STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS

Financial and Compliance Audit Report

For the Year Ended June 30, 2016

Justin P. Wilson, Comptroller

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January 19, 2017

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable David Gregory, Acting Chancellor
Dr. M. David Rudd, President

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, 2016. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

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Audit Report
Tennessee Board of Regents
The University of Memphis
For the Year Ended June 30, 2016

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The University of Memphis

For the Year Ended June 30, 2016

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Finding

Bank and LGIP reconciliations should be performed timely and correctly
University of Memphis business office personnel did not prepare and review bank reconciliations timely or correctly (page 61).

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable David Gregory, Acting Chancellor
Dr. M. David Rudd, President

Report on the Financial Statements

We have audited the accompanying 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, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. Those statements were audited by other auditors, whose report has been furnished to us. Our opinion, insofar as it relates to the amounts included for the foundation, is based solely 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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the university's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the 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, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

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, 2016, and the changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 21, the financial statements of The University of Memphis Foundation, a discretely presented component unit of The University of Memphis, include investments valued at $84,719,867 (60% of net position 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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14; the schedule of The University of Memphis's proportionate share of the net pension liability for the Closed State and Higher Education Employee Pension Plan within TCRS on page 53; the schedule of The University of Memphis's proportionate share of the net pension asset for the State and Higher Education Employee Retirement Plan within TCRS on page 54; the schedule of The University of Memphis's contributions for the Closed State and Higher Education Employee Pension Plan within TCRS on page 55; the schedule of The University of Memphis's contributions for the State and Higher Education Employee Retirement Plan within TCRS on page 56; and the other postemployment benefits schedule of funding progress on page 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the university's basic financial statements. The supplementary schedule of cash flows – component unit on page 58 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary schedule of cash flows – component unit is the responsibility of the university's management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit and the procedures performed as described above, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 13, 2016, on our consideration of the university's internal control over financial reporting and on 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 *Government Auditing Standards* in considering the university's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
December 13, 2016

Tennessee Board of Regents
THE UNIVERSITY OF MEMPHIS
Management's Discussion and Analysis

Introduction

This section of The University of Memphis's annual financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2016, with comparative information presented for the fiscal year ended June 30, 2015. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and notes. The financial statements, notes, and this discussion are the responsibility of management.

The university has one discretely presented component unit, the University of Memphis Foundation. More detailed information about the foundation is presented in Note 21 to the financial statements. This discussion and analysis focuses on the university and does not include the foundation.

Overview of the Financial Statements

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The financial statements are presented on a consolidated basis to focus on the university as a whole. The full scope of the university's activities is considered to be a single business-type activity, and, accordingly, is reported within a single column in the basic financial statements.

The university's financial report includes the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. Notes to the financial statements are also presented to provide additional information that is essential to a full understanding of the financial statements.

The Statement of Net Position

The statement of net position is a point-in-time financial statement. The statement of net position presents the financial position of the university at the end of the fiscal year. To aid the reader in determining the university's ability to meet immediate and future obligations, the statement includes all assets, liabilities, deferred outflows/inflows of resources, and net position of the university and segregates the assets and liabilities into current and noncurrent components. Current assets are those that are available to satisfy current liabilities, inclusive of assets that will be converted to cash within one year. Current liabilities are those that will be paid within one year. The statement of net position is prepared under the accrual basis of accounting; assets and liabilities are recognized when goods or services are provided or received, despite when cash is actually exchanged.

From the data presented, readers of the statement are able to determine the assets available to continue the operations of the university. They are also able to determine how much the university owes vendors, lenders, and others. Net position represents the difference between the university's assets and liabilities, along with the difference between deferred outflows and deferred inflows of resources, and is one indicator of the university's current financial condition.

The statement of net position also indicates the availability of net position for expenditure by the university. Net position is divided into three major categories. The first category, net investment in capital assets, represents the university's total investment in property, plant, and equipment, net of outstanding debt obligations related to these capital assets. To the extent debt or deferred inflows of resources have been incurred but not yet expended for capital assets, such amounts are not included. The next category is restricted net position, which is subdivided into two categories, nonexpendable and expendable. Nonexpendable restricted net position includes endowment and similar resources whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity. Expendable restricted net position is 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 resources. The final category is unrestricted net position. Unrestricted net position is available to the university for any lawful purpose of the university.

The following table summarizes the university's assets, liabilities, deferred outflows/inflows of resources, and net position at June 30, 2016, and June 30, 2015.

Summary of Net Position
(in thousands of dollars)

	2016	2015
Assets:		
Current assets	$ 37,215	$ 57,517
Capital assets, net	515,128	500,680
Other assets	165,748	142,026
Total Assets	718,091	700,223
Deferred Outflows of Resources:		
Deferred amount on debt refunding	3,696	3,954
Deferred outflows related to pensions	10,499	7,802
Total Deferred Outflows	14,195	11,756
Liabilities:		
Current liabilities	55,188	58,223
Noncurrent liabilities	205,141	181,863
Total Liabilities	260,329	240,086
Deferred Inflows of Resources:		

Deferred amount on debt refunding	91	97
Deferred inflows related to pensions	6,079	19,982
Total Deferred Inflows	6,170	20,079
Net Position:		
Net investment in capital assets	363,050	360,027
Restricted – nonexpendable	3,827	3,779
Restricted – expendable	9,500	9,736
Unrestricted	89,410	78,272
Total Net Position	$465,787	$451,814

Comparison of FY 2016 to FY 2015

- Current assets decreased and other assets increased in FY 2016 primarily due to the investment of cash and cash equivalents in other noncurrent assets. Specifically, current cash and cash equivalents of approximately $20 million were not needed for normal operating expenses within one year and were invested in U.S. Government Agency notes, U.S. Treasury notes, and commercial paper.
- Deferred outflows of resources related to pensions increased approximately $2.6 million from FY 2015 to FY 2016. This is primarily due to actual experience for FY 2015 being negatively different than actuarially assumed.
- Noncurrent liabilities increased in FY 2016 primarily due to the addition of approximately $16 million in bonds payable for the Centennial Place student housing project, which was completed in FY 2016. Additionally, noncurrent liabilities increased during FY 2016 due to an increase of approximately $11 million in the university's net pension liability. This pension liability increase is the result of several GASB Statement 68 entries but is primarily attributed to actual pension earnings for FY 2015 being less than actuarially assumed and actual experience for FY 2015 being negatively different than actuarially assumed.
- Deferred inflows of resources related to pensions decreased approximately $13.9 million from FY 2015 to FY 2016. This is due to actual pension earnings for FY 2015 being less than actuarially assumed and the annual amortization of FY 2014 investment earnings gains and actuarial experience gains. Investment earnings for FY 2014 were greater than assumed, and actuarial experience for FY 2014 was positively different than assumed.
- Unrestricted net position increased by approximately $11 million in FY 2016. The change was primarily the result of the cumulative effect of the increase in net position as reported on the statement of revenues, expenses, and changes in net positon. The increase in net position was generally due to a special state appropriation that is a multi-year collaborative effort and slight increases in various departmental carryforward balances for future program enhancements.

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

The statement of revenues, expenses, and changes in net position presents the results of operations for the fiscal year. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received. The statement indicates whether the university's financial condition has improved or deteriorated during the fiscal year. The statement presents the revenues received by the university, both operating and nonoperating; the expenses paid by the university, operating and nonoperating; and any other revenues, expenses, gains, or losses received or spent by the university.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the university. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the university. Nonoperating revenues are revenues received for which goods and services are not provided directly to the payer. Although the University of Memphis is dependent upon state appropriations and gifts to fund educational and general operations, under GASB standards these funding sources are reported as nonoperating revenues, as is investment income. As a result, the university has historically reported an excess of operating expenses over operating revenues, resulting in an operating loss. Therefore, the "increase in net position" is more indicative of overall financial results for the year.

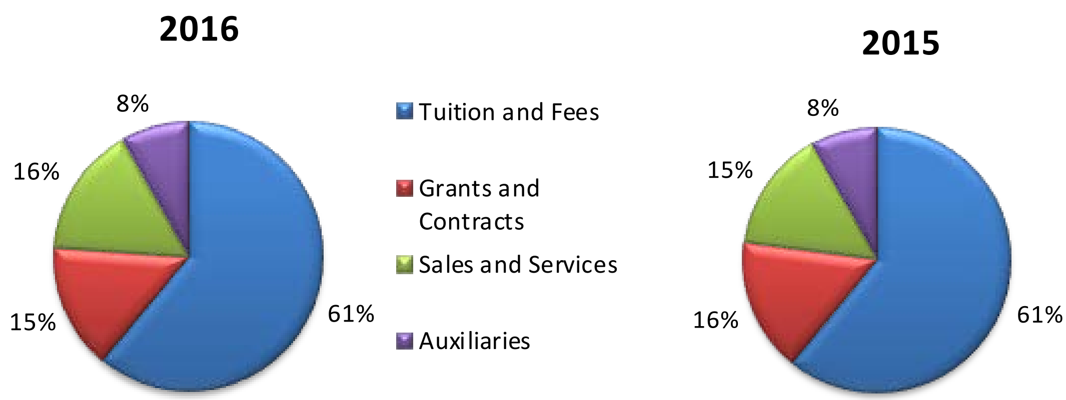
A summary of the university's revenues, expenses, and changes in net position for the years ended June 30, 2016, and June 30, 2015, follows.

Summary of Revenues, Expenses, and Changes in Net Position
(in thousands of dollars)

	2016	2015
Operating revenues	$211,457	$204,726
Operating expenses	398,034	383,776
Operating loss	(186,577)	(179,050)
Nonoperating revenues and expenses	188,957	183,552
Income before other revenues, expenses, gains, or losses	2,380	4,502
Other revenues, expenses, gains, or losses	11,593	43,105
Increase in net position	13,973	47,607
Net position at beginning of year	451,814	435,991
Cumulative effect of change in accounting principle	-	(31,784)
Net position at beginning of year, as restated	451,814	404,207
Net position at end of year	$465,787	$451,814

Operating Revenues

The following summarizes the operating revenues by source that were used to fund operating activities for the last two fiscal years:

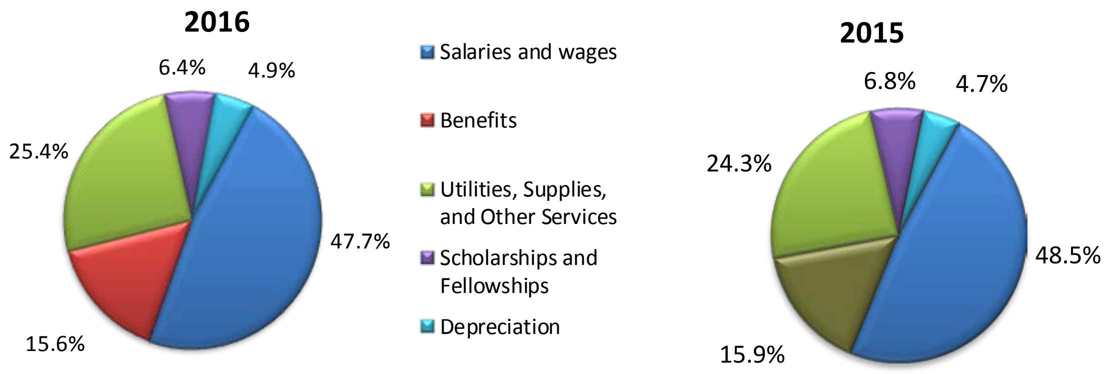


Comparison of FY 2016 to FY 2015

- Net tuition and fee revenues increased by $4.5 million, or 3.5%, in FY 2016 due primarily to a small increase in rates.
- Grants and contracts revenue decreased by $1.3 million primarily due to a reduction in federally funded grants.
- Sales and services increased $2.7 million primarily due to an increase in football revenues.

Operating Expenses

Operating expenses may be reported by nature or function. The university has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net position and has displayed the functional classification in the notes to the financial statements. The following summarizes the operating expenses by natural classifications for the last two fiscal years:

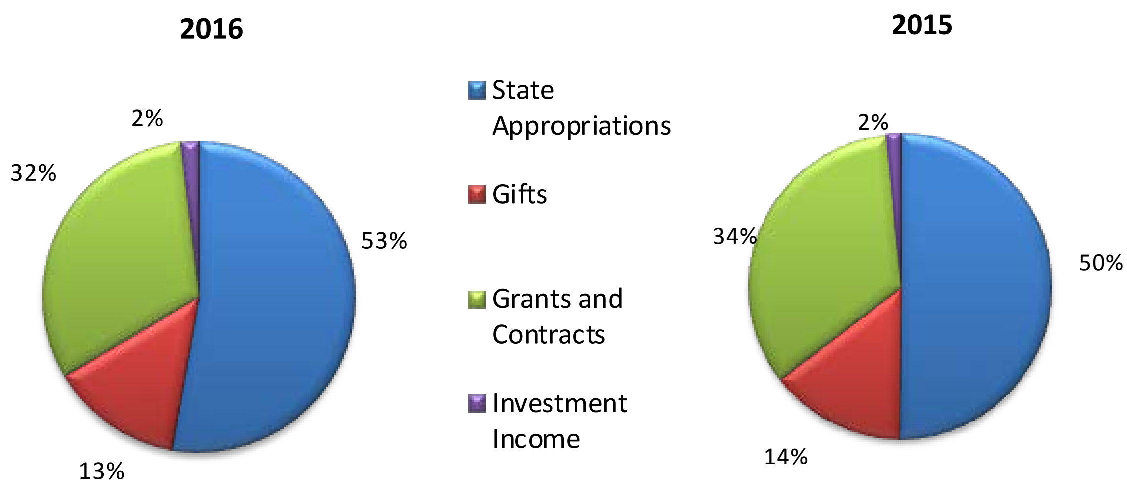


Comparison of FY 2016 to FY 2015

- Utilities, supplies, and other services increased by approximately $8 million in FY 2016 due to contractual severance payments to athletic coaches, computers and software for research and enrollment, and subcontractor services for research grants.
- Depreciation expense increased by $1.6 million for FY 2016 due to additional depreciation associated with the Community Health Building and Centennial Place student housing being placed in service during FY 2016.

Nonoperating Revenues and Expenses

Certain revenue sources that the university relies on to provide funding for operations, including state noncapital appropriations, certain gifts and grants, and investment income, are defined by the GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the university's nonoperating revenues and expenses for the last two fiscal years:

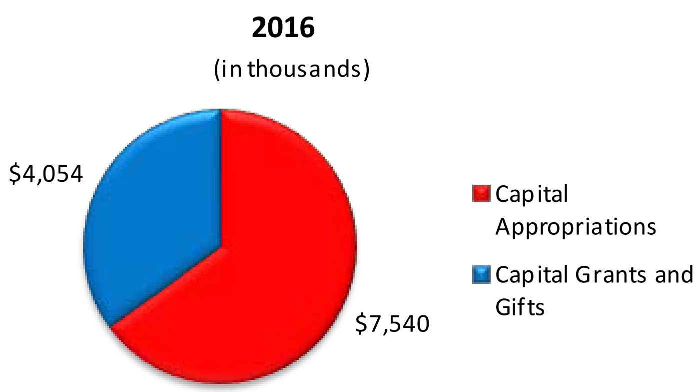


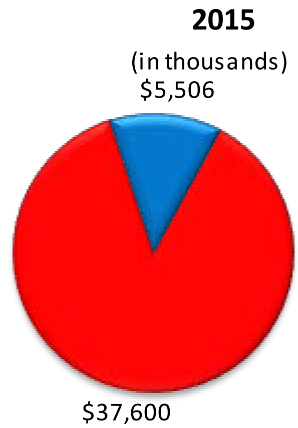
Comparison of FY 2016 to FY 2015

- State appropriation for operations increased by $7.4 million, or 7.8%, from FY 2015 due to more favorable state funding formula outcomes, state funding for salary increases, as well as a special appropriation for a collaborative research project with the University of Tennessee Health Sciences Center and TriMetrics.
- Grants and contracts decreased by approximately $2.7 million, or 4%, from FY 2015. This was due primarily to slight reductions in federal Pell grants and Tennessee Hope Scholarships.

Other Revenues

This category is composed of state appropriations for capital purposes, capital grants and gifts, and additions to permanent endowments. These amounts were as follows for the last two fiscal years:





Comparison of FY 2016 to FY 2015

- Capital appropriations decreased by $30 million from FY 2015 to FY 2016. Capital appropriations were higher than normal for FY 2015 as they included $33.6 million appropriated for the Community Health Building project.

Capital Assets and Debt Administration

Capital Assets

The University of Memphis had $515.1 million invested in capital assets, net of accumulated depreciation of $249.2 million at June 30, 2016; and $502.5 million invested in capital assets, net of accumulated depreciation of $233.7 million at June 30, 2015. Depreciation charges totaled $19.5 million and $17.9 million for the years ended June 30, 2016, and June 30, 2015, respectively.

Summary of Capital Assets, Net of Depreciation
(in thousands of dollars)

	2016	2015
Land	$ 18,916	$ 18,994
Land improvements & infrastructure	65,844	63,558
Buildings	397,186	295,572
Equipment	15,484	14,383
Library holdings	4,786	5,156
Intangible assets	1,900	2,731
Art and historical collections	661	639

Projects in progress	10,351	101,439
Total	$515,128	$502,472

Significant changes to capital assets in FY 2016 were the result of the Community Health Building on the Park Avenue Campus and Centennial Place, a new student housing facility on the main campus being placed in service. Accordingly, over $100 million was transferred from projects in progress to buildings in FY 2016.

At June 30, 2016, outstanding commitments under construction contracts totaled $25 million for various renovations and repairs of buildings and infrastructure as well as new building construction. Future state capital outlay appropriations will fund $10 million of these costs.

Debt

The university had $155.7 million and $144.5 million in debt outstanding at June 30, 2016, and June 30, 2015, respectively. The table below summarizes these amounts by type of debt instrument.

Outstanding Debt
(in thousands of dollars)

	2016	2015
TSSBA Bonds Payable	$146,877	$135,905
TSSBA Revolving Credit Facility	5,443	4,371
GO Commercial Paper	3,362	3,801
Capital Lease	-	432
Total	$155,682	$144,509

The Tennessee State School Bond Authority (TSSBA) issued bonds with interest rates ranging from 0.18% to 5.63% due through 2046 on behalf of the University of Memphis. The university is responsible for the debt service of these bonds. The current portion of the $146.9 million outstanding at June 30, 2016, is $4.7 million.

The TSSBA issued revolving credit facility with variable interest rates on behalf of the University of Memphis. The university is responsible for the debt service of these obligations. The outstanding amount at June 30, 2016, is $5.4 million.

The Tennessee State Funding Board issued General Obligation commercial paper with variable interest rates on behalf of the University of Memphis. The university is responsible for the debt service of these obligations. The outstanding amount at June 30, 2016, is $3.4 million.

The ratings on debt issued by the TSSBA at June 30, 2016, were as follows:

Fitch	AA+
Moody's Investor Service	Aa1
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 university continues to trend in a positive direction in regard to its state funding formula outcomes. For FY 2017, the university's state appropriations increased by 6%. The state has adopted a new funding formula beginning in FY 2017, and based on expected future performance outcomes and the alignment of university strategic initiatives with the Governor's Drive to 55 programs, management believes the university to be well positioned regarding future state appropriation allocations. The university's key initiatives relate to improved recruitment, retention, access, completion, and overall student success and are expected to positively impact not only state appropriation outcomes but also enrollment trends.

The university was able to continue holding its tuition rates steady for FY 2017 with only a minimal tuition increase of 2.3%. Enrollment and tuition revenue are expected to trend slightly up in FY 2017 and FY 2018. This increase is due to numerous strategic enrollment initiatives.

The university continues to position its athletics program for success. A significant capital campaign is close to completion with a goal of raising $40 million for its football and basketball practice facilities. The university broke ground on the basketball practice facility this past summer with an expected completion date in the summer of 2017. Enhancements such as these are expected to increase success on the field and court, which will have a direct impact on related revenues.

Adoption of a new budget model named Strategic Resource Investment (SRI) is expected to have a positive impact on university financial operations and positioning. The university is transitioning to the new model, and full implementation is expected for the development of the FY 2018 budget. SRI is a decentralized budget model that is expected to aid in the effective allocation and optimization of university resources. The allocation drivers of the model are closely aligned with the student success initiatives noted above, and SRI is expected to result in many positive outcomes including empowering entrepreneurship, fostering a culture of accountability, and incentivizing responsible growth.

Tennessee Board of Regents
UNIVERSITY OF MEMPHIS
Statement of Net Position
June 30, 2016

	University	Component Unit
Assets		
Current assets:		
Cash (Notes 2 and 21)	$ 10,604,789.33	$ 314,948.00
Accounts, notes, and grants receivable (net) (Note 5)	12,922,751.92	-
Due from primary government	3,440,284.57	-
Due from component unit	8,032,435.00	-
Pledges receivable (net) (Note 21)	-	7,364,085.00
Inventories (at lower of cost or market)	515,824.86	-
Prepaid expenses	1,284,092.38	-
Accrued interest receivable	415,139.21	169,502.00
Total current assets	37,215,317.27	7,848,535.00
Noncurrent assets:		
Cash (Notes 2 and 21)	79,329,971.04	-
Investments (Notes 3, 4 and 21)	81,537,130.25	130,940,632.00
Accounts, notes, and grants receivable (net) (Note 5)	4,820,073.86	-
Pledges receivable (net) (Note 21)	-	11,320,274.00
Net pension asset (Note 11)	58,650.00	-
Capital assets (net) (Notes 6 and 21)	515,128,538.14	604,466.00
Other assets	2,500.00	366,454.00
Total noncurrent assets	680,876,863.29	143,231,826.00
Total assets	718,092,180.56	151,080,361.00
Deferred outflows of resources		
Deferred amount on debt refunding	3,695,912.20	-
Deferred outflows related to pensions (Note 11)	10,498,542.13	-
Total deferred outflows of resources	14,194,454.33	-
Liabilities		
Current liabilities:		
Accounts payable (Note 7)	8,747,312.97	762,030.00
Accrued liabilities	22,988,770.40	157,655.00
Due to primary government	690,809.46	8,032,435.00
Student deposits	1,923,981.25	-
Unearned revenue	11,514,462.63	-
Compensated absences (Note 8)	2,564,349.17	-
Accrued interest payable	1,001,836.40	-
Long-term liabilities, current portion (Note 8)	4,670,915.31	-
Deposits held in custody for others	1,011,266.35	-
Other liabilities	74,729.00	-
Total current liabilities	55,188,432.94	8,952,120.00
Noncurrent liabilities:		
Net OPEB obligation (Note 12)	16,871,205.74	-
Net pension liability (Note 11)	25,334,267.00	-
Compensated absences (Note 8)	7,103,416.65	-
Long-term liabilities (Note 8)	151,012,130.63	-
Due to grantors (Note 8)	4,820,073.86	-
Total noncurrent liabilities	205,141,093.88	-
Total liabilities	260,329,526.82	8,952,120.00
Deferred inflows of resources		
Deferred amount on debt refunding	91,070.04	-
Deferred inflows related to pensions (Note 11)	6,078,675.00	-
Total deferred inflows of resources	6,169,745.04	-
Net position		
Net investment in capital assets	363,050,334.36	604,466.00
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	1,384,999.49	31,714,410.00
Instructional department uses	-	20,827,688.00
Other	2,441,994.10	16,176,662.00
Expendable:		
Scholarships and fellowships	987,167.37	10,635,863.00
Research	1,351,804.11	4,119,518.00
Instructional department uses	1,581,302.50	13,607,599.00
Loans	3,094,220.16	-
Capital projects	857,936.90	15,998,657.00
Pensions	58,650.00	-
Other	1,568,842.61	22,583,401.00
Unrestricted	89,410,111.43	5,859,977.00
Total net position	$ 465,787,363.03	$ 142,128,241.00

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

Tennessee Board of Regents
UNIVERSITY OF MEMPHIS
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2016

	University	Component Unit
Revenues		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $60,102,677.19)	$ 129,027,099.38	$ -
Gifts and contributions	-	25,336,267.00
Governmental grants and contracts	28,477,795.88	-
Nongovernmental grants and contracts	3,358,682.14	-
Sales and services of educational activities	4,734,076.91	-
Sales and services of other activities	28,481,592.02	825,733.00
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $4,520,351.81)	10,591,077.41	-
Bookstore	701,636.68	-
Food service	1,158,411.60	-
Other auxiliaries	4,790,459.04	-
Interest earned on loans to students	136,187.70	-
Total operating revenues	211,457,018.76	26,162,000.00
Expenses		
Operating expenses (Note 17):		
Salaries and wages	189,829,383.65	108,701.00
Benefits	62,116,521.92	45,798.00
Utilities, supplies, and other services	101,260,805.51	164,747.00
Scholarships and fellowships	25,331,443.45	-
Depreciation expense	19,495,997.70	-
Payments to or on behalf of University of Memphis (Note 21)	-	23,353,037.00
Total operating expenses	398,034,152.23	23,672,283.00
Operating income (loss)	(186,577,133.47)	2,489,717.00
Nonoperating revenues (expenses)		
State appropriations	102,037,987.50	-
Gifts, including $19,526,147.00 from component unit	26,192,055.78	-
Grants and contracts	61,293,522.21	-
Investment income (net of investment expense for the institution of $65,265.63 and $31,508.00 for the component unit)	3,414,231.11	(3,954,740.00)
Interest on capital asset-related debt	(4,770,934.00)	-
University support (Note 21)	-	169,500.00
Other nonoperating revenues (expenses)	789,587.72	-
Total nonoperating revenues (expenses)	188,956,450.32	(3,785,240.00)
Income (loss) before other revenues, expenses, gains, or losses	2,379,316.85	(1,295,523.00)
Capital appropriations	7,539,840.13	-
Capital grants and gifts, including $3,826,890.00 from the component unit	4,053,909.25	8,239.00
Additions to permanent endowments	-	2,851,424.00
Total other revenues	11,593,749.38	2,859,663.00
Increase in net position	13,973,066.23	1,564,140.00
Net position - beginning of year	451,814,296.80	140,564,101.00
Net position - end of year	$ 465,787,363.03	$ 142,128,241.00

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

Tennessee Board of Regents
UNIVERSITY OF MEMPHIS
Statement of Cash Flows
For the Year Ended June 30, 2016

Cash flows from operating activities	
Tuition and fees	$ 128,151,449.84
Grants and contracts	32,682,119.13
Sales and services of educational activities	4,994,031.56
Sales and services of other activities	28,638,367.99
Payments to suppliers and vendors	(96,600,462.94)
Payments to employees	(190,077,062.64)
Payments for benefits	(67,555,256.35)
Payments for scholarships and fellowships	(25,331,443.45)
Loans issued to students	(793,920.00)
Collection of loans from students	774,111.80
Interest earned on loans to students	159,293.31
Auxiliary enterprise charges:	
Residence halls	10,482,656.44
Bookstore	701,636.68
Food services	1,158,411.60
Other auxiliaries	4,820,558.62
Net cash used for operating activities	(167,795,508.41)
Cash flows from noncapital financing activities	
State appropriations	101,803,700.00
Gifts and grants received for other than capital or endowment purposes	87,373,922.83
Federal student loan receipts	116,754,615.00
Federal student loan disbursements	(116,754,615.00)
Changes in deposits held for others	20,014.89
Net cash provided by noncapital financing activities	189,197,637.72
Cash flows from capital and related financing activities	
Capital grants and gifts received	1,900,000.00
Proceeds from sale of capital assets	149,704.06
Purchases of capital assets and construction	(11,391,092.57)
Principal paid on capital debt	(5,475,966.34)
Interest paid on capital debt	(4,848,460.86)
Net cash used for capital and related financing activities	(19,665,815.71)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	44,323,842.79
Income on investments	3,339,748.36
Purchase of investments	(64,026,423.54)
Net cash used for investing activities	(16,362,832.39)
Net decrease in cash and cash equivalents	(14,626,518.79)
Cash and cash equivalents - beginning of year	104,561,279.16
Cash and cash equivalents - end of year	$ 89,934,760.37

Tennessee Board of Regents
UNIVERSITY OF MEMPHIS
Statement of Cash Flows (continued)
For the Year Ended June 30, 2016

Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	$ (186,577,133.47)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Noncash operating expenses	23,501,589.88
Change in assets, liabilities, and deferrals:	
Receivables, net	535,162.24
Inventories	(5,298.38)
Prepaid items	(470,794.99)
Net pension asset	(58,650.00)
Deferred outflows of resources - pensions	(2,696,386.05)
Net pension liability	11,466,233.00
Deferred inflows of resources - pensions	(13,903,009.00)
Accounts payable	57,695.06
Accrued liabilities	49,543.62
Unearned revenues	(221,014.55)
Deposits	200,969.07
Compensated absences	13,737.28
Other	311,847.88
Net cash used by operating activities	$ (167,795,508.41)

Noncash investing, capital, or financing transactions		
Gifts in-kind - capital	$	2,153,909.25
Loss on disposal of capital assets	$	(242,528.71)
Proceeds from capital debt	$	16,977,921.06
Capital appropriations	$	10,332,581.28
Purchases of capital assets and construction	$	(23,539,197.66)

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The university is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides 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 its donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements. See Note 21 for more detailed information about the component unit.

Basis of Presentation

The university's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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 of the provider's eligibility requirements have been met. All significant internal activity has been eliminated.

The university has classified its revenues and expenses as either operating or nonoperating according to the following criteria: Operating revenues and expenses are those that have the characteristics of exchange transactions. Operating revenues include (1) tuition and fees, net of scholarship discounts and allowances; (2) certain federal, state, local, and private grants and contracts; (3) sales and services of auxiliary enterprises; and (4) interest on institutional loans. Operating expenses include (1) salaries and wages; (2) employee benefits; (3) utilities, supplies, and other services; (4) scholarships and fellowships; and (5) depreciation.

Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other activities that are defined as nonoperating by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34, such as state appropriations and investment income.

When both restricted and unrestricted resources are available for use, it is the university's policy to determine which to use first, depending upon existing facts and circumstances.

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. Cost is determined on the average cost basis.

Compensated Absences

The university's employees accrue annual and sick leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time.

The amount of the liabilities for annual leave and compensatory time and their related benefits are reported in the statement of net position. There is no liability for unpaid accumulated sick leave since the university's policy is to pay this only if the employee dies or is absent because of illness, injury, or related family death.

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, works of art, historical treasures/collections, and intangible assets, are reported in the statement of net position at historical cost or at acquisition value at date of donation, less accumulated depreciation/amortization. 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. The capitalization threshold for art, historical treasures/collections, and similar assets is set at $5,000.

These assets, with the exception of works of art and historical treasures/collections deemed inexhaustible and land, are depreciated/amortized using the straight-line method over the estimated useful lives, which range from 5 to 60 years.

Pensions

For purposes of measuring the net pension liability (asset), as applicable, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plans' fiduciary net positions have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

Net Position

The university's net position is classified as follows:

Net investment in capital assets – This represents the university's total investment in capital assets, net of accumulated depreciation and net of outstanding debt obligations and deferred outflows/inflows of resources 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 net investment in capital assets.

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

Expendable restricted net position – Expendable restricted net position includes resources that the university is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net position – Unrestricted net position represents resources derived from student tuition and fees; state appropriations; sales and services of educational departments; sales and services of other activities; 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 university's discretion 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, as well as certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. 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

This classification includes demand deposits and petty cash on hand. At June 30, 2016, cash consisted of $3,321,335.85 in bank accounts, $38,313.01 of petty cash on hand, $83,709,606.26 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, and $2,865,505.25 in LGIP deposits for capital projects.

The LGIP is part of the State Pooled Investment Fund. There are no minimum or maximum limitations on withdrawals with the exception of a 24-hour notification period for withdrawals of $5 million or more. The fund's required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

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, the Tennessee Board of Regents withdraws funds from the LGIP account and transfers them 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

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, as amended, investments are reported at fair value, including those with a maturity date of one year or less at the time of purchase, unless otherwise noted.

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.

At June 30, 2016, 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	$65,913,850.25	$17,325,591.30	$48,588,258.95
U.S. agencies	12,924,530.00	-	12,924,530.00
Commercial paper	2,498,750.00	2,498,750.00	-
Total debt investments	81,337,130.25	$19,824,341.30	$61,512,788.95
Non-Fixed Income Investments			
Certificates of deposit	200,000.00		
Total investments	$81,537,130.25		

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; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. Securities are rated by Standard and Poor's, Moody's Investors Service, and/or Fitch Ratings and are presented below using the Standard and Poor's rating scale.

Tennessee Board of Regents policy restricts investments in bankers' acceptances and commercial paper. The policy requires that prime bankers' 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 bankers' 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 that are under contract of sale or are expected to move into the channel of 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 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, 2016, the university's investments were rated as follows:

		Credit Quality Rating		
Investment Type	Balance	A++	A+	Unrated
LGIP (amortized cost)	$ 83,709,606.26	$ -	$ -	$83,709,606.26
LGIP – Capital projects (amortized cost)	2,865,505.25	-	-	2,865,505.25
U.S. government agencies	12,924,530.00	12,924,530.00	-	-
Commercial paper	2,498,750.00	-	2,498,750.00	-
Total	$101,998,391.51	$12,924,530.00	$2,498,750.00	$86,575,111.51

Note 4. Fair Value Measurement

The university categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The university has the following recurring fair value measurements as of June 30, 2016:

	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at the Net Asset Value (NAV)
Assets by Fair Value Level					
Debt securities					
U.S. Treasury	$65,913,850.25	$65,913,850.25	$ -	$ -	$ -
U.S. agencies	12,924,530.00	-	12,924,530.00	-	-
Total debt securities	$78,838,380.25	$65,913,850.25	$12,924,530.00	$ -	$ -

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Assets classified in Level 2 of the fair value hierarchy are valued using significant observable inputs other than Level 1 prices. U.S. government agency securities are valued at amounts provided by commercial pricing services, which based their valuations on the bid-ask spread price in an active dealer market.

Investments measured at fair value as reflected in the above schedule total $78,838,380.25. Investments as reported on the statement of net position totaled $81,537,130.25. The differences between these amounts represent commercial paper totaling $2,498,750.00 and a certificate of deposit totaling $200,000, which are not included in the above schedule as they are not measured at fair value. The commercial paper has maturities of less than a year and is reported at amortized cost. The certificate of deposit is a time deposit measured at amortized cost.

Note 5. Receivables

Receivables at June 30, 2016, included the following:

Student accounts receivable	$ 8,805,312.18
Grants receivable	5,670,999.50
Notes receivable	653,479.43
Capital projects receivable	139,489.01
Athletics receivable	903,831.53
Auxiliary receivable	1,744,187.08
Other receivable	2,668,210.79
Subtotal	20,585,509.52
Less allowance for doubtful accounts	(7,177,837.81)
Total receivables	$13,407,671.71

Federal Perkins Loan Program funds at June 30, 2016, included the following:

Perkins loans receivable	$4,581,255.51
Less allowance for doubtful accounts	(246,101.44)
Total	$4,335,154.07

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 18,993,367.93	$ 3,365.00	$ -	$ 80,217.94	$ 18,916,514.99
Land improvements and infrastructure	99,167,579.77	410,043.23	6,835,167.30	-	106,412,790.30
Buildings	451,470,249.76	17,836.58	110,882,689.37	165,222.46	562,205,553.25
Equipment	41,828,147.44	4,644,807.08	-	1,461,759.45	45,011,195.07

Library holdings	13,465,858.00	795,561.02	-	2,620,316.52	11,641,102.50
Intangible assets					
Easement	1,200,000.00	-	-	-	1,200,000.00
Software	7,975,115.72	-	-	-	7,975,115.72
Art and historical collections	639,027.00	21,850.00	-	-	660,877.00
Projects in progress	101,439,626.39	26,629,701.84	(117,717,856.67)	-	10,351,471.56
Total	736,178,972.01	32,523,164.75	-	4,327,516.37	764,374,620.39
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	35,609,735.91	4,959,482.99	-	-	40,569,218.90
Buildings	155,897,935.57	9,146,667.33	-	24,783.36	165,019,819.54
Equipment	27,444,817.33	3,394,131.85	-	1,311,715.37	29,527,233.81
Library holdings	8,310,243.07	1,165,092.07	-	2,620,316.52	6,855,018.62
Intangible assets					
Software	6,444,167.92	830,623.46	-	-	7,274,791.38
Total	233,706,899.80	19,495,997.70	-	3,956,815.25	249,246,082.25
Capital assets, net	$502,472,072.21	$13,027,167.05	$ -	$ 370,701.12	$515,128,538.14

Note 7. Accounts Payable

Accounts payable at June 30, 2016, included the following:

Vendors payable	$5,708,472.82
Unapplied student payments	1,208,157.04
Other payables	1,830,683.11
Total accounts payable	$8,747,312.97

Note 8. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$117,501,733.97	$15,958,596.68	$ 4,603,589.75	$128,856,740.90	$4,670,915.31
Unamortized bond premium/discount	18,402,685.30	-	382,285.52	18,020,399.78	-
Revolving credit facility	4,371,362.24	1,072,065.07	-	5,443,427.31	-

General obligation debt:					
Commercial paper	3,800,859.95	1,682.00	440,064.00	3,362,477.95	-
Capital lease obligations	432,312.59	-	432,312.59	-	-
Subtotal	144,508,954.05	17,032,343.75	5,858,251.86	155,683,045.94	4,670,915.31
Other liabilities:					
Compensated absences	9,654,028.54	5,686,415.64	5,672,678.36	9,667,765.82	2,564,349.17
Due to grantors	4,824,249.21	89,199.19	93,374.54	4,820,073.86	-
Faculty voluntary buyout	262,771.72	-	262,771.72	-	-
Subtotal	14,741,049.47	5,775,614.83	6,028,824.62	14,487,839.68	2,564,349.17
Total long-term liabilities	$159,250,003.52	$22,807,958.58	$11,887,076.48	$170,170,885.62	$7,235,264.48

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 0.18% to 5.63%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2046 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations; see Note 10 for further details. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the statement of net position is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was $3,778,292.06 at June 30, 2016. Capitalized interest was $3,618,593.61.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2016, are as follows:

Year Ending June 30	Principal	Interest	Total
2017	$ 4,670,915.31	$ 5,955,273.82	$ 10,626,189.13
2018	5,119,797.13	5,805,753.17	10,925,550.30
2019	6,024,238.88	5,613,821.09	11,638,059.97
2020	5,874,862.04	5,305,601.24	11,180,463.28
2021	6,370,413.49	5,051,182.33	11,421,595.82
2022 – 2026	31,308,979.26	21,195,598.08	52,504,577.34
2027 – 2031	26,936,283.18	14,205,104.02	41,141,387.20
2032 – 2036	16,992,564.54	9,490,770.88	26,483,335.42
2037 – 2041	15,011,619.28	5,531,204.84	20,542,824.12
2042 – 2046	10,547,067.79	1,841,721.00	12,388,788.79
Total	$128,856,740.90	$79,996,030.47	$208,852,771.37

TSSBA Debt – Revolving Credit Facility

The Tennessee State School Bond Authority (TSSBA) receives loans from the revolving credit facility to finance the costs of various capital projects during the construction phase. When projects are placed in service, TSSBA issues long-term, fixed-rate debt to finance the project over its useful payback period and repays the revolving credit facility debt. The total outstanding loans from the revolving credit facility for the university were $5,443,427.31 at June 30, 2016.

More detailed information regarding the bonds and revolving credit facility can be found in the notes to the financial statements in the financial report for the TSSBA. That report is available on the state's website at www.comptroller.tn.gov/tssba/cafr.asp.

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 TBR expansion purposes on behalf of the university. The amount outstanding for projects at the university was $3,362,477.95 at June 30, 2016. More detailed information regarding the commercial paper can be found in the notes to the financial statements in the *Tennessee Comprehensive Annual Financial Report*, which is available on the state's website at www.tn.gov/finance/article/fa-accfin-cafr.

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 to be reapplied to the principal. At June 30, 2016, net appreciation of $174,391.61 is available to be spent, of which $99,002.09 is included in restricted net position expendable for scholarships and fellowships, $1,841.06 is included in restricted net position expendable for instructional departmental uses, $73,309.51 is included in restricted net position expendable for loans, and $238.95 is included in restricted net position expendable for other.

Note 10. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $128,856,740.90 in revenue bonds issued from May 1992 to April 2015 (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 2046. Annual principal and interest payments on the bonds are expected to require 2.38% of available revenues. The total principal and interest remaining to be paid on the bonds is $208,852,771.37. Principal and interest paid for the current year and total available revenues were $8,263,348.59 and $373,607,406.86, respectively.

Note 11. Pension Plans

Defined Benefit Plans

Closed State and Higher Education Employee Pension Plan

General Information About the Pension Plan

Plan description – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of member's highest compensation for 5 consecutive years (up to Social Security integration level)	x	1.50%	x	Years of Service Credit	x	105%
Plus:						
Average of member's highest compensation for 5 consecutive years (over the Social Security integration level)	x	1.75%	x	Years of Service Credit	x	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest.

<u>Contributions</u> – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The university's employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by the university for the year ended June 30, 2016, to the Closed State and Higher Education Employee Pension Plan were $7,530,918.13, which is 15.03% of covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

<u>Pension liability</u> – At June 30, 2016, the university reported a liability of $25,334,267 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The university's proportion of the net

pension liability was based on a projection of the university's contributions during the year ended June 30, 2015, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2015, measurement date, the university's proportion was 1.964990%. The proportion measured as of June 30, 2014, was 2.010010%.

Pension expense – For the year ended June 30, 2016, the university recognized a pension expense of $2,572,551.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2016, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,680,780.00	$2,193,533.00
Net difference between projected and actual earnings on pension plan investments	-	3,256,791.00
Changes in proportion of net pension liability	-	606,530.00
University's contributions subsequent to the measurement date of June 30, 2015	7,530,918.13	-
Total	$10,211,698.13	$6,056,854.00

Deferred outflows of resources, resulting from the university's employer contributions of $7,530,918 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2017	$(2,061,902)
2018	$(2,061,902)
2019	$(2,061,902)
2020	$ 2,818,632

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension liability as of the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.5%

Mortality rates were based on actual experience from the June 30, 2012, actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012; (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation; and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% based on a blending of the three factors described above.

Discount rate – The discount rate used to measure the total pension liability (asset) was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of the net pension liability (asset) to changes in the discount rate – The following presents the university's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5%, as well as what the university's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
University's proportionate share of net pension liability (asset)	$59,362,049	$25,334,267	$(3,344,603)

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2016, the university reported a payable of $617,374.21 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2016.

State and Higher Education Employee Retirement Plan

General Information About the Pension Plan

Plan description – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Pension Plan was closed effective June 30, 2014, and covers employees hired before July 1, 2014. Employees hired after June 30, 2014, are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*.

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated,* establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula multiplying the member's highest five consecutive years' average compensation by 1% multiplied by the member's years of service credit. A reduced early retirement is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which a member's age and service credit total 80. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. University employees contribute 5% of their salary to the State and Higher Education Employment Retirement Plan. The higher education institutions make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4% for all aggregate employee groups, except in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the university for the year ended June 30, 2016, to the State and Higher Education Employee Retirement Plan were $283,442, which is 3.68% of covered payroll. The employer rate is 3.87% of covered payroll except for any salaries derived from federal funds where the employer rate is 2%. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset – At June 30, 2016, the university reported an asset of $58,650 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. The university's proportion of the net pension asset was based on a projection of the university's contributions during the year ended June 30, 2015, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2015, measurement date, the university's proportion was 2.10896434%, representing the first-time presentation of this proportion.

Pension expense – For the year ended June 30, 2016, the university recognized a pension expense of $48,647.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2016, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$21,821.00
Net difference between projected and actual earnings on pension plan investments	3,402.00	
The University of Memphis's contributions subsequent to the measurement date of June 30, 2015	283,442.00	-
Total	$286,844.00	$21,821.00

Deferred outflows of resources, resulting from the university's employer contributions of $283,442 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2017	$(1,877)
2018	$(1,877)
2019	$(1,877)
2020	$(1,877)
2021	$(2,728)
Thereafter	$(8,183)

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension liability (asset) as of the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.5%

Mortality rates were based on actual experience from the June 30, 2012, actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012; (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation; and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%

U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% based on a blending of the three factors described above.

Discount rate – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate – The following presents the university's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the university's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
University's net pension liability (asset)	$(23,041.00)	$(58,650.00)	$(85,298.00)

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2016, the university reported a payable of $28,952.60 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2016.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2016, for all defined benefit pension plans was $2,621,198.

Defined Contribution Plans

Optional Retirement Plans

Plan description – The university contributes to the Optional Retirement Plan (ORP). The ORP, administered by the Tennessee Treasury Department, is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. This statute also sets out the plan provisions. The plan provisions are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

Funding policy – For employees employed prior to July 1, 2014, 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. For employees hired after June 30, 2014, plan members will contribute 5% to the ORP and the university will contribute 9% of the employee's base salary. Pension expense equaled the required contributions made to the ORP and were $10,311,477.31 for the year ended June 30, 2016, and $10,289,915.89 for the year ended June 30, 2015. Contributions met the requirements for each year.

Members are immediately 100% vested in the employer contributions made pursuant to the ORP. The Treasury Department has selected three investment vendors who offer a variety of investment products in which members are responsible for selecting how the contributions are invested. Each member makes the decision when to reallocate future contributions or when to transfer funds from one investment product to another. Funds are held by the investment vendor in the name of the member, not in the name of the State of Tennessee. The State of Tennessee has no discretion over these funds other than to make the initial contributions. Accordingly, the State of Tennessee is not acting in a trustee capacity, nor does it have a fiduciary responsibility for the funds held by the investment vendors.

Deferred Compensation Plans

Employees are offered three deferred compensation plans. The university, through the State of Tennessee, provides two plans, one established pursuant to the *Internal Revenue Code* (IRC), Section 457, and the other pursuant to IRC, Section 401(k). The third plan is administered by the university and was established in accordance with IRC, Section 403(b). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants.

Section 401(k), Section 403(b), and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. Sections 401(k), 403(b), and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 403(b) and the 457 plans are voluntary for employees. The university provides up to a $50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Chapter 259 of the Public Acts of 2013, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary, with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Employees are immediately vested in both the employee and employer contributions in all plans. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for all three plans.

During the year ended June 30, 2016, contributions totaling $3,208,962.86 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $1,266,812.35 for employer contributions. During the year ended June 30, 2015, contributions totaling $3,042,897.37 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $962,451.34 for employer contributions.

Note 12. Other Postemployment Benefits

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that 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 8-27-201, *Tennessee Code Annotated,* for the State Employee Group Plan and for the Medicare Supplement Plan. The State Employee Group Plan covers retirees until they reach the age of 65. Members have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. Employees hired on or after July 1, 2015, are not eligible to continue insurance coverage at retirement in either the Employee Group plan or the Medicare Supplement plan. The state makes on-behalf payments to the Medicare Supplement Plan for the university's eligible retirees; see Note 19. The plans are reported in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/article/fa-accfin-cafr.

Special Funding Situation

The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan, which covers the retirees of other governmental entities, including The University of Memphis.

The state is the sole contributor for the university retirees who participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. The plan's claims liabilities are periodically computed using actuarial and statistical techniques to establish premium rates. The plan's administrative costs are allocated to plan participants. Retired members pay the same base premium, adjusted for years of service, as active employees. Retirees with 30 years of service are subsidized 80%; retirees with 20 years of service but less than 30 years of service, 70%; and retirees with less than 20 years of service, 60%. Retirees in the Medicare Supplement Plan have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; retirees with 20 years of service but less than 30 years of service, $37.50; and retirees with 15 years of service but less than 20 years of service, $25.

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

Annual required contribution (ARC)	$ 3,118,000.00
Interest on the net OPEB obligation	620,975.92
Adjustment to the ARC	(623,469.80)
Annual OPEB cost	3,115,506.12
Amount of contribution	(2,803,658.24)
Increase in net OPEB obligation	311,847.88
Net OPEB obligation – beginning of year	16,559,357.86
Net OPEB obligation – end of year	$16,871,205.74

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2016	State Employee Group Plan	$3,115,506.12	89.99%	$16,871,205.74
June 30, 2015	State Employee Group Plan	$3,178,686.38	88.53%	$16,559,357.86
June 30, 2014	State Employee Group Plan	$3,068,288.13	87.40%	$16,194,749.96

Funded Status and Funding Progress

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

State Employee Group Plan

Actuarial valuation date	July 1, 2015
Actuarial accrued liability (AAL)	$23,805,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$23,805,000.00
Actuarial value of assets as a percentage of the AAL	0.00%
Covered payroll (active plan members)	$128,486.748.24
UAAL as percentage of covered payroll	18.53%

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, 2015, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 3.75% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5% initially. The rate decreased to 6.0% in fiscal year 2016 and then reduces by decrements to an ultimate rate of 4.7% in fiscal year 2050. All rates include a 2.5% inflation assumption. Premium subsidies in the Medicare Supplement plan are projected to remain unchanged, and, consequently, trend rates are not applicable. 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. Payroll is assumed to grow at a rate of 3.0%.

Note 13. Insurance-related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical 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 (RMF). The state purchases commercial insurance for real property; builder's risk (for construction projects starting prior to July 1, 2012); and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012; thus, builder's risk is no longer covered by the RMF. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The RMF is responsible for property losses for the annual aggregate deductible of $10 million for perils other than earthquake and flood. Purchased insurance coverage is responsible for losses exceeding the $10 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The university participates in the RMF. 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 year ended June 30, 2016, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/article/fa-accfin-cafr. Since the university participates in the RMF, it is subject to the liability limitations established by statute. The maximum liability for general liability, automobile liability, and medical malpractice liability is $300,000 per person and $1,000,000 per occurrence. Claims are paid through the state's RMF. At June 30, 2016, the RMF held $142.9 million in cash designated for payment of claims.

At June 30, 2016, the scheduled coverage for the university was $1,434,002,800 for buildings and $378,263,700 for contents.

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

Note 14. Commitments and Contingencies

Sick Leave

The university records the cost of sick leave when paid. The dollar amount of unused sick leave was $79,366,300.98 at June 30, 2016.

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 $2,185,836.89 and expenses for personal property were $952,050.48 for the year ended June 30, 2016. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2016, outstanding commitments under construction contracts totaled $25,262,395.08 for the land acquisition program; electric, gas, and utility improvements; parking improvements; code and safety upgrades; roof replacements; Student Recreation Facility; and Railroad Pedestrian Improvement, of which $9,995,743.50 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.

Other

The university is currently undergoing a routine Internal Revenue Service Examination. When concluded, management does not expect the results to have a material adverse effect on the accompanying financial statements.

Note 15. Chairs of Excellence

The university had $75,320,914.85 on deposit at June 30, 2016, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

Note 16. Funds Held in Trust by Others

The university is a beneficiary under the Herbert Herff, Van Vleet, Mike Driver, Pope M. Farrington, and C.M. Gooch trust funds. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received $1,186,577.90 from these funds during the year ended June 30, 2016.

Note 17. Natural Classification With Functional Classifications

The university's operating expenses for the year ended June 30, 2016, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 92,878,034.54	$29,977,707.07	$ 18,227,102.51	$ -	$ -	$141,082,844.12
Research	21,658,561.14	8,533,818.61	12,989,889.10	-	-	43,182,268.85
Public service	5,642,343.66	1,552,574.14	2,957,774.71	-	-	10,152,692.51
Academic support	16,823,366.22	5,280,759.04	4,414,144.81	-	-	26,518,270.07
Student services	22,696,952.71	6,549,385.14	28,269,868.32	-	-	57,516,206.17
Institutional support	14,121,928.63	4,036,439.80	7,482,340.80	-	-	25,640,709.23
Maintenance and operation	13,237,073.30	5,430,080.09	14,900,126.25	-	-	33,567,279.64
Scholarships and fellowships	-	-	-	25,331,443.45	-	25,331,443.45
Auxiliary	2,771,123.45	755,758.03	12,019,559.01	-	-	15,546,440.49
Depreciation	-	-	-	-	19,495,997.70	19,495,997.70
Total	$189,829,383.65	$62,116,521.92	$101,260,805.51	$25,331,443.45	$19,495,997.70	$398,034,152.23

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services, and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling $11,564,208.29 were reallocated from academic support to the other functional areas.

Note 18. Affiliated Entity Not Included

The University of Memphis Research Foundation is a private, nonprofit foundation with the university as the sole beneficiary. The University of Memphis Research Foundation is controlled by a board independent of the 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 Research Foundation's most recently audited financial report, at June 30, 2016, the assets of the foundation totaled $4,824,977, liabilities were $1,484,800, and the net position amounted to $3,340,177.

Note 19. On-behalf Payments

During the year ended June 30, 2016, the State of Tennessee made payments of $234,287.50 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 12. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/article/fa-accfin-cafr.

Note 20. Subsequent Events

The Focus on College and University Success (FOCUS) Act (the Act) became effective July 1, 2016. This Act removes the six universities from the governance of the Tennessee Board of Regents. The universities will remain part of the State University and Community College System of Tennessee, but each will have its own local board that will provide governance, approve policies, set tuition and fee rates, and hire presidents. The Act also enhances the role of the Tennessee Higher Education Commission (THEC) by requiring THEC to provide greater coordination across the state, including capital project management, institutional mission approval, and higher education finance. During the period of transition (July 1, 2016, until the local board is convened), the six universities will continue under the governance of the Tennessee Board of Regents. Each university will submit proposals to the Southern Association of Colleges and Schools Council On Colleges (SACSCOC) for substantive change of governance during fall 2016. The SACSCOC will meet during December 2016 to consider those proposals.

Note 21. Component Unit

The University of Memphis Foundation (the 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 20-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, 2016, the foundation made distributions of $23,353,037 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from the Managing Director, University of Memphis Foundation, 635 Normal Street, Memphis, Tennessee, 38152-3750 or online at http://www.memphis.edu/foundation/publicinfopolicy/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 and liabilities that are accessible at the measurement date (Level 1), inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset (Level 2), or significant unobservable inputs (Level 3). The following table categorizes the recurring fair value measurements for assets at June 30, 2016.

	Total Fair Value at June 30, 2016	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Money market funds	$ 908,006	$ 908,006	$ -	$ -
U.S. Treasury	190,090	-	190,090	-
Corporate bonds	3,928,039	-	3,928,039	-
Mutual funds	37,051,022	37,051,022	-	-
Interest in limited partnerships	88,863,475	4,143,608	-	84,719,867
Total assets	$130,940,632	$42,102,636	$4,118,129	$84,719,867

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

	Beginning Balance	Total Gains/(Losses), Realized and Unrealized	Purchases	Sales or distributions	Ending Balance
Assets:					
Interest in limited partnerships	$91,534,659	$(3,701,734)	$1,632,195	$(4,745,253)	$84,719,867

All gains and losses, both realized and unrealized, have been reported on the statement of revenues, expenses, and changes in net position as investment income. Of this total, losses of $3,270,216 are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at June 30, 2016.

The following table provides information related to the previously mentioned investments that are valued based on Net Asset Value (NAV).

Assets Measured at the NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Hedged equity	$39,346,431	$ -	Annually/at manager's discretion	90 days
Private equity	$ 5,347,877	$3,209,621	At manager's discretion	N/A
Real assets	$ 4,004,144	$4,482,680	At manager's discretion	N/A
U.S. equity	$10,871,718	$ -	Quarterly	60 days
International equity	$11,017,388	$ -	Quarterly	60 days
Emerging markets equity	$ 6,819,759	$ -	Annually	90 days
Opportunistic	$ 2,576,640	$ -	Annually	90 days
Fixed income	$ 4,735,900	$ -	Monthly	15 days

The following is a description of categories of limited partnership and limited liability company (LLC) investments used for Level 3 assets measured at fair value:

Hedged Equity – This category consists of funds of funds that make long and short position equity investments. The bulk of the investment is subject to semi-annual or annual redemption.

Private Equity – This category consists of partnerships that invest primarily in U.S.-based private companies. These investments cannot be voluntarily redeemed and are subject to sale based on market demand.

Real Assets – This category consists of investment partnerships and funds that invest primarily in U.S. and foreign commercial real estate and natural resources. Some investments in this category allow quarterly redemption, but distributions during periods of illiquidity are restricted by gate constraints.

U.S. Equity – This category generally consists of managers that invest primarily in equity securities of U.S. corporations. U.S. equity may include multiple styles (growth, value) and market capitalizations (small, mid, large). These investments will primarily be long-only.

International Equity – This category will generally consist of managers that invest primarily in equity securities of corporations domiciled in foreign countries. International equity may include multiple styles (growth, value) and market capitalizations (small, mid, large). These investments will primarily be long-only.

Emerging Markets – This category will generally consist of managers that invest primarily in equity securities of corporations domiciled in emerging foreign countries. Emerging markets equity may include multiple styles (growth, value) and market capitalizations (small, mid, large). These investments will primarily consist of long-only investments and hedged equity investments (long and short).

Opportunistic – This category may include any strategy that offers exceptional risk/reward opportunities. This category is designed to provide the Investment Committee with the flexibility to select investments for a relatively small part of an overall allocation, which may not fit into the other designed allocation categories.

Fixed Income – This category will generally consist of managers that invest primarily in fixed income securities of governments, government agencies, and corporations. These securities may include U.S. and foreign government bonds, corporate bonds, asset-backed securities, mortgages (residential and commercial), municipal bonds, commercial paper, money market funds, preferred stock and closed-end funds. As the fixed income allocation is designed to provide capital preservation and liquidity, it will largely consist of investment grade securities. High yield bonds may be utilized.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts.

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, 2016, were as follows*:*

	Cost	Fair Value
Money market funds	$ 908,006	$ 908,006
U.S. Treasury	188,715	190,090
Corporate bonds	3,925,907	3,928,039
Mutual funds	37,028,561	37,051,022
Interest in limited partnerships	80,251,028	88,863,475
Total investments	$122,302,217	$130,940,632

Alternative investments – The foundation has certain limited partnership/LLC investments that are classified for fair value measurement purpose as level 3 investments. The estimated fair value of these assets was $84,719,867 at June 30, 2016.

The foundation believes the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2016. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated by the foundation's investment manager using various valuation techniques and are subject to audit by the investment manager's independent accountants.

Pledges Receivable

Pledges receivable at June 30, 2016, are summarized below net of the allowance for doubtful accounts of $1,116,343:

Current pledges	$ 7,364,085
Pledges due in one to five years	10,091,504
Pledges due after five years	1,500,838
Subtotal	18,956,427
Less discount to net present value	(272,068)
Total pledges receivable, net	$18,684,359

Capital Assets

The University of Memphis Foundation had art and historical collections valued at $604,466 at June 30, 2016.

Endowments

The University of Memphis Foundation's endowments consist of approximately 500 individual funds established for a variety of purposes. Its endowments include both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, net position associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, is classified and reported based on the existence or absence of donor-imposed restrictions.

<u>Interpretation of relevant law</u> – 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 foundation classifies as permanently restricted net position (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 position is classified as temporarily restricted net position until the foundation appropriates those amounts for expenditure 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 Position Class
As of June 30, 2016

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$68,718,760	$15,080,916	$(1,284,926)	$82,514,750
Board-designated endowment funds	-	-	4,956,726	4,956,726
Total funds	$68,718,760	$15,080,916	$ 3,671,800	$87,471,476

Changes in Endowment Net Position
For the Fiscal Year Ended June 30, 2016

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net position, beginning of year	$66,361,301	$21,318,671	$6,143,859	$93,823,831
Investment return:				
Investment income (loss)	-	(1,091,692)	(68,404)	(1,160,096)
Net appreciation (realized and unrealized)	-	(4,572,751)	(297,605)	(4,870,356)
Total investment return	-	(5,664,443)	(366,009)	(6,030,452)
Contributions	2,859,663	201,218	-	3,060,881
Appropriation of endowment assets for expenditure	-	(2,310,253)	(1,163,450)	(3,473,703)
Other changes:				
Modifications of restrictions	(502,204)	593,123	-	90,919
Investment deficiencies reclassified to unrestricted net assets	-	942,600	(942,600)	-
Endowment net position, end of year	$68,718,760	$15,080,916	$3,671,800	$87,471,476

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 $15,080,916 as of June 30, 2016. There were no temporary restricted endowment funds only subject to time restrictions as of June 30, 2016.

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 accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net position. 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, 2016, deficiencies of this nature totaled $1,284,926.

Return objectives and risk parameters – The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce consistent long-term growth of capital without undue exposure or 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 for expenditure each year a percentage of its endowment funds' average fair value over the prior 12 quarters through the fiscal year-end one year preceding the fiscal year in which the expenditure is planned. For fiscal year 2016, this percentage was 4%. 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.

Concentrations of Risk

Although the foundation has a policy to maintain a diversified investment portfolio, its investments are subject to market and credit risks which may be affected by economic developments in a specific geographic region or industry.

Approximately 33% of the foundation's pledge receivable balance at June 30, 2016, was due from three donors.

Interfund Advances

The foundation has agreed to advance up to $7.6 million to a foundation fund as an interfund advance benefitting the Athletic Department of The University of Memphis at a 2.2% annual interest rate for the purpose of providing financial support to allow the Athletic Department to undertake construction of a basketball practice facility in advance of receiving payment of donor funding commitments. The advance is to be repaid in full not later than June 30, 2020, and is secured by certain future collections of receivables and other collections related to certain foundation funds benefiting the Athletic Department. No advances had been made as of June 30, 2016.

Support From The University of Memphis

During fiscal year 2016, the university paid certain payroll costs amounting to $154,500 for university personnel who also performed services supporting the foundation. In accordance with the operating agreement, in fiscal year 2016 the university also provided the foundation with office space valued at $15,000. These support costs contractually paid by the university, and totaling $169,500, are reflected in the foundation's statement of activities as other income, with a like amount included in expenses.

Tennessee Board of Regents
THE UNIVERSITY OF MEMPHIS
Required Supplementary Information
Schedule of The University of Memphis's Proportionate Share of the Net Pension Liability
Closed State and Higher Education Employee Pension Plan Within TCRS

	2016	2015
University's proportion of the net pension liability	1.964990%	2.010010%
University's proportionate share of the net pension liability	$25,334,267.00	$13,868,034.00
University's covered payroll	$51,310,490.00	$54,942,068.00
University's proportionate share of the net pension liability as a percentage of its covered payroll	49.37%	25.24%
Plan fiduciary net position as a percentage of the total pension liability	91.26%	95.11%

1) To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

2) This is a ten-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until ten years of information are available.

Tennessee Board of Regents
THE UNIVERSITY OF MEMPHIS
Required Supplementary Information
Schedule of The University of Memphis's Proportionate Share of the Net Pension Asset
State and Higher Education Employee Retirement Plan Within TCRS

	2016
University's proportion of the net pension asset	2.108964%
University's proportionate share of the net pension asset	$ 58,650.00
University's covered payroll	$2,296,586.00
University's proportionate share of the net pension asset as a percentage of its covered payroll	2.55%
Plan fiduciary net position as a percentage of the total pension liability	142.55%

1) To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

2) This is a ten-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until ten years of information are available.

Tennessee Board of Regents
THE UNIVERSITY OF MEMPHIS
Required Supplementary Information
Schedule of The University of Memphis's Contributions
Closed State and Higher Education Employee Pension Plan Within TCRS

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2016	$7,530,918.13	$7,530,918.13	$ -	$50,105,908.18	15.03%
2015	7,709,639.43	7,709,639.43	-	51,295,006.19	15.03%
2014	8,253,251.00	8,253,251.00	-	54,942,068.00	15.02%
2013	8,364,880.14	8,364,880.14	-	55,654,558.48	15.03%
2012	8,338,695.98	8,338,695.98	-	55,926,867.74	14.91%
2011	8,072,255.73	8,072,255.73	-	54,139,877.46	14.91%
2010	6,859,295.76	6,859,295.76	-	52,682,763.13	13.02%
2009	7,075,175.69	7,075,175.69	-	54,340,827.11	13.02%
2008	7,851,077.60	7,851,077.60	-	57,643,741.56	13.62%
2007	7,671,687.96	7,671,687.96	-	56,326,637.00	13.62%

Tennessee Board of Regents
THE UNIVERSITY OF MEMPHIS
Required Supplementary Information
Schedule of The University of Memphis's Contributions
State and Higher Education Employee Retirement Plan Within TCRS

	2016	2015
Contractually determined contribution	$ 283,442.00	$ 92,516.65
Contributions in relation to the contractually determined contribution	283,442.00	92,516.65
Contribution deficiency (excess)	$ -	$ -
Covered payroll	$7,702,818.10	$2,390,611.11
Contributions as a percentage of covered payroll	3.68%	3.87%

This is a ten-year schedule; however, contributions to this plan began in 2015. Years will be added to this schedule in future years until ten years of information are available.

Tennessee Board of Regents
THE UNIVERSITY OF MEMPHIS
Required Supplementary Information
Other Postemployment Benefits Schedule of Funding Progress

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, 2015	State Employee Group Plan	$ -	$23,805,000.00	$23,805,000.00	0%	$128,486,748.24	18.53%
July 1, 2013	State Employee Group Plan	$ -	$23,897,000.00	$23,897,000.00	0%	$125,308,379.00	19.07%
July 1, 2011	State Employee Group Plan	$ -	$30,832,000.00	$30,832,000.00	0%	$118,128,115.00	26.10%

The amount reported here for covered payroll relates to the fiscal year in which the valuations were performed.

Tennessee Board of Regents
UNIVERSITY OF MEMPHIS
Supplementary Schedule of Cash Flows - Component Unit
For the Year Ended June 30, 2016

Cash flows from operating activities	
Gifts and contributions	$ 22,174,874
Sales and services of other activities	825,733
Payments to suppliers and vendors	(6,411,105)
Payments to The University of Memphis	(17,165,250)
Net cash used for operating activities	(575,748)
Cash flows from noncapital financing activities	
Private gifts for endowment purposes	2,859,663
Other non-capital financial receipts (payments)	(5,878)
Net cash provided by noncapital financing activities	2,853,785
Cash flows from investing activities	
Proceeds from sales and maturities of investments	55,977,163
Income on investments	(1,981,579)
Purchases of investments	(57,035,262)
Net cash used for investing activities	(3,039,678)
Net decrease in cash and cash equivalents	(761,641)
Cash and cash equivalents - beginning of year	1,076,589
Cash and cash equivalents - end of year	$ 314,948
Reconciliation of operating loss to net cash used by operating activities:	
Operating gain	2,489,717
Adjustments to reconcile operating gain to net cash provided by operating activities:	
Gifts in-kind	169,500
Changes in assets and liabilities:	
Receivables	(3,161,393)
Prepaid/deferred items	103,144
Accounts payable	(171,926)
Accounts liabilities	(4,790)
Net cash used for operating activities	$ (575,748)
Noncash investing, capital, or financing transactions	
Unrealized gains (losses) on investments	$ (4,697,209)

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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Independent Auditor's 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*

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable David Gregory, Acting Chancellor
Dr. M. David Rudd, President

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, 2016, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated December 13, 2016. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our report includes a reference to other auditors who audited the financial statements of The University of Memphis Foundation, as described in our report on The University of Memphis's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the university's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the university's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies that we consider to be material weaknesses. We did identify a deficiency in internal control, as described below, that we consider to be a significant deficiency.

- Bank and LGIP reconciliations should be performed timely and correctly

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the university's financial statements are free from 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 *Government Auditing Standards*.

The University's Response to Finding

The university's response to the finding identified in our audit is included in the Finding and Recommendation section of this report. The university's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
December 13, 2016

Finding and Recommendation

Bank and LGIP reconciliations should be performed timely and correctly

Condition

University of Memphis business office personnel did not prepare and review bank reconciliations timely or correctly. We reviewed the reconciliations for the university's four bank accounts and the procedures for reconciling the Local Government Investment Pool (LGIP) accounts. Current best practices indicate that bank reconciliations should be prepared daily or within 30 days of the month's end at the latest. For purposes of this testwork, we considered a timely bank reconciliation to be one that was prepared and reviewed within 30 days after a month's end. Of the 48 bank reconciliations prepared for the 4 bank accounts, 45 (94%) were not prepared or approved within 30 days. The number of days for the reconciliation to be completed for these months ranged from 32 days (2 days late) to 173 days (143 days late). On average, the reconciliations were prepared 65 days after the month's end.

Bank reconciliations were not always prepared accurately. Of the 12 bank reconciliations for the payroll account, 7 (58%) included an incorrect general ledger beginning balance. A corrected June 30, 2016, reconciliation was provided on October 3, 2016.

Finally, reconciliations for the LGIP accounts were prepared electronically, and we could not determine timeliness of preparation or approval by management except for the June 30, 2016, reconciliation. This reconciliation appeared to be prepared and approved 54 days after year-end. These reconciliations are prepared on a shared drive used by the Accountant III, who is now responsible for preparing the reconciliation, and the Director of Financial Analysis of Treasury Services, who was training the Accountant III in this process. The worksheets were not printed, signed, or dated. Without this documentation, we were not able to determine when the reconciliations were prepared and if they were approved by management. Although there were certain compensating controls around this account, such as processes over the transfers into and out of the LGIP account and the nature of LGIP accounts in general, a proper reconciliation is still a critical control in any cash account.

Cause

According to university management, turnover in the university's business office during the audit period and subsequent training for new responsibilities were the largest causes of the timeliness issues. As university personnel were aware that the reconciliations were taking longer, the Manager of Financial Reporting stated that she performed limited procedures in order to ensure that there were no unusual bank transactions. However, as these procedures were not documented, we could not review them.

According to the Manager of Financial Reporting, the payroll reconciliation errors occurred due to timing issues and also showing some debits as credits and vice versa on some of the reconciliations.

Criteria

Proper documentation of the reconciliation of bank account balances and LGIP account balances to the university's general ledger is an essential control necessary to ensure proper accounting for the university's cash assets.

Effect

Not documenting accurate, proper, and timely bank reconciliations could lead to reporting errors or possibly undetected misappropriations of cash.

Recommendation

Accurate bank account and LGIP reconciliations should be prepared and reviewed on a monthly basis soon after the receipt of the monthly bank and LGIP statements, but not to exceed 30 days after the end of each reporting period. The reconciliations should also be documented in a way that ensures accountability for both the preparer of the reconciliation and the reviewer.

The Assistant Vice President for Finance should also ensure that employees document the performance and approval of monthly bank and LGIP reconciliations in a timely manner.

Management's Comment

We concur with the issues noted, however, we believe our level of risk is at an acceptable level considering the compensating controls in place. Management had previously evaluated the risk associated with the bank reconciliation process and had determined from a cost-benefit perspective that the benchmark of sixty days for completion should be used considering overall compensating controls that exist which mitigate risks related to the timing of the completion of reconciliations. The timing of the month end accounting close and receipt of information from the bank was also considered when establishing the completion benchmark. Additionally, the preparation errors noted on some of the payroll bank reconciliations would not result in misstatements to the accounting records.

The audit process did not identify errors to the university's financial statements due to the timing or preparation of the reconciliations. Also, the fiscal year reconciliations were completed before the financial statements were issued therefore there was no risk of financial statement misstatement due to the timing of the bank reconciliations.

It is important to note that zero risk cannot be achieved in any financial system and management must balance reasonableness, cost, and operational efficiency in the evaluation of controls. Accordingly, management believes that overall compensating controls outside of the reconciliation process along with completion of reconciliations within 60 days adequately mitigate risk. Although these compensating controls are too voluminous to note in entirety here, they do include segregation of duties, controls over procurement, cash disbursements, and cash receipts; system access controls and formal means of obtaining authority to initiate or approve transactions; budgetary spending controls and oversight; special controls over meals and travel;

limitations and approval over wire transfers; limited third party access to bank accounts; numerous controls over payroll including time approval, personnel records, and compensation. Additionally, it should be noted that the university's operations provide checks and balances due to segregation of functions. Some of the segregated functions are procurement, accounts payable, financial reporting, payroll, human resources, financial planning, grants accounting, bursar operations, development, as well as certain decentralized operations for departments. Additionally, the bank has several important controls and features in place to detect errors as they occur such as positive pay and other fraud controls.

We believe the segregation of duties, functions and other relevant internal controls provide additional strong controls over cash and investments and accordingly facilitate the prevention and detection of misstatements in those areas. Therefore, in light of the mitigating university controls and banking controls, we do not believe this issue should be elevated to the level of a significant deficiency.

We are confident the LGIP reconciliations were performed timely, although we were unable to provide documentation to support the completion and review dates. Regarding the other bank reconciliations, although not documented, there was intensive oversight given the turnover of personnel in addition to interim reconciliation procedures performed including preparation of reconciliation documents by the Manger of Financial Reporting and a daily review of bank accounts by the reconciliation accountant for unusual or unexpected transactions via online access. The bank reconciliation signoffs were generally delayed due to full investigation of immaterial items. We simply did not sign and date them until fully complete.

As of the June 30, 2016 reconciliations, the university's standard sixty day benchmark has been consistently met. We appreciate the recommendations on approaches to further strengthen internal controls in this area. As a result, we will study the current bank reconciliation process and benchmarks as well as industry best practices and will implement cost-effective changes to increase controls where deemed appropriate.