THE UNIVERSITY OF THE SOUTH

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

As of and for the Years Ended June 30, 2023 and 2022

And Report of Independent Auditor

Cherry Bekaert LLP
Your Guide Forward

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Cherry Bekaert LLP
Your Guide Forward

Report of Independent Auditor

To the Board of Regents
The University of the South
Sewanee, Tennessee

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of The University of the South (the "University"), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit 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 University's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the financial responsibility supplemental schedule – U.S. Department of Education are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2023, 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 solely 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 effectiveness of the University's 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.

Cherry Bekaert LLP

Greenville, South Carolina
October 23, 2023

THE UNIVERSITY OF THE SOUTH
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2023 AND 2022

	2023	2022
ASSETS		
Cash and cash equivalents	$ 74,249,277	$ 72,002,409
Restricted cash	103,968	205,529
Accounts and notes receivable, net	4,426,366	2,408,336
Inventories	560,418	517,952
Prepaid expenses	2,740,777	1,262,800
Contributions receivable, net	31,834,504	28,973,643
Investments	458,887,594	446,065,412
Assets held by Sewanee Village Ventures	1,998,032	-
Funds held in trust by others	25,006,665	24,100,893
Intangible assets, net	3,253,750	3,438,593
Property, plant, and equipment, net	210,896,708	208,612,190
Total Assets	$ 813,958,059	$ 787,587,757
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 1,468,897	$ 3,040,674
Accrued salaries and wages	2,303,491	2,709,433
Deferred revenue	740,547	792,751
Annuities payable	11,181,735	11,674,191
Refundable government advances	833,522	1,047,711
Postretirement benefit liability	2,761,610	3,249,236
Asset retirement obligation	3,158,169	3,207,009
Notes payable	442,418	-
Bonds payable, net	81,645,395	82,664,662
Total Liabilities	104,535,784	108,385,667
Net Assets:		
Without donor restrictions	278,077,891	270,913,335
With donor restrictions	431,344,384	408,288,755
Total Net Assets	709,422,275	679,202,090
Total Liabilities and Net Assets	$ 813,958,059	$ 787,587,757

The accompanying notes to the consolidated financial statements are an integral part of these statements.

THE UNIVERSITY OF THE SOUTH
CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues:			
Comprehensive fees, net	$ 62,433,632	$ -	$ 62,433,632
Contributions	5,341,160	6,467,540	11,808,700
Investment returns, net:			
Endowment spending	25,816,408	2,146,674	27,963,082
Other investment income	2,575,792	393,040	2,968,832
Royalty income	1,139,586	-	1,139,586
Sales and service income	2,118,656	-	2,118,656
Auxiliary enterprises	14,152,563	-	14,152,563
Government grants	2,022,630	361,874	2,384,504
Other	1,303,193	164,354	1,467,547
Net assets released for operations	6,021,008	(6,021,008)	-
Total operating revenues	122,924,628	3,512,474	126,437,102
Operating expenses:			
Instructional	38,624,409	-	38,624,409
Academic support	10,268,784	-	10,268,784
Research	225,474	-	225,474
Student services	22,817,019	-	22,817,019
Institutional support	25,894,293	-	25,894,293
Auxiliary services	22,515,094	-	22,515,094
Total operating expenses	120,345,073	-	120,345,073
Net increase in net assets from operations	2,579,555	3,512,474	6,092,029
Nonoperating items:			
Contributions restricted for endowment and long term purposes	120,834	6,652,798	6,773,632
Contributions restricted for property, plant, and equipment	-	970,520	970,520
Net assets released for capital expenditures	913,200	(913,200)	-
Investment returns, net, less than appropriated for expenditure	3,373,070	11,998,052	15,371,122
Change in value of split-interest agreements	177,897	834,985	1,012,882
Total nonoperating items	4,585,001	19,543,155	24,128,156
Total change in net assets	7,164,556	23,055,629	30,220,185
Net assets, beginning of year	270,913,335	408,288,755	679,202,090
Net assets, end of year	$ 278,077,891	$ 431,344,384	$ 709,422,275

The accompanying notes to the consolidated financial statements are an integral part of these statements.

THE UNIVERSITY OF THE SOUTH
CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues:			
Comprehensive fees, net	$ 64,647,065	$ -	$ 64,647,065
Contributions	5,102,509	4,035,098	9,137,607
Investment returns, net:			
Endowment spending	22,862,689	2,136,166	24,998,855
Other investment income	159,816	169	159,985
Royalty income	914,909	-	914,909
Sales and service income	2,230,394	-	2,230,394
Auxiliary enterprises	12,752,914	-	12,752,914
Government grants	172,749	1,656,450	1,829,199
Other	1,569,435	402,261	1,971,696
Net assets released for operations	6,345,463	(6,345,463)	-
Total operating revenues	116,757,943	1,884,681	118,642,624
Operating expenses:			
Instructional	37,973,942	-	37,973,942
Academic support	10,086,425	-	10,086,425
Research	165,910	-	165,910
Student services	19,138,143	-	19,138,143
Institutional support	27,486,199	-	27,486,199
Auxiliary services	21,016,620	-	21,016,620
Total operating expenses	115,867,239	-	115,867,239
Net increase in net assets from operations	890,704	1,884,681	2,775,385
Nonoperating items:			
Contributions restricted for endowment and long term purposes	103,053	5,524,048	5,627,101
Contributions restricted for property, plant, and equipment	419,042	504,222	923,264
Net assets released for capital expenditures	1,832,541	(1,832,541)	-
Investment returns, net, less than appropriated for expenditure	(20,809,225)	(69,366,772)	(90,175,997)
Change in value of split-interest agreements	(1,309,863)	(1,670,486)	(2,980,349)
Total nonoperating items	(19,764,452)	(66,841,529)	(86,605,981)
Total change in net assets	(18,873,748)	(64,956,848)	(83,830,596)
Net assets, beginning of year	289,787,083	473,245,603	763,032,686
Net assets, end of year	$ 270,913,335	$ 408,288,755	$ 679,202,090

The accompanying notes to the consolidated financial statements are an integral part of these statements.

THE UNIVERSITY OF THE SOUTH
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	$ 30,220,185	$ (83,830,596)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	6,483,505	6,527,145
Accretion of asset retirement obligation	54,893	58,535
Amortization of intangible assets and bond issuance costs	218,626	269,335
Amortization of bond premium	(219,088)	(289,859)
Loss on disposal of property, plant and equipment	550,963	5,400
(Gains) losses on investments, funds held in trust by others, and split-interest agreements included in contributions receivable	(42,579,989)	79,809,843
Loss on bond refinance	-	(800,147)
Interest expense paid through bond legal defeasance	-	467,000
Provision for postretirement benefit obligation	(238,321)	(481,098)
Actuarial change on annuities payable	(610,885)	(449,642)
Contributions restricted for long-term investment	(7,744,152)	(6,550,365)
Change in assets and liabilities:		
Accounts and notes receivable, net	(2,018,030)	983,116
Contributions receivable, net	(1,847,979)	(4,106,972)
Inventories	(42,466)	(12,124)
Prepaid expenses	(1,477,977)	(116,657)
Accounts payable and accrued expenses	(1,571,777)	(449,585)
Accrued salaries and wages	(405,942)	187,156
Deferred revenue	(52,204)	(72,720)
Refundable government advances	(214,189)	(276,576)
Postretirement employer contributions	(249,305)	(257,117)
Payments for abatement of asset retirement of obligation	(103,733)	(9,763)
Net cash from operating activities	(21,847,865)	(9,395,691)
Cash flows from investing activities:		
Purchases of investments and additions to funds held in trust by others	(111,543,295)	(129,561,023)
Proceeds from sales and maturities of investments and funds held in trust by others	137,384,416	130,400,767
Purchases of property, plant and equipment	(8,862,291)	(9,248,847)
Net cash from investing activities	16,978,830	(8,409,103)
Cash flows from financing activities:		
Contributions restricted for long-term investment:		
Endowment	6,773,632	5,627,101
Investment in property, plant and equipment	970,520	923,264
Net gifts on annuities payable	118,429	1,133,014
Principal repayments on bonds payable	(833,962)	(32,306,651)
Principal repayments on notes payable	(14,277)	-
Proceeds from bonds payable	-	31,315,510
Payments for bond issuance costs	-	(323,597)
Net cash from financing activities	7,014,342	6,368,641
Net change in cash and cash equivalents and restricted cash	2,145,307	(11,436,153)
Cash and cash equivalents and restricted cash, beginning of year	72,207,938	83,644,091
Cash and cash equivalents and restricted cash, end of year	$ 74,353,245	$ 72,207,938
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 2,416,894	$ 1,766,889
Noncash investing and financing activities		
Bond repayment through legal defeasance	$ -	$ 18,965,000
Bond proceeds used for bond defeasance	$ -	$ 19,432,000
Purchases of property, plant and equipment with note payable	$ 456,695	$ -

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Note 1—Summary of significant accounting policies

The University of the South (the "University") is a not-for-profit educational institution composed of the School of Theology and the College of Arts and Sciences located in Sewanee, Tennessee. The University is governed by the Episcopal Church through a Board of Trustees (the "Trustees") that arises principally from 28 dioceses of the Church and a Board of Regents elected by the Trustees.

On February 24, 2022, The University of the South formed Sewanee Village Ventures ("SVV"), a Tennessee for-profit corporation. The University is the sole shareholder of the SVV. SVV was established to help create a vibrant and welcoming gateway to Sewanee and to the University of the South. Over time, SVV will showcase a mixed-use experience integrating new businesses, civic spaces, and new housing. Students, visitors and residents will enjoy enhanced walkable green spaces, beautiful flora, and a network of paths, trails, and bicycle lanes that will leave no doubt that you are in a welcoming and vibrant community.

Principles of Consolidation – The consolidated financial statements include the University and its wholly-owned subsidiary, SVV (collectively referred to as the "University"). All significant inter-company transactions and balances have been eliminated in consolidation.

Basis of Presentation – The consolidated financial statements of the University have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Based on the existence or absence of donor-imposed restrictions, the University classifies resources into two categories: without donor restrictions and with donor restrictions.

The University's net assets have been grouped into the following two classes:

Without Donor Restrictions – Net assets without donor restrictions are free of donor-imposed restrictions. All revenues, gains, and losses that are not restricted by donors are included in this classification. All expenditures are reported in the without donor restrictions class of net assets, including expenditures funded by restricted contributions. Expenditures funded by restricted contributions are reported in the without donor restrictions net asset class because the use of restricted contributions in accordance with donors' stipulations results in the release of such restrictions.

With Donor Restrictions – Net assets with donor restrictions are limited as to use by donor-imposed stipulations that may expire with the passage of time or that may be satisfied by action of the University. Net assets with donor restrictions are designated by donors for specific purposes, and include unconditional contributions receivable, split-interest agreements, interests in trusts held by others, and accumulated appreciation on donor-restricted endowments which have not been appropriated by the Trustees for distribution. Some net assets with donor restrictions are required by donors to be held in perpetuity. The donors of substantially all net assets to be held in perpetuity permit the University to use a portion of the income earned on the related investments for specified purposes. Expirations of restrictions on net assets as the result of the passage of time and/or fulfilling donor-imposed stipulations are reported as net assets released from restrictions between the applicable classes of net assets in the consolidated statements of activities.

Revenue Recognition – The University's revenue recognition policies include the recording of student comprehensive fees, which include the cost of tuition, room and board, and fees, as revenue in the fiscal year that the related academic services are rendered. Comprehensive fees received in advance of services to be rendered are recorded as deferred revenue. Net comprehensive fees reflects scholarship allowances reducing comprehensive fees by $51,178,691 and $49,563,096 at June 30, 2023 and 2022, respectively. In addition, students who officially withdraw from all courses during the semester will receive a partial refund in accordance with the University's refund policy. Historically, refunds of tuition have been approximately .25% of the total amount billed. Refunds issued reduce the amount of revenue recognized.

Note 1—Summary of significant accounting policies (continued)

Unconditional revenues from non-exchange transactions (contributions and government grants) are recorded when received. Revenues from non-exchange transactions may be subject to conditions, in the form of both a barrier to entitlement and a refund of amounts paid (or a release from obligation to make future payments). Revenues from conditional non-exchange transactions are recognized when the barrier is satisfied. Revenues from government grants for June 30, 2023 and 2022, included $1,939,701 and $1,425,833, of Tennessee Emergency Management Agency ("TEMA") and Higher Education Emergency Relief Fund funds, respectively, received by the University to cover institutional expenses due to the COVID-19 pandemic and for emergency aid for students, respectively.

Deferred revenue of $740,547 and $792,751 as of June 30, 2023 and 2022, respectively, represents performance obligations associated with payments received for enrollment deposits and prepayments for the advent semester, rental housing deposits, and prepayments for School of Theology programs.

The operations of various auxiliary services provided by the University, excluding the revenues derived from residential and dining halls which are included in the comprehensive fee, are recorded as revenue in the fiscal year that the related services are rendered or at the time the event or sale occurs. Auxiliary services are combined and include the following:

	2023	2022
Sewanee Inn	$ 5,264,921	$ 4,632,896
Non-board related dining services	3,243,863	2,992,616
Rental and lease income	2,882,128	2,672,445
Summer conferences	1,243,235	972,781
Golf and tennis	612,960	542,652
Bookstore lease	185,824	264,248
Child care center	234,509	242,805
Telecommunications	45,211	42,003
Other	439,912	390,468
	$ 14,152,563	$ 12,752,914

Cash and Cash Equivalents – Cash and cash equivalents are liquid assets with minimal interest rate risk and maturities of three months or less when purchased. Such assets primarily consist of depository account balances and money market funds.

Restricted Cash – Restricted cash is comprised of Federal Perkins Loan collections.

	2023	2022
Reconciliation of Cash to Statement of Cash Flows:		
Cash and cash equivalents	$ 74,249,277	$ 72,002,409
Restricted cash	103,968	205,529
	$ 74,353,245	$ 72,207,938

Inventories – Inventories consist of supplies and are carried at cost (first-in, first-out).

Note 1—Summary of significant accounting policies (continued)

Contributions Receivable – Unconditional promises to give (contributions receivable) are recorded as revenues and receivables within an appropriate net asset category. Contributions received, including unconditional promises, are recognized as revenue when the donor's commitment is received. Contributions receivable are recognized at net realizable value, which is the estimated present value of the future cash flows, discounted at an approximate discount rate commensurate with the risks involved, net of allowances. An allowance for contributions receivable is provided based on management's analysis of past collection experience and other judgmental factors. Contributions receivable made that are designated for future periods or restricted by the donor for specific purposes are reported as support with donor restrictions. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return or right of release, are not recognized until the conditions on which they depend have been substantially met.

Bequests in probate are recorded at fair value when the University receives sufficient and reliable information to establish such value. Irrevocable split-interest agreements are recorded at fair value.

Investments – Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted market prices. Investment transactions in equity and debt securities are recorded as of the trade date. Certain investments that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds are reported at estimated fair value, utilizing the practical expedient of their net asset values. Those net asset values are determined by the investment managers and are reviewed and evaluated by the University. These estimated fair values may differ from the values that would have been used had a ready market existed for these investments. Quantitative information for the valuation inputs and related sensitivities of these investments is maintained by third parties and is not reasonably available to the University. Net gains and losses on endowment and similar fund investments are reported as increases or decreases in purpose/time restrictions within net assets with donor restrictions unless use is restricted in perpetuity by explicit donor stipulations or by law. Net gains and losses on board-designated endowment and other investment income are reported as increases or decreases in net assets without donor restrictions.

Assets Held by Sewanee Village Ventures – Are stated at cost and consist of the following:

	2023
Land	$ 111,031
Building	441,087
Furniture and equipment	30,572
Construction in progress	1,422,113
	2,004,803
Less accumulated depreciation	(6,771)
	$ 1,998,032

Funds Held in Trust by Others – Funds held in trust by others represent arrangements in which a donor establishes and funds a perpetual trust administered by an individual or organization other than the not-for-profit beneficiary. These funds are recorded at their fair value.

Intangible Assets, Net – Intangible assets with finite lives are amortized over their estimated useful lives. Intangible assets with finite lives are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. There were no impairment charges during the years ended June 30, 2023 and 2022. The University does not have any intangibles with indefinite lives.

Note 1—Summary of significant accounting policies (continued)

Property, Plant, and Equipment, Net – Plant assets are stated at cost or estimated fair value at the dates of the gifts, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of buildings and building improvements (20 to 60 years), land improvements (20 years), and equipment and books (5 to 15 years). Plant disposals are removed from the records at time of disposal. The University lifts the restrictions on contributions for long-lived assets at the time the assets are acquired or placed in service (if constructed).

Collections – The University collects works of art, historical treasures, and similar assets, which reflect the history of the institution and/or support its educational purpose. The collections are maintained for public exhibition, education, and research in furtherance of public service rather than for financial gain. Collections are protected, kept unencumbered, cared for, and preserved. As a matter of policy, the proceeds of items in collections that are sold are used to acquire other items for collections.

The University does not include either the cost or the value of its collections on the consolidated statements of financial position, nor does it recognize gifts of collection items as revenues in the consolidated statements of activities. The proceeds from items disposed of are reported as increases in the appropriate class of net assets in the statements of activities. Contributed works of art, historical treasures, and similar assets that are not added to collections are reported as assets held for sale on the statements of financial position at their fair values at the date of the gift.

Refundable Government Advances – The Perkins Loan Program is a campus-based program providing revolving loan funds for financial assistance to eligible postsecondary school students based on financial need. The U.S. Department of Education provides funds along with the University, which were used to make loans to eligible students at low interest rates. Under federal law, the authority for institutions to make new Perkins loans to students ended on September 30, 2017, and final disbursement to students were permitted through June 30, 2018. At June 30, 2023 and 2022, refundable government advances under the Perkins Loan Program totaled $833,522 and $1,047,711, respectively.

Postretirement Benefit Liability – The University accounts for postretirement benefits in accordance with U.S. GAAP guidance for employers' accounting for pensions and employers' accounting for defined benefit pension and other postretirement plans.

Income Taxes – The University, excluding the subsidiary of SVV, is recognized as an organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code ("IRC") whereby only unrelated business income, as defined by Section 512(a)(1) of IRC, is subject to federal income tax.

The University accounts for the effect of any uncertain tax positions based on a more likely than not threshold of the tax positions being overturned upon examination by the applicable taxing authority. Tax positions for the University include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax; however, the University has determined that such tax positions do not result in an uncertainty requiring recognition.

Concentrations of Credit Risk – Financial instruments that potentially subject the University to concentrations of credit risk and market risk consist principally of cash equivalents, investments, and student loans receivable. The University places its cash equivalents and investments with financial institutions and limits the amount of credit exposure to any one financial institution. The University requires each student and/or student's parents to guarantee payment of student loans receivable, but does not require collateral. The University's student loans receivable do not represent significant concentrations of market risk because as the receivables are due from numerous students. The University places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers $250,000 for substantially all depository accounts. At June 30, 2023, the University had $776,691 of cash on deposit in excess of the insured limits.

Note 1—Summary of significant accounting policies (continued)

Fair Value Measurements – Assets recorded at fair value in the consolidated statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value (see Note 13). Level inputs are as follows:

Level 1 – Values are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Level 2 – Inputs include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spread, and yield curves.

Level 3 – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the University's best estimate of what hypothetical market participants would use to determine a transaction price for the asset at the reporting date.

Self-Insurance – Until December 2022, the University provided certain employee healthcare benefits primarily through employer contributions, participant contributions, and excess loss insurance and manages those programs through a third party administrator. The University was liable for losses on claims up to $200,000 per claimant and has third-party insurance coverage for any losses in excess of such amounts. Self-insurance claims filed and claims incurred but not reported are accrued based upon management's estimates using a third-party advisor and historical experience. At June 30, 2022, the University reported $835,000, respectively, as incurred but not reported claims. These claims have been included in accounts payable and accrued expenses in the consolidated statements of financial position. At June 30, 2023, the University was fully insured and no longer reported a liability for claims incurred but not reported.

Allocation of Expenses – Expenses are reported in the consolidated statements of activities in functional categories after the allocation of plant operation and maintenance expense, depreciation expense, and interest expense. Plant operation, maintenance expense, and depreciation is allocated based on square footage of buildings and usage, and interest expense is allocated based on the purpose of the related bond.

Estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements Not Yet Adopted – Accounting Standards Update ("ASU") 2016-13, *Financial Instruments – Credit Losses (Topic 326)* will be effective for fiscal years beginning after December 15, 2022. This guidance replaces the existing incurred loss impairment guidance and establishes a single allowance framework for financial assets carried at amortized cost based on expected credit losses. The estimate of expected credit losses requires the incorporation of historical information, current conditions, and reasonable and supportable forecasts. The University is currently in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.

Note 2—Accounts and notes receivable

Accounts and notes receivable consist of the following at June 30, 2023 and 2022:

	2023	2022
Accounts receivable:		
Students and trade	$ 1,138,501	$ 775,289
Less allowance for doubtful accounts	(226,856)	(180,530)
Total accounts receivable, net	911,645	594,759
Notes receivable:		
Students (Perkins loan program)	746,038	859,510
Other notes receivable	266,004	227,558
	1,012,042	1,087,068
Less allowance for doubtful loans	(8,392)	(8,392)
Total notes receivable, net	1,003,650	1,078,676
Other receivable:		
Other receivable	2,511,071	734,901
Total other receivable	2,511,071	734,901
Total accounts and notes receivable, net	$ 4,426,366	$ 2,408,336

Student Account Receivable – Allowance for doubtful accounts is established based on prior collection experience and current economic factors, which in management's judgment, could influence the ability to repay the amounts due. Institutional balances are written off only when they are deemed to be permanently uncollectible.

Student Notes Receivable – The University makes uncollateralized loans to students based on financial need. See further discussion at Note 1 "Refundable government advances". Amounts due under the Perkins loan program are guaranteed by the government and, therefore, no reserves are placed on any past due balances under the program.

Other Notes Receivable – The Employee Loan Program ("ELP") is a college education loan program for dependents of University employees who have been employed full-time for at least one year and are expected to remain employees of the University for beyond a three-year period. Loans are repaid by payroll deduction over a 24-month period.

The Advanced Degree Loan Program ("ADL") is a loan for full-time staff members of the University who have been employed for at least three years of continuous service. Upon completion of the degree, 10% of the loan will be forgiven one year after the completion date, and 10% cancellation each year after. The loan can be completely cancelled over a ten-year period. In the event the staff member terminates employment prior to repayment of the loan, the balance of the loan is due and payable. At June 30, 2023 and 2022, these loan programs consisted of the following loan balances:

	2023	2022
Employee loans (ELP)	$ 66,585	$ 60,997
Advanced degree loans (ADL)	93,958	86,611
Other	105,461	79,950
	$ 266,004	$ 227,558

Note 2—Accounts and notes receivable (continued)

Other Receivables – During the year ended June 30, 2023, the University claimed $1,939,701 in grant funding from TEMA passed through the Federal Emergency Management Agency ("FEMA") through the Department of Homeland Security, which is also included in government grants on the consolidated statement of activities.

No allowance for doubtful accounts is recorded for the ELP program, ADL program, or the TEMA funds.

Note 3—Contributions receivable

Contributions receivable is summarized as follows at June 30, 2023 and 2022:

	2023	2022
Unconditional contributions receivable for:		
Building programs	$ 2,139,467	$ 1,476,706
Endowment	4,383,240	2,276,535
Restricted scholarship and operating	3,718,920	3,560,075
Total unconditional contributions receivable	10,241,627	7,313,316
Trust mortgage receivable, net	1,541,789	2,430,266
Total amounts due to be received in future years	11,783,416	9,743,582
Split-interest agreements - amounts held by others in perpetuity	21,051,410	20,038,528
Total contributions receivable	32,834,826	29,782,110
Less contribution receivable discount to present value	(582,815)	(451,650)
Less contribution receivable allowance	(417,507)	(356,817)
Total contributions receivable, net	$ 31,834,504	$ 28,973,643
Amounts due to be received in future years:		
Less than one year	$ 2,842,063	$ 2,051,649
One to five years	7,104,686	3,406,556
More than five years	1,836,667	4,285,377
Total	$ 11,783,416	$ 9,743,582

Contributions receivable are recorded at the net present value of the estimated future cash flows from the contributions. The imputed interest rates range from .80% to 6.8% at for fiscal year 2023 and 2022. At June 30, 2023 and 2022, the trust mortgage receivable is recorded net of a present value discount of $167,016 and $278,539, respectively, based on a discount rate of 3.83%.

As of June 30, 2023, the University had not received any conditional promises.

The University receives contributed services from alumni and other volunteers who assist in fundraising efforts through their participation in various fund-raising drives. The value of such services, which the University considers not practicable to estimate, has not been recognized in the statements of activities. At June 30, 2023 and 2022, the University's contributions receivable included $325,000 and $125,000, respectively, of contributions receivable from members of the Board of Regents.

Note 3—Contributions receivable (continued)

Split-interest agreements, as noted above, consist of charitable-remainder trusts and remainder interests in life estates. A charitable-remainder trust is an arrangement in which a donor establishes and funds a trust with specified distributions to be made to a designated beneficiary or beneficiaries over the trust's term. Upon termination, the University receives the assets remaining in the trust. The University's charitable-remainder interests in life estates consist of properties in which designated individuals have a life interest. Upon termination of that interest, the University will receive the property.

Charitable-remainder trusts are valued by the University at fair value, which closely approximates the present value of future cash flows. Charitable-remainder interests in life estates are valued at fair value, if available, and at cost when fair values are not readily determinable.

Note 4—Investments and funds held in trust by others

Investments of the University and funds held in trust by others consist of the following as of June 30, 2023 and 2022:

	2023		2022	
	Cost	Fair Value	Cost	Fair Value
Cash and temporary investments	$ 16,024,366	$ 16,071,408	$ 16,545,713	$ 17,093,907
Equities	80,976,073	102,901,808	73,143,576	83,467,623
Fixed income	51,262,620	50,318,472	37,140,562	36,631,886
Global equities	88,267,590	124,537,954	92,900,000	108,299,725
Hedge fund	31,054,237	27,473,062	60,325,710	54,337,134
Private equity	86,492,210	134,177,490	86,646,584	142,846,675
Cash value of life insurance policies	1,818,007	1,818,007	1,740,672	1,740,672
Investments held at fair value	$ 355,895,103	457,298,201	$ 368,442,817	444,417,622
Real assets held at cost		1,589,393		1,647,790
Total investments		$ 458,887,594		$ 446,065,412
Funds held in trust by others	$ 21,719,213	$ 25,006,665	$ 22,628,949	$ 24,100,893

Investment returns, net, for 2023 and 2022 consisted of the following:

	2023	2022
Unrealized and realized gains (losses)	$ 41,567,107	$ (65,323,954)
Investment income, net of expenses	4,735,929	306,797
Total net investment return	46,303,036	(65,017,157)
Included in the consolidated statement of activities as investment return designated for current operations:		
Endowment spending	(27,963,082)	(24,998,855)
Other investment income	(2,968,832)	(159,985)
Investment returns, net, less than appropriated for expenditure	$ 15,371,122	$ (90,175,997)

For fiscal years ended June 30, 2023 and 2022, the University paid $1,227,426 and $1,407,658, respectively, investment management fees, which are netted against investment income.

Note 5—Endowment and similar funds

Endowment and similar funds include both donor-restricted endowment funds and funds designated by the board to function as endowments. Board-designated endowments have been established by the University for the same purpose as endowment funds, but may be expended upon approval of the Board of Regents.

*Interpretation of the Uniform Prudent Management of Institutional Funds Ac*t – The Board of Regents of the University has interpreted applicable state laws as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as net assets with donor restrictions held in perpetuity (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the endowment held in perpetuity made in accordance with the applicable donor gift agreement. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions held in perpetuity is classified as net assets with donor restrictions with purpose/time restrictions until those amounts are appropriated for expenditure by the University. The University 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 University and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the University
(7) The University's investment policies

The fair value of the endowment and similar funds, including the Tennessee Williams Copyrights discussed further in Notes 8 and 13, as of June 30, 2023 and 2022, was $462,795,241 and $439,971,156, respectively. Board-designated endowments are shown as net assets without donor restrictions since they are restricted by the Board of Regents and not the donor. In some cases, the restriction on the original gift may not have been lifted and those gifts will be reflected under net assets with donor restrictions until this has occurred. The fair value of board-designated endowments as of June 30, 2023 and 2022 were $103,123,466 and $98,220,356, respectively. Gains and losses on board-designated endowments are shown as net assets without donor restrictions.

Note 5—Endowment and similar funds (continued)

A schedule of endowment and similar funds' net asset composition as of June 30, 2023 and 2022 follows:

		With Donor Restrictions		
2023	**Without Donor Restrictions**	**Purpose/Time Restrictions**	**Perpetual in Nature**	**Total**
True endowment	$ -	$ -	$ 199,189,150	$ 199,189,150
Board-designated endowments	64,894,970	2,334,965	-	67,229,935
Net gains	38,228,496	158,543,173	-	196,771,669
Deficiencies in donor-restricted endowment funds	-	(395,513)	-	(395,513)
	$ 103,123,466	$ 160,482,625	$ 199,189,150	$ 462,795,241
2022				
True endowment	$ -	$ -	$ 191,767,151	$ 191,767,151
Board-designated endowments	65,067,274	2,334,965	-	67,402,239
Net gains	33,153,082	148,427,084	-	181,580,166
Deficiencies in donor-restricted endowment funds	-	(778,400)	-	(778,400)
	$ 98,220,356	$ 149,983,649	$ 191,767,151	$ 439,971,156

A reconciliation of assets held by endowment as of June 30, 2023 and 2022 follows:

	2023	**2022**
Pooled endowment assets:		
Investments	$ 458,887,594	$ 446,065,412
Assets held by Sewanee Village Ventures	1,998,032	-
Less amounts applicable to annuity and life income funds	(25,502,564)	(24,118,181)
Less investments not held through endowments	(248,236)	(9,115,561)
Less investment not held in endowment pool	(2,705,962)	(2,527,290)
	432,428,864	410,304,380
Non-pooled endowment assets:		
Investment not held in endowment pool	2,705,962	2,527,290
Intangible, net	3,253,750	3,438,593
Funds held in trust by others	25,006,665	24,100,893
Less investments held through social impact funds	(600,000)	(400,000)
	30,366,377	29,666,776
Total endowment assets	$ 462,795,241	$ 439,971,156

Note 5—Endowment and similar funds (continued)

Changes in endowment and similar funds' net assets for the years ended June 30, 2023 and 2022 are as follows:

	Without Donor Restrictions	Purpose/Time Restrictions	Perpetual in Nature	Total
Endowment Net Assets June 30, 2021	$ 119,447,803	$ 216,124,391	$ 183,571,107	$ 519,143,301
Investment Return, net of investment expenses	(15,794,290)	(47,277,627)	-	(63,071,917)
New gifts	109,550	-	4,641,713	4,751,263
Contribution receivable payments	-	-	1,539,036	1,539,036
Other transfers, net	768,869	-	2,015,295	2,784,164
Appropriation of endowment assets for expenditure	(6,135,741)	(18,863,114)	-	(24,998,855)
Copyright amortization	(175,835)	-	-	(175,835)
Endowment Net Assets June 30, 2022	98,220,356	149,983,650	191,767,151	439,971,157
Investment Return, net of investment expenses	10,456,368	31,755,447	-	42,211,815
New gifts	12,539	-	5,453,288	5,465,827
Contribution receivable payments	-	-	277,896	277,896
Other transfers, net	1,325,656	-	1,690,815	3,016,471
Appropriation of endowment assets for expenditure	(6,706,610)	(21,256,472)	-	(27,963,082)
Copyright amortization	(184,843)	-	-	(184,843)
Endowment Net Assets June 30, 2023	$ 103,123,466	$ 160,482,625	$ 199,189,150	$ 462,795,241

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original contribution level ("underwater endowments"). In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions.

The University utilizes a unitized-pooled endowment valuation method for tracking individual funds. The number of units assigned to a new endowment fund is based on the dollar amount of the contribution and the per unit market value of the pooled endowment funds at the time of the new contribution. The units assigned to each endowment fund establish the corpus base of each fund. In a unitized-pooled endowment, the corpus value fluctuates with the market value, but the number of units for a given donor-designated fund are fixed (unless additional contributions are made after the original gift). The spending rate varies from 4.5% to 5.5% and is applied to the market value of the six-month average pooled investments on December 31 of the preceding fiscal year.

Note 5—Endowment and similar funds (continued)

As of June 30, 2023, there were 39 donor-designated endowment funds that had a market value below the original contribution value. The aggregate contribution value for the 39 named endowment funds totaled $9,180,454. The fair value for this group of underwater endowment funds $8,784,941 or 96% of the original contribution value as of June 30, 2023. The 39 underwater donor-designated endowment funds for 2023 consist of 13,317 units, which represent 2% of the total number of units within the pooled-endowment funds. (There were total units of 655,502 in the pooled discretionary endowment group as of June 30, 2023 – see page 18 *Pooled Investments* section). The University is applying the standard unitized spending rate to the 69 underwater accounts as of June 30, 2023. The University does not decrease the total return-spending rate for endowment funds that are underwater, nor does the University increase the spending rate for endowment funds with market values above the original contribution value. The spending rate is applied to the constant number of endowment fund units that are assigned to a donor-designated fund. The application of the standard spending rate to the 39 underwater endowment funds resulted in a spending distribution of $358,935 in fiscal year 2023.

Return Objectives, Risk Parameters, and Strategies – The University 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. Under this policy, as approved by the Board of Regents, the endowment assets are invested in a manner that will produce intended results, while assuming a moderate level of investment risk. The long-term investment objective of the pooled portion of the endowment is to attain an average annual inflation-adjusted total return (net of investment management fees) of at least 5%, or the current spending rate, as measured over rolling five-year periods. It is recognized that this objective may be difficult to attain in every five-year period, but should be attainable over a series of rolling five-year periods.

To satisfy its long-term rate-of-return objectives, the University 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 University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Formula — The University's total return strategy for its invested assets is utilized in the determination of the rate of spending from the pooled portion of the endowment fund. The spending rate for the pooled-endowment funds is determined by the Board of Regents by resolution from time to time. For fiscal years ended June 30, 2023 and 2022, the spending rate was 6.50% and 4.91%, respectively. Using these spending rates, $26,790,668 and $23,758,799 of total return was available from these funds for operating purposes in 2023 and 2022, respectively.

A breakdown of the total endowment support used for operations and reinvestment in fiscal years 2023 and 2022 is shown below:

	2023	2022
Appropriated investment return from pooled investments	$ 26,790,668	$ 23,758,799
Outside Trust Income	1,172,414	1,240,056
	$ 27,963,082	$ 24,998,855

Note 5—Endowment and similar funds (continued)

Pooled Investments – The University accounts for its pooled investments on the unit market value basis. Each fund subscribes to or disposes of units on the basis of market value per unit at the beginning of each quarter in which the transaction takes place. Pooled investments were as follows as of June 30, 2023 and 2022:

	2023	2022
Investments in pooled funds	$ 432,428,864	$ 410,304,380
Total number of units	655,502	642,015
Market value per unit	659.69	639.09
Average annual earnings per unit	33.56	33.41

Note 6—Annuity and life income funds

At June 30, 2023 and 2022, investments for annuity and life income funds included on the consolidated statement of financial position in Investments are as follows:

		With Donor Restrictions			
2023	Without Donor Restrictions	Purpose/Time Restrictions	Perpetual in Nature	Annuity Payment Liability	Total at Fair Value
Charitable gift annuities	$ 129,101	$ (353,120)	$ 6,447,785	$ 11,181,735	$ 17,405,501
Cash value of life insurance	-	583,878	1,234,129	-	1,818,007
Unrealized gains on annuity and life income funds	-	6,279,057	-	-	6,279,057
Net assets	$ 129,101	$ 6,509,815	$ 7,681,914	$ 11,181,735	$ 25,502,565

		With Donor Restrictions			
2022	Without Donor Restrictions	Purpose/Time Restrictions	Perpetual in Nature	Annuity Payment Liability	Total at Fair Value
Pooled income trusts	$ -	$ -	$ 11,829	$ -	$ 11,829
Charitable gift annuities	85,191	(313,020)	6,484,477	11,674,191	17,930,839
Cash value of life insurance	-	560,653	1,180,019	-	1,740,672
Unrealized gains on annuity and life income funds	-	4,434,841	-	-	4,434,841
Net assets	$ 85,191	$ 4,682,474	$ 7,676,325	$ 11,674,191	$ 24,118,181

Note 6—Annuity and life income funds (continued)

A pooled income trust consists of donor-contributed assets which are deposited in a unitized investment pool. Donors receive a life interest in the income generated by these funds. Upon the donor's death, the value of the donor's units is transferred to the University. The University records the assets related to pooled-income trusts at fair value. The liability to the interim beneficiary is recorded at net present value of estimated future cash flows using the IRC, *Charitable Mid-Term Federal Rate* and is included in deferred revenue on the consolidated statements of financial position.

A charitable gift annuity is an arrangement between a donor and a not-for-profit organization in which the donor contributes assets to the organization in exchange for a promise by the organization to pay a fixed amount for a specified period of time to the donor or to individuals or organizations designated by the donor. Contribution revenue for charitable gift annuities for fiscal years 2023 and 2022 was $118,429 and $1,133,014, respectively.

The assets related to the charitable gift annuities are recorded at fair value. The liability to the annuitant is recorded at the net present value of estimated future cash flows using the IRC, *Charitable Mid-Term Federal Rate*. The fair value of charitable gift annuities increased for fiscal year 2023 by $100,504 and decreased for fiscal year 2022 by $312,802.

Note 7—Property, plant, and equipment

Property, plant, and equipment consist of the following at June 30, 2023 and 2022:

	2023	2022
Land and land improvements	$ 19,665,555	$ 20,136,652
Buildings and building improvements	262,604,173	256,245,355
Equipment and books	40,680,418	39,880,354
Construction in progress	10,855,705	10,494,411
	333,805,851	326,756,772
Less accumulated depreciation	(122,909,143)	(118,144,582)
Total property, plant, and equipment, net	$ 210,896,708	$ 208,612,190

Depreciation expense at June 30, 2023 and 2022 was $6,483,505 and $6,527,145, respectively. The estimated cost to complete outstanding projects at June 30, 2023 is approximately $18 million related primarily to the Hamilton Hall and Social Commons projects.

Note 8—Intangible assets

Acquired intangible assets consist of the following at June 30, 2023 and 2022:

	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
2023			
Tennessee Williams Copyrights	$ 7,785,781	$ (4,532,031)	$ 3,253,750
2022			
Tennessee Williams Copyrights	$ 7,785,781	$ (4,347,188)	$ 3,438,593

The Copyrights were acquired in 2003 and the University estimates that royalty income over the lifetime of the copyrights will approximate $70,000,000 (the copyrights expire over a period of 30 to 70 years under current law). Accordingly, the copyrights are being amortized as the royalty income is realized. Management has estimated the fair value of these copyrights to be approximately $11,000,000. Amortization expense at June 30, 2023 and 2022 was $184,843 and $175,835 respectively.

Note 9—Pension plan and postretirement benefits

Retirement benefits for substantially all full-time employees are individually provided through a pension plan and additionally through funded programs with the Teachers Insurance and Annuity Association, the College Retirement Equity Fund, Fidelity Investments, and, for some Episcopal clergy employees, the Church Pension Fund. Under individual programs, the University and plan participants make monthly contributions to the various programs to purchase individual retirement accounts. The University's share of the cost of pension plan and individual plan benefits was $5,377,523 and $4,031,261 in fiscal years 2023 and 2022, respectively.

Note 9—Pension plan and postretirement benefits (continued)

There are 60 current employees of the University that are eligible for postretirement healthcare benefits provided by the University. The eligible group includes those employees that began their work for the University before September 30, 1995. There are currently 134 retired employees and 51 spouses receiving the postretirement healthcare benefits (annual benefits range from $994 to $1,462 per employee or $1,998 to $2,923 for an employee and spouse). The status of the plan at June 30, 2023 and 2022 was as follows:

	2023	2022
A. Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 3,249,236	$ 3,987,451
Service cost	78,121	107,714
Interest cost	124,983	96,472
Benefits paid (net of participant contributions)	(249,305)	(257,117)
Actuarial gain	(441,425)	(685,284)
Benefit obligation at end of year	$ 2,761,610	$ 3,249,236
B. Change in Plan Assets		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contributions	249,305	257,117
Benefits paid (net of participant contributions)	(249,305)	(257,117)
Fair value of plan assets at end of year	$ -	$ -
C. Funded Status		
Funded status (benefit obligation)	$ (2,761,610)	$ (3,249,236)
Net amount recognized in statements of financial position	$ (2,761,610)	$ (3,249,236)
D. Amounts Not Yet Reflected in Net Periodic Benefit		
Cost and Included in net assets without donor restrictions:		
Accumulated (loss) gain	$ 1,090,722	$ 630,092
Unrestricted net assets	1,090,722	630,092
Net periodic benefit cost in excess of cumulative employer contributions	(3,852,332)	(3,879,328)
Net amount recognized in statements of financial position	$ (2,761,610)	$ (3,249,236)
E. Components of Net Periodic Benefit Cost		
Service cost	$ 78,121	$ 107,714
Interest cost	124,983	96,472
Recognized actuarial (gain) loss	19,205	-
Net periodic post-retirement benefit cost	$ 222,309	$ 204,186

Note 9—Pension plan and postretirement benefits (continued)

	2023	2022
F. Other Changes Recognized in Net Assets without donor restrictions		
Net (loss) gain arising during the period	$ 1,090,722	$ 630,092
Total recognized in net assets without donor restrictions	$ 1,090,722	$ 630,092
G. Key Assumptions and Trend Rate Sensitivity		
Weighted average discount at June 30	4.75%	4.00%
Immediate health care cost trend rate	6.00%	6.20%
Ultimate trend rate	4.50%	4.50%
Year ultimate trend is reached	2033	2032

The change in the weighted average discount from 4.00% at June 30, 2022 to 4.75% at June 30, 2023 resulted in an unrecognized actuarial gain of $215,634.

H. Expected Cash Flows

Expected employer contributions for the next fiscal year	$ 228,739
Expected benefit payments for fiscal year ending in:	
2025	$ 239,728
2026	239,971
2027	232,397
2028	221,773
2029-33	1,003,264

Employees hired after September 1995 are not eligible for the postretirement healthcare benefit mentioned above. To assist the non-eligible group of employees with postretirement healthcare expenses, the University began making monthly contributions to Voluntary Employee Benefit Accounts (“VEBA”) in 2006. The annual VEBA contribution is currently $600 per employee per year (VEBA contributions start at age 40 if the employee has five years of contributing service to the University).

Note 10—Asset retirement obligation

Accounting standards define a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation does not defer recognition of a liability. The obligation to perform the asset retirement activity is unconditional and, accordingly, a liability should be recognized. Accounting standards also provide guidance with respect to the criteria to be used to determine whether sufficient information exists to reasonably estimate the fair value of an asset retirement obligation. Based on the guidance, management of the University determined that sufficient information was available to reasonably estimate the fair value of known asset retirement obligations. The liability incurred date is presumed to be the date upon which the legal requirement to perform the asset retirement activity was enacted. The conditional asset retirement obligations for asbestos removal for fiscal years 2023 and 2022 was $3,158,169 and $3,207,009, respectively. Accretion expense for the years ended June 30, 2023 and 2022 amounted to $54,893 and $58,535, respectively.

The University had payments totaling $103,733 and $9,763 during the years ended June 30, 2023 and 2022, respectively, to settle a portion of the asset retirement obligation.

Note 11—Bonds payable

Bonds payable are summarized as follows at June 30, 2023 and 2022:

	2023	2022
$6,335,000 tax-exempt bond (2015A Issue) plus unamortized premium of $438,970 at June 30, 2023, bearing interest with a fixed rate ranging from 3% to 4% with final maturity in 2034.	$ 6,335,000	$ 6,335,000
$4,355,000 taxable bond (2015B Issue), bearing interest with a fixed rate ranging from .9% to 3.15% with final maturity in 2025.	1,100,000	1,595,000
$3,000,000 tax-exempt bond (2016 Issue), mortgage-type repayment schedule 2.28% APR with final payment in 2031.	1,760,770	1,954,732
$22,274,000 tax-exempt bond (2019 Issue), mortgage-type repayment schedule 3.29% APR with final payment in 2039.	21,854,000	21,999,000
$25,810,000 tax-exempt bond (2021 Issue) plus unamortized premium of $5,324,752 at June 30, 2023, bearing interest with a fixed rate of 4.00% with final maturity in 2034.	25,810,000	25,810,000
$19,432,000 tax-exempt bond (2022 Issue) bearing interest with a fixed rate of 3.06% APR with final payment in 2034.	19,432,000	19,432,000
Par amount of bonds payable	76,291,770	77,125,732
Unamortized net premium	5,763,722	5,982,810
Bond issue charges	(410,097)	(443,880)
Total bonds payable	$ 81,645,395	$ 82,664,662

The University received the proceeds from the bonds listed above under loan agreements between itself and the issuer. All payments due are general obligations of the University.

In April 2015, the University borrowed $6,965,000 by means of tax-exempt bonds and $4,340,000 by means of taxable bonds issued by the Health and Education Facilities Board of the County of Franklin, Tennessee. The total of the two issues were used to construct a new dormitory.

In September 2016, the University borrowed $3,000,000 by means of a bond with equal monthly payments of principal and interest of $19,712, on a 15-year mortgage-style amortization of the principal amount of the bond, assuming a rate equal of 2.28% APR.

In March 2019, the University borrowed $22,274,000 by means of tax-exempt bonds issued by the Health and Education Facilities Board of the County of Franklin, Tennessee. The bond proceeds have been used for construction and equipping of a new Wellness Commons center and the renovation, equipping, and maintenance of property on the main campus.

Note 11—Bonds payable (continued)

In June 2021, the University borrowed $31,315,510 by means of tax-exempt bonds issued by the Health and Education Facilities Board of the County of Franklin, Tennessee. The bond proceeds have been used to refinance the 2012 bond issuance.

In June 2022, the University borrowed $19,432,000 by means of tax-exempt bonds issued by the Health and Education Facilities Board of the County of Franklin, Tennessee. The bond proceeds defeased the 2014 bond issuance.

Management believes the University was in compliance at June 30, 2023 with all covenants.

Bonds Payable – The bonds payable reflected in the consolidated financial statements bear interest at fixed rates. The carrying value of the bonds will differ from their fair value depending on current market rates. The fair values at June 30, 2023 and 2022 of $73,556,025 and $103,460,221, respectively, was estimated by calculating the net present value of the future payment stream using the current market interest rate.

Principal repayments on the bond issues for each of the next five fiscal years and in the aggregate thereafter are illustrated below:

	2015A Issue	2015B Issue	2016 Issue	2019 Issue	2021 Issue	2022 Issue	Total
2024	$ -	$ 510,000	$ 198,468	$ 150,000	$ -	$ 700,000	$ 1,558,468
2025	-	525,000	203,040	160,000	2,100,000	1,396,000	4,384,040
2026	475,000	65,000	207,718	425,000	2,170,000	1,504,000	4,846,718
2027	555,000	-	212,504	444,000	2,230,000	1,571,000	5,012,504
2028	575,000	-	217,400	457,000	2,280,000	1,650,000	5,179,400
Thereafter	4,730,000	-	721,640	20,218,000	17,030,000	12,611,000	55,310,640
Total	$ 6,335,000	$ 1,100,000	$ 1,760,770	$ 21,854,000	$ 25,810,000	$ 19,432,000	$ 76,291,770

Bond issue charges were incurred on the 2012, 2014, 2015A, 2015B, 2018, 2019, 2021, and 2022 bond issues. Amortization expense was $33,783 and $93,500 for fiscal years 2023 and 2022, respectively.

	Gross Carrying Amount	Accumulated Amortization	Net Bond Issue Charges
2023			
Bond issue charges	$ 443,880	$ (33,783)	$ 410,097
2022			
Bond issue charges	$ 461,073	$ (17,193)	$ 443,880

Estimated amortization expense for each of the succeeding five years is as follows:

2024	$ 33,783
2025	33,783
2026	33,783
2027	33,783
2028	33,783
Thereafter	241,182
	$ 410,097

Note 12—Commitments

During 1990, the University and Methodist Hospital of Middle Tennessee ("Methodist") signed a 30-year agreement under which the University transferred to Methodist its title to the Emerald-Hodgson Hospital facility, equipment, and furnishings, and leased to Methodist the land on which the hospital is situated. No rent or other monetary consideration is payable under the agreement. In return for the building and equipment, the University received Methodist's commitment to provide healthcare services to the Sewanee community. On April 27, 1993, with the University's consent, Methodist assigned its interest in the hospital and obligations under the original lease to Lifepoint Hospitals, Inc. Effective May, 2020, the lease was amended to extend the lease to May 2030.

The University outsources the operations of the University Book and Supply Store to Barnes & Noble College Bookstore, Inc., under an operating agreement. A latest agreement extended the contract to June 30, 2024. The contract payments are based on a percentage of net sales. The University received payments of $185,824 and $264,248 in fiscal years 2023 and 2022, respectively, in connection with this agreement.

Note 13—Fair value measurements

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on the University's assessment of available market information and appropriate valuation methodologies. The University evaluates fair value measurement inputs annually at June 30. If transfers are made between levels, the transfers into and out of levels are recognized at June 30 of each year.

The following table summarizes fair value disclosures and measurements at June 30, 2023:

	Level 1	Level 2	Level 3	NAV	Total Fair Value
Investments					
Cash and cash equivalents	$ 16,071,408	$ -	$ -	$ -	$ 16,071,408
Equities					
U.S. Equities	102,901,808	-	-	-	102,901,808
Fixed Income					
U.S. Government Bonds	50,318,472	-	-	-	50,318,472
Hedge Funds and Limited Partnerships					
Global Equities	1,252,259	-	-	123,285,695	124,537,954
Hedge Fund	-	-	-	27,473,062	27,473,062
Private Equity	-	-	-	134,177,490	134,177,490
Other	-	1,818,007	-	-	1,818,007
Total Investments	$ 170,543,947	$ 1,818,007	$ -	$ 284,936,247	$ 457,298,201
Funds Held in Trust by Others	$ 848,773	$ 24,157,892	$ -	$ -	$ 25,006,665
Split-interest agreements	$ -	$ -	$ 21,051,410	$ -	$ 21,051,410

Note 13—Fair value measurements (continued)

The following table summarizes fair value disclosures and measurements at June 30, 2022:

	Level 1	Level 2	Level 3	NAV	Total Fair Value
Investments					
Cash and cash equivalents	$ 17,093,907	$ -	$ -	$ -	$ 17,093,907
Equities					
U.S. Equities	83,467,623	-	-	-	83,467,623
Fixed Income					
U.S. Government Bonds	36,631,886	-	-	-	36,631,886
Hedge Funds and Limited Partnerships					
Global Equities	-	-	-	108,299,725	108,299,725
Hedge Fund	-	-	-	54,337,134	54,337,134
Private Equity	-	-	-	142,846,675	142,846,675
Other	-	1,740,672	-	-	1,740,672
Total Investments	$ 137,193,416	$ 1,740,672	$ -	$ 305,483,534	$ 444,417,622
Funds Held in Trust by Others	$ 988,011	$ 23,112,882	$ -	$ -	$ 24,100,893
Split-interest agreements	$ -	$ -	$ 20,038,528	$ -	$ 20,038,528

Note 13—Fair value measurements (continued)

Set forth below is additional information pertaining to limited partnerships held at NAV at June 30, 2023:

2023	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited Partnerships[a]:				
Hedge Funds	$ 14,802,456	$ -	Monthly-Semiannually	0-90 Days
Developed Markets	97,980,721	-	Monthly-Quarterly	0-90 Days
Global Equity	18,571,780	-	Monthly-Semiannually	0-90 Days
Relative Value	7,911	-	Quarterly	0-90 Days
Special Situations	11,786,953	-	Quarterly-Semiannually	0-90 Days
U.S. Equity	379	-	Illiquid	0-90 Days
Global Equity – Emerging	7,608,556	-	Monthly	0-90 Days
Private Equity	-	-	Illiquid(b)	
U.S. Private Equity	41,091,587	19,204,773	Illiquid(b)	
Leveraged Buyout	9,764,464	1,066,154	Illiquid(b)	
Diversified Strategies	14,126,670	302,728	Illiquid(b	
Venture Capital	21,529,584	11,846,107	Illiquid(b)	
Natural Resources	10,074,752	1,272,124	Illiquid(b)	
Real Estate Private Partnership	7,504,181	3,274,252	Illiquid(b)	
Private Credit	28,837,788	7,177,591	Illiquid(b)	
Buyout and Growth	1,248,465	4,188,322	Illiquid(b)	
Total	$ 284,936,247	$ 48,332,051		

[a] The fair values of the investments in the category have been estimated using the net asset value per share of the investments.

[b] Illiquid investments are long-term private partnership investments where the University participates as a limited partner for the duration of the partnership; the nature of the investments in the category is that distributions are received through the liquidation of the underlying assets. It is estimated that the underlying assets of these illiquid funds will be liquidated over one to ten years.

Note 14—Fund-raising costs

In the fiscal years ended June 30, 2023 and 2022, expenses of $2,438,501 and $2,273,919, respectively, were related to fundraising activities and are classified in the consolidated statements of activities under institutional support.

Note 15—Lines of credit

At June 30, 2023 and 2022, the University had an unused line of credit of $25,000,000 combined with two financial institutions. There are no compensating balance requirements under the line of credit, nor any related fees. During the year ended June 30, 2023, each line of credit was extended through January 31, 2026.

Note 16—Expenses

Expenses by function and nature consist of the following for the years ended June 30, 2023 and 2022:

2023	Instructional	Academic Support	Research	Student Services	Auxiliary Services	Institutional Support	Total
Salaries and Benefits	$ 26,512,791	$ 5,212,670	$ 101,796	$ 11,466,359	$ 7,052,696	$ 15,906,958	$ 66,253,270
Operation and Maintenance of Plant	2,996,773	969,405	-	2,107,545	311,114	1,098,546	7,483,383
Depreciation	843,212	947,002	-	811,568	3,198,123	683,600	6,483,505
Interest	583,930	183,297	-	1,124,891	317,060	207,716	2,416,894
Other non-compensation expenses	7,687,703	2,956,410	123,678	7,306,656	11,636,101	7,997,473	37,708,021
	$ 38,624,409	$ 10,268,784	$ 225,474	$ 22,817,019	$ 22,515,094	$ 25,894,293	$ 120,345,073

2022	Instructional	Academic Support	Research	Student Services	Auxiliary Services	Institutional Support	Total
Salaries and Benefits	$ 25,718,542	$ 5,366,457	$ 31,943	$ 9,778,053	$ 6,073,452	$ 15,955,563	$ 62,924,010
Operation and Maintenance of Plant	2,864,511	926,621	-	2,014,529	297,383	1,050,062	7,153,106
Depreciation	845,988	977,979	-	808,649	3,137,010	757,519	6,527,145
Interest	707,563	228,884	-	497,609	73,457	259,376	1,766,889
Other non-compensation expenses	7,837,338	2,586,484	133,967	6,039,303	11,435,318	9,463,679	37,496,089
	$ 37,973,942	$ 10,086,425	$ 165,910	$ 19,138,143	$ 21,016,620	$ 27,486,199	$ 115,867,239

Note 17—Nature and amount of net assets with donor restrictions

Net assets with donor restrictions are available for the following purposes at June 30:

	2023	2022
Subject to expenditure for specific purpose:		
Student financial aid	$ 92,587,085	$ 86,318,147
Academic support	50,484,047	45,275,999
Institutional support	32,443,747	33,586,560
Instructional	22,031,201	21,099,507
Plant operations	11,781,664	10,524,607
Student services	5,706,431	4,701,574
Other	1,803,033	1,612,488
	216,837,208	203,118,882
Subject to the spending policy and appropriation:		
Restricted in perpetuity, the income from which is expendable to support:		
Student financial aid	124,423,711	118,409,251
Institutional support	36,120,466	35,423,198
Academic support	26,608,084	24,376,707
Academic instruction	16,935,172	16,664,472
Student services	6,332,520	6,263,765
Plant operations	1,988,678	1,286,114
Purchases of property and equipment	164,537	213,840
Other	1,934,008	2,532,526
	214,507,176	205,169,873
	$ 431,344,384	$ 408,288,755

Net assets are released from donor restrictions when expenses are incurred to satisfy the restricted purposes or by occurrence of other events as specified by the donors. The purpose of the restricted contributions released due to satisfaction of program restrictions during fiscal years 2023 and 2022 is as follows:

	2023	2022
Instructional	$ 1,698,543	$ 1,022,844
Academic support	708,007	1,747,174
Research	230,448	118,558
Student services	581,535	383,459
Institutional support	919,041	2,404,125
Scholarships	1,821,884	3,897
Auxiliary services	61,550	665,406
Property, plant, and equipment	913,200	1,832,541
	$ 6,934,208	$ 8,178,004

Note 18—Litigation and contingencies

The University is a defendant in legal actions from time to time in the normal course of operations. It is not possible to state the ultimate liability, if any, in these matters. In the opinion of management and legal counsel, any resulting liability from these actions will not have a material, adverse effect on the results of activities or the financial position of the University.

Note 19—Liquidity and availability of resources

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The University has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities, and two lines of credit. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the University considers all expenditures related to its ongoing activities of teaching and public service as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the University operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

The following table reflects the University's financial assets as of June 30, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statements of financial position date:

	2023	2022
Cash and cash equivalents	$ 74,249,277	$ 72,002,409
Restricted cash	103,968	205,529
Accounts and notes receivable, net	4,426,366	2,408,336
Contributions receivable, net	31,834,504	28,973,643
Investments	458,887,594	446,065,412
Assets held by Sewanee Village Ventures	1,998,032	-
Funds held in trust by others	25,006,665	24,100,893
Financial assets at end of year	596,506,406	573,756,222
(Less) plus assets (unavailable)/available for general expenditures within one year:		
Board authorized endowment spending	27,483,043	26,744,432
Notes and loan receivables	(1,003,650)	(1,078,676)
Investments held as endowment and similar funds	(434,534,826)	(412,431,670)
Contributions receivable for general expenditures due in more than one year	(31,834,504)	(28,888,790)
Assets held in trust by others	(25,006,665)	(24,100,893)
Restricted cash	(103,968)	(205,529)
Annuity and life income funds	(25,502,565)	(24,118,181)
Donor restricted funds	(23,155,722)	(26,582,506)
Financial assets available to meet cash needs for general expenditures within one year	$ 82,847,549	$ 83,094,409

Note 19—Liquidity and availability of resources (continued)

In addition to the amounts in the table above, the University's board-designated endowment of $103,123,466 and $98,220,356 at June 30, 2023 and 2022, respectively, are subject to an annual spending rate as described in Note 5. Although the University does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the board's annual budget approval and appropriation), these amounts could be made available if necessary. As described in Note 15, the University also has two lines of credit that are available for general operating needs.

Note 20—Subsequent events

The University has evaluated subsequent events through October 23, 2023, the issuance date of the University's consolidated financial statements, and have determined that there are no subsequent events that require disclosure.

Note 21—Financial Responsibility-US Department of Education

The U.S. Department of Education issued regulations, effective July 1, 2020, regarding additional disclosures deemed necessary to calculate certain ratios for determining sufficient financial responsibility under Title IV. These disclosures are intended for use by the Department of Education and to ensure compliance with Federal Title IV regulations.

The University's pre-implementation and post-implementation property, plant, and equipment amounts at June 30, 2023 are as follows:

	Pre-Implementation	Post-Implementation	Total
Property, plant and equipment ("PP&E")			
PP&E, net of accumulated depreciation as of June 30, 2022:			
(1) Land, buildings, equipment, furniture, and software	$ 173,097,679	$ 25,020,100	$ 198,117,779
(2) Construction in process ("CIP")	-	10,494,411	10,494,411
Total PP&E, net of accumulated depreciation as of June 30, 2022	173,097,679	35,514,511	208,612,190
Fiscal year ended June 30, 2023 activity:			
(1) Land, buildings, equipment, furniture, and software			
Additions	$ -	$ 1,878,730	$ 1,878,730
CIP placed in service	-	7,078,962	7,078,962
Disposals	(454,164)	(96,799)	(550,963)
Depreciation	(5,658,246)	(825,259)	(6,483,505)
Sub-total Land, buildings, equipment, furniture, and software	(6,112,410)	8,035,634	1,923,224
(2) CIP:			
Additions	-	7,440,256	7,440,256
CIP placed in service	-	(7,078,962)	(7,078,962)
Sub-total CIP	-	361,294	361,294
Total PP&E, net of accumulated depreciation at June 30, 2023	166,985,269	43,911,439	210,896,708
Comprised of:			
Land, buildings, equipment, furniture, and software	166,985,269	33,055,734	200,041,003
CIP	-	10,855,705	10,855,705
Total PP&E, net of accumulated depreciation at June 30, 2023	$ 166,985,269	$ 43,911,439	$ 210,896,708

Note 21—Financial Responsibility-US Department of Education (continued)

The University's pre-implementation and post-implementation debt and line of credit amounts at June 30, 2023 are as follows:

	Allowable Debt		
	Pre-Implementation	Post-Implementation	Total
Debt and Line of Credit			
Debt at June 30, 2022:			
(1) PP&E	$ 31,883,732	$ 45,242,000	$ 77,125,732
(2) CIP	-	-	-
(3) Bond issuance charges and unamortized net premium	357,017	5,181,913	5,538,930
Total at June 30, 2022	32,240,749	50,423,913	82,664,662
Fiscal year ended June 30, 2023 activity:			
(1) PP&E			
Payments	(833,962)	(14,277)	(848,239)
Defeased	-	-	-
Additions	-	456,695	456,695
Reclass	-	-	-
Sub-total PP&E	(833,962)	442,418	(391,544)
(2) CIP			
Payments	-	-	-
Reclass	-		-
Sub-total CIP	-	-	-
(3) Bond issuance charges and unamortized net premium			
Amortization	(29,885)	(155,420)	(185,305)
Additions	-	-	-
Disposals	-	-	-
Sub-total bond issuance charges and unamortized net premium	(29,885)	(155,420)	(185,305)
Debt at June 30, 2023	$ 31,376,902	$ 50,866,331	$ 82,087,813
Allowable debt comprised of:			
(1) PP&E	$ 31,049,770	$ 45,684,418	$ 76,734,188
(2) CIP	-	-	-
(3) Bond issuance charges and unamortized net premium	327,132	5,026,493	5,353,625
Sub-total allowable debt	31,376,902	50,710,911	82,087,813
(4) Non-allowable debt for operations	-	-	-
Total debt at June 30, 2023	$ 31,376,902	$ 50,710,911	$ 82,087,813

Note 21—Financial Responsibility-US Department of Education (continued)

The University's nonoperating activity for the fiscal year ended June 30, 2023, broken by its nonoperating losses and gains are as follows:

		Financial Responsibility Supplemental Schedule Category	
	Gain (Loss)	Nonoperating and Net Investment (Loss)	Nonoperating Revenue and Other Gains
From the nonoperating section of the consolidated statement of activities, without donor restrictions:			
Net return on investments, net of amount appropriated for endowment spending payout	$ 3,373,070		
Adjustment: add investment returns appropriated for spending from board-designated endowments	28,392,200		
Adjusted investment returns	31,765,270	$ -	$ 31,765,270
Contributions	120,834	-	120,834
Net assets released for capital expenditures	913,200	-	913,200
Change in value of split-interest agreements	177,897	-	177,897
Adjusted total nonoperating items	$ 32,977,201	$ -	$ 32,977,201

The University's related party transactions are disclosed in Note 3. No other related party transactions were identified.

SUPPLEMENTARY INFORMATION

THE UNIVERSITY OF THE SOUTH
FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE – U.S. DEPARTMENT OF EDUCATION

JUNE 30, 2023

	Components	Totals	
Primary Reserve Ratio:			
Expendable Net Assets:			
Net assets without donor restrictions		$ 278,077,891	[A]
Net assets with donor restrictions		431,344,384	[A]
Unsecured related party receivable		325,000	[H]
Property, plant and equipment, net - Total		210,896,708	[D]
Property, plant and equipment pre-implementation	166,985,269		[D]
Property, plant and equipment post-implementation with outstanding debt for original purchase	-		[D]
Property, plant and equipment post-implementation without outstanding debt for original purchase	33,055,734		[D]
Construction in progress	10,855,705		[D]
Lease right-of-use asset, net - Total		-	N/A
Lease right-of-use asset, pre-implementation	-		N/A
Lease right-of-use asset, post-implementation	-		N/A
Long-term debt - for long term purposes		82,087,813	[D]
Long-term debt - for long term purposes pre-implementation	31,376,902		[D]
Long-term debt - for long term purposes post-implementatior	50,710,911		[D]
Line of credit for construction in progress	-		[D]
Lease right-of-use asset liability		-	N/A
Pre-implementation right-of-use asset liability	-		N/A
Post-implementation right-of-use asset liability	-		N/A
Annuities, term endowments and life income with donor restrictions		8,782,750	Computation
Annuities with donor restrictions	6,447,785		[F]
Term endowment with donor restrictions	2,334,965		[G]
Net assets with donor restrictions: other, for purpose or time	208,054,458		Computation
Net assets with donor restrictions: restricted in perpetuity		214,507,176	[C]
Total Expendable Net Assets		**$ 356,998,454**	
Total Expenses and Losses:			
Total expenses without donor restrictions		120,345,073	[B]
Nonoperating and net investment (loss)	-	-	[D]
Other components of net periodic pension costs		-	[E]
Change in value of split-interest agreements		-	[D]
Other losses		-	[D]
Net investment losses	-		[D]
Pension-related changes other than net periodic costs	-		[E]
Total Expenses and Losses		**$ 120,345,073**	

Financial Statement Reference Definitions:
[A] Consolidated Statement of Financial Position
[B] Consolidated Statement of Activities
[C] Note 17 - Nature and amount of net assets with donor restrictions
[D] Note 21 - Financial responsibility – US Department of Education
[E] Note 9 - Pension plan and postretirement benefits
[F] Note 6 - Annuity and life income funds
[G] Note 5 - Endowment and similar funds
[H] Note 3 - Contributions receivable

	Components	Totals	
Equity Ratio:			
Modified Net Assets:			
Net assets without donor restrictions		$ 278,077,891	[A]
Net assets with donor restrictions		431,344,384	[A]
Total Modified Net Assets		**$ 709,422,275**	
Modified Assets:			
Total assets		$ 813,958,059	[A]
Unsecured related party receivables		325,000	[H]
Total Modified Assets		**$ 814,283,059**	
Net Income Ratio:			
Change in net assets without donor restrictions		$ 7,164,556	[B]
Total revenues without donor restrictions and gains without donor restrictions:			
Total operating revenues and other additions (gains)		$ 122,924,628	[B]
Investment return appropriated for spending		28,392,200	[D]
Nonoperating revenue and other gains		32,977,201	[D]
Total revenues without donor restrictions and gains without donor restrictions		**$ 127,509,629**	[D]

Financial Statement Reference Definitions:
[A] Consolidated Statement of Financial Position
[B] Consolidated Statement of Activities
[C] Note 17 - Nature and amount of net assets with donor restrictions
[D] Note 21 - Financial responsibility – US Department of Education
[E] Note 9 - Pension plan and postretirement benefits
[F] Note 6 - Annuity and life income funds
[G] Note 5 - Endowment and similar funds
[H] Note 3 - Contributions receivable

COMPLIANCE SECTION

Report of Independent Auditor on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Regents
The University of the South
Sewanee, Tennessee

We have audited, 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, the consolidated financial statements of The University of the South (the "University"), which comprise the consolidated statement of financial position as of June 30, 2023, and the consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated October 23, 2023.

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") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated 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 entity's 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's consolidated 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 financial statements. 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*.

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 University'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 University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Greenville, South Carolina
October 23, 2023

Report of Independent Auditor on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Regents
The University of the South
Sewanee, Tennessee

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited The University of the South's (the "University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2023. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the University's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the University's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the University's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the University's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the University's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the University's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Cherry Bekaert LLP

Greenville, South Carolina
October 23, 2023

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ____ yes _X_ no
- Significant deficiency(ies) identified? ____ yes _X_ none reported

Noncompliance material to consolidated financial statements noted? ____ yes _X_ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ____ yes _X_ no
- Significant deficiency(ies) identified? ____ yes _X_ none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? ____ yes _X_ no

Identification of major programs:

Assistance Listing #	Program Name
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grant Program
84.033	Federal Work-Study Program
84.038	Federal Perkins Loan Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans
97.036	COVID-19 Funding – Disaster Grants – Public Assistance

Dollar threshold used to distinguish between Type A and Type B Programs: $750,000

Auditee qualified as low-risk auditee? _X_ yes ___ no

Section II. Consolidated Financial Statement Findings

None reported for the year ended June 30, 2023.

Section III. Federal Award Findings and Questioned Costs

None reported for the year ended June 30, 2023.

Section IV. Prior Year Findings

No prior year findings.

THE UNIVERSITY OF THE SOUTH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2023

Grantor/Program Title	Federal Assistance Listing Number	Expenditures
Student Financial Assistance Cluster:		
Department of Education		
Federal Perkins Loan Program	84.038	$ 843,994
Federal Work-Study Program	84.033	221,482
Federal Supplemental Educational Opportunity Grant Program	84.007	181,432
Federal Direct Student Loans	84.268	6,163,933
Federal Pell Grant Program	84.063	1,285,027
Total Department of Education		8,695,868
Total Student Financial Assistance Cluster		8,695,868
Research and Development Cluster:		
Department of Energy		
Next-Generation Ecosystem Experiments – Tropics	81.100	12,478
Department of Justice		
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525	60,993
Corporation for National and Community Service		
Volunteers in Service to America	94.013	69,220
AmeriCorps State Program	94.006	126,513
Total Corporation for National and Community Service		195,733
Total Research and Development Cluster		269,204
Department of Health and Human Services		
COVID-19 - Child Care and Development Block Grant	93.575	33,894
Total Department of Health and Human Services		33,894
Department of Defense		
Minerva Research Initiative	12.630	4,247
Total Department of Defense		4,247
Department of Homeland Security		
Passed through the Tennessee Emergency Management Agency		
COVID-19 - Disaster Grants - Public Assistance	97.036	1,939,701
Total Department of Homeland Security		1,939,701
Total Expenditures of Federal Awards		$ 10,942,914

See accompanying notes to Schedule of Expenditures of Federal Awards.

Note 1—Basis of presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of The University of the South (the "University") and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

Note 2—Summary of significant accounting policies

Basis of Accounting – Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance; wherein, certain types of expenditures are not allowable.

Indirect Cost Rate – The University has elected not to use the 10% de minimum indirect cost rate as allowed under the Uniform Guidance.

Note 3—Federal Perkins Loan program

The Federal Perkins Loan Program is administered directly by the University. Balances and transactions relating to this program are included in the University's consolidated financial statements. In accordance with the Federal Perkins Loans closing guidelines, no new loans are allowed, and no new loans were disbursed by the University for the year ended June 30, 2023.

Federal Perkins Loan receivable, June 30, 2022	$	843,994
Funds advanced to students		-
Less principal payments		(112,627)
Federal Perkins Loan receivable, June 30, 2023	$	731,367

Under the Perkins Loan Program, cash on hand at June 30, 2023 was $103,968.

Note 4—Federal Direct Student Loan program

During the fiscal year ended June 30, 2023, the University processed $6,163,933 of new loans under the Federal Direct Student Loans program (assistance listing number 84.268).

The University is responsible only for the performance of certain administrative duties with respect to the Federal Direct Student Loans program and, accordingly, these loans are not included on the University's consolidated financial statements; furthermore, it is not practical to determine the balance of loans outstanding to students and former students of the University under these programs at June 30, 2023.