

THE UNIVERSITY OF THE SOUTH

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

As of and for the Years Ended June 30, 2022 and 2021

And Report of Independent Auditor

THE UNIVERSITY OF THE SOUTH
TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR	1-2
FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities.....	4-5
Statements of Cash Flows.....	6
Notes to the Financial Statements.....	7-35
SUPPLEMENTAL INFORMATION	
Financial Responsibility Supplemental Schedule – U.S. Department of Education.....	36-37
COMPLIANCE SECTION	
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 <i>Government Auditing Standards</i>	38-39
Report of Independent Auditor on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance.....	40-41
Schedule of Findings and Questioned Costs.....	42-43
Schedule of Expenditures of Federal Awards.....	44
Notes to the Schedule of Expenditures of Federal Awards.....	45-46

Report of Independent Auditor

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

Report on the Audit of the Financial Statements

Opinion

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, 2022 and 2021, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the financial responsibility supplemental schedule – U.S. Department of Education are presented for purposes of additional analysis and are not a required part of the 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 supplementary 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 October 19, 2022, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Greenville, South Carolina
October 19, 2022

THE UNIVERSITY OF THE SOUTH
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2022 AND 2021

	2022	2021
ASSETS		
Cash and cash equivalents	\$ 72,002,409	\$ 83,380,766
Restricted cash	205,529	263,325
Accounts and notes receivable, net	2,408,336	3,391,452
Inventories	517,952	505,828
Prepaid expenses	1,262,800	1,146,143
Contributions receivable, net	28,973,643	34,156,773
Investments, at fair value	446,065,412	512,242,275
Funds held in trust by others	24,100,893	29,283,515
Intangible, net	3,438,593	3,614,428
Property, plant, and equipment, net	208,612,190	205,895,888
Total Assets	\$ 787,587,757	\$ 873,880,393
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 3,040,674	\$ 3,490,259
Accrued salaries and wages	2,709,433	2,522,277
Deferred revenue	792,751	865,471
Annuities payable	11,674,191	10,990,819
Refundable government advances	1,047,711	1,324,287
Postretirement benefit liability	3,249,236	3,987,451
Asset retirement obligation	3,207,009	3,158,237
Bonds payable, net	82,664,662	84,508,906
Total Liabilities	108,385,667	110,847,707
Net Assets:		
Without donor restrictions	270,913,335	289,787,083
With donor restrictions	408,288,755	473,245,603
Total Net Assets	679,202,090	763,032,686
Total Liabilities and Net Assets	\$ 787,587,757	\$ 873,880,393

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

THE UNIVERSITY OF THE SOUTH
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2022

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

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

THE UNIVERSITY OF THE SOUTH
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues:			
Comprehensive fees, net	\$ 61,992,002	\$ -	\$ 61,992,002
Contributions	4,803,188	3,973,065	8,776,253
Investment returns, net:			
Endowment spending	21,752,505	2,056,045	23,808,550
Other investment income	12,283	28,962	41,245
Royalty income	510,230	-	510,230
Sales and service income	1,527,853	-	1,527,853
Auxiliary enterprises	7,087,894	-	7,087,894
Government grants	127,225	3,557,551	3,684,776
Other	1,346,789	53,739	1,400,528
Net assets released for operations	9,818,898	(9,818,898)	-
Total operating revenues	108,978,867	(149,536)	108,829,331
Operating expenses:			
Instructional	29,141,750	-	29,141,750
Academic support	10,579,949	-	10,579,949
Research	152,083	-	152,083
Student services	14,544,898	-	14,544,898
Institutional support	29,440,502	-	29,440,502
Auxiliary services	17,398,028	-	17,398,028
Total operating expenses	101,257,210	-	101,257,210
Net increase (decrease) in net assets from operations	7,721,657	(149,536)	7,572,121
Nonoperating items:			
Contributions restricted for endowment and similar funds	19,731	3,730,653	3,750,384
Contributions restricted for property, plant, and equipment	21,607	395,168	416,775
Net assets released for capital expenditures	1,467,868	(1,467,868)	-
Investment returns, net, less than appropriated for expenditure	23,579,783	77,036,791	100,616,574
Change in value of split-interest agreements	957,805	2,328,986	3,286,791
Total nonoperating items	26,046,794	82,023,730	108,070,524
Total increase in net assets	33,768,451	81,874,194	115,642,645
Net assets, beginning of year	256,018,632	391,371,409	647,390,041
Net assets, end of year	\$ 289,787,083	\$ 473,245,603	\$ 763,032,686

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

THE UNIVERSITY OF THE SOUTH
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ (83,830,596)	\$ 115,642,645
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Depreciation	6,527,145	6,468,792
Accretion of asset retirement obligation	58,535	135,597
Amortization of intangible assets and bond issuance costs	269,335	234,255
Amortization of bond premium	(289,859)	(250,689)
Gain (loss) on disposal of property, plant and equipment	5,400	(536,698)
Losses (gains) on investments	79,809,843	(122,823,006)
Loss on bond refinance	(800,147)	-
Interest expense paid through bond legal defeasance	467,000	-
Provision for postretirement benefit obligation	(481,098)	(101,347)
Actuarial change on annuities payable	(449,642)	(291,569)
Contributions restricted for long-term investment	(6,550,365)	(4,167,159)
Change in assets and liabilities:		
Accounts and notes receivable, net	983,116	(1,157,391)
Contributions receivable, net	(4,106,972)	1,447,321
Inventories	(12,124)	(23,634)
Prepaid expenses	(116,657)	(214,604)
Accounts payable and accrued expenses	(449,585)	58,133
Accrued salaries and wages	187,156	82,918
Deferred revenue	(72,720)	(1,166,600)
Refundable government advances	(276,576)	(346,696)
Postretirement employer contributions	(257,117)	(259,435)
Payments for abatement of asset retirement of obligation	(9,763)	(11,389)
Net cash from operating activities	<u>(9,395,691)</u>	<u>(7,280,556)</u>
Cash flows from investing activities:		
Purchases of investments and additions to funds held in trust by others	(129,561,023)	(86,431,369)
Proceeds from sales and maturities of investments and funds held in trust by others	130,400,767	94,752,601
Purchases of property, plant and equipment	(9,248,847)	(6,927,268)
Proceeds from sale of property, plant and equipment	-	546,500
Net cash from investing activities	<u>(8,409,103)</u>	<u>1,940,464</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment:		
Endowment	5,627,101	3,750,384
Investment in property, plant and equipment	923,264	416,775
Net gifts on annuities payable	1,133,014	1,223,627
Principal repayments on bonds payable	(32,306,651)	(4,160,320)
Principal repayments on notes payable	-	(48,159)
Proceeds from bonds payable	31,315,510	-
Payments for bond issuance costs	(323,597)	-
Net cash from financing activities	<u>6,368,641</u>	<u>1,182,307</u>
Net change in cash and cash equivalents and restricted cash	(11,436,153)	(4,157,785)
Cash and cash equivalents and restricted cash, beginning of year	83,644,091	87,801,876
Cash and cash equivalents and restricted cash, end of year	<u>\$ 72,207,938</u>	<u>\$ 83,644,091</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 1,766,889</u>	<u>\$ 2,871,984</u>
Noncash investing and financing activities		
Bond repayment through legal defeasance	<u>\$ 18,965,000</u>	<u>\$ -</u>
Bond proceeds used for bond defeasance	<u>\$ 19,432,000</u>	<u>\$ -</u>

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

THE UNIVERSITY OF THE SOUTH

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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

Revenue Recognition – The University’s revenue recognition policies include the recording of student comprehensive fees, which include the cost of tuition, room and board, and fees, as revenue in the fiscal year that the related academic services are rendered. Comprehensive fees received in advance of services to be rendered are recorded as deferred revenue. Net comprehensive fees reflects scholarship allowances reducing comprehensive fees by \$49,563,096 and \$43,411,633 at June 30, 2022 and 2021, 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 and government grants) may be subject to conditions, in the form of both a barrier to entitlement and a refund of amounts paid (or a release from obligation to make future payments). Revenues from conditional non-exchange transactions are recognized when the barrier is satisfied. Revenues from government grants for June 30, 2022 and 2021, included \$1,425,833 and \$3,025,021, respectively, of Higher Education Emergency Relief Fund (“HEERF”) funds received by the University for emergency aid for students and to cover institutional expenses due to the COVID-19 pandemic.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 1—Summary of significant accounting policies (continued)

Deferred revenue of \$792,751 and \$865,471 as of June 30, 2022 and 2021, respectively, represents performance obligations associated with payments received for enrollment deposits and prepayments for the advent semester, rental housing deposits, and prepayments for School of Theology programs.

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

	<u>2022</u>	<u>2021</u>
Sewanee Inn	\$ 4,632,896	\$ 1,834,369
Non-board related dining services	2,992,616	1,432,199
Rental and lease income	2,672,445	2,488,555
Summer conferences	972,781	399,375
Golf and tennis	542,652	314,106
Bookstore lease	264,248	207,839
Child care center	242,805	202,912
Telecommunications	42,003	26,435
Other	390,468	182,104
	<u>\$ 12,752,914</u>	<u>\$ 7,087,894</u>

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.

	<u>2022</u>	<u>2021</u>
Reconciliation of Cash to Statement of Cash Flows:		
Cash and cash equivalents	\$ 72,002,409	\$ 83,380,766
Restricted cash	205,529	263,325
	<u>\$ 72,207,938</u>	<u>\$ 83,644,091</u>

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

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

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 1—Summary of significant accounting policies (continued)

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

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

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, 2022 and 2021. 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 the dates of the gifts, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of buildings and building improvements (20 to 60 years), land improvements (20 years), and equipment and books (5 to 15 years). Plant disposals are removed from the records at time of disposal. The University lifts the restrictions on contributions for long-lived assets at the time the assets are acquired or placed in service (if constructed).

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

The University does not include either the cost or the value of its collections on the 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 were used to make loans to eligible students at low interest rates. Under federal law, the authority for institutions to make new Perkins loans to students ended on September 30, 2017, and final disbursement to students were permitted through June 30, 2018. At June 30, 2022 and 2021, refundable government advances under the Perkins Loan Program totaled \$1,047,711 and \$1,324,287, respectively.

THE UNIVERSITY OF THE SOUTH

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 1—Summary of significant accounting policies (continued)

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

Income Taxes – The University 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.

Concentrations of Credit Risk – Financial instruments that potentially subject the University to concentrations of credit risk and market risk consist principally of cash equivalents, investments, and student loans receivable. The University places its cash equivalents and investments with financial institutions and limits the amount of credit exposure to any one financial institution. The University requires each student and/or student's parents to guarantee payment of student loans receivable, but does not require collateral. The University's student loans receivable do not represent significant concentrations of market risk because as the receivables are due from numerous students. The University places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts. At June 30, 2022, the University had \$2,158,239 of cash 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 (see Note 13). Level inputs are as follows:

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

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

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

Self-Insurance – 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. The University is liable for losses on claims up to \$200,000 per claimant and has third-party insurance coverage for any losses in excess of such amounts. Self-insurance claims filed and claims incurred but not reported are accrued based upon management's estimates using a third-party advisor and historical experience. As of June 30, 2022 and 2021, the University reported \$835,000 and \$699,000, respectively, as incurred but not reported claims. These claims have been included in accounts payable and accrued expenses in the statements of financial position.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 1—Summary of significant accounting policies (continued)

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, maintenance expense, and depreciation is allocated based on square footage of buildings and usage, and interest expense is allocated based on the purpose of the related bond.

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

Recently Adopted Accounting Pronouncements – In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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 are classified as either finance or operating. This distinction is relevant for the pattern of revenue recognition in the statement of activities. The University adopted this standard effective July 1, 2021, and the adoption had no material effect on the University’s financial statements.

In September 2020, FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires presentation of contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. It also requires a disclosure of disaggregated contributions of nonfinancial assets by category that depicts the type of contributed nonfinancial assets. This distinction will increase transparency of contributions recognized. The University adopted this standard effective July 1, 2021, and the adoption had no material effect on the University’s financial statements.

Note 2—Accounts and notes receivable

Accounts and notes receivable consist of the following at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Accounts receivable:		
Students and trade	\$ 775,289	\$ 661,707
Less allowance for doubtful accounts	(180,530)	(145,848)
Total accounts receivable, net	<u>594,759</u>	<u>515,859</u>
Notes receivable:		
Students loans	859,510	1,079,046
Other notes receivable	227,558	186,995
	<u>1,087,068</u>	<u>1,266,041</u>
Less allowance for doubtful loans	(8,392)	(8,392)
Total notes receivable, net	<u>1,078,676</u>	<u>1,257,649</u>
Other receivable:		
HEERF funding	-	1,425,831
Other receivable	734,901	192,113
Total other receivable	<u>734,901</u>	<u>1,617,944</u>
Total accounts and notes receivable, net	<u>\$ 2,408,336</u>	<u>\$ 3,391,452</u>

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 2—Accounts and notes receivable (continued)

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, 2022 and 2021, student loans represented 0.11% and 0.12% of total assets, respectively.

At June 30, 2022 and 2021, student loans consisted of the following:

	<u>2022</u>	<u>2021</u>
Federal government loans (Perkins)	\$ 843,994	\$ 1,062,775
Institutional loans	15,516	16,271
	<u>\$ 859,510</u>	<u>\$ 1,079,046</u>
Allowance for doubtful accounts - student loans:		
Beginning of year	\$ 8,392	\$ 13,939
Increases	-	-
Recoveries credited to expense	-	(5,547)
End of the year	<u>\$ 8,392</u>	<u>\$ 8,392</u>

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 ten-year period. In the event the staff member terminates employment prior to repayment of the loan, the balance of the loan is due and payable. At June 30, 2022 and 2021, these loan programs consisted of the following loan balances:

	<u>2022</u>	<u>2021</u>
Employee loans (ELP)	\$ 60,997	\$ 65,817
Advanced degree loans (ADL)	86,611	101,244
Other	79,950	19,934
	<u>\$ 227,558</u>	<u>\$ 186,995</u>

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

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 3—Contributions receivable

Contributions receivable is summarized as follows at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Unconditional contributions receivable for:		
Building programs	\$ 1,476,706	\$ 2,011,587
Endowment	2,276,535	2,437,798
Restricted scholarship and operating	<u>3,560,075</u>	<u>4,079,675</u>
Total unconditional contributions receivable	7,313,316	8,529,060
Trust mortgage receivable, net	<u>2,430,266</u>	<u>3,506,805</u>
Total amounts due to be received in future years	9,743,582	12,035,865
Split-interest agreements - amounts held by others in perpetuity	<u>20,038,528</u>	<u>23,018,877</u>
Total contributions receivable	29,782,110	35,054,742
Less contribution receivable discount to present value	(451,650)	(505,252)
Less contribution receivable allowance	<u>(356,817)</u>	<u>(392,717)</u>
Total contributions receivable, net	<u>\$ 28,973,643</u>	<u>\$ 34,156,773</u>
Amounts due to be received in future years:		
Less than one year	\$ 2,051,649	\$ 3,552,393
One to five years	3,406,556	5,676,805
More than five years	<u>4,285,377</u>	<u>2,806,667</u>
Total	<u>\$ 9,743,582</u>	<u>\$ 12,035,865</u>

Contributions receivable are recorded at the net present value of the estimated future cash flows from the contributions. The imputed interest rates range from .34% to 6.8% at for fiscal year 2022 and 2021. At June 30, 2022 and 2021, the trust mortgage receivable is recorded net of a present value discount of \$278,539 and \$323,547, respectively, based on a discount rate of 3.83%.

As of June 30, 2022, 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, 2022 and 2021, the University's contributions receivable included \$125,000 and \$533,667, 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 no contributions receivables for split-interest agreements in fiscal years 2022 and 2021. 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.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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, 2022 and 2021:

	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Cash and temporary investments	\$ 16,545,713	\$ 17,093,907	\$ 32,019,689	\$ 32,848,931
Equities	73,143,576	83,467,623	51,084,345	76,412,877
Fixed income	37,140,562	36,631,886	37,259,982	38,020,374
Global equities	92,900,000	108,299,725	90,442,805	151,919,195
Hedge fund	60,325,710	54,337,134	62,598,483	83,485,654
Private equity	86,646,584	142,846,675	67,248,298	126,161,815
Real assets	1,647,790	1,647,790	1,648,615	1,648,615
Cash value of life insurance policies	1,740,672	1,740,672	1,744,814	1,744,814
	<u>\$ 370,090,607</u>	<u>\$ 446,065,412</u>	<u>\$ 344,047,031</u>	<u>\$ 512,242,275</u>
Funds held in trust by others	<u>\$ 22,628,949</u>	<u>\$ 24,100,893</u>	<u>\$ 22,635,265</u>	<u>\$ 29,283,515</u>

Investment returns, net, for 2022 and 2021 consisted of the following:

	2022	2021
(Losses) gains on endowment, net	\$ (63,071,918)	\$ 119,630,531
Other investment related (losses) gains	(1,945,239)	4,835,838
Total net investment return	(65,017,157)	124,466,369
Included in the statement of activities as investment return designated for current operations:		
Endowment spending	(24,998,855)	(23,808,550)
Other investment income	(159,985)	(41,245)
Investment returns, net, less than appropriated for expenditure	<u>\$ (90,175,997)</u>	<u>\$ 100,616,574</u>

For fiscal years ended June 30, 2022 and 2021, the University paid \$1,407,658 and \$1,864,077, respectively, investment management fees, which are netted against gains on endowment.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 5—Endowment and similar funds

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

Interpretation of the Uniform Prudent Management of Institutional Funds 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 Notes 8 and 13, as of June 30, 2022 and 2021, was \$439,971,156 and \$519,143,301, 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, 2022 and 2021 were \$98,220,356 and \$119,447,803, respectively. Gains and losses on board-designated endowments are shown as net assets without donor restrictions.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 5—Endowment and similar funds (continued)

A schedule of endowment and similar funds' net asset composition as of June 30, 2022 and 2021 follows:

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose/Time Restrictions	Perpetual in Nature	
2022				
True endowment	\$ -	\$ -	\$ 191,767,151	\$ 191,767,151
Board-designated endowments	65,067,274	2,334,965	-	67,402,239
Net gains	33,153,082	148,427,084	-	181,580,166
Deficiencies in donor-restricted endowment funds	-	(778,400)	-	(778,400)
	<u>\$ 98,220,356</u>	<u>\$ 149,983,649</u>	<u>\$ 191,767,151</u>	<u>\$ 439,971,156</u>
2021				
True endowment	\$ -	\$ -	\$ 183,571,107	\$ 183,571,107
Board-designated endowments	63,057,558	2,334,965	-	65,392,523
Net gains	56,390,245	213,789,426	-	270,179,671
	<u>\$ 119,447,803</u>	<u>\$ 216,124,391</u>	<u>\$ 183,571,107</u>	<u>\$ 519,143,301</u>

A reconciliation of assets held by endowment as of June 30, 2022 and 2021 follows:

	2022	2021
Pooled endowment assets:		
Investments, at fair value	\$ 446,065,412	\$ 512,242,275
Less amounts applicable to annuity and life income funds	(24,118,181)	(25,294,936)
Less investments not held through endowments	(9,115,561)	(301,981)
Less investment not held in endowment pool	(2,527,290)	(2,461,041)
	<u>410,304,380</u>	<u>484,184,317</u>
Non-pooled endowment assets:		
Investment not held in endowment pool	2,527,290	2,461,041
Intangible, net	3,438,593	3,614,428
Funds held in trust by others	24,100,893	29,283,515
Less investments held through social impact funds	(400,000)	(400,000)
	<u>29,666,776</u>	<u>34,958,984</u>
Total endowment assets	<u>\$ 439,971,156</u>	<u>\$ 519,143,301</u>

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 5—Endowment and similar funds (continued)

Changes in endowment and similar funds' net assets for the years ended June 30, 2022 and 2021 are as follows:

	<u>Without Donor Restrictions</u>	<u>Purpose/Time Restrictions</u>	<u>Perpetual in Nature</u>	<u>Total</u>
Endowment Net Assets June 30, 2020	\$ 95,206,730	\$ 144,321,034	\$ 179,987,276	\$ 419,515,040
Investment Return, net of investment expenses	29,882,112	89,748,419	-	119,630,531
New gifts	9,289	-	2,665,305	2,674,594
Contribution receivable payments	10,000	-	736,242	746,242
Other transfers, net	300,000	-	182,284	482,284
	<u>319,289</u>	<u>-</u>	<u>3,583,831</u>	<u>3,903,120</u>
Appropriation of endowment assets for expenditure	(5,863,488)	(17,945,062)	-	(23,808,550)
Copyright amortization	(96,840)	-	-	(96,840)
	<u>(5,960,328)</u>	<u>(17,945,062)</u>	<u>-</u>	<u>(23,905,390)</u>
Endowment Net Assets June 30, 2021	119,447,803	216,124,391	183,571,107	519,143,301
Investment Return, net of investment expenses	(15,794,290)	(47,277,628)	-	(63,071,918)
New gifts	109,550	-	4,641,713	4,751,263
Contribution receivable payments	-	-	1,539,036	1,539,036
Other transfers, net	768,869	-	2,015,295	2,784,164
	<u>878,419</u>	<u>-</u>	<u>8,196,044</u>	<u>9,074,463</u>
Appropriation of endowment assets for expenditure	(6,135,741)	(18,863,114)	-	(24,998,855)
Copyright amortization	(175,835)	-	-	(175,835)
	<u>(6,311,576)</u>	<u>(18,863,114)</u>	<u>-</u>	<u>(25,174,690)</u>
Endowment Net Assets June 30, 2022	<u>\$ 98,220,356</u>	<u>\$ 149,983,649</u>	<u>\$ 191,767,151</u>	<u>\$ 439,971,156</u>

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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 (“underwater endowments”). In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions.

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

As of June 30, 2022, there were 69 donor-designated endowment funds that had a market value below the original contribution value. The aggregate contribution value for the 69 named endowment funds totaled \$19,069,033. The fair value for this group of underwater endowment funds \$18,290,633 or 96% of the original contribution value as of June 30, 2022. The 69 underwater donor-designated endowment funds for 2022 consist of 28,620 units, which represent 4% of the total number of units within the pooled-endowment funds. (There were total units of 629,072 in the pooled discretionary endowment group as of June 30, 2022 – see page 19 “Pooled Investments” section). The University is applying the standard unitized spending rate to the 69 underwater accounts as of June 30, 2022. 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 69 underwater endowment funds resulted in a spending distribution of \$762,807 in fiscal year 2022. At June 30, 2021, the University had no underwater endowments.

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

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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 years ended June 30, 2022 and 2021, the spending rate was 4.91% and 5.77%, respectively. Using these spending rates, \$23,758,799 and \$22,526,008 of total return was available from these funds for operating purposes in 2022 and 2021, respectively.

A breakdown of the total endowment support used for operations and reinvestment in fiscal years 2022 and 2021 is shown below:

	<u>2022</u>	<u>2021</u>
Appropriated investment return from pooled investments	\$ 23,758,799	\$ 22,526,008
Outside Trust Income	1,240,056	1,282,542
	<u>\$ 24,998,855</u>	<u>\$ 23,808,550</u>

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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Investments in pooled funds, at fair value	\$ 410,304,380	\$ 484,184,317
Total number of units	642,015	629,057
Market value per unit	639.09	769.70
Average annual earnings per unit	33.41	32.88

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, 2022 and 2021 was \$24,100,893 and \$29,283,515, respectively. The University records these trusts at fair market value. The fair value of funds held in trust by others decreased \$5,182,622 in 2022 and increased \$5,250,333 in 2021. Income received from these funds for fiscal years 2022 and 2021 totaled approximately \$1,240,056 and \$1,282,542, respectively.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 6—Annuity and life income funds

At June 30, 2022 and 2021, investments for annuity and life income funds included:

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

2021	Without Donor Restrictions	With Donor Restrictions		Annuity Payment Liability	Total at Fair Value
		Purpose/Time Restrictions	Perpetual in Nature		
Pooled income trusts	\$ -	\$ -	\$ 11,829	\$ -	\$ 11,829
Charitable gift annuities	158,573	(268,116)	5,442,453	10,990,819	16,323,729
Cash value of life insurance	-	536,936	1,207,878	-	1,744,814
Unrealized gains on annuity and life income funds	-	7,214,564	-	-	7,214,564
Net Assets	\$ 158,573	\$ 7,483,384	\$ 6,662,160	\$ 10,990,819	\$ 25,294,936

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 years 2022 and 2021 was \$1,133,014 and \$1,125,181, respectively.

The assets related to the charitable gift annuities are recorded at fair value. The liability to the annuitant is recorded at the net present value of estimated future cash flows using the Internal Revenue Code, *Charitable Mid-Term Federal Rate*. The fair value of charitable gift annuities decreased for fiscal year 2022 by \$312,802 and for fiscal year 2021 by \$147,481.

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 years 2022 and 2021. 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 years 2022 and 2021 was \$44,904 and \$49,019, respectively.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 7—Property, plant, and equipment

Property, plant, and equipment consist of the following at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Land and land improvements	\$ 20,136,652	\$ 20,136,652
Buildings and building improvements	256,245,355	254,311,356
Equipment and books	39,880,354	38,677,112
Construction in progress	10,494,411	4,933,252
	<u>326,756,772</u>	<u>318,058,372</u>
Less accumulated depreciation	<u>(118,144,582)</u>	<u>(112,162,484)</u>
Total property, plant, and equipment, net	<u>\$ 208,612,190</u>	<u>\$ 205,895,888</u>

Depreciation expense at June 30, 2022 and 2021 was \$6,527,145 and \$6,468,792, respectively. The estimated cost to complete outstanding projects at June 30, 2022 is approximately \$24,000,000 related primarily to the Hamilton Hall and Social Commons projects.

Note 8—Intangible assets

Acquired intangible assets consist of the following at June 30, 2022 and 2021:

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Intangible Assets</u>
<u>2022</u>			
Tennessee Williams Copyrights	<u>\$ 7,785,781</u>	<u>\$ (4,347,188)</u>	<u>\$ 3,438,593</u>
<u>2021</u>			
Tennessee Williams Copyrights	<u>\$ 7,785,781</u>	<u>\$ (4,171,353)</u>	<u>\$ 3,614,428</u>

The Copyrights were acquired in 2003 and the University estimates that royalty income over the lifetime of the copyrights will approximate \$70,000,000 (the copyrights expire over a period of 30 to 70 years under current law). Accordingly, the copyrights are being amortized as the royalty income is realized. Management has estimated the fair value of these copyrights to be approximately \$11,000,000.

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 \$4,031,261 and \$879,497 in fiscal years 2022 and 2021, respectively. The University suspended all employer contributions during 2021 in order to reduce costs due to the COVID-19 pandemic.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 9—Pension plan and postretirement benefits (continued)

There are 64 current employees of the University that are eligible for postretirement healthcare benefits provided by the University. The eligible group includes those employees that began their work for the University before September 30, 1995. There are currently 146 retired employees and 47 spouses receiving the postretirement healthcare benefits (annual benefits range from \$994 to \$1,462 per employee or \$1,998 to \$2,923 for an employee and spouse). The status of the plan at June 30, 2022 and 2021 was as follows:

	<u>2022</u>	<u>2021</u>
A. Change in Benefit Obligation		
Benefit obligation at beginning of year	\$ 3,987,451	\$ 4,348,233
Service cost	107,714	109,967
Interest cost	96,472	94,917
Benefits paid (net of participant contributions)	(257,117)	(259,435)
Actuarial gain	(685,284)	(306,231)
Benefit obligation at end of year	<u>\$ 3,249,236</u>	<u>\$ 3,987,451</u>
B. Change in Plan Assets		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	257,117	259,435
Benefits paid (net of participant contributions)	(257,117)	(259,435)
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
C. Funded Status		
Funded status (benefit obligation)	<u>\$ (3,249,236)</u>	<u>\$ (3,987,451)</u>
Net amount recognized in statements of financial position	<u>\$ (3,249,236)</u>	<u>\$ (3,987,451)</u>
D. Amounts Not Yet Reflected in Net Periodic Benefit		
Cost and Included in net assets without donor restrictions:		
Accumulated (loss) gain	<u>\$ 630,092</u>	<u>\$ (55,192)</u>
Unrestricted net assets	630,092	(55,192)
Net periodic benefit cost in excess of cumulative employer contributions	<u>(3,879,328)</u>	<u>(3,932,259)</u>
Net amount recognized in statements of financial position	<u>\$ (3,249,236)</u>	<u>\$ (3,987,451)</u>
E. Components of Net Periodic Benefit Cost		
Service cost	\$ 107,714	\$ 109,967
Interest cost	96,472	94,917
Recognized actuarial (gain) loss	-	-
Net periodic post-retirement benefit cost	<u>\$ 204,186</u>	<u>\$ 204,884</u>

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 9—Pension plan and postretirement benefits (continued)

	<u>2022</u>	<u>2021</u>
F. Other Changes Recognized in Net Assets without donor restrictions		
Net (loss) gain arising during the period	\$ 630,092	\$ (55,192)
Total recognized in net assets without donor restrictions	<u>\$ 630,092</u>	<u>\$ (55,192)</u>

G. Key Assumptions and Trend Rate Sensitivity

Weighted average discount at June 30	4.00%	2.50%
Immediate health care cost trend rate	6.20%	6.40%
Ultimate trend rate	4.50%	4.50%
Year ultimate trend is reached	2032	2031

The change in the weighted average discount from 2.50% at June 30, 2021 to 4.00% at June 30, 2022 resulted in an unrecognized actuarial gain of \$574,186.

H. Expected Cash Flows

Expected employer contributions for the next fiscal year	<u>\$ 249,305</u>
Expected benefit payments for fiscal year ending in:	
2024	\$ 259,991
2025	269,359
2026	260,808
2027	252,317
2028-32	1,112,567

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

Note 10—Asset retirement obligation

Accounting standards define a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation does not defer recognition of a liability. The obligation to perform the asset retirement activity is unconditional and, accordingly, a liability should be recognized. Accounting standards also provide guidance with respect to the criteria to be used to determine whether sufficient information exists to reasonably estimate the fair value of an asset retirement obligation. Based on the guidance, management of the University determined that sufficient information was available to reasonably estimate the fair value of known asset retirement obligations. The liability incurred date is presumed to be the date upon which the legal requirement to perform the asset retirement activity was enacted. The conditional asset retirement obligations for asbestos removal for fiscal years 2022 and 2021 was \$3,207,009 and \$3,158,237, respectively. Accretion expense for the years ended June 30, 2022 and 2021 amounted to \$58,535 and \$135,597, respectively. The University had payments totaling \$9,763 and \$11,389 during the years ended June 30, 2022 and 2021, respectively, to settle a portion of the asset retirement obligation.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 11—Bonds payable

Bonds payable are summarized as follows at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
\$38,675,000 tax-exempt bond (2012 Issue) refinanced with 2021 bond issue.	\$ -	\$ 30,560,000
\$25,590,000 tax-exempt bond (2014 Issue) defeased with the issuance of the 2022 bond issue.	-	19,845,000
\$6,335,000 tax-exempt bond (2015A Issue) plus unamortized premium of \$477,300 at June 30, 2022, bearing interest with a fixed rate ranging from 3% to 4% with final maturity in 2034.	6,335,000	6,335,000
\$4,355,000 taxable bond (2015B Issue), bearing interest with a fixed rate ranging from .9% to 3.15% with final maturity in 2025.	1,595,000	2,075,000
\$3,000,000 tax-exempt bond (2016 Issue), mortgage-type repayment schedule 2.28% APR with final payment in 2031.	1,954,732	2,144,324
\$1,200,000 tax-exempt bond (2017 Issue), mortgage-type repayment schedule 2.50% APR with final payment in 2024.	-	57,059
\$22,274,000 tax-exempt bond (2019 Issue), mortgage-type repayment schedule 3.29% APR with final payment in 2039.	21,999,000	22,139,000
\$25,810,000 tax-exempt bond (2021 Issue) plus unamortized premium of \$5,505,510 at June 30, 2022, bearing interest with a fixed rate of 4.00% with final maturity in 2034.	25,810,000	-
\$19,432,000 tax-exempt bond (2022 Issue) bearing interest with a fixed rate of 3.06% APR with final payment in 2034.	19,432,000	-
Par amount of bonds payable	77,125,732	83,155,383
Unamortized net premium	5,982,810	2,896,830
Bond issue charges	(443,880)	(1,543,307)
Total bonds payable	<u>\$ 82,664,662</u>	<u>\$ 84,508,906</u>

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

In 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. This issue was refinanced with the 2021 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. This issue was refinanced with the 2022 bond issue.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 11—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. The bonds were paid off in fiscal year ended June 30, 2022.

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

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

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

As a result of the refinance of the 2012 Issue and 2014 Issue, the University wrote-off unamortized net premium of \$2,129,671 and bond issuance charges of \$1,329,525 resulting in a gain of \$800,146 which is included in interest expense for the year ended June 30, 2022.

Management believes the University was in compliance at June 30, 2022 with all covenants.

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, 2022 and 2021 of \$103,460,221 and \$94,987,734, respectively, was estimated by calculating the net present value of the future payment stream using the current market interest rate.

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

	<u>2015A</u> <u>Issue</u>	<u>2015B</u> <u>Issue</u>	<u>2016</u> <u>Issue</u>	<u>2019</u> <u>Issue</u>	<u>2021</u> <u>Issue</u>	<u>2022</u> <u>Issue</u>	<u>Total</u>
2023	\$ -	\$ 495,000	\$ 193,962	\$ 145,000	\$ 2,100,000	\$ 700,000	\$ 3,633,962
2024	-	510,000	198,331	150,000	2,170,000	1,396,000	4,424,331
2025	-	525,000	203,006	160,000	2,230,000	1,504,000	4,622,006
2026	475,000	65,000	207,686	425,000	2,280,000	1,571,000	5,023,686
2027	555,000	-	217,321	444,000	2,330,000	1,650,000	5,196,321
Thereafter	5,305,000	-	934,426	20,675,000	14,700,000	12,611,000	54,225,426
Total	<u>\$ 6,335,000</u>	<u>\$ 1,595,000</u>	<u>\$ 1,954,732</u>	<u>\$21,999,000</u>	<u>\$25,810,000</u>	<u>\$19,432,000</u>	<u>\$ 77,125,732</u>

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 11—Bonds payable (continued)

Bond issue charges were incurred on the 2012, 2014, 2015A, 2015B, 2018, 2019, 2021, and 2022 bond issues. Amortization expense was \$93,500 and \$137,415 for fiscal years 2022 and 2021, respectively.

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Bond Issue Charges</u>
<u>2022</u>			
Bond issue charges	\$ 461,073	\$ (17,193)	\$ 443,880
<u>2021</u>			
Bond issue charges	\$ 2,893,890	\$ (1,350,583)	\$ 1,543,307
Estimated amortization expense for each of the succeeding five years is as follows:			
2023		\$ 33,783	
2024		33,783	
2025		33,783	
2026		33,783	
2027		33,783	
Thereafter		274,965	
		<u>\$ 443,880</u>	

Note 12—Commitments

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

The University outsources the operations of the University Book and Supply Store to Barnes & Noble College Bookstore, Inc., under a five-year operating agreement which was first signed effective March 12, 2003. A new agreement extended the contract to April 30, 2023. The contract payments are based on a percentage of net sales. The University received payments of \$264,248 and \$207,839 in fiscal years 2022 and 2021, respectively, in connection with this agreement.

Note 13—Fair value measurements

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

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 13—Fair value measurements (continued)

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total Fair Value</u>
Investments					
Cash and cash equivalents	\$ 17,093,907	\$ -	\$ -	\$ -	\$ 17,093,907
Equities					
U.S. Equities	83,467,623	-	-	-	83,467,623
Fixed Income					
U.S. Government Bonds	36,631,886	-	-	-	36,631,886
Hedge Funds and Limited Partnerships					
Global Equities	-	-	-	108,299,725	108,299,725
Hedge Fund	-	-	-	54,337,134	54,337,134
Private Equity	-	-	-	142,846,675	142,846,675
Real Assets	1,647,790	-	-	-	1,647,790
Other	-	1,740,672	-	-	1,740,672
Total Investments	<u>\$ 138,841,206</u>	<u>\$ 1,740,672</u>	<u>\$ -</u>	<u>\$ 305,483,534</u>	<u>\$ 446,065,412</u>
Funds Held in Trust by Others	<u>\$ 988,011</u>	<u>\$ 23,112,882</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,100,893</u>
Split-interest agreements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,038,528</u>	<u>\$ -</u>	<u>\$ 20,038,528</u>

The following table summarizes fair value disclosures and measurements at June 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total Fair Value</u>
Investments					
Cash and cash equivalents	\$ 32,848,931	\$ -	\$ -	\$ -	\$ 32,848,931
Equities					
U.S. Equities	76,412,877	-	-	-	76,412,877
Fixed Income					
U.S. Government Bonds	38,020,374	-	-	-	38,020,374
Hedge Funds and Limited Partnerships					
Global Equities	-	-	-	151,919,195	151,919,195
Hedge Fund	-	-	-	83,485,654	83,485,654
Private Equity	-	-	-	126,161,815	126,161,815
Real Assets	1,648,615	-	-	-	1,648,615
Other	-	1,744,814	-	-	1,744,814
Total Investments	<u>\$ 148,930,797</u>	<u>\$ 1,744,814</u>	<u>\$ -</u>	<u>\$ 361,566,664</u>	<u>\$ 512,242,275</u>
Funds Held in Trust by Others	<u>\$ 529,325</u>	<u>\$ 28,754,190</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,283,515</u>
Split-interest agreements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,018,877</u>	<u>\$ -</u>	<u>\$ 23,018,877</u>

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 13—Fair value measurements (continued)

Set forth below is additional information pertaining to limited partnerships held at NAV at June 30, 2022:

<u>2022</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Limited Partnerships ^(a) :				
Hedge Funds	\$ 17,867,024	\$ -	Monthly-Annually	0-90 Days
Developed Markets	83,661,798	-	Quarterly	0-90 Days
Global Equity	15,523,502	-	Monthly-Annually	0-90 Days
Relative Value	11,000,066	-	Quarterly	0-90 Days
Special Situations	18,719,651	-	Quarterly-Annually	0-90 Days
U.S. Equity	216	-	Illiquid	0-90 Days
European Equity	-	-		0-90 Days
Global Equity – Developed	6,750,178	-	Monthly-Quarterly	0-90 Days
Global Equity – Emerging	9,114,425	-	Monthly	0-90 Days
Private Equity	-	-	Illiquid ^(b)	
U.S. Private Equity	33,986,623	16,592,850	Illiquid ^(b)	
Leveraged Buyout	14,330,280	1,066,154	Illiquid ^(b)	
Diversified Strategies	18,066,566	636,638	Illiquid ^(b)	
Venture Capital	26,588,924	13,547,248	Illiquid ^(b)	
Natural Resources	8,815,450	2,332,605	Illiquid ^(b)	
Real Estate Private Partnership	9,566,858	4,101,580	Illiquid ^(b)	
Private Credit	30,086,516	8,653,789	Illiquid ^(b)	
Other	1,405,457	759,323	Illiquid ^(b)	
Total	<u>\$ 305,483,534</u>	<u>\$ 47,690,187</u>		

^(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 UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 13—Fair value measurements (continued)

Set forth below is additional information pertaining to limited partnerships held at NAV at June 30, 2021:

<u>2021</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Limited Partnerships ^(a) :				
Hedge Funds	\$ 19,062,506	\$ -	Monthly-Annually	0-180 Days
Developed Markets	11,460,303	-	Quarterly	0-45 Days
Diversified Strategies	731	-	Quarterly	0-45 Days
Relative Value	13,134,367	-	Quarterly-Annually	46-90 Days
Special Situations	29,454,087	-	Quarterly-Annually	46-90 Days
U.S. Equity	202	-	Illiquid	Over 365 Days
European Equity	10,373,457	-	Quarterly	46-90 Days
Global Equity – Developed	122,486,932	-	Monthly-Quarterly	0-90 Days
Global Equity – Emerging	29,432,263	-	Monthly-Quarterly	0-90 Days
Private Equity	13,217,731	-	Illiquid ^(b)	
U.S. Private Equity	20,869,219	11,725,740	Illiquid ^(b)	
Leveraged Buyout	1,520,164	1,023,789	Illiquid ^(b)	
Diversified Strategies	19,599,473	785,631	Illiquid ^(b)	
Venture Capital	21,832,945	11,998,293	Illiquid ^(b)	
Natural Resources	6,790,188	3,776,552	Illiquid ^(b)	
Real Estate Private Partnership	8,867,331	4,444,532	Illiquid ^(b)	
Private Credit	30,943,058	14,543,486	Illiquid ^(b)	
Other	2,521,707	1,278,214	Illiquid ^(b)	
Total	<u>\$ 361,566,664</u>	<u>\$ 49,576,237</u>		

^(a)The fair values of the investments in the category have been estimated using the net asset value per share of the investments.

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

Note 14—Fund-raising costs

In the fiscal years ended June 30, 2022 and 2021, expenses of \$2,273,919 and \$1,933,181, respectively, were related to fund-raising activities and are classified in the statements of activities under institutional support.

Note 15—Lines of credit

At June 30, 2022 and 2021, 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. During the year ended June 30, 2022, the line of credit was extended through January 31, 2023.

During the year ended June 30, 2021, the University executed another line of credit of \$20,000,000 with a financial institution. No balance was outstanding on this line of credit at June 30, 2022 and 2021. There are no compensating balance requirements under the line of credit, nor any related fees. The line of credit expires on May 31, 2023.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 16—Expenses

Expenses by function and nature consist of the following for the years ended June 30, 2022 and 2021:

2022	Instructional	Academic Support	Research	Student Services	Auxiliary Services	Institutional Support	Total
Salaries and Benefits	\$25,718,542	\$ 5,366,457	\$ 31,943	\$ 9,778,053	\$ 6,073,452	\$15,955,563	\$ 62,924,010
Operation and Maintenance of Plant	2,864,511	926,621	-	2,014,529	297,383	1,050,062	7,153,106
Depreciation	845,988	977,979	-	808,649	3,137,010	757,519	6,527,145
Interest	707,563	228,884	-	497,609	73,457	259,376	1,766,889
Other non-compensation expenses	7,837,338	2,586,484	133,967	6,039,303	11,435,318	9,463,679	37,496,089
	<u>\$37,973,942</u>	<u>\$10,086,425</u>	<u>\$ 165,910</u>	<u>\$19,138,143</u>	<u>\$21,016,620</u>	<u>\$27,486,199</u>	<u>\$115,867,239</u>
2021	Instructional	Academic Support	Research	Student Services	Auxiliary Services	Institutional Support	Total
Salaries and Benefits	\$22,746,570	\$ 5,692,662	\$ 69,599	\$ 8,055,913	\$ 5,549,464	\$14,644,979	\$ 56,759,187
Operation and Maintenance of Plant	2,446,764	791,488	-	1,560,318	254,016	863,771	5,916,357
Depreciation	822,192	991,111	-	766,018	3,110,231	779,240	6,468,792
Interest	221,924	293,024	-	936,091	1,148,293	272,652	2,871,984
Other non-compensation expenses	2,904,300	2,811,664	82,484	3,226,558	7,336,024	12,879,860	29,240,890
	<u>\$29,141,750</u>	<u>\$10,579,949</u>	<u>\$ 152,083</u>	<u>\$14,544,898</u>	<u>\$17,398,028</u>	<u>\$29,440,502</u>	<u>\$101,257,210</u>

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

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

	2022	2021
Subject to expenditure for specific purpose:		
Student financial aid	\$ 86,318,147	\$ 118,759,480
Academic support	45,275,999	62,025,588
Institutional support	33,586,560	44,492,789
Instructional	21,099,507	28,366,171
Plant operations	10,524,607	12,558,129
Student services	4,701,574	6,316,568
Other	1,612,488	2,677,437
	<u>203,118,882</u>	<u>275,196,162</u>
Subject to the spending policy and appropriation:		
Restricted in perpetuity, the income from which is expendable to support:		
Student financial aid	118,409,251	112,928,821
Institutional support	35,423,198	34,394,767
Academic support	24,376,707	24,401,713
Academic instruction	16,664,472	16,486,879
Student services	6,263,765	6,096,801
Plant operations	1,286,114	1,970,401
Purchases of property and equipment	213,840	164,915
Other	2,532,526	1,605,144
	<u>205,169,873</u>	<u>198,049,441</u>
	<u>\$ 408,288,755</u>	<u>\$ 473,245,603</u>

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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

Net assets are released from donor restrictions when expenses are incurred to satisfy the restricted purposes or by occurrence of other events as specified by the donors. The purpose of the restricted contributions released due to satisfaction of program restrictions during fiscal years 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Instructional	\$ 1,022,844	\$ 477,064
Academic support	1,747,174	4,326,770
Research	118,558	73,712
Student services	383,459	43,253
Institutional support	2,404,125	2,832,480
Scholarships	3,897	940,525
Auxiliary services	665,406	1,125,094
Property, plant, and equipment	1,832,541	1,467,868
	<u>\$ 8,178,004</u>	<u>\$ 11,286,766</u>

Note 18—Litigation and contingencies

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

Note 19—Liquidity and availability of resources

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

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

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 19—Liquidity and availability of resources (continued)

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

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 72,002,409	\$ 83,380,766
Restricted cash	205,529	263,325
Accounts and notes receivable, net	2,408,336	3,391,452
Contributions receivable, net	28,973,643	34,156,773
Investments, at fair value	446,065,412	512,242,275
Funds held in trust by others	<u>24,100,893</u>	<u>29,283,515</u>
Financial assets at end of year	573,756,222	662,718,106
(Less)/plus assets (unavailable)/available for general expenditures within one year:		
Board authorized endowment spending	26,744,432	21,740,775
Notes and loan receivables	(1,078,676)	(1,257,649)
Investments held as endowment and similar funds	(412,431,670)	(486,245,358)
Contributions receivable for general expenditures due in more than one year	(28,888,790)	(34,041,097)
Assets held in trust by others	(24,100,893)	(29,283,515)
Restricted cash	(205,529)	(263,325)
Annuity and life income funds	(24,118,181)	(25,294,936)
Donor restricted funds	<u>(26,582,506)</u>	<u>(26,703,870)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 83,094,409</u>	<u>\$ 81,369,131</u>

In addition to the amounts in the table above, the University's board-designated endowment of \$98,220,356 and \$119,447,803 at June 30, 2022 and 2021, respectively, are subject to an annual spending rate as described in Note 5. Although the University does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary. As described in Note 15, the University also has two lines of credit that are available for general operating needs.

Note 20—Subsequent events

The University has evaluated subsequent events through October 19, 2022, the issuance date of the University's financial statements, and have determined that there are no subsequent events that require disclosure.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 21—Financial Responsibility-US Department of Education

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

The University's pre-implementation and post-implementation property, plant, and equipment amounts at June 30, 2022 are as follows:

	<u>Pre- Implementation</u>	<u>Post- Implementation</u>	<u>Total</u>
Property, plant and equipment (PP&E)			
PP&E, net of accumulated depreciation as of June 30, 2021:			
(1) Land, buildings, equipment, furniture and software	\$ 178,277,097	\$ 22,685,539	\$ 200,962,636
(2) Construction in process ("CIP")	710,370	4,222,882	4,933,252
Total PP&E, net of accumulated depreciation as of June 30, 2021	<u>178,987,467</u>	<u>26,908,421</u>	<u>205,895,888</u>
Fiscal year ended June 30, 2022 activity:			
(1) Land, buildings, equipment, furniture and software			
Additions		2,315,889	2,315,889
CIP placed in service	710,370	661,429	1,371,799
Disposals	(5,400)	-	(5,400)
Depreciation	<u>(5,884,388)</u>	<u>(642,757)</u>	<u>(6,527,145)</u>
Sub-total Land, buildings, equipment, furniture and software	<u>(5,179,418)</u>	<u>2,334,561</u>	<u>(2,844,857)</u>
(2) CIP:			
Additions	-	6,932,958	6,932,958
CIP placed in service	<u>(710,370)</u>	<u>(661,429)</u>	<u>(1,371,799)</u>
Sub-total CIP	<u>(710,370)</u>	<u>6,271,529</u>	<u>5,561,159</u>
Total PP&E, net of accumulated depreciation at June 30, 2022	<u>173,097,679</u>	<u>35,514,511</u>	<u>208,612,190</u>
Comprised of:			
Land, buildings, equipment, furniture and software	173,097,679	25,020,100	198,117,779
CIP	-	10,494,411	10,494,411
Total PP&E, net of accumulated depreciation at June 30, 2022	<u>\$ 173,097,679</u>	<u>\$ 35,514,511</u>	<u>\$ 208,612,190</u>

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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

The University's pre-implementation and post-implementation debt and line of credit amounts at June 30, 2022 are as follows:

	Allowable Debt		Total
	Pre- Implementation	Post- Implementation	
Debt and Line of Credit			
Debt at June 30, 2021:			
(1) PP&E	\$ 61,016,383	\$ -	\$ 61,016,383
(2) CIP	22,139,000	-	22,139,000
(3) Bond issuance charges and unamortized net premium	1,353,523	-	1,353,523
Total at June 30, 2021	<u>84,508,906</u>	<u>-</u>	<u>84,508,906</u>
Fiscal year ended June 30, 2022 activity:			
(1) PP&E			
Payments	(32,306,651)	-	(32,306,651)
Defeased	(18,965,000)	19,432,000	467,000
Additions	-	25,810,000	25,810,000
Reclass	22,139,000	-	22,139,000
Sub-total PP&E	<u>(29,132,651)</u>	<u>45,242,000</u>	<u>16,109,349</u>
(2) CIP			
Payments	-	-	-
Reclass	(22,139,000)	-	(22,139,000)
Sub-total CIP	<u>(22,139,000)</u>	<u>-</u>	<u>(22,139,000)</u>
(3) Bond issuance charges and unamortized net premium			
Amortization	(196,359)	-	(196,359)
Additions	-	5,181,913	5,181,913
Disposals	(800,147)	-	(800,147)
Sub-total bond issuance charges and unamortized net premium	<u>(996,506)</u>	<u>5,181,913</u>	<u>4,185,407</u>
Debt at June 30, 2022	<u>\$ 32,240,749</u>	<u>\$ 45,242,000</u>	<u>\$ 82,664,662</u>
Allowable debt comprised of:			
(1) PP&E	\$ 31,883,732	\$ 45,242,000	\$ 77,125,732
(2) CIP	-	-	-
(3) Bond issuance charges and unamortized net premium	357,017	5,181,913	5,538,930
Sub-total allowable debt	<u>32,240,749</u>	<u>50,423,913</u>	<u>82,664,662</u>
(4) Non-allowable debt for operations	-	-	-
Total debt at June 30, 2022	<u>\$ 32,240,749</u>	<u>\$ 50,423,913</u>	<u>\$ 82,664,662</u>

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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

The University's nonoperating activity for the fiscal year ended June 30, 2022, broken by its nonoperating losses and gains are as follows:

	<u>Gain/(Loss)</u>	<u>Financial Responsibility Supplemental Schedule Category</u>	
		<u>Nonoperating and Net Investment (loss)</u>	<u>Nonoperating Revenue and Other Gains</u>
From the non-operating section of the statement of activities, without donor restrictions:			
Net return on investments, net of amount appropriated for endowment spending payout	\$ (20,809,225)		
Adjustment: add investment returns appropriated for spending from board-designated endowments	<u>22,862,689</u>		
Adjusted investment returns	2,053,464	\$ -	\$ 2,053,464
Contributions	522,095	-	522,095
Net Assets released for capital expenditures	1,832,541	-	1,832,541
Change in value of split-interest agreements	(1,309,863)	(1,309,863)	-
Addition of asset retirement obligation	-	-	-
Adjusted total non-operating items	<u>\$ 3,098,237</u>	<u>\$ (1,309,863)</u>	<u>\$ 4,408,100</u>

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

SUPPLEMENTARY INFORMATION

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

JUNE 30, 2022 AND 2021

	<u>Components</u>	<u>Totals</u>	
Primary Reserve Ratio:			
Expendable Net Assets:			
Net assets without donor restrictions		\$ 270,913,335	[A]
Net assets with donor restrictions		408,288,755	[A]
Unsecured related party receivable		125,000	[H]
Property, plant and equipment, net - Total		208,612,190	[D]
Property, plant and equipment pre-implementation	173,097,679		[D]
Property, plant and equipment post-implementation with outstanding debt for original purchase	-		[D]
Property, plant and equipment post-implementation without outstanding debt for original purchase	25,020,100		[D]
Construction in progress	10,494,411		[D]
Lease right-of-use asset, net - Total		-	N/A
Lease right-of-use asset, pre-implementation	-		N/A
Lease right-of-use asset, post-implementation	-		N/A
Long-term debt - for long term purposes		82,664,662	[D]
Long-term debt - for long term purposes pre-implementation	32,240,749		[D]
Long-term debt - for long term purposes post-implementation	50,423,913		[D]
Line of credit for construction in progress	-		[D]
Lease right-of-use asset liability		-	N/A
Pre-implementation right-of-use asset liability	-		N/A
Post-implementation right-of-use asset liability	-		N/A
Annuities, term endowments and life income with donor restrictions		8,819,442	[F]
Annuities with donor restrictions	6,484,477		[F]
Term endowment with donor restrictions	2,334,965		[G]
Net assets with donor restrictions: other, for purpose or time	194,299,440		Computation
Net assets with donor restrictions: restricted in perpetuity		<u>205,169,873</u>	[C]
Total Expendable Net Assets		<u>\$ 339,140,247</u>	
Total Expenses and Losses:			
Total expenses without donor restrictions		\$ 115,867,239	[B]
Nonoperating and net investment (loss)	(1,309,863)	-	[D]
Other components of net periodic pension costs		-	[E]
Change in value of split-interest agreements		(1,309,863)	[D]
Other losses		-	[D]
Net investment losses	-		[D]
Pension-related changes other than net periodic costs	(685,284)		[E]
Total Expenses and Losses		<u>\$ 114,557,376</u>	

Financial Statement Reference Definitions:

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

See report of independent auditor.

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

JUNE 30, 2022 AND 2021

	<u>Components</u>	<u>Totals</u>	
Equity Ratio:			
Modified Net Assets:			
Net assets without donor restrictions		\$ 270,913,335	[A]
Net assets with donor restrictions		408,288,755	[A]
Total Modified Net Assets		<u>\$ 679,202,090</u>	
Modified Assets:			
Total assets		\$ 787,587,757	[A]
Unsecured related party receivables		125,000	[H]
Total Modified Assets		<u>\$ 787,587,757</u>	
Net Income Ratio:			
Change in net assets without donor restrictions		<u>\$ (18,873,748)</u>	[B]
Total revenues without donor restrictions and gains without donor restrictions:			
Total operating revenues and other additions (gains)		\$ 116,757,943	[B]
Investment return appropriated for spending		22,862,689	[D]
Nonoperating revenue and other gains		4,408,100	[D]
Total revenues without donor restrictions and gains without donor restrictions		<u>\$ 98,303,354</u>	[D]

Financial Statement Reference Definitions:

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

See report of independent auditor.

COMPLIANCE SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of the South (the “University”), which comprise the statement of financial position as of June 30, 2022, 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 October 19, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University’s internal control over financial reporting (“internal control”) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University’s internal control. Accordingly, we do not express an opinion on the effectiveness of the University’s internal control.

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

Cherry Bekaert LLP

Greenville, South Carolina
October 19, 2022

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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited The University of the South's (the "University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2022. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the University's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the University's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control over Compliance

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

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

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

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

Cherry Bekaert LLP

Greenville, South Carolina
October 19, 2022

THE UNIVERSITY OF THE SOUTH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2022

Section II. Financial Statement Findings

None reported for the year ended June 30, 2022.

Section III. Federal Award Findings and Questioned Costs

None reported for the year ended June 30, 2022.

Section IV. Prior Year Findings

No prior year findings.

THE UNIVERSITY OF THE SOUTH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2022

<u>Grantor/Program Title</u>	<u>Federal Assistance Listing Number</u>	<u>Expenditures</u>
<u>Department of Education</u>		
Student Financial Assistance Cluster:		
Federal Perkins Loan Program	84.038	\$ 1,062,775
Federal Work-Study Program	84.033	193,946
Federal Supplemental Educational Opportunity Grant Program	84.007	181,432
Federal Direct Student Loans	84.268	6,294,642
Federal Pell Grant Program	84.063	1,308,697
Total Student Financial Assistance Cluster		<u>9,041,492</u>
COVID-19 Relief - Higher Education Emergency Relief Student Aid Portion		
	84.425E	<u>1,425,834</u>
Total Higher Education Emergency Relief Funding		<u>1,425,834</u>
Total Department of Education		<u>10,467,326</u>
Research and Development Cluster:		
<u>Department of the Interior</u>		
U.S. Geological Survey - Research and Data Collection	15.808	1,486
<u>Department of Justice</u>		
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault	16.525	76,818
<u>Corporation for National and Community Service</u>		
Volunteers in Service to America	94.013	<u>163,108</u>
Total Research and Development Cluster		<u>241,412</u>
<u>Department of Health and Human Services</u>		
COVID-19 - Child Care and Development Block Grant	93.575	<u>21,668</u>
Total American Rescue Plan Act		<u>21,668</u>
<u>Department of Defense</u>		
Minerva Research Initiative	12.630	<u>720</u>
Total Department of Defense		<u>720</u>
Total Expenditures of Federal Awards		<u>\$ 10,731,126</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2022

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. In accordance with the Federal Perkins Loans closing guidelines, no new loans are allowed, and no new loans were disbursed by the University for the year ended June 30, 2022.

Federal Perkins Loan receivable, June 30, 2021	\$ 1,062,775
Funds advanced to students	-
Less principal payments	<u>(218,781)</u>
Federal Perkins Loan receivable, June 30, 2022	<u>\$ 843,994</u>

Under the Perkins Loan Program, cash on hand at June 30, 2022 was \$205,529.

Note 4—Federal Direct Student Loan Program

During the fiscal year ended June 30, 2022, the University processed \$6,294,642 of new loans under the Federal Direct Student Loans program (assistance listing number 84.268).

The University is responsible only for the performance of certain administrative duties with respect to the Federal Direct Student Loans program and, accordingly, these loans are not included on the University’s 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, 2022.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2022

Note 5—Higher Education Emergency Relief Fund (HEERF)

The CARES Act created a Higher Education Emergency Relief Fund (“HEERF”) to provide financial relief to students and institutions who were impacted by the COVID-19 pandemic. The Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) and the American Rescue Plan (ARP) provided additional rounds of HEERF (II and III). The HEERF funds contained two components, an institutional award and a student aid award. As of June 30, 2022, all funding has been expended.

The following cumulative amounts have been awarded as HEERF as of June 30, 2022:

	<u>Student Portion</u>	<u>Institutional Portion</u>	<u>Total</u>
Awarded:			
HEERF I	\$ 547,047	\$ 547,047	\$ 1,094,094
HEERF II	547,047	1,051,191	1,598,238
HEERF III	1,425,834	1,425,832	2,851,666
	<u>\$ 2,519,928</u>	<u>\$ 3,024,070</u>	<u>\$ 5,543,998</u>

The following HEERF funds were expended as HEERF during the year ended June 30, 2022:

	<u>Student Portion</u>	<u>Institutional Portion</u>	<u>Total</u>
Awarded:			
HEERF I	\$ -	\$ -	\$ -
HEERF II	-	-	-
HEERF III	1,425,834	-	1,425,834
	<u>\$ 1,425,834</u>	<u>\$ -</u>	<u>\$ 1,425,834</u>