AUDIT REPORT

Tennessee Board of Regents
The University of Memphis

For the Year Ended
June 30, 2009

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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Gerry Boaz, CPA
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Amy Brack
Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-1402
(615) 401-7897

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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

April 19, 2010

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, 2009. 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,

Arthur A. Hayes, Jr., CPA
Director

AAH/fd
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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

State of Tennessee

Audit Highlights

Comptroller of the Treasury   Division of State Audit

Financial and Compliance Audit
The University of Memphis
For the Year Ended June 30, 2009

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, 2009

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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 comprehensive doctoral/high-research institution of higher education. It is comprised of four schools: the Cecil Humphreys School of Law, the School of Nursing, the School of Audiology and Speech Language Pathology, and the School of Public Health; and six 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 the University College. The University of Memphis has 24 Chairs of Excellence and 5 state-approved Centers of Excellence.

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, 2008, through June 30, 2009, 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, 2009. 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 as a basis for designing 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.

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, 2009, 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. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance and Other Matters

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.

Fairness of Financial Statement Presentation

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

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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*

January 29, 2010

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, 2009, and have issued our report thereon dated January 29, 2010. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the university's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the university's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity'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 the 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 the 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.

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,

Arthur A. Hayes, Jr., CPA
Director

AAH/fd

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DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
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FAX (615) 532-2765

Independent Auditor's Report

January 29, 2010

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, 2009, 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 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, 2009, 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 University of Memphis, and its discretely presented component unit as of June 30, 2009, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 21, the financial statements of University of Memphis Foundation, a discretely presented component unit of University of Memphis, include investments valued at $17,669,174 (17.9 percent of net assets of the foundation), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

The management's discussion and analysis on pages 12 through 25 and the schedule of funding progress on page 57 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 58 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated January 29, 2010, 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,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/fd

Tennessee Board of Regents
The University of Memphis
Management's Discussion and Analysis

This section of the University of Memphis report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2009, with comparative information presented for the fiscal year ended June 30, 2008. 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.

Net Assets – The University
(in thousands of dollars)

	2009	2008
Assets:		
Current assets	$ 97,193	$ 88,514
Capital assets, net	323,992	258,758
Other assets	57,211	52,586
Total Assets	478,396	399,858
Liabilities:		
Current liabilities	55,199	43,028
Noncurrent liabilities	112,038	75,768
Total Liabilities	167,237	118,796
Net Assets:		
Invested in capital assets, net of related debt	225,273	193,215
Restricted - nonexpendable	3,689	3,634
Restricted - expendable	11,404	13,673
Unrestricted	70,793	70,540
Total Net Assets	$ 311,159	$ 281,062

Comparison of FY 2009 to FY 2008

- Current assets increased by $8.7 million, primarily due to an increase in cash equivalents. The university is relying more heavily on cash equivalents, specifically funds held in the Local Government Investment Pool, during the current economic downturn.

- Net capital assets increased by $65.2 million, primarily due to the construction of the new University Center, West Hall Dormitory, and the renovation of the new downtown Law School.

- The increase in current liabilities is the result of a $9 million liability due to the State of Tennessee. Based upon guidance provided by the Tennessee Recovery Act Management Office, the total allotment of FY 2008-09 State Fiscal Stabilization Funds (SFSF) was drawn down and receipted as of June 30, 2009. It was subsequently determined that institutions would not lose the availability of funds not drawn down at June 30, 2009, and the entire allotment was returned on July 21, 2009, and is included on the Statement of Net Assets as due to primary government.

- Noncurrent liabilities increased by $36 million due to an increase in debt related to the construction of the new University Center and West Hall Dormitory. Additionally, the OPEB liability increased $4.3 million.

- The $32 million increase in invested in capital assets net of related debt is a result of the renovation of the new Law School ($19.6 million), the construction of the University Center ($6 million funded locally), and several large maintenance construction projects including the Wilder Tower Brick Façade project ($2 million), the Engineering Complex HVAC and Fire System ($2 million), and the South Campus Electric and Gas Infrastructure Replacement project ($1.4 million).

- Restricted - expendable net assets decreased due to the decrease in debt service related to the Wilson Hotel. The Wilson Hotel bonds will be retired in full in FY 2010.

Net Assets – The Foundation
(in thousands of dollars)

	2009	2008
Assets:		
Current assets	$ 8,793	$ 33,446
Noncurrent assets	99,153	83,572
Total Assets	107,946	117,018
Liabilities:		
Current liabilities	9,266	7,668
Noncurrent liabilities	84	107
Total Liabilities	9,350	7,775
Net Assets:		
Restricted - nonexpendable	44,490	45,415
Restricted - expendable	47,419	59,196
Unrestricted	6,687	4,632
Total Net Assets	$ 98,596	$ 109,243

Comparison of FY 2009 to FY 2008

- Current assets decreased due to a $24.3 million reclassification of cash equivalents to investments for money market funds.

- Noncurrent assets increased due to the above-mentioned reclassification of cash equivalents to investments for money market funds.

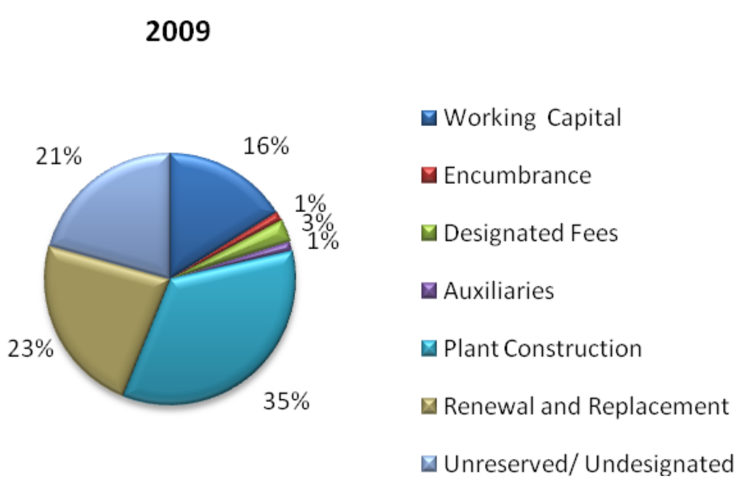
- Current liabilities increased due to a higher level of accounts payable, mostly due to increased payables related to athletic scholarships.

- Restricted - expendable net assets decreased principally due to investment losses and expenditures.

- Unrestricted net assets increased due to the Foundation Operating Fund administrative fees and other income exceeding operating expenditures.

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

Allocation of Net Assets – The University



<u>Comparison of FY 2009 to FY 2008</u>

- The increase in the working capital allocation of $1.5 million is primarily related to increases in receivables for licensing revenue, for hosting the NCAA 2009 Regional Tournament, and from the University of Memphis Foundation (Tiger Scholarship Fund).

- The decrease in the encumbrance allocation of $645,000 is indicative of the spending reductions that occurred throughout the year due to the current economic downturn, which resulted in a decrease in state appropriations, forcing the university to reduce expenditures.

- The designated fees allocation increased by $300,000 due to reduced spending during the year as cost-saving measures were implemented.

- The decrease in the renewal and replacement allocation is primarily a result of transfers to unexpended plant to fund a portion of the University Center construction as well as other capital construction projects.

- The unreserved/undesignated allocation increased by $2.4 million as a result of spending reductions implemented to offset the 7% cut in state appropriations including cost-cutting measures, limiting hiring, and restructuring.

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 non-operating revenues according to accounting principles generally accepted in the United States of America.

Changes in Net Assets – The University
(in thousands of dollars)

	2009	2008
Operating revenues:		
Net tuition and fees	$ 98,715	$ 91,764
Grants and contracts	40,737	43,083
Auxiliary	16,245	15,571
Other	26,529	26,887
Total operating revenues	182,226	177,305
Operating expenses	(360,675)	(359,593)
Operating loss	(178,449)	(182,288)
Nonoperating revenues and expenses:		
State appropriations	117,560	126,873
Gifts	15,725	15,822
Investment income	4,259	6,240
Other revenues and expenses	43,022	37,909
Total nonoperating revenues and expenses	180,566	186,844
Income before other revenues, expenses, gains, or losses	2,117	4,556

Other revenues, expenses, gains, or losses		
Capital appropriations	26,457	11,054
Capital grants and contracts	1,481	32
Other	42	(347)
Total other revenues, expenses, gains, or losses	27,980	10,739
Increase in net assets	30,097	15,295
Net assets at beginning of year	281,062	265,767
Net assets end of year	$ 311,159	$ 281,062

Comparison of FY 2009 to FY 2008

- Net tuition and fee increased as a result of a 7% increase in student fees.
- State appropriations decreased $9.3 million as a result of a 5.45% cut in base appropriations as well as a 3.44% reversion, partially offset by appropriation add-backs for waivers, insurance, and other miscellaneous items.
- The decrease in investment income is due to very unfavorable conditions within the capital markets.
- Other revenues include a $2.5 million increase in Pell Grants and a $2.1 million increase in Tennessee HOPE Scholarships.
- Capital appropriations increased by $15.4 million primarily due to state appropriated construction funding for the new downtown Law School.
- The $1.4 million increase in capital grants and gifts is a result of the addition of the Flautt Golf Center, a gift to the University.
- The increase of $389,000 in other revenues, expenses, gains or losses - other resulted from a reporting change. The current-year loss on disposal of plant assets is reflected in other nonoperating expense as opposed to other capital.

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

	2009	2008
Operating revenues and expenses:		
Gifts and contributions	$ 20,378	$ 22,544
Operating expenses	(20,506)	(24,474)
Operating loss	(128)	(1,930)
Nonoperating revenues and expenses:		
Investment income	(13,157)	(412)
Loss before other revenues, expenses, gains, or losses	(13,285)	(2,342)
Other revenues, expenses, gains, or losses:	2,638	1,156
Decrease in net assets	(10,647)	(1,186)
Net assets at beginning year	109,243	110,429
Net assets at end of year	$ 98,596	$ 109,243

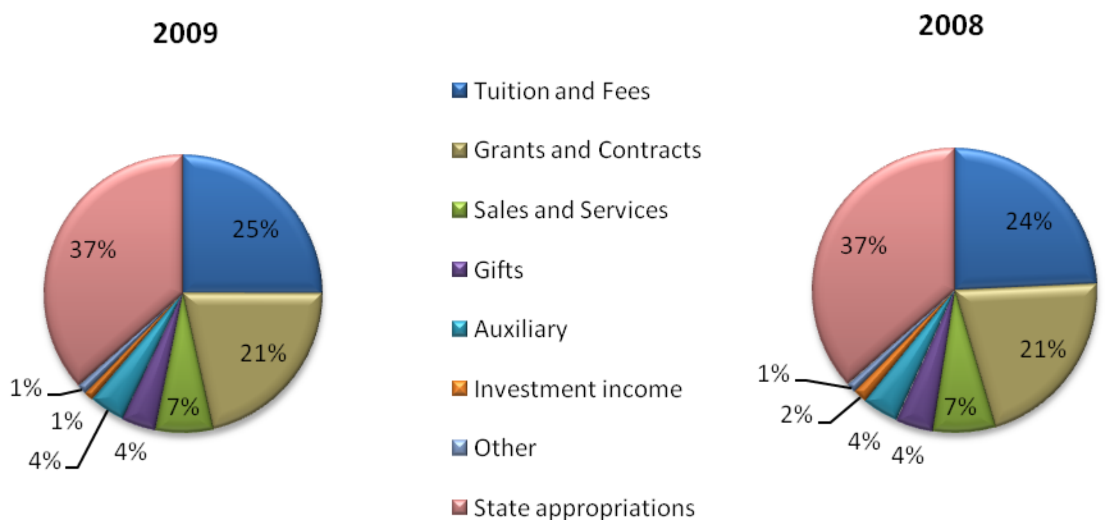
Comparison of FY 2009 to FY 2008

- The decrease in gifts and contributions is believed to be principally due to general economic conditions.
- The decrease in operating expenses is principally due to a decrease in capital projects partially offset by an increase in scholarships.
- The investment loss is due to very unfavorable conditions within the capital markets.
- The increase in other revenues, expenses, gains or losses is due to additional endowment fund gifts.
- The decrease in net assets is principally due to investment losses.

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the university's operating activities for the years ended June 30, 2009, and June 30, 2008.

Revenues – The University



Comparison of FY 2009 to FY 2008

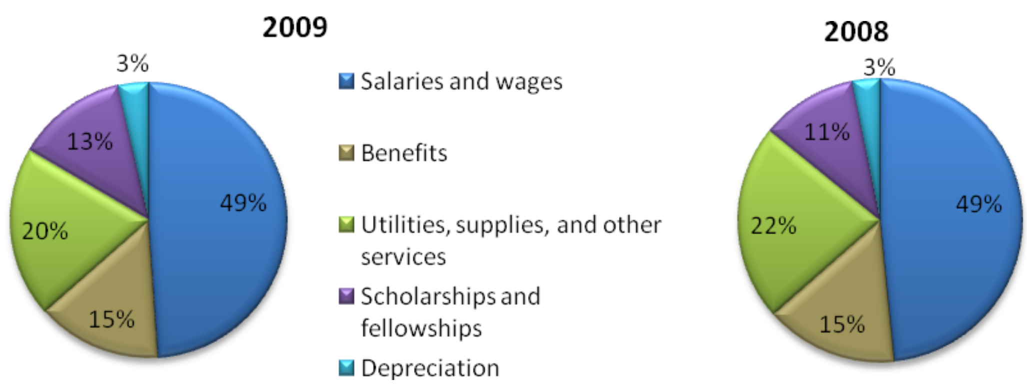
The percentages in each category for FY 2009 were consistent with the prior year, with the exception of Investment Income. Investment Income decreased $1.9 million due to very unfavorable conditions within the capital markets.

Expenses

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

Expenses by Natural Classification - The University
(in thousands of dollars)

	2009	2008
Operating Expenses:		
Salaries and wages	$ 176,342	$ 174,052
Benefits	52,777	54,390
Utilities, supplies, and other services	71,873	80,390
Scholarships and fellowships	46,936	39,490
Depreciation	12,747	11,271
Total Operating Expenses	$ 360,675	$ 359,593



Comparison of FY 2009 to FY 2008

- Utilities, supplies, and other services decreased by $8.5 million due to spending reductions that occurred throughout the year as a result of the current economic downturn and resulting reductions to state appropriations. The university responded to the appropriations reduction by implementing cost-cutting measures, a voluntary employee buy-out program, limiting hiring, and restructuring.

- Scholarships and fellowships increased by $7.4 million as a result of a 7% increase in tuition. Individually significant programs were Pell Grants ($2.5 million increase), Tennessee HOPE Scholarship ($2.1 million), and the Tennessee State Grant Award ($2.2 million).

- Depreciable capital assets totaling $17.5 million were capitalized, impacting depreciation.

Natural Classification - The Foundation
(in thousands of dollars)

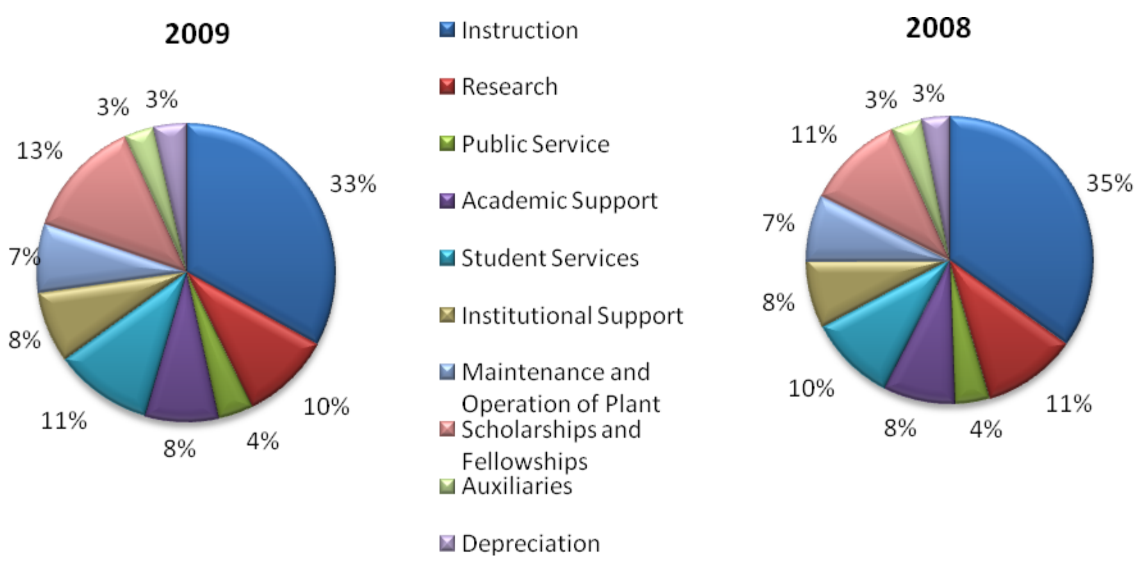
		2009		2008
Operating Expenses:				
Utilities, supplies, and other services	$	8,556	$	7,563
Payment to or on behalf of the University		11,950		16,911
Total Operating Expenses	$	20,506	$	24,474

Comparison of FY 2009 to FY 2008

- The increase in utilities, supplies, and other services is principally due to an increase in scholarships.

Expenses by Program Classification - The University
(in thousands of dollars)

		2009		2008
Operating Expenses:				
Instruction	$	119,101	$	125,408
Research		35,166		38,010
Public Service		13,672		14,399
Academic Support		28,636		29,104
Student Services		38,213		35,294
Institutional Support		27,694		27,388
Maintenance and Operation of Plant		27,072		26,712
Scholarships and Fellowships		46,936		39,490
Auxiliaries		11,438		12,517
Depreciation		12,747		11,271
Total Operating Expenses	$	360,675	$	359,593



Comparison of FY 2009 to FY 2008

- Scholarships and fellowships increased by $7.4 million as a result of a 7% increase in tuition.
- Depreciable capital assets totaling $17.5 million were capitalized, causing the increase in depreciation.

Capital Assets and Debt Administration

Capital Assets

The University of Memphis had $324 million invested in capital assets, net of accumulated depreciation of $165 million at June 30, 2009; and $259 million invested in capital assets, net of accumulated depreciation of $162 million at June 30, 2008. Depreciation charges totaled $12.7 million and $11.2 million for the years ended June 30, 2009, and June 30, 2008, respectively. Details of these assets are shown below.

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

	2009	2008
Land	$ 16,838	$ 16,600
Land improvements	30,501	23,559
Buildings	152,725	155,834
Equipment	12,198	11,315
Library holdings	16,553	16,441
Software	5,931	5,773
Projects in progress	89,246	29,236
Total	$ 323,992	$ 258,758

- Land improvements increased $6.9 million, primarily as a result of capitalizing two data network projects, located on both the main campus and the Millington location, totaling $5 million.

- Projects in progress increased by $60 million, primarily due to the construction of the new University Center ($22.8 million) and West Hall residence facility ($14 million) as well as the renovation of the new downtown Law School ($19.6 million).

The new University Center, the new downtown Law School, and West Hall residence facility construction projects are all scheduled for completion in FY 2009-10. The University Center and West Hall are primarily funded with debt. The downtown Law School is funded primarily with state appropriated capital outlay funds.

Planned capital activity for FY 2010 also includes acquisition of properties for expansion purposes funded through General Obligation Bonds (up to $4 million debt at any point in time, $7 million total.)

Also planned for FY 2010 is the continuation of a performance contracting project ($9 million) which focuses on energy saving measures.

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

Debt

The university had $98.7 million and $65.5 million in debt outstanding at June 30, 2009, and June 30, 2008, respectively. The table below summarizes these amounts by type of debt instrument.

Outstanding Debt – the University
(in thousands of dollars)

	2009	2008
TSSBA Bonds Payable	$ 76,710	$ 50,012
TSSBA Commercial Paper	19,831	13,864
GO Commercial Paper	2,178	1,668
Total	$ 98,719	$ 65,544

- TSSBA bonds payable increased $26.7 million to fund construction of the new University Center and the Smith Dorm Fire Safety Upgrade project.

- TSSBA commercial paper debt increased by $5.9 million due to the net effect of increased debt for the West Hall and Performance Contracting construction projects and commercial paper debt converted to bonds for the University Center construction and the Smith Dorm Fire Safety Upgrade projects.

- General Obligation commercial paper debt increased $510,000 to fund the purchase of four residential properties that are located in the university's planned expansion area: 3567 Watauga, 3557 Watauga, 438 Highland and 3596 Watauga. The properties will be held as residential rental property until further development of the site.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2009, were as follows:

Fitch	AA
Moody's Investor Service	Aa2
Standard & Poor's	AA

More detailed information about the university's long-term liabilities is presented in Note 7 to the financial statements.

Economic Factors That Will Affect the Future

The recent economic downturn has impacted the state's revenue collections and is expected to have an impact on future funding both in operating appropriations and future building projects. Beginning in FY 2009-10, the base appropriation will be reduced $19.9 million, a 17% reduction from the current state appropriation funding level. The base shortfall will be handled through a variety of means including: tuition increases, budget reductions, restructuring, cost cutting, savings from a voluntary employment buy-out, and position attrition.

In the short term, the university will use the American Recovery and Reinvestment Act (ARRA) funds (federal stimulus dollars) to address and transition in the budget reductions. The university is scheduled to receive a total of $45,480,500 in ARRA funds and $15,232,000 in Maintenance of Effort funds (the state's required match) over the next two fiscal years.

The university has implemented a 7.1% increase in student fees for FY 2009-10. 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 Jeannie Smith, Controller; Administration Building, Room 275, Memphis, Tennessee 38152-3370.

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENTS OF NET ASSETS
JUNE 30, 2009

	Institution	Component Unit
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 21)	$ 42,459,444.88	$ 380,384.00
Short-term investments (Note 3)	24,305,391.50	-
Accounts, notes, and grants receivable (net) (Note 4)	28,560,559.14	-
Pledges receivable (net) (Note 21)	-	8,237,655.00
Inventories	627,202.09	-
Prepaid expenses and deferred charges	698,577.65	-
Accrued interest receivable	541,946.24	174,789.00
Total current assets	97,193,121.50	8,792,828.00
Noncurrent assets:		
Cash and cash equivalents (Note 2)	46,057,950.68	-
Investments (Notes 3 and 21)	6,069,915.90	91,726,751.00
Accounts, notes, and grants receivable (net) (Note 4)	5,080,709.57	-
Pledges receivable (net) (Note 21)	-	6,718,402.00
Capital assets (net) (Note 5)	323,991,709.25	-
Other assets	2,500.00	707,789.00
Total noncurrent assets	381,202,785.40	99,152,942.00
Total assets	478,395,906.90	107,945,770.00
LIABILITIES		
Current liabilities:		
Accounts payable (Note 6)	6,565,628.16	8,487,547.00
Accrued liabilities	19,999,024.17	179,672.00
Due to primary government	9,060,700.00	-
Student deposits	300,637.91	-
Deferred revenue	10,605,589.89	599,368.00
Compensated absences (Note 7)	2,310,805.64	-
Accrued interest payable	620,589.14	-
Long-term liabilities, current portion (Note 7)	5,138,985.69	-
Deposits held in custody for others	596,911.72	-
Total current liabilities	55,198,872.32	9,266,587.00
Noncurrent liabilities:		
Net OPEB obligation (Notes 7 and 12)	8,782,680.73	-
Notes payable (Note 21)	-	83,568.00
Compensated absences (Note 7)	6,270,249.43	-
Long-term liabilities (Note 7)	93,579,911.16	-
Due to grantors (Note 7)	3,405,316.87	-
Total noncurrent liabilities	112,038,158.19	83,568.00
Total liabilities	167,237,030.51	9,350,155.00
NET ASSETS		
Invested in capital assets, net of related debt	225,272,812.40	-
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	1,479,538.99	-
Other	2,209,632.47	44,490,301.00
Expendable:		
Scholarships and fellowships (Note 8)	1,094,210.37	3,557,585.00
Research	1,128,732.43	141,628.00
Instructional department uses (Note 8)	2,134,166.37	636,196.00
Loans (Note 8)	3,206,678.03	-
Capital projects	710,902.99	-
Debt service	1,907,082.46	-
Other (Note 8)	1,222,240.47	43,082,577.00
Unrestricted (Note 9)	70,792,879.41	6,687,328.00
Total net assets	$ 311,158,876.39	$ 98,595,615.00

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

Exhibit B

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

	Institution	Component Unit
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $29,059,268.32)	$ 98,714,916.69	$ -
Gifts and contributions	-	20,377,642.00
Governmental grants and contracts	33,706,267.01	-
Nongovernmental grants and contracts	7,031,133.94	-
Sales and services of educational departments	26,392,506.80	-
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $138,844.81)	11,126,860.60	-
Bookstore	881,901.42	-
Food service	599,826.72	-
Other auxiliaries	3,635,838.20	-
Interest earned on loans to students	137,024.71	-
Total operating revenues	182,226,276.09	20,377,642.00
EXPENSES		
Operating expenses (Note 17):		
Salaries and wages	176,342,072.17	-
Benefits	52,777,272.93	-
Utilities, supplies, and other services	71,873,122.28	8,555,915.00
Scholarships and fellowships	46,935,908.49	-
Depreciation expense	12,746,712.13	-
Payments to or on behalf of The University of Memphis (Note 21)	-	11,949,512.00
Total operating expenses	360,675,088.00	20,505,427.00
Operating income (loss)	(178,448,811.91)	(127,785.00)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	117,560,239.20	-
Gifts (including $11,949,512.00 from The University of Memphis Foundation)	15,724,955.62	-
Grants and contracts	43,879,729.88	-
Investment income	4,258,929.49	(13,157,483.00)
Interest on capital asset-related debt	(3,157,836.56)	-
Other nonoperating revenues	2,299,587.93	-
Net nonoperating revenues	180,565,605.56	(13,157,483.00)
Income (loss) before other revenues, expenses, gains, or losses	2,116,793.65	(13,285,268.00)
Capital appropriations	26,456,757.99	-
Capital grants and gifts	1,481,132.29	-
Additions to permanent endowments	41,768.62	2,638,112.00
Total other revenues	27,979,658.90	2,638,112.00
Increase (decrease) in net assets	30,096,452.55	(10,647,156.00)
NET ASSETS		
Net assets - beginning of year	281,062,423.84	109,242,771.00
Net assets - end of year	$ 311,158,876.39	$ 98,595,615.00

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, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 98,535,522.70
Grants and contracts	42,482,475.01
Sales and services of educational activities	25,655,115.36
Payments to suppliers and vendors	(72,477,055.05)
Payments to employees	(176,713,733.32)
Payments for benefits	(48,113,328.45)
Payments for scholarships and fellowships	(46,935,908.49)
Loans issued to students	(1,026,475.41)
Collection of loans from students	553,210.76
Interest earned on loans to students	137,024.71
Auxiliary enterprise charges:	
Residence halls	11,082,340.16
Bookstore	881,901.42
Food services	599,826.72
Other auxiliaries	3,589,618.53
Net cash used by operating activities	(161,749,465.35)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	117,421,500.20
Gifts and grants received for other than capital purposes, including $10,360,939.00 from The University of Memphis Foundation	70,021,963.95
Private gifts for endowment purposes	41,768.62
Federal student loan receipts	101,736,344.00
Federal student loan disbursements	(101,736,344.00)
Changes in deposits held for others	(192,565.72)
Other noncapital financing receipts	3,097,779.12
Net cash provided by noncapital financing activities	190,390,446.17
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	38,066,236.96
Capital appropriations	26,456,757.99
Proceeds from sale of capital assets	8,442.31
Purchases of capital assets and construction	(76,558,555.34)
Principal paid on capital debt	(3,928,039.52)
Interest paid on capital debt	(2,970,452.64)
Net cash used by capital and related financing activities	(18,925,610.24)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	308,924,876.11
Income on investments	4,135,987.89
Purchase of investments	(306,352,558.02)
Net cash provided by investing activities	6,708,305.98
Net increase in cash and cash equivalents	16,423,676.56
Cash and cash equivalents - beginning of year	72,093,719.00
Cash and cash equivalents - end of year	$ 88,517,395.56

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009

Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(178,448,811.91)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense		12,746,712.13
Other adjustments		176,439.00
Change in assets and liabilities:		
Receivables, net		(381,893.28)
Inventories		(49,672.64)
Prepaid/deferred items		(291,850.67)
Accounts payable		290,998.95
Accrued liabilities		(378,321.08)
Deferred revenue		662,209.60
Deposits		(58,318.26)
Compensated absences		(341,383.37)
Net OPEB obligation		4,324,426.18
Net cash used by operating activities	$	(161,749,465.35)
Noncash transactions		
Gifts in-kind	$	2,067,803.41
Gifs in-kind - capital	$	1,481,132.29
Loss on disposal of capital assets	$	(318,783.47)
Bad debt expense	$	(461,246.97)

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

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 21 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

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

Basis of Accounting

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

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

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:

<u>Invested in capital assets, net of related debt</u> - 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.

<u>Nonexpendable restricted net assets</u> - 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.

<u>Expendable restricted net assets</u> - 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.

<u>Unrestricted net assets</u> - Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the university, and may be used at the discretion of the university to meet current expenses for any purpose. The

auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

Scholarship Discounts and Allowances

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

NOTE 2. CASH AND CASH EQUIVALENTS

At June 30, 2009, cash consisted of $12,666,723.81 in bank accounts, $71,720.00 of petty cash on hand, $59,656,540.71 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $16,122,411.04 in LGIP deposits for capital projects.

The LGIP is part of the State Pooled Investment Fund. The fund's required risks disclosures are presented in the *State of Tennessee's Treasurer's Report*. That report is available on the state's website at http://www.tn.gov/treasury or by calling (615) 741-2956.

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.

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, 2009, the university had the following investments and maturities.

Investment Type	Fair Value	Less than 1 year	1 to 5 years
U.S. Treasury notes	$30,175,307.40	$24,105,391.50	$6,069,915.90
Certificates of deposit	200,000.00	200,000.00	-
Total	$30,375,307.40	$24,305,391.50	$6,069,915.90

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 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, 2009, the university's investments were rated as follows:

	Credit Quality Rating	
Investment Type	Fair Value	Unrated
LGIP	$75,778,951.75	$75,778,951.75
Total	$75,778,951.75	$75,778,951.75

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2009
Student accounts receivable	$10,290,001.48
Grants receivable	12,064,161.63
Notes receivable	1,561,861.99
State appropriation receivable	219,100.00
Other receivables	14,812,067.87
Subtotal	38,947,192.97
Less allowance for doubtful accounts	(8,959,141.64)
Total receivables	$29,988,051.33

Federal Perkins Loan Program funds included the following:

	June 30, 2009
Perkins loans receivable	$4,181,741.39
Less allowance for doubtful accounts	(528,524.01)
Total	$3,653,217.38

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 16,599,350.25	$ 238,800.00	$ -	$ -	$ 16,838,150.25
Land improvements and infrastructure	36,367,313.68	1,792,682.75	6,481,748.40	-	44,641,744.83
Buildings	253,793,285.77	1,639,553.33	780,140.64	-	256,212,979.74
Equipment	43,673,038.45	2,558,321.12	-	6,414,702.57	39,816,657.00
Library holdings	34,795,262.55	3,635,593.90	-	3,190,248.33	35,240,608.12
Software	6,608,494.48	626,754.02	-	-	7,235,248.50
Projects in progress	29,236,469.75	67,271,297.91	(7,261,889.04)	-	89,245,878.62
Total	421,073,214.93	77,763,003.03	-	9,604,950.90	489,231,267.06
Less accumulated depreciation:					
Land improvements and infrastructure	12,808,010.79	1,333,050.13	-	-	14,141,060.92
Buildings	97,959,587.54	5,528,791.00	-	-	103,488,378.54
Equipment	32,357,656.87	1,892,670.09	-	6,631,901.72	27,618,425.24
Library holdings	18,354,045.43	3,524,060.81	-	3,190,248.33	18,687,857.91
Software	835,695.10	468,140.10	-	-	1,303,835.20
Total accumulated depreciation	162,314,995.73	12,746,712.13	-	9,822,150.05	165,239,557.81
Capital assets, net	$ 258,758,219.20	$65,016,290.90	$ -	$ (217,199.15)	$323,991,709.25

NOTE 6. ACCOUNTS PAYABLE

Accounts payable included the following:

	June 30, 2009
Vendors payable	$2,851,148.80
Unapplied student payments	5,109.75
Construction projects payments	1,807,025.80
Other payables	1,902,343.81
Total accounts payable	$6,565,628.16

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$50,012,332.83	$30,491,241.44	$ 3,793,869.74	$ 76,709,704.53	$5,138,985.69
Commercial paper	13,863,632.85	36,333,561.13	30,365,870.48	19,831,323.50	-
General obligation debt:					
Commercial paper	1,667,594.40	655,363.42	145,089.00	2,177,868.82	-
Subtotal	65,543,560.08	67,480,165.99	34,304,829.22	98,718,896.85	5,138.985.69
Other liabilities:					
Compensated absences	8,922,438.44	5,176,235.04	5,517,618.41	8,581,055.07	2,310,805.64
Due to grantors	2,917,466.84	504,409.33	16,559.30	3,405,316.87	-
Net OPEB obligation	4,458,254.55	4,324,426.18	-	8,782,680.73	-
Subtotal	16,298,159.83	10,005,070.55	5,534,177.71	20,769,052.67	2,310,805.64
Total long-term liabilities	$81,841,719.91	$77,485,236.54	$39,839,006.93	$119,487,949.52	$7,449,791.33

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 2% 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; see Note 10 for further details. 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 $2,443,948.82 at June 30, 2009. Unexpended debt proceeds were $1,817.14 at June 30, 2009.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2009, are as follows:

Year Ending June 30	Principal	Interest	Total
2010	$ 5,138,985.69	$ 3,774,760.96	$ 8,913,746.65
2011	3,350,616.37	3,464,782.64	6,815,399.01
2012	3,104,257.07	3,355,319.17	6,459,576.24
2013	2,966,093.50	3,243,140.42	6,209,233.92
2014	2,957,740.90	3,098,762.41	6,056,503.31
2015 – 2019	16,311,198.43	13,466,211.05	29,777,409.48
2020 – 2024	18,556,918.75	9,266,511.90	27,823,430.65
2025 – 2029	20,003,436.82	4,460,940.94	24,464,377.76
2030 – 2034	3,835,456.40	488,254.96	4,323,711.36
2035 – 2036	485,000.60	41,645.10	526,645.70
	$76,709,704.53	$44,660,329.55	$121,370,034.08

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 $19,831,323.50 at June 30, 2009.

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 is available on the state's website at http://tn.gov/comptroller/bf/tssbacafr.htm.

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 $2,177,868.82 at June 30, 2009. Additional information regarding the state's commercial paper can be found 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 8. 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 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, 2009, net appreciation of $1,713,797.00 is available to be spent, of which $116,650.00 is included in restricted net assets expendable for scholarships and fellowships, $1,480,478.00 is included in restricted net assets expendable for instructional department uses, $103,455.00 is included in restricted net assets expendable for loans, and $13,214.00 is included in restricted net assets expendable for other.

NOTE 9. UNRESTRICTED NET ASSETS

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

	June 30, 2009
Working capital	$11,381,266.15
Encumbrances	857,820.53
Designated fees	2,045,855.59
Auxiliaries	864,411.00
Plant construction	24,601,385.26
Renewal and replacement of equipment	16,370,874.86
Undesignated	14,671,266.02
Total	$70,792,879.41

NOTE 10. PLEDGED REVENUES

The university has pledged certain revenues and fees, including state appropriations, to repay $76,709,704.53 in revenue bonds issued from May 1976 to April 2009. Proceeds from the bonds provided financing for construction and renovation of various facilities as well as building systems and equipment that includes facility upgrades, athletics office building renovations, physical education building upgrades, university center renovations, athletic training center upgrades, dormitory and student family housing additions and upgrades, a chiller conversion project, a student activities complex, an addition to the Fogelman College of Business, the Wilson Hospitality Education Center, and administrative computing equipment. The bonds are payable through 2036. Annual principal and interest payments on the bonds are expected to require

1.9% of available revenues. The total principal and interest remaining to be paid on the bonds is $121,370,034.08. Principal and interest paid for the current year and total available revenues were $6,246,804.12 and $309,888,728.79, respectively.

NOTE 11. PENSION PLANS

A. Defined Benefit Plans

1. Tennessee Consolidated Retirement System

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report is available on the state's website at http://www.state.tn.us/treasury/tcrs/index.html.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 13.02% 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, 2009, 2008, and 2007 were $7,075,175.69, $7,851,077.60, and $7,671,687.96. 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), ING 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 $9,003,522.55 for the year ended June 30, 2009, and $9,002,652.07 for the year ended June 30, 2008. Contributions met the requirements for each year.

NOTE 12. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible university retirees. This program includes two plans – the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-201, *Tennessee Code Annotated*, for the State Employee Group Plan and Section 8-27-701, *Tennessee Code Annotated*, for the Medicare Supplement Plan. Prior to reaching age 65, retirees may participate in the State Employee Group Plan. Members of this plan 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, retirees who are also in the state's retirement system may participate in the Medicare Supplement

Plan that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the university's eligible retirees; see Note 19. 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, or by calling (615) 741-2140.

Special Funding Situation

The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including The University of Memphis. The state is the sole contributor for the university retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy

The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is 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. Administrative costs of the plan are allocated to participants. Retirees in the State Employee Group Plan pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 20 but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium.

The University of Memphis
Annual OPEB Cost and Net OPEB Obligation
State Employee Group Plan

Annual required contribution (ARC)	$6,550,000.00
Interest on the net OPEB obligation	200,621.45
Adjustment to the ARC	(195,263.43)
Annual OPEB cost	6,555,358.02
Amount of contribution	(2,230,931.84)
Increase in net OPEB obligation	4,324,426.18
Net OPEB obligation – beginning of year	4,458,254.55
Net OPEB obligation – end of year	$8,782,680.73

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2009	State Employee Group Plan	$6,555,358.02	34%	$8,782,680.73

Funded Status and Funding Progress

The funded status of the university's portion of the State Employee Group Plan as of July 1, 2007, 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	45.9%

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 Required Supplementary Information 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. 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 12 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 13. 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 amounts 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, 2009, and June 30, 2008, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html. 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, 2009, the Risk Management Fund held $127.0 million in cash and cash equivalents designated for payment of claims.

At June 30, 2009, the scheduled coverage for the university was $1,193,104,800.00 for buildings and $284,836,900.00 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, including the 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 14. COMMITMENTS AND CONTINGENCIES

Sick Leave

The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $71,750,007.07 at June 30, 2009.

Operating Leases

The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were $1,805,819.05 and for personal property were $208,653.06 for the year ended June 30, 2009. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2009, outstanding commitments under construction contracts totaled $41,912,705.38 for University Center Renovations, West Hall Student Housing Replacement, Law School Relocation, Drainage Connections, Wilder Tower Brick Façade Restoration, Engineering Complex HVAC Fire Service, Community Health Facility, and Biochemistry and Biology Facility, of which $18,300,128.53 will be funded by future state capital outlay appropriations.

Litigation

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

NOTE 15. CHAIRS OF EXCELLENCE

The university had $54,177,161.70 on deposit at June 30, 2009, 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 16. FUNDS HELD IN TRUST BY OTHERS

The university is a beneficiary under the Van Vleet, Mike Driver, Pope M. Farrington, C.M. Gooch and Herbert Herff trusts. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received $1,802,612.21 from these funds during the year ended June 30, 2009.

NOTE 17. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses by functional classification for the year ended June 30, 2009, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 84,490,015.51	$ 22,639,783.14	$ 11,971,160.42	$ -	$ -	$ 119,100,959.07
Research	21,138,709.63	5,414,908.29	8,612,772.48	-	-	35,166,390.40
Public service	7,399,701.76	1,981,973.08	4,290,020.97	-	-	13,671,695.81
Academic support	17,490,213.39	5,966,594.17	5,179,399.61	-	-	28,636,207.17
Student services	18,087,856.86	5,985,658.17	14,139,459.94	-	-	38,212,974.97
Institutional support	15,697,844.41	5,726,658.93	6,269,409.66	-	-	27,693,913.00
Operation & maintenance	9,813,137.39	4,534,082.47	12,724,564.96	-	-	27,071,784.82
Scholarships & fellowships	-	-	-	46,935,908.49	-	46,935,908.49
Auxiliary	2,224,593.22	527,614.68	8,686,334.24	-	-	11,438,542.14
Depreciation	-	-	-	-	12,746,712.13	12,746,712.13
Total	$ 176,342,072.17	$ 52,777,272.93	$ 71,873,122.28	$ 46,935,908.49	$ 12,746,712.13	$ 360,675,088.00

NOTE 18. AFFILIATED ENTITY NOT INCLUDED

The University of Memphis Research Foundation is a private, nonprofit foundation with the University as the sole beneficiary. 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, 2009 the assets of the University of Memphis Research Foundation totaled $2,515,059.66, liabilities were $2,504,120.38, and the net assets amounted to $10,939.28.

NOTE 19. ON-BEHALF PAYMENTS

During the year ended June 30, 2009, the State of Tennessee made payments of $176,439.00 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 12. 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 20. VOLUNTARY BUYOUT PROGRAM

The university implemented a Voluntary Buyout Plan in fiscal year 2009 as a strategy to rebalance financial and human resources into highly strategic areas of the university. One hundred twenty-six employees participated in the Voluntary Buyout Plan and were terminated on or before December 31, 2008.

Severance pay was paid in January 2009, the month following the employee's separation date. Severance pay included

- Base severance payment equal to three times the employee's monthly rate of pay in effect on October 1, 2008.
- Service payment of $500 for each full or partial year of university service as of October 1, 2008.
- Amount equivalent to the employee's next longevity payment based on their years of creditable state service.
- Amount equivalent to six months of the university's portion of the monthly health insurance premium.

Severance benefits included

- Tuition assistance of $10,800 over two years at technology centers, community colleges, and state universities in Tennessee.

As of June 30, 2009, expenditures for payout of the Voluntary Buyout Plan were $3,730,022.59. Accrued tuition benefits were $100,000.00 at June 30, 2009.

NOTE 21. 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, 2009, the foundation made distributions of $11,949,512.00 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.

Fair Value Measurements

The foundation reports certain assets and liabilities at fair value. Fair value has been determined using quoted prices in active markets for identical assets and liabilities that are accessible at the measurement date (Level 1), inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset or liability (Level 2), or significant unobservable inputs (Level 3). The following table categorizes the recurring fair value measurements for assets and liabilities at June 30, 2009.

	Level 1	Level 2	Level 3	Total
Money market funds	$ 38,596,731	-	-	$ 38,596,731
Limited partnerships and LLC's	-	$ 4,927,792	$ 17,669,174	22,596,966
Common/collective trust funds- equities	-	13,063,371	-	13,063,371
Mutual funds - fixed income	11,847,828	-	-	11,847,828
Mutual funds - other	5,422,293	-	-	5,422,293

U.S. government securities	-	108,420	-	108,420
Corporate bonds	-	91,142	-	91,142
	$ 55,866,852	$ 18,190,725	$ 17,669,174	$ 91,726,751

The following table reconciles beginning and ending balances of all assets and liabilities valued using Level 3 inputs.

	Limited Partnership and LLC Investments
	2009
Balances, beginning of year	$ 33,084,024
Purchases	1,157,563
Sales	(9,502,734)
Realized gains (losses)	882,344
Unrealized gains (losses)	(7,952,023)
Balances, end of year	$ 17,669,174

Cash and Cash Equivalents

Cash and cash equivalents consists of demand deposit accounts and money market funds. Of the bank balance of deposits at June 30, 2009, $250,000 was insured by FDIC and $130,384 was not insured.

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, 2009, were as follows:

	Cost	Market Value
Money market funds	$ 38,596,731	$ 38,596,731
Limited partnerships and LLCs	24,971,402	22,596,966
Common/collective trust funds – equities	14,189,773	13,063,371
Mutual funds – fixed income	11,551,532	11,847,828
Mutual funds – other	7,706,905	5,422,293
U.S. government securities	103,742	108,420
Corporate bonds	88,904	91,142
Total investments	$ 97,208,989	$ 91,726,751

Alternative investments - The foundation has investments in certain limited partnership investments and certain other investments that are classified for fair value measurement purposes as Level 3. The estimated fair value of these assets is $17,669,174 at June 30, 2009.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2009. Because these investments are not readily marketable, the estimated value is subject to uncertainty, and therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated by the Foundation's investment managers using various valuation techniques and are subject to audit by the investment managers' independent accountants.

Pledges Receivable

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

	June 30, 2009
Current pledges	$ 8,583,388
Pledges due in one to five years	7,542,348

Pledges due after five years	430,000
Subtotal	16,555,736
Less discount to net present value	345,733
Less allowance for uncollectible contributions	1,253,946
Total pledges receivables, net	$ 14,956,057

Long-term Liabilities

Long-term liabilities at June 30, 2009, consisted of the following:

	Ending Balance	Current Portion
Payables:		
Notes	$ 83,568	$ -

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 principal on 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 $43,568.00 at June 30, 2009.

The note payable to donors to assist the University of Memphis Law School in preparing for a capital campaign is unsecured and bears interest at a variable rate (3.25% at June 30, 2009). 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, 2009.

Endowments

The University of Memphis Foundation's endowment consists of approximately 360 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law - The Board of Trustees of the University of Memphis Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University of Memphis Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment; (2) the original value of subsequent gifts to the permanent endowment; (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the foundation and the endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the foundation; and (7) the investment policies of the foundation.

Composition of Endowment by Net Asset Class
As of June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (3,180,128)	$ 9,305,384	$44,490,301	$ 50,615,557
Board-designated endowment funds	4,785,220	-	-	4,785,220
	$ 1,605,092	$ 9,305,384	$44,490,301	$ 55,400,777

Changes in Endowment Net Assets for the Fiscal Year End
June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 6,132,983	$ 21,253,695	$ 41,565,251	$ 68,951,929
Investment return:				
Investment income (loss)	(47,071)	(522,753)	-	(569,824)
Net depreciation (realized and unrealized)	(1,048,559)	(12,618,224)	-	(13,666,783)
Total investment return (loss)	(1,095,630)	(13,140,977)	-	(14,236,607)
Contributions	-	103,160	2,976,382	3,079,542
Appropriation of endowment assets for expenditure	(297,869)	(2,087,204)	-	(2,385,073)
Other changes:				
Investment deficiencies reclassified to unrestricted net assets	(3,134,392)	3,134,392	-	-
Donor modifications of restrictions	-	42,318	(51,332)	(9,014)
End of year	$ 1,605,092	$ 9,305,384	$ 44,490,301	$ 55,400,777

Return objectives and risk parameters - The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce consistent long-term growth of capital without undue exposure to risk. The Foundation's total return objective for its endowment funds is a total return over a market cycle of at least 5% over the inflation rate. A market cycle shall generally be considered to be a three to five year period. Actual returns may vary from the total return objective.

Strategies employed for achieving objectives - To satisfy its long-term rate-of-return objectives, the foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk restraints.

Spending policy and how the investment objectives relate - The Foundation has a policy of budgeting (appropriating) for expenditure each year a percentage of its endowment funds' average fair value over the prior twelve quarters through the fiscal year-end one year preceding the fiscal year in which the expenditure is planned. For fiscal year 2009 this percentage was 5 percent (5%). In establishing this policy, the Foundation considered the long-term expected return on its endowment funds. Accordingly, over the long-term, the Foundation expects the current spending policy to allow for endowment growth. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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)]
July 1, 2007	State Employee Group Plan	$ -	$57,082,000	$57,082,000	0%	$124,249,650	45.9%

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS FOUNDATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS - COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$	22,503,586.00
Payments to suppliers and vendors		(8,589,105.00)
Payments to The University of Memphis		(10,360,939.00)
Net cash provided by operating activities		3,553,542.00
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes		2,638,112.00
Other non-capital financing		(23,768.00)
Net cash provided by noncapital financing activities		2,614,344.00
CASH FLOWS FROM INVESTING ACTIVITIES		
Loss on investments		(13,267,530.00)
Purchases of investments		(18,159,157.00)
Net cash used by investing activities		(31,426,687.00)
Net decrease in cash and cash equivalents		(25,258,801.00)
Cash and cash equivalents - beginning of year		25,639,185.00
Cash and cash equivalents - end of year	$	380,384.00
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(127,785.00)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Change in assets and liabilities:		
Receivables, net		2,091,327.00
Accounts payable		1,596,851.00
Accrued liabilities		(33,190.00)
Other assets		(8,278.00)
Deferred revenues		34,617.00
Net cash provided by operating activities	$	3,553,542.00
Noncash transactions		
Unrealized losses on investments	$	(13,494,733.00)
Bad debt expense	$	1,075,188.00