



THE UNIVERSITY OF THE SOUTH

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

As of and for the Years Ended June 30, 2015 and 2014

And Report of Independent Auditor

THE UNIVERSITY OF THE SOUTH
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Report of Independent Auditor

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

Report on Financial Statements

We have audited the accompanying financial statements of The University of the South (the University), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2015 and 2014, 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, consisting of the schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2015 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

A handwritten signature in black ink that reads "Cherry Bekaert LLP". The signature is written in a cursive, flowing style.

Charlotte, North Carolina
October 5, 2015

THE UNIVERSITY OF THE SOUTH
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
Cash and cash equivalents	\$ 51,083,687	\$ 32,799,061
Restricted cash	288,494	526,471
Accounts and notes receivable, net	3,597,765	3,776,002
Inventories	375,389	344,467
Deferred charges	968,356	434,944
Contributions receivable, net	27,356,181	26,046,920
Investments, at fair value	366,924,166	365,559,404
Funds held in trust by others	23,761,702	24,441,617
Intangible and other assets, net	7,540,449	7,351,901
Collections (see Note 1)	-	-
Property, plant and equipment, net	182,169,434	174,472,356
Total Assets	\$ 664,065,623	\$ 635,753,143
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 2,374,422	\$ 3,721,670
Accrued salaries and wages	2,643,985	1,562,771
Unearned fees and other deferred credits	1,928,745	1,283,628
Annuities payable	4,704,863	4,600,558
Refundable government advances	2,697,579	2,703,887
Postretirement benefit liability	4,497,527	4,340,215
Bonds payable	83,164,446	59,388,989
Total Liabilities	102,011,567	77,601,718
Net assets		
Unrestricted:		
Current operations	3,985,001	332,037
Designated for specific purposes	15,904,281	21,449,016
Board designated endowment funds	50,473,475	46,385,800
Realized net gains on board designated endowment funds	15,383,174	16,631,641
Unrealized net gains on board designated endowment funds	14,834,739	18,002,840
Deficiencies in endowment and similar funds	(112,744)	(163,649)
Annuity and life income funds	241,815	284,743
Invested in property, plant and equipment	118,928,605	125,266,716
Total unrestricted	219,638,346	228,189,144
Temporarily restricted:		
Unexpended funds received for restricted purposes	12,534,524	5,292,264
Board designated endowment funds	2,334,965	2,334,965
Realized net gains on endowment and similar funds	75,579,637	72,769,917
Unrealized net gains on endowment and similar funds	77,043,804	78,592,305
Unrealized net gains on annuity and life income funds	1,682,847	1,588,010
Contributions receivable	22,818,982	21,415,760
Annuity and life income funds	561,042	609,009
Total temporarily restricted	192,555,801	182,602,230
Permanently restricted:		
Loan funds	449,361	456,862
Contributions receivable	4,537,199	4,631,160
Annuity and life income funds	2,588,415	2,523,881
Endowment funds	142,284,934	139,748,148
Total permanently restricted	149,859,909	147,360,051
Total Net Assets	562,054,056	558,151,425
Total Liabilities and Net Assets	\$ 664,065,623	\$ 635,753,143

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

THE UNIVERSITY OF THE SOUTH
STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues				
Comprehensive fees	\$ 83,116,528	\$ -	\$ -	\$ 83,116,528
Less institutional scholarships	(26,374,239)	-	-	(26,374,239)
Net comprehensive fees	56,742,289	-	-	56,742,289
Contributions	5,136,743	6,501,592	-	11,638,335
Investment income:				
Endowment spending payout:				
Income	10,686,329	1,405,559	173,464	12,265,352
Appropriated gains	6,253,962	-	-	6,253,962
Other investment income	171,059	2,187	4,706	177,952
Sales and service income	2,133,493	1,756	-	2,135,249
Auxiliary enterprises	9,765,301	-	-	9,765,301
Government grants	166,338	135,068	-	301,406
Other	945,777	87,928	-	1,033,705
Net assets released for operations	4,113,517	(4,100,398)	(13,119)	-
Total operating revenues	96,114,808	4,033,692	165,051	100,313,551
Operating expenses				
Instructional	30,626,878	-	-	30,626,878
Academic support	10,620,642	-	-	10,620,642
Research	283,824	-	-	283,824
Student services	14,020,298	-	-	14,020,298
Institutional support	21,678,775	-	-	21,678,775
Auxiliary services	17,982,684	-	-	17,982,684
Total operating expenses	95,213,101	-	-	95,213,101
Net increase from operations	901,707	4,033,692	165,051	5,100,450
Nonoperating items				
Contributions restricted for endowment and similar funds	17,469	-	2,553,169	2,570,638
Contributions restricted for property, plant and equipment	1,038,684	1,400,133	-	2,438,817
Net assets released for capital expenditures	(6,539,671)	6,539,671	-	-
Investment earnings:				
Net gains (losses) on endowment and other investments, net of amount appropriated for endowment spending payout	(4,426,331)	(3,297,489)	91,424	(7,632,396)
Change in value of split-interest agreements	(32,307)	(64,758)	(238,367)	(335,432)
Insurance proceeds from casualty loss, net	1,760,554	-	-	1,760,554
Change in donor restrictions	(1,270,903)	1,342,322	(71,419)	-
Total nonoperating items	(9,452,505)	5,919,879	2,334,807	(1,197,819)
Increase (decrease) in net assets	(8,550,798)	9,953,571	2,499,858	3,902,631
Net assets, beginning of year	228,189,144	182,602,230	147,360,051	558,151,425
Net assets, end of year	<u>\$ 219,638,346</u>	<u>\$ 192,555,801</u>	<u>\$ 149,859,909</u>	<u>\$ 562,054,056</u>

THE UNIVERSITY OF THE SOUTH
STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues				
Comprehensive fees	\$ 77,014,525	\$ -	\$ -	\$ 77,014,525
Less institutional scholarships	(24,646,780)	-	-	(24,646,780)
Net comprehensive fees	52,367,745	-	-	52,367,745
Contributions	5,378,745	9,779,485	-	15,158,230
Investment income:				
Endowment spending payout:				
Income	6,223,325	1,241,049	187,857	7,652,231
Appropriated gains	8,110,972	-	-	8,110,972
Other investment income	221,244	1,071	5,440	227,755
Sales and service income	3,556,922	16,978	92	3,573,992
Auxiliary enterprises	7,604,220	-	-	7,604,220
Government grants	132,923	104,496	-	237,419
Other	994,411	67,975	-	1,062,386
Net assets released for operations	3,450,984	(3,451,784)	800	-
Total operating revenues	88,041,491	7,759,270	194,189	95,994,950
Operating expenses				
Instructional	27,528,433	-	-	27,528,433
Academic support	9,863,334	-	-	9,863,334
Research	379,521	-	-	379,521
Student services	13,069,194	-	-	13,069,194
Institutional support	17,745,447	-	-	17,745,447
Auxiliary services	16,568,864	-	-	16,568,864
Total operating expenses	85,154,793	-	-	85,154,793
Net increase from operations	2,886,698	7,759,270	194,189	10,840,157
Nonoperating items				
Contributions restricted for endowment and similar funds	96,966	-	4,407,896	4,504,862
Contributions restricted for property, plant and equipment	1,137,339	2,475,095	-	3,612,434
Net assets released for capital expenditures	15,059,693	(15,059,693)	-	-
Investment earnings:				
Net gains on endowment and other investments, net of amount appropriated for endowment spending payout	6,964,503	27,606,343	152,153	34,722,999
Change in value of split-interest agreements	(46,555)	(61,045)	(185,742)	(293,342)
Change in donor restrictions	(723,505)	187,002	536,503	-
Total nonoperating items	22,488,441	15,147,702	4,910,810	42,546,953
Increase in net assets	25,375,139	22,906,972	5,104,999	53,387,110
Net assets, beginning of year	202,814,005	159,695,258	142,255,052	504,764,315
Net assets, end of year	\$ 228,189,144	\$ 182,602,230	\$ 147,360,051	\$ 558,151,425

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

THE UNIVERSITY OF THE SOUTH
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Cash flows from operating activities		
Increase in net assets	\$ 3,902,631	\$ 53,387,110
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	5,297,561	4,737,923
Amortization of intangible assets	178,849	341,482
Loss on disposal of property, plant and equipment	485,142	140,423
Realized and unrealized losses (gains) on investments	7,632,394	(34,722,999)
Appropriated gains	(6,253,962)	(8,110,972)
Provision for postretirement benefit obligation	229,881	226,820
Actuarial change on annuities payable	(217,209)	(228,765)
Postretirement employer contributions	(72,569)	(611,039)
Contributions restricted for long-term investment	(5,009,454)	(8,117,296)
Change in assets and liabilities:	-	-
Accounts and notes receivable, net	178,237	464,856
Contributions receivable, net	(199,548)	345,441
Inventories	(30,922)	(5,090)
Deferred charges	(533,412)	18,832
Accounts payable and accrued expenses	(1,347,248)	(1,476,274)
Accrued salaries and wages	1,081,214	82,066
Unearned fees and other deferred credits	645,117	(954,515)
Refundable government advances	(6,308)	(17,202)
Net cash from operating activities	<u>5,960,394</u>	<u>5,500,801</u>
Cash flows from investing activities		
Decrease in restricted cash	237,977	69,440
Purchases of investments and additions to funds held in trust by others	(112,112,922)	(99,813,009)
Proceeds from sales and maturities of investments and funds held in trust by others	106,690,077	102,412,290
Net change in short-term investments	3,885,705	9,581,055
Purchases of property, plant and equipment	(13,479,781)	(25,935,958)
Net cash from investing activities	<u>(14,778,944)</u>	<u>(13,686,182)</u>
Cash flows from financing activities		
Contributions restricted for long-term investment:		
Endowment	2,570,638	4,504,862
Investment in property, plant and equipment	2,438,816	3,612,434
Increase in pledges receivable restricted for long-term investment	(1,635,852)	(5,870,177)
Additions to annuities payable	321,514	354,612
Amortization of bond premium	(133,329)	(26,943)
Principal repayments on bonds payable	(14,764,447)	(2,100,000)
Proceeds from bonds payable	38,673,233	-
Payments for bond issuance costs	(367,397)	-
Net cash from financing activities	<u>27,103,176</u>	<u>474,788</u>
Net increase (decrease) in cash and cash equivalents	18,284,626	(7,710,593)
Cash and cash equivalents, beginning of year	<u>32,799,061</u>	<u>40,509,654</u>
Cash and cash equivalents, end of year	<u>\$ 51,083,687</u>	<u>\$ 32,799,061</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 1,823,296</u>	<u>\$ 1,637,316</u>

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

THE UNIVERSITY OF THE SOUTH

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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 that arises principally from twenty-eight dioceses of the Church, and a Board of Regents elected by the Trustees.

The University charges its students a comprehensive fee, which includes the cost of tuition, room and board, and fees. The operations of various auxiliary services provided by the University, excluding the revenues derived from residential and dining halls which are included in the comprehensive fee, are combined and include principally the following:

Telecommunications	Sewanee Golf and Tennis Club
Rentals and land leases	Sewanee Inn and University Guest Houses
Child Care Center	Summer conferences
Stirling's Coffee House	Bookstore commission

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”).

The University’s net assets have been grouped into the following three classes:

Unrestricted - Unrestricted net assets generally result from revenues derived from providing services, receiving unrestricted contributions, recognizing unrealized and realized gains and losses on board designated endowment, and receiving dividends and interest from investing in income-producing assets, less expenses incurred in providing services, raising contributions, and performing administrative functions.

Temporarily Restricted - Temporarily restricted net assets generally result from contributions, recognizing unrealized and realized gains and losses, and other inflows of assets whose use by the University is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the University pursuant to those donor stipulations.

Permanently Restricted - Permanently restricted net assets generally represent the historical cost (fair value at date of gift) of contributions and other inflows of assets whose use by the University is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the University.

Expiration of Restrictions – The University reports gifts of cash and other assets as increases in restricted net assets if they are received with donor stipulations that limit their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

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.

THE UNIVERSITY OF THE SOUTH

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 1—Summary of significant accounting policies (continued)

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

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

Contributions Receivable – Unconditional promises to give (pledges) are recorded as revenues and receivables within an appropriate net asset category. Contributions received, including unconditional promises, are recognized as revenue when the donor's commitment is received. Pledges are recognized at net realizable value, which is the estimated present value of the future cash flows, discounted at an approximate discount rate commensurate with the risks involved, net of allowances. An allowance for pledges is provided based on management's analysis of past collection experience and other judgmental factors. Pledges made that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. Conditional pledges are recorded when donor stipulations are substantially met.

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

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.

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 realized and unrealized gains and losses on endowment and similar fund investments are reported as increases or decreases in temporarily restricted net assets unless use is permanently restricted by explicit donor stipulations or by law. Net realized and unrealized gains and losses on board designated endowment and other investment income are reported as increases or decreases in unrestricted net assets.

Property, Plant and Equipment – Plant assets are stated at cost or estimated fair value at dates of gifts, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of buildings (40 to 60 years), land improvements (20 years) and equipment and books (5 to 15 years). Depreciation and operation and maintenance charges are allocated to appropriate functional expense categories. 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).

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, 2015 and 2014. The University does not have any intangibles with indefinite lives.

THE UNIVERSITY OF THE SOUTH

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 1—Summary of significant accounting policies (continued)

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

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

Refundable Government Advances – The Perkins Loan Program is a campus-based program providing revolving loan funds for financial assistance to eligible postsecondary school students based on financial need. The U.S. Department of Education provides funds along with the University, which are used to make loans to eligible students at low interest rates. At June 30, 2015 and 2014, refundable government advances totaled \$2,697,579 and \$2,703,887, respectively.

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

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

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

Concentrations of Credit Risk – Financial instruments that potentially subject the University to concentrations of credit risk and market risk consist principally of cash equivalents, investments, and student loans receivable. The University places its cash equivalents and investments with financial institutions and limits the amount of credit exposure to any one financial institution. The University requires each student and/or student's parents to guarantee payment of student loans receivable, but does not require collateral. The University's student loans receivable do not represent significant concentrations of market risk inasmuch as the receivables are due from numerous students. The University places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation ("FDIC") covers \$250,000 for substantially all depository accounts. At June 30, 2015, the University had \$20,556,531 on deposit in excess of the insured limits.

THE UNIVERSITY OF THE SOUTH

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 1—Summary of significant accounting policies (continued)

Fair Value Measurements – Assets recorded at fair value in the statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value (Note 12). Level inputs are as follows:

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

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

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

Self-Insurance – The University provides certain employee healthcare benefits primarily through employer contributions, participant contributions, and excess loss insurance and manages those programs through a third-party administrator. Self-insurance claims filed and claims incurred but not reported are accrued based upon management's estimates using a third-party advisor and historical experience. As of June 30, 2015 and 2014, the University reported \$311,000 and \$330,000, respectively, as incurred but not reported claims. These claims have been included in accounts payable and accrued expense in the statements of financial position.

Allocation of Expenses – Expenses are reported in the statements of activities in functional categories after the allocation of plant operation and maintenance expense, depreciation expense, and interest expense. These expenses are allocated to program and supporting activities based on a percentage allocation and periodic assessment of facilities usage and square footage.

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

Reclassifications – Some items in the prior year financial statements were reclassified to conform to the current presentation. In order to provide a more accurate presentation of the University's cash position, short-term investments totaling \$28,626,316 have been reclassified from investments to cash and cash equivalents at June 30, 2014. In order to provide a more accurate representation of fees received from students, \$14,600,666 of room and board fees have been reclassified from auxiliary enterprises to comprehensive fees and \$2,287,585 of institutional scholarships have been reclassified from auxiliary services to institutional scholarships for the year ended June 30, 2014. These reclassifications do not represent a change in accounting principle nor a correction of an error as total assets and net increase from operations have not changed.

THE UNIVERSITY OF THE SOUTH

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 1—Summary of significant accounting policies (continued)

New Accounting Pronouncements - In October 2012, the FASB issued Accounting Standards Update (“ASU”) 2012-05, *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. The amendments in this update requires a not-for-profit entity to classify cash receipts from the sale of donated financial assets as cash flows from operating activities, provided the financial assets were directed upon receipt without any limitations for sale and were converted nearly immediately to cash. In the presence of long-term donor restrictions, the cash receipts should be classified as financing activities; otherwise the cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities. The amendments in this update will generally be effective for fiscal periods beginning after June 15, 2013. The impact of adopting ASU 2012-05 was not material to these financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*. The amendments in this update requires entities to present debt issuance costs in the same manner as currently presented debt discounts; as a direct deduction from the carrying value of that debt liability. The amendment is required to be applied retrospectively where the balance sheet of each presented individual period is adjusted to indicate the period-specific impact of using the new guidance and is considered a change in accounting principle. The amendments in this update will generally be effective for fiscal periods beginning after December 15, 2015 and early adoption is permitted for financial statements that have not previously been issued. The adoption of ASU 2015-03 is not expected to have a material impact on the University's financial statements.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement: Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The amendments in this update eliminate the requirement to classify investments in the fair value hierarchy for investments valued using the net asset value per share (or an equivalent) practical expedient. In addition, the requirement to make specific disclosures for all investments eligible to be assessed at fair value with the net asset value per share practical expedient has been removed. Instead, such disclosures are restricted only to investments that the entity has decided to measure using the practical expedient. The application of this amendment requires retrospective application across all reporting periods. The amendments in this update will generally be effective for fiscal periods beginning after December 15, 2016 and early adoption is permitted. The adoption of ASU 2015-07 is not expected to have a material impact on the University's financial statements.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 2—Accounts and notes receivable

Accounts and notes receivable consist of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Accounts receivable:		
Students and trade	\$ 291,315	\$ 317,769
Less allowance for doubtful accounts	(60,000)	(42,000)
Total accounts receivable, net	<u>231,315</u>	<u>275,769</u>
Notes receivable:		
Students loans	2,487,258	2,532,387
Other notes receivable	281,698	174,788
	<u>2,768,956</u>	<u>2,707,175</u>
Less allowance for doubtful loans	(17,888)	(26,896)
Total notes receivable, net	<u>2,751,068</u>	<u>2,680,279</u>
Other:		
Other	615,382	819,954
Total accounts and notes receivable, net	<u>\$ 3,597,765</u>	<u>\$ 3,776,002</u>

Student Loans 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 are granted by the University under the Federally-funded Perkins loan program. These funds are 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 our billing service, Campus Partners. Student loans are considered past due when payment has not been received in over 30 days. At June 30, 2015 and 2014, student loans represented 0.37% and 0.40% of total assets, respectively.

At June 30, 2015 and 2014, student loans consisted of the following:

	<u>2015</u>	<u>2014</u>
Federal government loans (Perkins)	\$ 2,409,104	\$ 2,418,886
Institutional loans	78,154	113,501
	<u>\$ 2,487,258</u>	<u>\$ 2,532,387</u>
Allowance for doubtful accounts – Institutional loans:		
Beginning of year	\$ 26,896	\$ 22,244
Increases	766	4,856
Write-offs	(22,442)	(6,754)
Provisions charged (credited) to expense	12,668	6,550
End of year	<u>\$ 17,888</u>	<u>\$ 26,896</u>

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 2—Accounts and notes receivable (continued)

Allowance for doubtful accounts are established based on prior collection experience and current economic factors which, in management’s judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Institutional loan balances are written off only when they are deemed to be permanently uncollectible. Amounts due under the Perkins loan program are guaranteed by the government and, therefore, no reserves are placed on any past due balances under the program.

Other Notes Receivable

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

The Advanced Degree Loan Program (ADL) is a loan for full-time staff members of the University who have been employed for at least three years of continuous service. Upon completion of the degree, 10% of the loan will be forgiven one year after the completion date, and 10% cancellation each year after. The loan can be completely cancelled over a 10-year period. In the event the staff member terminates employment prior to repayment of the loan, the balance of the loan is due and payable. At June 30, 2015 and 2014, these loan programs consisted of the following loan balances:

	<u>2015</u>	<u>2014</u>
Employee loans (ELP)	\$ 90,564	\$ 92,810
Advanced degree loans (ADL)	65,534	81,978
Other	125,600	-
	<u>\$ 281,698</u>	<u>\$ 174,788</u>

No allowance for doubtful accounts is recorded for the Employee Loan Program or the Advanced Degree Loan Program.

The University is contingently liable for loans made to parents of students by a local financial institution (SEAL loans) with an aggregate balance of \$57,392 and \$97,158 at June 30, 2015 and 2014, respectively. Historically, these loans have been repaid by the borrowers, and the University has not been called upon to perform under these guarantees with few exceptions. Accordingly, the University has not recognized a guarantee liability in the financial statements as of June 30, 2015 and 2014.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 3—Contributions receivable

Contributions receivable are summarized as follows at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Unconditional pledges for:		
Building programs	\$ 6,261,092	\$ 5,736,789
Endowment	514,541	190,241
Restricted scholarship and operating	<u>2,302,605</u>	<u>1,515,355</u>
Total	9,078,238	7,442,385
Less:		
Pledges discount to present value	(187,220)	(156,373)
Pledges allowance	<u>(320,159)</u>	<u>(253,441)</u>
Pledges receivable, net	8,570,859	7,032,571
Contributions receivable, other:		
Split-interest agreements	18,597,822	18,914,349
Bequests in probate	<u>187,500</u>	<u>100,000</u>
Total contributions receivable, net	<u>\$ 27,356,181</u>	<u>\$ 26,046,920</u>
Amounts due, before discount and allowance, in:		
Less than one year	\$ 7,414,626	\$ 7,360,609
One to five years	7,111,636	5,823,783
More than five years	<u>13,337,298</u>	<u>13,272,342</u>
Total	<u>\$ 27,863,560</u>	<u>\$ 26,456,734</u>

As of June 30, 2015, 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, 2015 and 2014, the University's contributions receivable included \$4,845,970 and \$4,368,388, 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 consists 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 split-interest agreement additions in fiscal year 2015 and fiscal year 2014. 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 is 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, 2015 AND 2014

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, 2015 and 2014:

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Operating funds:				
Temporary investments	\$ 3,418,362	\$ 3,418,362	\$ 3,384,008	\$ 3,384,008
Endowment and similar funds:				
Cash and temporary investments	6,865,525	6,908,462	15,240,828	15,295,382
Equities	155,766,000	173,639,368	131,899,436	158,166,588
Fixed income	39,519,081	39,024,252	51,638,444	52,202,607
Commodities and hard assets	7,547,244	5,243,580	9,047,244	8,787,724
Hedge funds	45,463,037	55,803,359	44,967,151	54,698,748
Private partnerships	56,807,334	75,209,329	46,307,483	62,336,144
Real assets	1,663,416	1,663,416	1,668,500	1,668,500
Cash value of life insurance policies	1,396,353	1,396,353	1,217,183	1,217,183
Funds held in trust by others	21,626,809	23,761,702	21,552,394	24,441,617
Less amounts applicable to annuity and life income funds	(8,138,574)	(9,821,422)	(8,064,205)	(9,652,215)
Total investments held as endowment and similar funds	<u>331,934,587</u>	<u>376,246,761</u>	<u>318,858,466</u>	<u>372,546,286</u>
Annuity and life income funds	8,138,574	9,821,422	8,064,205	9,652,215
Plant funds:				
Short-term investments	<u>4,617,685</u>	<u>4,617,685</u>	<u>7,802,520</u>	<u>7,802,520</u>
Total all funds	<u>\$ 344,690,846</u>	<u>\$ 390,685,868</u>	<u>\$ 334,725,191</u>	<u>\$ 390,001,021</u>

THE UNIVERSITY OF THE SOUTH

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 5—Endowment and similar funds

Endowment and similar funds represent gifts, which the donors have stipulated, as a condition of the gift, that the principal may never be expended. Board designated endowments have been established by the University for the same purpose as endowment funds, but may be expended upon approval of the Board of Regents.

Interpretation of the Uniform Prudent Management of Institutional Funds Act

The Board of Regents of the University has interpreted applicable state laws as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (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 permanent endowment made in accordance with the applicable donor gift agreement. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University. The University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the University and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the University
- (7) The University's investment policies

The fair value of the endowment and similar funds, including the Tennessee Williams Copyrights discussed further in Note 8, as of June 30, 2015 and 2014, was \$377,821,984 and \$374,301,967, respectively. Board designated endowments are shown as unrestricted net assets since they are restricted by the Board 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 temporarily restricted net assets until this has occurred. When combined with their portion of unrealized and realized net gains (losses), board designated endowments as of June 30, 2015 and 2014, were \$83,963,768 and \$84,316,423, respectively. Realized and unrealized gains and losses on board designated endowments are shown as unrestricted.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 5—Endowment and similar funds (continued)

A schedule of endowment and similar funds' net asset composition as of June 30, 2015 and 2014, follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2015</u>				
True endowment	\$ -	\$ -	\$ 142,284,934	\$ 142,284,934
Board designated endowments	50,473,475	2,334,965	-	52,808,440
Unrealized net gains	14,834,739	77,043,804	-	91,878,543
Realized net gains	15,383,174	75,579,637	-	90,962,811
Deficiencies in donor-restricted endowment funds	<u>(112,744)</u>	<u>-</u>	<u>-</u>	<u>(112,744)</u>
	<u>\$ 80,578,644</u>	<u>\$ 154,958,406</u>	<u>\$ 142,284,934</u>	<u>\$ 377,821,984</u>
<u>2014</u>				
True endowment	\$ -	\$ -	\$ 139,748,148	\$ 139,748,148
Board designated endowments	46,385,800	2,334,965	-	48,720,765
Unrealized net gains	18,002,840	78,592,305	-	96,595,145
Realized net gains	16,631,641	72,769,917	-	89,401,558
Deficiencies in donor-restricted endowment funds	<u>(163,649)</u>	<u>-</u>	<u>-</u>	<u>(163,649)</u>
	<u>\$ 80,856,632</u>	<u>\$ 153,697,187</u>	<u>\$ 139,748,148</u>	<u>\$ 374,301,967</u>

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 5—Endowment and similar funds (continued)

Changes in endowment and similar funds' net assets for the years ended June 30, 2015 and 2014, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2013	\$ 73,655,750	\$ 128,082,986	\$ 134,785,383	\$ 336,524,119
Contributions	52,485	-	4,122,003	4,174,488
Investment return:				
Investment income	6,223,602	-	186,971	6,410,573
Net realized and unrealized gains	10,110,044	30,552,438	-	40,662,482
Appropriated gains	(3,172,735)	(4,938,237)	-	(8,110,972)
Appropriated investment income	(6,223,325)	-	-	(6,223,325)
Other changes:				
Transfer to board designated endowment	511,917	-	-	511,917
Interperiod transfers	-	-	325,650	325,650
Reclassifications	-	-	328,141	328,141
Copyright amortization	(301,106)	-	-	(301,106)
Endowment net assets, June 30, 2014	80,856,632	153,697,187	139,748,148	374,301,967
Contributions	2,010	-	2,343,533	2,345,543
Investment return:				
Investment income	10,686,532	-	172,552	10,859,084
Net realized and unrealized (losses) gains	(9,144,480)	8,034,763	-	(1,109,717)
Appropriated gains (losses)	4,787,009	(11,040,971)	-	(6,253,962)
Appropriated investment income	(10,686,329)	-	-	(10,686,329)
Other changes:				
Transfer to board designated endowment	-	-	-	-
Interperiod transfers	-	-	20,701	20,701
Reclassifications	4,223,378	4,267,427	-	8,490,805
Copyright amortization	(146,108)	-	-	(146,108)
Endowment net assets, June 30, 2015	<u>\$ 80,578,644</u>	<u>\$ 154,958,406</u>	<u>\$ 142,284,934</u>	<u>\$ 377,821,984</u>

THE UNIVERSITY OF THE SOUTH

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 5—Endowment and similar funds (continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original contribution level. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of June 30, 2015 and 2014, there were 11 and 12 donor-designated endowment funds, respectively, that had a market value below the original contribution value. The aggregate contribution value for the 11 and 12 named endowment funds totaled \$2,587,430 and \$2,523,815, respectively. The market value for this group of “underwater” endowment funds was \$2,474,685 or 96% of the original contribution value as of June 30, 2015 and \$2,360,166 or 94% of the original contribution value as of June 30, 2014. The individual market to contribution value range for the 11 “underwater” funds was 94% to 99% as of June 30, 2015. For the 12 “underwater” funds was 92% to 99% as of June 30, 2014.

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

The 11 “underwater” donor designated endowment funds for 2015 consist of 3,800 units, which represent 1% of the total number of units within the pooled endowment funds. The 12 “underwater” donor designated endowment funds for 2014 consist of 3,704 units, which represent 1% of the total number of units within the pooled endowment funds. (There were total units of 546,847 and 529,650 in the pooled discretionary endowment group as of June 30, 2015 and 2014, respectively – see footnote 5 “Pooled Investments” section). The University is applying the standard unitized spending rate to the 11 and the 12 “underwater” accounts as of June 30, 2015 and 2014, respectively. The University does not decrease the total return spending rate for endowment funds that are “underwater”, nor does the University increase the spending rate for endowment funds with market values above the original contribution value. The spending rate is applied to the constant number of endowment fund units that are assigned to a donor-designated fund. The application of the standard spending rate to the 11 and 12 “underwater” endowment funds resulted in a spending distribution of \$123,923 and \$79,160 in fiscal year 2015 and 2014, respectively.

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 5.0%, or the current spending rate, as measured over rolling five-year periods. It is recognized that this objective may be difficult to attain in every five-year period, but should be attainable over a series of rolling five-year periods.

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

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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 by resolution from time to time. For fiscal year 2014, the spending rate was 5.0% of a moving twelve-quarter average ending March 31 of the year prior to the beginning of the new budget year. For fiscal year 2015, the spending rate varied between 4.5% and 5.5%. Using these spending rates, \$17,500,383 and \$15,105,973 of total return was available from these funds for operating purposes in 2015 and 2014, respectively. Of this amount, \$15,034,605 and \$10,100,172, less \$3,788,184 and \$3,105,171 in management fees, came from actual earnings and \$6,253,962 and \$8,110,972 came from appropriated gains in 2015 and 2014, respectively.

A breakdown of the total endowment support used for operations and reinvestment in fiscal 2015 and 2014 is shown below:

	<u>2015</u>	<u>2014</u>
Net pooled income actual earnings	\$ 11,246,421	\$ 6,995,001
Other endowment investment earnings*	1,018,931	657,230
Total investment earnings	12,265,352	7,652,231
Plus gains appropriated	6,253,962	8,110,972
	<u>\$ 18,519,314</u>	<u>\$ 15,763,203</u>

*Includes income received from funds held in trust by others and oil and gas royalties.

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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Investments in pooled funds, at fair value	\$ 347,476,934	\$ 343,127,184
Total number of units	546,847	529,650
Market value per unit	\$ 650.45	\$ 647.84
Average annual earnings per unit	\$ 32.64	\$ 28.84

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, 2015 and 2014, was \$23,761,702 and \$24,441,617, respectively. The University records these trusts at fair market value. The increase (decrease) in fair value of funds held in trust by others was (\$679,915) in 2015 and \$2,032,744 in 2014. Income received from these funds for fiscal years 2015 and 2014 totaled approximately \$1,114,612 and \$895,792, respectively.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 6—Annuity and life income funds

At June 30, 2015 and 2014, investments for annuity and life income funds included:

	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Permanently Restricted Net Assets</u>	<u>Annuity Payment Liability</u>	<u>Total at Fair Value</u>
2015					
Pooled income trusts	\$ -	\$ 29,909	\$ 170,527	\$ 42,440	\$ 242,876
Charitable gift annuities	241,815	73,887	1,478,781	4,704,863	6,499,346
Cash value of life insurance	-	457,246	939,107	-	1,396,353
Unrealized (losses) gains on annuity and life income funds	-	1,682,847	-	-	1,682,847
	<u>\$ 241,815</u>	<u>\$ 2,243,889</u>	<u>\$ 2,588,415</u>	<u>\$ 4,747,303</u>	<u>\$ 9,821,422</u>
2014					
Pooled income trusts	\$ -	\$ 28,522	\$ 193,340	\$ 46,014	\$ 267,876
Charitable gift annuities	284,743	140,031	1,553,814	4,600,558	6,579,146
Cash value of life insurance	-	440,456	776,727	-	1,217,183
Unrealized (losses) gains on annuity and life income funds	-	1,588,010	-	-	1,588,010
	<u>\$ 284,743</u>	<u>\$ 2,197,019</u>	<u>\$ 2,523,881</u>	<u>\$ 4,646,572</u>	<u>\$ 9,652,215</u>

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 unearned fees and other deferred credits on the statement 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 2015 and 2014 was \$225,095 and \$331,742, respectively.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 6—Annuity and life income funds (continued)

The assets related to the charitable gift annuities are recorded at fair value. The liability to the annuitant is recorded at the net present value of estimated future cash flows using the Internal Revenue Code, *Charitable Mid-Term Federal Rate*. The increase (decrease) in fair value of charitable gift annuities for fiscal 2015 and 2014 was \$317,258 and \$292,274, respectively.

A charitable remainder trust is an arrangement in which a donor establishes and funds a trust with specified distributions to be made to a designated beneficiary or beneficiaries over the trust's term. Upon termination, the University receives the assets remaining in the trust. The University did not receive any contribution revenue for charitable remainder trusts in fiscal 2014 or 2013. 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 (decrease) in fair value for fiscal 2015 and 2014 was \$67,699 and \$87,315, respectively.

Note 7—Property, plant and equipment

Property, plant and equipment consist of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Land and land improvements	\$ 18,702,164	\$ 18,559,687
Buildings	194,001,996	185,674,652
Equipment and books	44,849,690	44,090,484
Construction in progress	<u>12,286,360</u>	<u>9,320,073</u>
	269,840,210	257,644,896
Less accumulated depreciation	<u>(87,670,776)</u>	<u>(83,172,540)</u>
Total property, plant and equipment, net	<u>\$ 182,169,434</u>	<u>\$ 174,472,356</u>

Depreciation expense at June 30, 2015 and 2014 was \$5,297,561 and \$4,737,923, respectively. The estimated cost to complete outstanding projects at June 30, 2015 is approximately \$15,900,000 related primarily to renovation of various campus facilities and new dorm construction.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 8—Intangible assets

Acquired intangible assets consist of the following at June 30, 2015 and 2014:

	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
<u>2015</u>			
Tennessee Williams Copyrights	\$ 7,785,781	\$ (2,792,200)	\$ 4,993,581
Bond issue charges	<u>2,823,890</u>	<u>(277,022)</u>	<u>2,546,868</u>
Total	<u>\$ 10,609,671</u>	<u>\$ (3,069,222)</u>	<u>7,540,449</u>
<u>2014</u>			
Tennessee Williams Copyrights	\$ 7,785,781	\$ (2,646,092)	\$ 5,139,689
Bond issue charges	<u>2,456,493</u>	<u>(244,281)</u>	<u>2,212,212</u>
Total	<u>\$ 10,242,274</u>	<u>\$ (2,890,373)</u>	<u>7,351,901</u>

The University estimates that future royalty income from these copyrights will approximate \$70,000,000 over the lifetime of the copyrights (the copyrights expire over a period of 30 to 70 years under current law). Accordingly, the copyrights are being amortized as the royalty income is realized. Management has estimated the fair value of these copyrights to be approximately \$11,300,000.

Bond issue charges were incurred on the 2009, 2012, 2014, 2015A and 2015B bond issues. These charges are included in intangible assets, net of accumulated amortization. Amortization expense was \$32,741 and \$40,375 for fiscal years 2015 and 2014, respectively.

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

2016	\$ 146,019
2017	146,019
2018	146,019
2019	146,019
2020	146,019
Thereafter	1,816,773

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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 \$3,644,635 and \$3,346,631 in fiscal 2015 and 2014, respectively.

There are 143 current employees of the University that are eligible for a post-retirement health care benefit provided by the University. The eligible group includes those employees that began their work for the University before September 30, 1995. There are currently 146 retired employees and 77 spouses receiving the post-retirement health care benefit (annual benefits range from \$994 to \$1,433 per employee or \$1,998 to \$2,932 for an employee and spouse). The status of the plan at June 30, 2015 and 2014, was as follows:

	<u>2015</u>	<u>2014</u>
A. Change in Benefit Obligation		
Benefit obligation at beginning of year	\$ 4,340,215	\$ 4,724,434
Service cost	73,120	78,627
Interest cost	156,761	148,193
Benefits paid (net of participant contributions)	(319,846)	(329,305)
Actuarial (gain) loss	247,277	(281,734)
Benefit obligation at end of year	<u>\$ 4,497,527</u>	<u>\$ 4,340,215</u>
B. Change in Plan Assets		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	319,846	329,305
Benefits paid (net of participant contributions)	<u>(319,846)</u>	<u>(329,305)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
C. Funded Status		
Funded status (benefit obligation)	<u>\$ (4,497,527)</u>	<u>\$ (4,340,215)</u>
Net amount recognized in statements of financial position	<u>\$ (4,497,527)</u>	<u>\$ (4,340,215)</u>
D. Amounts Not Yet Reflected in Net Periodic Benefit Cost and Included in Unrestricted Net Assets		
Accumulated gain (loss)	<u>\$ (35,790)</u>	<u>\$ 211,487</u>
Unrestricted net assets	(35,790)	211,487
Net periodic benefit cost in excess of cumulative employer contributions	<u>(4,461,737)</u>	<u>(4,551,702)</u>
Net amount recognized in statements of financial position	<u>\$ (4,497,527)</u>	<u>\$ (4,340,215)</u>

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 9—Pension plan and postretirement benefits (continued)

	<u>2015</u>	<u>2014</u>
E. Components of Net Periodic Benefit Cost		
Service cost	\$ 73,120	\$ 78,627
Interest cost	156,761	148,193
Recognized actuarial gain	-	-
Net periodic postretirement benefit cost	<u>\$ 229,881</u>	<u>\$ 226,820</u>
F. Other Changes Recognized in Unrestricted Net Assets		
Net loss (gain) loss arising during the period	<u>\$ 247,277</u>	<u>\$ (281,734)</u>
Total recognized in unrestricted net assets	<u>\$ 247,277</u>	<u>\$ (281,734)</u>
G. Key Assumptions and Trend Rate Sensitivity		
Weighted average discount at June 30	3.50%	3.75%
Immediate health care cost trend rate	7.50%	7.70%
Ultimate trend rate	4.50%	4.50%
Year ultimate trend is reached	2031	2031
H. Expected Cash Flows		
Expected employer contributions for the next fiscal year	\$ 326,470	
Expected benefit payments for fiscal year ending in:		
2016	\$ 326,470	
2017	327,323	
2018	321,572	
2019	313,219	
2020	312,429	
2021-2025	1,543,974	

Employees hired after September 1995 are not eligible for the post-retirement health care benefit mentioned above. To assist the non-eligible group of employees with post-retirement health care expenses, the University began making monthly contributions to Voluntary Employee Benefit Accounts (VEBA's) 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). These employees hired prior to September 1995 receive annual benefits ranging from \$994 to \$1,433 per employee or \$1,998 to \$2,866 for employee and spouse, once they retire, and totaled \$418,412 and \$405,907 in 2015 and 2014, respectively.

THE UNIVERSITY OF THE SOUTH
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JUNE 30, 2015 AND 2014

Note 10—Bonds payable

Bonds payable are summarized as follows at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
\$7,185,000 tax-exempt bond (1998 Series B Issue) bearing interest at a swapped rate of 3.85% at June 30, 2015 and 2014, with final maturity in 2018.	\$ 4,480,000	\$ 5,480,000
\$400,000 tax-exempt bond (2005 Issue), bearing interest at fixed rates from 3.50% to 5.00%, with final maturity in 2030.	200,000	400,000
\$14,400,000 tax-exempt bond (2009 Issue), bearing interest at a rate of 69.50% of the monthly LIBOR rate plus the Applicable Margin rate of 1.50%, with final maturity in 2027.	-	12,999,447
\$38,675,000 tax-exempt bond (2012 Issue) plus unamortized premium of \$1,701,213 at June 30, 2015, bearing interest with a fixed rate ranging from 2% to 4% with final maturity in 2032.	38,110,000	38,675,000
\$25,590,000 tax-exempt bond (2014 Issue) plus unamortized premium of \$1,731,337 at June 30, 2015, bearing interest with a fixed rate ranging from 2% to 5% with final maturity in 2033.	25,590,000	-
\$6,335,000 tax-exempt bond (2015A Issue) plus unamortized premium of \$661,896 at June 30, 2015, bearing interest with a fixed rate ranging from 3% to 4% with final maturity in 2034.	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.	<u>4,355,000</u>	<u>-</u>
Par amount of bonds payable	79,070,000	57,554,447
Unamortized net premium	<u>4,094,446</u>	<u>1,834,542</u>
Total bonds payable	<u>\$ 83,164,446</u>	<u>\$ 59,388,989</u>

The University has borrowed an original aggregate of \$86,767,775 by means of tax-exempt and taxable bond issues by the Health and Educational Facilities Board of the County of Franklin, Tennessee. The University received the bond proceeds under loan agreements between itself and the issuer. All payments due are general obligations of the University. These funds financed a new dormitory, dormitory renovations, a telecommunications system, renovation and expansion of the Sport and Fitness Center, a new dining hall, academic building improvements and other miscellaneous improvements to campus buildings.

Bondholders of the 1998 Series B issues may demand that the bonds be repurchased at any interest payment date. A remarketing agent is employed to purchase and resell any bonds purchased under the demand purchase option. The University may at any time convert the bonds from floating rate bonds with a demand purchase option to fixed term, fixed rate bonds. The bonds are callable at par at any interest due date.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 10—Bonds payable (continued)

Mandatory redemption on the 2005 issue began September 2010 and was scheduled through 2025 with final redemption September 2030. The 2005 issue was subject to mandatory sinking fund payments on September 2023 for bonds maturing September 2024. In addition, sinking fund payments were due beginning September 2026 through September 2029 for final maturity in 2030. Bonds maturing on or after September 1, 2016 were callable at par plus accrued interest by giving forty-five days written notice on or after September 1, 2015. Principal and interest payments on bonds maturing after 2013 were insured by an assurance corporation. This issue contained various covenants related to minimum number of full-time equivalent students enrolled, minimum investment balances, maximum annual debt service and minimum net asset balances. The 2005 issue was repaid with the November 2012 issue with the exception of 2013-15 maturities totaling \$500,000.

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

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

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 will be used to construct a new dormitory.

The University has entered into an interest rate swap contract with the intent of managing its exposure to interest rate risk. The University now has fixed rate financing with an interest rate of 3.85% through maturity for \$4,480,000 of outstanding bonds payable (1998 Series B Bonds issues are floating rate demand bonds, and the floating rate has been swapped in exchange for a fixed rate of 3.85% through final maturity in 2018). The estimated fair value of the interest rate swap contract is not material to the financial statements and, accordingly, has not been recorded by the University. The estimated fair value amounts have been determined by the University using available market information and appropriate valuation methodologies.

The University was in compliance at June 30, 2015, with all covenants.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 10—Bonds payable (continued)

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

	1998B Issue	2005 Issue	2012 Issue	2014 Issue	2015A Issue	2015B	Total
2016	\$1,045,000	\$200,000	\$575,000	\$945,000	--	--	\$2,765,000
2017	1,090,000	--	880,000	880,000	--	445,000	3,295,000
2018	1,145,000	--	880,000	920,000	--	450,000	3,395,000
2019	1,200,000	--	990,000	850,000	--	455,000	3,495,000
2020	--	--	1,800,000	1,330,000	--	460,000	3,590,000
Thereafter	--	--	32,985,000	20,665,000	6,335,000	2,545,000	62,530,000
Total	\$4,480,000	\$200,000	38,110,000	25,590,000	6,335,000	4,355,000	79,070,000

Note 11—Leases

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

The University leases the University Book and Supply Store to Barnes & Noble College Bookstore, Inc., under an operating lease which was signed effective March 12, 2003, and expired on April 30, 2010. The original lease could be automatically renewed for an additional five years. The University exercised the option on the contract until April 30, 2013. A new lease agreement extended the contract from May 1, 2013 to April 30, 2018. The lease payments are based on a percentage of net sales. The University received payments of \$184,668 and \$230,387 in 2015 and 2014, respectively, in connection with this lease.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 12—Fair value measurements

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

The following table summarizes fair value disclosures and measurements at June 30, 2015:

	Assets Measured at Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Assets:				
Contributions				
Receivable	\$ 27,356,181	\$ -	\$ 18,785,322	\$ 8,570,859
Investments:				
Equities:				
U.S. Large Cap	65,981,118	65,981,118	-	-
U.S. Small/Mid Cap	33,029,467	33,029,467	-	-
International	74,628,783	74,628,783	-	-
Commodities and Hard Assets	5,243,580	5,243,580	-	-
Fixed Income	39,024,252	33,171,371	5,852,881	-
Real Assets	1,663,416	1,663,416	-	-
Cash and Equivalents	14,944,508	14,944,508	-	-
Hedge Funds:				
Diversified Strategies	6,901,180	-	-	6,901,180
Equity Long Bias	15,595,972	-	-	15,595,972
Event-Driven	18,415,357	-	-	18,415,357
Opportunistic	7,282,313	-	-	7,282,313
Relative Value	4,470,013	-	-	4,470,013
Managed Futures	3,138,525	3,138,525	-	-
Private Partnerships:				
Non-U.S. Private Equity	15,561,207	-	-	15,561,207
U.S. Private Equity	4,647,276	-	-	4,647,276
U.S. Venture Capital	23,095,728	-	-	23,095,728
Natural Resources	3,062,168	-	-	3,062,168
Real Estate	25,182,512	18,772,322	-	6,410,190
Private Credit	3,660,438	-	-	3,660,438
Other	1,396,353	-	1,396,353	-
Total Investments	366,924,166	250,573,090	7,249,234	109,101,842
Funds Held in Trust by Others	\$ 23,761,702	\$ 479,545	\$ 23,282,158	\$ -

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 12—Fair value measurements (continued)

The following table summarizes fair value disclosures and measurements at June 30, 2014:

	Assets	Fair Value Measurements Using		
	Measured at Fair Value	Level 1	Level 2	Level 3
Assets:				
Contributions				
Receivable	\$ 26,046,920	\$ -	\$ 19,014,419	\$ 7,032,501
Investments:				
Equities:				
U.S. Large Cap	57,398,514	57,398,514	-	-
U.S. Small/Mid Cap	28,094,725	28,094,725	-	-
International	72,673,349	72,673,349	-	-
Commodities and Hard Assets	8,787,724	7,240,174	1,547,550	-
Fixed Income	52,202,607	46,024,318	6,178,289	-
Real Assets	1,668,500	1,668,500	-	-
Cash and Equivalents	26,481,910	26,481,910	-	-
Hedge Funds:				
Diversified Strategies	6,465,206	-	-	6,465,206
Equity Long Bias	17,978,590	-	-	17,978,590
Event-Driven	13,639,040	-	-	13,639,040
Opportunistic	12,011,940	-	-	12,011,940
Relative Value	4,603,972	-	-	4,603,972
Private Partnerships:				
Non-U.S. Private Equity	11,205,072	-	-	11,205,072
U.S. Private Equity	5,673,090	-	-	5,673,090
U.S. Venture Capital	21,748,619	-	-	21,748,619
Natural Resources	3,722,348	-	-	3,722,348
Real Estate	19,211,257	11,902,031	-	7,309,226
Private Credit	775,758	-	-	775,758
Other	1,217,183	-	1,217,183	-
Total Investments	<u>365,559,404</u>	<u>251,483,521</u>	<u>8,943,022</u>	<u>105,132,861</u>
Funds Held in Trust by Others	\$ 24,441,617	\$ 575,442	\$ 23,866,175	\$ -

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 12—Fair value measurements (continued)

Changes in Level 3 assets for the years ended June 30, 2015 and 2014 are as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Investments		
	Receivable	Contributions Hedge Funds	Private Partnerships
Balance as of June 30, 2013	\$ 1,471,198	\$ 38,220,401	\$50,949,852
Total gains (losses) included in change in net assets	(288,326)	4,905,846	8,022,240
Purchases	6,554,771	14,450,000	4,338,150
Sales	<u>(705,072)</u>	<u>(2,877,499)</u>	<u>(12,876,129)</u>
Balance as of June 30, 2014	7,032,571	54,698,748	50,434,113
Total gains (losses) included in change in net assets	(98,385)	1,947,666	3,797,974
Purchases	3,103,276	-	9,958,734
Sales	<u>(1,466,603)</u>	<u>(3,981,579)</u>	<u>(7,753,814)</u>
Balance as of June 30, 2015	<u>\$ 8,570,859</u>	<u>\$ 52,664,835</u>	<u>\$56,437,007</u>

The amount of total investment gains for the period included in change in net assets attributable to the change in unrealized gains relating to assets still held at June 30, 2015 and 2014, were \$3,553,894 and \$10,865,409, respectively.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 12—Fair value measurements (continued)

Set forth below is additional information pertaining to alternative investments:

2015:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Hedge funds ^(a) :				
Equity Long Bias	\$ 15,595,972	\$ -	Monthly-Quarterly	50-70 Days
Event-Driven	18,415,357	-	Quarterly	35-65 Days
Opportunistic	7,282,313	-	Monthly-Quarterly	7-45 Days
Diversified Strategies	6,901,180	-	Quarterly	45 Days
Relative Value	4,470,013	-	Semi-annual	65 Days
Non-U.S. Private Equity ^(b)	15,561,207	16,526,770		
U.S. Private Equity ^(c)	4,647,276	1,246,362		
Venture Capital ^(d)	23,095,728	1,862,170		
Natural Resources ^(e)	3,062,168	397,500		
Real Estate Private Partnerships ^(f)	6,410,190	4,108,914		
Private Credit ^(g)	3,660,438	2,360,393		
Hard Assets and Commodities ^(h)	<u>5,243,580</u>	<u>-</u>		
Total	<u>\$ 114,345,422</u>	<u>\$ 26,502,109</u>		

2014:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Hedge funds ^(a) :				
Equity Long Bias	\$ 17,978,590	\$ -	Monthly-Quarterly	50-70 Days
Event-Driven	13,639,040	-	Quarterly-Annually	35-65 Days
Opportunistic	12,011,940	-	Monthly-Quarterly	7-45 Days
Diversified Strategies	6,465,206	-	Quarterly	45 Days
Relative Value	4,603,972	-	Semi-annual	65 Days
Non-U.S. Private Equity ^(b)	11,205,072	3,597,673		
U.S. Private Equity ^(c)	5,673,090	1,416,362		
Venture Capital ^(d)	21,748,619	2,219,670		
Natural Resources ^(e)	3,722,348	532,500		
Real Estate Private Partnerships ^(f)	19,211,257	1,836,019		
Private Credit ^(g)	775,758	2,249,659		
Hard Assets and Commodities ^(h)	<u>8,787,724</u>	<u>-</u>		
Total	<u>\$ 125,822,616</u>	<u>\$ 11,851,883</u>		

THE UNIVERSITY OF THE SOUTH

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 12—Fair value measurements (continued)

- (a) As of June 30, 2015 and 2014, this category includes investments in 15 and 18 hedge funds, respectively, that invest in multi-faceted, domestic and international companies operating in various industries. Each hedge fund employs its own strategies in determining investment opportunities. The fair values of the investments in the category have been estimated using the net asset value per share of the investments. Investments representing approximately 2% and 2% as of June 30, 2015 and 2014, respectively, of the value of the investments in this category cannot be redeemed at will because they are in the process of being liquidated or contain illiquid segments. The remaining redemption frequencies range from monthly to semi-annual. From 7 to 70 days' notice for redemption at June 30, 2015 is required.
- (b) This category includes ten investments whose underlying funds engage in private equity transactions such as financing and buyouts. These funds invest primarily in global companies, operating in a multitude of industries. These 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 the funds will be liquidated over 1 to 10 years. Four investments also include the option for two one-year extensions.
- (c) This category includes six investments whose underlying funds engage in private equity transactions, such as growth equity financing, buyouts, and recapitalizations. These funds invest in U.S. companies operating in a number of different industries. These 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 the funds will be liquidated over 1 to 5 years.
- (d) This category includes six investments whose underlying funds have a multi-industry focus, investing primarily in early stage technology and healthcare companies in the U.S. These 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 the funds will be liquidated over 3 to 6 years.
- (e) This category includes three investments whose underlying funds have a global geographic focus and invest in a range of industries that include oil and gas private equity, oilfield services, timber, and clean energy. These 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 the funds will be liquidated over 1 to 6 years.

THE UNIVERSITY OF THE SOUTH

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 12—Fair value measurements (continued)

- (f) This category includes seven investments. Three of the investments have underlying funds with a global geographic focus and invest in commercial and residential real estate properties. These 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 the underlying assets of the funds will be liquidated over 1 to 8 years. One investment representing approximately 9% of the value of the investments in this category is a commercial mortgage-backed security in process of liquidation. One investment's underlying funds focus on distressed opportunities in the U.S. with the investment's term ending in eight years with two one-year optional extensions. The sixth investment is an exchange-traded fund trading mostly in large- and mid-cap U.S. real estate investment trusts. It has a daily redemption with trade +three days settlement. The seventh investment seeks to provide capital appreciation and income by investing primarily in domestic and international real estate securities. The fund normally invests at least 80% of its net assets in equity-related securities of real estate companies, principally real estate investment trust (REITs) and other real estate securities.
- (g) This category includes three investments whose underlying funds invest in private credit. One fund invests in mezzanine investments which are fixed-income investments, such as debt or preferred stock, typically purchased in conjunction with an equity component such as common stock. The other fund makes investments primarily in secured debt, unsecured debt, and related equity securities issued primarily by U.S. middle-market companies. The third fund invests in opportunistic investments in commercial mortgage loans and other related investments. These 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 the funds will be liquidated in 7 to 10 years. Two funds contain the option for two one-year extensions, and the third fund has the option for one one-year extension.
- (h) This category includes two commodity-related and hard investments. One fund is a diversified commodity mutual fund investing in commodity-linked derivative instruments. Another is an exchange-traded fund backed solely by gold. Both can be traded daily and settle within one to three days.

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

Cash and Cash Equivalents and Restricted Cash

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

Accounts and Notes Receivable

Accounts and notes receivable consist primarily of student loans and short-term receivables. The loans receivable of \$2,751,068 and \$2,680,279 at June 30, 2015 and 2014, respectively, consist principally of a government loan program and are not readily marketable. The University has estimated their fair value to be the carrying value.

THE UNIVERSITY OF THE SOUTH

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 12—Fair value measurements (continued)

Contributions receivable

As discussed in Notes 1 and 3, unconditional promises to give are recorded at net realizable value, which is the estimated present value of the future cash flows, discounted at an approximate discount rate commensurate with the risks involved, net of allowances, which approximates their fair value and are classified as a Level 3 fair value measurement. Contributions receivable, other, are recorded at fair value and are classified as a Level 2 fair value measurement.

Investments and Funds Held in Trust by Others

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

Tennessee Williams Copyrights

The copyrights are being amortized as the royalty income is realized. The fair value at June 30, 2015 and 2014 of \$11,300,000 and \$11,400,000, respectively was estimated based on average annual income applied to a market multiple and is classified as a Level 2 fair value measurement.

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

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

Bonds Payable

The bonds payable reflected in the financial statements bear interest at fixed rates. Series 2009 bonds bear interest at a fixed percentage of the monthly LIBOR rate plus a fixed margin rate. Series 1998 B, 2005, 2012, 2014, 2015A and 2015B bonds 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, 2015 and 2014 of \$82,411,152 and \$69,199,844, respectively, was estimated by calculating the net present value of the future payment stream using the current market interest rate and is classified as a Level 2 fair value measurement.

Note 13—Fund-raising costs

In each of the fiscal years ending June 30, 2015 and 2014, expenses of approximately \$2,300,000 were related to fund-raising activities and are classified in the statements of activities under institutional support.

Note 14—Line of credit

At June 30, 2015 and 2014, the University had an unused line-of-credit of \$5,000,000 with a financial institution. There are no compensating balance requirements under the line of credit, nor any related fees. The line of credit expires on March 1, 2017.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 15—Net assets released from restrictions

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 2015 and 2014, is as follows:

	<u>2015</u>	<u>2014</u>
Instructional	\$ 305,093	\$ 340,322
Academic support	1,735,527	1,247,286
Research	126,666	175,853
Student services	82,795	148,346
Institutional support	1,284,845	1,130,359
Scholarships	578,591	409,618
Property, plant and equipment	<u>(6,539,671)</u>	<u>15,059,693</u>
	<u>\$ (2,426,154)</u>	<u>\$ 18,511,477</u>

Note 16—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 17—Subsequent events

The University has evaluated subsequent events through October 5, 2015, the issuance date of the University's financial statements, and have determined that there are no subsequent events that require disclosure.

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***

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, 2015, 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 5, 2015.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We have communicated additional matters to management in a separate letter dated October 5, 2015.

Compliance and Other Matters

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

Purpose of this Report

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

Cherry Bekaert LLP

Charlotte, North Carolina
October 5, 2015

Report of Independent Auditor on Compliance for Each Major Federal Program; Report of Independent Auditor on Internal Control over Compliance

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

Report on Compliance for Each Major Federal Program

We have audited The University of the South's (the "University") compliance with the types of compliance requirements described in the *OMB Circular A-133 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, 2015. 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.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Cherry Bekaert LLP

Charlotte, North Carolina
October 5, 2015

THE UNIVERSITY OF THE SOUTH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2015

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ___ yes X no
- Significant deficiency(ies) identified? ___ yes X none reported

Noncompliance material to financial statements noted? ___ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ___ yes X no
- Significant deficiency(ies) identified? ___ yes X none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ___ yes X no

Identification of major programs:

<u>CFDA#</u>	<u>Program Name</u>
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grant Program
84.033	Federal Work-Study Program
84.038	Federal Perkins Loan Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans

THE UNIVERSITY OF THE SOUTH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2015

Section I. Summary of Auditor's Results (continued)

Dollar threshold used to distinguish between
Type A and Type B Programs

\$300,000

Auditee qualified as low-risk auditee?

X yes no

THE UNIVERSITY OF THE SOUTH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2015

Section II. Financial Statement Findings

None reported for the year ended June 30, 2015.

THE UNIVERSITY OF THE SOUTH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2015

Section III. Federal Award Findings and Questioned Costs

None reported for the year ended June 30, 2015.

THE UNIVERSITY OF THE SOUTH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2015

Section IV. Prior-Year Findings

No prior-year findings.

THE UNIVERSITY OF THE SOUTH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2015

<u>Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
Student Financial Assistance Cluster:		
<u>U.S. Department of Education</u>		
Federal Perkins Loan Program	84.038	\$ 3,235,332
Federal Work-Study Program	84.033	172,030
Federal Supplemental Educational Opportunity Grant Program	84.007	181,432
Federal Direct Student Loans	84.268	6,219,831
Federal Pell Grant Program	84.063	1,345,581
		<hr/>
Total U.S. Department of Education		11,154,206
		<hr/>
Total Student Financial Assistance Cluster		11,154,206
		<hr/>
Research and Development Cluster:		
<u>National Science Foundation</u>		
Mathematical and Physical Sciences	47.049	176
Geosciences	47.050	8,179
Biological Sciences	47.074	60,193
Pass-through grant from Ohio Wesleyan University Biological Sciences	47.074	3,400
		<hr/>
Total National Science Foundation		71,948
<u>National Park Service</u>		
Cooperative Agreement	15.945	3,133
		<hr/>
Total Research and Development Cluster		75,081
		<hr/>
Total Federal Awards Expended		\$ 11,229,287
		<hr/> <hr/>

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

FOR THE YEAR ENDED JUNE 30, 2015

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The University of the South and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 – Federal Perkins Loan Programs

The Federal Perkins Loan Program is administered directly by the University. Balances and transactions relating to this program are included in the University's financial statements. The Schedule of Expenditures of Federal Awards under CFDA #84.038 includes current year loan advances to students amounting to \$351,301. The balance of loans outstanding under the Federal Perkins Loan Program was \$2,409,104 as of June 30, 2015.

Cash on hand at June 30, 2015, under the Perkins Loan Program was \$288,494.

Note 3 – Federal Direct Student Loan Program

During the fiscal year ended June 30, 2015, the University processed \$6,219,831 of new loans under the Federal Direct Student Loans program (CFDA #84.268).

The University is responsible only for the performance of certain administrative duties with respect to the Federal Direct Student Loans program, and accordingly, these loans are not included on the University's financial statements; furthermore, it is not practical to determine the balance of loans outstanding to students and former students of the University under these programs at June 30, 2015.