

AUDIT REPORT

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

**For the Year Ended
June 30, 2008**



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

**Department of Audit
Division of State Audit**



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

Kandi B. Thomas, CPA, CFE
Assistant Director

Debra D. Bloomingburg, CPA, CFE
Audit Manager

Jeffrey Lafever, CFE
In-Charge Auditor

Brandi Boles
Tiffany Tanner, CFE
Michael Wilbanks, CFE
Staff Auditors

Gerry Boaz, CPA
Technical Manager

Amy Brack
Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-1402
(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
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT**

**SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765**

February 12, 2009

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 C. 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, 2008. 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, reading "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA
Director

AAH/ddb
08/093

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, 2008

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, 2008

TABLE OF CONTENTS

| | <u>Exhibit</u> | <u>Page</u> |
|--|----------------|-------------|
| INTRODUCTION | | 1 |
| 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 | | 3 |
| 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> | | 5 |
| FINANCIAL SECTION | | 8 |
| Independent Auditor's Report | | 8 |
| Management's Discussion and Analysis | | 11 |

TABLE OF CONTENTS (CONT.)

| | <u>Exhibit</u> | <u>Page</u> |
|--|----------------|-------------|
| Financial Statements | | 27 |
| Statement of Net Assets | A | 27 |
| Statement of Revenues, Expenses, and Changes in Net Assets | B | 28 |
| Statement of Cash Flows | C | 29 |
| Notes to the Financial Statements | | 31 |
| Required Supplementary Information | | 52 |
| OPEB Schedule of Funding Progress | | 52 |
| Supplementary Information | | 53 |
| Schedule of Cash Flows - Component Unit | | 53 |

**Tennessee Board of Regents
The University of Memphis
For the Year Ended June 30, 2008**

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 Executive 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, 2007, through June 30, 2008, 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 generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 2008. 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, 2008, 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 generally accepted government auditing standards.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under generally accepted 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 37243-1402
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 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 C. Raines, President
The University of Memphis
Memphis, Tennessee 38152

Ladies and Gentlemen:

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, 2008, and have issued our report thereon dated December 10, 2008. Our report was modified to include a reference to other auditors. During the year ended June 30, 2008, the university implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. 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 generally accepted government auditing standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the university's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the 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 generally accepted government auditing standards.

We noted certain other less significant instances of noncompliance, which we have reported to the university's management in a separate letter.

December 10, 2008
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." with a stylized flourish at the end.

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 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

December 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 C. Raines, President

The University of Memphis

Memphis, Tennessee 38152

Ladies and Gentlemen:

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 year ended June 30, 2008, 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 audit. 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 report thereon has 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 report of the 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 generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of The University of Memphis, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only The University of Memphis. They do not purport to, and do not present fairly the financial position of the Tennessee Board of Regents, as of June 30, 2008, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report 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, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16, during the year ended June 30, 2008, the university implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*.

The management's discussion and analysis and the schedule of funding progress on pages 11 through 26 and page 52 are not a required part of the basic financial statements but are 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 audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 53 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information

December 10, 2008
Page Three

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 generally accepted government auditing standards, we have also issued our report dated December 10, 2008, 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 generally accepted government auditing standards and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

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

Arthur A. Hayes, Jr., CPA
Director

AAH/ddb

**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis
June 30, 2008**

This section of the University of Memphis' annual financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2008, with comparative information presented for the fiscal year ended June 30, 2007. 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 institution for any lawful purpose of the institution.

**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2008**

Net Assets - The University
(in thousands of dollars)

| | <u>2008</u> | <u>2007</u> |
|--|--------------------------|--------------------------|
| Assets | | |
| Current assets | \$ 88,514 | \$ 72,370 |
| Capital assets, net | 258,758 | 239,674 |
| Other assets | <u>52,586</u> | <u>56,353</u> |
| Total | <u>\$ 399,858</u> | <u>\$ 368,397</u> |
| Liabilities | | |
| Current liabilities | \$ 43,028 | \$ 41,375 |
| Noncurrent liabilities | <u>75,768</u> | <u>61,255</u> |
| Total Liabilities | <u>\$ 118,796</u> | <u>\$ 102,630</u> |
| Net Assets: | | |
| Invested in capital assets, net of related debt | \$ 193,215 | \$ 184,217 |
| Restricted - nonexpendable | 3,634 | 3,533 |
| Restricted - expendable | 13,673 | 14,433 |
| Unrestricted | <u>70,540</u> | <u>63,584</u> |
| Total Net Assets | <u>\$ 281,062</u> | <u>\$ 265,767</u> |

Comparison of FY 2008 to FY 2007

- Current assets increased by \$16.1 million primarily due to an increase in cash equivalents, short-term investments, and accounts receivable. The university is relying more heavily on short-term investments during the current economic downturn, which has caused the university to have more cash equivalents and short-term investments on hand. Additionally, accounts receivable increased by \$4.7 million because of an advancement initiative directing gifts to the foundation.
- Net capital assets increased by \$19 million primarily due to the construction of the new University Center and the Downtown Law School renovation project.
- Noncurrent liabilities increased by \$14.5 million primarily from an increase in debt related to the construction of the new University Center. Additionally, a \$4.4 million liability was recorded for OPEB due to the implementation of GASB 45.
- The \$7 million increase in unrestricted net assets was a result of locally funded capital projects, primarily the new University Center construction, funded with 40% local funds.

**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2008**

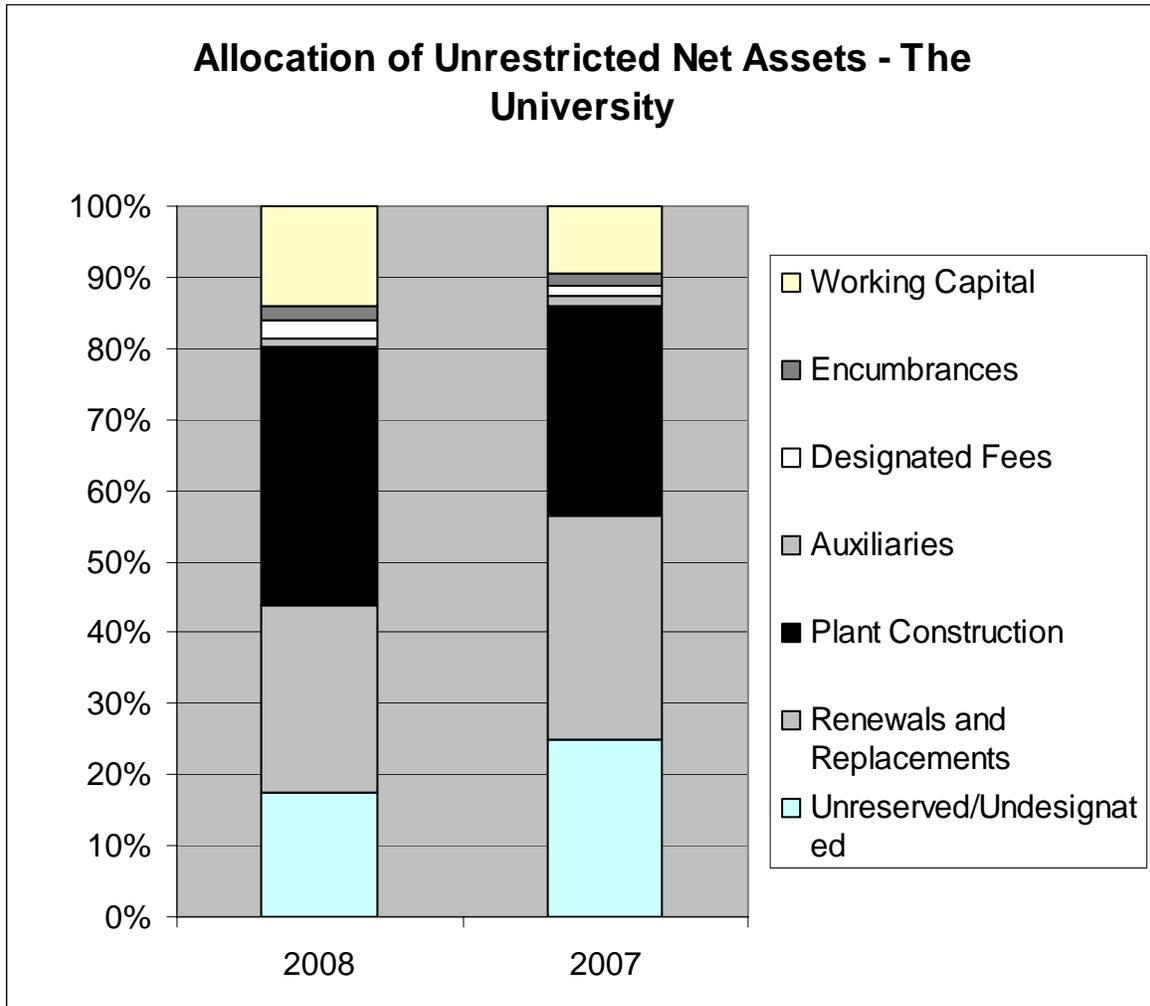
| Net Assets - The Foundation | | |
|------------------------------------|-------------------|-------------------|
| (in thousands of dollars) | | |
| | <u>2008</u> | <u>2007</u> |
| Assets: | | |
| Current assets | \$ 33,446 | \$ 18,162 |
| Noncurrent assets | 83,572 | 95,156 |
| Total Assets | <u>\$ 117,018</u> | <u>\$ 113,318</u> |
| Liabilities: | | |
| Current liabilities | \$ 7,668 | \$ 2,752 |
| Noncurrent liabilities | 107 | 137 |
| Total Liabilities | <u>\$ 7,775</u> | <u>\$ 2,889</u> |
| Net Assets: | | |
| Restricted - nonexpendable | \$ 45,415 | \$ 43,816 |
| Restricted - expendable | 59,196 | 62,912 |
| Unrestricted | 4,632 | 3,701 |
| Total Net Assets | <u>\$ 109,243</u> | <u>\$ 110,429</u> |

Comparison of FY 2008 to FY 2007

- The increase in current assets of \$15.3 million and the decrease in noncurrent assets of \$11.6 million are principally due to the foundation investing significantly more assets in money market funds in 2008 versus 2007.
- The increase in total assets of \$7.8 million is principally due to the university's emphasis on directing gifts to the foundation.
- The \$4.9 million increase in current liabilities is principally due to a June 30, 2008, payable from the Tiger Scholarship Fund to The University of Memphis for scholarships.
- The decrease in noncurrent liabilities is due to debt repayment.
- The increase in unrestricted net assets is due to a \$0.4 million increase in the foundation operating fund account balance as a result of foundation revenues from current expendable investments and administrative fees exceeding foundation expenses.

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:

**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2008**



Comparison of FY 2008 to FY 2007

- The increase in the working capital designated fund balance is primarily related to the increase in accounts receivable from the foundation. This receivable increased primarily because of the university initiative to direct gifts to the University of Memphis Foundation.
- The increase in the plant construction designated fund balance is a result of construction of the new University Center and the Downtown Law School renovation project.

**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2008**

- The decrease in the renewal and replacement fund balance is a result of transferring funds for the University Center to unexpended plant to fund construction costs of the new facility.
- The unrestricted/undesignated fund balance decreased as a result of the OPEB allocation recorded to comply with GASB 45 in FY 2008.

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, 2008**

| Changes in Net Assets - The University | | |
|---|---------------------|---------------------|
| (in thousands of dollars) | | |
| | <u>2008</u> | <u>2007</u> |
| Operating revenues: | | |
| Net tuition and fees | \$ 91,764 | \$ 92,039 |
| Grants and contracts | 43,083 | 42,913 |
| Auxiliary | 15,571 | 14,711 |
| Other | 26,887 | 23,363 |
| Total operating revenues | <u>\$ 177,305</u> | <u>\$ 173,026</u> |
| Operating expenses | <u>\$ (359,593)</u> | <u>\$ (341,279)</u> |
| Operating loss | <u>\$ (182,288)</u> | <u>\$ (168,253)</u> |
| Nonoperating revenues and expenses: | | |
| State appropriations | \$ 126,873 | \$ 119,954 |
| Gifts | 15,822 | 13,887 |
| Investment income | 6,240 | 6,438 |
| Other revenues and expenses | 37,909 | 36,044 |
| Total nonoperating revenues and expenses | <u>\$ 186,844</u> | <u>\$ 176,323</u> |
| Income (loss) before other revenues, expenses, gains or losses | \$ 4,556 | \$ 8,070 |
| Other revenues, expenses, gains or losses: | | |
| Capital appropriations | \$ 11,054 | \$ 5,150 |
| Capital grants and gifts | 32 | 502 |
| Other | (347) | (1,812) |
| Total other revenues, expenses, gains or losses | <u>\$ 10,739</u> | <u>\$ 3,840</u> |
| Increase in net assets | <u>\$ 15,295</u> | <u>\$ 11,910</u> |
| Net asset at beginning of year | \$ 265,767 | \$ 253,857 |
| Net assets at end of year | <u>\$ 281,062</u> | <u>\$ 265,767</u> |

Comparison of FY 2008 to FY 2007

- Operating revenues increased by \$4 million primarily as a result of increased athletic ticket sales. The University of Memphis basketball team played for the National Championship in FY 2008.
- Operating expenses increased \$18.3 million primarily due to a 3% across the board salary increase effective July 1, 2007, in addition to a merit increase for faculty and staff that

**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2008**

averaged 2% effective January 1, 2008. Fringe benefits increased proportionally in relation to salary increases as well as from OPEB expense recorded in accordance with requirements of GASB 45.

- Gifts increased primarily due to one-time gifts in-kind, specifically engineering software as well as various literary collections, papers, and works of art.
- Capital appropriations increased \$5.9 million primarily due to state appropriated construction funding for the new Downtown Law School as well as the heating/cooling plant variable flow pumping project (energy efficiency project) on the main campus.

Changes in Net Assets - The Foundation
(in thousands of dollars)

| | <u>2008</u> | <u>2007</u> |
|---|--------------------------|--------------------------|
| Operating revenues and expenses: | | |
| Gifts and contributions | \$ 22,544 | \$ 17,120 |
| Operating expenses | <u>(24,474)</u> | <u>(10,415)</u> |
| Operating income | <u>\$ (1,930)</u> | <u>\$ 6,705</u> |
| Nonoperating revenues and expenses: | | |
| Investment income | <u>\$ (412)</u> | <u>\$ 13,710</u> |
| Income before other revenues, expenses, gains, or losses | <u>\$ (2,342)</u> | <u>\$ 20,415</u> |
| Other revenues, expenses, gains, or losses: | <u>\$ 1,156</u> | <u>\$ 2,668</u> |
| Increase in net assets | <u>\$ (1,186)</u> | <u>\$ 23,083</u> |
| Net assets at beginning year | <u>110,429</u> | <u>87,346</u> |
| Net assets at end of year | <u><u>\$ 109,243</u></u> | <u><u>\$ 110,429</u></u> |

- Gifts increased \$5.4 million in FY 2008 principally due to the University Advancement Initiative to direct gifts to the foundation.
- Operating expenses increased \$14 million principally due to costs associated with the university's acquisition of the downtown post office for the new law school (\$5.3 million), scholarship expenses related to the Tiger Scholarship Fund account (\$6.1

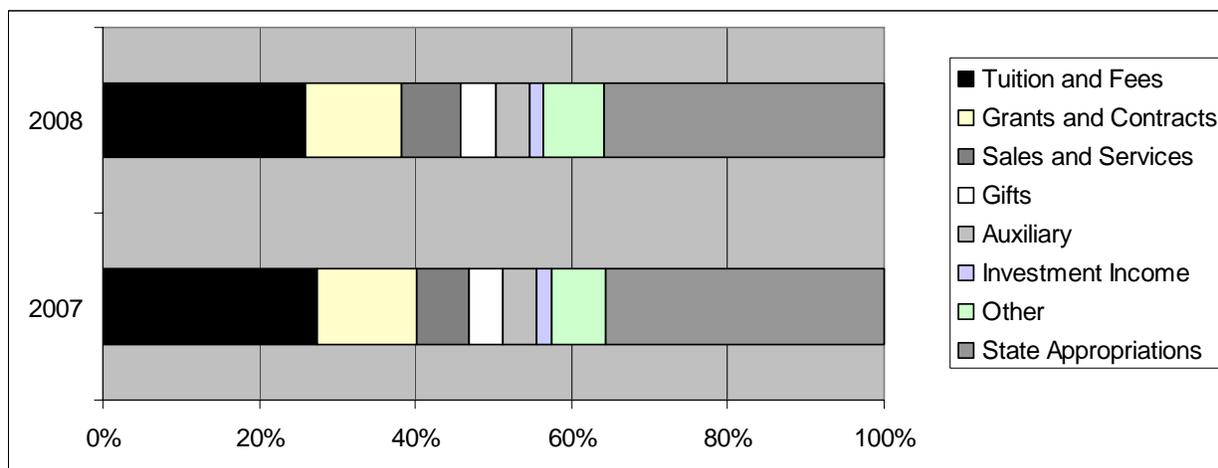
**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2008**

million), and construction/renovation projects principally associated with the athletic department (\$2.1 million).

- Investment income declined due to unfavorable market conditions during 2008 (\$14.1 million).

Revenues

The following is a graphical illustration of university revenues by source (both operating and nonoperating), which are used to fund the university's operating activities for the years ended June 30, 2008, and June 30, 2007 (amounts are presented in thousands of dollars).



Comparison of FY 2008 to FY 2007

- The percentages in each category for FY 2008 were consistent with the prior year, with no substantial changes.

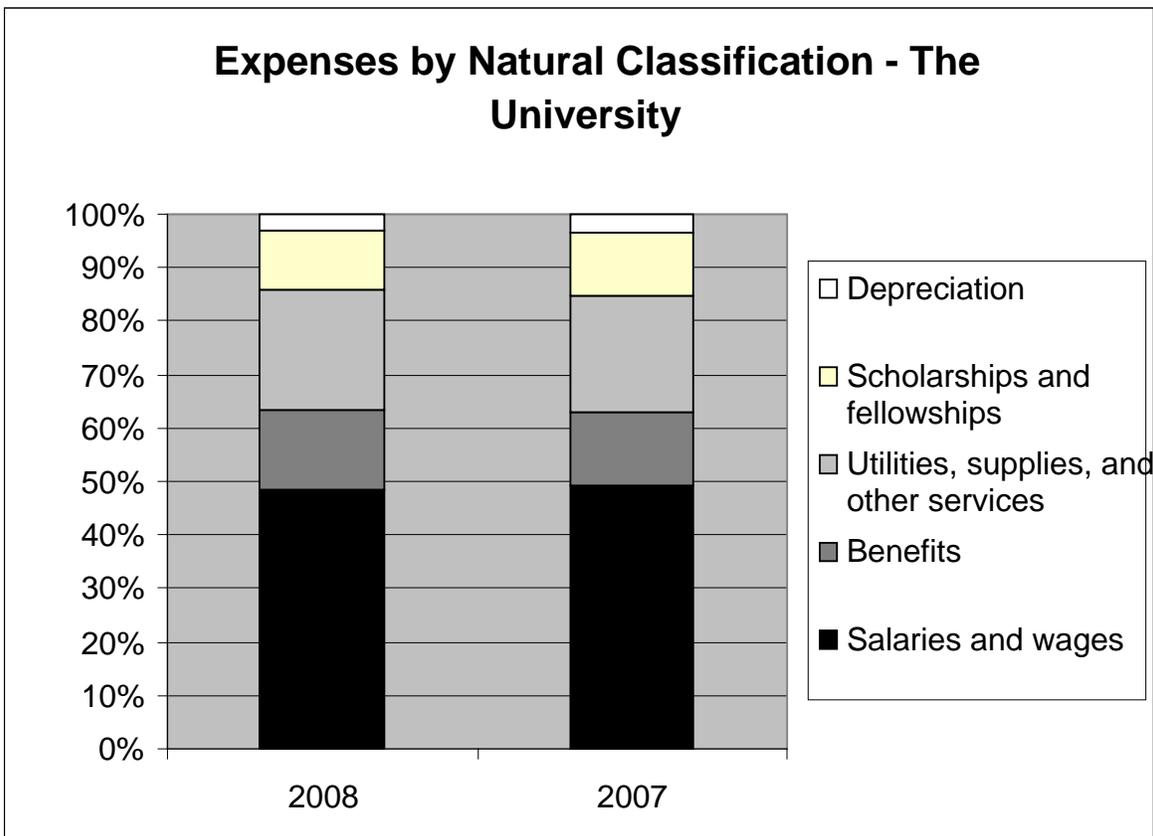
Expenses

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

**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2008**

Natural Classification - The University
(in thousands of dollars)

| | 2008 | 2007 |
|---|------------|------------|
| Operating Expenses: | | |
| Salaries and wages | \$ 174,052 | \$ 167,455 |
| Benefits | 54,390 | 47,071 |
| Utilities, supplies, and other services | 80,390 | 74,017 |
| Scholarships and fellowships | 39,490 | 41,244 |
| Depreciation | 11,271 | 11,492 |
| Total Operating Expenses | \$ 359,593 | \$ 341,279 |



**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2008**

Comparison of FY 2008 to FY 2007

- Overall operating expenses for the university rose by 5% over the prior year. Salary expenses increased as a result of a 3% across the board raise effective July 1, 2007, in addition to a merit increase for faculty and staff that averaged 2% effective January 1, 2008. Fringe benefit expenses increased proportionally to salaries in addition to a \$4.4 million increase related to recognition of OPEB reported in FY 2008 in compliance with GASB 45. However, operating expenses for the university in FY 2008 remained relatively consistent when compared to the prior year as a percent to total.

Natural Classification - The Foundation
(in thousands of dollars)

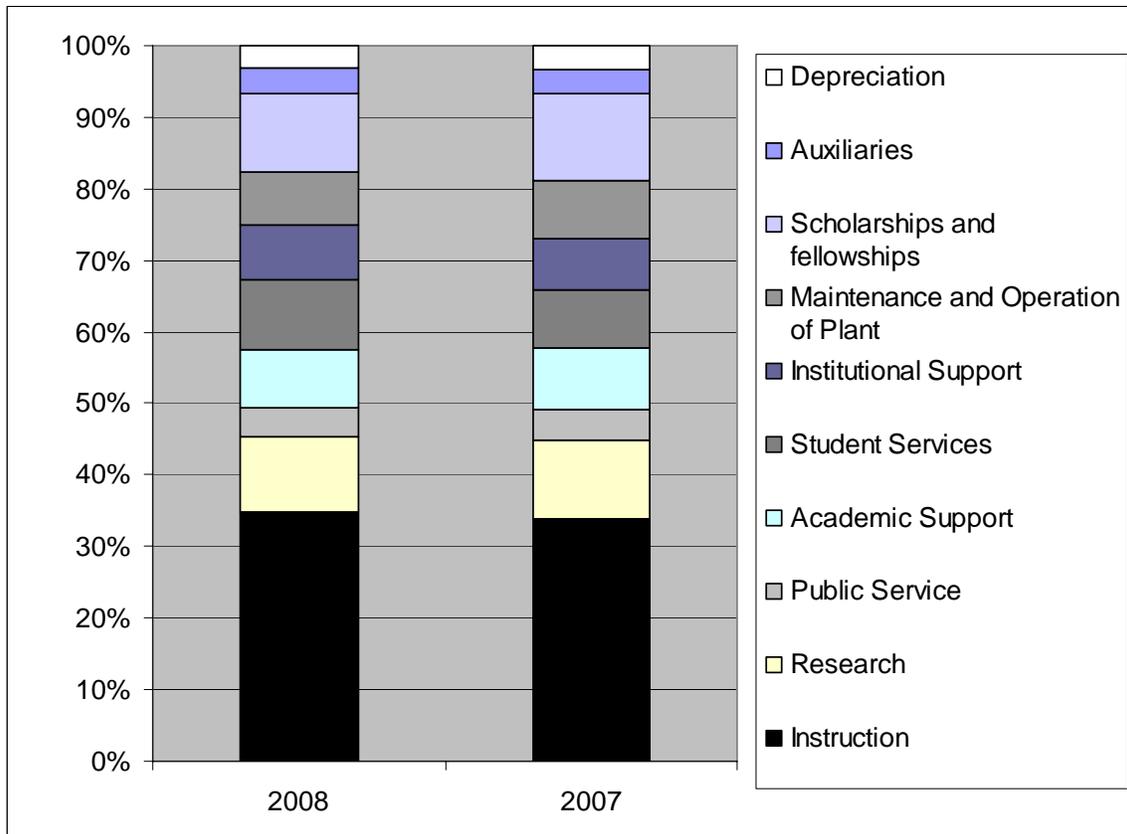
| | 2008 | 2007 |
|---|-----------|-----------|
| Operating Expenses: | | |
| Utilities, supplies, and other services | \$ 7,563 | \$ 1,834 |
| Payment to or on behalf of the University | 16,911 | 8,581 |
| Total Operating Expenses | \$ 24,474 | \$ 10,415 |

- Utilities, supplies, and other services for the foundation increased by \$5.7 million principally due to costs associated with the university's acquisition of the downtown post office for the new Law School (\$5.3 million) and construction/renovation projects principally associated with the Athletic Department (\$2.1 million). The foundation's direct support of the university increased by \$8.3 million principally due to scholarship expenditures from the Tiger Scholarship Fund account (\$6.1 million).

**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2008**

Program Classification - The University
(in thousands of dollars)

| | 2008 | 2007 |
|------------------------------------|-------------------|-------------------|
| Operating Expenses: | | |
| Instruction | \$ 125,408 | \$ 115,499 |
| Research | 38,010 | 37,957 |
| Public Service | 14,399 | 14,232 |
| Academic Support | 29,104 | 29,238 |
| Student Services | 35,294 | 28,062 |
| Institutional Support | 27,388 | 24,208 |
| Maintenance and Operation of Plant | 26,712 | 28,075 |
| Scholarships and Fellowships | 39,490 | 41,244 |
| Auxiliaries | 12,517 | 11,272 |
| Depreciation | 11,271 | 11,492 |
| Total Operating Expenses | \$ 359,593 | \$ 341,279 |



**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2008**

Comparison of FY 2008 to FY 2007

- There was a general increase in expenses due to the rise in salary and benefit expenses primarily driven by a 3% across the board raise effective July 1, 2007, in addition to a merit increase for faculty and staff that averaged 2% effective January 1, 2008. Fringe benefit expenses increased proportionally to salaries in addition to a \$4.4 million increase related to recognition of OPEB reported in FY 2008 to be in compliance with GASB 45. Operating expenses by function for the university in FY 2008 remained relatively consistent when compared to the prior year as a percent to total.
- Student services expenses increased by \$7 million over the prior year. In addition to the cost associated with salary and benefit increases noted above, other increases are attributed to the cost of supporting the basketball team as the University of Memphis played for the National Championship in FY 2008.
- Institutional support expenses increased by \$3.1 million over the prior year. This was primarily due to costs associated with salary and benefit increases noted above as well as addition of a new Vice President area – Vice President for Communications, Public Relations, and Marketing.
- Auxiliary expenses increased by \$1.2 million primarily due to increased participation in the meal plan as well as significant noncapital repairs to student residence facilities.

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.

**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2008**

Cash Flows - The University
(in thousands of dollars)

| | <u>2008</u> | <u>2007</u> |
|--|-------------------------|-------------------------|
| Cash provided (used) by: | | |
| Operating activities | \$ (170,796) | \$ (165,012) |
| Noncapital financing activities | 185,341 | 174,890 |
| Capital and related financing activities | (12,476) | (18,646) |
| Investing activities | <u>9,531</u> | <u>11,586</u> |
| Net increase (decrease) in cash | <u>\$ 11,600</u> | <u>\$ 2,818</u> |
| Cash, beginning of year | <u>\$ 60,494</u> | <u>\$ 57,676</u> |
| Cash, end of year | <u><u>\$ 72,094</u></u> | <u><u>\$ 60,494</u></u> |

Comparison of FY 2008 to FY 2007

- Cash outlays from operating activities increased \$5.8 million primarily due to increased payments to employees that resulted from a 3% across the board raise effective July 1, 2007, and an average 2% merit increase to faculty and staff effective January 1, 2008.
- Cash provided by noncapital financing activities increased \$10.4 million because of increased state appropriations, gifts, and grants.
- Cash outlays for capital and related financing activities decreased \$6.1 million in FY 2008 primarily due to two large capital projects, the University Center and West Hall that are being paid with debt rather than cash.
- Cash from investing activities decreased as a result of the university investing more in short term investments classified as cash equivalents in FY 2008 rather than long-term investments due to the volatility of the market. The university is relying more heavily on short-term investments during the current economic downturn, which has caused the university to have more cash and cash equivalents on hand.

**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2008**

Capital Assets and Debt Administration

Capital Assets

The University of Memphis had \$258.7 million invested in capital assets, net of accumulated depreciation of \$162.3 million at June 30, 2008; and \$239.7 million invested in capital assets, net of accumulated depreciation of \$156.8 million at June 30, 2007. Depreciation charges totaled \$11.2 million and \$11.5 million for the years ended June 30, 2008, and June 30, 2007, respectively. Details of these assets are shown below.

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

| | <u>2008</u> | <u>2007</u> |
|----------------------|-------------------|-------------------|
| Land | \$ 16,600 | \$ 15,770 |
| Land improvements | 23,559 | 7,855 |
| Buildings | 155,834 | 134,386 |
| Equipment | 11,315 | 12,725 |
| Library holdings | 16,441 | 16,002 |
| Software | 5,773 | 5,043 |
| Projects in progress | 29,236 | 47,894 |
| Total | <u>\$ 258,758</u> | <u>\$ 239,675</u> |

The university purchased nine properties in FY 2008 at a cost of \$1.6 million, reflected above in both land and buildings, financed with State of Tennessee General Obligation Bonds/Bond Anticipation Notes. The university has a line of credit of \$7 million to spend on properties for expansion purposes as disclosed in the university's Master Plan. The outstanding balance on this debt may not exceed \$4 million at any point in time.

In FY 2008, projects in progress decreased by \$18.6 million as Rawls Hall and Richardson Towers fire safety projects, Millington upgrades, women's softball stadium as well as other improvements were completed and transferred to buildings and land improvements.

Planned capital activity for FY 2009 includes acquisition of properties for expansion purposes funded through General Obligation Bonds debt (up to \$4 million debt at any point in time, \$7 million total.)

Also planned for FY 2009 is the substantial completion of the new University Center (\$45.9 million), West Hall Dormitory (\$25.9 million) and renovated Downtown Law School (\$42

**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2008**

million). The University Center and West Hall are primarily funded with TSSBA debt. The Law School is funded primarily with State Appropriated Capital Outlay funds.

The completion of the South Campus Electric and Gas Modifications project (\$5.1 million), funded with State Capital Maintenance funds, is expected in FY 2009.

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

Debt

The university had \$65.5 million and \$55.5 million in debt outstanding at June 30, 2008, and June 30, 2007, respectively. The table below summarizes these amounts by type of debt instrument.

Outstanding Debt – The University
(in thousand of dollars)

| | 2008 | 2007 |
|------------------------|------------------|------------------|
| Bonds payable | \$ 50,012 | \$ 53,546 |
| TSSBA commercial paper | 13,864 | 1,911 |
| GO commercial paper | <u>1,668</u> | <u>-</u> |
| Total | <u>\$ 65,544</u> | <u>\$ 55,457</u> |

Comparison of FY 2008 to FY 2007

- Commercial paper increased due to current construction projects including the new University Center and West Hall.
- General obligation commercial paper debt increased as a result of debt incurred to purchase nine properties for the expansion of the university footprint in accordance with the university's Master Plan.

More detailed information about the university's long-term liabilities is presented in Note 6 to the financial statements.

**Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis (Cont.)
June 30, 2008**

Economic Factors That Will Affect the Future

The recent economic downturn has impacted the state's revenue collections and could have an impact on future funding both in operating appropriations and future building projects.

The university has implemented a 7% increase in student fees for FY 2009. 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; Administration Building, Room 276; Memphis, Tennessee 38152-3370.

**TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF NET ASSETS
JUNE 30, 2008**

| | Institution | Component Unit |
|---|--------------------------|--------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents (Notes 2 and 19) | \$ 27,234,011.43 | \$ 25,639,185.00 |
| Short-term investments (Note 3) | 29,784,912.49 | - |
| Accounts, notes, and grants receivable (net) (Note 4) | 30,144,006.18 | - |
| Pledges receivable (net) (Note 19) | - | 7,742,669.00 |
| Inventories | 577,529.45 | - |
| Prepaid expenses and deferred charges | 406,726.98 | - |
| Accrued interest receivable | 366,595.24 | 64,742.00 |
| Total current assets | <u>88,513,781.77</u> | <u>33,446,596.00</u> |
| Noncurrent assets: | | |
| Cash and cash equivalents (Note 2) | 44,859,707.57 | - |
| Investments (Notes 3 and 19) | 3,162,713.00 | 73,567,594.00 |
| Accounts, notes, and grants receivable (net) (Note 4) | 4,562,057.10 | - |
| Pledges receivable (net) (Note 19) | - | 9,304,715.00 |
| Capital assets (net) (Note 5) | 258,758,219.20 | - |
| Other assets | 2,500.00 | 699,511.00 |
| Total noncurrent assets | <u>311,345,196.87</u> | <u>83,571,820.00</u> |
| Total assets | <u>399,858,978.64</u> | <u>117,018,416.00</u> |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | 5,594,281.24 | 6,890,696.00 |
| Accrued liabilities | 19,793,055.52 | 212,862.00 |
| Student deposits | 358,956.17 | - |
| Deferred revenue | 9,943,380.29 | 564,751.00 |
| Compensated absences (Note 6) | 2,279,497.99 | - |
| Accrued interest payable | 433,205.22 | - |
| Long-term liabilities, current portion (Note 6) | 3,793,869.74 | - |
| Deposits held in custody for others | 789,477.44 | - |
| Other liabilities | 42,479.01 | - |
| Total current liabilities | <u>43,028,202.62</u> | <u>7,668,309.00</u> |
| Noncurrent liabilities: | | |
| Notes payable (Note 18) | - | 107,336.00 |
| Compensated absences (Note 6) | 6,642,940.45 | - |
| Long-term liabilities (Note 6) | 61,749,690.34 | - |
| Due to grantors (Note 6) | 2,917,466.84 | - |
| Net OPEB obligation (Notes 6 and 10) | 4,458,254.55 | - |
| Total noncurrent liabilities | <u>75,768,352.18</u> | <u>107,336.00</u> |
| Total liabilities | <u>118,796,554.80</u> | <u>7,775,645.00</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 193,214,659.12 | - |
| Restricted for: | | |
| Nonexpendable: | | |
| Scholarships and fellowships | 1,377,734.16 | - |
| Other | 2,256,467.06 | 45,414,996.00 |
| Expendable: | | |
| Scholarships and fellowships | 1,673,760.67 | 10,801,051.78 |
| Research | 1,296,905.21 | 252,725.34 |
| Instructional department uses | 2,185,630.94 | 6,637,453.06 |
| Loans | 3,477,032.29 | - |
| Capital projects | 364,781.63 | - |
| Debt service | 3,301,789.67 | - |
| Other | 1,373,613.41 | 41,505,031.82 |
| Unrestricted (Note 8) | 70,540,049.68 | 4,631,513.00 |
| Total net assets | <u>\$ 281,062,423.84</u> | <u>\$ 109,242,771.00</u> |

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

**TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008**

| | <u>Institution</u> | <u>Component Unit</u> |
|---|--------------------------|--------------------------|
| REVENUES | | |
| Operating revenues: | | |
| Student tuition and fees (net of scholarship allowances of \$27,570,771.00) | \$ 91,764,412.33 | \$ - |
| Gifts and contributions | - | 22,543,950.00 |
| Governmental grants and contracts | 36,076,282.68 | - |
| Nongovernmental grants and contracts | 7,006,992.58 | - |
| Sales and services of educational departments | 26,776,705.10 | - |
| Auxiliary enterprises: | | |
| Residential life (net of scholarship allowances of \$150,806.00) | 10,274,526.11 | - |
| Bookstore | 1,104,308.74 | - |
| Food service | 576,410.59 | - |
| Other auxiliaries | 3,616,254.55 | - |
| Interest earned on loans to students | 109,376.69 | - |
| Total operating revenues | <u>177,305,269.37</u> | <u>22,543,950.00</u> |
| EXPENSES | | |
| Operating expenses (Note 15): | | |
| Salaries and wages | 174,052,380.13 | - |
| Benefits | 54,389,644.68 | - |
| Utilities, supplies, and other services | 80,390,248.93 | 7,562,885.00 |
| Scholarships and fellowships | 39,490,254.12 | - |
| Depreciation expense | 11,270,569.40 | - |
| Payments to or on behalf of The University of Memphis (Note 19) | - | 16,911,429.00 |
| Total operating expenses | <u>359,593,097.26</u> | <u>24,474,314.00</u> |
| Operating income (loss) | <u>(182,287,827.89)</u> | <u>(1,930,364.00)</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| State appropriations | 126,872,847.03 | - |
| Gifts (including \$12,916,360.00 from The University of Memphis Foundation) | 15,822,768.13 | - |
| Grants and contracts | 36,873,154.10 | - |
| Investment income | 6,239,931.80 | (411,921.00) |
| Interest on capital asset-related debt | (2,859,278.25) | - |
| Bond issuance expense | 9,806.58 | - |
| Other nonoperating revenues | 3,885,007.13 | - |
| Net nonoperating revenues | <u>186,844,236.52</u> | <u>(411,921.00)</u> |
| Income (loss) before other revenues, expenses, gains, or losses | <u>4,556,408.63</u> | <u>(2,342,285.00)</u> |
| Capital appropriations | 11,054,313.72 | - |
| Capital grants and gifts | 31,360.60 | - |
| Additions to permanent endowments | 28,748.44 | 1,156,136.00 |
| Other | (375,426.83) | - |
| Total other revenues | <u>10,738,995.93</u> | <u>1,156,136.00</u> |
| Increase (decrease) in net assets | <u>15,295,404.56</u> | <u>(1,186,149.00)</u> |
| NET ASSETS | | |
| Net assets - beginning of year | 265,767,019.28 | 110,428,920.00 |
| Net assets - end of year | <u>\$ 281,062,423.84</u> | <u>\$ 109,242,771.00</u> |

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

**TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008**

| CASH FLOWS FROM OPERATING ACTIVITIES | |
|---|-------------------------|
| Tuition and fees | \$ 90,924,306.38 |
| Grants and contracts | 42,725,363.77 |
| Sales and services of educational activities | 22,267,510.79 |
| Payments to suppliers and vendors | (78,325,182.26) |
| Payments to employees | (173,705,747.06) |
| Payments for benefits | (51,083,400.54) |
| Payments for scholarships and fellowships | (39,490,254.12) |
| Loans issued to students and employees | (1,003,293.57) |
| Collection of loans from students and employees | 852,564.69 |
| Interest earned on loans to students | 109,376.69 |
| Auxiliary enterprise charges: | |
| Residence halls | 10,603,538.51 |
| Bookstore | 1,104,308.74 |
| Food services | 576,410.59 |
| Other auxiliaries | 3,648,088.03 |
| Net cash used by operating activities | <u>(170,796,409.36)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| State appropriations | 126,849,947.03 |
| Gifts and grants received for other than capital purposes, including \$8,100,612.00 from The University of Memphis Foundation | 54,374,593.66 |
| Private gifts for endowment purposes | 28,748.44 |
| Federal student loan receipts | 83,149,679.00 |
| Federal student loan disbursements | (83,149,679.00) |
| Changes in deposits held for others | 172,389.47 |
| Other noncapital financing receipts | 3,915,809.57 |
| Net cash provided by noncapital financing activities | <u>185,341,488.17</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Proceeds from capital debt | 13,675,519.22 |
| Capital appropriations | 11,054,313.72 |
| Proceeds from sale of capital assets | 29,057.82 |
| Purchases of capital assets and construction | (30,827,199.59) |
| Principal paid on capital debt and leases | (3,589,369.37) |
| Interest paid on capital debt and leases | (2,872,238.43) |
| Bond issue cost paid on new debt issue | 9,806.58 |
| Other capital and related financing receipts | 43,669.21 |
| Net cash used by capital and related financing activities | <u>(12,476,440.84)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Proceeds from sales and maturities of investments | 573,480,705.92 |
| Income on investments | 6,660,743.00 |
| Purchase of investments | (570,610,240.04) |
| Net cash provided by investing activities | <u>9,531,208.88</u> |
| Net increase in cash and cash equivalents | 11,599,846.85 |
| Cash and cash equivalents - beginning of year | 60,493,872.15 |
| Cash and cash equivalents - end of year (Note 2) | <u>\$ 72,093,719.00</u> |

**TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008**

| | |
|---|----------------------------|
| Reconciliation of operating loss to net cash used by operating activities: | |
| Operating loss | \$ (182,287,827.89) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | |
| Depreciation expense | 11,270,569.40 |
| Change in assets and liabilities: | |
| Receivables, net | (5,354,170.95) |
| Inventories | (98,856.21) |
| Prepaid/deferred items | 81,993.92 |
| Accounts payable | (97,812.98) |
| Accrued liabilities | 153,380.47 |
| Deferred revenue | 888,437.51 |
| Deposits | (128,884.79) |
| Compensated absences | 318,507.61 |
| Net OPEB obligation | 4,458,254.55 |
| Net cash used by operating activities | <u>\$ (170,796,409.36)</u> |
| Noncash transactions | |
| Gifts in-kind | \$ 3,074,908.44 |
| Gifts in-kind - capital | \$ 31,360.60 |
| Unrealized gains/losses on investments | \$ 161,200.27 |
| Loss on disposal of capital assets | \$ 375,426.83 |
| Bad debt expense | \$ 1,036,619.98 |

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, 2008**

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 financial statements present only that portion of the Tennessee Board of Regents' activities that is attributable to the transactions of The University of Memphis.

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 19 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.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2008**

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 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. Items included in inventory 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, 2008**

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, 2008**

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, 2008, cash and cash equivalents consisted of \$18,851,637.61 in bank accounts, \$71,895.00 of petty cash on hand, \$24,921,830.20 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, \$4,618,691.58 in LGIP deposits for capital projects, and \$23,629,664.61 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 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, 2008**

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, 2008, the university had the following investments and maturities.

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Investment Maturities (in Years)</u> | |
|---|--------------------------------|---|-------------------------------|
| | | <u>Less than 1</u> | <u>1 to 5</u> |
| U.S. Treasury notes | \$ 31,689,923.72 | \$ 28,527,210.72 | \$ 3,162,713.00 |
| Commercial paper | 24,687,366.38 | 24,687,366.38 | - |
| Certificates of deposit | 200,000.00 | 200,000.00 | - |
| Less amounts reported as cash and cash equivalents: | | | |
| Commercial paper | <u>(23,629,664.61)</u> | <u>(23,629,664.61)</u> | <u>-</u> |
| Total | <u>\$ 32,947,625.49</u> | <u>\$ 29,784,912.49</u> | <u>\$ 3,162,713.00</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.

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; banker's 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

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2008**

Poor's rating scale. Tennessee Board of Regents policy restricts investments in banker's acceptances and commercial paper. The policy requires that prime 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, 2008, the university's investments were rated as follows:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Credit Quality Rating</u> | |
|------------------------|-------------------------|------------------------------|-------------------------|
| | | <u>A</u> | <u>Unrated</u> |
| LGIP | \$ 29,540,521.78 | \$ - | \$ 29,540,521.78 |
| Commercial paper | <u>24,687,366.38</u> | <u>24,687,366.38</u> | <u>-</u> |
| Total | <u>\$ 54,227,888.16</u> | <u>\$ 24,687,366.38</u> | <u>\$ 29,540,521.78</u> |

NOTE 4. RECEIVABLES

Receivables included the following:

| | <u>June 30, 2008</u> |
|--------------------------------------|-------------------------|
| Student accounts receivable | \$ 9,819,162.32 |
| Grants receivable | 13,992,529.53 |
| Notes receivable | 1,513,603.92 |
| State appropriation receivable | 256,800.00 |
| Other receivables | <u>14,375,011.15</u> |
| Subtotal | 39,957,106.92 |
| Less allowance for doubtful accounts | <u>(8,513,362.50)</u> |
| Total receivables | <u>\$ 31,443,744.42</u> |

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2008**

Federal Perkins Loan Program funds included the following:

| | <u>June 30, 2008</u> |
|--------------------------------------|-------------------------------|
| Perkins loans receivable | \$ 3,790,842.87 |
| Less allowance for doubtful accounts | <u>(528,524.01)</u> |
| Total | <u>\$ 3,262,318.86</u> |

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Transfers</u> | <u>Reductions</u> | <u>Ending Balance</u> |
|--------------------------------------|---------------------------------|--------------------------------|------------------------|-------------------------------|--------------------------------|
| Land | \$ 15,769,960.00 | \$ 829,390.25 | \$ - | \$ - | \$ 16,599,350.25 |
| Land improvements and infrastructure | 20,299,071.96 | 1,706,125.00 | 14,362,116.72 | - | 36,367,313.68 |
| Buildings | 228,040,089.16 | 833,279.15 | 25,732,173.87 | 812,256.41 | 253,793,285.77 |
| Equipment | 45,166,888.97 | 2,219,724.92 | - | 3,713,575.44 | 43,673,038.45 |
| Library holdings | 33,764,337.14 | 3,918,467.00 | - | 2,887,541.59 | 34,795,262.55 |
| Software | 5,532,740.10 | 1,075,754.38 | - | - | 6,608,494.48 |
| Projects in progress | <u>47,894,389.85</u> | <u>21,436,370.49</u> | <u>(40,094,290.59)</u> | <u>-</u> | <u>29,236,469.75</u> |
| Total | <u>396,467,477.18</u> | <u>32,019,111.19</u> | <u>-</u> | <u>7,413,373.44</u> | <u>421,073,214.93</u> |
| Less accum. depreciation: | | | | | |
| Land improvements and infrastructure | 12,444,565.92 | 363,444.87 | - | - | 12,808,010.79 |
| Buildings | 93,654,486.57 | 4,911,564.71 | - | 606,463.74 | 97,959,587.54 |
| Equipment | 32,441,762.79 | 2,170,496.80 | - | 2,254,602.72 | 32,357,656.87 |
| Library holdings | 17,762,060.76 | 3,479,526.26 | - | 2,887,541.59 | 18,354,045.43 |
| Software | <u>490,158.34</u> | <u>345,536.76</u> | <u>-</u> | <u>-</u> | <u>835,695.10</u> |
| Total accum. depreciation | <u>156,793,034.38</u> | <u>11,270,569.40</u> | <u>-</u> | <u>5,748,608.05</u> | <u>162,314,995.73</u> |
| Capital assets, net | <u>\$ 239,674,442.80</u> | <u>\$ 20,748,541.79</u> | <u>\$ -</u> | <u>\$ 1,664,765.39</u> | <u>\$258,758,219.20</u> |

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2008**

NOTE 6. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2008, 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 | \$ 53,546,106.65 | \$ 55,595.55 | \$ 3,589,369.37 | \$ 50,012,332.83 | \$ 3,793,869.74 |
| Commercial paper | 1,911,303.57 | 11,952,329.28 | - | 13,863,632.85 | - |
| General obligation debt: | | | | | |
| Commercial paper | <u>-</u> | <u>1,667,594.40</u> | <u>-</u> | <u>1,667,594.40</u> | <u>-</u> |
| Subtotal | <u>55,457,410.22</u> | <u>13,675,519.23</u> | <u>3,589,369.37</u> | <u>65,543,560.08</u> | <u>3,793,869.74</u> |
| Other liabilities: | | | | | |
| Compensated absences | 8,603,930.83 | 4,955,219.75 | 4,636,712.14 | 8,922,438.44 | 2,279,497.99 |
| Due to grantors | 2,886,664.40 | 71,907.26 | 41,104.82 | 2,917,466.84 | - |
| Net OPEB obligation | <u>-</u> | <u>6,477,000.00</u> | <u>2,018,745.45</u> | <u>4,458,254.55</u> | <u>-</u> |
| Subtotal | <u>11,490,595.23</u> | <u>11,504,127.01</u> | <u>6,696,562.41</u> | <u>16,298,159.83</u> | <u>2,279,497.99</u> |
| Total long-term liabilities | <u>\$ 66,948,005.45</u> | <u>\$ 25,179,646.24</u> | <u>\$ 10,285,931.78</u> | <u>\$ 81,841,719.91</u> | <u>\$ 6,073,367.73</u> |

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, 2008. Unexpended debt proceeds were \$10,919.22 at June 30, 2008.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2008**

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2008, are as follows:

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|-------------------------|-------------------------|------------------------|
| 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 | 1,969,873.27 | 3,853,371.88 |
| 2013 | 1,706,068.86 | 1,894,317.26 | 3,600,386.12 |
| 2014 – 2018 | 8,676,482.23 | 8,255,067.32 | 16,931,549.55 |
| 2019 – 2023 | 9,992,044.77 | 5,938,524.51 | 15,930,569.28 |
| 2024 – 2028 | 11,087,556.90 | 3,428,193.20 | 14,515,750.10 |
| 2029 – 2033 | 5,993,100.70 | 794,170.39 | 6,787,271.09 |
| 2034 – 2036 | 694,081.38 | 81,590.40 | 775,671.78 |
| | <u>\$ 50,012,332.83</u> | <u>\$ 29,182,440.75</u> | <u>\$79,194,773.58</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 \$13,863,632.85 at June 30, 2008.

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.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2008**

General Obligation Debt - Commercial Paper

The Tennessee State Funding Board issues commercial paper for the purpose of, among other things, acquisition of certain sites and existing structures for expansion purposes for the TBR on the behalf of the university. The amount outstanding for projects at the university was \$1,667,594.40 at June 30, 2008.

More detailed information regarding the commercial paper can be found in the notes to the financial statements in the financial report for the Tennessee State Funding Board. The report may be obtained by writing to the Assistant Secretary of State Funding Board, Suite 1600, James K. Polk State Office Building, Nashville, Tennessee 37243.

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 investments 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, 2008, net appreciation of \$1,689,637.34 is available to be spent, of which \$145,227.77 is included in restricted net assets expendable for scholarships and fellowships, \$1,359,105.08 is included in restricted net assets expendable for instructional departmental uses, \$171,665.52 is included in restricted net assets expendable for loans, and \$13,638.97 is included in restricted net assets expendable for other.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2008**

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, 2008</u> |
|--------------------------------------|-----------------------------|
| Working capital | \$ 9,863,570.01 |
| Encumbrances | 1,502,957.69 |
| Designated fees | 1,754,252.55 |
| Auxiliaries | 843,532.82 |
| Plant construction | 25,728,966.97 |
| Renewal and replacement of equipment | 18,609,135.40 |
| Undesignated | <u>12,237,634.24</u> |
| Total | <u>\$ 70,540,049.68</u> |

NOTE 9. PENSION PLANS

A. Defined Benefit Plans

Tennessee Consolidated Retirement System

Plan Description - The university contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (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.

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.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2008**

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 13.62% 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, 2008, 2007, and 2006 were \$7,851,077.60, \$7,671,687.96, and \$5,776,544.21. 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 \$9,002,652.07 for the year ended June 30, 2008, and \$8,485,959.56 for the year ended June 30, 2007. Contributions met the requirements for each year.

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible university retirees. This program includes two plans available to higher education employees –

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2008**

the State Employee Group Plan and the Medicare Supplement Plan. Both plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Title 8, Chapter 27, Part 201, *Tennessee Code Annotated*. Prior to reaching age 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the university's eligible retirees; see Note 18. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>.

Funding Policy. The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. In accordance with TCA 8-27-205 (b), retirees not eligible for Medicare pay a percentage of the total state premium under the State Employee Group Plan based on years of service, leaving a portion of retiree premiums effectively subsidized by contributions to the State Employee Group Plan for active employees. Retirees with 30 years of service pay 20% of the total premium under the State Employee Group Plan. Retirees with 20 but less than 30 years of service pay 30% of the total premium under the State Employee Group Plan. Retirees 55 and older with less than 20 but more than 10 years of service pay 40% of the total premium under the State Employee Group Plan. Contributions for the State Employee Group Plan for the year ended June 30, 2008, were \$22,470,503.15, which consisted of \$18,537,607.22 from the university and \$3,932,895.93 from the employees.

Annual OPEB Cost and Net OPEB Obligation

| | State Employee Group Plan |
|-------------------------------------|------------------------------|
| Annual Required Contribution (ARC) | \$ 6,477,000.00 |
| Interest on the Net OPEB Obligation | - |
| Adjustment to the ARC | - |
| Annual OPEB Cost | 6,477,000.00 |
| Amount of Contribution | (2,018,745.45) |

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2008**

| | |
|--|------------------------|
| Increase (decrease) in Net OPEB Obligation | 4,458,254.55 |
| Net OPEB Obligation – Beginning of Year | - |
| Net OPEB Obligation – End of Year | <u>\$ 4,458,254.55</u> |

| <u>Year-end</u> | <u>Plan</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation at Year-end</u> |
|-----------------|------------------------------|-----------------------------|---|--|
| June 30, 2008 | State Employee Group Plan | \$ 6,477,000.00 | 31.17% | \$ 4,458,254.55 |

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2008, was as follows:

| | State Employee Group Plan |
|--|------------------------------|
| Actuarial valuation date | July 1, 2007 |
| Actuarial accrued liability (AAL) | \$ 57,082,000.00 |
| Actuarial value of plan assets | - |
| Unfunded actuarial accrued liability (UAAL) | \$ 57,082,000.00 |
| Actuarial value of assets as a percentage of the AAL | 0.00% |
| Covered payroll (active plan members) | \$ 124,249,650.00 |
| UAAL as percentage of covered payroll | 45.94% |

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2008**

Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2007, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7 percent initially, increased to 11 percent in the second year and then reduced by decrements to an ultimate rate of 5 percent after twelve years. Both rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007.

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 amount of settlements have not exceeded insurance coverage for each of the three past fiscal years. 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, 2008, and June 30, 2007, are

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2008**

presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Rosa L. Parks Avenue, Nashville, Tennessee 37243-1102, by visiting the state's website at <http://tennessee.gov/finance/act/cafr.html>, 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, 2008, the Risk Management Fund held \$123.9 million in cash and cash equivalents designated for payment of claims.

At June 30, 2008, the scheduled coverage for the university was \$1,181,079,800.00 for buildings and \$284,769,800.00 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 \$74,444,572.63 at June 30, 2008.

Operating Leases - The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2008**

Expenses under operating leases for real property were \$733,028.29 and for personal property were \$840,048.67 for the year ended June 30, 2008. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2008, outstanding commitments under construction contracts totaled \$53,626,393.86 for University Center renovation, West Hall student housing replacement, law school relocation, drainage corrections, Wilder Tower brick facade restoration, engineering complex HVAC fire service, community health facility, and biochemistry and biology facility, of which \$31,299,860.19 will be funded by future state capital outlay appropriations.

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

NOTE 13. CHAIRS OF EXCELLENCE

The university had \$62,969,313.81 on deposit at June 30, 2008, 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 \$2,070,186.49 from these funds during the year ended June 30, 2008.

NOTE 15. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses by functional classification for the year ended June 30, 2008, are as follows:

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2008**

| Functional Classification | <u>Natural Classification</u> | | | | | |
|------------------------------|-------------------------------|------------------------|----------------------------|------------------------|------------------------|-------------------------|
| | <u>Salaries</u> | <u>Benefits</u> | <u>Other Operating</u> | <u>Scholarships</u> | <u>Depreciation</u> | <u>Total</u> |
| Instruction | \$ 81,948,851.92 | \$26,416,457.51 | \$ 17,042,733.88 | \$ - | \$ - | \$125,408,043.31 |
| Research | 21,638,969.46 | 5,065,574.92 | 11,305,393.96 | - | - | 38,009,938.34 |
| Public service | 7,721,987.71 | 2,031,670.56 | 4,645,757.64 | - | - | 14,399,415.91 |
| Academic support | 17,186,346.34 | 5,507,917.09 | 6,409,268.92 | - | - | 29,103,532.35 |
| Student services | 18,116,958.70 | 5,584,870.08 | 11,591,849.78 | - | - | 35,293,678.56 |
| Institutional support | 15,646,071.80 | 5,180,430.69 | 6,561,403.84 | - | - | 27,387,906.33 |
| Operation & maintenance | 9,766,490.70 | 4,151,055.31 | 12,794,914.18 | - | - | 26,712,460.19 |
| Scholar. & fellow. | - | - | - | 39,490,254.12 | - | 39,490,254.12 |
| Auxiliary | 2,026,703.50 | 451,668.52 | 10,038,926.73 | - | - | 12,517,298.75 |
| Depreciation | - | - | - | - | 11,270,569.40 | 11,270,569.40 |
| Total | <u>\$ 174,052,380.13</u> | <u>\$54,389,644.68</u> | <u>\$ 80,390,248.93</u> | <u>\$39,490,254.12</u> | <u>\$11,270,569.40</u> | <u>\$359,593,097.26</u> |

NOTE 16. CHANGE IN ACCOUNTING PRINCIPLE

The university has implemented the Governmental Accounting Standards Board's Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This statement establishes standards for the measurement, recognition, and display of OPEB expense and related liabilities, note disclosures, and required supplementary information. The statement was implemented prospectively with a zero net OPEB obligation at transition.

NOTE 17. AFFILIATED ENTITY NOT INCLUDED

The University of Memphis Research Foundation is a private, nonprofit foundation with the university as the sole beneficiary. Fiscal year 2008 was the research foundation's first year of operation. The research foundation is controlled by a board independent of the university. The financial records, investments, and other financial transactions are handled external to the university and these amounts are not included in the university's financial report. As reported in the University of Memphis Research Foundation's most recently unaudited financial report, at June 30, 2008, the assets of the University of Memphis Research Foundation totaled \$1,642,905.32, liabilities were \$1,611,475.71, and the net assets amounted to \$31,429.61.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2008**

NOTE 18. ON-BEHALF PAYMENTS

During the year ended June 30, 2008, the State of Tennessee made payments of \$175,729.01 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>.

NOTE 19. 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, 2008, the foundation made distributions of \$12,916,360.00 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from the Managing Director, University of Memphis Foundation, 635 Normal Street, Memphis, Tennessee, 38152-3750.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2008**

Cash and cash equivalents - Cash and cash equivalents consists of demand deposit accounts, certificates of deposit, and money market funds. Uninsured bank balances at June 30, 2008, totaled \$1,223,194.05.

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, 2008, were as follows:

| | <u>Cost</u> | <u>Market Value</u> |
|----------------------------------|-----------------------------|-----------------------------|
| U.S. Treasury | \$ 74,684.00 | \$ 77,881.00 |
| Corporate stock | 355,084.00 | 447,337.00 |
| Corporate bonds | 60,229.00 | 59,744.00 |
| Mutual bond funds | 10,306,575.00 | 10,240,847.00 |
| Mutual equity funds | 8,463,215.00 | 8,096,496.00 |
| Interest in limited partnerships | <u>45,683,257.00</u> | <u>54,645,289.00</u> |
| Total investments | <u>\$ 64,943,044.00</u> | <u>\$ 73,567,594.00</u> |

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

| | <u>June 30, 2008</u> |
|---|-----------------------------|
| Current pledges | \$ 7,742,669.00 |
| Pledges due in one to five years | 9,485,721.00 |
| Pledges due after five years | <u>733,000.00</u> |
| Subtotal | 17,961,390.00 |
| Less discount to net present value | (735,248.00) |
| Less allowance for uncollectible contributions receivable | <u>(178,758.00)</u> |
| Total pledges receivable, net | <u>\$ 17,047,384.00</u> |

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 2008**

Long-term liabilities - Long-term liabilities at June 30, 2008, consisted of the following:

| | <u>Ending Balance</u> | <u>Current Portion</u> |
|-----------|-----------------------|------------------------|
| Payables: | | |
| Notes | \$ <u>107,336.00</u> | \$ <u> -</u> |

Notes Payable

The notes payable to Christ is Our Salvation Foundation (C.I.O.S.) is non-interest bearing and unsecured. 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 \$67,336.00 at June 30, 2008.

The note payable to donors to assist the University of Memphis Law School in preparing for a capital campaign bears interest at 8.25% and is unsecured. 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 University of Memphis Law School. The balance owed by the foundation was \$40,000.00 at June 30, 2008.

NOTE 20. SUBSEQUENT EVENTS

Further disruption in the credit markets and overall declines in economic conditions in markets in the United States of America and internationally have resulted in significant declines in the fair value of The University of Memphis Foundation's investments subsequent to June 30, 2008. Based on information available from the executive director, the foundation's value of the investments as of October 31, 2008, has declined \$12,786,047.83 compared to the value as of June 30, 2008.

**Tennessee Board of Regents
The University of Memphis
Required Supplementary Information
OPEB Schedule of Funding Progress
Unaudited**

| Actuarial Valuation Date | Plan | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|-----------------------------|---------------------------------|--|---|---------------------------------|-----------------------|------------------------|---|
| June 30, 2008 | State Employee Group Plan | \$ - | \$57,082,000.00 | \$57,082,000.00 | 0% | \$124,249,650.00 | 45.9% |

**TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
SUPPLEMENTARY SCHEDULE OF CASH FLOWS - COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2008**

| | |
|---|-------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Gifts and contributions | \$ 21,441,015.00 |
| Payments to suppliers and vendors | (7,488,770.00) |
| Payments to The University of Memphis | (12,717,028.00) |
| Net cash provided by operating activities | <u>1,235,217.00</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Private gifts for endowment purposes | 1,156,136.00 |
| Other noncapital financing payments | (29,189.00) |
| Net cash provided by noncapital financing activities | <u>1,126,947.00</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Loss on investments | (469,479.00) |
| Purchases of investments | 12,456,046.00 |
| Net cash provided by investing activities | <u>11,986,567.00</u> |
| Net increase in cash and cash equivalents | 14,348,731.00 |
| Cash and cash equivalents - beginning of year | 11,290,454.00 |
| Cash and cash equivalents - end of year (Note 19) | <u>\$ 25,639,185.00</u> |
| Reconciliation of operating loss to net cash used by operating activities: | |
| Operating loss | \$ (1,930,364.00) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | |
| Change in assets and liabilities: | |
| Receivables, net | (1,147,198.00) |
| Other assets | (602,826.00) |
| Accounts payable | 4,797,227.00 |
| Accrued liabilities | 74,115.00 |
| Deferred revenues | 44,263.00 |
| Net cash provided by operating activities | <u>\$ 1,235,217.00</u> |
| Noncash transactions | |
| Unrealized losses on investments | \$ (2,549,522.00) |
| Bad debt expense | \$ 119,500.00 |