses	<u><u>\$ 253,939</u></u>



The Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the university's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

Statement of Cash Flows
(thousands of dollars)

	2002
Cash provided (used) by:	
Operating activities	\$ (98,890)
Non-capital financing activities	116,598
Capital and related financing activities	(12,547)
Investing activities	9,850
Net Increase (decrease) in cash	\$ 15,011
Cash, beginning of year	\$ 36,297
Cash, end of year	\$ 51,308

- The primary use of cash for operating activities is for payments to employees and related benefits (\$161.5 million) along with payments to suppliers (\$72.3 million). Major operating sources of funds came from student tuition and fees (\$62.7 million), operating grants and contracts (\$46.1 million) and auxiliary operations (\$13.2 million).
- State appropriations and non-operating grants and contracts provided cash from non-capital financing activities of \$103.7 million and \$11.7 million, respectively.

- Cash used for capital and investing activities represents \$26.1 million for capital asset acquisition and construction, while cash was generated from state capital appropriations of \$14.4 million and proceeds from debt of \$6 million.
- The university's liquidity improved during the year.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2002, the university had \$170.1 million invested in capital assets, net of accumulated depreciation of \$119.5 million. Depreciation charges totaled \$9.8 million for the current fiscal year. Details of these assets are shown below.

Schedule of Capital Assets, Net of Depreciation (thousands of dollars)

	2002
Land	\$ 14,286
Buildings	100,058
Improvements	3,805
Projects in Process	26,864
Equipment	11,417
Library Holdings	13,696
Totals	\$ 170,126

Major capital additions completed this year and the source of resources that funded the acquisition included:

- The Kemmons Wilson School of Hospitality and Resort Management building (\$11.9 million) funded by proceeds from bond proceeds paid by donor gifts.
- Instructional and research equipment (\$2.9 million) and library holdings (\$3.3 million) funded primarily from designated student fees, grants and contracts, endowment income, and renewal and replacement funds.

More detailed information about the university's capital assets is presented in Note 6 to the financial statements.

Debt

At June 30, 2002, the university had \$57 million in Tennessee State School Bond Authority debt outstanding. The table below summarizes amounts by type of debt instrument.

Outstanding Debt at Year-End *(thousands of dollars)*

	<u>2002</u>
Bonds payable	<u>\$ 57,023</u>

The following new debt was issued for capital improvements and maintenance during the current year:

- Athletic Training Center addition (\$3.5 million), reported net of \$3.4 million in unspent bond proceeds.
- Student Activity Complex (\$2.4 million), reported net of \$.3 million in unspent bond proceeds.
- Chloro Fluoro Chlorine Chiller Conversion (\$1.1 million).

Debt repayments of \$2.3 million were made during the year. More detailed information about the university's long-term liabilities are presented in Note 7 to the financial statements.

Economic Factors That Will Affect the Future

The economic position of the university is closely tied to that of the state. The partial government shutdown in the first few days of July, 2002, caused by the brief absence of a state budget plan for fiscal year 2002-03, created uncertainty regarding funding for government services for the future, including higher education. If state funding is decreased, student fees would continue to increase along with cost containment measures.

Student fees are increasing 7.5% for fiscal year 2002-03. Recent increases have not significantly impacted enrollment, with enrollment stable for the past ten years. Student fees are still below the average for the university's primary peer institutions, and other institutions in the South are experiencing similar increases. Therefore, it is expected that similar increases in the future would not significantly affect enrollment.

**TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF NET ASSETS
JUNE 30, 2002**

ASSETS	
Current assets:	
Cash and cash equivalents (Notes 2 & 3)	\$ 26,905,571.76
Short-term investments (Note 4)	27,595,495.64
Accounts, notes, and grants receivable (net) (Note 5)	25,561,657.84
Inventories (at lower of cost or market)	473,666.64
Prepaid expenses and deferred charges	187,736.01
Accrued interest receivable	440,178.62
Total current assets	<u>81,164,306.51</u>
Noncurrent assets:	
Cash and cash equivalents (Notes 2 & 3)	14,731,111.33
Investments (Note 4)	8,078,850.00
Accounts, notes, and grants receivable (net) (Note 5)	12,137,311.39
LGIP Deposits - Capital Projects	9,658,888.90
Deposit with Trustees	12,220.28
Capital assets (net) (Note 6)	170,126,347.84
Total noncurrent assets	<u>214,744,729.74</u>
Total assets	<u>295,909,036.25</u>
LIABILITIES	
Current liabilities:	
Accounts payable	7,126,078.21
Accrued liabilities	14,552,472.24
Student deposits	534,423.43
Deferred revenue	11,724,785.04
Compensated absences (Note 7)	2,702,420.09
Accrued interest payable	573,016.51
Long-term liabilities, current portion (Note 7)	2,906,708.37
Deposits held in custody for others	428,999.26
Other liabilities	128,331.76
Total current liabilities	<u>40,677,234.91</u>
Noncurrent liabilities:	
Compensated absences (Note 7)	3,582,277.79
Long-term liabilities (Note 7)	54,115,861.89
Due to grantors (Note 7)	2,425,688.08
Total noncurrent liabilities	<u>60,123,827.76</u>
Total liabilities	<u>100,801,062.67</u>
NET ASSETS	
Invested in capital assets, net of related debt	113,103,777.58
Restricted for:	
Nonexpendable:	
Scholarships and fellowships	3,059,251.35
Other	1,099,317.71
Expendable:	
Scholarships and fellowships	2,066,368.21
Research	2,182,619.58
Instructional department uses	2,117,181.73
Loans	2,464,192.93
Capital projects	19,816,452.35
Debt service	327,412.53
Other	1,034,279.62
Unrestricted (Note 8)	47,837,119.99
Total net assets	<u>\$ 195,107,973.58</u>

The notes to the financial statements are an integral part of this statement.

**TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002**

REVENUES	
Operating revenues:	
Student tuition and fees (net of scholarship allowances of \$12,298,334.00)	\$ 68,155,128.61
Governmental grants and contracts	32,511,604.40
Non-governmental grants and contracts	13,660,046.39
Sales and services of educational departments	17,924,946.08
Auxiliary enterprises:	
Residential life (net of scholarship allowances of \$88,453.00)	7,417,516.73
Bookstore	800,000.37
Food service	629,733.31
Other auxiliaries	4,255,752.45
Interest earned on loans to students	386,627.60
Total operating revenues	<u>145,741,355.94</u>
EXPENSES	
Operating Expenses	
Salaries and wages (Note 18)	134,813,469.02
Benefits (Note 18)	30,383,416.42
Utilities, supplies, and other services (Note 18)	71,081,060.62
Scholarships and fellowships (Note 18)	7,835,742.11
Depreciation expense (Note 18)	9,824,818.43
Total operating expenses	<u>253,938,506.60</u>
Operating income (loss)	<u>(108,197,150.66)</u>
NONOPERATING REVENUES (EXPENSES)	
State appropriations	103,717,366.67
Gifts	11,924,231.60
Investment income (net of investment expense of \$35,163.09)	4,622,738.65
Interest on capital asset-related debt	(3,268,460.11)
Other non-operating revenues/(expenses)	1,316,851.05
Net nonoperating revenues	<u>118,312,727.86</u>
Income before other revenues, expenses, gains, or losses	<u>10,115,577.20</u>
Capital appropriations	14,413,757.08
Other	(8,643,725.75)
Total other revenues	<u>5,770,031.33</u>
Increase (decrease) in net assets	<u>15,885,608.53</u>
NET ASSETS	
Net Assets - beginning of year, as originally reported	360,675,932.18
Cumulative effect of changes in accounting principle (Note 11)	
Adoption of capitalization criteria for buildings and additions	(3,227,893.82)
Adoption of depreciation for capital assets	(111,922,008.56)
Adoption of capitalization criteria for library holdings	(66,454,189.46)
Deferred revenue recognition	378,672.91
Prior audit adjustment	(228,148.20)
Net Assets - beginning of year, as restated	<u>179,222,365.05</u>
Net Assets - end of year	<u>\$ 195,107,973.58</u>

The notes to the financial statements are an integral part of this statement.

**TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002**

Cash flows from operating activities:	
Tuition and fees	\$ 67,357,552.52
Grants and contracts	45,805,850.33
Sales and services of educational activities	17,971,514.30
Payments to suppliers and vendors	(72,514,421.78)
Payments to employees	(131,420,437.88)
Payments for benefits	(30,082,153.72)
Payments for scholarships and fellowships	(6,312,173.13)
Loans issued to students and employees	(387,384.41)
Collection of loans from students and employees	404,905.60
Auxiliary enterprise charges:	
Residence halls	7,355,646.80
Bookstore	800,000.37
Food services	634,310.31
Other auxiliaries	4,453,967.22
Other receipts (payments)	(2,956,748.86)
Net cash flows provided (used) by operating activities	<u>(98,889,572.33)</u>
Cash flows from non-capital financing activities:	
State appropriations	103,717,366.67
Gifts and grants received for other than capital or endowment purposes	11,714,031.32
Federal student loan receipts	51,610,097.00
Federal student loan disbursements	(51,610,097.00)
Changes in deposits held for others	(75,695.99)
Other non-capital financing receipts (payments)	1,242,287.93
Net cash flows provided (used) by non-capital financing activities	<u>116,597,989.93</u>
Cash flows from capital and related financing activities:	
Proceeds from capital debt	5,968,673.25
Capital - state appropriation	14,413,757.08
Proceeds from sale of capital assets	23,750.75
Purchase of capital assets and construction	(26,133,095.60)
Interest paid on capital debt and lease	(2,695,443.60)
Deposit with trustee	(12,220.28)
Other capital and related financing receipts (payments)	(4,112,541.53)
Net cash flows provided (used) by capital and related financing activities	<u>(12,547,119.93)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	4,758,771.46
Income on investments	5,091,166.20
Net cash provided (used) by investing activities	<u>9,849,937.66</u>
Net increase (decrease) in cash and cash equivalents	15,011,235.33
Cash and cash equivalents - July 1, 2001	36,296,556.94
Cash and cash equivalents - June 30, 2002	<u>\$ 51,307,792.27</u>

**TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002**

Reconciliation of operating loss to net cash
provided (used) by operating activities:

Operating loss	\$ (108,197,150.66)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation expense	9,824,818.43
Gifts in-kind	193,151.28
Change in assets and liabilities:	
Receivables, net	(2,673,853.44)
Inventories	(45,198.65)
Prepaid/deferred items	(57,744.81)
Accounts payable	2,037,344.18
Accrued liabilities	3,244,968.38
Deferred revenues	(4,593,892.91)
Deposits	31,625.65
Compensated absences	301,262.70
Due to grantors	(2,412,536.57)
Loans to students and employees	17,521.19
Other	3,440,112.90
Net cash provided (used) by operating activities	<u>\$ (98,889,572.33)</u>
Non-cash transactions:	
Gift in kind	\$ 193,151.28
Gift in kind capital	\$ 17,049.00

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements
June 30, 2002**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The university is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This was followed in November 1999 by GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The financial presentation required by those statements provides a comprehensive, entity-wide perspective of the university's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

Significant accounting changes made in order to comply with the new requirements include (1) adoption of depreciation on capital assets and (2) reporting summer school revenues and expenses between fiscal years rather than in one fiscal year.

Basis of Accounting

For financial statement purposes, the university 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. All significant interfund transactions have been eliminated.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2002**

conflict with or contradict guidance of the Governmental Accounting Standards Board. The university has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The university has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

Amounts reported as operating revenues include (1) tuition and fees, net of waivers and discounts; (2) federal, state, local, and private grants and contracts; (3) sales and services of auxiliary enterprises; and (4) other sources of revenue. Operating expenses for the university include (1) salaries and wages; (2) employee benefits; (3) scholarships and fellowships; (4) depreciation; and (5) utilities, supplies, and other services.

All other activity is nonoperating in nature and includes (1) state appropriations for operations; (2) investment income; (3) bond issuance costs; (4) interest on capital asset-related debt; and (5) gifts.

When both restricted and unrestricted resources are available for use, generally it is the university's policy to use the unrestricted resources first.

LGIP Deposit – Capital Projects

Payments related to the university's capital projects are made by the State of Tennessee's Department of Finance and Administration. The university's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the university for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

Inventories

Inventories are valued at the lower of cost or market. All other items are maintained on an average cost or first-in, first-out basis.

Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2002

Compensated Absences

The university's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are reported in the statement of net assets.

Capital Assets

Capital assets, which include property, plant, equipment, and library holdings, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

A capitalization threshold of \$100,000 is used for buildings, \$50,000 for additions and improvements to land, buildings, or infrastructure, and \$5,000 for equipment.

These assets, with the exception of land, are depreciated using the straight-line method over the estimated useful lives, which range from 5 to 40 years.

Net Assets

The university's net assets are classified as follows:

Invested in capital assets, net of related debt – This represents the university's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Nonexpendable restricted net assets – Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may be expendable or added to principal.

Expendable restricted net assets – Expendable restricted net assets include resources which the university is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2002**

Unrestricted net assets – Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the university, and may be used at the discretion of the university to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the university and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the university's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the university has recorded a scholarship discount and allowance.

Comparative Data

Comparative financial statements are not presented as the university implemented GASB Statements 34, 35, 37, and 38, and comparative statements are not required. Certain amounts presented in prior years' data have been reclassified to be consistent with the current year's presentation.

NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2002, cash consisted of \$11,068,115.95 in bank accounts, \$73,310.00 of petty cash on hand, \$30,495,257.14 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2002**

NOTE 3. DEPOSITS

The university's deposits are in financial institutions that participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

In accordance with the laws of the State of Tennessee, one commercial bank with deposits and accrued interest at June 30, 2002, totaling \$201,808.88 has pledged securities as collateral for the University funds on deposit. The required collateral accepted as security for deposits shall be collateral whose market value is equal to one hundred percent (100%) of the uninsured deposits.

At June 30, 2002, the carrying amount of the university's deposits was \$11,268,115.95, and the bank balance including accrued interest was \$13,748,509.14. The bank balance was insured.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 115%, 100%, or 90% of the uninsured deposits at financial institutions participating in the collateral pool. The pledge level is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

The university also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2002**

NOTE 4. INVESTMENTS

The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified.

All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase. Certificates of deposit have been included with other deposits in Note 3 to determine the adequacy of collateral security pledged.

The university's investments are categorized below to indicate the level of risk assumed by the university at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the university or its agent in the university's name.

	<u>Fair Value</u>
Category 1:	
U.S. government securities	\$ 31,487,028.11
Commercial paper	3,987,317.53
Investments not susceptible to credit risk categorization:	
Certificates of deposit classified as investments	<u>200,000.00</u>
 Total investments on the statement of net assets	 <u>\$ 35,674,345.64</u>

Funds on deposit with the State Treasurer in Unexpended Plant Funds consisted of University funds designated for specific capital projects.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2002**

NOTE 5. RECEIVABLES

Receivables at June 30, 2002, included the following:

Student accounts receivable	\$ 9,700,802.73
Grants receivable	12,202,009.13
Notes receivable	3,572,272.00
Other receivables	<u>15,677,525.01</u>
Subtotal	41,152,608.87
Less allowance for doubtful accounts	<u>(5,909,052.72)</u>
Total receivables	<u><u>\$ 35,243,556.15</u></u>

Federal Perkins Loan Program funds at June 30, 2002, included the following:

Perkins loans receivable	\$ 3,539,815.73
Less allowance for doubtful accounts	<u>(1,084,402.65)</u>
Total	<u><u>\$ 2,455,413.08</u></u>

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 14,299,839.50	\$ -	\$ -	\$ 13,600.00	\$ 14,286,239.50
Land improvements and infrastructure	14,465,804.80	-	-	-	14,465,804.80
Buildings	159,715,991.05	6,621,492.37	5,639,137.19	54,400.00	171,922,220.61
Equipment	39,338,968.34	2,884,040.96	-	6,150,037.67	36,072,971.63
Library holdings	24,931,237.40	3,330,305.55	-	2,280,633.85	25,980,909.10
Projects in progress	<u>15,800,152.93</u>	<u>16,703,379.60</u>	<u>(5,639,137.19)</u>	-	<u>26,864,395.34</u>
Total	<u>268,551,994.02</u>	<u>29,539,218.48</u>	<u>-</u>	<u>8,498,671.52</u>	<u>289,592,540.98</u>
Less accumulated depreciation:					
Land improvements and infrastructure	10,288,187.77	372,373.50	-	-	10,660,561.27
Buildings	67,880,360.13	3,983,912.99	-	-	71,864,273.12
Equipment	22,013,388.78	2,642,377.64	-	-	24,655,766.42

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2002**

Library holdings	<u>11,740,071.88</u>	<u>2,826,154.30</u>	-	<u>2,280,633.85</u>	<u>12,285,592.33</u>
Total accumulated depreciation	<u>111,922,008.56</u>	<u>9,824,818.43</u>	-	<u>2,280,633.85</u>	<u>119,466,193.14</u>
Capital assets, net	<u>\$156,629,985.46</u>	<u>\$19,714,400.05</u>	\$ -	<u>\$ 6,218,037.67</u>	<u>\$170,126,347.84</u>

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
Bonds	\$49,796,587.88	\$9,816,939.39	\$2,590,957.01	\$57,022,570.26	\$2,906,708.37
Commercial paper	<u>1,257,309.13</u>	-	<u>1,257,309.13</u>	-	-
Subtotal	51,053,897.01	9,816,939.39	3,848,266.14	57,022,570.26	2,906,708.37
Other liabilities:					
Compensated absences	5,983,435.18	5,203,327.05	4,902,064.35	6,284,697.88	2,702,420.09
Due to grantors	<u>2,330,136.42</u>	<u>139,785.05</u>	<u>44,233.39</u>	<u>2,425,688.08</u>	-
Total long-term liabilities	<u>\$59,367,468.61</u>	<u>\$15,160,051.49</u>	<u>\$8,794,563.88</u>	<u>\$65,732,956.22</u>	<u>\$5,609,128.46</u>

Debt service requirements to maturity for notes payable at June 30, 2002, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 2,906,708.37	\$ 3,426,866.24	\$ 6,333,574.61
2004	3,271,707.57	3,252,794.21	6,524,501.78
2005	2,775,093.41	3,070,034.99	5,845,128.40
2006	2,599,782.08	2,913,009.32	5,512,791.40
2007	2,766,372.85	2,757,730.99	5,524,103.84
2008 – 2012	12,738,575.71	11,254,243.51	23,992,819.22
2013 – 2017	7,768,816.82	8,555,486.93	16,324,303.75
2018 – 2022	9,214,030.95	6,359,347.83	15,573,378.78
2023 – 2027	9,799,674.08	3,840,518.71	13,640,192.79

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2002**

2028 – 2032	<u>3,181,808.42</u>	<u>955,790.32</u>	<u>4,137,598.74</u>
	<u>\$ 57,022,570.26</u>	<u>\$ 46,385,823.05</u>	<u>\$103,408,393.31</u>

Bonds Payable

Bond issues, with interest rates ranging from 3% to 7.15% for Tennessee State School Bond Authority bonds, are due serially to 2032 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations. The bonded indebtedness with the Tennessee State School Bond Authority reported on the statement of net assets is shown net of assets held by the authority in the debt service reserve. The reserve amount was \$663,968.89 at June 30, 2002.

NOTE 8. UNRESTRICTED NET ASSETS

Unrestricted net assets include funds that have been designated or reserved for specific purposes. These purposes include the following:

	<u>Amount</u>
Working capital	\$ 6,334,263.77
Encumbrances	1,348,289.02
Designated fees	4,805,509.30
Auxiliaries	355,699.53
Quasi-endowment	1,447,639.51
Plant construction	16,257,556.07
Renewal and replacement of equipment	<u>12,381,507.05</u>
Total	<u>\$42,930,464.25</u>

NOTE 9. PENSION PLANS

A. Defined Benefit Plans

Tennessee Consolidated Retirement System

Plan Description - The university contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEPP), a cost-sharing,

Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2002

multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 6.19% of annual covered payroll. Contribution requirements for the university are established and may be amended by the TCRS' Board of Trustees. The university's contributions to TCRS for the years ended June 30, 2002, 2001, and 2000, were \$2,927,856.69, \$3,138,311.69, and \$2,361,522.99. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The university contributes to three defined contribution plans: Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2002**

wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans was \$6,681,501.65 for the year ended June 30, 2002, and \$7,250,247.16 for the year ended June 30, 2001. Contributions met the requirements for each year.

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible university retirees. This benefit is provided and administered by the State of Tennessee. The university assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 11. CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2002, the university implemented GASB Statement 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities*. As a result of this implementation, the university was required to make changes in certain accounting principles, specifically the (1) adoption of capitalization criteria of \$100,000 and \$50,000 for buildings and additions, respectively; (2) adoption of depreciation on capital assets; (3) recording of certain summer semester revenues between fiscal years rather than in the fiscal year in which the semester was predominantly conducted; and (4) reclassification of the U.S. government grants refundable amount as a liability. The cumulative effects of these changes on net assets are shown below:

Adoption of capitalization criteria for buildings and additions	\$ (3,227,893.82)
Adoption of depreciation on capital assets	\$ (111,922,008.56)
Adoption of capitalization criteria for library holdings	\$ (66,454,189.46)

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2002**

Deferred revenue recognition	\$ 378,672.91
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NOTE 12. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$5 million at June 30, 2002, was established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 2002, the scheduled coverage for the university was \$427,521,300.00 for buildings and \$288,868,900.00 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The university participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the university participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The university participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on estimates of the ultimate cost of claims that have been reported but not settled and of

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claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 14. COMMITMENTS AND CONTINGENCIES

Sick Leave - The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$55,213,498.56 at June 30, 2002.

Operating Leases - The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real property were \$1,524,706.20 and for personal property were \$350,863.01 for the year ended June 30, 2002. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2002, outstanding commitments under construction contracts totaled \$21,571,188.64 for the FedEx Technology Institute, John S. Wilder Tower Renovation, Athletic Training Center Addition and Modifications, and Fume Hood Upgrades of which \$14,868,349.14 will be funded by future state capital outlay appropriations.

Litigation - The university is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

NOTE 15. AFFILIATED ENTITY NOT INCLUDED

The University of Memphis Foundation is a private, nonprofit foundation with the university as the sole beneficiary. The foundation is controlled by a board independent of the university. The financial records, investments, and other financial transactions are not handled by the university, and these amounts are not included in the university's financial statements. As reported in the foundation's most recently audited financial report, at June 30, 2001, the foundation's assets totaled \$68,640,313.00, liabilities were \$1,764,235.00, and the fund balance amounted to \$66,876,078.00.

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NOTE 16. CHAIRS OF EXCELLENCE

The university had \$53,647,404.14 on deposit at June 30, 2002, with the State Treasurer for the university's Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

NOTE 17. FUNDS HELD IN TRUST BY OTHERS

The university is a beneficiary under the Van Vleet, the Mike Driver, the Pope M. Farrington, the C. M. Gooch, and the Herbert Herff trusts. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received \$748,016.02 from these funds during the year ended June 30, 2002.

NOTE 18. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses by functional classification for the year ended June 30, 2002, are as follows:

Functional Classification	Salaries	Benefits	Natural Classification			Total
			Operating	Scholarships	Depreciation	
Instruction	\$65,421,279.90	\$13,581,914.64	\$15,985,036.24	\$ -	\$ -	\$94,988,230.78
Research	17,853,812.16	3,469,828.39	6,405,786.33	-	-	27,729,426.88
Public service	6,073,813.01	1,266,342.92	4,593,903.71	-	-	11,934,059.64
Academic support	12,844,520.77	3,322,219.66	(1,016,875.12)	-	-	15,149,865.31
Student services	12,290,138.41	3,199,862.76	22,653,396.22	-	-	38,143,397.39
Institutional support	10,673,631.01	2,762,272.15	3,745,137.92	-	-	17,181,041.08
Operation and maintenance	7,695,752.85	2,431,259.26	12,505,212.34	-	-	22,632,224.45
Scholarships and fellowships	-	-	-	7,835,742.11	-	7,835,742.11
Auxiliary	1,960,520.91	349,716.64	6,209,462.98	-	-	8,519,700.53
Depreciation	-	-	-	-	<u>9,824,818.43</u>	<u>9,824,818.43</u>
Total	<u>\$134,813,469.02</u>	<u>\$30,383,416.42</u>	<u>\$71,081,060.62</u>	<u>\$7,835,742.11</u>	<u>\$9,824,818.43</u>	<u>\$253,938,506.60</u>