

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

**For the Year Ended
June 30, 1998**

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February 18, 1999

The Honorable Don Sundquist, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable Charles E. Smith, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217

and

Dr. V. Lane Rawlings, 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, 1998. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed a deficiency, which is detailed in the Results of the Audit section of this report. The university's administration has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/ms
98/110

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, 1998

AUDIT OBJECTIVES

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

INTERNAL CONTROL FINDING

Inadequate Accounts Receivable Collection Efforts

Delinquent accounts were not referred to collection agencies promptly (page 6).

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

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

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Tennessee Board of Regents
The University of Memphis
For the Year Ended June 30, 1998

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTION		1
Post-Audit Authority		1
Background		1
Organization		1
AUDIT SCOPE		2
OBJECTIVES OF THE AUDIT		2
PRIOR AUDIT FINDING		3
RESULTS OF THE AUDIT		3
Audit Conclusions		3
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		4
Finding and Recommendation		6
• Delinquent accounts receivable should be promptly referred to collection agencies		6
FINANCIAL STATEMENTS		
Independent Auditor's Report		7
Balance Sheets	A	9
Statement of Changes in Fund Balances for the Year Ended June 30, 1998	B	13

TABLE OF CONTENTS (CONT.)

	<u>Exhibit</u>	<u>Page</u>
Statement of Changes in Fund Balances for the Year Ended June 30, 1997	C	15
Statement of Current Funds Revenues, Expenditures, and Other Changes for the Year Ended June 30, 1998	D	17
Statement of Current Funds Revenues, Expenditures, and Other Changes for the Year Ended June 30, 1997	E	18
Notes to the Financial Statements		19

Tennessee Board of Regents The University of Memphis For the Year Ended June 30, 1998

INTRODUCTION

POST-AUDIT AUTHORITY

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

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any state 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 education law providing for the establishment and maintenance of three normal schools in the state, one of which was to be located in Memphis. On September 15, 1912, West Tennessee State Normal School opened and in 1925 became a senior college. On July 1, 1957, the institution was designated Memphis State University, and on July 1, 1994, the name was changed to The University of Memphis.

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

ORGANIZATION

The governance of The University of Memphis is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the university is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 1997, through June 30, 1998, and was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the year ended June 30, 1998, and for comparative purposes, the year ended June 30, 1997. The University of Memphis is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

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

PRIOR AUDIT FINDING

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The university filed its report with the Department of Audit on April 16, 1998. A follow-up of the prior audit finding was conducted as part of the current audit. The current audit disclosed that the university has corrected the previous audit finding concerning recalculating Pell awards when students do not begin attending some of their classes.

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, 1998, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. A reportable condition, along with a recommendation and management's response, is detailed in the finding and recommendation. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

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

Fairness of Financial Statement Presentation

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

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

October 28, 1998

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of The University of Memphis, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the year ended June 30, 1998, and have issued our report thereon dated October 28, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the university's financial statements are free of material misstatement, we performed tests of the university's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

The Honorable W. R. Snodgrass
October 28, 1998
Page Two

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the university's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the university's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable condition was noted:

- Delinquent accounts receivable were not promptly referred to collection agencies.

This condition is described in the Finding and Recommendation section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

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

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/ms

FINDING AND RECOMMENDATION

Delinquent accounts receivable should be promptly referred to collection agencies

Finding

Delinquent accounts receivable were not referred to collection agencies within a reasonable period of time. Nine of the 25 accounts sampled (36%) had not been referred to collection agencies. Eight of these nine accounts were at least one year old. Seven of the 25 accounts sampled (28%) were referred to collection agencies, but not within a reasonable period of time. The earliest was referred 18 months after becoming delinquent, and the latest was after 11 years. Tennessee Board of Regents Guideline B-010 states that three billings are to be sent at 30-day intervals once an account becomes delinquent. The guideline further states that the third billing should indicate that the unpaid amount will be referred to a collection agency, or to the Office of the General Counsel if the account is between \$25 and \$100. Actual referral to a collection agency is recommended 30 days after the third collection letter is sent if the debtor has not responded.

The probability of collection is greatly reduced if collection efforts, including referrals, are not initiated promptly.

Recommendation

Management should improve the collection process to ensure collection efforts for all accounts are timely. Billings should continue to be sent monthly, but the third such billing should include a statement that the account will be sent to a collection agency or to the Office of the General Counsel if not paid. Accounts with no response should be submitted to collection agencies within 30 days after the third billing. Top management should frequently monitor the activities of the employees carrying out the accounts receivable collection duties to ensure adherence to established policies and procedures.

Management's Comment

We concur with the finding. Collection responsibilities were previously only part of the duties of several staff members. We have earlier this fiscal year created a staff devoted only to collection duties (other than periods around student registration when all employees in the Bursar's Office assist with those functions). This staff consists of one exempt employee and two clerical support employees; the exempt position was unfilled at the time, and we employed someone with collection experience. After further review as the result of this finding, we have changed the reporting relationship of the collection section to provide greater routine supervision. These actions have been completed.

Independent Auditor's Report

October 28, 1998

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of The University of Memphis, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 1998, and June 30, 1997, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the university's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

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

The Honorable W. R. Snodgrass
October 28, 1998
Page Two

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, The University of Memphis, as of June 30, 1998, and June 30, 1997, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

As discussed in Notes 16 and 17 to the financial statements, the university implemented GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and GASB 16, *Accounting for Compensated Absences*, in conformity with generally accepted accounting principles. Also, as discussed in Note 16, the university changed the threshold for capitalizing equipment.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 1998, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/ms

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
BALANCE SHEETS
JUNE 30, 1998, AND JUNE 30, 1997

<u>ASSETS</u>	<u>June 30, 1998</u>	<u>June 30, 1997</u>	<u>LIABILITIES AND FUND BALANCES</u>	<u>June 30, 1998</u>	<u>June 30, 1997</u>
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash and cash equivalents (Notes 2 and 3)	\$ 11,330,781.42	\$ 7,923,542.77	Liabilities:		
Investments (Note 4)	14,956,498.10	11,033,964.61	Accounts payable	\$ 2,594,906.59	\$ 3,037,804.53
Accrued interest receivable	104,037.78	170,818.72	Accrued liabilities	8,052,284.92	8,370,678.23
Funds on deposit with State Treasurer	-	2,949,479.32	Student deposits	357,959.53	294,427.79
Accounts receivable (net of allowance of \$1,285,006.16 at June 30, 1998, and \$824,601.98 at June 30, 1997)	3,858,324.90	3,881,755.35	Deferred revenue	7,623,669.18	6,774,008.10
Inventories	412,495.19	456,314.31	Compensated absences (Note 17)	<u>4,810,949.08</u>	<u>4,874,437.96</u>
Prepaid expenses and deferred charges	<u>86,242.86</u>	<u>107,176.51</u>	Total liabilities	<u>23,439,769.30</u>	<u>23,351,356.61</u>
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	2,299,213.61	2,445,581.74
			Allocation for encumbrances	1,452,459.72	946,157.82
			Allocation for designated appropriations	340,738.16	327,920.71
			Discretionary allocations:		
			Allocation for subsequent budget	3,033,000.00	2,240,000.00
			Allocation for conferences and institutes	950,848.24	817,180.56
			Student activity fee carry forward	301,428.52	320,405.93
			Technology access fee carry forward	631,039.29	379,868.65
			Allocation for compensated absences (Note 17)	(4,810,949.08)	(4,874,437.96)
			Unallocated	<u>3,110,832.49</u>	<u>569,017.53</u>
			Total fund balances	<u>7,308,610.95</u>	<u>3,171,694.98</u>
Total general	<u>30,748,380.25</u>	<u>26,523,051.59</u>	Total general	<u>30,748,380.25</u>	<u>26,523,051.59</u>
Auxiliary enterprises:			Auxiliary enterprises:		
Cash and cash equivalents (Notes 2 and 3)	5,410,966.98	4,409,164.05	Liabilities:		
Investments (Note 4)	969,062.00	1,695,337.78	Accounts payable	180,603.97	199,470.08
Accrued interest receivable	-	48,805.55	Accrued liabilities	62,891.25	71,436.29
Accounts receivable (net of allowance of \$432,067.88 at June 30, 1998, and \$328,075.10 at June 30, 1997)	<u>713,551.18</u>	<u>481,790.71</u>	Student deposits	393,868.69	379,389.09
			Deferred revenue	1,039,703.24	981,497.88
			Compensated absences (Note 17)	<u>281,426.88</u>	<u>255,313.80</u>
			Total liabilities	<u>1,958,494.03</u>	<u>1,887,107.14</u>
			Fund balances:		
			Nondiscretionary allocations:		

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
BALANCE SHEETS
JUNE 30, 1998, AND JUNE 30, 1997

ASSETS	June 30, 1998	June 30, 1997	LIABILITIES AND FUND BALANCES	June 30, 1998	June 30, 1997
			Allocation for working capital	661,024.13	482,702.31
			Allocation for encumbrances	92,055.88	22,600.88
			Discretionary allocations:		
			Intercollegiate athletics	660,078.93	1,420,470.31
			Allocation for contingencies	595,377.96	576,413.79
			Allocation for compensated absences (Note 17)	(281,426.88)	(255,313.80)
			Unallocated	3,407,976.11	2,501,117.46
			Total fund balances	5,135,086.13	4,747,990.95
Total auxiliary enterprises	7,093,580.16	6,635,098.09	Total auxiliary enterprises	7,093,580.16	6,635,098.09
Total unrestricted	37,841,960.41	33,158,149.68	Total unrestricted	37,841,960.41	33,158,149.68
Restricted:			Restricted:		
Cash and cash equivalents (Notes 2 and 3)	388,054.56	284,980.51	Liabilities:		
Investments (Note 4)	1,004,305.00	972,287.78	Accounts payable	342,869.64	213,931.64
Accrued interest receivable	7,343.75	565.56	Accrued liabilities	646,396.90	605,824.74
Grants receivable	5,651,864.38	5,089,404.43	Deposits	-	7,030.00
Accounts receivable	140.00	-	Total liabilities	989,266.54	826,786.38
Prepaid expenses and deferred charges	42,066.72	-	Fund balances	6,104,507.87	5,520,451.90
Total restricted	7,093,774.41	6,347,238.28	Total restricted	7,093,774.41	6,347,238.28
Total current funds	\$ 44,935,734.82	\$ 39,505,387.96	Total current funds	\$ 44,935,734.82	\$ 39,505,387.96
Loan funds:			Loan funds:		
Cash and cash equivalents (Notes 2 and 3)	\$ 969,828.07	\$ 356,519.33	Liabilities:		
Investments (Note 4)	-	998,272.91	Accounts payable	-	4,598.64
Notes receivable (net of allowance of \$2,200,972.25 at June 30, 1998, and \$1,119,899.12 at June 30, 1997)	3,597,398.58	3,312,191.51	Fund balances:		
Accrued interest receivable (net of allowance of \$752,480.08 at June 30, 1998, and \$523,046.31 at June 30, 1997)	45,541.54	125,713.11	U.S. government grants refundable	\$ 2,320,407.68	\$ 2,295,121.37
			University funds:		
			Restricted - matching	257,823.07	255,013.49
			Restricted - other	2,054,219.54	2,248,136.12

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
BALANCE SHEETS
JUNE 30, 1998, AND JUNE 30, 1997

ASSETS	June 30, 1998	June 30, 1997	LIABILITIES AND FUND BALANCES	June 30, 1998	June 30, 1997
Accounts receivable	19,682.10	10,172.76	Total fund balances	4,632,450.29	4,798,270.98
Total loan funds	<u>\$ 4,632,450.29</u>	<u>\$ 4,802,869.62</u>	Total loan funds	<u>\$ 4,632,450.29</u>	<u>\$ 4,802,869.62</u>
Endowment and similar funds:			Endowment and similar funds:		
Cash and cash equivalents (Notes 2 and 3)	\$ 393,146.05	\$ 2,286.46	Fund balances:		
Investments (Note 4)	3,946,693.00	5,892,110.26	Endowment	\$ 3,540,194.13	\$ 3,434,718.40
Accrued interest receivable	<u>-</u>	<u>71,562.60</u>	Quasi-endowment:		
			Unrestricted	<u>799,644.92</u>	<u>2,531,240.92</u>
Total endowment and similar funds	<u>\$ 4,339,839.05</u>	<u>\$ 5,965,959.32</u>	Total endowment and similar funds	<u>\$ 4,339,839.05</u>	<u>\$ 5,965,959.32</u>
Plant funds:			Plant funds:		
Unexpended plant:			Unexpended plant:		
Cash and cash equivalents (Notes 2 and 3)	\$ 3,205,809.17	\$ 2,430,296.91	Liabilities:		
Investments (Note 4)	1,664,625.00	967,986.67	Accounts payable	\$ 1,181,588.93	\$ 921,119.24
LGIP deposit - capital projects	4,081,320.89	4,151,747.92	TSSBA indebtedness (Note 6)	<u>-</u>	<u>67,938.85</u>
Tennessee State School Bond Authority debt proceeds receivable	-	67,938.85	Total liabilities	<u>1,181,588.93</u>	<u>989,058.09</u>
Accrued interest receivable	-	24,581.68	Fund balance:		
Accounts receivable	<u>-</u>	<u>1,163.00</u>	Unrestricted (Note 5)	<u>7,770,166.13</u>	<u>6,654,656.94</u>
Total unexpended plant	<u>8,951,755.06</u>	<u>7,643,715.03</u>	Total unexpended plant	<u>8,951,755.06</u>	<u>7,643,715.03</u>
Renewals and replacements:			Renewals and replacements:		
Cash and cash equivalents (Notes 2 and 3)	3,270,857.38	2,826,878.36	Liabilities:		
Investments (Note 4)	6,060,079.60	7,026,619.46	Accounts payable	<u>189,236.78</u>	<u>431,557.87</u>
Accrued interest receivable	94,498.60	68,264.90	Fund balance:		
Accounts receivable	<u>35,820.32</u>	<u>17,142.35</u>	Unrestricted (Note 5)	<u>9,272,019.12</u>	<u>9,507,347.20</u>
Total renewals and replacements	<u>9,461,255.90</u>	<u>9,938,905.07</u>	Total renewals and replacements	<u>9,461,255.90</u>	<u>9,938,905.07</u>
Retirement of indebtedness:			Retirement of indebtedness:		
Cash and cash equivalents (Notes 2 and 3)	4,101,684.33	3,085,627.50	Liabilities:		
Interest rate reserve fund with TSSBA	6,444.84	-	Accrued interest payable	<u>199,842.62</u>	<u>217,809.02</u>

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
BALANCE SHEETS
JUNE 30, 1998, AND JUNE 30, 1997

<u>ASSETS</u>	<u>June 30, 1998</u>	<u>June 30, 1997</u>	<u>LIABILITIES AND FUND BALANCES</u>	<u>June 30, 1998</u>	<u>June 30, 1997</u>
Investments (Note 4)	1,719,722.00	1,451,653.33	Fund balances:		
Accrued interest receivable	64,649.70	71,536.83	Restricted	6,444.84	-
Accounts receivable	<u>28.92</u>	<u>41,241.82</u>	Unrestricted	<u>5,686,242.33</u>	<u>4,432,250.46</u>
			Total fund balances	<u>5,692,687.17</u>	<u>4,432,250.46</u>
Total retirement of indebtedness	<u>5,892,529.79</u>	<u>4,650,059.48</u>	Total retirement of indebtedness	<u>5,892,529.79</u>	<u>4,650,059.48</u>
Investment in plant:			Investment in plant:		
Land	12,858,855.44	12,502,506.83	Liabilities:		
Buildings	126,096,737.21	126,093,760.40	TSSBA Indebtedness (Note 6)	<u>17,592,663.11</u>	<u>18,470,185.28</u>
Improvements other than buildings	14,737,056.67	14,432,529.39	Fund balance:		
Equipment	61,675,034.11	64,977,936.21	Net investment in plant	<u>284,506,373.18</u>	<u>282,042,618.13</u>
Library books	58,221,980.10	57,076,460.16			
Other library holdings	26,700,638.87	24,818,392.29			
Construction in progress	<u>1,808,733.89</u>	<u>611,218.13</u>			
Total investment in plant	<u>302,099,036.29</u>	<u>300,512,803.41</u>	Total investment in plant	<u>302,099,036.29</u>	<u>300,512,803.41</u>
Total plant funds	<u>\$ 326,404,577.04</u>	<u>\$ 322,745,482.99</u>	Total plant funds	<u>\$ 326,404,577.04</u>	<u>\$ 322,745,482.99</u>
Agency funds:			Agency funds:		
Cash and cash equivalents (Notes 2 and 3)	\$ 306,798.64	\$ 267,914.53	Liabilities:		
Accounts receivable	<u>4,995.28</u>	<u>6,496.66</u>	Accounts payable	\$ 41,450.27	\$ 2,634.26
			Deposits held in custody for others	<u>270,343.65</u>	<u>271,776.93</u>
Total agency funds	<u>\$ 311,793.92</u>	<u>\$ 274,411.19</u>	Total agency funds	<u>\$ 311,793.92</u>	<u>\$ 274,411.19</u>

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

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1998

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
REVENUES AND OTHER ADDITIONS								
Unrestricted current fund revenues	\$ 150,836,475.43	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	23,838,724.47	-	-	-	-	-	-	-
State appropriations	-	2,707,740.00	-	-	854,269.07	-	230,531.71	-
Federal grants and contracts	-	17,320,898.60	23,978.00	-	89,705.50	-	13,864.00	-
State grants and contracts	-	4,804,370.09	-	-	-	-	-	-
Local grants and contracts	-	781,030.21	-	-	-	-	-	-
Private gifts, grants, and contracts	-	6,333,854.03	-	40,700.29	-	-	-	-
Endowment income	-	1,496,399.21	58,831.90	40,029.59	-	-	-	-
Investment income	-	138,213.86	52,238.70	-	202,860.44	634,053.69	582,524.19	-
Interest on loans receivable	-	-	299,349.95	-	-	-	-	-
Tennessee State School Bond Authority debt proceeds	-	-	-	-	854,486.98	-	-	-
Equipment use charges	-	-	-	-	-	950,987.16	-	-
Student debt service fees	-	-	-	-	-	-	2,309,926.07	-
Expended for plant facilities (including \$7,832,237.11 charged to current fund expenditures)	-	-	-	-	-	-	-	10,228,074.38
Retirement of indebtedness	-	-	-	-	-	-	-	1,732,008.90
Library holdings revaluation	-	-	-	-	-	-	-	106,798.51
Other (Note 10)	-	8,090.38	33,638.00	61,846.04	-	95,565.60	-	140,130.58
Total revenues and other additions	174,675,199.90	33,590,596.38	468,036.55	142,575.92	2,001,321.99	1,680,606.45	3,136,845.97	12,207,012.37
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	145,239,498.76	30,297,842.96	-	-	-	-	-	-
Auxiliary enterprise expenditures	20,324,461.36	233,829.03	-	-	-	-	-	-
Indirect costs recovered	-	2,346,493.95	-	-	-	-	-	-
Refunded to grantor	-	4,166.16	228.33	-	-	-	-	-
Loan cancellations and write-offs	-	-	19,834.62	-	-	-	-	-
Administrative and collection costs	-	-	3,441.87	-	-	-	14,601.11	-
Provision for doubtful accounts	-	-	573,451.94	-	-	-	-	-
Expended for plant facilities	-	-	-	-	1,273,809.30	1,122,027.97	-	-
Expended for noncapital items	-	-	-	-	4,440,792.03	1,228,344.15	-	-
Retirement of indebtedness	-	-	-	-	-	-	1,732,008.90	-
Interest on indebtedness	-	-	-	-	-	-	1,243,478.78	-
Disposal of plant facilities	-	-	-	-	-	-	-	3,707,073.69
Increase in indebtedness	-	-	-	-	-	-	-	854,486.73
Other (Note 10)	-	121,708.31	44,893.15	-	-	30.00	-	-
Total expenditures and other deductions	165,563,960.12	33,004,040.41	641,849.91	-	5,714,601.33	2,350,402.12	2,990,088.79	4,561,560.42

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1998

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
<u>TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)</u>								
Mandatory:								
Loan fund matching grant	(7,992.67)	-	7,992.67	-	-	-	-	-
Principal and interest	(2,054,455.80)	-	-	-	-	-	2,054,455.80	-
Nonmandatory:								
Endowment and similar funds	-	(2,500.00)	-	2,500.00	-	-	-	-
Unexpended plant	(1,674,458.93)	-	-	(1,771,196.19)	4,828,788.53	(442,357.14)	(940,776.27)	-
Renewals and replacements	(876,824.73)	-	-	-	-	876,824.73	-	-
Total transfers	<u>(4,613,732.13)</u>	<u>(2,500.00)</u>	<u>7,992.67</u>	<u>(1,768,696.19)</u>	<u>4,828,788.53</u>	<u>434,467.59</u>	<u>1,113,679.53</u>	<u>-</u>
Net increase (decrease) for the year	<u>4,497,507.65</u>	<u>584,055.97</u>	<u>(165,820.69)</u>	<u>(1,626,120.27)</u>	<u>1,115,509.19</u>	<u>(235,328.08)</u>	<u>1,260,436.71</u>	<u>7,645,451.95</u>
Fund balances at beginning of year	7,919,685.93	5,520,451.90	4,798,270.98	5,965,959.32	6,654,656.94	9,507,347.20	4,432,250.46	282,042,618.13
Cumulative effect of change in accounting principle (Note 16)	<u>26,503.50</u>	-	-	-	-	-	-	<u>(5,181,696.90)</u>
Fund balances at beginning of year as restated	7,946,189.43	5,520,451.90	4,798,270.98	5,965,959.32	6,654,656.94	9,507,347.20	4,432,250.46	276,860,921.23
Fund balances at end of year	<u>\$ 12,443,697.08</u>	<u>\$ 6,104,507.87</u>	<u>\$ 4,632,450.29</u>	<u>\$ 4,339,839.05</u>	<u>\$ 7,770,166.13</u>	<u>\$ 9,272,019.12</u>	<u>\$ 5,692,687.17</u>	<u>\$ 284,506,373.18</u>

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

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1997

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
REVENUES AND OTHER ADDITIONS								
Unrestricted current fund revenues	\$ 146,749,261.53	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	23,330,808.36	-	-	-	-	-	-	-
State appropriations	-	2,769,242.00	-	-	842,151.02	-	231,611.76	-
Federal grants and contracts	-	15,845,221.41	15,842.00	-	16,285.50	-	13,864.00	-
State grants and contracts	-	4,447,267.94	-	-	-	-	-	-
Local grants and contracts	-	999,549.33	-	-	-	-	-	-
Private gifts, grants, and contracts	-	5,480,753.31	1,100.00	70,451.11	25,000.00	-	-	-
Endowment income	-	1,835,799.11	45,036.35	69,247.05	-	-	-	-
Investment income	-	137,384.26	50,822.23	-	331,678.98	645,368.60	429,876.40	-
Interest on loans receivable	-	-	256,552.12	-	-	-	-	-
Tennessee State School Bond Authority debt proceeds	-	-	-	-	583,283.04	-	17,632.36	-
Equipment use charges	-	-	-	-	-	1,026,979.26	-	-
Student debt service fees	-	-	-	-	-	-	1,238,676.01	-
Expended for plant facilities (including \$7,832,237.11 charged to current fund expenditures)	-	-	-	-	-	-	-	10,068,382.13
Retirement of indebtedness	-	-	-	-	-	-	-	5,593,355.03
Library holdings revaluation (Note 15)	-	-	-	-	-	-	-	35,878,773.45
Other (Note 10)	-	13,376.27	17,712.53	97,284.12	-	17,142.35	34,309.82	246,344.07
Total revenues and other additions	170,080,069.89	31,528,593.63	387,065.23	236,982.28	1,798,398.54	1,689,490.21	1,965,970.35	51,786,854.68
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	145,942,293.62	28,820,843.20	-	-	-	-	-	-
Auxiliary enterprise expenditures	19,486,139.94	221,695.19	-	-	-	-	-	-
Indirect costs recovered	-	2,179,515.99	-	-	-	-	-	-
Refunded to grantor	-	24,733.14	262.08	-	-	-	-	-
Loan cancellations and write-offs	-	-	13,740.81	-	-	-	-	-
Administrative and collection costs	-	-	-	-	-	-	14,976.10	-
Provision for doubtful accounts	-	-	224,187.10	-	-	-	-	-
Expended for plant facilities	-	-	-	-	1,819,751.05	1,492,965.92	-	-
Expended for noncapital items	-	-	-	-	3,213,974.87	1,154,897.03	-	-
Retirement of indebtedness	-	-	-	-	-	-	1,659,583.47	-
Interest on indebtedness	-	-	-	-	-	-	1,316,411.25	-
Disposal of plant facilities	-	-	-	-	-	-	-	2,869,276.22
Increase in indebtedness	-	-	-	-	-	-	-	4,454,481.50
Other (Note 10)	-	120,264.69	26,951.38	-	-	-	-	-
Total expenditures and other deductions	165,428,433.56	31,367,052.21	265,141.37	-	5,033,725.92	2,647,862.95	2,990,970.82	7,323,757.72

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1997

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
<u>TRANSFERS AMONG FUNDS - ADDITIONS</u>								
<u>(DEDUCTIONS)</u>								
Mandatory:								
Loan fund matching grant	(5,879.00)	-	5,879.00	-	-	-	-	-
Principal and interest	(2,096,644.69)	-	-	-	-	-	2,096,644.69	-
Nonmandatory:								
Endowment and similar funds	600,000.00	-	-	(600,000.00)	-	-	-	-
Unexpended plant	(755,998.09)	-	-	-	3,541,261.87	(2,335,263.78)	(450,000.00)	-
Renewals and replacements	(1,844,374.24)	-	-	-	-	1,844,374.24	-	-
Total transfers	<u>(4,102,896.02)</u>	<u>-</u>	<u>5,879.00</u>	<u>(600,000.00)</u>	<u>3,541,261.87</u>	<u>(490,889.54)</u>	<u>1,646,644.69</u>	<u>-</u>
Net increase (decrease) for the year	548,740.31	161,541.42	127,802.86	(363,017.72)	305,934.49	(1,449,262.28)	621,644.22	44,463,096.96
Fund balances at beginning of year	<u>7,370,945.62</u>	<u>5,358,910.48</u>	<u>4,670,468.12</u>	<u>6,328,977.04</u>	<u>6,348,722.45</u>	<u>10,956,609.48</u>	<u>3,810,606.24</u>	<u>237,579,521.17</u>
Fund balances at end of year	<u>\$ 7,919,685.93</u>	<u>\$ 5,520,451.90</u>	<u>\$ 4,798,270.98</u>	<u>\$ 5,965,959.32</u>	<u>\$ 6,654,656.94</u>	<u>\$ 9,507,347.20</u>	<u>\$ 4,432,250.46</u>	<u>\$ 282,042,618.13</u>

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

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1998

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	\$ 51,631,128.19	\$ -	\$ 51,631,128.19
State appropriations	89,923,700.00	2,614,442.60	92,538,142.60
Local appropriations	25,000.00	-	25,000.00
Federal grants and contracts	1,655,355.54	15,923,562.11	17,578,917.65
State grants and contracts	443,378.27	4,344,308.55	4,787,686.82
Local grants and contracts	1,292,332.56	558,538.83	1,850,871.39
Private gifts, grants, and contracts	650,361.07	5,487,076.37	6,137,437.44
Endowment income	-	1,369,554.50	1,369,554.50
Sales and services of educational activities	3,420,272.59	-	3,420,272.59
Sales and services of auxiliary enterprises	23,838,724.47	233,829.03	24,072,553.50
Other sources	1,794,947.21	360.00	1,795,307.21
Total current revenues	174,675,199.90	30,531,671.99	205,206,871.89
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	70,914,677.26	3,473,977.02	74,388,654.28
Research	7,790,371.14	12,765,017.18	20,555,388.32
Public service	4,202,826.60	3,919,211.69	8,122,038.29
Academic support	16,083,984.76	505,015.68	16,589,000.44
Student services	14,283,561.71	576,049.54	14,859,611.25
Institutional support	14,677,926.76	19,849.80	14,697,776.56
Operation and maintenance of plant	12,990,376.23	813.01	12,991,189.24
Scholarships and fellowships	4,295,774.30	9,037,909.04	13,333,683.34
Total educational and general expenditures	145,239,498.76	30,297,842.96	175,537,341.72
Mandatory transfers:			
Loan fund matching grant	7,992.67	-	7,992.67
Principal and interest	122,750.39	-	122,750.39
Nonmandatory transfers:			
Unexpended plant	1,469,695.38	-	1,469,695.38
Total educational and general	146,839,937.20	30,297,842.96	177,137,780.16
Auxiliary enterprises:			
Expenditures	20,324,461.36	233,829.03	20,558,290.39
Mandatory transfers:			
Principal and interest	1,931,705.41	-	1,931,705.41
Nonmandatory transfers:			
Unexpended plant	204,763.55	-	204,763.55
Renewals and replacements	876,824.73	-	876,824.73
Total auxiliary enterprises	23,337,755.05	233,829.03	23,571,584.08
Total expenditures and transfers	170,177,692.25	30,531,671.99	200,709,364.24
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	3,058,924.39	3,058,924.39
Indirect costs recovered	-	(2,346,493.95)	(2,346,493.95)
Refunded to grantor	-	(4,166.16)	(4,166.16)
Other deductions	-	(121,708.31)	(121,708.31)
Endowment and similar funds	-	(2,500.00)	(2,500.00)
Net increases in fund balances	\$ 4,497,507.65	\$ 584,055.97	\$ 5,081,563.62

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

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1997

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	\$ 46,998,559.52	\$ -	\$ 46,998,559.52
State appropriations	91,212,300.00	2,775,480.20	93,987,780.20
Local appropriations	25,000.00	-	25,000.00
Federal grants and contracts	1,531,041.28	14,098,818.42	15,629,859.70
State grants and contracts	402,144.98	4,076,019.54	4,478,164.52
Local grants and contracts	1,231,041.13	976,888.78	2,207,929.91
Private gifts, grants, and contracts	596,863.99	5,224,071.59	5,820,935.58
Endowment income	-	1,668,555.72	1,668,555.72
Sales and services of educational activities	3,126,480.05	-	3,126,480.05
Sales and services of auxiliary enterprises	23,330,808.36	221,695.19	23,552,503.55
Other sources	1,625,830.58	1,008.95	1,626,839.53
Total current revenues	170,080,069.89	29,042,538.39	199,122,608.28
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	71,854,133.26	3,856,023.97	75,710,157.23
Research	6,671,338.21	11,844,070.22	18,515,408.43
Public service	4,935,412.14	4,315,823.07	9,251,235.21
Academic support	15,879,637.55	304,325.61	16,183,963.16
Student services	12,864,919.70	218,985.14	13,083,904.84
Institutional support	16,176,359.92	64,924.38	16,241,284.30
Operation and maintenance of plant	13,481,958.67	186.50	13,482,145.17
Scholarships and fellowships	4,078,534.17	8,216,504.31	12,295,038.48
Total educational and general expenditures	145,942,293.62	28,820,843.20	174,763,136.82
Mandatory transfers for:			
Loan fund matching grant	5,879.00	-	5,879.00
Principal and interest	125,119.91	-	125,119.91
Nonmandatory transfers for:			
Unexpended plant	358,000.00	-	358,000.00
Renewals and replacements	925,400.00	-	925,400.00
Total educational and general	147,356,692.53	28,820,843.20	176,177,535.73
Auxiliary enterprises:			
Expenditures	19,486,139.94	221,695.19	19,707,835.13
Mandatory transfer for:			
Principal and interest	1,971,524.78	-	1,971,524.78
Nonmandatory transfer for:			
Unexpended plant funds	397,998.09	-	397,998.09
Renewals and replacements	918,974.24	-	918,974.24
Endowment and similar funds	(600,000.00)	-	(600,000.00)
Total auxiliary enterprises	22,174,637.05	221,695.19	22,396,332.24
Total expenditures and transfers	169,531,329.58	29,042,538.39	198,573,867.97
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	2,486,055.24	2,486,055.24
Indirect costs recovered	-	(2,179,515.99)	(2,179,515.99)
Refunded to grantor	-	(24,733.14)	(24,733.14)
Other deductions	-	(120,264.69)	(120,264.69)
Net increases in fund balances	\$ 548,740.31	\$ 161,541.42	\$ 710,281.73

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

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements
June 30, 1998, and June 30, 1997**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Basis of Presentation

The financial statements of the university have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The university uses the AICPA College Guide model for accounting and financial reporting.

Basis of Accounting

The financial statements of the university have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings, (2) mandatory transfers, for required debt amortization and interest and equipment renewal and replacement, and (3) nonmandatory transfers, for all other cases.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of the resources available, the university maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds. This income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the university retains full control for use in achieving any of its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include both University operated and contracted Food Services, Housing, the University Store, Intercollegiate Athletics and other Auxiliary Enterprises. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

Loan Funds

Loan funds consist of resources made available for student loans.

Endowment and Similar Funds

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be used. Although quasi-endowment funds have been established by the governing board for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended.

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes, (2) funds set aside for the renewal and replacement of institutional properties, (3) funds set aside for debt service charges and for the retirement of the indebtedness on institutional properties, and (4) funds expended for, and thus invested in, institutional properties.

Agency Funds

In handling these funds, the university acts solely as an agent; consequently, transactions of these funds do not affect the university's operating statements.

LGIP Deposit—Capital Projects

Payments related to the university's capital projects are made by the State of Tennessee's Department of Finance and Administration. The university's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenditures 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 any remaining funds are released by the Tennessee Board of Regents.

Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997

Inventories

Inventories are valued at the lower of cost or market. All items are maintained on an average cost 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 recorded in the current funds. Since the liability is expected to be funded primarily from future unrestricted and restricted (*if applicable*) revenue sources, a related allocation has been made to the current fund balances so that these fund balances reflect current available funds.

Allocation for Working Capital

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

Plant Assets

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Library books are valued at \$48 per volume, and other library holdings are valued at various standardized values which approximate current costs. Depreciation on the physical plant and equipment is not recorded.

In the case of service departments, the university charges renewal and replacement of plant assets to current expenditures; these charges are also reported as additions to funds for renewals and replacements.

Federal Direct Loan Program

The university participates in the Federal Direct Loan Program. Activity of this program is not included in the financial statements of the university. The university acts as an agent for the U.S. government in disbursing funds to students.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

NOTE 2. CASH AND CASH EQUIVALENTS

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 1998, cash and cash equivalents consisted of \$3,215,156.45 in bank accounts, \$66,419.77 of petty cash on hand, \$200,00.00 of certificates of deposit and, \$25,896,350.38 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 1997, cash and cash equivalents consisted of \$2,163,306.75 in bank accounts, \$63,547.50 of petty cash on hand, \$200,000.00 of certificates of deposit and, \$19,160,356.17 in the State of Tennessee Local Government Investment Pool.

NOTE 3. DEPOSITS

The bank balances of certain deposits including accrued interest as of the balance sheet dates were entirely insured or collateralized with securities held by the university's agent in the university's name. The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 105% of the uninsured deposits.

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

NOTE 4. INVESTMENTS

The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers'

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase. Certificates of deposit have been included with other deposits in Note 3 to determine the adequacy of collateral security pledged.

The university's investments are categorized below to indicate the level of risk assumed by the university at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the university or its agent in the university's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the university's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the university's name.

<u>June 30, 1998</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Category 1:		
U.S. government securities	\$25,382,111.70	\$25,382,111.70
Commercial paper	4,938,873.00	4,938,873.00
Categories 2 and 3:	-	-
Total investments on the balance sheet	<u>\$30,320,984.70</u>	<u>\$30,320,984.70</u>
 <u>June 30, 1997</u>	 <u>Carrying Amount</u>	 <u>Fair Value</u>
Category 1:		
U.S. government securities	\$25,140,917.25	\$25,154,207.89
Commercial paper	4,897,315.55	4,897,315.55
Category 2 and 3:	-	-
Total investments on the balance sheet	<u>\$30,038,232.80</u>	<u>\$30,051,523.44</u>

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

NOTE 5. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 1998, amounted to \$14,284,226.14 for unexpended plant and \$242,886.07 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 1997, amounted to \$2,902,858.91 for unexpended plant and \$708,656.87 for renewals and replacements.

NOTE 6. TSSBA INDEBTEDNESS

The Tennessee State School Bond Authority (TSSBA) issues bonds, notes, and commercial paper to finance various capital projects at the state's colleges and universities. The amounts loaned to the university are reported on the balance sheet as TSSBA indebtedness. The debt is secured by pledges of the facilities' revenues to which it relates and certain other revenues and fees of the university including state appropriations. Details of the TSSBA indebtedness at year end are shown below:

	<u>June 30, 1998</u>	<u>June 30, 1997</u>
Bonds	\$16,154,893.09	\$17,886,901.99
Notes	-	651,222.14
Commercial paper	<u>1,437,770.02</u>	<u>-</u>
Total TSSBA indebtedness	\$17,592,663.11	\$18,538,124.13

The debt service requirements to maturity at June 30, 1998, for all long-term debt is:

Year Ending June 30	Principal	Interest	Total
1999	\$ 1,821,234.83	\$ 1,163,247.19	\$ 2,984,482.02
2000	1,360,402.66	1,062,749.84	2,423,152.50
2001	1,468,894.67	956,703.14	2,425,597.81
2002	1,085,151.81	871,152.26	1,956,304.07
2003	1,174,176.16	780,022.37	1,954,198.53
2004-2022	<u>9,245,032.96</u>	<u>6,207,073.94</u>	<u>15,452,106.90</u>
	<u>\$16,154,893.09</u>	<u>\$11,040,948.74</u>	<u>\$27,195,841.83</u>

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

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 equal to \$4.46 per thousand drawn in the tax-exempt program and \$6.16 per thousand drawn in the taxable program. A contribution is required each time an additional draw is made from the program. 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. The commercial paper bears interest at a variable rate, which is paid monthly. The maturity of the paper may not exceed 270 days, and the maximum interest rate may not exceed 12%. Upon maturity, the paper is remarketed by the commercial paper dealer, redeemed, or extinguished with long-term debt.

NOTE 7. PENSION PLANS

A. Defined Benefit Plans

Tennessee Consolidated Retirement System

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202, extension 139.

Funding Policy – Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 3.65% 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, 1998, 1997, and 1996, were

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

\$1,544,287.82, \$3,364,677.01, and \$2,936,950.86. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

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

Funding Policy – Plan members are noncontributory. The university contributes an amount equal to 10% of the employee’s base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans for the year ended June 30, 1998, was \$4,751,967.92 and for the year ended June 30, 1997, was \$4,718,251.92. Contributions met the requirements for each year.

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible university retirees. This benefit is provided and administered by the State of Tennessee. The university assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

NOTE 9. CHAIRS OF EXCELLENCE

The university had \$53,577,078.36 on deposit at June 30, 1998, and \$47,235,505.21 on deposit at June 30, 1997, with the State Treasurer for the university's Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

NOTE 10. OTHER ADDITIONS AND DEDUCTIONS

The following amounts are included as "other additions" and "other deductions" on the Statements of Changes in Fund Balances:

	<u>Year Ended June 30, 1998</u>	<u>Year Ended June 30, 1997</u>
Other Additions		
Endowment and similar funds:		
Loan repayments to principal	\$58,785.31	\$51,354.45
Income reverted to principal	\$3,060.73	\$45,929.67
Renewals and replacements:		
Proceeds from disposal of assets	\$95,565.60	-
Investment in plant:		
Trade-in allowances and other miscellaneous adjustments to equipment value	\$89,280.64	\$232,056.50
Capitalized interest during construction	\$50,849.94	-
	<u>Year Ended June 30, 1998</u>	<u>Year Ended June 30, 1997</u>
Other Deductions		
Restricted funds:		
Program administration	\$74,520.75	\$76,643.89
Scholarship reverted to endowment	\$33,907.65	-
Residual transferred to current unrestricted funds	\$13,279.91	-

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

NOTE 11. INSURANCE-RELATED ACTIVITIES

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

At June 30, 1998, the scheduled coverage for the university was \$343,956,700 for buildings and \$208,346,405 for contents. At June 30, 1997, the scheduled coverage was \$346,573,500 for buildings and \$171,781,200 for contents.

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

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The university participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

NOTE 12. COMMITMENTS AND CONTINGENCIES

Sick Leave – The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$46,921,908.85 at June 30, 1998, and \$45,970,731.44 at June 30, 1997.

Operating Leases – The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real property were \$643,742.57 and for personal property were \$157,281.10 for the year ended June 30, 1998. Comparative amounts for the year ended June 30, 1997, were \$531,670.79 and \$143,024.70. All operating leases are cancelable at the lessee's option.

Construction in Progress – At June 30, 1998, outstanding commitments under construction contracts totaled \$14,527,112.21 of which \$823,322.29 will be funded by future state capital outlay appropriations. Major projects in progress with significant outstanding commitments include: Student Activities Complex, University Service Court, Renovation/Addition Physical Education Building, Richardson Towers Renovation, Music Auditorium Renovation, Swimming Pool Repair, Steam Line Replacement, Brister Facility Adaptive Reuse, Pyramid Interior Completions, Parking Lot Reconfiguration, Major Maintenance, Campus Security Projects and Network Services.

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

NOTE 13. AFFILIATED ENTITY NOT INCLUDED

The university is the sole beneficiary of the University of Memphis Foundation. This private, nonprofit foundation is controlled by a board independent of the university. The financial records, investments, and other financial transactions are not handled by the university, and these amounts are not included in the university's financial statements. As reported in the foundation's most recently audited financial report, at June 30, 1997, the foundation's assets totaled \$36,015,353, liabilities were \$1,068,767, and the fund balance amounted to \$34,946,586.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

NOTE 14. FUNDS HELD IN TRUST BY OTHERS

The university is a beneficiary under the Van Vleet, the Mike Driver, the Pope M. Farrington, the C. M. Gooch, and the Herber Herff trusts. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received \$ 513,730.42 from these funds during the year ended June 30, 1998, and \$ 565,425.36 during the year ended June 30, 1997.

NOTE 15. CHANGE IN ESTIMATE OF LIBRARY HOLDINGS STANDARDIZED VALUES

At June 30, 1997, the value of library books was increased from \$20 per volume to \$48 per volume, and the standardized values for other library holdings were also increased/decreased by various amounts. As a result of the revaluation, library books and other library holdings increased by \$33,294,601.76 and \$3,285,416.00, and net investment in plant, under the investment in plant fund subgroup, increased by \$36,580,017.76 at June 30, 1997.

NOTE 16. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 1998, the university implemented GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires reporting at fair value certain investments with a remaining maturity of more than one year at the time of purchase. The cumulative effect of this change in accounting principle is reported in the accompanying financial statements as a restatement of the beginning fund balance. It was not practical to restate prior periods since all information necessary to conform to this accounting change was not available and the amounts were immaterial.

During the year ended June 30, 1998, the threshold for capitalizing equipment increased from \$500 to \$1,000. As a result of the change, equipment decreased by \$5,181,696.90.

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

NOTE 17. PRIOR-YEAR RESTATEMENT

The university implemented GASB Statement 16, *Accounting for Compensated Absences*. As a result, prior-period amounts were restated by the amounts noted below:

<u>Fund</u>	<u>Account</u>	<u>Amount</u>
Exhibit A		
Unrestricted general	Compensated absences	\$ 4,874,437.96
Unrestricted general	Allocation for compensated absences	\$ (4,874,437.96)
Unrestricted auxiliary	Compensated absences	\$ 255,313.80
Unrestricted auxiliary	Allocation for compensated absences	\$ (255,313.80)
Exhibit C		
Unrestricted	Educational and general expenditures	\$ 109,407.69
Unrestricted	Auxiliary enterprise expenditures	\$ (45,940.43)
Unrestricted	Beginning fund balance	\$ (5,066,284.50)
Exhibit E		
Unrestricted	Instruction	\$ 1,258.46
Unrestricted	Research	\$ 89,699.07
Unrestricted	Public service	\$ 3,046.88
Unrestricted	Academic support	\$ (60,376.33)
Unrestricted	Student services	\$ 49,886.62
Unrestricted	Institutional support	\$ 35,746.97
Unrestricted	Operation and maintenance of plant	\$ (9,853.98)
Unrestricted	Auxiliary enterprises	\$ (45,940.43)

The Tennessee State School Bond Authority maintains a debt service reserve for its bonds. This amount had previously been shown in the university's retirement of indebtedness fund as deposits with trustee. During the year ended June 30, 1998, there was a change in accounting policy whereby it was decided that the reserve should be netted against the related bonds payable and the net amount shown in investment in plant as Tennessee State School Bond Authority indebtedness. In addition, the commercial paper payable and the notes payable under the BANs

**Tennessee Board of Regents
The University of Memphis
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

program were to be included in the TSSBA indebtedness. As a result of the change in accounting policy, prior-period amounts were restated by the amounts noted below:

<u>Fund</u>	<u>Account</u>	<u>Amount</u>
Exhibit A		
Retirement of indebtedness	Deposits with trustee	\$ (3,002,078.96)
Retirement of indebtedness	Restricted fund balance	\$ (3,002,078.96)
Unexpended plant	Notes payable	\$ (67,938.85)
Unexpended plant	Tennessee State School Bond Authority indebtedness	\$ 67,938.85
Investment in plant	Notes payable	\$ (583,283.29)
Investment in plant	Bonds payable	\$ (20,888,980.95)
Investment in plant	Tennessee State School Bond Authority indebtedness	\$ 18,470,185.28
Investment in plant	Net investment in plant	\$ 3,002,078.96
Exhibit C		
Retirement of indebtedness	TSSBA debt proceeds	\$ (504,757.70)
Retirement of indebtedness	Beginning fund balance	\$ (2,497,321.26)
Investment in plant	Increase in indebtedness	\$ (504,757.70)
Investment in plant	Beginning fund balance	\$ 2,497,321.26