Sensitivity of the proportionate share of 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 proportionate share of the net pension liability	$73,615,317	$37,459,409	$6,971,690

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, 2017, the university reported a payable of $666,027.61 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2017.

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 5 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.

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 Employee Retirement Plan. 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, 2017, to the State and Higher Education Employee Retirement Plan were $483,152, which is 3.91% of covered payroll. 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 Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset – At June 30, 2017, the university reported an asset of $210,436 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, 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, 2016, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2016, measurement date, the university's proportion was 2.497908%. At the June 30, 2015, measurement date, the university's proportion was 2.108964%.

Pension expense – For the year ended June 30, 2017, the university recognized a pension expense of $116,991.00.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2017, 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	$15,310	$22,614
Net difference between projected and actual earnings on pension plan investments	24,539	-
Changes in proportion of net pension asset	-	6,595
The University of Memphis' contributions subsequent to the measurement date of June 30, 2016	483,152	
Total	$523,001	$29,209

Deferred outflows of resources, resulting from the university's employer contributions of $483,152 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2018. 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 Ending June 30	
2018	$4,246
2019	$4,246
2020	$4,246
2021	$3,239
2022	$(2,141)
Thereafter	$(3,193)

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

Actuarial assumptions – The total pension asset as of the June 30, 2016, 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, 2016, 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 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 asset.

Sensitivity of the proportionate share of net pension asset to changes in the discount rate – The following presents the university's proportionate share of the net pension asset calculated using the discount rate of 7.5%, as well as what the university's proportionate share of the net pension 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 the net pension asset	$25,165	$210,436	$349,232

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, 2017, the university reported a payable of $86,469.62 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2017.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2017, for all state and local government defined benefit pension plans was $6,740,469.

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 $10,057,488.57 for the year ended June 30, 2017, and $10,311,477.31 for the year ended June 30, 2016. 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.

Payable to the plan – At June 30, 2017, the university reported a payable of $123.26 for the outstanding amount of legally required contributions to the plan required for the year ended June 30, 2017.

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, 2017, contributions totaling $3,224,563.91 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $1,507,250.72 for employer contributions. 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.

At June 30, 2017, the university reported a payable of $10,882.92 for the outstanding amount of legally required contributions to the plan required for the year ended June 30, 2017.

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 20. 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. 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)	$ 3,226,000.00
Interest on the net OPEB obligation	632,670.21
Adjustment to the ARC	(635,211.06)
Annual OPEB cost	3,223,459.15
Amount of contribution	(3,082,125.94)
Increase in net OPEB obligation	141,333.21
Net OPEB obligation – beginning of year	16,871,205.74
Net OPEB obligation – end of year	$17,012,538.95

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2017	State Employee Group Plan	$3,223,459.15	95.6%	$17,012,538.95
June 30, 2016	State Employee Group Plan	$3,115,506.12	90.0%	$16,871,205.74
June 30, 2015	State Employee Group Plan	$3,178,686.38	88.5%	$16,559,357.86

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	0.0%
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. Revenues

A summary of adjustments and allowances by revenue classification is presented as follows:

Revenue Source	Gross Revenue	Less Scholarship Allowances	Less Uncollectible Debts	Net Revenue
Operating revenues:				
Tuition and fees	$198,777,300.65	$(61,664,131.16)	$(702,474.66)	$136,410,694.83
Auxiliary enterprises:				
Residential life	17,563,597.96	(5,032,791.48)	(143,468.36)	12,387,338.12
Other auxiliaries	6,088,429.21	-	(40,512.58)	6,047,916.63
Interest earned on loans to students	120,694.77	-	(44,898.41)	75,796.36
Total	**$222,550,022.59**	**$ (66,696,922.64)**	**$(931,354.01)**	**$154,921,745.94**

Note 14. 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 liability, and workers' compensation. By statute, the maximum liability for general liability, automobile liability, and professional medical malpractice liability is $300,000 per person and $1,000,000 per occurrence. 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, crime and fidelity coverage on the state's officials and employees, and cyber liability coverage. 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 $7.5 million for perils other than earthquake and flood. Purchased insurance coverage is responsible for losses exceeding the $7.5 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. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2017, 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. At June 30, 2017, the RMF held $167 million in cash designated for payment of claims.

At June 30, 2017, the scheduled coverage for the university was $1,431,868,388 for buildings and $385,948,800 for contents.

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

Note 15. Commitments and Contingencies

Sick Leave

The university records the cost of sick leave when paid. The dollar amount of unused sick leave was $78,763,445.18 at June 30, 2017.

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

$2,292,184.35 and expenses for personal property were $860,724.72 for the year ended June 30, 2017. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2017, outstanding commitments under construction contracts totaled $117,310,621.79 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 $15,058,791.50 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.

Note 16. Chairs of Excellence

The university had $79,629,788.19 on deposit at June 30, 2017, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

Note 17. Funds Held in Trust by Others

The university is a beneficiary under the Herbert Herff, Van Vleet, Mike Driver, Pope M. Farrington, and C.M. Gooch 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 $1,188,278.49 from these funds during the year ended June 30, 2017.

Note 18. Natural Classification With Functional Classifications

The university's operating expenses for the year ended June 30, 2017, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 91,021,778.27	$30,674,436.69	$17,222,982.05	$ -	$ -	$138,919,197.01
Research	24,363,784.02	9,864,693.19	10,988,370.64	-	-	45,216,847.85
Public service	6,297,152.28	1,970,591.06	3,943,769.38	-	-	12,211,512.72
Academic support	16,286,966.30	5,633,187.54	5,191,330.13	-	-	27,111,483.97
Student services	25,147,995.06	7,449,343.64	23,666,284.09	-	-	56,263,622.79

Institutional support	14,430,768.75	4,587,829.43	7,671,788.42	-	-	26,690,386.60
Maintenance and operation	14,079,533.85	6,220,459.50	17,457,338.71	-	-	37,757,332.06
Scholarships and fellowships	-	-	-	27,533,214.10	-	27,533,214.10
Auxiliary	2,673,083.00	763,293.11	12,583,789.29	-	-	16,020,165.40
Depreciation	-	-	-	-	18,358,715.94	18,358,715.94
Total	$194,301,061.53	$67,163,834.16	$98,725,652.71	$27,533,214.10	$18,358,715.94	$406,082,478.44

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 $12,348,831.90 were reallocated from academic support to the other functional areas.

Note 19. Affiliated Entity Not Included

The University of Memphis Research Foundation is a private, nonprofit foundation with the university as the sole beneficiary. The University of Memphis Research Foundation is controlled by a board independent of the university. The financial records, investments, and other financial transactions are handled external to the university, and these amounts are not included in the university's financial report. As reported in the foundation's most recently audited financial report, at June 30, 2017, the assets of the foundation totaled $2,791,169, liabilities were $930,523, and the net position amounted to $1,860,646.

Note 20. On-behalf Payments

During the year ended June 30, 2017, the State of Tennessee made payments of $241,525 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 21. Subsequent Event

In September 2017, the Tennessee State School Bond Authority (TSSBA) issued additional bond indebtedness of $22,658,400.30 for university projects. This issuance increased TSSBA indebtedness by $8,400,974.20. The issuance also repaid $16,233,060.66 of bond indebtedness existing at June 30, 2017, $1,975,634.56 of which was funded by premiums from the latest bond issue.

Note 22. Component Unit

The University of Memphis Foundation is a legally separate, tax-exempt organization supporting the University of Memphis. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the university in support of its programs. The 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 standards. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board 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, 2017, the foundation made distributions of $34,472,329 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 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, 2017.

	June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$ 1,748,812	$ 1,748,812	$ -	$ -
U.S. government securities	178,486	-	178,486	-
Corporate bonds	3,534,478	-	3,534,478	-
Mutual funds	40,200,712	40,200,712	-	-

Interest in limited partnerships	88,660,668	4,414,319	-	84,246,349
Total assets	$134,323,156	$46,363,843	$3,712,964	$84,246,349

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	Transfers In/(Out) of Level 3	Ending Balance
Assets:					
Interest in limited partnerships	$84,719,867	$10,335,718	$4,169,921	$(14,979,157)	$84,246,349

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, $9,949,940 is attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at June 30, 2017.

The following is a description of the valuation methodologies used for investments measured at fair value. There have been no changes in the methodologies used as of June 30, 2017.

Level 1: Quoted prices for identical securities in active markets.

Level 2: Other significant observable inputs other than Level 1 prices, such as quoted prices for similar securities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect the foundation's investment managers' own assumptions used to determine the fair value of investments.

Level 2 investment securities include certain U.S. government and agency obligations and corporate bonds for which quoted prices are not available in active markets for identical instruments. Because quoted prices in active markets for identical assets are not available, these prices are determined using observable market information such as quotes from less active markets and/or quoted prices of securities with similar characteristics. Level 2 investments in 2017 include fixed income funds with observable inputs.

The foundation uses the net asset value (NAV) or capital balances of its interest in Level 3 investments as a practical expedient to determine the fair value of Level 3 investment funds. These funds do not have a readily determinable fair value and either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company. Because of the inherent uncertainty of valuations of Level 3 investments, their estimated values may differ significantly from the values that would have been used had a ready market for the Level 3 investments existed, and the difference could be material. Additional information about the major categories of Level 3 investments is presented below.

Valuations provided by the general partners and investment managers are evaluated by management through accounting and financial reporting processes to review and monitor existence and valuation assertions. Management has instituted processes in the areas of initial due diligence, ongoing monitoring, and financial reporting. Management also reviews interim financial information and reviews details of investment holdings to obtain an understanding of the underlying investments. Monitoring also includes obtaining and reviewing audited financial statements noting the type of opinion, basis of accounting, and procedures pertaining to the valuation of alternative investments and comparison of audited valuation with the fund's valuation.

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

	Fair Value June 30, 2017	Unfunded Commitments at June 30, 2017	Redemption Frequency	Redemption Notice Period
Hedged equity	$33,840,897	$ -	Annually/upon liquidation	90 Days
Private equity	5,471,483	6,430,051	At manager's discretion	N/A
Real assets	3,951,307	3,855,284	At manager's discretion	N/A
U.S. equity	12,626,108	-	Quarterly	60 days
International equity	13,767,626	-	Quarterly	60 days
Emerging markets equity	8,107,957	-	Annually	90 days
Opportunistic	2,684,276	-	Annually	90 days
Fixed income	3,796,695	-	Monthly	15 days
Total	$84,246,349	$10,285,335		

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.