

9. Financial Audit Report

Report

Presented by Jeannie Smith

Report to the Audit Committee of the Board of Trustees

The University of Memphis Audit Committee
Report
For Information

Date: March 7, 2018

Committee: Audit Committee

Report Title: Audit of the University of Memphis

Presented by: George Ninan, Controller

Background:

The Office of the Comptroller of the Treasury, Division of State Audit, completed its audit of the University of Memphis (the University) on January 5, 2018. The audit was conducted in accordance with auditing standards generally accepted in the United States of America (GAAS) and standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. The objectives of the audit were:

1. To express an opinion as to whether the basic financial statements are fairly presented, in all material aspects, in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental colleges and universities as prescribed by the Governmental Accounting Standards Board (GASB). Basic financial statements consist of Statement of Net Position (SNP), Statement of Revenues, Expenses, and Changes in Net Position (SRECNP) and Statement of Cash Flows (SCF). The University of Memphis Foundation (the Foundation) is considered a component unit of the University and is discreetly presented in the University's financial statements, namely the SNP and SRECNP.
2. To report on the fairness of the supplementary information when considered in relation to the financial statements as a whole. Supplementary information refers to the Foundation's Schedule of Cash Flows.
3. To report on internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a material effect on the financial statements.
4. To report on internal controls related to major federal programs and to provide an opinion on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Uniform Grant Guidance and/or Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This report will be included in the state's single audit reporting package.

GAAP provides for certain required supplementary information (RSI) to supplement the university's basic financial statements. Such information, although not part of the basic financial statements is

required as an essential part of financial reporting to provide appropriate context. This information was subject to certain limited procedures, but not audited. RSI includes Management's Discussion and Analysis (MD&A), Schedules on University's pension net asset, liability and contributions, and Other Postemployment Benefits Schedule of Funding Progress.

The auditors have issued an unmodified opinion on the presentation of financial statements and noted no exceptions on the procedures performed. The attached Financial Report on the University of Memphis for the year ended June 30, 2017 contains the Independent Auditor's Report, Basic Financial Statements, Required Supplementary Information and Supplementary Information for your review.

Financial Report

For the year ended June 30, 2017



THE UNIVERSITY OF MEMPHIS BOARD OF TRUSTEES

Alan B. Graf, Jr, *Chairman*

R. Brad Martin, *Vice Chairman*

G. Douglas Edwards

Marvin R. Ellison

Cato Johnson

Taylor Mayberry

David A. North

Carol L. Roberts

Katharine Schaffzin

Susan L. Springfield

ADMINISTRATIVE OFFICERS

M. David Rudd, *President*

Karen Weddle-West, *Provost*

Tom Bowen, *Athletic Director*

Vicki Deaton, *Chief Audit Executive, Internal Audit*

Jasbir Dhaliwal, *Vice Provost for Academic Affairs, Chief Innovation Officer & Dean of the Graduate School*

Bruce Harber, *Chief Operations Officer*

Tammy Hedges, *Vice President for External Relations & Executive Director of the UofM Alumni Association*

Robert Jackson, *Chief Information Officer*

Andy Meyers, *Vice President for Research*

Melanie Murry, *University Counsel*

Bobby Prince, *Chief Development Officer*

Darrell C. Ray, *Vice President for Student Affairs*

Jeannie G. Smith, *Interim Vice President for Business and Finance*

Ted Townsend, *Chief Economic Development & Government Relations Officer*

FINANCIAL STAFF

Deborah A. Becker, *Interim Assistant Vice President for Finance*

George Ninan, *Controller*

Kathy C. Archie, *Manager of Financial Reporting*

Monica Goldsby, *Manager of General Accounting*

Sherry Greene, *Interim Director of Financial Planning*

Linda Heide, *Manager of Grants and Contracts Accounting*

Lorrean Lim, *Director of Financial Analysis & Treasury Services*

Russell Teague, *Director of Payroll*

Terrice Watson, *Assistant Controller*

TABLE OF CONTENTS

Letter from the Controller	1
Independent Auditor's Report	2
Management Discussion and Analysis	5
Basic Financial Statements (Audited)	
Statement of Net Position	15
Statement of Revenues, Expenses, and Changes in Net Position	16
Statement of Cash Flows – University	17
Notes to the Financial Statements	19
Required Supplementary Information	
Schedule of the University's Proportionate Share of the Net Pension Liability Closed State and Higher Education Employee Pension Plan Within TCRS	53
Schedule of the University's Proportionate Share of the Net Pension Asset State and Higher Education Employee Pension Plan Within TCRS	54
Schedule of the University's Contributions Closed State and Higher Education Employee Pension Plan Within TCRS	55
Schedule of the University's Contributions State and Higher Education Employee Pension Plan Within TCRS	56
Other Postemployment Benefits Schedule of Funding Progress	57
Supplementary Information	
Statement of Cash Flows – Foundation (Audited).....	58
Internal Control, Compliance, and Other Matters	
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 <i>Auditing Standards</i>	59

Letter from the Controller

We are pleased to present the Annual Financial Report of the University of Memphis for the year that ended June 30, 2017. The report provides financial information about the University's operations and describes its financial position at the end of the year.

The financial statements on the following pages have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The management of the University of Memphis is responsible for the completeness and reliability of these financial statements. A comprehensive framework of internal controls provides reasonable assurance that the financial statements are free of material errors or misstatements.

The financial statements have been audited by the State of Tennessee, Comptroller of the Treasury, Division of State Audit. The auditors have issued an unmodified opinion, the most favorable outcome of the audit process. The independent auditor's report is on the page following this letter. Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. MD&A complements the basic financial statements and should be read in conjunction with it.

Sincerely,

George Ninan
Controller



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
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 State University and Community College System of Tennessee, 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, 2017, 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, 2017; 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 State University and Community College System of Tennessee, 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 State University and Community College System of Tennessee, as of June 30, 2017, 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 22, the financial statements of the University of Memphis Foundation, a discretely presented component unit of the University of Memphis, include investments valued at \$84,246,349 (61% 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 – 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 – State and Higher Education Employee Retirement Plan within TCRS on page 54; the schedule of the University of Memphis's contributions – Closed State and Higher Education Employee Pension Plan within TCRS on page 55; the schedule of the University of Memphis's contributions – 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.

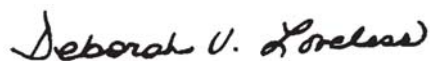
Supplementary Information

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 5, 2017, 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, CPA
Director
December 5, 2017

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, 2017, with comparative information presented for the fiscal year ended June 30, 2016. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and the 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 22 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, 2017, and June 30, 2016.

Summary of Net Position
(in thousands of dollars)

	FY 2017	FY 2016
Assets:		
Current assets	\$ 36,938	\$ 37,215
Capital assets, net	528,458	515,128
Other assets	179,394	165,748
Total Assets	744,790	718,091
Deferred Outflows of Resources:		
Deferred amount on debt refunding	3,438	3,696
Deferred outflows related to pensions	19,623	10,499
Total Deferred Outflows	23,061	14,195
Liabilities:		
Current liabilities	51,341	55,188
Noncurrent liabilities	212,559	205,141
Total Liabilities	263,900	260,329

Deferred Inflows of Resources

Deferred amount on debt refunding	85	91
Deferred inflows related to pensions	2,474	6,079
Total Deferred Inflows	2,559	6,170

Net Position:

Net investment in capital assets	380,001	363,050
Restricted - nonexpendable	4,351	3,827
Restricted - expendable	9,527	9,500
Unrestricted	107,513	89,410
Total Net Position	\$501,392	\$465,787

Comparison of FY 2017 to FY 2016

- Capital assets net of accumulated depreciation increased by \$13.3 million. Capital assets additions of \$32.1 million represent \$19.6 million of projects in progress and \$12.5 million in completed projects. Projects in progress include basketball and football practice facilities (\$11.2 million), and HVAC and other improvement projects to various buildings (\$6.4 million). Completed projects consist of improvements and safety updates to current facilities (\$7.2 million) and equipment purchases (\$2.9 million).
- Other assets increased by \$13.6 million in FY 2017 primarily due to the increase in investments of cash, earmarked for future academic and student success initiatives, and capital projects. Such cash is invested in Local Government Investment Pool, U.S. Treasuries, and government agencies notes.
- Deferred outflows of resources related to pensions increased by \$9.1 million. This is due to actual earnings from pension plan investments being lower than projected for FY 2017 by \$9 million. Further, changes in the university's proportion of net pension liability resulted in deferred losses of \$0.9 million. These increases were offset by decreases of \$0.8 million due to amortization of prior year deferred losses from negative plan experience, and lower contributions subsequent to the measurement date in FY 2017 compared to FY 2016.
- Current liabilities decreased due to the timing of the June 30 payroll tax deposits. The June 30, 2017, payroll tax deposits of \$4.4 million were paid in June 2017. Payroll tax deposits for June 30, 2016, were paid in July 2016.
- Noncurrent liabilities increased during FY 2017 due to an increase of \$12.1 million in the university's net pension liability, offset by a \$4.7 million decrease in bonds payable. This pension liability increase is the result of several GASB Statement 68 transactions but is primarily attributed to actual pension earnings for FY 2017 being less than actuarially assumed, and the measured pension expense applicable to FY 2017 being \$3.8 million higher than that for FY 2016.
- Deferred inflows of resources related to pensions decreased by \$3.6 million from FY 2016 to FY 2017. \$3.2 million in gains from pension plan investments prior to FY 2015

were eroded by recent losses. Remaining decreases of \$0.4 million are due to the amortization of deferred inflows from prior period positive experience and changes in net pension liability.

- The increase in restricted – nonexpendable net position is due to contributions to endowment funds from the sale of the Galloway Feinstone property with proceeds supporting Molecular Biology.
- The increase in unrestricted net position is the result of funds set aside for planned capital projects such as the land bridge, student recreation center, parking garage and other deferred maintenance, and academic and student success initiatives.

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, 2017, and June 30, 2016, follows.

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

	FY 2017	FY 2016
Operating revenues	\$224,476	\$211,457
Operating expenses	(406,082)	(398,034)
Operating loss	(181,606)	(186,577)
Nonoperating revenues and expenses	193,122	188,957
Income before other revenues, expenses, gains or losses	11,516	2,380
Other revenues, expenses, gains or losses	24,089	11,593
Increase in net position	35,605	13,973
Net position at beginning of year	465,787	451,814
Net position at end of year	\$501,392	\$465,787

Operating Revenues

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

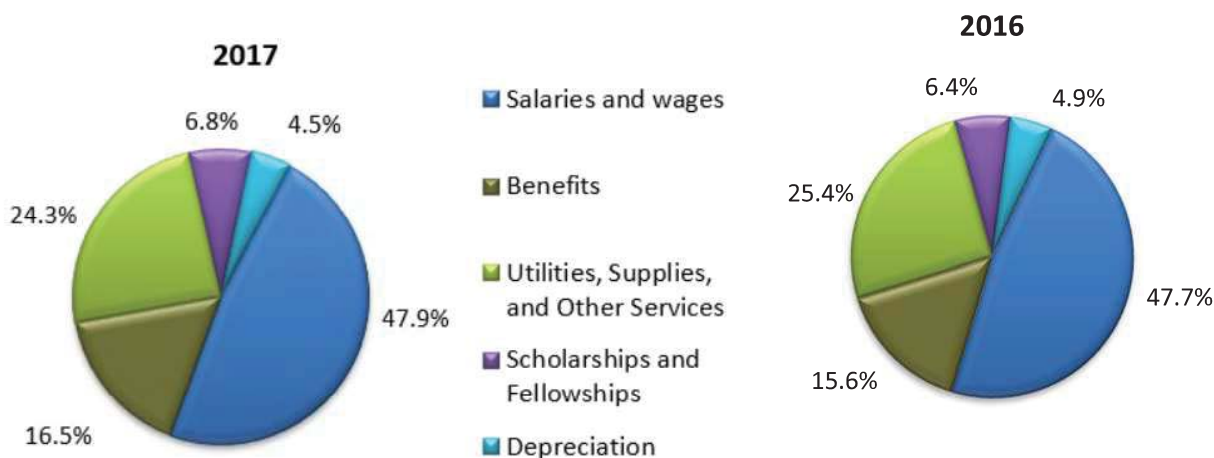


Comparison of FY 2017 to FY 2016

- Net tuition and fee revenues increased by \$7.4 million in FY 2017 due primarily to a minimal increase in tuition rates and a 3% increase in enrollment.
- Grants and contracts revenue increased by \$2.8 million primarily due to increases in federally funded grants.
- Auxiliary revenues increased by \$3 million primarily due to increases in student housing and parking rates in preparation for debt service payments on housing and parking facilities.

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:

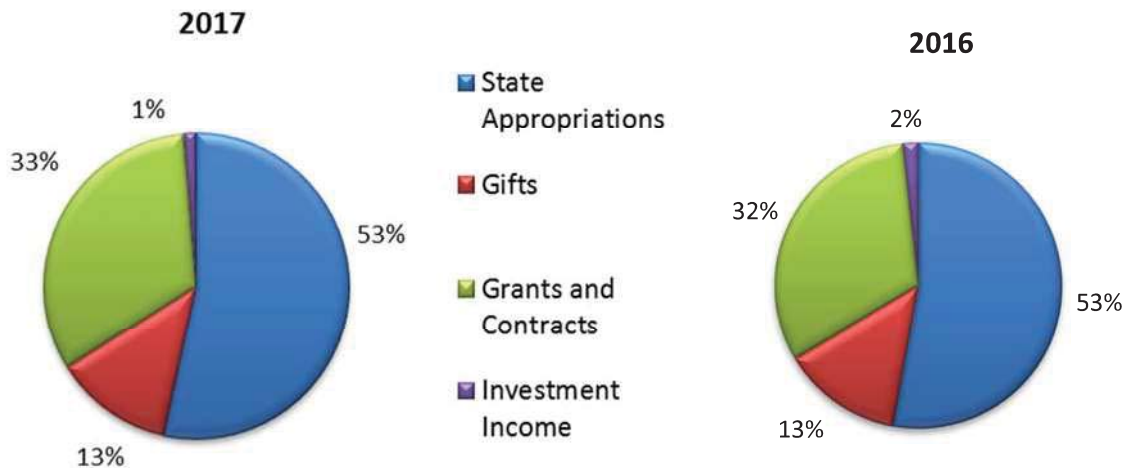


Comparison of FY 2017 to FY 2016

- Salaries, wages, and benefits expenditures increased by \$9.5 million primarily because of salary bonuses and benefits in FY 2017 of \$3 million, \$2.2 million of reclassification of athletic coaches' TV and radio payments previously recorded as other operating expenses, and a \$4.1 million increase in pension expense per actuarial valuation.
- Utilities, supplies, and other services expenditures decreased by \$2.5 million in FY 2017 compared to FY 2016, when there were contractual severance payments to athletic coaches. Additional \$2 million incurred on critical deferred maintenance needs were offset by the \$2.2 million expense reclassification mentioned above.
- Scholarships and fellowships increased by \$2.2 million in FY 2017, consisting of \$0.8 million of additional institutional scholarships and the remaining amount being federal Pell grants and State of Tennessee scholarships.
- The Banner software system and some improvement projects were completely depreciated in FY 2016, resulting in a \$1.1 million decrease in depreciation expense for FY 2017.

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:

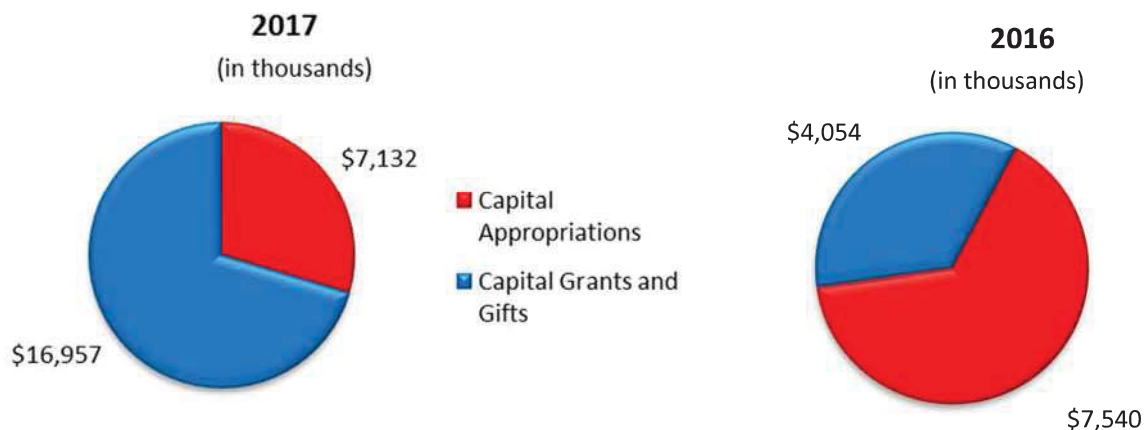


Comparison of FY 2017 to FY 2016

- Net increase in state appropriations of \$3.6 million consisted of an additional \$6.2 million for operations due to more favorable state funding formula outcomes offset by a 2016 special one-time appropriation of \$2.6 million.
- Grants and contracts revenue from federal Pell grants and the State of Tennessee scholarships increased by \$3.2 million from FY 2016, primarily driven by an increase in first-time freshman student population and a slight increase in award amount.

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 2017 to FY 2016

- Capital appropriations of \$7.1 million were comparable to the previous year amount of \$7.5 million and applied primarily towards HVAC (\$4.3 million) and Building Code Safety and Access Security projects (\$2.9 million).
- Capital grants and gifts increased by \$13 million primarily for the Basketball Practice Facility being constructed on the Park Avenue Campus.

Capital Assets and Debt Administration

Capital Assets

The University of Memphis had \$528.4 million invested in capital assets, net of accumulated depreciation of \$264.1 million at June 30, 2017; and \$515.1 million invested in capital assets, net of accumulated depreciation of \$249.2 million at June 30, 2016. Depreciation charges totaled \$18.4 million and \$19.5 million for the years ended June 30, 2017, and June 30, 2016, respectively.

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

	<u>FY 2017</u>	<u>FY 2016</u>
Land	\$ 18,796	\$ 18,916
Improvements & infrastructure	68,611	65,844
Buildings	389,352	397,186
Equipment	14,842	15,484
Library holdings	4,866	4,786
Intangible assets	1,640	1,900
Art & historical collections	1,686	661
Projects in progress	28,665	10,351
Total	<u>\$528,458</u>	<u>\$515,128</u>

At June 30, 2017, outstanding commitments under construction contracts totaled \$117.3 million for various renovations and repairs of buildings and infrastructure as well as new building construction. Future state capital outlay appropriations will fund \$15 million of these costs.

More detailed information about the university's capital assets is presented in Note 6 to the financial statements.

Debt

The university had \$151.4 million and \$155.7 million in debt outstanding at June 30, 2017, and June 30, 2016, respectively. The table below summarizes these amounts by type of debt instrument.

Outstanding Debt
(in thousands of dollars)

	FY 2017	FY 2016
TSSBA Bonds Payable	\$144,207	\$146,877
TSSBA Revolving Credit Facility	3,979	5,443
GO Commercial Paper	3,222	3,362
Total	\$151,408	\$155,682

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 \$144.2 million outstanding at June 30, 2017, is \$5.1 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, 2017, is \$3.9 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, 2017, is \$3.2 million.

The ratings on debt issued by the TSSBA at June 30, 2017, 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 regards to its state funding formula outcomes. For FY 2018, the university's state appropriations increased by 6.6%. This is the third year the university has seen state appropriations increase. Management believes the university is well positioned regarding future state appropriation allocations based on the state's new funding formula adopted in FY 2017. The university's key initiatives related to improved recruitment, retention, access, completion, and overall student success are expected to positively affect not only state appropriation outcomes but also enrollment trends.

Modest enrollment gains are expected in FY 2018. The university was able to continue holding its tuition rates steady with only a minimal tuition increase of 2.6%. We continue to remain cognizant of the impact future tuition increases may have on our students and are committed to minimize

tuition increases to the greatest extent possible. The university continues to be involved in numerous strategic enrollment and student success initiatives.

Future improvements on campus will include a new music center, parking garage, and land bridge over Southern Avenue. The new basketball practice facility is set to open in the fall of 2017, and initial site work has begun on the football practice facility, expected to be complete in early 2019. Enhancements such as these are expected to provide significant opportunities for enrollment and revenue growth.

Under the leadership of Governor Bill Haslam and the 109th Tennessee General Assembly, the Focus on College and University Success (FOCUS) Act was introduced in 2015 and passed in 2016. The FOCUS legislation allowed an independent governing board to be established at the University of Memphis, which provides greater flexibility, autonomy and local control of the university's strategic direction. The first University of Memphis Board of Trustees meeting was held on March 17, 2017.

We are not aware of any other factors, decisions, or conditions that are expected to have a significant impact on the financial position or results of operation.

THE UNIVERSITY OF MEMPHIS
Statement of Net Position
June 30, 2017

	University	Component Unit
Assets		
Current assets:		
Cash and cash equivalents (Notes 2 and 22)	\$ 11,621,043.81	\$ 1,389,394.00
Accounts, notes, and grants receivable (net) (Note 5)	13,923,711.86	-
Due from State of Tennessee	1,841,142.85	-
Due from UOM Foundation	7,187,625.00	-
Pledges receivable (net) (Note 22)	-	3,136,908.00
Inventories	511,376.90	-
Prepaid expenses	1,475,455.00	-
Accrued interest	377,496.32	109,413.00
Total current assets	36,937,851.74	4,635,715.00
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 22)	96,492,346.64	-
Investments (Notes 3, 4, and 22)	77,987,813.00	134,323,156.00
Accounts, notes, and grants receivable (net) (Note 5)	4,700,622.42	-
Pledges receivable (net) (Note 22)	-	7,124,868.00
Capital assets (net) (Notes 6 and 22)	528,458,598.58	584,956.00
Net pension asset (Note 11)	210,436.00	-
Other assets	2,500.00	390,289.00
Total noncurrent assets	707,852,316.64	142,423,269.00
Total assets	744,790,168.38	147,058,984.00
Deferred outflows of resources		
Deferred amount on debt refunding	3,437,629.18	-
Deferred outflows related to pensions (Note 11)	19,623,006.00	-
Total deferred outflows of resources	23,060,635.18	-
Liabilities		
Current liabilities:		
Accounts payable (Note 7)	8,033,635.64	1,497,905.00
Accrued liabilities	15,420,161.47	144,287.00
Due to State of Tennessee	3,352,873.55	-
Due to UOM	-	7,187,625.00
Student deposits	2,235,476.40	-
Unearned revenue	12,469,669.32	-
Compensated absences (Note 8)	2,537,575.93	-
Accrued interest payable	985,222.32	-
Long-term liabilities, current portion (Note 8)	5,119,797.13	-
Deposits held in custody for others	1,142,486.38	-
Other liabilities	44,161.00	-
Total current liabilities	51,341,059.14	8,829,817.00
Noncurrent liabilities:		
Net OPEB obligation (Note 12)	17,012,538.95	-
Net pension liability (Note 11)	37,459,409.00	-
Compensated absences (Note 8)	7,097,769.02	-
Long-term liabilities (Notes 8 and 22)	146,288,287.71	-
Due to grantors (Note 8)	4,700,622.42	-
Total noncurrent liabilities	212,558,627.10	-
Total liabilities	263,899,686.24	8,829,817.00
Deferred inflows of resources		
Deferred amount on debt refunding	84,565.04	-
Deferred inflows related to pensions (Note 11)	2,474,536.00	-
Total deferred inflows of resources	2,559,101.04	-
Net position		
Net investment in capital assets	380,001,511.92	584,956.00
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	1,389,450.87	33,151,434.00
Instructional department uses	-	21,928,568.00
Other	2,961,354.45	17,117,445.00
Expendable:		
Scholarships and fellowships	999,131.29	13,775,332.00
Research	1,461,608.79	3,687,902.00
Instructional department uses	1,600,240.99	16,538,286.00
Loans	3,212,750.64	-
Capital projects	38,674.67	8,408,861.00
Pension	210,436.00	-
Other	2,004,349.37	16,230,528.00
Unrestricted	107,512,507.29	6,805,855.00
Total net position	\$ 501,392,016.28	\$ 138,229,167.00

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

THE UNIVERSITY OF MEMPHIS
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2017

	University	Component Unit
Revenues		
Operating revenues:		
Student tuition and fees (Note 13)	\$ 136,410,694.83	\$ -
Gifts and contributions	-	15,350,883.00
Governmental grants and contracts	30,386,271.55	-
Nongovernmental grants and contracts	4,308,547.81	-
Sales and services of educational activities	4,500,116.72	-
Sales and services of other activities	28,342,136.83	708,590.00
Auxiliary enterprises:		
Residential life (Note 13)	12,387,338.12	-
Bookstore	791,375.02	-
Food service	1,226,098.00	-
Other auxiliaries (Note 13)	6,047,916.63	-
Interest earned on loans to students (Note 13)	75,796.36	-
Total operating revenues	224,476,291.87	16,059,473.00
Expenses		
Operating expenses (Note 18):		
Salaries and wages	194,301,061.53	377,453.00
Benefits	67,163,834.16	146,456.00
Utilities, supplies, and other services	98,725,652.71	159,270.00
Scholarships and fellowships	27,533,214.10	-
Depreciation expense	18,358,715.94	-
Payments to or on behalf of the University of Memphis (Note 22)	-	34,472,329.00
Total operating expenses	406,082,478.44	35,155,508.00
Operating loss	(181,606,186.57)	(19,096,035.00)
Nonoperating revenues (expenses)		
State appropriations	105,641,025.00	-
Gifts, including \$18,595,522.00 from the component unit	24,935,019.38	-
Grants and contracts	64,456,571.25	-
Investment income (expense) (net of investment expense for the institution of \$45,048.67 and \$33,066.00 for the component unit)	2,661,973.88	12,663,823.00
Interest on capital asset-related debt	(5,609,045.14)	-
University support (Note 22)	-	44,031.00
Other nonoperating revenues (expenses)	1,036,194.66	-
Total nonoperating revenues (expenses)	193,121,739.03	12,707,854.00
Income (loss) before other revenues, expenses, gains, or losses	11,515,552.46	(6,388,181.00)
Capital appropriations	7,132,546.05	-
Capital grants and gifts, including \$15,876,807.00 from the component unit	16,956,554.74	-
Additions to permanent endowments	-	2,489,107.00
Total other revenues	24,089,100.79	2,489,107.00
Increase (decrease) in net position	35,604,653.25	(3,899,074.00)
Net position - beginning of year	465,787,363.03	142,128,241.00
Net position - end of year	\$ 501,392,016.28	\$ 138,229,167.00

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

THE UNIVERSITY OF MEMPHIS
Statement of Cash Flows
For the Year Ended June 30, 2017

Cash flows from operating activities	
Tuition and fees	\$ 137,383,671.35
Grants and contracts	34,083,554.69
Sales and services of educational activities	4,964,837.86
Sales and services of other activities	29,193,031.23
Payments to suppliers and vendors	(100,712,493.39)
Payments to employees	(194,435,615.41)
Payments for benefits	(72,826,418.13)
Payments for scholarships and fellowships	(27,533,214.10)
Loans issued to students	(923,381.00)
Collection of loans from students	409,970.90
Interest earned on loans to students	94,773.18
Auxiliary enterprise charges:	
Residence halls	12,360,401.98
Bookstore	791,375.02
Food services	1,226,098.00
Other auxiliaries	6,009,141.90
Net cash used for operating activities	(169,914,265.92)
Cash flows from noncapital financing activities	
State appropriations	105,214,200.00
Gifts and grants received for other than capital or endowment purposes	89,322,170.22
Federal student loan receipts	119,077,896.00
Federal student loan disbursements	(119,077,896.00)
Changes in deposits held for others	131,220.03
Net cash provided by noncapital financing activities	194,667,590.25
Cash flows from capital and related financing activities	
Capital grants and gifts received	4,606,340.59
Proceeds from sale of capital assets	2,681,432.82
Purchases of capital assets and construction	(7,812,605.86)
Principal paid on capital debt	(8,654,925.31)
Interest paid on capital debt	(3,624,893.69)
Net cash used for capital and related financing activities	(12,804,651.45)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	60,436,677.84
Income on investments	3,521,509.39
Purchase of investments	(57,728,230.03)
Net cash provided by investing activities	6,229,957.20
Net increase in cash and cash equivalents	18,178,630.88
Cash and cash equivalents - beginning of year	89,934,760.37
Cash and cash equivalents - end of year	\$ 108,113,390.45

THE UNIVERSITY OF MEMPHIS
Statement of Cash Flows (continued)
For the Year Ended June 30, 2017

Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (181,606,186.57)
Adjustments to reconcile operating loss to net cash provided used by operating activities:	
Noncash operating expenses	18,701,174.18
Change in assets, liabilities, and deferrals:	
Receivables, net	305,468.63
Inventories	4,447.96
Prepaid items	(191,362.94)
Net pension asset	(151,786.00)
Deferred outflows of resources - pensions	(9,124,463.27)
Net pension liability	12,125,142.00
Deferred inflows of resources - pensions	(3,604,139.60)
Accounts payable	(7,460,627.73)
Accrued liabilities	(287,546.76)
Unearned revenues	955,206.69
Deposits	311,495.15
Compensated absences	(32,420.87)
Other	141,333.21
Net cash used by operating activities	\$ (169,914,265.92)
Noncash investing, capital, or financing transactions	
Gifts in-kind - capital	\$ 12,350,214.15
Unrealized losses on investments	\$ (840,869.44)
Loss on disposal of capital assets	\$ (489,413.03)
Proceeds from capital debt	\$ 2,379,166.68
Capital appropriations	\$ 7,711,886.56
Purchase of capital assets and construction	\$ (9,990,120.00)
Other capital and related financing receipts payments	\$ (72,166.92)

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