THE UNIVERSITY OF THE SOUTH

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

As of and for the Years Ended June 30, 2019 and 2018

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

THE UNIVERSITY OF THE SOUTH

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

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

Report on Financial Statements

We have audited the accompanying financial statements of The University of the South (the "University"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of the South as of June 30, 2019 and 2018, 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.

Effect of Adoption New Accounting Standards
As discussed in Note 1, the University adopted Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, ASU 2016-18, *Statement of Cash Flows (Topic 230) – Restricted Cash*, and ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* These ASUs have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Other Matters

Other Information
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state awards, as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 September 24, 2019 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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
September 24, 2019

THE UNIVERSITY OF THE SOUTH

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Cash and cash equivalents	$ 77,305,416	$ 45,233,497
Restricted cash	744,350	363,099
Accounts and notes receivable, net	2,504,011	2,707,910
Inventories	508,901	464,372
Prepaid expenses	1,232,151	1,453,104
Contributions receivable, net	35,721,470	26,360,056
Investments, at fair value	405,007,852	407,184,988
Funds held in trust by others	24,345,846	24,298,197
Intangible, net	4,020,778	4,221,882
Property, plant and equipment, net	197,259,640	198,988,495
Total Assets	$ 748,650,415	$ 711,275,600
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 2,694,060	$ 1,960,509
Accrued salaries and wages	2,354,561	2,761,241
Deferred revenue	1,258,156	613,571
Annuities payable	6,169,814	6,605,298
Refundable government advances	2,239,855	2,216,981
Postretirement benefit liability	4,164,292	3,654,698
Notes payable	95,970	143,781
Bonds payable, net	92,938,292	74,710,281
Total Liabilities	111,915,000	92,666,360
Net assets		
Without donor restrictions	252,912,187	243,632,367
With donor restrictions	383,823,228	374,976,873
Total Net Assets	636,735,415	618,609,240
Total Liabilities and Net Assets	$ 748,650,415	$ 711,275,600

THE UNIVERSITY OF THE SOUTH
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues			
Comprehensive fees, net	$ 64,564,563	$ -	$ 64,564,563
Contributions	10,661,149	8,063,231	18,724,380
Investment returns, net:			
Endowment spending	18,806,076	1,728,607	20,534,683
Other investment income	1,222,327	203,222	1,425,549
Royalty income	1,133,022	1,721	1,134,743
Sales and service income	1,615,868	6,360	1,622,228
Auxiliary enterprises	11,887,116	-	11,887,116
Government grants	328,053	316,899	644,952
Other	2,127,363	244,787	2,372,150
Net assets released for operations	3,369,828	(3,369,828)	-
Total operating revenues	115,715,365	7,194,999	122,910,364
Operating expenses			
Instructional	36,349,239	-	36,349,239
Academic support	10,580,175	-	10,580,175
Research	307,794	-	307,794
Student services	17,071,949	-	17,071,949
Institutional support	23,869,556	-	23,869,556
Auxiliary services	19,794,165	-	19,794,165
Total operating expenses	107,972,878	-	107,972,878
Net increase from operations	7,742,487	7,194,999	14,937,486
Nonoperating items			
Contributions restricted for endowment and similar funds	102,210	6,218,978	6,321,188
Contributions restricted for property, plant and equipment	92,145	3,865,908	3,958,053
Net assets released for capital expenditures	3,624,484	(3,624,484)	-
Investment returns, net, less than appropriated for expenditure	(2,181,319)	(5,135,446)	(7,316,765)
Change in value of split-interest agreements	106,372	119,841	226,213
Change in donor restrictions	(206,559)	206,559	-
Total nonoperating items	1,537,333	1,651,356	3,188,689
Increase in net assets	9,279,820	8,846,355	18,126,175
Net assets, beginning of year	243,632,367	374,976,873	618,609,240
Net assets, end of year	$ 252,912,187	$ 383,823,228	$ 636,735,415

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

THE UNIVERSITY OF THE SOUTH
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues			
Comprehensive fees, net	$ 63,402,044	$ -	$ 63,402,044
Contributions	5,396,187	4,502,325	9,898,512
Investment returns, net:			
Endowment spending	20,692,697	1,648,770	22,341,467
Other investment income	667,213	53,930	721,143
Royalty income	1,218,050	-	1,218,050
Sales and service income	1,477,439	8,740	1,486,179
Auxiliary enterprises	11,220,533	-	11,220,533
Government grants	284,955	59,428	344,383
Other	1,665,860	323,875	1,989,735
Net assets released for operations	3,028,205	(3,028,205)	-
Total operating revenues	109,053,183	3,568,863	112,622,046
Operating expenses			
Instructional	35,071,081	-	35,071,081
Academic support	11,133,490	-	11,133,490
Research	239,315	-	239,315
Student services	16,385,635	-	16,385,635
Institutional support	25,130,750	-	25,130,750
Auxiliary services	19,700,252	-	19,700,252
Total operating expenses	107,660,523	-	107,660,523
Net increase from operations	1,392,660	3,568,863	4,961,523
Nonoperating items			
Contributions restricted for endowment and similar funds	347,028	10,595,766	10,942,794
Contributions restricted for property, plant and equipment	10,015	4,282,735	4,292,750
Net assets released for capital expenditures	2,132,661	(2,132,661)	-
Investment returns, net, in excess of appropriated for expenditure	481,693	1,859,099	2,340,792
Change in value of split-interest agreements	3,223	782,941	786,164
Change in donor restrictions	370,397	(370,397)	-
Total nonoperating items	3,345,017	15,017,483	18,362,500
Increase in net assets	4,737,677	18,586,346	23,324,023
Net assets, beginning of year, revised for adoption of accounting principle	238,894,690	356,390,527	595,285,217
Net assets, end of year	$ 243,632,367	$ 374,976,873	$ 618,609,240

THE UNIVERSITY OF THE SOUTH
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	$ 18,126,175	$ 23,324,023
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	6,635,893	6,385,182
Amortization of intangible assets and bond issuance costs	335,894	314,092
Loss on disposal of property, plant and equipment	104,829	26,523
Gains on investments	(13,748,974)	(24,738,703)
Provision (benefit) for postretirement benefit obligation	809,924	(169,926)
Actuarial change on annuities payable	500,985	(332,330)
Postretirement employer contributions	(300,330)	(315,193)
Contributions restricted for long-term investment	(10,317,862)	(15,235,544)
Change in assets and liabilities:		
Accounts and notes receivable, net	203,899	182,604
Contributions receivable, net	(9,135,203)	1,371,121
Inventories	(44,529)	(7,472)
Prepaid expenses	220,953	(490,410)
Accounts payable and accrued expenses	733,551	(107,021)
Accrued salaries and wages	(406,680)	(492,408)
Deferred revenue	644,585	(89,957)
Refundable government advances	22,874	(201,482)
Net cash from operating activities	(5,614,016)	(10,576,901)
Cash flows from investing activities		
Purchases of investments and additions to funds held in trust by others	(93,422,434)	(173,187,358)
Proceeds from sales and maturities of investments and funds held in trust by others	108,716,796	179,706,629
Net change in short-term investments	357,887	(549,108)
Purchases of property, plant and equipment	(5,806,867)	(4,206,712)
Proceeds from disposals of property, plant and equipment	795,000	-
Net cash from investing activities	10,640,382	1,763,451
Cash flows from financing activities		
Contributions restricted for long-term investment:		
Endowment	6,321,188	10,942,794
Investment in property, plant and equipment	3,958,053	4,292,750
Net change in pledges receivable restricted for long-term investment	38,621	-
Net payments on annuities payable	(936,469)	789,904
Amortization of bond premium	(176,213)	(127,039)
Principal repayments on bonds payable	(3,952,065)	(4,036,016)
Principal repayments on notes payable	(47,811)	(43,480)
Proceeds from bonds payable	22,274,000	1,200,000
Payments for bond issuance costs	(52,500)	(17,500)
Net cash from financing activities	27,426,804	13,001,413
Net change in cash and cash equivalents	32,453,170	4,187,963
Cash and cash equivalents and restricted cash, beginning of year	45,596,596	41,408,633
Cash and cash equivalents and restricted cash, end of year	$ 78,049,766	$ 45,596,596
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 2,620,428	$ 2,575,932

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.

Basis of Financial Statements – The 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 pledges, 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 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 unearned income. Net comprehensive fees reflects scholarship allowances reducing comprehensive fees by $36,649,497 and $32,824,893 at June 30, 2019 and 2018, 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 0.25% of the total amount billed. Refunds issued reduce the amount of revenue recognized.

Revenues from non-exchange transactions (contributions) 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.

Deferred revenue of $1,258,156 and $613,571 as of June 30, 2019 and 2018, 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.

Note 1—Summary of significant accounting policies (continued)

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 combined and include the following:

	2019	2018
Sewanee Inn	$ 4,550,580	$ 4,351,558
Non-board related dining services	2,760,374	2,610,425
Rental and lease income	2,328,087	2,339,982
Summer conferences	1,156,907	874,166
Golf and tennis	297,650	266,610
Bookstore lease	226,946	200,651
Child care center	172,839	149,101
Telecommunications	91,747	110,167
Other	301,986	317,873
	$ 11,887,116	$ 11,220,533

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.

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

Contributions Receivable – Unconditional promises to give (pledges) 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. Pledges 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 pledges is provided based on management's analysis of past collection experience and other judgmental factors. Pledges made that are designated for future periods or restricted by the donor for specific purposes are reported as support with donor restrictions. Conditional pledges are recorded when donor stipulations are 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 permanently restricted 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.

Note 1—Summary of significant accounting policies (continued)

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 – 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, 2019 and 2018. The University does not have any intangibles with indefinite lives.

Property, Plant, and Equipment – Plant assets are stated at cost or estimated fair value at dates of 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 to15 years). Depreciation and operation and maintenance charges are allocated to appropriate functional expense categories based on square footage. 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 statements of financial position, nor does it recognize gifts of collection items as revenues in the 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 are used to make loans to eligible students at low interest rates. At June 30, 2019 and 2018, refundable government advances totaled $2,239,855 and $2,216,981, respectively.

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

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

Note 1—Summary of significant accounting policies (continued)

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 inasmuch 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 ("FDIC") covers $250,000 for substantially all depository accounts. At June 30, 2019, the University had $3,476,144 on deposit in excess of the insured limits.

Fair Value Measurements – Assets recorded at fair value in the statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value (Note 12). 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 – The University provides certain employee healthcare benefits primarily through employer contributions, participant contributions, and excess loss insurance and manages those programs through a third-party administrator. 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. As of June 30, 2019 and 2018, the University reported $615,000 and $592,000, respectively, as incurred but not reported claims. These claims have been included in accounts payable and accrued expenses in the statements of financial position.

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

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Note 1—Summary of significant accounting policies (continued)

Recently Adopted Accounting Pronouncements-- In August of 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This standard changes presentation and disclosure requirements of not-for-profit entities. The primary changes for the University were a decrease in the number of net asset classes from three to two; reporting of the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions; disclosures of quantitative and qualitative information on how the University manages its liquid available resources and liquidity risks; and reporting of expenses by function and nature. The University has adopted ASU 2016-14 retrospectively for all periods presented.

The reconciliation below shows the effect on net assets:

Net Asset Classifications	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Net assets, as previously presented as of June 30, 2017	$ 238,655,994	$ 356,629,223	$ 595,285,217
Reclassification to implement ASU 2016-14:			
Principal loss on underwater endowment	238,696	(238,696)	-
Net assets, as reclassified as of July 1, 2017	$ 238,894,690	$ 356,390,527	$ 595,285,217
Net assets, as previously presented as of June 30, 2018	$ 243,410,815	$ 375,198,425	$ 618,609,240
Reclassification to implement ASU 2016-14:			
Reclassification as of July 1, 2017	238,696	(238,696)	-
Principal loss on underwater endowment	(17,144)	17,144	-
Total reclassifications	221,552	(221,552)	-
Net assets, as reclassified as of June 30, 2018	$ 243,632,367	$ 374,976,873	$ 618,609,240

In May of 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This standard, along with all subsequent amendments to the ASU (collectively, Accounting Standards Codification 606), creates a single framework for recognizing revenue from contracts with customers that fall within its scope of exchange transactions. The University has adopted ASU 2014-09 retrospectively for all periods presented. There were no material impacts to the financial statements and underlying accounting as a result of this adoption.

In November of 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) – Restricted Cash. This standard requires amounts generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The University has adopted ASU 2016-08 retrospectively for all periods presented. As a result, for the year ended June 30, 2018, beginning of year cash and cash equivalents and restricted cash changed from $41,101,565 as previously presented to $41,408,633, and end of year cash and cash equivalents and restricted cash changed from $45,233,497 to $45,596,596. The increase in restricted cash of $56,031 shown in cash flows from investing activities on the statement of cash flows for the year ended June 30, 2018 has been removed.

Note 1—Summary of significant accounting policies (continued)

In June of 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard provides guidance on determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The adoption of this standard allows for contributions to follow guidance in FASB *Accounting Standards Codification* (“ASC”) 958-605, *Not-for-Profit Entities (Topic 958) – Revenue Recognition*, rather than the guidance provided in ASC 606 discussed above. The University has adopted ASU 2018-08 retrospectively for all periods presented. There were no material impacts to the financial statements and underlying accounting as a result of this adoption.

Recently Issued Accounting Pronouncements - In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of revenue recognition in the statement of activities. This standard is effective for fiscal years beginning after December 15, 2018. The University is presently evaluating the impact of the ASU on the University’s financial statements.

Note 2—Accounts and notes receivable

Accounts and notes receivable consist of the following at June 30, 2019 and 2018:

	2019	2018
Accounts receivable:		
Students and trade	$ 647,032	$ 691,006
Less allowance for doubtful accounts	(75,455)	(149,268)
Total accounts receivable, net	571,577	541,738
Notes receivable:		
Students loans	1,577,183	1,944,965
Other notes receivable	204,127	211,895
	1,781,310	2,156,860
Less allowance for doubtful loans	(12,003)	(27,826)
Total notes receivable, net	1,769,307	2,129,034
Other	163,127	37,138
Total accounts and notes receivable, net	$ 2,504,011	$ 2,707,910

Student Notes Receivable

The University makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Perkins loans were granted by the University under the Federally-funded Perkins loan program. These funds were disbursed based upon the demonstration of exceptional financial need presented by the student. Upon graduation, the students have a nine-month grace period on the Perkins loan and a six-month grace period on the Institutional loan until repayment is required, at which time the loans will also begin accruing interest. Perkins and Institutional loan amounts are then repaid through the University’s billing service, Campus Partners. Under Federal law, the authority for institutions to make new Perkins loans to students ended on September 30, 2017, and final disbursements to students were permitted through June 30, 2018. Subsequent to June 30, 2018, the University’s Perkins loan program activities consist of servicing the outstanding loans. Student loans are considered past due when payment has not been received in over 30 days. At June 30, 2019 and 2018, student loans represented 0.21% and 0.27% of total assets, respectively.

Note 2—Accounts and notes receivable (continued)

At June 30, 2019 and 2018, student loans consisted of the following:

	2019	2018
Federal government loans (Perkins)	$ 1,530,663	$ 1,889,040
Insitutional loans	46,520	55,925
	$ 1,577,183	$ 1,944,965
Allowance for doubtful accounts - Student loans:		
Beginning of year	$ 27,826	$ 28,038
Increases	383	-
Recoveries credited to expense	(16,206)	(212)
End of year	$ 12,003	$ 27,826

Allowance for doubtful accounts are established based on prior collection experience and current economic factors, which in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Institutional loan balances are written off only when they are deemed to be permanently uncollectible. 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 10-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, 2019 and 2018, these loan programs consisted of the following loan balances:

	2019	2018
Employee loans (ELP)	$ 57,726	$ 74,110
Advanced degree loans (ADL)	110,651	97,432
Other	35,750	40,353
	$ 204,127	$ 211,895

No allowance for doubtful accounts is recorded for the ELP or the ADL Program. The University is contingently liable for loans made to parents of students by a local financial institution (SEAL loans) with an aggregate balance of $10,620 and $11,450 at June 30, 2019 and 2018, respectively. Historically, these loans have been repaid by the borrowers, and the University has not been called upon to perform under these guarantees with few exceptions. Accordingly, the University has not recognized a guarantee liability in the financial statements as of June 30, 2019 and 2018.

Note 3—Contributions receivable

Contributions receivable are summarized as follows at June 30, 2019 and 2018:

	2019	2018
Unconditional pledges for:		
Building programs	$ 3,414,751	$ 3,315,521
Endowment	3,779,868	1,972,839
Restricted scholarship and operating	5,616,686	1,470,676
Total	12,811,305	6,759,036
Less:		
Pledges discount to present value	(797,334)	(94,666)
Pledges allowance	(605,270)	(129,089)
Pledges receivable, net	11,408,701	6,535,281
Contributions receivable, other:		
Split-interest agreements	20,050,986	19,824,775
Trust mortgage receivable, net	4,261,783	-
Total contributions receivable, net	$ 35,721,470	$ 26,360,056
Amounts due, before discount and allowance, in:		
Less than one year	$ 10,086,263	$ 9,231,421
One to five years	8,293,971	3,769,559
More than five years	18,743,840	13,582,831
Total	$ 37,124,074	$ 26,583,811

Contributions receivable are recorded at the net present value of the estimated future cash flows from the contributions. The imputed interest rates range from .8% to 6.8% at June 30, 2019 and .33% to 6.8% at June 30, 2018. At June 30, 2019, the trust mortgage receivable is recorded net of a present value discount of $569,569 based on a discount rate of 3.83%.

As of June 30, 2019, the University had not received any conditional promises.

The University receives contributed services from alumni and other volunteers who assist in fund-raising 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, 2019 and 2018, the University's contributions receivable included $1,060,000 and $510,000, respectively, of contributions receivable from members of the Board of Regents.

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.

Under these arrangements, the University recorded $100,000 in pledges for split-interest agreements in fiscal year 2019 and no pledges for split-interest agreements in fiscal year 2018. 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, 2019 and 2018:

	2019		2018	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Operating funds:				
Temporary investments	$ 9,995,825	$ 10,221,516	$ 10,494,001	$ 10,579,403
Endowment and similar funds:				
Cash and temporary investments	14,440,998	14,774,842	23,768,190	23,768,190
Equities	36,289,568	46,900,712	34,999,818	45,817,751
Fixed income	28,853,409	29,243,878	22,511,938	22,453,368
Hedge funds	181,389,285	215,513,257	196,512,964	231,219,014
Private partnerships	62,308,532	85,115,407	51,214,887	70,114,251
Real assets	1,650,266	1,650,266	1,651,091	1,651,091
Cash value of life insurance policies	1,587,974	1,587,974	1,581,920	1,581,920
Funds held in trust by others	22,301,114	24,345,846	21,380,151	24,298,197
Less amounts applicable to annuity and life income funds	(9,743,397)	(13,662,034)	(10,434,600)	(14,139,806)
Total investments held as endowment and similar funds	349,073,574	415,691,664	353,680,360	417,343,379
Annuity and life income funds	9,743,397	13,662,034	10,434,600	14,139,806
Total all funds	$ 358,816,971	$ 429,353,698	$ 364,114,960	$ 431,483,185

Investment returns, net, for 2019 and 2018 consisted of the following:

	2019	2018
Gains on endowment, net	$ 13,601,867	$ 24,119,381
Other external endowment related income	38,894	39,560
Other non-endowment related gains (losses)	(422,843)	523,318
Amount appropriated for expenditure	(20,534,683)	(22,341,467)
Investment returns, net, in excess of (less than) appropriated for expenditure	$ (7,316,765)	$ 2,340,792

For fiscal years ended June 30, 2019 and 2018, the University paid $1,115,731 and $1,638,472, respectively, investment management fees, which are netted against gains on endowment.

Note 5—Endowment and similar funds

Endowment and similar funds represent gifts, which the donors have stipulated, as a condition of the gift, that the principal may never be expended. 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 Act

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 Note 8 and 12, as of June 30, 2019 and 2018, was $408,769,263 and $410,985,859, 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, 2019 and 2018 were $93,454,210 and $95,185,364, 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, 2019 and 2018 follows:

	Without Donor Restrictions	With Donor Restrictions: Purpose/Time Restrictions	With Donor Restrictions: Perpetual in Nature	Total
2019				
True endowment	$ -	$ -	$ 170,504,885	$ 170,504,885
Board designated endowments	60,803,007	2,334,965	-	63,137,972
Net gains	32,651,203	143,002,893	-	175,654,096
Deficiencies in donor-restricted endowment funds	-	(527,690)	-	(527,690)
	$ 93,454,210	$ 144,810,168	$ 170,504,885	$ 408,769,263
2018				
True endowment	$ -	$ -	$ 165,721,045	$ 165,721,045
Board designated endowments	60,861,776	2,334,965	-	63,196,741
Net gains	34,323,588	147,966,037	-	182,289,625
Deficiencies in donor-restricted endowment funds	-	(221,552)	-	(221,552)
	$ 95,185,364	$ 150,079,450	$ 165,721,045	$ 410,985,859

Note 5—Endowment and similar funds (continued)

Changes in endowment and similar funds' net assets for the years ended June 30, 2019 and 2018, are as follows:

	Without Donor Restrictions	With Donor Restrictions: Purpose/Time Restrictions	With Donor Restrictions: Perpetual in Nature	Total
Endowment net assets, July 1, 2017	$ 91,491,694	$ 148,737,275	$ 154,777,455	$ 395,006,424
Investment Return:				
Investment Return, net of investment expenses	6,372,652	18,014,525	-	24,387,177
New gifts	142,354	-	9,352,447	9,494,801
Pledge payments	-	-	533,148	533,148
Transfer to board designated endowment	3,000,000	-	-	3,000,000
Other transfers, net	30,000	-	1,057,995	1,087,995
	3,172,354	-	10,943,590	14,115,944
Appropriation of endowment assets for expenditure	(5,669,117)	(16,672,350)	-	(22,341,467)
Copyright Amortization	(182,219)	-	-	(182,219)
	(5,851,336)	(16,672,350)	-	(22,523,686)
Endowment net assets, June 30, 2018	95,185,364	150,079,450	165,721,045	410,985,859
Investment Return, net of investment expenses	3,525,445	10,067,570		13,593,015
New gifts	102,336	-	3,063,805	3,166,141
Pledge payments	10,000	-	716,320	726,320
Other transfers, net	30,000	-	1,003,715	1,033,715
	142,336	-	4,783,840	4,926,176
Appropriation of endowment assets for expenditure	(5,197,831)	(15,336,852)	-	(20,534,683)
Copyright Amortization	(201,104)	-	-	(201,104)
	(5,398,935)	(15,336,852)	-	(20,735,787)
Endowment net assets, June 30, 2019	$ 93,454,210	$ 144,810,168	$ 170,504,885	$ 408,769,263

Note 5—Endowment and similar funds (continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original contribution level. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions. As of June 30, 2019 and 2018, there were 67 and 27 donor-designated endowment funds, respectively, that had a market value below the original contribution value. The aggregate contribution value for the 67 and 27 named endowment funds totaled $19,666,163 and $9,069,833, respectively. The market value for this group of "underwater" endowment funds was $19,138,473 or 97% of the original contribution value as of June 30, 2019 and $8,848,281 or 98% of the original contribution value as of June 30, 2018. The individual market to contribution value range for the 67 "underwater" funds was 90% to 99% as of June 30, 2019. For the 27 "underwater" funds was 88% to 99% as of June 30, 2018.

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 pooled investments on December 31 of the preceding fiscal year.

The 67 "underwater" donor-designated endowment funds for 2019 consist of 30,685 units, which represent 5% of the total number of units within the pooled endowment funds. The 27 "underwater" donor-designated endowment funds for 2018 consist of 13,872 units, which represent 2% of the total number of units within the pooled endowment funds. (There were total units of 604,506 and 596,482 in the pooled discretionary endowment group as of June 30, 2019 and 2018, respectively – see footnote 5 "Pooled Investments" section). The University is applying the standard unitized spending rate to the 67 and the 27 "underwater" accounts as of June 30, 2019 and 2018, respectively. 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 67 and 27 "underwater" endowment funds resulted in a spending distribution of $959,725 and $176,521 in fiscal year 2019 and 2018, respectively.

<u>Return Objectives, Risk Parameters and Strategies</u>

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 5.0%, 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.

Note 5—Endowment and similar funds (continued)

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 year 2019 and fiscal year 2018, the spending rate was 5.10% and 5.79%, respectively. Using these spending rates, $19,417,015 and $21,166,889 of total return was available from these funds for operating purposes in 2019 and 2018, respectively. Fiscal year 2018 spending included a donation of $1,500,000 to St. Andrews Sewanee School, a private Episcopal boarding and day school located in Sewanee, Tennessee. The fiscal year spending rate for University-related operating purposes was 5.38%.

A breakdown of the total endowment support used for operations and reinvestment in fiscal 2019 and 2018 is shown below:

	2019	2018
Appropriated investment return from pooled investments	$ 19,417,015	$ 21,166,889
Oil and Gas Royalties	38,894	39,560
Outside Trust Income	1,078,774	1,135,018
	$ 20,534,683	$ 22,341,467

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, 2019 and 2018:

	2019	2018
Investments in pooled funds, at fair value	$ 378,364,260	$ 380,480,387
Total number of units	604,506	596,482
Market value per unit	623.70	637.87
Average annual earnings per unit	32.56	32.45

Funds Held in Trust by Others

The fair value of perpetually held trusts in which the University had a beneficial interest as of June 30, 2019 and 2018 was $24,345,846 and $24,298,197, respectively. The University records these trusts at fair market value. The fair value of funds held in trust by others increased $47,649 in 2019 and $1,188,980 in 2018. Income received from these funds for fiscal years 2019 and 2018 totaled approximately $1,078,774 and $1,135,010, respectively.

Note 6—Annuity and life income funds

At June 30, 2019 and 2018, investments for annuity and life income funds included:

		With Donor Restrictions			
	Without Donor Restrictions	Purpose/Time Restrictions	Perpetual in Nature	Annuity Payment Liability	Total at Fair Value
2019					
Pooled income trusts	$ -	$ -	$ 70,320	$ -	$ 70,320
Charitable gift annuities	312,003	(166,377)	1,769,663	6,169,814	8,085,103
Cash value of life insurance	-	480,719	1,107,255	-	1,587,974
Unrealized gains on annuity and life income funds	-	3,918,637	-	-	3,918,637
Net Assets	$ 312,003	$ 4,232,979	$2,947,238	$6,169,814	$13,662,034

		With Donor Restrictions			
	Without Donor Restrictions	Purpose/Time Restrictions	Perpetual in Nature	Annuity Payment Liability	Total at Fair Value
2018					
Pooled income trusts	$ -	$ -	$ 130,320	$ -	$ 130,320
Charitable gift annuities	310,111	(110,486)	1,917,437	6,605,298	8,722,360
Cash value of life insurance	-	507,216	1,074,704	-	1,581,920
Unrealized gains on annuity and life income funds	-	3,705,206	-	-	3,705,206
	$ 310,111	$ 4,101,936	$3,122,461	$6,605,298	$14,139,806

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 Internal Revenue Code, *Charitable Mid-Term Federal Rate* and is included in deferred revenue on the 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 2019 and 2018 was $230,000 and $720,096, respectively.

Note 6—Annuity and life income funds (continued)

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 Internal Revenue Code, *Charitable Mid-Term Federal Rate*. The increase in fair value of charitable gift annuities for fiscal 2019 and 2018 was $445,094 and $501,155, respectively.

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 received none as contribution revenue for charitable remainder trusts in fiscal 2019 and 2018. The assets related to charitable remainder trusts are recorded at fair value. The liability to the interim beneficiary is recorded at net present value of estimated future cash flows using the Internal Revenue Code, *Charitable Mid-Term Federal Rate*. The increase in fair value for fiscal 2019 and 2018 was $55,891 and $58,894, respectively.

Note 7—Property, plant, and equipment

Property, plant, and equipment consist of the following at June 30, 2019 and 2018:

	2019	2018
Land and land improvements	$ 19,676,302	$ 19,676,302
Buildings and building improvements	233,551,578	231,882,265
Equipment and books	40,494,638	42,583,345
Construction in progress	6,213,000	4,026,623
	299,935,518	298,168,535
Less accumulated depreciation	(102,675,878)	(99,180,040)
Total property, plant, and equipment, net	$ 197,259,640	$ 198,988,495

Depreciation expense at June 30, 2019 and 2018 was $6,635,893 and $6,385,182, respectively. The estimated cost to complete outstanding projects at June 30, 2019 is approximately $4,500,000 related primarily to the University Commons and Bookstore projects.

Note 8—Intangible assets

Acquired intangible assets consist of the following at June 30, 2019 and 2018:

	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
2019			
Tennessee Williams Copyrights	$ 7,785,781	$ (3,765,003)	$ 4,020,778
2018			
Tennessee Williams Copyrights	$ 7,785,781	$ (3,563,899)	$ 4,221,882

Note 8—Intangible assets (continued)

The University estimates that future royalty income from these copyrights will approximate $70,000,000 over the lifetime of the copyrights (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 $11,300,000.

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 $4,234,944 and $4,005,424 in fiscal 2019 and 2018, respectively.

There are 94 current employees of the University that are eligible for a post-retirement health care benefit provided by the University. The eligible group includes those employees that began their work for the University before September 30, 1995. There are currently 189 retired employees and 64 spouses receiving the post-retirement health care benefit (annual benefits range from $994 to $1,433 per employee or $1,998 to $2,866 for an employee and spouse). The status of the plan at June 30, 2019 and 2018 was as follows:

	2019	2018
A. Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 3,654,698	$ 4,139,817
Service cost	82,115	91,737
Interest cost	131,420	129,422
Benefits paid (net of participant contributions)	(300,330)	(315,193)
Actuarial (gain)/loss	596,389	(391,085)
Benefit obligation at end of year	$ 4,164,292	$ 3,654,698
B. Change in Plan Assets		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contributions	300,330	315,193
Benefits paid (net of participant contributions)	(300,330)	(315,193)
Fair value of plan assets at end of year	$ -	$ -
C. Funded Status		
Funded status (benefit obligation)	$ (4,164,292)	$ (3,654,698)
Net amount recognized in statements of financial position	$ (4,164,292)	$ (3,654,698)

Note 9—Pension plan and postretirement benefits (continued)

	2019	2018
D. Amounts Not Yet Reflected in Net Periodic Benefit Cost and Included in Unrestricted Net Assets		
Accumulated gain (loss)	$ (118,682)	$ 485,667
Unrestricted net assets	$ (118,682)	$ 485,667
Net periodic benefit cost in excess of cumulative employer contributions	$ (4,045,610)	$ (4,140,365)
Net amount recognized in statements of financial position	$ (4,164,292)	$ (3,654,698)
E. Components of Net Periodic Benefit Cost		
Service cost	$ 82,115	$ 91,737
Interest cost	131,420	129,422
Recognized Actuarial Gain	(7,960)	-
Net periodic postretirement benefit cost	$ 205,575	$ 221,159
F. Other Changes Recognized in Unrestricted Net Assets		
Net gain (loss) arising during the period	$ (118,682)	$ 391,085
Total recognized in unrestricted net assets	$ (118,682)	$ 391,085
G. Key Assumptions and Trend Rate Sensitivity		
Weighted average discount at June 30	3.00%	3.75%
Immediate health care cost trend rate	6.80%	6.90%
Ultimate trend rate	4.50%	4.50%
Year ultimate trend is reached	2031	2031

The change in the weighted average discount from 3.75% at June 30, 2018 to 3.00% at June 30, 2019 resulted in an unrecognized actuarial loss of $349,680.

H. Expected Cash Flows

Expected employer contributions for the next fiscal year:	$ 286,852
Expected benefit payments for fiscal year ending in:	
2020	$ 282,798
2021	279,571
2022	275,166
2023	280,726
2024-28	1,336,576

Employees hired after September 1995 are not eligible for the post-retirement health care benefit mentioned above. To assist the non-eligible group of employees with post-retirement health care 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—Bonds payable

Bonds payable are summarized as follows at June 30, 2019 and 2018:

	2019	2018
$7,185,000 tax-exempt bond (1998 Series B Issue) bearing interest at a swapped rate of 3.85% at June 30, 2018, with final maturity in 2018.	$ -	$ 1,200,000
$38,675,000 tax-exempt bond (2012 Issue) plus unamortized premium of $1,311,712 at June 30, 2019, bearing interest with a fixed rate ranging from 2% to 4% with final maturity in 2032.	34,785,000	35,775,000
$25,590,000 tax-exempt bond (2014 Issue) plus unamortized premium of $1,473,366 at June 30, 2019, bearing interest with a fixed rate ranging from 2% to 5% with final maturity in 2034.	21,995,000	22,845,000
$6,335,000 tax-exempt bond (2015A Issue) plus unamortized premium of $569,651 at June 30, 2019, 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.	3,005,000	3,460,000
$3,000,000 tax-exempt bond (2016 Issue), mortgage-type repayment schedule 2.28% APR with final payment in 2031.	2,510,640	2,687,706
$1,200,000 tax-exempt bond (2017 Issue), mortgage-type repayment schedule 2.50% APR with final payment in 2024.	497,060	777,060
$22,274,000 tax-exempt bond (2019 Issue), mortgage-type repayment schedule 3.29% APR with final payment in 2039.	22,274,000	-
Par amount of bonds and notes payable	91,401,700	73,079,766
Unamortized net premium	3,354,729	3,530,942
Bond issue charges	(1,818,137)	(1,900,427)
Total bonds and notes payable	$ 92,938,292	$ 74,710,281

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. These funds financed a new dormitory, dormitory renovations, a telecommunications system, renovation and expansion of the Sport and Fitness Center, a new dining hall, academic building improvements and other miscellaneous improvements to campus buildings.

In November 2012, the University borrowed $39,325,000 by means of tax-exempt bonds issued by the Health and Education Facilities Board of the County of Franklin, Tennessee. $15,325,000 of the bond proceeds were used to redeem the 1998A bond and a major portion of the 2005 bond indebtedness. $24,000,000 in new debt to support Cannon Hall renovation, Smith Hall, Chiller Plant Expansion, Fiber/Network Upgrades, and a second new residence hall was included in the 2012 bond issue.

In September 2014, the University borrowed $27,321,000 by means of tax-exempt bonds issued by the Health and Education Facilities Board of the County of Franklin, Tennessee. $13,005,000 of the bond proceeds were used to redeem the 2009 bond issue, and $14,108,000 was used for deferred maintenance.

Note 10—Bonds payable (continued)

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 October 2017, the University borrowed $1,200,000 by means of tax-exempt bonds issued by the Health and Education Facilities Board of the County of Franklin, Tennessee. The bond proceeds were used to complete renovations of the DuPont Library.

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 were used for construction and equipping of a new Wellness Commons center and the renovation, equipping, and maintenance of property on the main campus.

The University was in compliance at June 30, 2019 with all covenants.

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

	2012 Issue	2014 Issue	2015A Issue	2015B Issue	2016 Issue	2017 Issue	2019 Issue	Total
2020	$ 1,800,000	$ 1,330,000	$ -	$ 460,000	$ 180,997	$ -	$ -	$ 3,770,997
2021	2,425,000	820,000	-	470,000	185,320	120,000	135,000	4,155,320
2022	2,470,000	880,000	-	480,000	189,592	120,000	140,000	4,279,592
2023	2,500,000	955,000	-	495,000	193,962	120,000	145,000	4,408,962
2024	2,530,000	1,050,000	-	510,000	198,331	120,000	150,000	4,558,331
Thereafter	23,060,000	16,960,000	6,335,000	590,000	1,562,438	17,060	21,704,000	70,228,498
Total	$ 34,785,000	$ 21,995,000	$ 6,335,000	$ 3,005,000	$ 2,510,640	$ 497,060	$ 22,274,000	$ 91,401,700

Note 10—Bonds payable (continued)

Bond issue charges were incurred on the 2012, 2014, 2015A, 2015B, 2018, and 2019 bond issues. Amortization expense was $134,790 and $131,873 for fiscal years 2019 and 2018, respectively.

	Gross Carrying Amount	Accumulated Amortization	Net Bond Issue Charges
2019			
Bond issue charges	$ 2,893,890	$ (1,075,753)	$ 1,818,137
2018			
Bond issue charges	$ 2,841,390	$ (940,963)	$ 1,900,427

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

2020	$ 137,415
2021	137,415
2022	137,415
2023	137,415
2024	137,413
Thereafter	1,131,064
	$ 1,818,137

Note 11—Leases

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 health care 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.

The University leases the University Book and Supply Store to Barnes & Noble College Bookstore, Inc., under a five-year operating lease which was first signed effective March 12, 2003. A new lease recently extended the contract to April 30, 2023. The lease payments are based on a percentage of net sales. The University received payments of $226,946 and $200,651 in fiscal years 2019 and 2018, respectively, in connection with this lease.

Note 12—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.

Note 12—Fair value measurements (continued)

The following table summarizes fair value disclosures and measurements at June 30, 2019:

	Level 1	Level 2	Level 3	NAV	Total Fair Value
Investments					
Cash and Cash Equivalents	$ 14,774,842	$ -	$ -	$ -	$ 14,774,842
Alternative Investments					
Global Equities	-	-	-	153,096,484	153,096,484
Hedge Fund	-	-	-	62,416,773	62,416,773
Private Equity	-	-	-	85,115,407	85,115,407
Real Assets	1,650,266	-	-	-	1,650,266
Equities					
Emerging Market Equities	-	-	-	-	-
U.S. Equities	46,900,712	-	-	-	46,900,712
Fixed Income	-				
U.S. Government Bonds	39,465,394	-	-	-	39,465,394
Other	-	1,587,974	-	-	1,587,974
Total Investments	102,791,214	1,587,974	-	300,628,664	405,007,852
Funds Held in Trust by Others	$ 377,041	$ 23,968,805	$ -	$ -	$ 24,345,846

The following table summarizes fair value disclosures and measurements at June 30, 2018:

	Level 1	Level 2	Level 3	NAV	Total Fair Value
Investments					
Cash and Cash Equivalents	$ 23,768,190	$ -	$ -	$ -	$ 23,768,190
Alternative Investments					
Global Equities	-	-	-	164,944,973	164,944,973
Hedge Fund	-	-	-	66,274,041	66,274,041
Private Equity	-	-	-	70,114,251	70,114,251
Real Assets	1,651,091	-	-	-	1,651,091
Equities		-	-	-	-
U.S. Equities	45,104,795	712,956	-	-	45,817,751
Fixed Income					
U.S. Government Bonds	33,032,771	-	-	-	33,032,771
Other	-	1,581,920	-	-	1,581,920
Total Investments	103,556,847	2,294,876	-	301,333,265	407,184,988
Funds Held in Trust by Others	$ 349,202	$ 23,948,995	$ -	$ -	$ 24,298,197

Note 12—Fair value measurements (continued)

Set forth below is additional information pertaining to alternative investments:

2019:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds[a]:				
Hedge Funds	$ 7,113,026	$ -	Annually	46-90 Days
Diversified Strategies	26,164	-	Quarterly-Illiquid	Over 365 Days
Relative Value	18,735,899	-	Annually	90-180 Days
Private Credit Distressed Debt	2,745,521	6,393,451	Illiquid	
Special Situations	25,182,823	-	Semi-Annually	46-90 Days
U.S. Equity	587	-	Illiquid	
European Equity	8,612,753	-	Quarterly	46-90 Days
Global Equity – Developed	129,432,582	-	Quarterly	46-90 Days
Global Equity – Emerging	23,663,902	-	Monthly-Quarterly	46-90 Days
Private Equity				
Private Equity	3,168,101	855,000	Illiquid[b]	
U.S. Private Equity	9,427,241	8,465,647	Illiquid[b]	
Leveraged Buyout	3,042,656	1,105,940	Illiquid[b]	
Diversified Strategies	17,690,492	2,420,327	Illiquid(b	
Venture Capital	17,787,009	2,698,420	Illiquid[b]	
Natural Resources	5,277,804	5,069,972	Illiquid[b]	
Real Estate Private Partnerships	7,276,926	5,979,071	Illiquid[b]	
Private Credit	18,841,644	10,593,667	Illiquid[b]	
Other	2,603,534	971,412	Illiquid[b]	
Total	$300,628,664	$44,552,907		

Note 12—Fair value measurements (continued)

2018:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds[a]:				
Diversified Strategies	$ 55,985	$ -	Semi-Annually	181-365 Days
Relative Value	40,060,546	-	Annually	Over 365 Days
U.S. Equity	8,045,137	-	Annually-Illiquid	46-90 Days
Special Situations	9,724,764	-	Semi-Annually	46-90 Days
European Equity	8,387,609	-	Quarterly	60 Days
Global Equity – Developed	142,520,106	-	Monthly-Quarterly	10-90 Days
Global Equity – Emerging	22,424,867	-	Monthly-Quarterly	60-65 Days
Private Equity				
Non-U.S. Private Equity	4,111,878	1,065,989	Illiquid[b]	
U.S. Private Equity	4,101,920	6,115,806	Illiquid[b]	
Venture Capital	19,565,482	1,905,920	Illiquid[b]	
Natural Resources	4,821,786	6,200,954	Illiquid[b]	
Real Estate Private Partnerships	5,741,016	5,339,663	Illiquid[b]	
Private Credit	12,037,865	13,039,898	Illiquid[b]	
Other	19,734,304	5,313,050	Illiquid[b]	
Total	$301,333,265	$38,981,280		

(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.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and Cash Equivalents and Restricted Cash

Cash is reflected at carrying value, which is considered its fair value.

Accounts and Notes Receivable

Accounts and notes receivable consist primarily of student loans and short-term receivables. The loans receivable of $1,769,307 and $2,129,034 at June 30, 2019 and 2018, respectively, consist principally of a government loan program and are not readily marketable. The University has estimated their fair value to be the carrying value.

Contributions Receivable

As discussed in Notes 1 and 3, unconditional promises to give are recorded 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.

Note 12—Fair value measurements (continued)

Investments and Funds Held in Trust by Others

The fair value of investments, as disclosed in Notes 1 and 4, has been calculated based on quoted market prices, where available, and on Level 3 inputs.

Tennessee Williams Copyrights

The copyrights are being amortized as the royalty income is realized. The fair value at June 30, 2019 of $11,300,000 was estimated based on average annual income applied to a market multiple and is classified as a Level 2 fair value measurement.

Accounts Payable, Accrued Expenses, Unearned Fees and Other Deferred Credits

The carrying value of accounts payable, accrued expenses, and deferred revenues approximates fair value due to the short-term nature of the obligations.

Bonds Payable

The bonds payable reflected in the 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, 2019 and 2018 of $101,690,993 and $83,507,895, respectively, was estimated by calculating the net present value of the future payment stream using the current market interest rate.

Note 13—Fund-raising costs

In each of the fiscal years ending June 30, 2019 and 2018, expenses of $2,768,586 and $2,695,254 were related to fund-raising activities and are classified in the statements of activities under institutional support.

Note 14—Line of credit

At June 30, 2019 and 2018, the University had an unused line of credit of $5,000,000 with a financial institution. There are no compensating balance requirements under the line of credit, nor any related fees. The line of credit expires on January 31, 2020.

Note 15—Expenses

Expenses by function and nature consist of the following for the years ended June 30, 2019 and June 30, 2018:

2019	Instructional	Academic Support	Research	Student Services	Auxiliary Services	Institutional Support	Total
Salaries and Benefits	$ 26,451,540	$ 6,032,328	$ 123,779	$ 9,691,597	$ 5,329,191	$ 15,116,245	$ 62,744,680
Operation and Maintenance of Plant	1,406,999	455,141	-	897,253	146,070	496,708	3,402,171
Depreciation	799,683	1,034,904	-	723,029	3,092,530	985,747	6,635,893
Interest	254,004	349,183	-	333,004	1,298,424	316,836	2,551,451
Other non-compensation expenses	7,437,013	2,708,619	184,015	5,427,066	9,927,950	6,954,020	32,638,683
	$ 36,349,239	$ 10,580,175	$ 307,794	$ 17,071,949	$ 19,794,165	$ 23,869,556	$ 107,972,878

2018	Instructional	Academic Support	Research	Student Services	Auxiliary Services	Institutional Support	Total
Salaries and Benefits	$ 25,053,449	$ 6,902,071	$ 102,715	$ 9,676,542	$ 5,172,087	$ 14,762,703	$ 61,669,567
Operation and Maintenance of Plant	1,205,070	402,289	-	793,063	129,109	477,575	3,007,106
Depreciation	750,602	1,047,661	-	677,804	2,973,185	935,930	6,385,182
Interest	439,933	15,181	-	86,595	1,956,169	101,113	2,598,991
Other non-compensation expenses	7,622,027	2,766,288	136,600	5,151,631	9,469,702	8,853,429	33,999,677
	$ 35,071,081	$ 11,133,490	$ 239,315	$ 16,385,635	$ 19,700,252	$ 25,130,750	$ 107,660,523

Note 16—Nature and amount of net assets with donor restrictions

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

	2019	2018
Subject to expenditure for specific purpose:		
Student financial aid	$ 80,188,032	$ 82,580,382
Academic support	49,310,748	46,433,209
Institutional support	31,605,939	31,177,317
Instructional	20,966,841	19,780,235
Plant operations	16,090,022	14,796,962
Student services	3,855,571	3,965,501
Other	1,375,934	1,496,084
	203,393,087	200,229,690
Subject to the spending policy and appropriation:		
Restricted in perpetuity, the income from which is expendable to support:		
Student financial aid	101,907,690	98,987,759
Institutional support	33,038,877	32,452,683
Academic support	22,946,454	22,501,124
Academic instruction	14,817,263	14,783,678
Student services	5,268,651	3,590,281
Plant operations	1,924,875	1,908,322
Purchases of property and equipment	181,393	182,131
Other	344,938	341,205
	180,430,141	174,747,183
	$ 383,823,228	$ 374,976,873

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 2019 and 2018 is as follows:

	2019	2018
Instructional	$ 839,095	$ 406,026
Academic support	912,908	950,695
Research	164,683	91,442
Student services	300,917	200,250
Institutional support	1,152,051	1,141,235
Scholarships	174	238,557
Property, plant and equipment	3,624,484	2,132,661
	$ 6,994,312	$ 5,160,866

Note 17—Liquidity

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 a line 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.

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 statement of financial position date.

	2019	2018
Cash and cash equivalents	$ 77,305,416	$ 45,233,497
Restricted cash	744,350	363,099
Accounts and notes receivable, net	2,504,011	2,707,910
Contributions receivable, net	35,721,470	26,360,056
Investments, at fair value	405,007,852	407,184,988
Funds held in trust by others	24,345,846	24,298,197
Financial assets at end of year	545,628,945	506,147,747
(Less)/plus assets (unavailable)/available for general expenditures within one year:		
Board authorized endowment spending	20,606,300	20,534,683
Accounts and notes receivable, net, due in more than one year	(1,769,307)	(2,129,034)
Investments held as endowment and similar funds	(381,124,302)	(382,465,779)
Contributions receivable for general expenditures due in more than one year	(30,909,336)	(24,387,217)
Assets held in trust by others	(24,345,846)	(24,298,197)
Restricted cash	(744,350)	(363,099)
Annuity and life income funds	(13,662,034)	(14,139,806)
Financial assets available to meet cash needs for general expenditures within one year	$ 113,680,070	$ 78,899,298

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.

In addition to the amounts in the table above, the University's board-designated endowment of $93,454,210 and $95,185,364 at June 30, 2019 and 2018, 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 14, the University also has a line of credit that is available for general operating needs.

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—Subsequent events

The University has evaluated subsequent events through September 24, 2019, the issuance date of the University's financial statements, and have determined that there are no subsequent events that require disclosure.

COMPLIANCE SECTION

Cherry Bekaert LLP
CPAs & Advisors

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

The 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 financial statements of The University of the South (the "University"), which comprise the statement of financial position as of June 30, 2019, and the statements of activities and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated September 24, 2019.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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
September 24, 2019

Cherry Bekaert LLP
CPAs & Advisors

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

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

Report on Compliance for 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 the University's major federal program for the year ended June 30, 2019. The University's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the University's major federal program based on our audit of the types of compliance requirements referred to above. 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"). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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
September 24, 2019

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 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:

CFDA#	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

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. Financial Statement Findings

None reported for the year ended June 30, 2019.

Section III. Federal Award Findings and Questioned Costs

None reported for the year ended June 30, 2019.

Section IV. Prior Year Findings

No prior-year findings.

THE UNIVERSITY OF THE SOUTH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2019

Grantor/Program Title	Federal CFDA Number	Expenditures
Student Financial Assistance Cluster:		
U.S. Department of Education		
Federal Perkins Loan Program	84.038	$ 1,889,040
Federal Work-Study Program	84.033	192,460
Federal Supplemental Educational Opportunity Grant Program	84.007	181,432
Federal Direct Student Loans	84.268	7,026,596
Federal Pell Grant Program	84.063	1,253,995
Total U.S. Department of Education		10,543,523
Total Student Financial Assistance Cluster		10,543,523
Research and Development Cluster:		
Department of the Interior		
U.S. Geological Survey - Research and Data Collection	15.808	10,385
Cooperative Research and Training Programs - Resources of the National Park System	15.945	12,968
National Park Service Conservation, Protection, Outreach, and Education	15.954	612
Passed through the State of Tennessee: State Wildlife Grants	15.634	6,327
National Endowment for the Humanities (NEH)		
Promotion of the Humanities - Division of Preservation and Access	45.149	8,494
Corporation for National and Community Service (CNCS)		
Volunteers in Service to America	94.013	215,644
Department of Health and Human Services		
Garrett Lee Smith (GLS) Campus Suicide Prevention	93.243	67,911
Total Research and Development Cluster		322,341
Total Federal Awards Expended		$ 10,865,864

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* (CFR) 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 financial statements. The Schedule under CFDA #84.038 represents the balance of loans outstanding under the Federal Perkins Loan Program of $1,889,040 as of June 30, 2019.

Cash on hand at June 30, 2019 under the Perkins Loan Program was $744,350.

Note 4—Federal Direct Student Loan Program

During the fiscal year ended June 30, 2019, the University processed $7,026,596 of new loans under the Federal Direct Student Loans program (CFDA #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 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, 2019.