

AUDIT REPORT

Tennessee Board of Regents
The University of Memphis

For the Year Ended
June 30, 2007



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



Arthur A. Hayes, Jr., CPA, JD, CFE
Director

Kandi Thomas, CPA, CFE
Assistant Director

Debra D. Bloomingburg, CPA, CFE
Audit Manager

Jeffrey Lafever, CFE
In-Charge Auditor

Angela Courtney
Laura King
Tiffany Tanner
Michael Wilbanks, CFE
Staff Auditors

Gerry Boaz, CPA
Technical Analyst

Amy Brack
Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 401-7897

Financial/compliance audits of colleges and universities are available on-line at
www.comptroller.state.tn.us/sa/reports/index.html.
For more information about the Comptroller of the Treasury, please visit our website at
www.comptroller.state.tn.us.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

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

John G. Morgan
Comptroller

January 10, 2008

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, 2007. You will note from the independent auditor's report that unqualified opinions were 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,

A handwritten signature in black ink that reads "John G. Morgan".

John G. Morgan
Comptroller of the Treasury

JGM/ddb
07/104

State of Tennessee

A u d i t H i g h l i g h t s

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
The University of Memphis
For the Year Ended June 30, 2007

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 grant agreements; 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.

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
The University of Memphis
For the Year Ended June 30, 2007

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTION		
Post-Audit Authority		1
Background		1
Organization		1
AUDIT SCOPE		2
OBJECTIVES OF THE AUDIT		2
PRIOR AUDIT FINDINGS		3
OBSERVATIONS AND COMMENTS		3
Management's Responsibility for Risk Assessment		3
Fraud Considerations		4
RESULTS OF THE AUDIT		4
Audit Conclusions		4
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>		6
FINANCIAL SECTION		
Independent Auditor's Report		9
Management's Discussion and Analysis		12
Financial Statements		29
Statements of Net Assets	A	29
Statements of Revenues, Expenses, and Changes in Net Assets	B	30
Statements of Cash Flows	C	31

TABLE OF CONTENTS (CONT.)

Notes to the Financial Statements	33
Supplementary Information	54
Statements of Cash Flows - Component Unit	54

**Tennessee Board of Regents
The University of Memphis
For the Year Ended June 30, 2007**

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 Humphreys School of Law, the graduate schools, and 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, 2006, through June 30, 2007, 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, 2007, and for comparative purposes, the year ended June 30, 2006. 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 opinions on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;
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 FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the institution. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the institution is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the institution.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the institution. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic.

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, promulgated by the American Institute of Certified Public Accountants, requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.

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, 2007, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing opinions 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 unqualified opinions on the university's financial statements.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765

**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***

December 4, 2007

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, and its discretely presented component unit as of and for the year ended June 30, 2007, and have issued our report thereon dated December 4, 2007. Our report was modified to include a reference to other auditors. 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. During the year ended June 30, 2006, the university implemented GASB Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the university's internal control over financial reporting as a basis for designing our auditing procedures 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the university's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the university's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the university's financial statements that is more than inconsequential will not be prevented or detected by the university's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We did, however, note certain other less significant instances of noncompliance, which we have reported to the university's management in a separate letter dated December 4, 2007.

The Honorable John G. Morgan
December 4, 2007
Page Three

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the Tennessee Board of Regents, 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." The signature is written in a cursive style with a prominent initial "A" and a trailing flourish.

Arthur A. Hayes, Jr., CPA
Director

AAH/ddb



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

December 4, 2007

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

Dear Mr. Morgan:

We have audited the accompanying basic 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 years ended June 30, 2007, and June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the university's management. Our responsibility is to express opinions on these financial statements, based on our audits. We did not audit the financial statements of The University of Memphis Foundation, a discretely presented component unit of the university. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for The University of Memphis Foundation, is based on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 audits provide a reasonable basis for our opinions. Tennessee statutes, in addition to audit

responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of many agencies, commissions, and component units of the State of Tennessee; managing the state's debt; and making loans to the state's colleges and universities from debt proceeds. Some of the boards of which the Comptroller of the Treasury serves as a member per state statutes include the State Building Commission and the Tennessee Higher Education Commission.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tennessee Board of Regents, The University of Memphis, and its discretely presented component unit as of June 30, 2007, and June 30, 2006, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2006, the university implemented GASB Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

The management's discussion and analysis on pages 12 through 28 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audits were conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 54 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2007, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government*

The Honorable John G. Morgan
December 4, 2007
Page Three

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 that reads "Arthur A. Hayes, Jr." The signature is written in a cursive style with a prominent initial "A" and a trailing flourish.

Arthur A. Hayes, Jr., CPA
Director

AAH/ddb

**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis
June 30, 2007, and June 30, 2006**

This section of The University of Memphis's annual financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2007, with comparative information presented for the fiscal years ended June 30, 2006, and June 30, 2005. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the Independent Auditor's Report, the audited financial statements, and accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

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, provides 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 of Memphis for any lawful purpose of the university.

**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

Condensed Statement of Net Assets - The University
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets:			
Current assets	\$ 72,370	\$ 85,703	\$ 71,539
Capital assets, net	239,674	230,877	223,728
Other assets	56,353	47,992	47,245
Total Assets	<u>\$ 368,397</u>	<u>\$ 364,572</u>	<u>\$ 342,512</u>
Liabilities:			
Current liabilities	\$ 41,375	\$ 49,945	\$ 38,514
Noncurrent liabilities	61,255	60,770	58,685
Total Liabilities	<u>\$ 102,630</u>	<u>\$ 110,715</u>	<u>\$ 97,199</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 184,217	\$ 176,039	\$ 171,120
Restricted - nonexpendable	3,533	3,439	3,398
Restricted - expendable	14,433	17,128	18,151
Unrestricted	63,584	57,251	52,644
Total Net Assets	<u>\$ 265,767</u>	<u>\$ 253,857</u>	<u>\$ 245,313</u>

Comparison of 2007 to 2006:

- Current assets and current liabilities have gone back to expected amounts after the timing issue with the purchase of treasury notes at June 30, 2006.
- Capital assets increased by \$9 million due to a number of projects under construction, which include the Women's Softball Field, rebuilding of the University Center, Carpenter Student Housing Additions, Millington Center and Law School upgrades, as well as upgrades to Richardson and Rawls Hall fire safety.
- Because of a better interest rate for long term investments, the university had \$8 million in treasury notes at June 30, 2007, with a maturity greater than a year, which caused an increase in other assets.
- Restricted-expendable net assets decreased due in part to the decrease in debt service related to the Wilson Hotel. It is expected that this will decrease every year until the Wilson Hotel bonds are repaid.

**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

- A \$4 million increase in renewal and replacements fund balance contributed to the increase in unrestricted net assets. Of that amount, \$3 million was a result of unallocated student debt service fees.

Comparison of 2006 to 2005:

- Current assets increased in 2006. On June 30 the university purchased treasury notes in the amount of \$9 million, which the bank deducted from the account on July 3. This also accounted for the rise in current liabilities.
- The increase in capital assets was due to the prior period adjustment of \$5 million, which added projects in progress not capitalized in the prior year. Invested in capital assets increased for that same adjustment.

Condensed Statement of Net Assets - The Foundation

(in thousands of dollars)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets:			
Current assets	\$ 18,162	\$ 7,933	\$ 9,253
Noncurrent assets	95,156	82,291	69,830
Total Assets	<u>\$ 113,318</u>	<u>\$ 90,224</u>	<u>\$ 79,083</u>
Liabilities:			
Current liabilities	\$ 2,752	\$ 2,714	\$ 1,583
Noncurrent liabilities	137	165	165
Total Liabilities	<u>\$ 2,889</u>	<u>\$ 2,879</u>	<u>\$ 1,748</u>
Net Assets:			
Restricted - nonexpendable	\$ 43,816	\$ 40,855	\$ 36,219
Restricted - expendable	62,912	44,180	39,445
Unrestricted	3,701	2,310	1,671
Total Net Assets	<u>\$ 110,429</u>	<u>\$ 87,345</u>	<u>\$ 77,335</u>

Comparison of 2007 to 2006:

- The total net assets of the foundation were up this year by \$23 million. A campaign raised \$1.5 million in new gifts for the law school relocation and athletics had a \$1.6 million increase in gifts from 2006. Because of favorable market conditions, there was an unrealized gain in investment of \$10.4 million.

**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

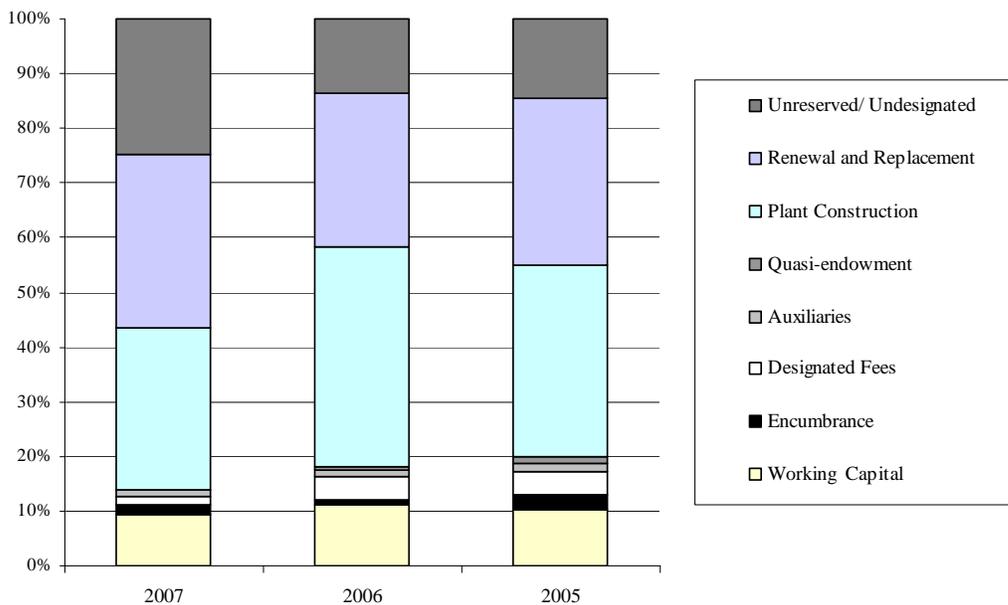
- The increase in restricted–expendable was a result of the increase in investment income and the increase in restricted revenue that had not yet met the requirements to be transferred to unrestricted.

Comparison of 2006 to 2005:

- Noncurrent assets increased \$12 million in the current year primarily due to the increase in investment income.
- The increase in current liabilities was because of an increase in payables to the university at June 30.
- There was also an increase in restricted–expendable due to the increase in investment income and the increase in restricted revenue that had not yet met the requirements to be transferred to unrestricted.

Many of the university's unrestricted net assets have been designated or reserved for specific purposes such as: repairs and replacement of equipment, future debt service, quasi-endowments, capital projects, and student loans. The following graph shows the allocations:

Allocation of Unrestricted Net Assets - The University



**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

Comparison of 2007 to 2006:

- Unrestricted net assets held for plant construction decreased in fiscal year 2007 by \$3.5 million. While total unexpended plant funds before adjustments increased by \$71 million, the amount on deposit with the state increased by \$74.5 million, for a decrease of \$3.5 million. There was a corresponding increase in undesignated funds.

Comparison of 2006 to 2005:

- The percentages in each category for fiscal year 2006 were consistent with the prior year, with no substantial changes.

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 nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to accounting principles generally accepted in the United States of America.

**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

Condensed Statement of Revenues, Expenses, and Changes in Net Assets - The University
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues:			
Net tuition and fees	\$ 92,039	\$ 94,358	\$ 84,764
Grants and contracts	42,913	41,713	35,765
Auxiliary	14,711	14,918	13,804
Other	23,363	15,823	19,756
Total operating revenues	<u>\$ 173,026</u>	<u>\$ 166,812</u>	<u>\$ 154,089</u>
Operating expenses	<u>\$ (341,279)</u>	<u>\$ (327,117)</u>	<u>\$ (307,115)</u>
Operating loss	<u>\$ (168,253)</u>	<u>\$ (160,305)</u>	<u>\$ (153,026)</u>
Nonoperating revenues and expenses:			
State appropriations	\$ 119,954	\$ 112,445	\$ 110,384
Gifts	13,887	11,023	16,386
Grants and contracts	35,032	31,207	28,444
Investment income	6,438	4,785	2,801
Other revenues and expenses	1,012	1,712	(2,972)
Total nonoperating revenues and expenses	<u>\$ 176,323</u>	<u>\$ 161,172</u>	<u>\$ 155,043</u>
Income (loss) before other revenues, expenses, gains or losses	<u>\$ 8,070</u>	<u>\$ 867</u>	<u>\$ 2,017</u>
Other revenues, expenses, gains or losses:			
Capital appropriations	\$ 5,150	\$ 7,806	\$ 4,698
Capital grants and gifts	502	401	778
Other	(1,812)	(529)	(1)
Total other revenues, expenses, gains or losses	<u>\$ 3,840</u>	<u>\$ 7,678</u>	<u>\$ 5,475</u>
Increase in net assets	<u>\$ 11,910</u>	<u>\$ 8,545</u>	<u>\$ 7,492</u>
Net asset at beginning of year	<u>\$ 253,858</u>	<u>\$ 245,313</u>	<u>\$ 237,821</u>
Net assets at end of year	<u><u>\$ 265,768</u></u>	<u><u>\$ 253,858</u></u>	<u><u>\$ 245,313</u></u>

Comparison of 2007 to 2006:

Total operating revenues:

- Tuition and fees decreased and other operating revenue increased in fiscal year 2007 due to the reclassification of the student athletic fee in the amount of \$3.8 million. Other operating revenue also increased by \$1 million because services provided by the Center for Research on Education Policy were deemed to be unrestricted.

**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

Nonoperating revenues and expenses:

- State appropriations increased in fiscal year 2007 by \$7 million. This was fueled by the increase in the TCRS retirement plan and \$4.2 million allocated to operating improvement.
- Investment income was up in fiscal year 2007 due to the increase in general interest rates.
- Grants and contracts increased as a result of an increase in the lottery funded Hope Scholarships by \$3.2 million.

Other revenues, expenses, gains, or losses:

- Capital appropriations for fiscal year 2007 were \$47 million, including \$41.25 million for the Law School Relocation, \$2.4 million for Wilder Tower Brick Facade Restoration, and \$2.1 million for Engineer Complex HVAC and Fire Services. There was \$41.9 on deposit with the State Treasurer representing unexpended state appropriations, for a net increase this year of \$5.1 million.
- The demolition of the University Center resulted in a loss due to \$1.6 million that had not yet been depreciated and was written off.

Comparison of 2006 to 2005:

Total operating revenues:

- Net tuition and fees increased in 2006 due to a 12.5% increase in tuition.
- There was an increase in grants and contracts in the current year. This was due to the receipt of several large grants in fiscal year 2006 and to the increase in expenditures on current grants related to salaries and benefits and the related facilities and administrative costs.
- Other operating revenue was down \$4 million in 2006 primarily because athletic revenue was \$2 million less than 2005 and \$1.5 million in licensing revenue was reclassified to nonoperating.

**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

Nonoperating revenues and expenses:

- Gifts were down in fiscal year 2006 because of the one-time gift of \$3.6 million for the FedEx Institute of Technology recorded in fiscal year 2005.
- Other revenues and expenses increased in the current year. TSAC and Hope Scholarships increased by \$3 million. Licensing revenue of \$1.5 million was reclassified from operating revenues.

Other revenues, expenses, gains, or losses:

- In fiscal year 2006 there was an increase in capital appropriations due to a \$4.5 million appropriation for the Cecil C. Humphries School of Law for the Heating, Ventilation and Air Conditioning System.
- The other loss this year was directly related to a recognized loss on the disposal of equipment made obsolete by the university's conversion to Banner.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets - The Foundation
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues and expenses:			
Gifts and contributions	\$ 17,120	\$ 8,842	\$ 9,636
Other operating revenues	-	22	-
Operating expenses	<u>(10,415)</u>	<u>(7,955)</u>	<u>(6,885)</u>
Operating income	<u>\$ 6,705</u>	<u>\$ 909</u>	<u>\$ 2,751</u>
Nonoperating revenues and expenses:			
Investment income	<u>\$ 13,710</u>	<u>\$ 7,114</u>	<u>\$ 6,238</u>
Income before other revenues, expenses, gains, or losses	<u>\$ 20,415</u>	<u>\$ 8,023</u>	<u>\$ 8,989</u>
Other revenues, expenses, gains, or losses:	<u>\$ 2,668</u>	<u>\$ 1,987</u>	<u>\$ 5,052</u>
Increase in net assets	\$ 23,083	\$ 10,010	\$ 14,041
Net assets at beginning year	87,346	77,336	63,295
Net assets at end of year	<u><u>\$ 110,429</u></u>	<u><u>\$ 87,346</u></u>	<u><u>\$ 77,336</u></u>

**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

Comparison of 2007 to 2006:

Operating revenues and expenses:

- Gifts and contributions increased \$8.3 million in fiscal year 2007 due in large measure to two significant campaigns. The campaign for the law school relocation raised \$1.5 million and athletics raised an additional \$1.6 million.
- Operating expenses increased \$2.5 million as a result of a general increase in support to the university. In fiscal year 2007 there was \$700,000 additional in general administrative support and \$400,000 in athletic support.
- Investment earnings were up by \$6.6 million. An increase in market value of securities was the basis of the increase.

Comparison of 2006 to 2005:

Operating expenses:

- The foundation increased support to the university in the current year, with \$1 million more in support of the Millington campus project and \$750,000 additional to athletic support.

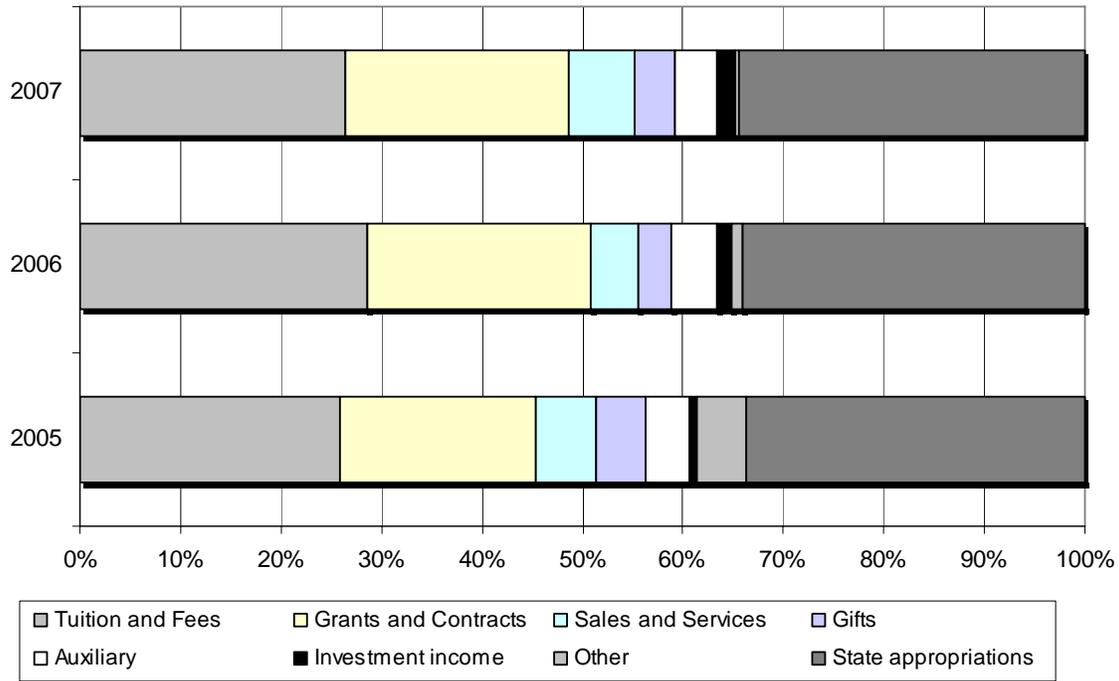
Investment income:

- An increase in market value of investments accounts for the increase in investment income for fiscal year 2006.

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the university's operating activities for the years ended June 30, 2007; June 30, 2006; and June 30, 2005 (amounts are presented in thousands of dollars).

**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**



Comparison of 2007 to 2006:

- The percentages in each category for fiscal year 2007 were consistent with the prior year, with no substantial changes.

Comparison of 2006 to 2005:

- The increase in tuition and fees in fiscal year 2006 reflects the 12.5% increase in tuition for the university.
- Grants and contracts revenue was up in the current year overall, with a \$3 million increase in revenue from Hope and TSAC Scholarships.

**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

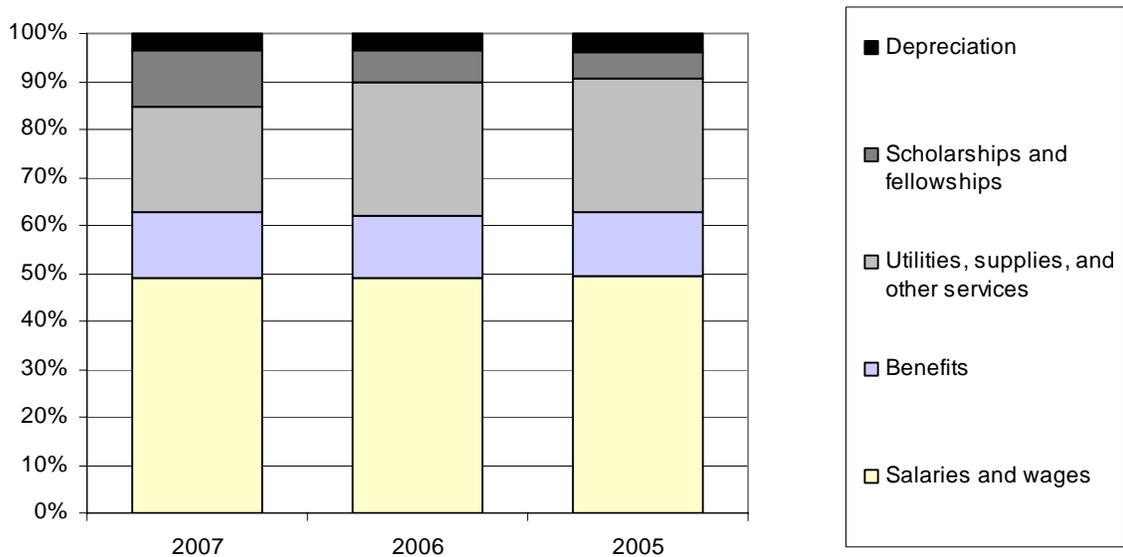
Expenses

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

Natural Classification - The University
(in thousands of dollars)

	2007	2006	2005
Operating Expenses:			
Salaries and wages	\$ 167,455	\$ 160,104	\$ 152,009
Benefits	47,071	43,186	41,172
Utilities, supplies, and other services	74,017	91,111	85,103
Scholarships and fellowships	41,244	20,982	17,361
Depreciation	11,493	11,734	11,470
Total Operating Expenses	\$ 341,280	\$ 327,117	\$ 307,115

Expenses by Natural Classification - The University



**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

Comparison of 2007 to 2006:

- Salaries and wages increased in fiscal year 2007, but were consistent with prior years as a percentage of total expenses. Benefits expenses increased due to the rise in cost of the TCRS retirement plan from 10.31% of salary for participants to 13.66%. Other services decreased and scholarships and fellowships increased because Pell was reclassified to scholarships and fellowships. Overall, expenses rose by 4% in fiscal year 2007.

Comparison of 2006 to 2005

- Salaries, wages, and benefits increased in fiscal year 2006, but remained steady as a percentage of total expenses. The rise in the gas and electricity costs was a factor in utilities, supplies, and other services being higher than in fiscal year 2005. Hope and TSAC scholarships accounted for the rise in scholarships and fellowships. Overall, expenses rose by 7% in fiscal year 2006, the same percentage of increase as in fiscal year 2005.

Natural Classification - The Foundation

(in thousands of dollars)

	2007	2006	2005
Operating Expenses:			
Utilities, supplies, and other services	\$ 1,834	\$ 1,477	\$ 6
Payment to or on behalf of the University	8,581	6,478	6,879
Total Operating Expenses	\$ 10,415	\$ 7,955	\$ 6,885

Comparison of 2007 to 2006:

- The foundation's direct support of the university increased overall in fiscal year 2007. An additional \$500,000 was allocated to general administrative support and an additional \$400,000 was allotted to athletics.

Comparison of 2006 to 2005:

- Payments to the university in fiscal year 2006 had a net decrease of \$400,000 due to a reclassification entry made by the auditors and increases in two major areas: \$1 million

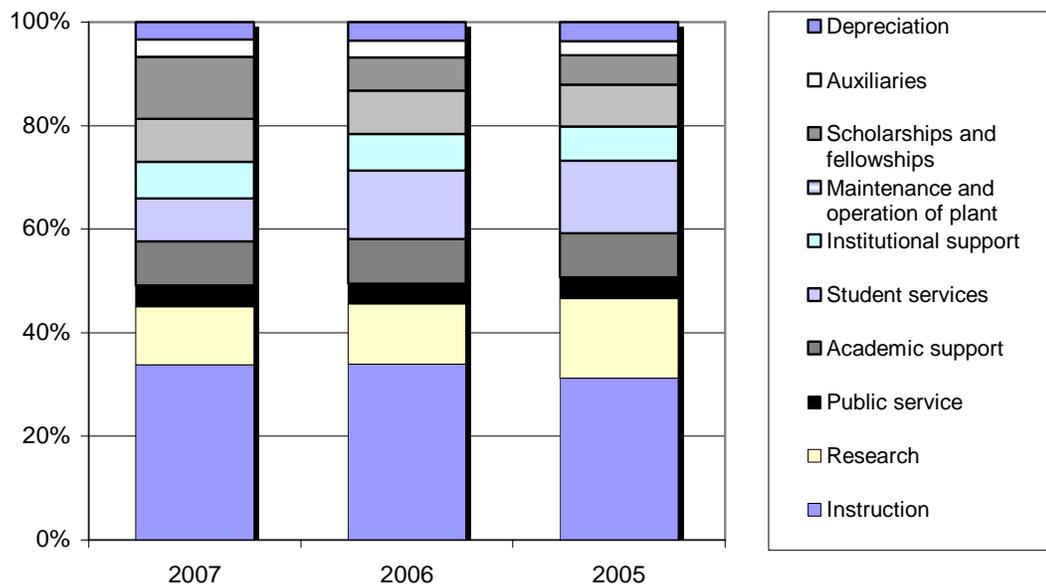
**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

more in support of the Millington campus project and \$750,000 additional to athletic support.

Program Classification - The University
(in thousands of dollars)

	2007	2006	2005
Operating Expenses:			
Instruction	\$ 115,499	\$ 111,082	\$ 95,970
Research	37,957	38,080	47,086
Public service	14,232	12,781	12,769
Academic support	29,238	28,283	26,106
Student services	28,062	43,253	43,126
Institutional support	24,208	22,888	20,086
Maintenance and operation of plant	28,075	27,453	24,854
Scholarships and fellowships	41,244	20,982	17,361
Auxiliaries	11,272	10,581	8,287
Depreciation	11,493	11,734	11,470
Total Operating Expenses	\$ 341,280	\$ 327,117	\$ 307,115

Expenses by Program Classification - The University



**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

Comparison of 2007 to 2006:

- Instruction, research, public service, and academic support remained consistent with prior years. Student services decreased and scholarships and fellowships increased as a result of the reclassification of Pell to scholarships and fellowships. The lottery funded Hope Scholarship also influenced the increase in Scholarships and Fellowships

Comparison of 2006 to 2005:

- The total of instruction and research is consistent with the prior year; however, the mix of faculty time spent on research changed.
- Scholarships and fellowships increased with the Hope and TSAC scholarships.

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.

Condensed Statement of Cash Flows - The University
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash provided (used) by:			
Operating activities	\$ (165,012)	\$ (140,337)	\$ (139,367)
Noncapital financing activities	174,890	160,309	157,126
Capital and related financing activities	(18,647)	(12,190)	(14,962)
Investing activities	<u>11,586</u>	<u>6,784</u>	<u>(6,686)</u>
Net increase (decrease) in cash	<u>\$ 2,817</u>	<u>\$ 14,566</u>	<u>\$ (3,889)</u>
Cash, beginning of year	<u>\$ 57,676</u>	<u>\$ 43,111</u>	<u>\$ 47,000</u>
Cash, end of year	<u><u>\$ 60,494</u></u>	<u><u>\$ 57,677</u></u>	<u><u>\$ 43,111</u></u>

**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

Comparison of 2007 to 2006:

- The use of cash for operating activities in fiscal year 2007 increased by \$25 million. This was due to an increase of operating expenses in the amount of \$6.6 million and a decrease in payables of \$10.4 million. On June 30, 2006, a treasury note was purchased for \$9 million, but the bank did not transfer the cash until July 1, resulting in a large payable in 2006.
- Noncapital financing activities increased by \$14.5 million in 2007 as a result of an increase in state appropriations in the amount of \$8 million and an increase in lottery funded Hope scholarships of \$3 million.
- Capital expenditures increased by \$6.2 over fiscal year 2007. Of that increase, \$4 million was due to major projects that included the Women's Softball Field, rebuilding of the University Center, Carpenter Student Housing Additions, Millington Center and Law School upgrades, and upgrades to Richardson and Rawls Hall fire safety projects.
- Investing activities added \$4.8 million to the university's cash flow in fiscal year 2007 as a result of a \$5 million increase in cash equivalents.
- There was no significant change in the university's liquidity in the current year.

Comparison of 2006 to 2005:

Capital and related financing activities:

- In fiscal year 2006 the university had \$5 million of proceeds from capital debt, which decreased the cost of net financing activities.

Investing activities:

- On June 30, 2006, the university purchased commercial paper in the amount of \$10 million, which the bank did not deduct until July 3, 2006. This resulted in increased cash at the end of the year.

There was no significant change in the university's liquidity in the fiscal year 2006.

**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

Capital Assets and Debt Administration

Capital Assets

The University of Memphis had \$239.7 million invested in capital assets, net of accumulated depreciation of \$156.8 million at June 30, 2007; \$230.9 million invested in capital assets, net of accumulated depreciation of \$152.9 million at June 30, 2006; and \$223.7 million invested in capital assets, net of accumulated depreciation of \$144.8 million at June 30, 2005. Depreciation charges totaled \$ 11.5 million, \$11.7 million, and \$11.5 million for the years ended June 30, 2007; June 30, 2006; and June 30, 2005, respectively. Details of these assets are shown below.

Schedule of Capital Assets, Net of Depreciation - The University
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Land	\$ 15,770	\$ 15,738	\$ 15,738
Land improvements	7,855	2,555	2,921
Buildings	134,386	134,000	139,247
Equipment	12,725	11,094	13,581
Library holdings	16,002	15,417	15,098
Software	5,043	3,311	-
Projects in progress	47,894	48,761	37,143
Total	<u>\$ 239,675</u>	<u>\$ 230,876</u>	<u>\$ 223,728</u>

In fiscal year 2007 the Student Activities Complex at \$3.6 million, the north central parking lot expansion at \$800,000, and the CFC chiller replacement program at \$1.1 million accounted for the increase in land improvements. Software increased as a result of Banner and its component units.

A primary capital project in progress is the replacement of the University Student Center, with an expected cost of \$42.3 million. The principal source of funding will be the Tennessee State School Bond Authority bonds, repaid by student debt service fees and local funding.

The university has also budgeted \$41.2 million for the relocation of the Cecil C. Humphreys School of Law. The principal source of funding will be state appropriations.

The renovation of West Hall, a student housing facility to be paid by Tennessee State School Bond Authority bonds and repaid by student debt service fees has been budgeted for \$19 million.

**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

More detailed information about the university's capital assets is presented in Note 5 to the financial statement.

Debt

The university had \$55.5 million, \$54.8 million, and \$52.6 million in debt outstanding at June 30, 2007; June 30, 2006; and June 30, 2005, respectively. The table below summarizes these amounts by type of debt instrument.

Outstanding Debt - The University
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Bonds payable	\$ 53,546	\$ 49,619	\$ 49,585
Commercial paper	1,911	5,219	3,023
Total	\$ 55,457	\$ 54,838	\$ 52,608

There were no significant changes in outstanding debt in fiscal year 2007. More detailed information about the university's long-term liabilities is presented in Note 6 to the financial statements.

Economic Factors That Will Affect the Future

The university has implemented a 6% increase in student fees for 2008. Recent increases in student fees have not significantly impacted enrollment, with enrollment holding steady for the past 10 years.

Requests for Information

This financial report is designed to provide a general overview of the institution's finances for all those with an interest in the university's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to David Zettergren, Assistant Vice President for Finance; The University of Memphis; Administration Building, Room 276; Memphis, Tennessee 38152-3370.

**TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENTS OF NET ASSETS
JUNE 30, 2007, AND JUNE 30, 2006**

	Institution		Component Unit	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2 and 16)	\$ 18,842,276.45	\$ 17,225,596.07	\$ 11,290,454.00	\$ 6,705,637.00
Short-term investments (Note 3)	27,242,199.37	41,016,980.00	-	-
Accounts, notes, and grants receivable (net) (Note 4)	24,905,710.90	23,992,063.92	-	-
Pledges receivable (net) (Note 16)	-	-	6,863,881.00	1,219,126.00
Inventories	478,673.24	468,695.00	-	-
Prepaid expenses and deferred charges	488,720.90	2,654,935.70	-	-
Accrued interest receivable	412,090.31	344,515.15	7,184.00	8,354.00
Total current assets	<u>72,369,671.17</u>	<u>85,702,785.84</u>	<u>18,161,519.00</u>	<u>7,933,117.00</u>
Noncurrent assets:				
Cash and cash equivalents (Notes 2 and 16)	41,651,595.70	40,450,657.02	-	-
Investments (Notes 3 and 16)	8,575,892.00	-	86,023,640.00	72,750,127.00
Accounts, notes, and grants receivable (net) (Note 4)	6,123,385.55	7,541,633.84	-	-
Pledges receivable (net) (Note 16)	-	-	9,036,305.00	9,451,095.00
Capital assets (net) (Note 5)	239,674,442.80	230,876,851.38	-	-
Other assets	2,500.00	-	96,685.00	90,153.00
Total noncurrent assets	<u>296,027,816.05</u>	<u>278,869,142.24</u>	<u>95,156,630.00</u>	<u>82,291,375.00</u>
Total assets	<u>368,397,487.22</u>	<u>364,571,928.08</u>	<u>113,318,149.00</u>	<u>90,224,492.00</u>
LIABILITIES				
Current liabilities:				
Accounts payable	4,323,710.46	14,582,888.54	2,093,469.00	2,084,981.00
Accrued liabilities	20,752,714.92	19,454,582.42	138,747.00	145,380.00
Student deposits	487,840.96	438,573.57	-	-
Deferred revenue	9,054,942.78	9,219,253.32	520,488.00	483,536.00
Compensated absences (Note 6)	2,103,429.73	1,999,059.46	-	-
Accrued interest payable	446,165.40	425,635.15	-	-
Long-term liabilities, current portion (Note 6)	3,589,369.37	3,291,377.66	-	-
Deposits held in custody for others	617,087.97	533,718.54	-	-
Total current liabilities	<u>41,375,261.59</u>	<u>49,945,088.66</u>	<u>2,752,704.00</u>	<u>2,713,897.00</u>
Noncurrent liabilities:				
Notes payable (Note 16)	-	-	136,525.00	165,000.00
Compensated absences (Note 6)	6,500,501.10	6,372,051.41	-	-
Long-term liabilities (Note 6)	51,868,040.85	51,546,143.47	-	-
Due to grantors (Note 6)	2,886,664.40	2,851,319.41	-	-
Total noncurrent liabilities	<u>61,255,206.35</u>	<u>60,769,514.29</u>	<u>136,525.00</u>	<u>165,000.00</u>
Total liabilities	<u>102,630,467.94</u>	<u>110,714,602.95</u>	<u>2,889,229.00</u>	<u>2,878,897.00</u>
NET ASSETS				
Invested in capital assets, net of related debt	184,217,032.58	176,039,330.25	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	1,342,122.51	1,304,578.56	-	-
Other	2,191,162.54	2,133,974.30	43,815,602.00	40,855,220.00
Expendable:				
Scholarships and fellowships	1,267,217.00	1,327,563.90	13,842,112.18	10,545,502.41
Research	974,982.71	981,997.97	560,540.46	372,281.49
Instructional department uses	2,202,707.56	2,152,104.17	8,525,653.24	5,899,661.56
Loans	3,256,133.95	2,960,611.97	-	-
Capital projects	773,245.35	2,323,382.56	-	627,078.15
Debt service	4,699,329.22	6,081,340.44	-	-
Other	1,258,899.01	1,301,699.33	39,595,128.42	26,455,622.62
Unrestricted (Note 8)	63,584,186.85	57,250,741.68	4,089,883.70	2,590,228.77
Total net assets	<u>\$ 265,767,019.28</u>	<u>\$ 253,857,325.13</u>	<u>\$ 110,428,920.00</u>	<u>\$ 87,345,595.00</u>

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

**TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006**

	Institution		Component Unit	
	Year Ended June 30, 2007	Year Ended June 30, 2006	Year Ended June 30, 2007	Year Ended June 30, 2006
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$22,204,475.00 for the year ended June 30, 2007, and \$19,868,691.00 for the ended June 30, 2006)	\$ 92,038,688.65	\$ 94,357,753.19	\$ -	\$ -
Gifts and contributions	-	-	17,119,979.00	8,841,846.68
Governmental grants and contracts	37,620,705.46	34,263,109.29	-	-
Nongovernmental grants and contracts	5,294,509.68	7,449,883.41	-	-
Sales and services of educational departments	23,013,733.44	15,573,567.79	-	-
Auxiliary enterprises:				
Residential life (net of scholarship allowances of \$135,431.00 the year ended June 30, 2007; \$139,137.00 for the year ended June 30, 2006)	9,809,242.31	9,053,598.72	-	-
Bookstore	642,359.92	641,880.92	-	-
Food service	531,934.25	524,314.30	-	-
Other auxiliaries	3,727,069.15	4,698,010.10	-	-
Interest earned on loans to students	348,322.73	249,625.82	-	-
Other operating revenues	-	-	-	21,684.44
Total operating revenues	<u>173,026,565.59</u>	<u>166,811,743.54</u>	<u>17,119,979.00</u>	<u>8,863,531.12</u>
EXPENSES				
Operating expenses (Note 15):				
Salaries and wages	167,454,743.64	160,103,948.41	-	-
Benefits	47,071,063.92	43,186,431.23	-	-
Utilities, supplies, and other services	74,016,890.48	91,111,213.94	1,833,723.00	1,476,754.12
Scholarships and fellowships	41,244,354.25	20,981,536.98	-	-
Depreciation expense	11,492,713.26	11,733,918.20	-	-
Payments to or on behalf of The University of Memphis (Note 16)	-	-	8,581,392.00	6,478,118.00
Total operating expenses	<u>341,279,765.55</u>	<u>327,117,048.76</u>	<u>10,415,115.00</u>	<u>7,954,872.12</u>
Operating income (loss)	<u>(168,253,199.96)</u>	<u>(160,305,305.22)</u>	<u>6,704,864.00</u>	<u>908,659.00</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	119,953,700.00	112,444,600.00	-	-
Gifts (including \$7,323,130.00 from The University of Memphis Foundation for the fiscal year ended June 30, 2007 and \$6,478,118.00 in the fiscal year ended June 30, 2006)	13,887,198.84	11,022,735.49	-	-
Grants and contracts	35,031,769.75	31,206,778.57	-	-
Investment income	6,438,499.70	4,785,334.14	13,709,728.00	7,114,441.00
Interest on capital asset-related debt	(2,742,415.17)	(2,630,745.54)	-	-
Bond issuance expense	(97,392.09)	(30,749.81)	-	-
Other nonoperating revenues (expenses)	3,851,830.50	4,373,442.15	-	-
Net nonoperating revenues	<u>176,323,191.53</u>	<u>161,171,395.00</u>	<u>13,709,728.00</u>	<u>7,114,441.00</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>8,069,991.57</u>	<u>866,089.78</u>	<u>20,414,592.00</u>	<u>8,023,100.00</u>
Capital appropriations	5,149,999.35	7,806,424.44	-	-
Capital grants and gifts	501,900.00	401,350.00	-	-
Additions to permanent endowments	57,188.24	-	2,668,733.00	1,986,960.00
Other	(1,869,385.01)	(529,296.37)	-	-
Total other revenues	<u>3,839,702.58</u>	<u>7,678,478.07</u>	<u>2,668,733.00</u>	<u>1,986,960.00</u>
Increase in net assets	<u>11,909,694.15</u>	<u>8,544,567.85</u>	<u>23,083,325.00</u>	<u>10,010,060.00</u>
NET ASSETS				
Net assets - beginning of year	253,857,325.13	245,312,757.28	87,345,595.00	77,335,535.00
Net assets - end of year	<u>\$ 265,767,019.28</u>	<u>\$ 253,857,325.13</u>	<u>\$ 110,428,920.00</u>	<u>\$ 87,345,595.00</u>

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

**TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006**

	Year Ended June 30, 2007	Year Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 91,053,761.68	\$ 95,612,276.76
Grants and contracts	41,218,036.35	40,466,266.05
Sales and services of educational activities	23,531,026.11	14,231,390.28
Payments to suppliers and vendors	(81,259,045.89)	(79,898,753.94)
Payments to employees	(166,809,914.99)	(163,072,616.96)
Payments for benefits	(46,322,992.83)	(39,507,510.43)
Payments for scholarships and fellowships	(41,244,354.25)	(22,626,737.98)
Loans issued to students and employees	(1,143,999.44)	(1,919,877.07)
Collection of loans from students and employees	977,763.76	1,769,658.21
Interest earned on loans to students	348,322.73	249,625.82
Auxiliary enterprise charges:		
Residence halls	9,774,249.32	8,613,508.60
Bookstore	642,359.92	641,880.92
Food services	531,934.25	524,314.30
Other auxiliaries	3,690,744.21	4,579,488.20
Net cash used by operating activities	<u>(165,012,109.07)</u>	<u>(140,337,087.24)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	119,957,600.00	112,450,400.00
Gifts and grants received for other than capital purposes, including \$7,281,691.00 from The University of Memphis Foundation for the fiscal year ended June 30, 2007, and \$6,478,118.00 for the fiscal year ended June 30, 2006)	50,924,794.47	43,754,717.18
Private gifts for endowment purposes	57,188.24	-
Federal student loan receipts	76,269,263.00	76,991,355.00
Federal student loan disbursements	(76,269,263.00)	(76,991,355.00)
Changes in deposits held for others	83,369.43	179,885.00
Other noncapital financing receipts (payments)	3,867,269.47	3,923,509.07
Net cash provided by noncapital financing activities	<u>174,890,221.61</u>	<u>160,308,511.25</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	4,026,977.25	7,442,556.46
Capital appropriations	5,149,999.35	7,806,424.44
Proceeds from sale of capital assets	37,915.24	25,489.53
Purchases of capital assets and construction	(21,382,102.39)	(19,608,637.13)
Principal paid on capital debt and leases	(3,660,088.16)	(5,213,173.31)
Interest paid on capital debt and leases	(2,721,884.92)	(2,612,146.73)
Bond issue cost paid on new debt issue	(97,392.09)	(30,749.81)
Net cash provided (used) by capital and related financing activities	<u>(18,646,575.72)</u>	<u>(12,190,236.55)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	562,803,696.66	442,132,441.02
Income on investments	6,387,193.61	4,857,555.85
Purchase of investments	(557,604,808.03)	(440,205,724.77)
Net cash provided by investing activities	<u>11,586,082.24</u>	<u>6,784,272.10</u>
Net increase in cash and cash equivalents	2,817,619.06	14,565,459.56
Cash and cash equivalents - beginning of year	57,676,253.09	43,110,793.53
Cash and cash equivalents - end of year (Notes 2 and 16)	<u>\$ 60,493,872.15</u>	<u>\$ 57,676,253.09</u>

**TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006**

	<u>Year Ended</u> <u>June 30, 2007</u>	<u>Year Ended</u> <u>June 30, 2006</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (168,253,199.96)	\$ (160,305,305.22)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	11,492,713.26	11,733,918.20
Salvage sales credited to sales and services	-	(25,489.53)
Change in assets and liabilities:		
Receivables, net	(1,623,475.91)	(1,379,216.56)
Inventories	(9,978.24)	18,717.43
Prepaid/deferred items	2,275,229.07	(2,055,957.41)
Other assets	(2,500.00)	-
Accounts payable	(9,899,783.27)	6,226,549.75
Accrued liabilities	871,203.15	4,654,522.80
Deferred revenue	(144,404.52)	150,146.76
Deposits	49,267.39	(102,348.79)
Compensated absences	232,819.96	747,375.33
Net cash used by operating activities	<u>\$ (165,012,109.07)</u>	<u>\$ (140,337,087.24)</u>
Noncash transactions		
Gifts in-kind	\$ 1,558,837.58	\$ 1,684,530.46
Gifts in-kind - capital	\$ 501,900.00	\$ 401,350.00
Unrealized gains/losses on investments	\$ 542,308.78	\$ 602,826.25
Loss on disposal of capital assets	\$ (1,616,385.01)	\$ (529,296.37)
Bad debt expense	\$ 816,153.94	\$ 597,766.03

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, 2007, and June 30, 2006**

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*.

The University of Memphis Foundation is considered a component unit of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements. See Note 16 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental colleges and universities engaged in business-type activities as prescribed by the Governmental Accounting Standards Board (GASB).

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, 2007, and June 30, 2006**

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) certain 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) utilities, supplies, and other services; (4) scholarships and fellowships; and (5) depreciation.

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; (5) certain grants and contracts; and (6) gifts and nonexchange transactions.

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

Cash Equivalents

This classification includes instruments that are readily convertible to known amounts of cash and have original maturities of three months or less.

Inventories

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

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.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, and software, 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, and \$50,000 is used for infrastructure. Equipment is capitalized when the unit acquisition cost is \$5,000 or greater. The capitalization threshold for additions and improvements to buildings and land is set at \$50,000. The capitalization threshold for software is set at \$100,000.

These assets, with the exception of land, are depreciated/amortized 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.

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

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

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.

NOTE 2. CASH AND CASH EQUIVALENTS

At June 30, 2007, cash and cash equivalents consisted of \$18,590,775.03 in bank accounts, \$72,295.00 of petty cash on hand, \$15,611,754.30 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, \$1,995,051.97 in LGIP deposits for capital projects, and \$24,223,995.85 in commercial paper. At June 30, 2006, cash and cash equivalents consisted of \$22,659,609.16 in bank accounts, \$72,290.00 of petty cash on hand, \$9,469,751.83 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, \$6,090,081.34 in LGIP deposits for capital projects, and \$19,384,520.76 in commercial paper.

LGIP deposits for 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.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

NOTE 3. INVESTMENTS

All investments permitted to be reported at fair value under GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

At June 30, 2007, the university had the following investments and maturities.

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>		
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 5</u>
U.S. treasury notes	\$ 29,571,536.50	\$ 21,195,644.50	\$ 8,375,892.00
Commercial paper	30,270,550.72	30,270,550.72	-
Certificates of deposit	200,000.00	-	200,000.00
Less amounts reported as cash and cash equivalents:			
Commercial paper	<u>(24,223,995.85)</u>	<u>(24,223,995.85)</u>	<u>-</u>
Total	<u>\$ 35,818,091.37</u>	<u>\$ 27,242,199.37</u>	<u>\$ 8,575,892.00</u>

At June 30, 2006, the university had the following investments and maturities.

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>		
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 5</u>
U.S. treasury notes	\$ 40,816,980.00	\$ 40,816,980.00	\$ -
Commercial paper	19,384,520.76	19,384,520.76	-
Certificates of deposit	200,000.00	200,000.00	-
Less amounts reported as cash and cash equivalents:			
Commercial paper	<u>(19,384,520.76)</u>	<u>(19,384,520.76)</u>	<u>-</u>
Total	<u>\$ 41,016,980.00</u>	<u>\$ 41,016,980.00</u>	<u>\$ -</u>

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. The university does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. 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 (LGIP). 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. Securities are rated using Standard and Poor's, Moody's, and/or Fitch and are presented below using the Standard and Poor's rating scale. Tennessee Board of Regents policy restricts investments in banker's acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term debt rating by a majority of the ratings services that have rated the issuer. The policy further requires that commercial paper must be issued by corporations with a minimum rating of A1 or equivalent as provided by a majority of the rating services that rate the issuer. If there is no long-term debt rating, the short-term debt must be rated A1 by all rating services (minimum of two). Commercial paper of a banking institution must not be purchased.

At June 30, 2007, the university's investments were rated as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>		
		<u>AA</u>	<u>A</u>	<u>Unrated</u>
LGIP	\$ 17,606,806.27	\$ -	\$ -	\$ 17,606,806.27
Commercial paper	<u>30,270,550.72</u>	<u>22,312,879.57</u>	<u>7,957,671.15</u>	-
Total	<u>\$ 47,877,356.99</u>	<u>\$ 22,312,879.57</u>	<u>\$ 7,957,671.15</u>	<u>\$ 17,606,806.27</u>

At June 30, 2006, the university's investments were rated as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>		
		<u>AA</u>	<u>A</u>	<u>Unrated</u>
LGIP	\$ 15,559,833.17	\$ -	\$ -	\$ 15,559,833.17
Commercial paper	<u>19,384,520.76</u>	<u>9,694,325.38</u>	<u>9,690,195.38</u>	-
Total	<u>\$ 34,944,353.93</u>	<u>\$ 9,694,325.38</u>	<u>\$ 9,690,195.38</u>	<u>\$ 15,559,833.17</u>

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

NOTE 4. RECEIVABLES

Receivables included the following:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Student accounts receivable	\$ 8,366,224.04	\$ 7,731,328.92
Grants receivable	13,336,521.74	11,551,317.72
Notes receivable	1,557,093.00	1,532,553.85
State appropriation receivable	233,900.00	237,800.00
Other receivables	<u>12,017,078.02</u>	<u>14,409,258.44</u>
Subtotal	35,510,816.80	35,462,258.93
Less allowance for doubtful accounts	<u>(7,550,897.72)</u>	<u>(6,930,270.57)</u>
Total receivables	<u>\$ 27,959,919.08</u>	<u>\$ 28,531,988.36</u>

Federal Perkins Loan Program funds included the following:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Perkins loans receivable	\$ 3,597,701.38	\$ 3,533,181.37
Less allowance for doubtful accounts	<u>(528,524.01)</u>	<u>(531,471.97)</u>
Total	<u>\$ 3,069,177.37</u>	<u>\$ 3,001,709.40</u>

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 15,738,489.06	\$ 31,470.94	\$ -	\$ -	\$ 15,769,960.00
Land improvements and infrastructure	14,693,216.80	-	5,605,855.16	-	20,299,071.96
Buildings	227,083,002.73	165,222.46	6,895,415.18	6,103,551.21	228,040,089.16
Equipment	41,426,911.35	4,097,287.91	-	357,310.29	45,166,888.97
Library holdings	32,671,889.71	3,961,609.98	-	2,869,162.55	33,764,337.14
Software	3,455,367.58	2,077,372.52	-	-	5,532,740.10

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

Projects in progress	<u>48,761,429.07</u>	<u>11,634,231.12</u>	<u>(12,501,270.34)</u>	<u>-</u>	<u>47,894,389.85</u>
Total	<u>383,830,306.30</u>	<u>21,967,194.93</u>	<u>-</u>	<u>9,330,024.05</u>	<u>396,467,477.18</u>
Less accum. depreciation:					
Land improvements and infrastructure	12,138,142.72	306,423.20	-	-	12,444,565.92
Buildings	93,082,746.57	5,022,358.74	-	4,450,618.74	93,654,486.57
Equipment	30,333,154.45	2,441,960.85	-	333,352.51	32,441,762.79
Library holdings	17,254,789.60	3,376,433.71	-	2,869,162.55	17,762,060.76
Software	<u>144,621.58</u>	<u>345,536.76</u>	<u>-</u>	<u>-</u>	<u>490,158.34</u>
Total accum. depreciation	<u>152,953,454.92</u>	<u>11,492,713.26</u>	<u>-</u>	<u>7,653,133.80</u>	<u>156,793,034.38</u>
Capital assets, net	<u>\$ 230,876,851.38</u>	<u>\$ 10,474,481.67</u>	<u>\$ -</u>	<u>\$ 1,676,890.25</u>	<u>\$ 239,674,442.80</u>

Capital asset activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 15,738,489.06	\$ -	\$ -	\$ 15,738,489.06
Land improvements and infrastructure	14,693,216.80	-	-	14,693,216.80
Buildings	227,083,002.73	-	-	227,083,002.73
Equipment	42,229,091.60	3,335,327.02	4,137,507.27	41,426,911.35
Library holdings	31,686,874.33	3,586,109.07	2,601,093.69	32,671,889.71
Software	-	3,455,367.58	-	3,455,367.58
Projects in progress	<u>37,143,097.65</u>	<u>11,618,331.42</u>	<u>-</u>	<u>48,761,429.07</u>
Total	<u>368,573,772.17</u>	<u>21,995,135.09</u>	<u>6,738,600.96</u>	<u>383,830,306.30</u>
Less accum. depreciation:				
Land improvements and infrastructure	11,772,418.70	365,724.02	-	12,138,142.72
Buildings	87,836,108.60	5,246,637.97	-	93,082,746.57
Equipment	28,648,414.15	2,709,745.66	1,025,005.36	30,333,154.45
Library holdings	16,588,694.32	3,267,188.97	2,601,093.69	17,254,789.60
Software	<u>-</u>	<u>144,621.58</u>	<u>-</u>	<u>144,621.58</u>
Total accum. depreciation	<u>144,845,635.77</u>	<u>11,733,918.20</u>	<u>3,626,099.05</u>	<u>152,953,454.92</u>
Capital assets, net	<u>\$ 223,728,136.40</u>	<u>\$ 10,261,216.89</u>	<u>\$ 3,112,501.91</u>	<u>\$ 230,876,851.38</u>

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

NOTE 6. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
TSSBA debt:					
Bonds	\$ 49,618,697.80	\$ 7,334,497.01	\$ 3,407,088.16	\$ 53,546,106.65	\$ 3,589,369.37
Commercial paper	<u>5,218,823.33</u>	<u>3,660,153.05</u>	<u>6,967,672.81</u>	<u>1,911,303.57</u>	<u>-</u>
Subtotal	<u>54,837,521.13</u>	<u>10,994,650.06</u>	<u>10,374,760.97</u>	<u>55,457,410.22</u>	<u>3,589,369.37</u>
Other liabilities:					
Compensated absences	8,371,110.87	5,441,639.69	5,208,819.73	8,603,930.83	2,103,429.73
Due to grantors	<u>2,851,319.41</u>	<u>75,448.10</u>	<u>40,103.11</u>	<u>2,886,664.40</u>	<u>-</u>
Subtotal	<u>11,222,430.28</u>	<u>5,517,087.79</u>	<u>5,248,922.84</u>	<u>11,490,595.23</u>	<u>2,103,429.73</u>
Total long-term liabilities	<u>\$ 66,059,951.41</u>	<u>\$ 16,511,737.85</u>	<u>\$ 15,623,683.81</u>	<u>\$ 66,948,005.45</u>	<u>\$ 5,692,799.10</u>

Long-term liabilities activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
TSSBA debt:					
Bonds	\$ 49,585,424.61	\$ 2,494,646.50	\$ 2,461,373.31	\$ 49,618,697.80	\$ 3,291,377.66
Commercial paper	<u>3,022,713.37</u>	<u>4,947,909.96</u>	<u>2,751,800.00</u>	<u>5,218,823.33</u>	<u>-</u>
Subtotal	<u>52,608,137.98</u>	<u>7,442,556.46</u>	<u>5,213,173.31</u>	<u>54,837,521.13</u>	<u>3,291,377.66</u>
Other liabilities:					
Compensated absences	7,623,735.54	6,715,844.23	5,968,468.90	8,371,110.87	1,999,059.46
Due to grantors	<u>2,833,659.32</u>	<u>75,080.76</u>	<u>57,420.67</u>	<u>2,851,319.41</u>	<u>-</u>
Subtotal	<u>10,457,394.86</u>	<u>6,790,924.99</u>	<u>6,025,889.57</u>	<u>11,222,430.28</u>	<u>1,999,059.46</u>
Total long-term liabilities	<u>\$ 63,065,532.84</u>	<u>\$ 14,233,481.45</u>	<u>\$ 11,239,062.88</u>	<u>\$ 66,059,951.41</u>	<u>\$ 5,290,437.12</u>

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 3% to 7.15%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2036 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 included in long-term liabilities on the statement of net assets is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was \$24,786.25 at June 30, 2007, and \$124,289.21 at June 30, 2006. Unexpended debt proceeds were \$66,514.77 at June 30, 2007, and \$253,000.00 at June 30, 2006.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2007, are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 3,589,369.37	\$ 2,681,104.32	\$ 6,270,473.69
2009	3,793,869.74	2,485,872.52	6,279,742.26
2010	4,031,015.69	2,279,415.16	6,310,430.85
2011	2,154,613.95	2,055,416.72	4,210,030.67
2012	1,883,498.61	1,977,567.61	3,861,066.22
2013-2017	8,487,605.08	8,666,631.69	17,154,236.77
2018-2022	9,988,349.88	6,431,456.25	16,419,806.13
2023-2027	10,541,153.70	3,949,066.47	14,490,219.17
2028-2032	8,228,145.40	1,211,274.37	9,439,419.77
2033-2036	<u>848,485.23</u>	<u>133,434.30</u>	<u>981,919.53</u>
	<u>\$ 53,546,106.65</u>	<u>\$ 31,871,239.41</u>	<u>\$ 85,417,346.06</u>

TSSBA Debt - Commercial Paper

The Tennessee State School Bond Authority issues commercial paper to finance the costs of various capital projects during their construction phase. When projects are placed in service, long-term, fixed-rate debt is issued by TSSBA to finance the project over its useful payback period and the commercial paper is redeemed. The amount issued for projects at the university was \$1,911,303.57 at June 30, 2007, and \$5,218,823.33 at June 30, 2006.

Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006

For the commercial paper program, the Tennessee State School Bond Authority maintains an interest rate reserve fund. The university contributes amounts to the reserve fund based on the amounts drawn. The principal of the reserve will be contributed to pay off notes or credited back to the university when the notes are converted to bonds. The interest earned on the reserve is used to pay interest due during the month.

More detailed information regarding the bonds and commercial paper can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report may be obtained by writing to the Director of Bond Finance, Suite 1600, James K. Polk Building, Nashville, Tennessee 37243-0273, or by calling (615) 401-7872.

NOTE 7. ENDOWMENTS

If a donor has not provided specific instructions to the university, state law permits the university to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the university is required to consider the university's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation spent is required to be spent for the purposes for which the endowment was established.

The university chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the university, 4.75% of a three-year moving average of the fair value of endowment investment has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2007, net appreciation of \$1,406,622.10 is available to be spent, of which \$96,456.93 is included in restricted net assets expendable for scholarships and fellowships, \$1,285,477.88 is included in restricted net assets expendable for instructional departmental uses, and \$24,687.29 is included in restricted net assets expendable for other. At June 30, 2006, net appreciation of \$1,341,788.49 is available to be spent, of which \$125,348.68 is included in restricted net assets expendable for scholarships and fellowships, \$1,195,435.42 is included in restricted net assets expendable for instructional

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

departmental uses, and \$21,004.39 is included in restricted net assets expendable for other.

NOTE 8. UNRESTRICTED NET ASSETS

Unrestricted net assets include funds that have been designated for specific purposes. The unrestricted net assets are composed of the following:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Working capital	\$ 6,027,140.73	\$ 6,420,049.06
Encumbrances	1,039,519.01	478,599.82
Designated fees	1,040,123.95	2,464,543.18
Auxiliaries	793,712.43	752,847.05
Quasi-endowment	639.51	217,639.51
Plant construction	18,847,791.73	23,111,361.70
Renewal and replacement of equipment	20,068,133.28	16,100,744.32
Unreserved/undesignated	<u>15,767,126.21</u>	<u>7,704,957.04</u>
Total	<u>\$ 63,584,186.85</u>	<u>\$ 57,250,741.68</u>

NOTE 9. PENSION PLANS

A. Defined Benefit Plans

1. Tennessee Consolidated Retirement System

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

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

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 13.66% 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, 2007, 2006, and 2005 were \$7,671,687.96, \$5,776,544.21, and \$5,260,425.70. 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 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 \$8,485,959.56 for the year ended June 30, 2007, and \$8,136,761.74 for the year ended June 30, 2006. Contributions met the requirements for each year.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

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. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The Risk Management Fund is also responsible for claims for damages to state-owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from \$25,000 per occurrence, depending on the type of coverage, to an aggregate of \$5 million.

The university participates in the Risk Management 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. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2007, and June 30, 2006, 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

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140. Since the university participates in the Risk Management 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 Risk Management Fund. At June 30, 2007, the Risk Management Fund held \$116.7 million in cash and cash equivalents designated for payment of claims. At June 30, 2006, the Risk Management fund held \$133.2 million in cash and cash equivalents designated for payment of claims.

At June 30, 2007, the scheduled coverage for the university was \$750,481,400 for buildings and \$276,552,700 for contents. At June 30, 2006, the scheduled coverage for the university was \$534,490,800 for buildings and \$309,600,600 for contents.

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

NOTE 12. 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 \$71,625,858.82 at June 30, 2007, and \$68,219,794.08 at June 30, 2006.

Operating Leases - The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were \$631,685.31 and for personal property were \$552,209.27 for the year ended June 30, 2007. Comparative amounts

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

for the year ended June 30, 2006, were \$1,587,091.89 and \$93,889.28. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2007, outstanding commitments under construction contracts totaled \$17,337,650.07 for University Center Renovation, West Hall Student Housing Replacement, Law School Relocation, Drainage Corrections, Wilder Tower Brick Facade Restoration, and Engineering Complex HVAC Fire Service of which \$6,006,652.91 will be funded by future state capital outlay appropriations.

Contract - In December 2004, the Tennessee Board of Regents system entered into a contract with SungardSCT for the purchase of a comprehensive enterprise resource planning system. The contract includes a multi-year phase-in of administrative software for financial, human resource, and student systems. The university's outstanding liability for this contract is \$2,301,499.77 at June 30, 2007, and \$4,022,752.79 at June 30, 2006.

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

NOTE 13. CHAIRS OF EXCELLENCE

The university had \$66,578,726.90 on deposit at June 30, 2007, and \$59,890,590.33 on deposit at June 30, 2006, 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 14. FUNDS HELD IN TRUST BY OTHERS

The university is a beneficiary under the Van Vleet, Mike Driver, Pope M. Farrington, C.M. Gooch, and 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 \$1,374,636.37 from these funds during the year ended June 30, 2007, and \$1,135,166.47 during the year ended June 30, 2006.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

NOTE 15. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses by functional classification for the year ended June 30, 2007, are as follows:

Functional Classification	Salaries	Benefits	Natural Classification		Depreciation	Total
			Operating	Other		
Instruction	\$ 78,288,318.83	\$ 19,883,841.08	\$ 17,327,552.79	\$ -	\$ -	\$115,499,712.70
Research	22,225,575.97	4,606,048.28	11,125,587.80	-	-	37,957,212.05
Public service	7,794,770.13	2,374,522.69	4,061,940.56	-	-	14,231,233.38
Academic support	17,227,233.49	5,622,700.65	6,387,651.05	-	-	29,237,585.19
Student services	16,395,268.57	5,293,613.83	6,373,375.64	-	-	28,062,258.04
Institutional support	14,342,417.92	4,735,254.31	5,130,243.10	-	-	24,207,915.33
Operation & maintenance	9,314,526.18	4,015,414.23	14,744,668.57	-	-	28,074,608.98
Scholar. & fellow.	-	-	-	41,244,354.25	-	41,244,354.25
Auxiliary	1,866,632.55	539,668.85	8,865,870.97	-	-	11,272,172.37
Depreciation	-	-	-	-	11,492,713.26	11,492,713.26
Total	\$ 167,454,743.64	\$ 47,071,063.92	\$ 74,016,890.48	\$ 41,244,354.25	\$ 11,492,713.26	\$341,279,765.55

The university's operating expenses by functional classification for the year ended June 30, 2006, are as follows:

Functional Classification	Salaries	Benefits	Natural Classification		Depreciation	Total
			Operating	Other		
Instruction	\$ 75,462,788.56	\$ 18,638,071.78	\$ 16,980,944.15	\$ -	\$ -	\$111,081,804.49
Research	22,189,126.67	4,431,874.28	11,458,965.57	-	-	38,079,966.52
Public service	5,664,326.42	1,522,329.28	5,594,431.78	-	-	12,781,087.48
Academic support	16,953,025.21	5,330,274.68	6,000,071.15	-	-	28,283,371.04
Student services	15,413,352.09	4,766,262.46	23,073,551.40	-	-	43,253,165.95
Institutional support	13,443,727.37	4,377,044.72	5,067,142.04	-	-	22,887,914.13
Operation & maintenance	9,096,468.95	3,630,459.19	14,726,020.07	-	-	27,452,948.21
Scholar. & fellow.	-	-	-	20,981,536.98	-	20,981,536.98
Auxiliary	1,881,133.14	490,114.84	8,210,087.78	-	-	10,581,335.76
Depreciation	-	-	-	-	11,733,918.20	11,733,918.20
Total	\$ 160,103,948.41	\$ 43,186,431.23	\$ 91,111,213.94	\$ 20,981,536.98	\$ 11,733,918.20	\$327,117,048.76

Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006

NOTE 16. COMPONENT UNIT

The University of Memphis Foundation is a legally separate, tax-exempt organization supporting The University of Memphis. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the university in support of its programs. The 40-member board of the foundation is self-perpetuating and consists of graduates and friends of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements.

The foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation reformatting, no modifications have been made to the foundation's financial information in the university's financial statements for these differences.

During the year ended June 30, 2007, the foundation made distributions of \$8,581,392.00 to or on behalf of the university for both restricted and unrestricted purposes. During the year ended June 30, 2006, the foundation made distributions of \$6,478,118.00 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Mr. Larry Bunch, Managing Director; 100 Billy Mac Jones Building; Memphis, Tennessee 38152-3750.

Cash and cash equivalents - Cash and cash equivalents consist of demand deposit accounts, certificates of deposit, and money market funds. Of the bank balances of deposits at June 30, 2007, \$100,000.00 was insured by FDIC and \$11,190,454.00 was not insured. Of the bank balances of deposits at June 30, 2006, \$100,000.00 was insured by FDIC and \$6,605,637.00 was not insured.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

Investments - Investments are recorded on the date of contribution and are stated at market value. Unrealized gains and losses are determined by the difference between market values at the beginning and end of the year.

Investments held at June 30, 2007, were as follows:

	<u>Cost</u>	<u>Market Value</u>
Mutual funds	\$ 18,796,052.00	\$ 19,033,083.00
U.S. government, foreign, and other funds	563,370.00	682,352.00
Interest in limited partnerships	47,033,113.00	65,711,452.00
Donated real and personal property	<u>596,753.00</u>	<u>596,753.00</u>
 Total investments	 <u>\$ 66,989,288.00</u>	 <u>\$ 86,023,640.00</u>

Investments held at June 30, 2006, were as follows:

	<u>Cost</u>	<u>Market Value</u>
Mutual funds	\$ 50,645,031.00	\$ 57,237,304.00
U.S. government, foreign, and other bonds	222,104.00	216,308.00
Interest in limited partnerships	11,361,796.00	14,699,302.00
Donated real and personal property	<u>597,213.00</u>	<u>597,213.00</u>
 Total investments	 <u>\$ 62,826,144.00</u>	 <u>\$ 72,750,127.00</u>

Pledges Receivable - Pledges receivable are summarized below net of the allowance for doubtful accounts.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Current pledges	\$ 7,068,139.00	\$ 4,907,386.00
Pledges due in one to five years	9,269,269.00	5,970,397.00
Pledges due after five years	<u>766,285.00</u>	<u>527,600.00</u>
Subtotal	17,103,693.00	11,405,383.00
Less discount to net present value	(999,249.00)	(622,162.00)
Less allowance for uncollectible contributions	<u>(204,258.00)</u>	<u>(113,000.00)</u>
 Total pledges receivable, net	 <u>\$ 15,900,186.00</u>	 <u>\$ 10,670,221.00</u>

Long-term liabilities - Long-term liabilities at June 30, 2007, consisted of the following:

	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:		
Notes	<u>\$ 136,535.00</u>	<u>\$ -</u>

Long-term liabilities at June 30, 2006, consisted of the following:

	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:		
Notes	<u>\$ 165,000.00</u>	<u>\$ -</u>

Notes Payable- The notes payable to Christ is Our Salvation Foundation (C.I.O.S.) is non-interest bearing. During the year ended June 30, 2004, C.I.O.S. requested repayment of the note according to the terms of the agreement. According to the agreement, the foundation is not obligated to repay the note at a rate greater than the rate at which the foundation receives repayments from the University of Memphis on loans made to students that were funded with C.I.O.S. loan proceeds. The balance owed by the foundation was \$96,525.00 at June 30, 2007, and \$135,000.00 at June 30, 2006.

The note payable to donors to assist the University of Memphis Law School in preparing for a capital campaign is non-interest bearing. The foundation can borrow up to \$100,000.00 under this loan agreement. Repayment of the note will be made only when adequate funds have been raised through the capital campaign and are available to repay the entire note and only upon written request by the Dean of the

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

University of Memphis Law School. The balance owed by the foundation was \$40,000.00 at June 30, 2007, and \$30,000 at June 30, 2006.

SUPPLEMENTARY INFORMATION
TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENTS OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	\$ 11,926,966.00	\$ 7,659,460.68
Payments to suppliers and vendors	(1,840,356.00)	(3,342,212.87)
Payments to The University of Memphis	(8,579,436.00)	(3,848,607.25)
Other operating revenue	-	21,684.44
Net cash provided (used) by operating activities	<u>1,507,174.00</u>	<u>490,325.00</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	2,668,733.00	1,986,960.00
Other noncapital financing receipts (payments)	(28,475.00)	-
Net cash provided (used) by noncapital financing activities	<u>2,640,258.00</u>	<u>1,986,960.00</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	13,710,898.00	7,119,801.00
Purchases of investments	(13,273,513.00)	(8,844,582.00)
Net cash provided (used) by investing activities	<u>437,385.00</u>	<u>(1,724,781.00)</u>
Net increase (decrease) in cash and cash equivalents	4,584,817.00	752,504.00
Cash and cash equivalents - beginning of year	6,705,637.00	5,953,133.00
Cash and cash equivalents - end of year (Note 17)	<u>\$ 11,290,454.00</u>	<u>\$ 6,705,637.00</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating income	\$ 6,704,864.00	\$ 908,659.00
Adjustments to reconcile operating loss to net cash used by operating activities:		
Change in assets and liabilities:		
Receivables, net	(5,229,965.00)	(1,302,242.00)
Prepaid/deferred items	-	10,353.00
Other assets	(6,532.00)	(7,035.00)
Accounts payable	8,488.00	767,844.00
Accrued liabilities	(6,633.00)	(7,110.00)
Deferred revenues	36,952.00	119,856.00
Net cash used by operating activities	<u>\$ 1,507,174.00</u>	<u>\$ 490,325.00</u>
Noncash transactions		
Unrealized gains on investments	\$ 10,470,254.00	\$ 1,555,707.00
Bad debt expense	\$ 91,932.00	\$ 108,434.00