AUDIT REPORT

Tennessee Board of Regents
The University of Memphis

For the Year Ended
June 30, 2011

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

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For more information about the Comptroller of the Treasury, please visit our website at www.comptroller1.state.tn.us/.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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February 22, 2012

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 340
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, 2011. 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/bb
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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, 2011

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, 2011

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Tennessee Board of Regents
The University of Memphis
For the Year Ended June 30, 2011

INTRODUCTION

POST-AUDIT AUTHORITY

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

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

In 1909, the General Assembly of Tennessee enacted a general educational law providing for the establishment and maintenance of three normal schools in the state, one of which was to be located in Memphis. On September 15, 1912, West Tennessee State Normal School opened and, in 1925, became a senior college. On July 1, 1957, the institution was designated Memphis State University, and on July 1, 1994, the name was changed to The University of Memphis.

The university is a fully accredited, comprehensive doctoral/high-research-institution of higher education. It is comprised of four schools: the Cecil Humphreys School of Law, the School of Nursing, the School of Audiology and Speech Language Pathology, and the School of Public Health; and six colleges: the College of Arts and Sciences, the Fogelman College of Business and Economics, the College of Education, the Herff College of Engineering, the College of Communication and Fine Arts, and the University College. The University of Memphis has twenty-four 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, 2010, through June 30, 2011, 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, 2011. 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.

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

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

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

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

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 2011, 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
COMPTROLLER OF THE TREASURY
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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

December 13, 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 340
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, 2011, and have issued our report thereon dated December 13, 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

Management of the university is responsible for establishing and maintaining effective 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.

We noted certain matters that we reported to the management of The University of Memphis in a separate letter.

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.

Arthur A. Hayes, Jr., CPA
Director

AAH/bb

STATE OF TENNESSEE
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Independent Auditor's Report

December 13, 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 340
Nashville, Tennessee 37217
and
Dr. Shirley C. Raines, President
The University 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, 2011, 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 and the report of the other auditors provide 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, 2011, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of The University of Memphis, and its discretely presented component unit as of June 30, 2011, 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 23, the financial statements of The University of Memphis Foundation, a discretely presented component unit of The University of Memphis, include investments valued at $27,686,976.00 (27.1 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 24 and the schedule of funding progress on page 58 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.

December 13, 2011
Page Three

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 59 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 December 13, 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., CPA
Director

AAH/bb

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

This section of The University of Memphis' annual financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2011, with comparative information presented for the fiscal year ended June 30, 2010. 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 basic financial statements, and the accompanying notes. The basic financial statements, notes, and this discussion are the responsibility of management.

Using This Annual Report

This report consists of three basic financial statements. The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows provide information on the University of Memphis as a whole and present a long-term view of the university's finances.

The Statement of Net Assets

The Statement of Net Assets presents the financial position of the university at the end of the fiscal year and includes all assets and liabilities of the university. The difference between total assets and total liabilities–net assets–is an indicator of the current financial condition of the university. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the university's equity in property, plant, and equipment owned by the university. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the university but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

Net Assets - The University
(in thousands of dollars)

	FY 2011	FY 2010
Assets:		
Current assets	$ 94,111	$ 72,963
Capital assets, net	384,364	372,339
Other assets	106,941	85,773
Total Assets	**585,416**	**531,075**
Liabilities:		
Current liabilities	49,845	44,759
Noncurrent liabilities	131,506	128,606
Total Liabilities	**181,351**	**173,365**
Net Assets:		
Invested in capital assets, net of related debt	274,084	262,699
Restricted - nonexpendable	3,737	3,716
Restricted - expendable	8,451	8,941
Unrestricted	117,793	82,354
Total Net Assets	**$ 404,065**	**$ 357,710**

Comparison of FY 2011 to FY 2010

- Current assets increased by $21 million primarily due to cash balances related to FY 2011 carryforward balances per the university plan to transition to significantly reduced state appropriations in FY 2012.

- Other assets increased primarily due to increased locally funded plant fund projects.

- Current liabilities increased by $5 million primarily due to increased vendor payables that resulted from timing differences, an accrued liability for the faculty Voluntary Buyout Incentive Program, and an increase in current Tennessee State School Bond Authority (TSSBA) debt payable related to the conversion of $34 million in commercial paper debt to TSSBA bonds.

- Unrestricted net assets increased by $35 million primarily due to funds accumulated for handling the transition from the time (FY 2009 - FY 2011) when federal stimulus and state non-recurring funds were available to supplant the state base reductions to future years when such funds are significantly reduced or totally eliminated from the university's budget. This is in accordance with the university's three-year financial plan implemented in FY 2010 as part of the State of Tennessee budget process.

Net Assets - The Foundation
(in thousands of dollars)

	FY 2011	FY 2010
Assets:		
Current assets	$ 4,260	$ 5,547
Noncurrent assets	108,216	102,721
Total Assets	**112,476**	**108,268**
Liabilities:		
Current liabilities	10,324	11,766
Noncurrent liabilities	-	15
Total Liabilities	**10,324**	**11,781**
Net Assets:		
Restricted - nonexpendable	53,494	48,948
Restricted - expendable	39,229	39,360
Unrestricted	9,429	8,179
Total Net Assets	**$ 102,152**	**$ 96,487**

<u>Comparison of FY 2011 to FY 2010</u>

- Current assets decreased principally due to a decrease in cash associated with the timing of revenues, expenses, and investments, and a decrease in current pledges receivable due to collections on existing pledges exceeding the receipt of new pledges. These declines are believed to be related to the generally poor economic environment.

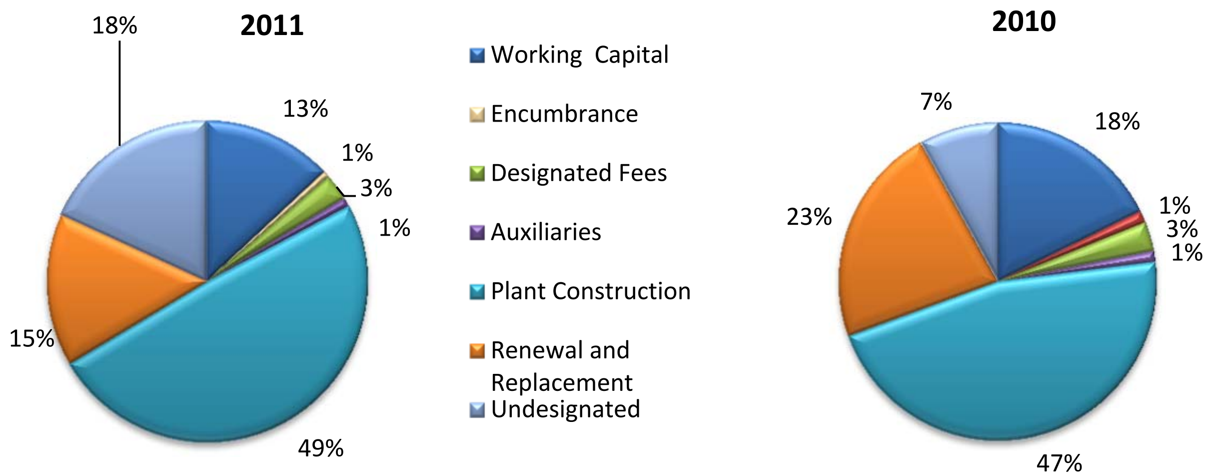
- Noncurrent assets increased by $5 million principally due to an increase in investments primarily associated with improved market conditions, partially offset by a decrease in noncurrent pledges receivable due to collections on existing pledges exceeding the receipt of new pledges.

- Current liabilities decreased principally due to the timing differences related to the recording and payment of expenses.

- Restricted - nonexpendable net assets increased principally due to the receipt of new gifts as well as transfers from restricted - expendable net assets.

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

Allocation of Net Assets – The University



Comparison of FY 2011 to FY 2010

- Undesignated net assets increased primarily due to funds accumulated for handling the transition from the time (FY 2009 - FY 2011) when federal stimulus and state non-recurring funds were available to supplant the state base reductions to future years when such funds are significantly reduced or totally eliminated from the university's budget. This is in accordance with the university's three-year financial plan implemented in FY 2010 as part of the State of Tennessee budget process.

- The increase in the plant construction net assets is primarily due to increased locally funded and state maintenance of effort funded plant fund projects.

- Working capital and renewal and replacement in relation to net assets decreased from FY 2010 due to a significant increase in total undesignated net assets in FY 2011 (explained above). The working capital allocation actually increased by 6%, and the renewal and replacement balance decreased by only 2% from the prior fiscal year.

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)

	FY 2011	FY 2010
Operating revenues:		
Net tuition and fees	$ 113,442	$ 107,768
Grants and contracts	42,148	41,943
Auxiliary	19,987	17,328
Other	26,984	26,019
Total operating revenues	**202,561**	**193,058**
Operating expenses	(392,579)	(374,945)
Operating loss	**(190,018)**	**(181,887)**
Nonoperating revenues and expenses:		
State appropriations	126,188	108,550
Gifts	18,825	17,058
Investment income	2,300	2,545
Other nonoperating revenues and expenses	72,602	74,668
Total nonoperating revenues and expenses	**219,915**	**202,821**
Income before other revenues, expenses, gains, or losses	**29,897**	**20,934**
Other revenues, expenses, gains, or losses:		
Capital appropriations	1,209	18,986
Capital grants and gifts	15,241	6,631
Other	8	-
Total other revenues, expenses, gains, or losses	**16,458**	**25,617**

Increase in net assets	**46,355**	**46,551**
Net assets at beginning of year	357,710	311,159
Net assets at end of year	**$ 404,065**	**$ 357,710**

Comparison of FY 2011 to FY 2010

- Auxiliary revenues increased by $2.6 million primarily due to the full occupancy of the Living Learning Community dormitory that was opened in FY 2011 and commissions from the food service contract resulting from expansion of the student meal plan program (Dining Dollars).

- State appropriations increased by $17.6 million due to the availability of non-recurring state funds. Base state appropriations actually decreased by $6.4 million, but this reduction was offset in FY 2011 by special one-time state appropriations (maintenance of effort and non-recurring funds).

- Capital appropriations decreased by $17.8 million primarily due to the completion of the Downtown Law School renovation and relocation project in the early part of FY 2010. There was no significant state capital appropriation funded project in FY 2011.

- Capital grants and gifts increased by $8.6 million due to the capitalization of several athletic projects funded by gifts through the University of Memphis Foundation, including the Athletic Office Building addition, weight training room addition, and the FedEx Baseball Park.

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

	FY 2011	FY 2010
Operating revenues and expenses:		
Gifts and contributions	$ 17,642	$ 16,977
Operating expenses	(23,248)	(25,890)
Operating loss	**(5,606)**	**(8,913)**
Nonoperating revenues and expenses:		
Investment income	9,586	6,345
Other nonoperating revenues (expenses)	169	(1,468)
Total nonoperating revenues and expenses	**9,755**	**4,877**
Income (loss) before other revenues, expenses, gains, or losses	**4,149**	**(4,036)**
Other revenues, expenses, gains, or losses	**1,516**	**1,927**
Increase (decrease) in net assets	**5,665**	**(2,109)**
Net assets at beginning of year	96,487	98,596
Net assets at end of year	**$ 102,152**	**$ 96,487**

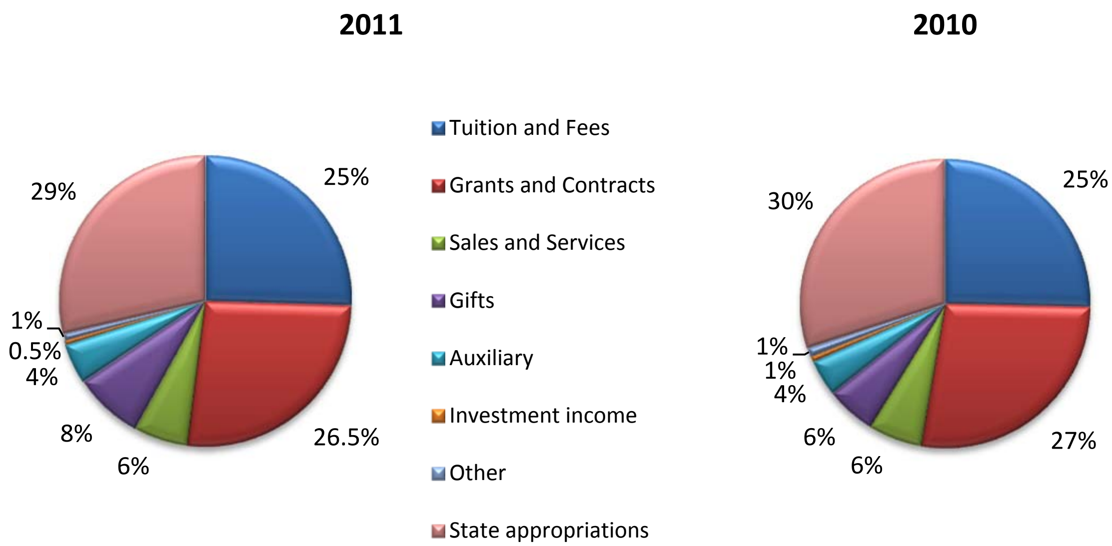
Comparison of FY 2011 to FY 2010

- Operating expenses decreased by $2.6 million principally due to a decrease in construction, departmental enrichment, and special projects.

- Investment income increased principally due to improved financial markets.

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the university's operating activities for the years ended June 30, 2011, and June 30, 2010.



Comparison of FY 2011 to FY 2010

- Gifts increased by $10.4 million due to contributions for athletic capital projects.

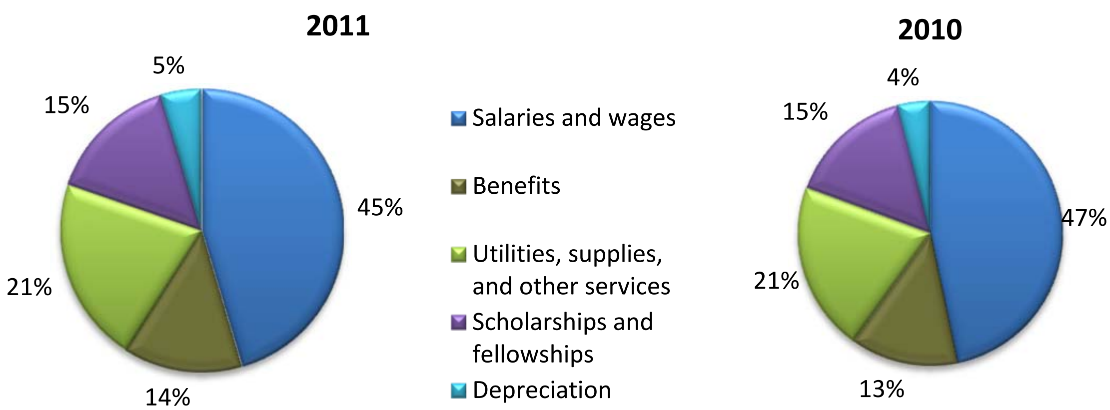
Auxiliary revenues increased by $2.6 million primarily due to the full operation of the Living Learning Community dormitory and commissions from the food service contract resulting from expansion of the student meal plan program (Dining Dollars).

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)

	FY 2011	FY 2010
Operating Expenses:		
Salaries and wages	$ 178,295	$ 175,106
Benefits	53,281	49,450
Utilities, supplies, and other services	83,613	77,725
Scholarships and fellowships	59,057	57,567
Depreciation	18,333	15,097
Total Operating Expenses	$ 392,579	$ 374,945



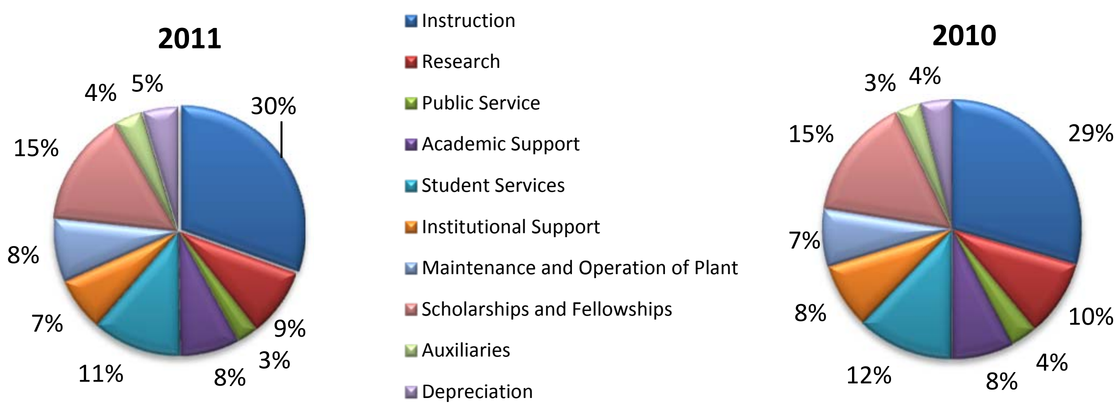
Comparison of FY 2011 to FY 2010

- Operating costs (utilities, supplies, and other services) increased by $5.9 million primarily due to gifts-in-kind for the noncapital outfitting of the University Center cafeteria and athletics.

- Depreciable capital assets totaling $21.5 million, including $8 million in buildings and $4 million for the campus data network, were capitalized, increasing depreciation expense.

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

	FY 2011	FY 2010
Operating Expenses:		
Instruction	$ 119,445	$ 110,248
Research	34,905	35,753
Public service	10,784	12,840
Academic support	30,219	28,890
Student services	45,668	45,333
Institutional support	27,247	30,606
Maintenance and operation of plant	32,600	27,064
Scholarships and fellowships	59,057	57,566
Auxiliaries	14,321	11,548
Depreciation	18,333	15,097
Total operating expenses	$ 392,579	$ 374,945



<u>Comparison of FY 2011 to FY 2010</u>

- Maintenance and operation of plant expense increased by $5.5 million due to the outfitting of the University Center cafeteria.

- Auxiliaries expense increased by $2.7 million primarily due to the operations of the Living Learning Community dormitory and costs related to termination of the bookstore contract (reimbursement of a portion of the former bookstore contractor's unamortized capital contribution).

- Depreciation expense increased by $3.2 million due to the capitalization of assets totaling $21.5 million, including $8 million in buildings and $4 million for the campus data network infrastructure.

Natural Classification - The Foundation
(in thousands of dollars)

	FY 2011	FY 2010
Operating Expenses:		
Scholarships and fellowships	$ 8,547	$ 8,678
Payment to or on behalf of the university	14,701	17,212
Total operating expenses	$ 23,248	$ 25,890

Comparison of FY 2011 to FY 2010

- Total operating expenses decreased principally due to a decrease in construction, departmental enrichment, and special projects.

Capital Assets and Debt Administration

Capital Assets

The University of Memphis had $384 million invested in capital assets, net of accumulated depreciation of $183 million at June 30, 2011; and $372 million invested in capital assets, net of accumulated depreciation of $172 million at June 30, 2010. Depreciation charges totaled $18.3 million and $15.1 million for the years ended June 30, 2011, and June 30, 2010, respectively. Details of these assets are shown below.

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

	FY 2011	FY 2010
Land	$ 17,937	$ 17,583
Land improvements	47,562	46,777
Buildings	269,375	269,898
Equipment	13,286	12,890
Library holdings	16,388	16,534
Intangible assets	5,938	6,288
Projects in progress	13,878	2,369
Total	$ 384,364	$ 372,339

- Projects in progress increased primarily due to additions to the Athletic Office Building, renovations to the Field House and Robison Hall (preplan), and the Law School HVAC replacement.

Planned capital activity for FY 2012 includes the Robison Hall renovation (non-recurring state funds of $3.6 million), access and security upgrades (state appropriations of $4 million), Central Avenue parking lot reconfiguration (local funds of $2.2 million), and elevator modernization (state appropriations of $2 million).

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

Debt

The university had $108.4 million and $109.6 million in debt outstanding at June 30, 2011, and June 30, 2010, respectively, including Tennessee State School Bond Authority (TSSBA) debt and general obligation (GO) debt. The table below summarizes these amounts by type of debt instrument.

Outstanding Debt - The University
(in thousands of dollars)

	FY 2011	FY 2010
TSSBA bonds payable	$ 100,574	$ 71,637
TSSBA commercial paper	-	34,115

GO commercial paper	4,363	3,889
Capital lease	3,494	-
Total	$ 108,431	$ 109,641

- TSSBA commercial paper debt decreased due to the conversion of the debt for the Living Learning Complex dormitory ($24.8 million) and the Performance Contracting Energy Savings project ($9.3 million) to bonds.

- The university entered into a five-year capital lease with Pomeroy IT Solutions for the campus data network infrastructure.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2011, were as follows:

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

More information about the university's long-term liabilities is presented in Note 8 to the financial statements.

Economic Factors That Will Affect the Future

The continued economic low 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 fourth consecutive year, the base state appropriations will be reduced. The impact of the reduction for FY 2012 is $8.4 million or 9.3% from the previous year. Since FY 2008, the university has sustained a cumulative state appropriation reduction of $42 million or 34% by FY 2012.

To compensate for the reduction in state appropriations, the university will continue to utilize state one-time funds and significant FY 2011 operating carryforward funds to transition to reduced state appropriations in accordance with the university's three-year financial plan, which includes tuition increases, budget reductions, restructuring, and position attritions. These one-time funds will be limited in subsequent years. The university has implemented an 11% increase in student fees for FY 2012. Recent increases in student fees have not significantly impacted enrollment; rather, a moderate enrollment increase (4.7%) was realized in FY 2011.

In August 2011, the university entered into a one-year lease with Lambuth University to utilize the Lambuth campus in Jackson, Tennessee, to offer University of Memphis classes to students in Jackson and the Madison County area. The Tennessee Higher Education Commission recommended that the State of Tennessee acquire the assets of Lambuth University for use by the Tennessee Board of Regents and the University of Memphis subject to conditions and additional approvals as outlined by the Tennessee legislature. This process has not yet been completed.

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, Assistant Vice President for Finance, Administration Building, Room 276, Memphis, Tennessee 38152.

Exhibit A

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENTS OF NET ASSETS
JUNE 30, 2011

	Instituition	Component Unit
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 23)	$ 39,509,057.80	$ 847,622.00
Short-term investments (Note 3)	22,041,213.61	-
Accounts, notes, and grants receivable (net) (Note 4)	29,526,573.49	-
Due from primary government	482,911.88	-
Pledges receivable (net) (Note 23)	-	3,370,751.00
Inventories (at lower of cost or market)	669,208.97	-
Prepaid expenses and deferred charges	1,423,556.71	-
Accrued interest receivable	458,227.61	41,301.00
Total current assets	94,110,750.07	4,259,674.00
Noncurrent assets:		
Cash and cash equivalents (Note 2)	80,998,910.39	-
Investments (Notes 3 and 23)	21,582,001.55	103,995,479.00
Accounts, notes and grants receivable (net) (Note 4)	4,357,454.46	-
Pledges receivable (net) (Note 23)	-	3,355,423.00
Capital assets (net) (Note 5)	384,364,172.80	-
Other assets	2,500.00	865,117.00
Total noncurrent assets	491,305,039.20	108,216,019.00
Total assets	585,415,789.27	112,475,693.00
LIABILITIES		
Current liabilities:		
Accounts payable (Note 6)	7,122,255.95	10,143,637.00
Accrued liabilities	22,618,779.90	180,273.00
Student deposits	984,473.11	-
Deferred revenue	10,582,474.97	-
Compensated absences (Note 8)	2,440,581.46	-
Accured interest payable	788,672.05	-
Long-term liabilities, current portion (Note 8)	4,814,581.14	-
Deposits held in custody for others	492,847.24	-
Total current liabilities	49,844,665.82	10,323,910.00
Noncurrent liabilities:		
Net OPEB obligation (Notes 8 and 13)	13,773,657.17	-
Compensated absences (Note 8)	6,703,200.03	-
Long-term liabilites (Note 8)	105,465,383.53	-
Due to grantors (Note 8)	4,357,454.46	-
Other liabilities	1,206,586.89	-
Total noncurrent liabilites	131,506,282.08	-
Total liabilities	181,350,947.90	10,323,910.00
NET ASSETS		
Invested in capital assets, net of related debt	274,084,208.13	-
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	1,479,110.70	22,294,407.00
Instructional department uses	-	7,992,753.00
Other	2,257,999.48	23,207,232.00
Expendable:		
Scholarships and fellowships (Note 9)	1,047,178.09	8,038,392.00
Research	1,257,734.24	-
Instructional department uses (Note 9)	1,693,900.63	11,709,480.00
Loans (Note 9)	2,600,014.64	-
Capital projects	527,973.02	4,755,822.00
Other (Note 9)	1,323,566.52	14,724,701.00
Unrestricted (Note 10)	117,793,155.92	9,428,996.00
Total net assets	$ 404,064,841.37	$ 102,151,783.00

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, 2011

		Institution		Component Unit
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $44,515,600.63)	$	113,442,461.87	$	-
Gifts and contributions		-		17,642,126.00
Governmental grants and contracts		35,723,948.18		-
Nongovernmental grants and contracts		6,424,051.59		-
Sales and services of educational departments		26,804,657.75		-
Auxiliary enterprises:				
Residential life (net of scholarship allowances of $224,396.85)		13,824,093.47		-
Bookstore		1,237,012.29		-
Food service		954,486.23		-
Other auxiliaries		3,971,458.94		-
Interest earned on loans to students		179,158.64		-
Total operating revenues		202,561,328.96		17,642,126.00
EXPENSES				
Operating expenses (Note 18):				
Salaries and wages		178,295,091.66		-
Benefits		53,280,541.05		-
Utilities, supplies, and other services		83,613,234.46		-
Scholarships and fellowships		59,057,316.83		8,547,448.00
Depreciation expense		18,332,745.66		-
Payments to or on behalf of The University of Memphis (Note 23)		-		14,701,072.00
Total operating expenses		392,578,929.66		23,248,520.00
Operating loss		(190,017,600.70)		(5,606,394.00)
NONOPERATING REVENUES (EXPENSES)				
State appropriations		126,187,529.00		-
Gifts		18,825,457.06		-
Grants and contracts		76,024,079.73		-
Investment income (net of investment expense of $40,694.48 for the institution and $151,431.00 for the component unit)		2,299,822.67		9,586,431.00
Interest on capital asset-related debt		(4,577,728.33)		-
Bond issuance costs		(461,198.58)		-
Other nonoperating revenues		1,616,483.86		169,016.00
Net nonoperating revenues		219,914,445.41		9,755,447.00
Income before other revenues, expenses, gains, or losses		29,896,844.71		4,149,053.00
Capital appropriations		1,209,217.79		-
Capital grants and gifts		15,240,925.96		-
Additions to permanent endowments		7,752.34		1,516,112.00
Total other revenues		16,457,896.09		1,516,112.00
Increase in net assets		46,354,740.80		5,665,165.00
NET ASSETS				
Net assets - beginning of year		357,710,100.57		96,486,618.00
Net assets - end of year	$	404,064,841.37	$	102,151,783.00

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

Exhibit C

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 113,107,949.62
Grants and contracts	42,873,336.03
Sales and services of educational activities	26,320,072.55
Payments to suppliers and vendors	(83,043,179.98)
Payments to employees	(178,542,809.93)
Payments for benefits	(47,777,658.13)
Payments for scholarships and fellowships	(59,057,316.83)
Loans issued to students	(784,667.49)
Collection of loans from students	439,076.37
Interest earned on loans to students	179,158.64
Auxiliary enterprise charges:	
Residence halls	13,816,155.88
Bookstore	1,237,012.29
Food services	954,486.23
Other auxiliaries	3,961,354.22
Net cash used by operating activities	(166,317,030.53)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	126,013,200.00
Gifts and grants received for other than capital or endowment purposes	95,609,801.77
Private gifts for endowment purposes	7,752.34
Federal student loan receipts	132,449,681.00
Federal student loan disbursements	(132,449,681.00)
Changes in deposits held for others	(162,945.83)
Other noncapital financing receipts	4,744,581.89
Net cash provided by noncapital financing activities	226,212,390.17
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	4,890,732.70
Capital appropriations	1,209,217.79
Proceeds from sale of capital assets	64,067.70
Purchase of capital assets and construction	(16,627,914.25)
Principal paid on capital debt	(4,522,848.43)
Interest paid on capital debt	(4,466,800.68)
Bond issuance costs	(461,198.58)
Net cash used by capital and related financing activities	(19,914,743.75)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	23,807,142.48
Income on investments	2,337,279.89
Purchase of investments	(26,334,826.53)
Net cash used by investing activities	(190,404.16)
Net increase in cash and cash equivalents	39,790,211.73
Cash and cash equivalents - beginning of year	80,717,756.46
Cash and cash equivalents - end of year	$ 120,507,968.19

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	$ (190,017,600.70)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	18,332,745.66
Other adjustments (Note 20)	183,429.00
Change in assets and liabilities:	
Receivables, net	(186,177.95)
Inventories	(68,200.34)
Prepaid/deferred items	(557,284.02)
Accounts payable	4,088,549.43
Accrued liabilities	(133,646.02)
Deferred revenues	(234,531.01)
Deposits	258,775.43
Compensated absences	(23,948.62)
Net OPEB obligation	2,040,858.61
Net cash used by operating activities	$ (166,317,030.53)

Noncash investing, capital, and financing activities	
Gifts in-kind	$ 15,240,925.96
Loss on disposal of capital assets	$ (2,109,573.55)

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 23 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. 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:

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

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

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

<u>Unrestricted net assets</u> - Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational

departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the university, and may be used at the discretion of the university to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

Scholarship Discounts and Allowances

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

NOTE 2. CASH AND CASH EQUIVALENTS

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, 2011, cash and cash equivalents consisted of $16,496,289.22 in bank accounts, $75,720.00 of petty cash on hand, $91,225,587.65 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $12,710,371.32 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, 2011, the university had the following investments and maturities:

		Investment Maturities in Years	
Investment Type	Fair Value	Less than 1	1 to 5
U.S. Treasury notes	$41,174,475.16	$19,592,473.61	$21,582,001.55
Commerical paper	2,248,740.00	2,248,740.00	-
Certificates of deposit	200,000.00	200,000.00	-
Total	$43,623,215.16	$22,041,213.61	$21,582,001.55

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, 2011, the university's investments were rated as follows:

		Credit Quality Rating	
Investment Type	Fair Value	A+	Unrated
LGIP	$103,935,958.97	$ -	$103,935,958.97
Commerical paper	2,248,740.00	2,248,740.00	-
Total	$106,184,698.97	$2,248,740.00	$103,935,958.97

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2011
Student accounts receivable	$11,248,201.45
Grants receivable	10,482,751.55
Notes receivable	1,560,785.51
State appropriation receivable	180,900.00
Other receivables	15,428,961.89
Subtotal	38,901,600.40
Less allowance for doubtful accounts	(9,255,518.50)
Total receivables	$29,646,081.90

Federal Perkins Loan Program funds included the following:

	June 30, 2011
Perkins loans receivable	$4,766,470.06
Less allowance for doubtful accounts	(528,524.01)
Total	$ 4,237,946.05

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$17,583,432.04	$ 353,967.32	$ -	$ -	$17,937,399.36
Land improvements and infrastructure	62,676,450.24	5,921,598.97	76,619.42	2,349,153.03	66,325,515.60
Buildings	379,962,786.58	8,047,697.85	44,350.70	-	388,054,835.13
Equipment	37,909,917.42	3,435,975.42	-	4,791,770.46	36,554,122.38
Library holdings	35,649,304.33	3,454,995.36	-	3,094,261.64	36,010,038.05

Intangible assets:					
Easement	1,200,000.00	-	-	-	1,200,000.00
Software	7,235,248.50	520,337.88	-	-	7,755,586.38
Projects in progress	2,369,319.89	11,629,800.39	(120,970.12)	-	13,878,150.16
Total	544,586,459.00	33,364,373.19	-	10,235,185.13	567,715,647.06
Less accumulated depreciation/ amortization:					
Land improvements and infrastructure	15,899,246.52	2,991,627.48	-	127,245.79	18,763,628.21
Buildings	110,064,556.74	8,615,479.83	-	-	118,680,036.57
Equipment	25,020,386.52	2,254,591.37	-	4,006,699.50	23,268,278.39
Library holdings	19,115,290.74	3,601,003.81	-	3,094,261.64	19,622,032.91
Intangible assets:					
Software	2,147,455.01	870,043.17	-	-	3,017,498.18
Total	172,246,935.53	18,332,745.66	-	7,228,206.93	183,351,474.26
Capital assets, net	$372,339,523.47	$15,031,627.53	$ -	$3,006,978.20	$384,364,172.80

NOTE 6. ACCOUNTS PAYABLE

Accounts payable included the following:

	June 30, 2011
Vendors payable	$4,750,846.32
Construction project payments	1,416,906.09
Other payables	954,503.54
Total accounts payable	$7,122,255.95

NOTE 7. CAPITAL LEASE

The university has a capital lease agreement for the campus-wide data network equipment and services. This agreement has a beginning date of January 1, 2011, an ending date of December 31, 2015, and an imputed interest rate of 5.517%. The asset balance was $3,686,029.46 at June 30, 2011, net of accumulated depreciation of $409,558.83. The following is a schedule by years of future minimum lease payments under the capital lease together with the present value of the net minimum lease payments at June 30, 2011:

Year Ending June 30	
2012	$ 878,591.28
2013	878,591.28
2014	878,591.28
2015	878,591.28
2016	439,295.64
Total minimum lease payments	3,953,660.76
Less amount representing interest	(459,635.39)
Present value of net minimum lease payments	$ 3,494,025.37

NOTE 8. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 71,637,036.13	$ 32,909,840.60	$ 3,972,538.30	$100,574,338.43	$4,111,144.97
Unamortized bond premium	-	1,945,600.74	97,280.04	1,848,320.70	-
Commercial paper	34,115,209.11	44,164.39	34,159,373.50	-	-
General obligation debt:					
Commercial paper	3,888,546.70	641,075.47	166,342.00	4,363,280.17	-
Capital lease obligations	-	3,831,487.25	337,461.88	3,494,025.37	703,436.17
Subtotal	109,640,791.94	39,372,168.45	38,732,995.72	110,279,964.67	4,814,581.14
Other liabilities:					
Compensated absences	9,167,730.11	5,003,302.44	5,027,251.06	9,143,781.49	2,440,581.46
Due to grantors	3,907,531.82	457,142.34	7,219.70	4,357,454.46	-
Net OPEB obligation	11,732,798.56	2,040,858.61	-	13,773,657.17	-

Subtotal	24,808,060.49	7,501,303.39	5,034,470.76	27,274,893.12	2,440,581.46
Total long-term liabilities	$134,448,852.43	$46,873,471.84	$43,767,466.48	$137,554,857.79	$7,255,162.60

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 2% to 7%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2040 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 11 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 $4,750,591.97 at June 30, 2011. Unexpended debt proceeds were $30,000.00 at June 30, 2011.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2011, are as follows:

Year Ending June 30	Principal	Interest	Total
2012	$ 4,111,144.97	$ 4,727,980.93	$ 8,839,125.90
2013	3,993,119.30	4,595,664.44	8,588,783.74
2014	4,015,577.40	4,420,475.65	8,436,053.05
2015	4,091,731.59	4,259,350.63	8,351,082.22
2016	4,275,673.23	4,081,823.61	8,357,496.84
2017 – 2021	24,113,667.81	17,328,684.39	41,442,352.20
2022 – 2026	25,599,129.03	11,412,424.41	37,011,553.44
2027 – 2031	19,405,069.49	5,239,576.51	24,644,646.00
2032 – 2037	6,989,065.00	1,998,814.60	8,987,879.60
2037 – 2040	3,980,160.61	555,560.00	4,535,720.61
Total	$100,574,338.43	$58,620,355.17	$159,194,693.60

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 $4,363,280.17 at June 30, 2011. 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 9. 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. Five of the endowment accounts require any interest generated in excess of expenses be reapplied to the principal. At June 30, 2011, net appreciation of $174,128.38 is available to be spent, of which $93,552.33 is included in restricted net assets expendable for scholarships and fellowships, $741.99 is included in restricted net assets expendable for instructional departmental uses, $67,012.80 is included in restricted net assets expendable for loans, and $12,821.26 is included in restricted net assets expendable for other.

NOTE 10. 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, 2011
Working capital	$ 15,405,171.15
Encumbrances	746,116.86
Designated fees	3,092,035.93
Auxiliaries	1,037,028.32
Plant construction	57,971,860.68
Renewal and replacement of equipment	18,123,425.00
Undesignated	21,417,517.98
Total	$117,793,155.92

NOTE 11. PLEDGED REVENUES

The university has pledged certain revenues and fees, including state appropriations, to repay $100,574,338.43 in revenue bonds issued from May 1976 to May 2011 (see Note 8 for further detail). 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 2040. Annual principal and interest payments on the bonds are expected to require 2.02% of available revenues. The total principal and interest remaining to be paid on the bonds is $159,194,693.60. Principal and interest paid for the current year and total available revenues were $8,525,091.92 and $360,960,993.90, respectively.

NOTE 12. PENSION PLANS

A. Defined Benefit Plan

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 14.91% 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, 2011, 2010, and 2009 were $8,072,255.73, $6,859,295.76, and $7,075,175.69. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans

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 contributions made by the university to the plans were $9,265,201.83 for the year ended June 30, 2011, and $9,123,127.33 for the year ended June 30, 2010. Contributions met the requirements for each year.

NOTE 13. 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. In previous fiscal years, prior to reaching the age of 65, all members had the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. However, as of January 1, 2011, the insurance plan structure was changed and as a result, all members now have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits. 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 are subsidized 80%; 25 years, 70%; and 20 years, 60%. Retirees who are 65 years of age or older have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; 25 years, $37.50; and 20 years, $25.

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

Annual required contribution (ARC)	$ 4,436,000.00
Interest on the net OPEB obligation	527,975.93
Adjustment to the ARC	(500,089.61)
Annual OPEB cost	4,463,886.32
Amount of contribution	(2,423,027.71)
Increase in net OPEB obligation	2,040,858.61
Net OPEB obligation – beginning of year	11,732,798.56
Net OPEB obligation – end of year	$13,773,657.17

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2011	State Employee Group Plan	$4,463,886.32	54.28%	$13,773,657.17
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

Funded Status and Funding Progress

The funded status of the university's portion of the State Employee Group Plan as of July 1, 2010, was as follows:

State Employee Group Plan

Actuarial valuation date	July 1, 2010
Actuarial accrued liability (AAL)	$42,006,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$42,006,000.00
Actuarial value of assets as a percentage of the AAL	0.00%
Covered payroll (active plan members)	$116,448,047.26
UAAL as percentage of covered payroll	36.07%

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, 2010, 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 10 percent in fiscal year 2011. The rate decreased to 9.5 percent in fiscal year 2012, and then reduced by decrements of 0.5 percent per year 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 14. 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, 2011, and June 30, 2010, 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, 2011, the Risk Management Fund held $107.6 million in cash and cash equivalents designated for payment of claims.

At June 30, 2011, the scheduled coverage for the university was $1,229,033,400 for buildings and $307,688,100 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 15. 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 $75,468,070.19 at June 30, 2011.

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 $2,364,417.69 and for personal property were $678,235.15 for the year ended June 30, 2011. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2011, outstanding commitments under construction contracts totaled $9,669,243.31 for the University Center renovation, Law School relocation, access and security update, drainage corrections, Robison Hall renovation, several buildings' envelopes, elevator modernization, and Central Avenue Parking Lot reconfiguration, of which $6,024,778.25 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 16. CHAIRS OF EXCELLENCE

The university had $64,391,779.23 on deposit at June 30, 2011, 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 17. 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 $1,217,730.25 from these funds during the year ended June 30, 2011.

NOTE 18. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses for the year ended June 30, 2011, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 83,944,182.21	$ 22,967,734.22	$ 12,533,630.14	$ -	$ -	$ 119,445,546.57
Research	21,082,304.97	5,058,702.37	8,764,462.04	-	-	34,905,469.38
Public service	6,412,145.28	1,606,813.69	2,765,512.23	-	-	10,784,471.20
Academic support	18,379,888.90	6,220,867.12	5,617,800.28	-	-	30,218,556.30
Student services	19,497,286.67	6,086,985.80	20,083,249.04	-	-	45,667,521.51
Institutional support	15,772,559.74	5,642,251.74	5,832,330.19	-	-	27,247,141.67
Maintenance & operation	10,723,084.46	5,042,200.13	16,834,270.41	-	-	32,599,555.00
Scholarships & fellowships	-	-	-	59,057,316.83	-	59,057,316.83
Auxiliary	2,483,639.43	654,985.98	11,181,980.13	-	-	14,320,605.54
Depreciation	-	-	-	-	18,332,745.66	18,332,745.66
Total	$178,295,091.66	$ 53,280,541.05	$ 83,613,234.46	$ 59,057,316.83	$ 18,332,745.66	$ 392,578,929.66

NOTE 19. 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 university. The financial records, investments, and other financial transactions are handled external to the university and these amounts are not included in the university's financial report. As reported in the foundation's most recently audited financial report, at June 30, 2011, the assets of the University of Memphis Research Foundation totaled $4,707,388.10, liabilities were $541,035.48, and the fund balance amounted to $4,166,352.62.

NOTE 20. ON-BEHALF PAYMENTS

During the year ended June 30, 2011, the State of Tennessee made payments of $183,429.00 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 13. 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. VOLUNTARY BUYOUT PROGRAM

The university implemented a Voluntary Buyout Program in fiscal year 2011 as a strategy to assist the university in addressing budgetary constraints due to several years of state appropriation reductions and potential budget reductions in the forthcoming fiscal years. Fifteen employees participated in the Voluntary Buyout Program, with all terminating by June 30, 2011.

Each participant will receive 150% of their institutional base salary calculated on the date of separation, to be paid over a three-year period in three equal annual installments payable in January 2012, January 2013, and Januray 2014. Each annual payment is limited to 50% of his or her annual institutional base salary at the time of separation.

As no buyout payments had been made by the end of the fiscal year, the university reported an accrued liability of $1,809,880.34 at June 30, 2011.

NOTE 22. SUBSEQUENT EVENTS

In August 2011, the university entered into a one-year lease with Lambuth University to utilize the Lambuth campus in Jackson, Tennessee, to offer University of Memphis classes to students in Jackson and the Madison County area. The Tennessee Higher Education Commission recommended that the State of Tennessee acquire the assets of Lambuth University for use by the Tennessee Board of Regents and the University of Memphis subject to conditions and additional approvals as outlined by the Tennessee legislature. This process has not yet been completed.

NOTE 23. 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 approximately 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, 2011, the foundation made distributions of $14,701,072.00 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, The University of Memphis Foundation, 635 Normal Street, Memphis, Tennessee 38152-3750, or online at http://www.memphis.edu/foundation/statements.php.

Fair Value Measurements

The foundation reports certain assets at fair value. Fair value has been determined using quoted prices in active markets for identical assets 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 (Level 2), or significant unobservable inputs (Level 3). The following table categorizes the recurring fair value measurements for assets at June 30, 2011.

	Total Fair Value at June 30, 2011	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Money market funds	$ 3,121,051.00	$ 3,121,051.00	$ -	$ -
Limited partnerships and LLCs	31,814,577.00	-	4,127,601.00	27,686,976.00
Common/collective trust fund – international equity	6,454,178.00	-	6,454,178.00	-
Mutual funds	62,453,211.00	62,453,211.00	-	-
U.S. government securities	41,602.00	-	41,602.00	-
Corporate bonds	110,860.00	-	110,860.00	-
Total assets	$ 103,995,479.00	$ 65,574,262.00	$ 10,734,241.00	$ 27,686,976.00

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

Limited Partnership and LCC Investments

Balances, beginning of year	$19,973,257.00
Purchases	6,754,796.00
Sales	(1,058,569.00)
Realized gains (losses)	503.00
Unrealized gains	2,016,989.00
Balances, end of year	$27,686,976.00

All gains and losses, both realized and unrealized, have been reported on the statement of revenues, expenses, and changes in net assets as investment income. Of this total, $2,016,989.00 is attributable to the change in unrealized gains or losses relating to those assets still held at June 30, 2011.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2011.

Money market funds: Valued at cost, which approximates fair value.

Limited partnerships and LLCs: Limited partnerships and LLC investments are generally valued at the foundation's equity in the net asset value of the investee. Some investees invest in equity securities which are valued daily based on quoted prices in active markets. Certain investees maintain underlying holdings of non-marketable securities whose fair values are estimated by management of the investee. Other investees invest their funds through an intermediate entity in a "master-feeder" investment structure. The foundation values these investments at estimated fair value based on its equity in the estimated fair value of the investee. These investees are valued at estimated fair value as determined by their management which is based on the net asset valuations of the underlying investment entities. Fair values for the securities of the underlying investment entities are often not readily available, and accordingly, the fair values are estimated by management of those entities.

Common/collective trust funds: Valued at the net asset value of units held by the foundation at year end.

Mutual funds: Valued at quoted market prices, which are based on the net asset value of shares held by the foundation at year end.

U.S. government securities and corporate bonds: Valued at quoted market prices, valuations provided by commercial pricing services, or the mean of the bid and ask prices provided by investment brokers.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts. Uninsured bank balances at June 30, 2011, totaled approximately $832,000.00.

Investments

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

Investments held at June 30, 2011, were as follows:

	Cost	Fair Value
Money market funds	$ 3,121,051.00	$ 3,121,051.00
Limited partnerships and LLCs	28,670,061.00	31,814,577.00
Common/collective trust fund	2,359,619.00	6,454,178.00
Mutual funds	60,527,388.00	62,453,211.00
U.S. government securities	39,790.00	41,602.00
Corporate bonds	105,304.00	110,860.00
Total investments	$ 94,823,213.00	$ 103,995,479.00

Alternative investments - The foundation has investments in certain limited partnerships and other investments that are classified for fair value measurement purposes as Level 3. The estimated fair value of these assets is $27,686,976.00 at June 30, 2011.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2011. 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 provides for the allocation of funds to various asset classes in order to achieve an appropriate level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated by the foundation investment managers using various valuation techniques and are subject to audit by the investment managers' independent accountants.

Pledges Receivable

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

	June 30, 2011
Current pledges	$ 4,085,852.00
Pledges due in one to five years	2,650,859.00
Pledges due after five years	869,000.00
Subtotal	7,605,711.00
Less discount to net present value	(164,436.00)
Less allowance for uncollectible pledges	(715,101.00)
Total pledges receivable, net	$ 6,726,174.00

Endowment

The University of Memphis Foundation's endowment consists of approximately 400 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 and (2) the original value of subsequent gifts to the permanent endowment. 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, 2011

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$53,494,392.00	$ 13,156,471.00	$ (881,522.00)	$65,769,341.00
Board-designated endowment funds	-	-	5,099,830.00	5,099,830.00
Total funds	$53,494,392.00	$ 13,156,471.00	$ 4,218,308.00	$70,869,171.00

Changes in Endowment Net Assets
For the Fiscal Year Ended June 30, 2011

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net assets, beginning of year	$ 48,947,776.00	$ 10,113,273.00	$ 2,417,553.00	$ 61,478,602.00
Investment return:				
Investment income	-	322,464.00	22,551.00	345,015.00
Net appreciation (realized and unrealized)	-	6,779,176.00	548,436.00	7,327,612.00
Total investment return	-	7,101,640.00	570,987.00	7,672,627.00
Contributions	3,239,367.00	26,873.00	-	3,266,240.00
Appropriations of endowment assets for expenditure	-	(2,371,343.00)	(274,699.00)	(2,646,042.00)
Other changes:				
Investment deficiencies reclassed to unrestricted net assets	-	(1,504,467.00)	1,504,467.00	-
Modifications of restrictions	1,307,249.00	(209,505.00)	-	1,097,744.00
Endowment net assets, end of year	$ 53,494,392.00	$ 13,156,471.00	$ 4,218,308.00	$ 70,869,171.00

All of the permanently restricted endowment funds are required to be retained permanently either by explicit donor stipulation or the Act. The portion of the temporarily restricted endowment funds subject to time and purpose restrictions was $13,156,471.00 as of June 30, 2011. There were no temporarily restricted endowment funds only subject to time restrictions as of June 30, 2011.

Funds with deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the foundation is required to retain in a fund of perpetual duration. In accordance with U.S. generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and/or continued appropriation for fees and previously approved budgeted expenditures. At June 30, 2011, deficiencies of this nature totaled $881,522.00.

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 as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce consistent long-term growth of capital without undue exposure to risk.

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

Spending policy and how the investment objectives relate - The foundation has a policy of budgeting of expenditure each year a percentage of its endowment funds' average fair value over the prior twelve quarters through the fiscal year-end one year preceding the fiscal year in which the expenditure is planned. For fiscal year 2011, this percentage was 4.75%. In establishing this policy, the foundation considered the long-term expected return on its endowment funds. Accordingly, over the long-term, the foundation expects the current spending policy to allow for endowment growth.

This is consistent with the foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
July 1, 2010	State Employee Group Plan	$ -	$42,006,000	$42,006,000	0.00%	$116,448,047	36.07%
July 1, 2009	State Employee Group Plan	$ -	$46,310,000	$46,310,000	0.00%	$125,869,761	36.79%
July 1, 2007	State Employee Group Plan	$ -	$57,082,000	$57,082,000	0.00%	$124,249,650	45.94%

The amount reported here for covered payroll relates to the fiscal year in which the valuations were performed, with the exception of the July 1, 2010, actuarial valuation. The covered payroll date for the July 1, 2010, actuarial valuation is July 1, 2009.

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
SUPPLEMENTARY INFORMATION
SCHEDULE OF CASH FLOWS - COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$	20,007,822.00
Payments for scholarships		(8,553,204.00)
Payments to The University of Memphis		(14,650,729.00)
Net cash flows used by operating activities		(3,196,111.00)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes		1,516,112.00
Other noncapital financing receipts (payments)		153,406.00
Net cash flows provided by noncapital financing activities		1,669,518.00
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments		9,620,378.00
Purchase of investments		(8,444,590.00)
Net cash provided by investing activities		1,175,788.00
Net decrease in cash and cash equivalents		(350,805.00)
Cash and cash equivalents - beginning of year		1,198,427.00
Cash and cash equivalents - end of year	$	847,622.00
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$	(5,606,394.00)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Change in assets and liaiblities:		
Receivables, net		2,365,696.00
Accounts payable		(1,436,056.00)
Accrued liabilities		(5,756.00)
Other assets		1,486,399.00
Net cash used by operating activities	$	(3,196,111.00)
Noncash investing, capital, and financing activities		
Unrealized gain on investments	$	7,660,124.81