AUDIT REPORT

Tennessee Board of Regents
The University of Memphis
For the Year Ended
June 30, 2010

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee
Comptroller
of the Treasury

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In-Charge Auditors

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Angela Courtney
Laura King
Michael Wilbanks, CFE
Staff Auditors

Gerry Boaz, CPA
Technical Manager

Amy Brack
Editor

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

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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

March 24, 2011

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, 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, 2010. 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/cd
10/067

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, 2010

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, 2010

TABLE OF CONTENTS

TABLE OF CONTENTS (CONT.)

Tennessee Board of Regents
The University of Memphis
For the Year Ended June 30, 2010

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, 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 composed 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 five 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, 2009, through June 30, 2010, 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, 2010. 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, 2010, 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.

STATE OF TENNESSEE
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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 20, 2011

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, 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, 2010, and have issued our report thereon dated January 20, 2011. 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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 its 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/cd

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DIVISION OF STATE AUDIT
SUITE 1500
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FAX (615) 532-2765

Independent Auditor's Report

January 20, 2011

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, 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, 2010, as listed in the table of contents. These financial statements are the responsibility of the university's management. Our responsibility is to express opinions on these financial statements, based on our audit. We did not audit the financial statements of The University of Memphis Foundation, a discretely presented component unit of the university. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for The University of Memphis Foundation, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of The University of Memphis, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only The University of Memphis. They do not purport to, and do not, present fairly the financial position of the Tennessee Board of Regents, as of June 30, 2010, 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 units as of June 30, 2010, 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 discussed in Note 21, the financial statements of The University of Memphis Foundation, a discretely presented component unit of The University of Memphis, include investments valued at $19,973,257 (20.7 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 11 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 20, 2011, 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 considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/cd

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

This section of The University of Memphis's annual financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2010, with comparative information presented for the fiscal year ended June 30, 2009. 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 the 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.

Statement of Net Assets - The University

(in thousands of dollars)

	2010	2009
Assets:		
Current assets	$ 72,963	$ 97,193
Capital assets, net	372,339	323,992
Other assets	85,773	57,211
Total assets	531,075	478,396
Liabilities:		
Current liabilities	44,759	55,199
Noncurrent liabilities	128,606	112,038
Total liabilities	173,365	167,237
Net assets:		
Invested in capital assets, net of related debt	262,699	225,273
Restricted - nonexpendable	3,716	3,689
Restricted - expendable	8,941	11,404
Unrestricted	82,354	70,793
Total net assets	$ 357,710	$ 311,159

Comparison of FY 2010 to FY 2009

- Net capital assets increased by $48 million primarily due to the construction of the new University Center, Living Learning Complex (formerly West Hall), and the renovation of the Downtown Law School.

- The decrease in current liabilities is the result of a $9 million liability due to the State of Tennessee for the FY 2009 allotment of American Recovery and Reinvestment Act (ARRA) State Fiscal Stabilization Funds (SFSF) that was drawn down and receipted as of June 30, 2009. This entire allotment was returned to the State of Tennessee on July

21, 2009. These funds were received in FY 2010 on an incremental reimbursement basis after expenses were incurred.

- Noncurrent liabilities increased by $16.6 million due to an increase in debt related to the construction of the new University Center and the Living Learning Complex, as well as an increase in the Other Post Employment Benefits (OPEB) liability of $3 million.

- The $37.4 million increase in invested in capital assets net of related debt is a result of the renovation of the Downtown Law School ($21.5 million), the construction of the University Center ($13 million funded locally), the Campus Wireless Upgrade project ($1.4 million), and the South Campus Electric and Gas Infrastructure Replacement project ($1.8 million).

- The decrease in restricted - expendable net assets is primarily due to the retirement of the Wilson Hotel debt. This debt was funded with a restricted gift.

- Unrestricted net assets increased by $11.5 million primarily due to spending reductions implemented to offset the cut in state appropriations including cost-cutting measures, limiting hiring and restructuring, as well as the availability of federal ARRA funds and the spending time frame required for these funds. Additionally, the university benefited from a two-month health insurance premium holiday.

Net Assets - Foundation
(in thousands of dollars)

	2010	2009
Assets:		
Current assets	$ 5,547	$ 8,793
Noncurrent assets	102,721	99,153
Total assets	108,268	107,946
Liabilities		
Current liabilities	11,766	9,266
Noncurrent liabilities	15	84
Total liabilities	11,781	9,350

Net assets:		
Restricted - nonexpendable	48,948	44,490
Restricted - expendable	39,360	47,419
Unrestricted	8,179	6,687
Total net assets	$ 96,487	$ 98,596

Comparison of FY 2010 to FY 2009

- Current assets decreased due to a decrease in net pledges receivable resulting from an increase in the allowance for uncollectable pledges as well as collections on existing pledges exceeding the receipt of new pledges. These declines are all believed to be related to the generally poor economic environment. The decrease is partially offset by an increase in cash and cash equivalents resulting from gifts received at fiscal year end.

- Current liabilities increased due to a higher level of accounts payable principally related to Athletic Department commitments.

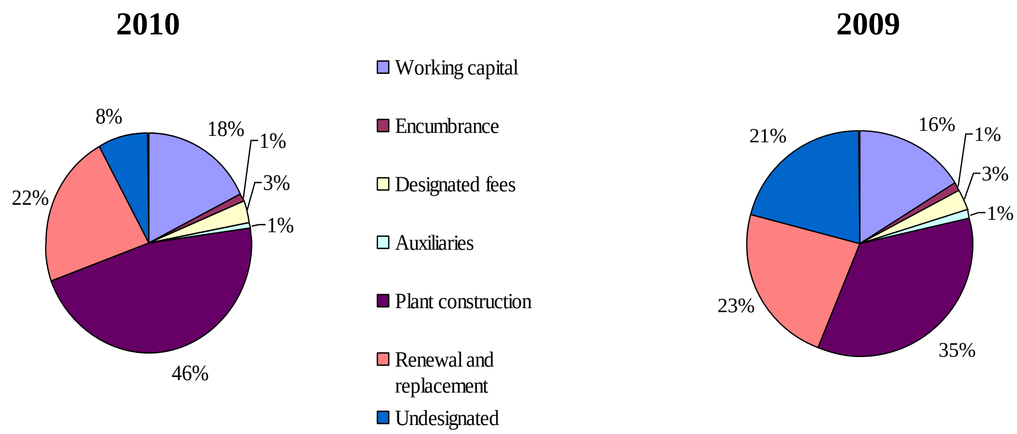
- Noncurrent liabilities decreased due to loan payments made.

- Restricted - expendable net assets decreased principally due to expenditures and transfers to permanently restricted.

- Unrestricted net assets increased principally due to restricted endowment net assets associated with board-designated endowment funds being reclassified to unrestricted net assets as a result of implementation of FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds.*

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

Allocation of Net Assets – The University



<u>Comparison of FY 2010 to FY 2009</u>

- The increase in working capital designated net assets of $3.2 million is primarily related to increases in receivables from the University of Memphis Foundation (Tiger Scholarship Fund) for the support of Athletics and the Federal ARRA State Fiscal Stabilization Funds (SFSF) drawdown receivable at June 30, 2010.

- The undesignated net assets decreased due to funding for plant construction for deferred maintenance projects.

- The increase in the plant construction net assets represents funding for deferred maintenance projects. This one-time funding is available as a result of cost-cutting measures, limited hiring, and restructuring implemented in response to state budget cuts. Additional funds resulted from a state-wide two-month health insurance premium holiday as well as access to federal ARRA funds, coupled with the priority placed on spending these funds to comply with federal spending requirements.

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

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

Changes in Net Assets - The University

(in thousands of dollars)

	2010	2009
Operating revenue:		
Net tuition and fees	$ 107,768	$ 98,715
Grants and contracts	41,943	40,737
Auxiliary	17,328	16,245
Other	26,019	26,529
Total operating revenues	193,058	182,226
Operating expenses	(374,945)	(360,675)
Operating loss	(181,887)	(178,449)
Nonoperating revenues and expenses:		
State appropriations	108,550	117,560
Gifts	17,058	15,725
Investment income	2,545	4,259
Other revenues and expenses	74,668	43,022
Total nonoperating revenues and expenses	202,821	180,566
Income before other revenues, expenses, gains, or loss	20,934	2,117
Other revenues, expenses, gains, or losses		
Capital appropriations	18,986	26,457
Capital grants and contracts	6,631	1,481
Other	-	42
Total other revenues, expenses, gains, or losses	25,617	27,980
Increase in net assets	46,551	30,097

Net assets at beginning of year	311,159	281,062
Net assets end of year	$ 357,710	$ 311,159

Comparison of FY 2010 to FY 2009

- Net tuition and fees increased by $9 million as a result of a 7% increase in student fees as well as increased enrollment.
- State appropriations decreased $9 million as a result of an 8% cut in state appropriations. Base state appropriations actually decreased by 15%; however, this reduction was offset by a special one-time appropriation (Maintenance of Effort).
- The decrease in investment income is due to lower market yields.
- Other nonoperating revenues include a $12.5 million increase in Pell Grants, a $2 million increase in Tennessee HOPE Scholarships, and $17.1 million in Federal ARRA State Fiscal Stabilization Funds.
- Capital appropriations decreased by $7.5 million primarily due to state appropriated construction funding for the Downtown Law School in FY 2009. The renovation of the Downtown Law School was completed in FY 2010.
- Capital grants and gifts increased as the result of a $5.3 million payment by the foundation to the United States Postal Service for the Downtown Law School building and the capitalization of the related easement for $1.2 million.

Changes in Net Assets - The Foundation

(in thousands of dollars)

	2010	2009
Operating revenues and expenses		
Gifts and contributions	$ 16,977	$ 20,378
Operating expenses	(25,890)	(20,506)
Operating loss	(8,913)	(128)

Nonoperating revenues and expenses		
Investment income	6,345	(13,157)
Other non-operating expenses	(1,468)	-
Net non-operating revenues	4,877	(13,157)
Loss before other revenues, expenses, gains, or losses	(4,036)	(13,285)
Other revenues, expenses, gains or losses	1,927	2,638
Decrease in net assets	(2,109)	(10,647)
Net assets at beginning of year	98,596	109,243
Net assets end of year	$ 96,487	$ 98,596

Comparison of FY 2010 to FY 2009

- The decrease in gifts and contributions is believed to be principally due to general economic conditions.

- The increase in operating expenses is principally due to an increase in construction and special projects.

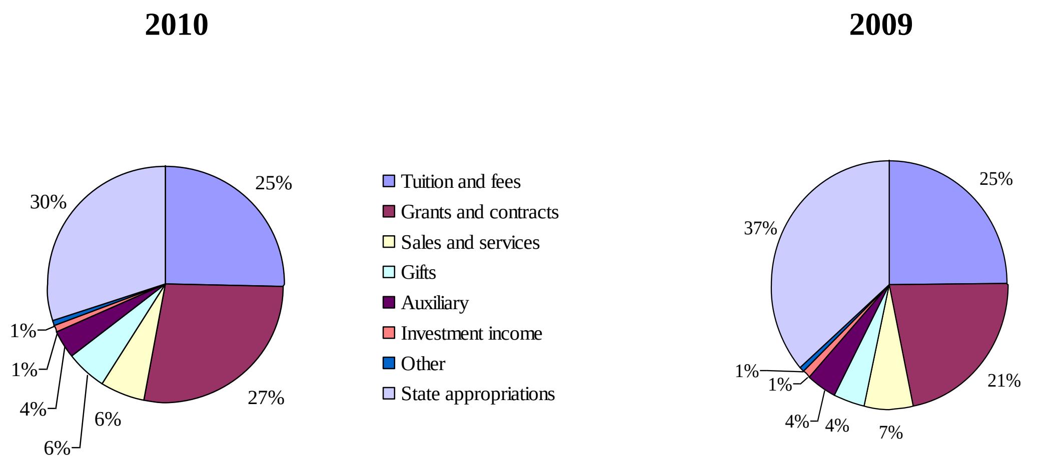
- The increase in investment income is principally due to improved financial markets.

- The decrease in other revenues, expenses, gains or losses is principally due to a reclassification of restricted endowment net assets associated with board-designated endowment funds to unrestricted net assets. This reclassification was a result of implementation of FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds.*

Revenues

The following is a graphical 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, 2010, and June 30, 2009 (amounts are presented in thousands of dollars).

Revenues – The University



Comparison of FY 2010 to FY 2009

- Revenue from grants and contracts increased in FY 2010 due to increases in Pell Grants ($12.5 million), the Tennessee HOPE Scholarships ($2 million), and State Fiscal Stabilization Funds ($17.1 million).
- State appropriations decreased due to an 8% reduction in operating appropriation as well as reduced capital appropriations related to the completion of the Downtown Law School.
- Gifts increased due to Tiger Scholarship Fund support for Athletics, a gift-in-kind of $5.3 million from the foundation for the Downtown Law School building, and a $1.2 million gift-in-kind from the City of Memphis for an easement for the downtown Law School property.

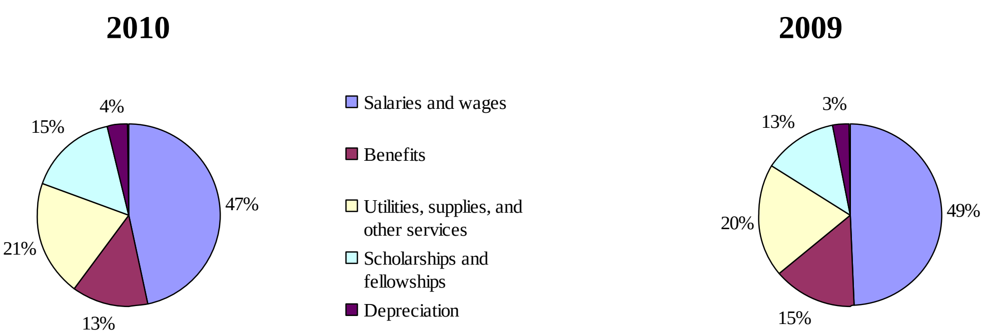
- Investment income decreased $1.7 million due to lower market yields.

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)

	2010	2009
Operating Expenses:		
Salaries and wages	$ 175,106	$ 176,342
Benefits	49,450	52,777
Utilities, supplies, and other services	77,725	71,873
Scholarships and fellowships	57,567	46,936
Depreciation	15,097	12,747
Total Operating Expenses	$ 374,945	$ 360,675



Comparison of FY 2010 to FY 2009

- Operating costs increased by $5.8 million primarily due to non-capital infrastructure and furnishing costs for the University Center and the Living Learning Complex as well as a Classroom Improvement project.

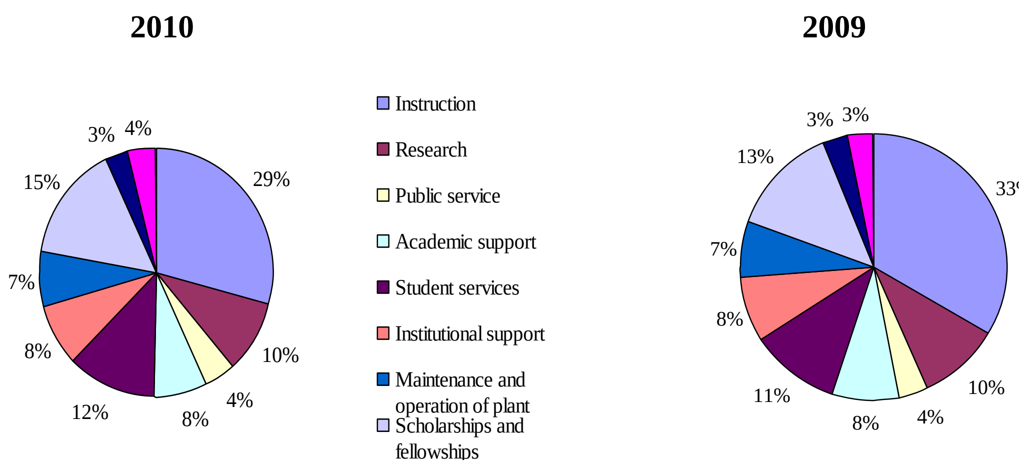
- Scholarships and fellowships increased as a result of a 7% increase in tuition. Individually significant programs were Pell Grants ($11.6 million increase) and the Tennessee HOPE Scholarship ($1.9 million).

- Depreciable capital assets totaling $55 million were capitalized, increasing depreciation expense.

Program Classification

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

	2010		2009	
Operating Expenses:				
Instruction	$	110,248	$	119,101
Research		35,753		35,166
Public Service		12,840		13,672
Academic Support		28,890		28,636
Student Services		45,333		38,213
Institutional Support		30,606		27,694
Maintenance and Operation of Plant		27,064		27,072
Scholarships and Fellowships		57,566		46,936
Auxiliaries		11,548		11,438
Depreciation		15,097		12,747
Total Operating Expenses	$	374,945	$	360,675



Comparison of FY 2010 to FY 2009

- Student Services increased primarily due to the timing of staffing transitions in Athletics.
- Scholarships and fellowships increased as a result of a 7% increase in tuition.
- Institutional Support increased as a result of costs associated with the Desire-2-Learn course management software, an image and reputation initiative, and temporary staffing needs in various departments.
- Depreciation expense increased $2.3 million due to the addition of capitalized assets such as the University Center, Living Learning Complex, and the Downtown Law School.

Natural Classification - The Foundation

(in thousands of dollars)

	2010	2009
Operating expenses:		
Utilities, supplies and other services	$ 8,678	$ 8,556
Payment to or on behalf of the University	17,212	11,950
Total operating expenses	$ 25,890	$ 20,506

Comparison of FY 2010 to FY 2009

- The change in operating expenses is principally due to an increase in construction and special projects. Payment to the university increased primarily due to expenses associated with staffing transitions in Athletics as well as special project expenditures associated with the FedEx Institute of Technology and the Downtown Law School.

Capital Assets and Debt Administration

Capital Assets

The University of Memphis had $372 million invested in capital assets, net of accumulated depreciation of $172 million at June 30, 2010; and $324 million invested in capital assets, net of accumulated depreciation of $165 million at June 30, 2009. Depreciation charges totaled $15.1 million and $12.7 million for the years ended June 30, 2010, and June 30, 2009, respectively. Details of these assets are shown below.

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

	2010	2009
Land	$ 17,583	$ 16,838
Improvements	46,777	30,501
Buildings	269,898	152,724
Equipment	12,890	12,198
Library holdings	16,534	16,553
Intangible assets	6,288	5,931
Projects in progress	2,369	89,246
	$ 372,339	$ 323,991

- Land improvements increased $18 million primarily as a result of HVAC Improvements ($13.7 million), Park Avenue Campus Electric and Gas Infrastructure Improvements ($4.5 million), and Campus Wireless Upgrade.

- Building additions include the University Center ($47 million), the Downtown Law School ($47 million), and the Living Learning Complex ($24.8 million).

- Projects in progress decreased primarily due to the completion of the University Center, Living Learning Complex, and Downtown Law School buildings.

Planned capital activity for FY 2011 includes the renovation of Robison Hall ($4.8 million) and the HVAC replacement in the old Law School building ($4.7 million). Plans also include the acquisition of properties for expansion purposes funded through General Obligation Bonds (up to $4 million debt at any point in time, $7 million total authorized).

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

Debt

The university had $109.6 million and $98.7 million in debt outstanding at June 30, 2010, and June 30, 2009, respectively. The table below summarizes these amounts by type of debt instrument.

Outstanding Debt - The University
(in thousands of dollars)

	2010	2009
Bonds Payable	$ 71,637	$ 76,710
TSSBA Commercial Paper	34,115	19,831
GO Commercial Paper	3,889	2,178
Total	$ 109,641	$ 98,719

- TSSBA commercial paper debt increased for the Living Learning Complex dormitory ($9.4 million) and the Performance Contracting Energy Savings project ($4.8 million).

- General obligation commercial paper debt increased $1.7 million to fund the purchase of nine residential properties that are located within the university's planned expansion area. The properties will be held as residential rental property until further development.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2010, were as follows:

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

More 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 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. For the third consecutive year, the base state appropriations will be reduced. The reduction for FY 2011 is $6.4 million, or 6.6% from the previous year. Since FY 2008, the university has sustained a cumulative state appropriation reduction of $33 million, or 27%. The base reduction will continue to be handled through a variety of means, including tuition increases, budget reductions, restructuring, cost cutting, and position attrition in accordance with the university's three-year financial plan which was implemented in FY 2010 as part of the State of Tennessee budget process.

Over the next year, the university will continue to utilize state one-time funds to transition to reduced state appropriations. These one-time funds will not be available in subsequent years. Additionally, the university has implemented a 5.6% increase in student fees for FY 2011. Recent increases in student fees have not significantly impacted enrollment; rather, a moderate enrollment increase (6%) was realized in FY 2010.

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.

Exhibit A

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENTS OF NET ASSETS
June 30, 2010

	Instituition	Component Unit
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 21)	$ 18,531,916.76	$ 1,198,427.00
Short-term investments (Note 3)	21,418,495.43	-
Accounts, notes, and grants receivable (net) (Note 4)	29,784,590.10	-
Due from primary government	1,336,974.59	-
Pledges receivable (net) (Note 21)	-	4,273,166.00
Inventories (at lower of cost or market)	601,008.63	-
Prepaid expenses and deferred charges	866,272.69	-
Accrued interest receivable	423,647.18	75,248.00
Total current assets	72,962,905.38	5,546,841.00
Noncurrent assets:		
Cash and cash equivalents (Note 2)	62,185,839.70	-
Investments (Notes 3 and 21)	19,677,035.68	95,550,889.00
Accounts, notes and grants receivalbe (net) (Notes 4)	3,907,531.82	-
Pledges receivable (net) (Note 21)	-	4,818,704.00
Capital assets (net) (Note 5)	372,339,523.47	-
Other assets	2,500.00	2,351,516.00
Total noncurrent assets	458,112,430.67	102,721,109.00
Total assets	531,075,336.05	108,267,950.00
LIABILITIES		
Current liabilities:		
Accounts payable (Note 6)	5,442,503.32	11,579,693.00
Accrued liabilities	20,694,918.64	186,029.00
Student deposits	725,697.68	-
Deferred revenue	10,817,005.98	-
Compensated absences (Note 7)	2,492,471.35	-
Accured interest payable	580,464.36	-
Long-term liabilities, current portion (Note 7)	3,350,616.37	-
Deposits held in custody for others	655,793.07	-
Total current liabilities	44,759,470.77	11,765,722.00
Noncurrent liabilities		
Net OPEB obligation (Notes 7 and 12)	11,732,798.56	-
Notes payable (Note 21)	-	15,610.00
Compensated absences (Note 7)	6,675,258.76	-
Long-term liabilites (Note 7)	106,290,175.57	-
Due to grantors (Note 7)	3,907,531.82	-
Total noncurrent liabilites	128,605,764.71	15,610.00
Total liabilities	173,365,235.48	11,781,332.00
NET ASSETS		
Invested in capital assets, net of related debt	262,698,731.53	-
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	1,487,803.57	20,766,440.00
Research	-	222,064.00
Instructional department uses	-	15,731,620.00
Other	2,228,749.04	12,227,652.00
Expendable		
Scholarships and fellowships (Note 8)	1,084,146.74	6,736,514.00
Research	1,086,508.54	4,434,334.00
Instructional department uses (Note 8)	1,856,795.59	11,477,103.00
Loans (Note 8)	2,874,582.73	-
Capital projects	527,973.02	6,003,686.00
Debt service	152,153.82	-
Other (Note 8)	1,358,469.83	10,708,070.00
Unrestricted (Note 9)	82,354,186.16	8,179,135.00
Total net assets	$ 357,710,100.57	$ 96,486,618.00

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, 2010

	Institution	Component Unit
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $35,905,038.06)	$ 107,768,043.16	$ -
Gifts and contributions	-	16,977,597.00
Governmental grants and contracts	35,699,936.03	-
Nongovernmental grants and contracts	6,243,412.20	-
Sales and services of educational departments	25,850,195.81	-
Auxiliary enterprises		
Residential life (net of scholarship allowances of $160,050.34)	12,044,921.31	-
Bookstore	960,959.25	-
Food service	651,858.73	-
Other auxiliaries	3,670,503.27	-
Interest earned on loans to students	168,584.85	-
Total operating revenues	193,058,414.61	16,977,597.00
EXPENSES		
Operating expenses (Note 17):		
Salaries and wages	175,105,823.08	-
Benefits	49,450,398.58	-
Utilities, supplies and other services	77,725,338.54	8,677,734.00
Scholarships and fellowships	57,566,689.98	-
Depreciation expense	15,096,725.64	-
Payments to or on behalf of the University of Memphis	-	17,212,712.00
Total operating expenses	374,944,975.82	25,890,446.00
Operating loss	(181,886,561.21)	(8,912,849.00)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	108,549,439.00	-
Gifts (including $11,912,712.00 from The University of Memphis Foundation)	17,057,500.80	-
Grants and contracts	74,538,050.67	-
Investment income (net of investment expense of $36,546.64 for the institution and $191,030.00 for the component unit)	2,545,138.58	6,344,637.00
Interest on capital asset-related debt	(3,913,031.82)	-
Other non-operating revenues (expenses)	4,043,122.29	(1,467,547.00)
Net non-operating revenues (expenses)	202,820,219.52	4,877,090.00
Income (loss) before other revenues, expenses, gains, or losses	20,933,658.31	(4,035,759.00)
Capital appropriations	18,986,165.87	-
Capital grants and gifts (including $5,300,000 from the component unit)	6,631,400.00	-
Additions to permanent endowments	-	1,926,762.00
Total other revenues	25,617,565.87	1,926,762.00
Increase (decrease) in net assets	46,551,224.18	(2,108,997.00)
NET ASSETS		
Net assets - beginning of year	311,158,876.39	98,595,615.00
Net assets - end of year	$ 357,710,100.57	$ 96,486,618.00

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, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 106,885,832.19
Grants and contracts	43,163,061.88
Sales and services of educational activities	24,427,989.77
Payments to suppliers and vendors	(77,199,751.24)
Payments to employees	(173,074,412.00)
Payments for benefits	(47,033,232.98)
Payments for scholarships and fellowships	(57,566,689.98)
Loans issued to students	(900,497.48)
Collection of loans from students	507,172.52
Interest earned on loans to students	168,584.85
Auxiliary enterprise charges:	
Residence halls	11,867,320.04
Bookstore	960,959.25
Food services	651,858.73
Other auxiliaries	3,630,194.41
Net cash used by operating activities	(163,511,610.04)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State appropriations	108,402,100.00
Gifts and grants received for other than capital or endowment purposes, including $11,912,712.00 from the Foundation to the institution	82,906,397.58
Private gifts for endowment purposes	
Federal student loan receipts	119,517,717.00
Federal student loan disbursements	(119,517,717.00)
Changes in deposits held for others	58,881.35
Other non-capital financing receipts	4,652,987.13
Net cash provided by non-capital financing activities	196,020,366.06
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	16,224,332.15
Capital - state appropriation	18,986,165.87
Proceeds from sale of capital assets	2,890.63
Purchase of capital assets and construction	(58,290,475.22)

Exhibit C (Cont.)

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

Principal paid on capital debt	(5,305,327.69)
Interest paid on capital debt	(3,953,156.60)
Net cash used by capital and related financing activities	(32,335,570.86)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	23,943,087.48
Income on investments	2,747,399.45
Purchase of investments	(34,663,311.19)
Net cash used by investing activities	(7,972,824.26)
Net decrease in cash and cash equivalents	(7,799,639.10)
Cash and cash equivalents - beginning of year	88,517,395.56
Cash and cash equivalents - end of year	$ 80,717,756.46

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating loss	$ (181,886,561.21)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	15,096,725.64
Other adjustments (Note 20)	176,439.00
Change in assets and liabilities:	
Receivables, net	(1,865,503.72)
Inventories	26,193.46
Prepaid/deferred items	(167,695.04)
Accounts payable	(1,046,958.73)
Accrued liabilities	1,982,481.83
Deferred revenues	211,416.09
Deposits	425,059.77
Compensated absences	586,675.04
Net OPEB obligation	2,950,117.83
Net cash used by operating activities	$ (163,511,610.04)

Noncash investing, capital, and financing activities

Gifts in-kind	$ 6,631,400.00
Loss on disposal of capital assets	$ (107,649.89)

The notes to the financial statements are 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 significant 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 university's 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. All other 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 intangible assets, 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 intangible assets is set at $100,000.

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

Net Assets

The university's net assets are classified as follows:

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

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

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

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

This classification includes demand deposits and petty cash on hand. At June 30, 2010, cash consisted of $16,963,112.81 in bank accounts, $75,720.00 of petty cash on hand, $59,544,373.42 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $4,134,550.23 in LGIP deposits for capital projects.

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 LGIP account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the university for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

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, 2010, the university had the following investments and maturities.

		Investment Maturities (in Years)	
Investment Type	Fair Value	Less than 1	1 to 5
US Treasury notes	$40,895,531.11	$21,218,495.43	$19,677,035.68
Certificates of deposit	200,000.00	200,000.00	-
Total	$41,095,531.11	$21,418,495.43	$19,677,035.68

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. Prime banker's acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible, the original maturity must not be more than 270 days, and it must 1) arise out of the current shipment of goods between countries or with the United States, or 2) arise out of storage within the United States of goods under contract of sale or expected to move into the channel or trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

The policy requires that prime commercial paper shall be limited to that of corporations that meet the following criteria: 1) Senior long-term debt, if any, should have a minimum rating of A1 or equivalent, and short-term debt should have 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 rating must be A1 by all rating services (minimum of two). 2) The rating should be based on the merits of the issuer or guarantee by a nonbank. 3) A financial review should be made to ascertain the issuer's financial strength to cover the debt. 4) Commercial paper of a banking institution should not be purchased. Prime commercial paper shall not have a maturity that exceeds 270 days.

At June 30, 2010, the university's investments were rated as follows:

		Credit Quality Rating
Investment Type	Fair Value	Unrated
LGIP	$63,678,923.65	$63,678,923.65
Total	$63,678,923.65	$63,678,923.65

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2010
Student accounts receivable	$11,285,710.25
Grants receivable	10,761,240.60
Notes receivable	1,546,054.78
State appropriation receivable	190,000.00
Other receivables	15,115,452.53
Subtotal	38,898,458.16
Less allowance for doubtful accounts	(9,184,723.98)
Total receivables	$29,713,734.18

Federal Perkins Loan Program funds included the following:

	June 30, 2010
Perkins loans receivable	$ 4,506,911.75
Less allowance for doubtful accounts	(528,524.01)
Total	$3,978,387.74

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 16,838,150.25	$ 745,281.79	$ -	$ -	$ 17,583,432.04
Land improvements and infrastructure	44,641,744.83	-	18,034,705.41	-	62,676,450.24
Buildings	256,212,979.74	6,448,226.51	117,301,580.33	-	379,962,786.58
Equipment	39,816,657.00	3,816,456.47	-	5,723,196.05	37,909,917.42
Library holdings	35,240,608.12	3,546,193.81	-	3,137,497.60	35,649,304.33
Intangible assets:					
Easement	-	1,200,000.00	-	-	1,200,000.00
Software	7,235,248.50	-	-	-	7,235,248.50
Projects in progress	89,245,878.62	48,459,727.01	(135,336,285.74)	-	2,369,319.89
Total	489,231,267.06	64,215,885.59	-	8,860,693.65	544,586,459.00
Less accumulated depreciation/ amortization:					
Land improvements and infrastructure	14,141,060.92	1,758,185.60	-	-	15,899,246.52
Buildings	103,488,378.54	6,576,178.20	-	-	110,064,556.74
Equipment	27,618,425.24	2,353,811.60	-	4,951,850.32	25,020,386.52
Library holdings	18,687,857.91	3,564,930.43	-	3,137,497.60	19,115,290.74
Intangible assets:					
Software	1,303,835.20	843,619.81	-	-	2,147,455.01
Total	165,239,557.81	15,096,725.64	-	8,089,347.92	172,246,935.53
Capital assets, net	$323,991,709.25	$49,119,159.95	$ -	$771,345.73	$ 372,339,523.47

NOTE 6. ACCOUNTS PAYABLE

Accounts payable included the following:

	June 30, 2010
Vendors payable	$ 2,294,393.43
Unapplied student payments	13,305.48
Construction projects payments	693,185.33
Other payables	2,441,619.08
Total accounts payable	$5,442,503.32

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$76,709,704.53	$ 66,317.29	$5,138,985.69	$71,637,036.13	$3,350,616.37
Commercial paper	19,831,323.50	14,283,885.61	-	34,115,209.11	-
General obligation debt:					
Commercial paper	2,177,868.82	1,877,019.88	166,342.00	3,888,546.70	-
Subtotal	98,718,896.85	16,227,222.78	5,305,327.69	109,640,791.94	3,350,616.37
Other liabilities:					
Compensated absences	8,581,055.07	5,985,551.30	5,398,876.26	9,167,730.11	2,492,471.35
Due to grantors	3,405,316.87	517,662.72	15,447.77	3,907,531.82	-
Net OPEB obligation	8,782,680.73	2,950,117.83	-	11,732,798.56	-
Subtotal	20,769,052.67	9,453,331.85	5,414,324.03	24,808,060.49	2,492,471.35
Total long-term liabilities	$119,487,949.52	$ 25,680,554.63	$10,719,651.72	$134,448,852.43	$ 5,843,087.72

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, 2010. There were no unexpended debt proceeds at June 30, 2010.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2010, are as follows:

Year Ending June 30	Principal	Interest	Total
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	2,991,581.59	2,979,950.85	5,971,532.44
2016 – 2020	16,956,505.81	12,704,306.08	29,660,811.89
2021 – 2025	18,997,726.79	8,356,559.99	27,354,286.78
2026 – 2030	18,490,805.80	3,378,693.29	21,869,499.09
2031-2035	1,571,708.30	289,888.74	1,861,597.04
2036	250,000.00	14,165.00	264,165.00
Total	$71,637,036.13	$40,885,568.59	$112,522,604.72

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 $34,115,209.11 at June 30, 2010.

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 $3,888,546.70 at June 30, 2010. More detailed information regarding the commercial paper can be found in the notes to the financial statements in the financial report for the Tennessee State Funding Board included in the *Tennessee Comprehensive Annual Financial Report* which 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, all interest earnings have 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, 2010, net appreciation of $199,206.02 is available to be spent, of which $96,469.36 is included in restricted net assets expendable for scholarships and fellowships, $7,158.05 is included in restricted net assets expendable for institutional department uses, $83,097.76 is included in restricted net assets expendable for loans, and $12,480.85 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, 2010
Working capital	$14,590,531.63
Encumbrances	993,632.72
Designated fees	2,451,707.44
Auxiliaries	918,209.37
Plant construction	38,233,690.39
Renewal and replacement of equipment	18,501,563.87
Undesignated	6,664,850.74
Total	$82,354,186.16

NOTE 10. PLEDGED REVENUES

The university has pledged certain revenues and fees, including state appropriations, to repay $71,637,036.13 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. The bonds are payable through 2036 (See Note 7). Annual principal and interest payments on the bonds are expected to require 1.94% of available revenues. The total principal and interest remaining to be paid on the bonds is $112,522,604.72. Principal and interest paid for the current year and total available revenues were $8,867,932.90 and $283,890,725.91, 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, 2010, 2009, and 2008 were $6,859,295.76, $7,075,175.69, and $7,851,077.60. 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 $9,123,127.33 for the year ended June 30, 2010, and $9,003,522.55 for the year ended June 30, 2009. 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 available to higher education employees—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 8-27-101, *Tennessee Code Annotated.* 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. The POS and HMO options will no longer be available to members after January 1, 2011. Subsequent to age 65, retirees who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the university's eligible retirees; see Note 20. The plans are reported in the state of Tennessee's *Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

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 plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, 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 years 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.

University's Annual OPEB Cost and Net OPEB Obligation
State Employee Group Plan

Annual required contribution (ARC)	$ 4,888,000.00
Interest on the net OPEB obligation	395,220.63
Adjustment to the ARC	(374,346.10)
Annual OPEB cost	4,908,874.53
Amount of contribution	(1,958,756.70)
Increase in net OPEB obligation	2,950,117.83
Net OPEB obligation – beginning of year	8,782,680.73
Net OPEB obligation – end of year	$ 11,732,798.56

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2010	State Employee Group Plan	$4,908,874.53	39.90%	$11,732,798.56
June 30, 2009	State Employee Group Plan	$6,555,358.02	34.00%	$8,782,680.73

June 30, 2008	State Employee Group Plan	$6,477,000.00	31.17%	$4,458,254.55

Funded Status and Funding Progress

The funded status of the university's portion of the State Employee Group Plan as of July 1, 2009, was as follows:

State Employee Group Plan	
Actuarial valuation date	July 1, 2009
Actuarial accrued liability (AAL)	$46,310,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$46,310,000.00
Actuarial value of assets as a percentage of the AAL	0.00%
Covered payroll (active plan members)	$125,869,761.26
UAAL as percentage of covered payroll	36.79%

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, 2009, 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 6 percent initially, increased to 10 percent in the second year and then reduced by decrements to an ultimate rate of 5 percent in fiscal year 2021. All 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, 2010, and June 30, 2009, 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, 2010, the Risk Management Fund held $114.1 million in cash and cash equivalents designated for payment of claims.

At June 30, 2010, the scheduled coverage for the university was $1,213,223,300.00 for buildings and $306,755,200.00 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 $74,411,051.41 at June 30, 2010.

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 $2,155,212.07 and for personal property were $556,158.05 for the year ended June 30, 2010. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2010, outstanding commitments under construction contracts totaled $2,733,439.28 for University Center Renovation, Parking Improvments, Access and

Security Updates, Richardson Towers Brick Repairs, Mynders and South Hall Exterior Repairs, Community Health Facility, and Biochemistry and Biology Facility, of which $1,604,873.87 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 $58,188,955.62 on deposit at June 30, 2010, with the State Treasurer for its 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 Herbert Herff, Van Vleet, Mike Driver, Pope M. Farrington, and C.M. Gooch trusts. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received $1,378,028.68 from these funds during the year ended June 30, 2010.

NOTE 17. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses by functional classification for the year ended June 30, 2010, are as follows:

Functional Classification	Natural Classification: Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 83,380,688.04	$ 16,433,897.20	$ 10,433,215.50	$ -	$ -	$110,247,800.74
Research	20,423,409.96	5,618,896.42	9,710,844.24	-	-	35,753,150.62
Public service	6,824,740.16	1,975,676.79	4,039,457.29	-	-	12,839,874.24
Academic support	16,712,707.75	6,565,196.46	5,612,432.47	-	-	28,890,336.68
Student services	20,538,364.33	6,810,249.11	17,984,299.31	-	-	45,332,912.75
Institutional support	15,239,075.74	6,264,818.40	9,101,884.43	-	-	30,605,778.57
Operation & maintenance	9,778,200.90	5,186,585.81	12,099,192.15	-	-	27,063,978.86
Scholarships & fellowships	-	-	-	57,566,689.98	-	57,566,689.98
Auxiliary	2,208,636.20	595,078.39	8,744,013.15	-	-	11,547,727.74
Depreciation	-	-	-	-	15,096,725.64	15,096,725.64
Total	$175,105,823.08	$49,450,398.58	$77,725,338.54	$57,566,689.98	$15,096,725.64	$374,944,975.82

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 University of Memphis Research Foundation is controlled by a board independent of the universtiy. 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 foundation's most recent unaudited financial report, at June 30, 2010, the assets of the University of Memphis Research Foundation totaled $2,755,239.66, liabilities were $2,736,768.85, and the fund balance amounted to $18,470.81.

NOTE 19. CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2010, the university implemented Governmental Accounting Standards Board's Statement 51, *Accounting and Financial Reporting for Intangible Assets*. The statement was implemented retroactively.

NOTE 20. ON-BEHALF PAYMENTS

During the year ended June 30, 2010, 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 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. 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 adjustments, 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, 2010, the foundation made distributions of $17,212,712.00 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, 2010.

	Total Fair Value at June 30, 2010	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Money market funds	$ 3,662,766.00	$ 3,662,766.00	$ -	$ -
Limited partnership and LLCs	24,013,259.00	-	4,040,002.00	19,973,257.00
Common/collective trust funds-equities	4,978,828.00	-	4,978,828.00	-
Mutual fund-fixed income	26,222,266.00	26,222,266.00	-	-
Mutual fund-other	36,498,028.00	36,498,028.00	-	-
U.S. government securities	38,208.00	-	38,208.00	-
Corporate bonds	137,534.00	-	137,534.00	-
Total assets	$ 95,550,889.00	$ 66,383,060.00	$ 9,194,572.00	$ 19,973,257.00

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

Limited Partnerships and LLC Investments

Balance, beginning of year	$17,669,174.00
Purchases	5,004,646.00
Sales	(3,630,761.00)
Total gains, realized and unrealized	930,198.00
Balance, end of year	$19,973,257.00

All gains and losses, both realized and unrealized, have been reported on the statement of revenues, expenses, and changes in net assets as interest/investment income. Of this total, $6,994,379 is attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at June 30, 2010.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts. Of the bank balance of deposits at June 30, 2010, $250,000 was insured by FDIC and $948,427 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, 2010, were as follows:

	Cost	Market Value
Money Market Funds	$ 3,662,766.00	$ 3,662,766.00
Limited partnerships and LLCs	23,973,331.00	24,013,259.00
Common/collective trust funds-equities	2,383,354.00	4,978,828.00
Mutual funds-fixed income	25,728,578.00	26,222,266.00
Mutual funds-other	38,125,931.00	36,498,028.00
U.S. government securities	34,655.00	38,208.00
Coporate bonds	130,133.00	137,534.00
Total investments	$ 94,038,748.00	$ 95,550,889.00

Alternative investments - The foundation has investments in certain limited partnerships and certain other investments that are classified for fair value measurement purposes as Level 3. The estimated fair value of these assets is $19,973,257 at June 30, 2010.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2010. 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. The fair values presented are estimated by the foundation's investment managers using valuation techniques and assumptions that they choose. The fair values determined by the foundation's investment managers are subject to audit by the investment mangers' independent accountants.

Pledges Receivable

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

		June 30, 2010
Current pledges	$	6,681,783.00
Pledges due in one to five years		4,539,519.00
Pledges due after five years		434,500.00
Subtotal		11,655,802.00
Less discount to net present value		(155,315.00)
Less allowance for uncollectible contributions		(2,408,617.00)
Total pledges receivable, net	$	9,091,870.00

Long-term Liabilities

Long-term liabilities at June 30, 2010, consisted of the following:

	Ending Balance	Current Portion
Payables:		
Notes	$ 15,610	$ -

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 woth C.I.O.S loan proceeds. The balance owed by the foundation was $15,610 at June 30, 2010.

Endowments

The University of Memphis Foundation's endowment consists of approximately 380 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, 2010

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$ 48,947,776.00	$ 10,113,273.00	$(2,385,989.00)	$ 56,675,060.00
Board-designated endowment funds	-	-	4,803,542.00	4,803,542.00
Total funds	$ 48,947,776.00	$ 10,113,273.00	$ 2,417,553.00	$ 61,478,602.00

Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2010

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net assets, beginning of year	$ 44,490,301.00	$ 9,305,384.00	$ 1,605,092.00	$ 55,400,777.00
Investment return:				
Investment income (loss)	-	(293,628.00)	(29,016.00)	(322,644.00)
Net depreciation (realized and unrealized)	-	4,307,180.00	360,738.00	4,667,918.00
Total investment return	-	4,013,552.00	331,722.00	4,345,274.00
Contributions	2,430,140.00	27,144.00	-	2,457,284.00
Appropriations of endowment assets for expenditure	-	(2,232,157.00)	(313,400.00)	(2,545,557.00)

Other changes:				
Investment deficiencies reclassed to unrestiricted net assets	-	(794,139.00)	794,139.00	-
Modifactions of restrictions	2,027,335.00	(206,511.00)	-	1,820,824.00
Endowment net assets, end of year	$ 48,947,776.00	$ 10,113,273.00	$ 2,417,553.00	$ 61,478,602.00

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 risk.

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 appropriating for distribution each year a percentage of its endowment funds' average fair value over the prior 12 quarters through the fiscal year-end one year proceeding the fiscal year in which the expenditure is planned. For fiscal year 2010, this percentage was five percent (5%). In establishing this policy, the foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the foundation expects the current spending policy to allow its 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, 2009	State Employee Group Plan	$ -	$ 46,310,000.00	$46,310,000.00	0.00%	$125,869,761.26	36.79%
July 1, 2007	State Employee Group Plan	$ -	$57,082,000.00	$57,082,000.00	0.00%	$124,249,650.00	45.94%

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS FOUNDATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS - COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Gifts and contributions	$ 22,242,416.00
Payments to suppliers and vendors	(8,671,377.00)
Payments to the University of Memphis	(15,764,293.00)
Net cash flows used by operating activities	(2,193,254.00)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Private gifts for endowment purposes	1,926,762.00
Other non-capital financing receipts (payments)	(1,535,505.00)
Net cash flows provided by non-capital financing activities	391,257.00
CASH FLOWS FROM INVESTING ACTIVITIES	
Income on investments	6,444,178.00
Purchase of investments	(3,824,138.00)
Net cash provided by investing activities	2,620,040.00
Net increase in cash and cash equivalents	818,043.00
Cash and cash equivalents - beginning of year	380,384.00
Cash and cash equivalents - end of year (Note 3)	$ 1,198,427.00

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVDIED (USED) BY OPERATING ACTIVITIES

Operating loss	$ (8,912,849.00)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Change in assets and liaiblities:	
Receivables, net	5,864,187.00
Other assets	(1,643,727.00)
Accounts payable	3,092,146.00
Accrued liabilities	6,357.00
Deferred revenues	(599,368.00)
Net cash used by operating activities	$ (2,193,254.00)

Noncash investing, capital, and financing activities	
Unrealized gain/losses on investments	$ 6,994,379.00
Capital gifts in kind	$ (5,300,000.00)