

# **THE UNIVERSITY OF THE SOUTH**

## **FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

*As of and for the Years Ended June 30, 2017 and 2016*

*And Report of Independent Auditor*

**THE UNIVERSITY OF THE SOUTH**  
**TABLE OF CONTENTS**

---

**REPORT OF INDEPENDENT AUDITOR** ..... 1-2

**FINANCIAL STATEMENTS**

Statements of Financial Position .....3  
Statements of Activities ..... 4-5  
Statements of Cash Flows.....6  
Notes to the Financial Statements..... 7-32

**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* ..... 33-34  
Report of Independent Auditor on Compliance for Each Major Federal Program and  
Report of Independent Auditor on Internal Control over Compliance Required by  
the Uniform Guidance ..... 35-36  
Schedule of Findings and Questioned Costs ..... 37-41

**SUPPLEMENTARY INFORMATION**

Schedule of Expenditures of Federal Awards .....42  
Notes to Schedule of Expenditures of Federal Awards.....43

## **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, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of the South as of June 30, 2017 and 2016, 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 Matters**

### *Other Information*

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2017 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.

*Cherry Bekaert LLP*

Charlotte, North Carolina  
September 26, 2017

**THE UNIVERSITY OF THE SOUTH**  
**STATEMENTS OF FINANCIAL POSITION**

JUNE 30, 2017 AND 2016

|   | <b>2017</b>           | <b>2016</b>           |
|---|-----------------------|-----------------------|
| <b>ASSETS</b>                           |                       |                       |
| Cash and cash equivalents               | \$ 41,101,565         | \$ 51,126,149         |
| Restricted cash                         | 307,068               | 148,230               |
| Accounts and notes receivable, net      | 2,890,514             | 5,016,358             |
| Inventories                             | 456,900               | 467,275               |
| Prepaid expenses                        | 962,694               | 806,127               |
| Contributions receivable, net           | 26,945,013            | 23,706,817            |
| Investments, at fair value              | 390,391,592           | 349,414,109           |
| Funds held in trust by others           | 23,109,217            | 22,002,727            |
| Intangible, net                         | 4,404,101             | 4,717,582             |
| Property, plant and equipment, net      | 201,193,488           | 198,861,585           |
| <b>Total Assets</b>                     | <b>\$ 691,762,152</b> | <b>\$ 656,266,959</b> |
| <b>LIABILITIES AND NET ASSETS</b>       |                       |                       |
| Liabilities                             |                       |                       |
| Accounts payable and accrued expenses   | \$ 2,067,530          | \$ 5,796,335          |
| Accrued salaries and wages              | 3,253,649             | 3,777,794             |
| Deferred revenue                        | 703,528               | 1,046,591             |
| Annuities payable                       | 6,147,724             | 5,509,551             |
| Refundable government advances          | 2,418,463             | 2,431,717             |
| Postretirement benefit liability        | 4,139,817             | 4,479,380             |
| Notes payable                           | 187,261               | 235,072               |
| Bonds payable                           | 77,558,963            | 77,896,912            |
| <b>Total Liabilities</b>                | <b>96,476,935</b>     | <b>101,173,352</b>    |
| Net assets                              |                       |                       |
| Unrestricted                            | \$ 238,655,994        | \$ 219,551,463        |
| Temporarily restricted                  | 192,995,697           | 178,462,872           |
| Permanently restricted                  | 163,633,526           | 157,079,272           |
| <b>Total Net Assets</b>                 | <b>595,285,217</b>    | <b>555,093,607</b>    |
| <b>Total Liabilities and Net Assets</b> | <b>\$ 691,762,152</b> | <b>\$ 656,266,959</b> |

**THE UNIVERSITY OF THE SOUTH**  
**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2017

|   | Unrestricted          | Temporarily<br>Restricted | Permanently<br>Restricted | Total                 |
|---|-----------------------|---------------------------|---------------------------|-----------------------|
| Operating revenues  |                       |                           |                           |                       |
| Comprehensive fees  | \$ 93,487,303         | \$ -                      | \$ -                      | \$ 93,487,303         |
| Less institutional scholarships   | (30,500,537)          | -                         | -                         | (30,500,537)          |
| Net comprehensive fees  | 62,986,766            | -                         | -                         | 62,986,766            |
| Contributions   | 5,034,595             | 8,654,585                 | -                         | 13,689,180            |
| Investment income:  |                       |                           |                           |                       |
| Endowment spending  | 17,865,672            | 1,601,289                 | -                         | 19,466,961            |
| Other investment income   | 185,657               | 658                       | 1,915                     | 188,230               |
| Royalty income  | 1,818,095             | -                         | -                         | 1,818,095             |
| Sales and service income  | 1,527,187             | 12,700                    | -                         | 1,539,887             |
| Auxiliary enterprises   | 10,727,570            | -                         | -                         | 10,727,570            |
| Government grants   | 129,915               | 48,267                    | -                         | 178,182               |
| Other   | 1,354,356             | 317,789                   | -                         | 1,672,145             |
| Net assets released for operations  | 12,105,579            | (12,105,579)              | -                         | -                     |
| <b>Total operating revenues (losses)</b>  | <b>113,735,392</b>    | <b>(1,470,291)</b>        | <b>1,915</b>              | <b>112,267,016</b>    |
| Operating expenses  |                       |                           |                           |                       |
| Instructional   | 35,803,328            | -                         | -                         | 35,803,328            |
| Academic support  | 10,787,128            | -                         | -                         | 10,787,128            |
| Research  | 232,649               | -                         | -                         | 232,649               |
| Student services  | 15,598,010            | -                         | -                         | 15,598,010            |
| Institutional support   | 21,547,033            | -                         | -                         | 21,547,033            |
| Auxiliary services  | 18,623,783            | -                         | -                         | 18,623,783            |
| <b>Total operating expenses</b>   | <b>102,591,931</b>    | <b>-</b>                  | <b>-</b>                  | <b>102,591,931</b>    |
| <b>Net increase (decrease) from operations</b>  | <b>11,143,461</b>     | <b>(1,470,291)</b>        | <b>1,915</b>              | <b>9,675,085</b>      |
| Nonoperating items  |                       |                           |                           |                       |
| Contributions restricted for endowment and similar funds                                | 21,933                | -                         | 4,486,913                 | 4,508,846             |
| Contributions restricted for property, plant and equipment                              | 71,055                | 2,508,610                 | -                         | 2,579,665             |
| Net assets released for capital expenditures  | 2,490,401             | (2,490,401)               | -                         | -                     |
| Net gains on endowment and other investments less<br>appropriated gains for expenditure | 6,015,068             | 17,274,857                | 357,661                   | 23,647,586            |
| Change in value of split-interest agreements  | (41,356)              | 23,128                    | (201,344)                 | (219,572)             |
| Change in donor restrictions  | (596,031)             | (1,313,078)               | 1,909,109                 | -                     |
| <b>Total nonoperating items</b>   | <b>7,961,070</b>      | <b>16,003,116</b>         | <b>6,552,339</b>          | <b>30,516,525</b>     |
| <b>Increase in net assets</b>   | <b>19,104,531</b>     | <b>14,532,825</b>         | <b>6,554,254</b>          | <b>40,191,610</b>     |
| <b>Net assets, beginning of year</b>  | <b>219,551,463</b>    | <b>178,462,872</b>        | <b>157,079,272</b>        | <b>555,093,607</b>    |
| <b>Net assets, end of year</b>  | <b>\$ 238,655,994</b> | <b>\$ 192,995,697</b>     | <b>\$ 163,633,526</b>     | <b>\$ 595,285,217</b> |

**THE UNIVERSITY OF THE SOUTH**  
**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2016

|  | Unrestricted          | Temporarily<br>Restricted | Permanently<br>Restricted | Total                 |
|--|-----------------------|---------------------------|---------------------------|-----------------------|
| Operating revenues   |                       |                           |                           |                       |
| Tuition and fees   | \$ 87,246,941         | \$ -                      | \$ -                      | \$ 87,246,941         |
| Less institutional scholarships                            | (27,464,328)          | -                         | -                         | (27,464,328)          |
| Net tuition and fees                                       | 59,782,613            | -                         | -                         | 59,782,613            |
| Contributions  | 7,735,443             | 12,357,032                | -                         | 20,092,475            |
| Investment income:   |                       |                           |                           |                       |
| Endowment spending   | 17,774,311            | 1,262,502                 | 192,748                   | 19,229,561            |
| Other investment income                                    | 112,135               | 547                       | 2,171                     | 114,853               |
| Royalty income   | 2,032,047             | -                         | -                         | 2,032,047             |
| Sales and service income                                   | 1,361,357             | 2,387                     | -                         | 1,363,744             |
| Auxiliary enterprises                                      | 10,771,549            | -                         | -                         | 10,771,549            |
| Government grants  | 324,382               | 140,815                   | -                         | 465,197               |
| Other  | 1,622,826             | 317,789                   | -                         | 1,940,615             |
| Net assets released for operations                         | 4,662,659             | (4,662,659)               | -                         | -                     |
| <b>Total operating revenues</b>                            | <b>106,179,322</b>    | <b>9,418,413</b>          | <b>194,919</b>            | <b>115,792,654</b>    |
| Operating expenses   |                       |                           |                           |                       |
| Instructional  | 33,976,878            | -                         | -                         | 33,976,878            |
| Academic support   | 11,576,620            | -                         | -                         | 11,576,620            |
| Research   | 276,059               | -                         | -                         | 276,059               |
| Student services   | 15,307,701            | -                         | -                         | 15,307,701            |
| Institutional support                                      | 24,284,999            | -                         | -                         | 24,284,999            |
| Auxiliary services   | 17,318,403            | -                         | -                         | 17,318,403            |
| <b>Total operating expenses</b>                            | <b>102,740,660</b>    | <b>-</b>                  | <b>-</b>                  | <b>102,740,660</b>    |
| <b>Net increase from operations</b>                        | <b>3,438,662</b>      | <b>9,418,413</b>          | <b>194,919</b>            | <b>13,051,994</b>     |
| Nonoperating items   |                       |                           |                           |                       |
| Contributions restricted for endowment and similar funds   | 59,957                | -                         | 5,560,392                 | 5,620,349             |
| Contributions restricted for property, plant and equipment | 413,268               | 1,702,681                 | -                         | 2,115,949             |
| Net assets released for capital expenditures               | 1,423,066             | (1,423,066)               | -                         | -                     |
| Net gains (losses) on endowment and other investments less |                       |                           |                           |                       |
| gains appropriated for endowment spending                  | (2,754,090)           | (24,308,769)              | (253,371)                 | (27,316,230)          |
| Change in value of split-interest agreements               | (79,879)              | (62,472)                  | (290,160)                 | (432,511)             |
| Change in donor restrictions                               | (2,587,867)           | 580,284                   | 2,007,583                 | -                     |
| <b>Total nonoperating items</b>                            | <b>(3,525,545)</b>    | <b>(23,511,342)</b>       | <b>7,024,444</b>          | <b>(20,012,443)</b>   |
| <b>Increase (decrease) in net assets</b>                   | <b>(86,883)</b>       | <b>(14,092,929)</b>       | <b>7,219,363</b>          | <b>(6,960,449)</b>    |
| Net assets, beginning of year                              | 219,638,346           | 192,555,801               | 149,859,909               | 562,054,056           |
| <b>Net assets, end of year</b>                             | <b>\$ 219,551,463</b> | <b>\$ 178,462,872</b>     | <b>\$ 157,079,272</b>     | <b>\$ 555,093,607</b> |

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

**THE UNIVERSITY OF THE SOUTH**  
**STATEMENT OF CASH FLOWS**

YEARS ENDED JUNE 30, 2017 AND 2016

|  | <b>2017</b>          | <b>2016</b>          |
|--|----------------------|----------------------|
| <b>Cash flows from operating activities</b>  |                      |                      |
| Change in net assets   | \$ 40,191,610        | \$ (6,960,449)       |
| Adjustments to reconcile increase in net assets to net cash from operating activities: |                      |                      |
| Depreciation   | 6,006,703            | 5,725,439            |
| Amortization of intangible assets and bond issuance costs                              | 445,354              | 676,194              |
| Loss on disposal of property, plant and equipment                                      | 29,308               | 45,060               |
| (Gains)/losses on investments  | (23,647,586)         | 27,316,230           |
| Appropriated gains   | -                    | (9,634,971)          |
| Provision for postretirement benefit obligation  | 208,571              | 230,190              |
| Actuarial change on annuities payable  | (514,260)            | 411,966              |
| Postretirement employer contributions  | (548,134)            | (248,337)            |
| Contributions restricted for long-term investment                                      | (7,088,509)          | (7,736,298)          |
| Change in assets and liabilities:  |                      |                      |
| Accounts and notes receivable, net   | 2,125,844            | (1,418,593)          |
| Contributions receivable, net  | (2,841,506)          | (112,758)            |
| Inventories  | 10,375               | (91,886)             |
| Prepaid expenses   | (156,569)            | 162,229              |
| Accounts payable and accrued expenses  | (3,728,805)          | 3,421,913            |
| Accrued salaries and wages   | (524,145)            | 1,133,809            |
| Deferred revenue   | (343,064)            | (882,154)            |
| Refundable government advances   | (13,254)             | (265,862)            |
| Net cash from operating activities   | <u>9,611,933</u>     | <u>11,771,722</u>    |
| <b>Cash flows from investing activities</b>  |                      |                      |
| (Increase)/decrease in restricted cash   | (158,838)            | 140,264              |
| Purchases of investments and additions to funds held in trust by others                | (378,213,777)        | (285,091,119)        |
| Proceeds from sales and maturities of investments and funds held in trust by others    | 362,324,008          | 259,916,561          |
| Net change in short-term investments   | (2,765,305)          | 27,188,524           |
| Purchases of property, plant and equipment   | <u>(8,367,914)</u>   | <u>(22,223,594)</u>  |
| Net cash from investing activities   | <u>(27,181,826)</u>  | <u>(20,069,364)</u>  |
| <b>Cash flows from financing activities</b>  |                      |                      |
| Contributions restricted for long-term investment:                                     |                      |                      |
| Endowment  | 4,508,846            | 5,620,349            |
| Investment in property, plant and equipment  | 2,579,663            | 2,115,949            |
| Net change in pledges receivable restricted for long-term investment                   | (178,000)            | 3,335,929            |
| Additions to annuities payable   | 1,152,433            | 392,722              |
| Amortization of bond premium   | (80,604)             | (355,861)            |
| Principal repayments on bonds payable  | (3,389,218)          | (2,765,000)          |
| Principal repayments on notes payable  | (47,811)             | (3,984)              |
| Proceeds from bonds and notes payable  | <u>3,000,000</u>     | <u>-</u>             |
| Net cash from financing activities   | <u>7,545,309</u>     | <u>8,340,104</u>     |
| Net change in cash and cash equivalents  | (10,024,584)         | 42,462               |
| Cash and cash equivalents, beginning of year   | <u>51,126,149</u>    | <u>51,083,687</u>    |
| Cash and cash equivalents, end of year   | <u>\$ 41,101,565</u> | <u>\$ 51,126,149</u> |
| <b>Supplemental disclosure of cash flow information</b>                                |                      |                      |
| Cash paid during the year for interest   | <u>\$ 2,703,437</u>  | <u>\$ 2,665,368</u>  |
| <b>Non-cash investing and financing activities</b>                                     |                      |                      |
| Property, plant and equipment financed with a note payable                             | <u>\$ -</u>          | <u>\$ 239,056</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, 2017 AND 2016

---

### 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 28 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 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 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 (i.e., 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, 2017 AND 2016

---

### **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.

*Investments* – Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted market prices. Investment transactions in equity and debt securities are recorded as of the trade date. Certain investments that do not have readily determinable fair values including private investments, hedge funds, real estate and other funds are reported at estimated fair value, utilizing the practical expedient of their net asset values. Those net asset values are determined by the investment managers and are reviewed and evaluated by the University. These estimated fair values may differ from the values that would have been used had a ready market existed for these investments. Quantitative information for the valuation inputs and related sensitivities of these investments is maintained by third parties and is not reasonably available to the University. Net gains and losses on endowment and similar fund investments are reported as increases or decreases in temporarily restricted net assets unless use is permanently restricted by explicit donor stipulations or by law. Net gains and losses on board designated endowment and other investment income are reported as increases or decreases in unrestricted net assets.

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

*Intangible Assets* – Intangible assets with finite lives are amortized over their estimated useful lives. Intangible assets with finite lives are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. There were no impairment charges during the years ended June 30, 2017 and 2016. The University does not have any intangibles with indefinite lives.

*Property, Plant, and Equipment* – Plant assets are stated at cost or estimated fair value at dates of gifts, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of buildings (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).

# THE UNIVERSITY OF THE SOUTH

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

---

### **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, 2017 and 2016, refundable government advances totaled \$2,418,463 and \$2,431,717, 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, 2017, the University had \$4,030,741 on deposit in excess of the insured limits.

# THE UNIVERSITY OF THE SOUTH

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

---

### 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, 2017 and 2016, the University reported \$518,000 and \$348,000, respectively, as incurred but not reported claims. These claims have been included in accounts payable and accrued expenses in the statements of financial position.

*Allocation of Expenses* – Expenses are reported in the statements of activities in functional categories after the allocation of plant operation and maintenance expense, depreciation expense, and interest expense. 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.

*New Accounting Pronouncements* - 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 University early adopted ASU 2015-07 during the year ended June 30, 2017 and removed these investments from the levels within the fair value hierarchy footnote disclosure (see Note 12). As a result of the adoption, the June 30, 2016 fair value hierarchy table was restated to reflect the removal of NAV-measured investments aggregating \$96,747,907 in Level 3.

**THE UNIVERSITY OF THE SOUTH**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2017 AND 2016*

**Note 2—Accounts and notes receivable**

Accounts and notes receivable consist of the following at June 30, 2017 and 2016:

|  | <u>2017</u>         | <u>2016</u>         |
|--|---------------------|---------------------|
| Accounts receivable:                     |                     |                     |
| Students and trade                       | \$ 628,695          | \$ 1,055,481        |
| Less allowance for doubtful accounts     | (182,613)           | (60,000)            |
| Total accounts receivable, net           | <u>446,082</u>      | <u>995,481</u>      |
| Notes receivable:                        |                     |                     |
| Students loans                           | 2,178,684           | 2,360,347           |
| Other notes receivable                   | 203,595             | 293,418             |
|  | <u>2,382,279</u>    | <u>2,653,765</u>    |
| Less allowance for doubtful loans        | (28,038)            | (25,867)            |
| Total notes receivable, net              | <u>2,354,241</u>    | <u>2,627,898</u>    |
| Other:                                   |                     |                     |
| Other                                    | 90,191              | 1,392,979           |
| Total accounts and notes receivable, net | <u>\$ 2,890,514</u> | <u>\$ 5,016,358</u> |

Student Notes Receivable

The University makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Perkins loans 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, 2017 and 2016, student loans represented 0.32% and 0.36% of total assets, respectively.

At June 30, 2017 and 2016, student loans consisted of the following:

|  | <u>2017</u>         | <u>2016</u>         |
|--|---------------------|---------------------|
| Federal government loans (Perkins)                     | \$ 2,113,207        | \$ 2,285,299        |
| Institutional loans                                    | 65,477              | 75,048              |
|  | <u>\$ 2,178,684</u> | <u>\$ 2,360,347</u> |
| Allowance for doubtful accounts – Institutional loans: |                     |                     |
| Beginning of year                                      | \$ 25,867           | \$ 17,888           |
| Increases  | 2,171               | 8,176               |
| Write-offs   | -                   | -                   |
| Provisions credited to expense                         | -                   | (197)               |
| End of year  | <u>\$ 28,038</u>    | <u>\$ 25,867</u>    |

**THE UNIVERSITY OF THE SOUTH**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2017 AND 2016*

---

**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, 2017 and 2016, these loan programs consisted of the following loan balances:

|                             | <u>2017</u>       | <u>2016</u>       |
|-----------------------------|-------------------|-------------------|
| Employee loans (ELP)        | \$ 71,084         | \$ 76,556         |
| Advanced degree loans (ADL) | 102,011           | 72,901            |
| Other                       | 30,500            | 143,961           |
|                             | <u>\$ 203,595</u> | <u>\$ 293,418</u> |

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

The University is contingently liable for loans made to parents of students by a local financial institution (SEAL loans) with an aggregate balance of \$20,090 and \$39,530 at June 30, 2017 and 2016, 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, 2017 and 2016.

**THE UNIVERSITY OF THE SOUTH**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2017 AND 2016*

**Note 3—Contributions receivable**

Contributions receivable are summarized as follows at June 30, 2017 and 2016:

|  | <u>2017</u>          | <u>2016</u>          |
|--|----------------------|----------------------|
| Unconditional pledges for:                                   |                      |                      |
| Building programs  | \$ 4,503,854         | \$ 2,271,416         |
| Endowment  | 1,897,488            | 1,388,779            |
| Restricted scholarship and operating                         | <u>2,177,472</u>     | <u>2,082,114</u>     |
| Total  | 8,578,814            | 5,742,309            |
| Less:  |                      |                      |
| Pledges discount to present value (range from .33% to 6.88%) | (459,927)            | (128,487)            |
| Pledges allowance  | <u>(212,485)</u>     | <u>(167,886)</u>     |
| Pledges receivable, net                                      | 7,906,402            | 5,445,936            |
| Contributions receivable, other:                             |                      |                      |
| Split-interest agreements                                    | 19,038,611           | 18,073,381           |
| Bequests in probate  | -                    | 187,500              |
| Total contributions receivable, net                          | <u>\$ 26,945,013</u> | <u>\$ 23,706,817</u> |
| Amounts due, before discount and allowance, in:              |                      |                      |
| Less than one year   | \$ 2,700,685         | \$ 7,085,439         |
| One to five years  | 5,878,129            | 4,202,432            |
| More than five years   | 19,038,611           | 12,715,319           |
| Total  | <u>\$ 27,617,425</u> | <u>\$ 24,003,190</u> |

As of June 30, 2017, 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, 2017 and 2016, the University's contributions receivable included \$710,000 and \$255,000, respectively, of contributions receivable from members of the Board of Regents.

Split-interest agreements as noted above consist of charitable remainder trusts and remainder interests in life estates. A charitable remainder trust is an arrangement in which a donor establishes and funds a trust with specified distributions to be made to a designated beneficiary or beneficiaries over the trust's term. Upon termination, the University receives the assets remaining in the trust. The University's charitable remainder interests in life estates 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 pledges for split-interest agreements in fiscal year 2017 and \$997,499 in fiscal year 2016. 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, 2017 AND 2016*

**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, 2017 and 2016:

|  | 2017                 |                      | 2016                 |                      |
|--|----------------------|----------------------|----------------------|----------------------|
|  | Cost                 | Fair Value           | Cost                 | Fair Value           |
| Operating funds:   |                      |                      |                      |                      |
| Temporary investments                                    | \$ 9,998,797         | \$ 10,030,295        | \$ 7,264,990         | \$ 7,264,989         |
| Endowment and similar funds:                             |                      |                      |                      |                      |
| Cash and temporary investments                           | 21,267,505           | 21,267,505           | 224,864,214          | 224,895,430          |
| Equities   | 45,702,726           | 53,667,338           | 8,189,677            | 9,776,579            |
| Fixed income   | 30,180,868           | 30,233,880           | 7,649,732            | 7,625,946            |
| Hedge funds  | 183,083,397          | 210,299,129          | 34,181,238           | 38,748,799           |
| Private partnerships                                     | 45,589,920           | 61,716,269           | 39,354,675           | 57,999,108           |
| Real assets  | 1,653,249            | 1,653,249            | 1,658,333            | 1,658,333            |
| Cash value of life insurance policies                    | 1,523,927            | 1,523,927            | 1,444,925            | 1,444,925            |
| Funds held in trust by others                            | 19,646,340           | 23,109,217           | 20,595,463           | 22,002,727           |
| Less amounts applicable to annuity and life income funds | (8,957,924)          | (12,741,249)         | (9,165,064)          | (11,096,109)         |
| Total investments held as endowment and similar funds    | 349,688,805          | 400,759,560          | 336,038,183          | 360,320,727          |
| Annuity and life income funds                            | 8,957,924            | 12,741,249           | 9,165,064            | 11,096,109           |
| Total all funds  | <u>\$358,646,729</u> | <u>\$413,500,809</u> | <u>\$345,203,247</u> | <u>\$371,416,836</u> |

Investment returns for 2017 and 2016 consisted of the following:

|  | 2017                 | 2016                   |
|--|----------------------|------------------------|
| <b>Gains (losses) on endowment</b>                                 | \$ 42,859,665        | \$ (7,986,698)         |
| <b>Other external endowment related income</b>                     | 48,378               | 43,092                 |
| <b>Other non-endowment related gains (losses)</b>                  | 206,504              | (143,063)              |
| Amount appropriated for expenditure                                | (19,466,961)         | (19,229,561)           |
| <b>Investment return in excess of appropriated for expenditure</b> | <u>\$ 23,647,586</u> | <u>\$ (27,316,230)</u> |



# THE UNIVERSITY OF THE SOUTH

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

---

### 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 and 12, as of June 30, 2017 and 2016, was \$395,006,424 and \$357,773,319, respectively. Board designated endowments are shown as unrestricted net assets since they are restricted by the Board of Regents and not the donor. In some cases, the restriction on the original gift may not have been lifted and those gifts will be reflected under temporarily restricted net assets until this has occurred. The fair value of board designated endowments as of June 30, 2017 and 2016, were \$91,252,998 and \$78,719,514, respectively. Gains and losses on board designated endowments are shown as unrestricted.

**THE UNIVERSITY OF THE SOUTH**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2017 AND 2016*

**Note 5—Endowment and similar funds (continued)**

A schedule of endowment and similar funds' net asset composition as of June 30, 2017 and 2016 follows:

|   | <u>Unrestricted</u>  | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>          |
|---|----------------------|-----------------------------------|-----------------------------------|-----------------------|
| <b><u>2017</u></b>                                  |                      |                                   |                                   |                       |
| True endowment                                      | \$ -                 | \$ -                              | \$ 154,777,455                    | \$ 154,777,455        |
| Board designated endowments                         | 59,095,016           | 2,334,965                         | -                                 | 61,429,980            |
| Net gains   | 32,396,678           | 146,641,006                       | -                                 | 179,037,685           |
| Deficiencies in donor-restricted<br>endowment funds | (238,696)            | -                                 | -                                 | (238,696)             |
|   | <u>\$ 91,252,998</u> | <u>\$ 148,975,971</u>             | <u>\$ 154,777,455</u>             | <u>\$ 395,006,424</u> |
| <b><u>2016</u></b>                                  |                      |                                   |                                   |                       |
| True endowment                                      | \$ -                 | \$ -                              | \$ 148,508,586                    | \$ 148,508,586        |
| Board designated endowments                         | 51,363,402           | 2,334,965                         | -                                 | 53,698,367            |
| Net gains   | 27,356,112           | 128,867,443                       | -                                 | 156,223,555           |
| Deficiencies in donor-restricted<br>endowment funds | (657,189)            | -                                 | -                                 | (657,189)             |
|   | <u>\$ 78,062,325</u> | <u>\$ 131,202,408</u>             | <u>\$ 148,508,586</u>             | <u>\$ 357,773,319</u> |

**THE UNIVERSITY OF THE SOUTH**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2017 AND 2016*

**Note 5—Endowment and similar funds (continued)**

Changes in endowment and similar funds' net assets for the years ended June 30, 2017 and 2016, are as follows:

|   | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>          |
|---|---------------------|-----------------------------------|-----------------------------------|-----------------------|
| Endowment net assets, July 1, 2015                | \$80,578,644        | \$154,958,406                     | \$ 142,284,934                    | \$ 377,821,984        |
| Investment Return:                                |                     |                                   |                                   |                       |
| Investment Return, net of investment expenses     | 6,399,190           | (14,535,544)                      | 192,748                           | (7,943,606)           |
| New gifts   | 1,540               | -                                 | 4,006,067                         | 4,007,607             |
| Pledge payments                                   | -                   | -                                 | 1,039,072                         | 1,039,072             |
| Transfer to board designated endowment            | 750,000             | -                                 | -                                 | 750,000               |
| Other transfers, net                              | 425,310             | -                                 | 1,178,513                         | 1,603,823             |
|   | <u>1,176,850</u>    | <u>-</u>                          | <u>6,223,652</u>                  | <u>7,400,502</u>      |
| Appropriation of endowment assets for expenditure | (9,816,360)         | (9,220,454)                       | (192,748)                         | (19,229,562)          |
| Copyright Amortization                            | (275,999)           | -                                 | -                                 | (275,999)             |
|   | <u>(10,092,359)</u> | <u>(9,220,454)</u>                | <u>(192,748)</u>                  | <u>(19,505,561)</u>   |
| Endowment net assets, June 30, 2016               | <u>78,062,325</u>   | <u>131,202,408</u>                | <u>148,508,586</u>                | <u>357,773,319</u>    |
| Investment Return, net of investment expenses     | 9,776,043           | 32,927,124                        | 204,877                           | 42,908,044            |
| New gifts   | 11,960              | -                                 | 3,853,957                         | 3,865,917             |
| Pledge payments                                   | -                   | -                                 | 483,496                           | 483,496               |
| Transfer to board designated endowment            | 8,033,067           | -                                 | 57,500                            | 8,090,567             |
| Other transfers, net                              | (3,516)             | -                                 | 1,669,039                         | 1,665,523             |
|   | <u>8,041,511</u>    | <u>-</u>                          | <u>6,063,992</u>                  | <u>14,105,503</u>     |
| Appropriation of endowment assets for expenditure | (4,313,400)         | (15,153,561)                      | -                                 | (19,466,961)          |
| Copyright Amortization                            | (313,481)           | -                                 | -                                 | (313,481)             |
|   | <u>(4,626,881)</u>  | <u>(15,153,561)</u>               | <u>-</u>                          | <u>(19,780,442)</u>   |
| Endowment net assets, June 30, 2017               | <u>\$91,252,998</u> | <u>\$148,975,971</u>              | <u>\$ 154,777,455</u>             | <u>\$ 395,006,424</u> |

# THE UNIVERSITY OF THE SOUTH

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

---

### 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, 2017 and 2016, there were 35 and 76 donor-designated endowment funds, respectively, that had a market value below the original contribution value. The aggregate contribution value for the 35 and 76 named endowment funds totaled \$6,854,337 and \$17,363,802, respectively. The market value for this group of “underwater” endowment funds was \$6,615,641 or 97% of the original contribution value as of June 30, 2017 and \$16,706,613 or 96% of the original contribution value as of June 30, 2016. The individual market to contribution value range for the 35 “underwater” funds was 91% to 99% as of June 30, 2017. For the 76 “underwater” funds was 88% to 99% as of June 30, 2016.

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 35 “underwater” donor-designated endowment funds for 2017 consist of 11,270 units, which represent 2% of the total number of units within the pooled endowment funds. The 76 “underwater” donor-designated endowment funds for 2016 consist of 27,423 units, which represent 5% of the total number of units within the pooled endowment funds. (There were total units of 582,893 and 558,949 in the pooled discretionary endowment group as of June 30, 2017 and 2016, respectively – see footnote 5 “Pooled Investments” section). The University is applying the standard unitized spending rate to the 35 and the 76 “underwater” accounts as of June 30, 2017 and 2016, 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 35 and 76 “underwater” endowment funds resulted in a spending distribution of \$596,577 and \$825,623 in fiscal year 2017 and 2016, 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, 2017 AND 2016*

**Note 5—Endowment and similar funds (continued)**

Spending Formula

The University's total return strategy for its invested assets is utilized in the determination of the rate of spending from the pooled portion of the endowment fund. The spending rate for the pooled endowment funds is determined by the Board of Regents by resolution from time to time. For fiscal year 2017 and fiscal year 2016, the spending rate varied between 4.5% and 5.5%. Using these spending rates, \$18,376,305 and \$18,401,399 of total return was available from these funds for operating purposes in 2017 and 2016, respectively. Of this amount, \$15,790,594 and \$12,210,616, less \$2,881,397 and \$3,444,188 in management fees, came from actual earnings and \$5,467,108 and \$9,634,971 came from appropriated gains in 2017 and 2016, respectively.

A breakdown of the total endowment support used for operations and reinvestment in fiscal 2017 and 2016 is shown below:

|  | <u>2017</u>          | <u>2016</u>          |
|--|----------------------|----------------------|
| Appropriated investment return from pooled investments | \$ 18,376,305        | \$ 18,401,399        |
| Other endowment income*                                | 1,090,656            | 828,163              |
|  | <u>\$ 19,466,961</u> | <u>\$ 19,229,562</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, 2017 and 2016:

|  | <u>2017</u>    | <u>2016</u>    |
|--|----------------|----------------|
| Investments in pooled funds, at fair value | \$ 365,895,558 | \$ 329,467,403 |
| Total number of units                      | 581,362        | 558,949        |
| Market value per unit                      | 629.38         | 609.23         |
| Average annual earnings per unit           | 32.89          | 33.65          |

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, 2017 and 2016, was \$23,109,217 and \$22,002,727, respectively. The University records these trusts at fair market value. The fair value of funds held in trust by others increased \$1,106,490 in 2017 and decreased \$1,758,976 in 2016. Income received from these funds for fiscal years 2017 and 2016 totaled approximately \$1,090,656 and \$786,303, respectively.

**THE UNIVERSITY OF THE SOUTH**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2017 AND 2016*

**Note 6—Annuity and life income funds**

At June 30, 2017 and 2016, investments for annuity and life income funds included:

|   | <b>Unrestricted</b> | <b>Temporarily<br/>Restricted</b> | <b>Permanently<br/>Restricted</b> | <b>Annuity<br/>Payment<br/>Liability</b> | <b>Total at Fair<br/>Value</b> |
|---|---------------------|-----------------------------------|-----------------------------------|--|--------------------------------|
| <b><u>2017</u></b>                                |                     |                                   |                                   |  |                                |
| Pooled income trusts                              | \$ -                | \$ -                              | \$ 155,320                        | \$ -                                     | \$ 155,320                     |
| Charitable gift annuities                         | 161,697             | 12,821                            | 1,852,233                         | 6,147,724                                | 8,174,475                      |
| Cash value of life insurance                      | -                   | 494,775                           | 1,029,152                         | -  | 1,523,927                      |
| Unrealized gains on annuity and life income funds | -                   | 2,887,528                         | -                                 | -  | 2,887,528                      |
| Net Assets  | <u>\$ 161,697</u>   | <u>\$ 3,395,124</u>               | <u>\$ 3,036,705</u>               | <u>\$ 6,147,724</u>                      | <u>\$ 12,741,250</u>           |
| <b><u>2016</u></b>                                |                     |                                   |                                   |  |                                |
| Pooled income trusts                              | \$ -                | \$ 31,400                         | \$ 154,702                        | \$ 39,006                                | \$ 225,108                     |
| Charitable gift annuities                         | 239,473             | 9,922                             | 1,736,084                         | 5,509,551                                | 7,495,030                      |
| Cash value of life insurance                      | -                   | 467,385                           | 977,540                           | -  | 1,444,925                      |
| Unrealized gains on annuity and life income funds | -                   | 1,931,046                         | -                                 | -  | 1,931,046                      |
|   | <u>\$ 239,473</u>   | <u>\$ 2,439,753</u>               | <u>\$ 2,868,326</u>               | <u>\$ 5,548,557</u>                      | <u>\$ 11,096,109</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 deferred revenue 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 2017 and 2016 was \$642,929 and \$615,473, respectively.

**THE UNIVERSITY OF THE SOUTH**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2017 AND 2016

**Note 6—Annuity and life income funds (continued)**

The assets related to the charitable gift annuities are recorded at fair value. The liability to the annuitant is recorded at the net present value of estimated future cash flows using the Internal Revenue Code, *Charitable Mid-Term Federal Rate*. The increase in fair value of charitable gift annuities for fiscal 2017 and 2016 was \$379,853 and \$348,003, respectively.

A charitable remainder trust is an arrangement in which a donor establishes and funds a trust with specified distributions to be made to a designated beneficiary or beneficiaries over the trust's term. Upon termination, the University receives the assets remaining in the trust. The University received none as contribution revenue for charitable remainder trusts in fiscal 2017 and \$997,499 for 2016. The assets related to charitable remainder trusts are recorded at fair value. The liability to the interim beneficiary is recorded at net present value of estimated future cash flows using the Internal Revenue Code, *Charitable Mid-Term Federal Rate*. The increase in fair value for fiscal 2017 and 2016 was \$63,413 and \$56,532, respectively.

**Note 7—Property, plant, and equipment**

Property, plant, and equipment consist of the following at June 30, 2017 and 2016:

|   | <u>2017</u>           | <u>2016</u>           |
|---|-----------------------|-----------------------|
| Land and land improvements                | \$ 18,859,335         | \$ 18,746,508         |
| Buildings                                 | 215,408,056           | 196,858,934           |
| Equipment and books                       | 44,377,576            | 45,037,315            |
| Construction in progress                  | <u>18,214,032</u>     | <u>29,382,739</u>     |
|   | 296,858,999           | 290,025,496           |
| Less accumulated depreciation             | <u>(95,665,511)</u>   | <u>(91,163,911)</u>   |
| Total property, plant, and equipment, net | <u>\$ 201,193,488</u> | <u>\$ 198,861,585</u> |

Depreciation expense at June 30, 2017 and 2016 was \$6,006,703 and \$5,725,439, respectively. The estimated cost to complete outstanding projects at June 30, 2017 is approximately \$2,000,000 related primarily to renovation of various campus facilities.

**Note 8—Intangible assets**

Acquired intangible assets consist of the following at June 30, 2017 and 2016:

|                               | <u>Gross<br/>Carrying<br/>Amount</u> | <u>Accumulated<br/>Amortization</u> | <u>Net<br/>Intangible<br/>Assets</u> |
|-------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|
| <u>2017</u>                   |                                      |                                     |                                      |
| Tennessee Williams Copyrights | \$ 7,785,781                         | \$ (3,381,680)                      | \$ 4,404,101                         |
| <u>2016</u>                   |                                      |                                     |                                      |
| Tennessee Williams Copyrights | \$ 7,785,781                         | \$ (3,068,199)                      | \$ 4,717,582                         |

**THE UNIVERSITY OF THE SOUTH**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2017 AND 2016

**Note 8—Intangible assets (continued)**

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

**Note 9—Pension plan and postretirement benefits**

Retirement benefits for substantially all full-time employees are individually provided through a pension plan and additionally through funded programs with the Teachers Insurance and Annuity Association, the College Retirement Equity Fund, Fidelity Investments, and, for some Episcopal clergy employees, the Church Pension Fund. Under individual programs, the University and Plan participants make monthly contributions to the various programs to purchase individual retirement accounts. The University's share of the cost of pension plan and individual plan benefits was \$3,910,704 and \$3,808,786 in fiscal 2017 and 2016, respectively.

There are 105 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 182 retired employees and 84 spouses receiving the post-retirement health care benefit (annual benefits range from \$994 to \$1,433 per employee or \$1,998 to \$2,923 for an employee and spouse). The status of the plan at June 30, 2017 and 2016 was as follows:

|   | <u>2017</u>           | <u>2016</u>           |
|---|-----------------------|-----------------------|
| <b>A. Change in Benefit Obligation</b>                    |                       |                       |
| Benefit obligation at beginning of year                   | \$ 4,479,380          | \$ 4,497,527          |
| Service cost  | 90,058                | 78,490                |
| Interest cost   | 118,513               | 151,700               |
| Benefits paid (net of participant contributions)          | (339,628)             | (326,470)             |
| Actuarial (gain)/loss                                     | (208,506)             | 78,133                |
| Benefit obligation at end of year                         | <u>\$ 4,139,817</u>   | <u>\$ 4,479,380</u>   |
| <b>B. Change in Plan Assets</b>                           |                       |                       |
| Fair value of plan assets at beginning of year            | \$ -                  | \$ -                  |
| Employer contributions                                    | 339,628               | 326,470               |
| Benefits paid (net of participant contributions)          | (339,628)             | (326,470)             |
| Fair value of plan assets at end of year                  | <u>\$ -</u>           | <u>\$ -</u>           |
| <b>C. Funded Status</b>                                   |                       |                       |
| Funded status (benefit obligation)                        | <u>\$ (4,139,817)</u> | <u>\$ (4,479,380)</u> |
| Net amount recognized in statements of financial position | <u>\$ (4,139,817)</u> | <u>\$ (4,479,380)</u> |



**THE UNIVERSITY OF THE SOUTH**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2017 AND 2016

**Note 9—Pension plan and postretirement benefits (continued)**

|   | <u>2017</u>           | <u>2016</u>           |
|---|-----------------------|-----------------------|
| D. Amounts Not Yet Reflected in Net Periodic Benefit Cost and Included in Unrestricted Net Assets |                       |                       |
| Accumulated gain (loss)   | \$ 94,582             | \$ (113,923)          |
| Unrestricted net assets   | 94,582                | (113,923)             |
| Net periodic benefit cost in excess of cumulative employer contributions                          | <u>(4,234,399)</u>    | <u>(4,365,457)</u>    |
| Net amount recognized in statements of financial position   | <u>\$ (4,139,817)</u> | <u>\$ (4,479,380)</u> |
| E. Components of Net Periodic Benefit Cost  |                       |                       |
| Service cost  | \$ 90,058             | \$ 78,490             |
| Interest cost   | 118,513               | 151,700               |
| Net periodic postretirement benefit cost  | <u>\$ 208,571</u>     | <u>\$ 230,190</u>     |
| F. Other Changes Recognized in Unrestricted Net Assets  |                       |                       |
| Net gain (loss) arising during the period   | \$ 208,506            | \$ (78,133)           |
| Total recognized in unrestricted net assets   | <u>\$ (208,506)</u>   | <u>\$ (78,133)</u>    |
| G. Key Assumptions and Trend Rate Sensitivity   |                       |                       |
| Weighted average discount at June 30  | 3.25%                 | 2.75%                 |
| Immediate health care cost trend rate   | 7.20%                 | 7.40%                 |
| Ultimate trend rate   | 4.50%                 | 4.50%                 |
| Year ultimate trend is reached  | 2031                  | 2031                  |

The change in the weighted average discount from 2.75% at June 30, 2016 to 3.25% at June 30, 2017 resulted in an unrecognized actuarial gain of \$217,524.

H. Expected Cash Flows

|   |            |
|---|------------|
| Expected employer contributions for the next fiscal year: | \$ 315,193 |
| Expected benefit payments for fiscal year ending in:      |            |
| 2019  | \$ 305,801 |
| 2020  | 302,447    |
| 2021  | 293,609    |
| 2022  | 289,380    |
| 2023-27   | 1,416,714  |

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).

**THE UNIVERSITY OF THE SOUTH**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2017 AND 2016*

**Note 10—Bonds and notes payable**

Bonds payable are summarized as follows at June 30, 2017 and 2016:

|   | <u>2017</u>          | <u>2016</u>          |
|---|----------------------|----------------------|
| \$7,185,000 tax-exempt bond (1998 Series B Issue) bearing interest at a swapped rate of 3.85% at June 30, 2017 and 2016, with final maturity in 2018.                                     | \$ 2,390,000         | \$ 3,435,000         |
| \$38,675,000 tax-exempt bond (2012 Issue) plus unamortized premium of \$1,477,115 at June 30, 2017, bearing interest with a fixed rate ranging from 2% to 4% with final maturity in 2032. | 36,655,000           | 37,535,000           |
| \$25,590,000 tax-exempt bond (2014 Issue) plus unamortized premium of \$1,574,198 at June 30, 2017, bearing interest with a fixed rate ranging from 2% to 5% with final maturity in 2033. | 23,765,000           | 24,645,000           |
| \$6,335,000 tax-exempt bond (2015A Issue) plus unamortized premium of \$606,668 at June 30, 2017, bearing interest with a fixed rate ranging from 3% to 4% with final maturity in 2034.   | 6,335,000            | 6,335,000            |
| \$4,355,000 taxable bond (2015B Issue), bearing interest with a fixed rate ranging from .9% to 3.15% with final maturity in 2025.   | 3,910,000            | 4,355,000            |
| \$3,000,000 tax-exempt bond (2016 Issue), mortgage-type repayment schedule 2.28% APR with final payment in 2031.  | 2,860,782            | -                    |
|   | <u>75,915,782</u>    | <u>76,305,000</u>    |
| Par amount of bonds and notes payable   | 3,657,981            | 3,738,585            |
| Unamortized net premium   | (2,014,800)          | (2,146,673)          |
| Bond issue charges  | <u>\$ 77,558,963</u> | <u>\$ 77,896,912</u> |
| Total bonds and notes payable   |                      |                      |

The University received the proceeds from the bonds listed above under loan agreements between itself and the issuer. All payments due are general obligations of the University. These funds financed a new dormitory, dormitory renovations, a telecommunications system, renovation and expansion of the Sport and Fitness Center, a new dining hall, academic building improvements and other miscellaneous improvements to campus buildings.

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.

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.

**THE UNIVERSITY OF THE SOUTH**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2017 AND 2016*

**Note 10—Bonds and notes payable (continued)**

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 were 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.

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

The University was in compliance at June 30, 2017, with all covenants.

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

|              | <b>1998B<br/>Issue</b> | <b>2012<br/>Issue</b> | <b>2014<br/>Issue</b> | <b>2015A<br/>Issue</b> | <b>2015B<br/>Issue</b> | <b>2016<br/>Issue</b> | <b>Total</b>         |
|--------------|------------------------|-----------------------|-----------------------|------------------------|------------------------|-----------------------|----------------------|
| 2018         | \$ 1,190,000           | \$ 880,000            | \$ 920,000            | \$ -                   | \$ 450,000             | \$ 173,076            | \$ 3,613,076         |
| 2019         | 1,200,000              | 990,000               | 850,000               | -                      | 455,000                | 177,065               | 3,672,065            |
| 2020         |                        | 1,800,000             | 1,330,000             | -                      | 460,000                | 180,997               | 3,770,997            |
| 2021         |                        | 2,425,000             | 820,000               | -                      | 470,000                | 185,320               | 3,900,320            |
| 2022         |                        | 2,470,000             | 880,000               | -                      | 480,000                | 189,592               | 4,019,592            |
| Thereafter   |                        | 28,090,000            | 18,965,000            | 6,335,000              | 1,595,000              | 1,954,732             | 56,939,732           |
| <b>Total</b> | <b>\$ 2,390,000</b>    | <b>\$ 36,655,000</b>  | <b>\$ 23,765,000</b>  | <b>\$ 6,335,000</b>    | <b>\$ 3,910,000</b>    | <b>\$ 2,860,782</b>   | <b>\$ 75,915,782</b> |

**THE UNIVERSITY OF THE SOUTH**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2017 AND 2016*

**Note 10—Bonds and notes payable (continued)**

Bond issue charges were incurred on the 2012, 2014, 2015A and 2015B bond issues. Amortization expense was \$131,873 and \$400,195 for fiscal years 2017 and 2016, respectively.

|                    | <u>Gross<br/>Carrying<br/>Amount</u> | <u>Accumulated<br/>Amortization</u> | <u>Net<br/>Bond Issue<br/>Charges</u> |
|--------------------|--------------------------------------|-------------------------------------|---------------------------------------|
| <b>2017</b>        |                                      |                                     |                                       |
| Bond issue charges | \$ 2,823,890                         | \$ (809,090)                        | \$ 2,014,800                          |
| <b>2016</b>        |                                      |                                     |                                       |
| Bond issue charges | 2,823,890                            | (677,217)                           | 2,146,673                             |

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

|            |                     |
|------------|---------------------|
| 2018       | \$ 101,242          |
| 2019       | 101,242             |
| 2020       | 101,242             |
| 2021       | 101,242             |
| 2022       | 101,242             |
| Thereafter | <u>1,508,590</u>    |
|            | <u>\$ 2,014,800</u> |

**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 \$246,773 and \$221,691 in fiscal years 2017 and 2016, respectively, in connection with this lease.

**THE UNIVERSITY OF THE SOUTH**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2017 AND 2016*

**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, 2017:

|                                | <u>Level 1</u>       | <u>Level 2</u>      | <u>Level 3</u>    | <u>NAV</u>           | <u>Total Fair Value</u> |
|--------------------------------|----------------------|---------------------|-------------------|----------------------|-------------------------|
| <b>Investments</b>             |                      |                     |                   |                      |                         |
| Cash and Cash Equivalents      | \$ 21,267,505        | \$ -                | \$ -              | \$ -                 | \$ 21,267,505           |
| <b>Alternative Investments</b> |                      |                     |                   |                      |                         |
| Hedge Fund                     | -                    | -                   | -                 | 210,299,129          | 210,299,129             |
| Private Equity                 | -                    | -                   | -                 | 61,716,269           | 61,716,269              |
| Real Assets                    | 1,653,249            | -                   | -                 | -                    | 1,653,249               |
| <b>Equities</b>                |                      |                     |                   |                      |                         |
| Equities                       | 7,317,450            | -                   | -                 | -                    | 7,317,450               |
| U.S. Equities                  | 45,725,595           | -                   | 624,293           | -                    | 46,349,888              |
| <b>Fixed Income</b>            |                      |                     |                   |                      |                         |
| U.S. Government Bonds          | 40,264,175           | -                   | -                 | -                    | 40,264,175              |
| <b>Other</b>                   | -                    | 1,523,927           | -                 | -                    | 1,523,927               |
| <b>Total Investments</b>       | <u>\$116,227,974</u> | <u>\$ 1,523,927</u> | <u>\$ 624,293</u> | <u>\$272,015,398</u> | <u>\$ 390,391,592</u>   |
| Funds Held in Trust by Others  | \$ 1,381,350         | \$21,727,867        | \$ -              | \$ -                 | \$ 23,109,217           |

**THE UNIVERSITY OF THE SOUTH**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2017 AND 2016

**Note 12—Fair value measurements (continued)**

The following table summarizes fair value disclosures and measurements at June 30, 2016:

|                                | <u>Level 1</u>       | <u>Level 2</u>      | <u>Level 3</u> | <u>NAV</u>           | <u>Total Fair Value</u> |
|--------------------------------|----------------------|---------------------|----------------|----------------------|-------------------------|
| <b>Investments</b>             |                      |                     |                |                      |                         |
| Cash and Cash Equivalents      | \$232,160,419        | \$ -                | \$ -           | \$ -                 | \$ 232,160,419          |
| <b>Alternative Investments</b> |                      |                     |                |                      |                         |
| Hedge Fund                     | -                    | -                   | -              | 38,748,799           | 38,748,799              |
| Private Equity                 | -                    | -                   | -              | 57,999,108           | 57,999,108              |
| Real Assets                    | 1,658,333            | -                   | -              | -                    | 1,658,333               |
| <b>Equities</b>                |                      |                     |                |                      |                         |
| U.S. Equities                  | 9,776,579            | -                   | -              | -                    | 9,776,579               |
| <b>Fixed Income</b>            |                      |                     |                |                      |                         |
| U.S. Government Bonds          | 1,890,647            | 5,735,299           | -              | -                    | 7,625,946               |
| <b>Other</b>                   | -                    | 1,444,925           | -              | -                    | 1,444,925               |
| <b>Total Investments</b>       | <u>\$245,485,978</u> | <u>\$ 7,180,224</u> | <u>\$ -</u>    | <u>\$ 96,747,907</u> | <u>\$ 349,414,109</u>   |
| Funds Held in Trust by Others  |                      |                     |                |                      |                         |
|                                | \$ 516,598           | \$21,486,129        | \$ -           | \$ -                 | \$ 22,002,727           |

Set forth below is additional information pertaining to alternative investments:

**2017:**

|                                  | <u>Fair Value</u>    | <u>Unfunded Commitments</u> | <u>Redemption Frequency</u> | <u>Redemption Notice Period</u> |
|----------------------------------|----------------------|-----------------------------|-----------------------------|---------------------------------|
| Hedge funds <sup>(a)</sup> :     |                      |                             |                             |                                 |
| Liquid Alternatives              | \$ 52,418,157        | \$ -                        | Monthly-Quarterly           | 5-45 Days                       |
| Event-Driven                     | 7,596                | -                           | Quarterly                   | 60 Days                         |
| Diversified Strategies           | 1,074,884            | -                           | Quarterly                   | 30-70 Days                      |
| Relative Value                   | 401,196              | -                           | Quarterly                   | 90 Days                         |
| U.S. Equity                      | 7,660,197            | -                           | Annually                    | 60 Days                         |
| European Equity                  | 7,852,307            | -                           | Quarterly                   | 60 Days                         |
| Global Equity – Developed        | 125,789,499          | -                           | Monthly-Quarterly           | 10-90 Days                      |
| Global Equity – Emerging         | 15,095,293           | -                           | Monthly-Quarterly           | 60-65 Days                      |
| Private Equity                   |                      |                             |                             |                                 |
| Non-U.S. Private Equity          | 25,172,486           | 9,112,000                   | Illiquid <sup>(b)</sup>     |                                 |
| U.S. Private Equity              | 4,413,377            | 9,574,332                   | Illiquid <sup>(b)</sup>     |                                 |
| Venture Capital                  | 17,259,857           | 1,609,000                   | Illiquid <sup>(b)</sup>     |                                 |
| Natural Resources                | 3,839,773            | 8,281,900                   | Illiquid <sup>(b)</sup>     |                                 |
| Real Estate Private Partnerships | 5,515,345            | 4,306,034                   | Illiquid <sup>(b)</sup>     |                                 |
| Private Credit                   | 5,515,431            | 11,855,229                  | Illiquid <sup>(b)</sup>     |                                 |
| <b>Total</b>                     | <u>\$272,015,398</u> | <u>\$44,738,495</u>         |                             |                                 |

**THE UNIVERSITY OF THE SOUTH**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2017 AND 2016

**Note 12—Fair value measurements (continued)**

**2016:**

|                                  | <u>Fair Value</u>    | <u>Unfunded<br/>Commitments</u> | <u>Redemption<br/>Frequency</u> | <u>Redemption<br/>Notice Period</u> |
|----------------------------------|----------------------|---------------------------------|---------------------------------|-------------------------------------|
| Hedge funds <sup>(a)</sup> :     |                      |                                 |                                 |                                     |
| Equity Long Bias                 | \$ 10,111,873        | \$ -                            | Monthly-Quarterly               | 50-65 Days                          |
| Event-Driven                     | 14,258,330           | -                               | Quarterly                       | 35-65 Days                          |
| Opportunistic                    | 7,140,425            | -                               | Monthly-Quarterly               | 7-45 Days                           |
| Diversified Strategies           | 3,244,648            | -                               | Quarterly                       | 45 Days                             |
| Relative Value                   | 3,993,523            | -                               | Semi-Annual                     | 65 Days                             |
| Private Equity                   |                      |                                 |                                 |                                     |
| Non-U.S. Private Equity          | 20,261,612           | 12,365,313                      | Illiquid <sup>(b)</sup>         |                                     |
| U.S. Private Equity              | 4,254,630            | 632,912                         | Illiquid <sup>(b)</sup>         |                                     |
| Venture Capital                  | 20,251,456           | 1,743,420                       | Illiquid <sup>(b)</sup>         |                                     |
| Natural Resources                | 2,540,106            | 339,500                         | Illiquid <sup>(b)</sup>         |                                     |
| Real Estate Private Partnerships | 6,500,400            | 3,564,214                       | Illiquid <sup>(b)</sup>         |                                     |
| Private Credit                   | 4,190,904            | 1,618,076                       | Illiquid <sup>(b)</sup>         |                                     |
| Total                            | <u>\$ 96,747,907</u> | <u>\$ 20,263,435</u>            |                                 |                                     |

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

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

The 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 \$2,354,241 and \$2,627,898 at June 30, 2017 and 2016, respectively, consist principally of a government loan program and are not readily marketable. The University has estimated their fair value to be the carrying value.

Contributions Receivable

As discussed in Notes 1 and 3, unconditional promises to give are recorded at net realizable value, which is the estimated present value of the future cash flows, discounted at an approximate discount rate commensurate with the risks involved, net of allowances.

# THE UNIVERSITY OF THE SOUTH

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

---

### **Note 12—Fair value measurements (continued)**

#### Investments and Funds Held in Trust by Others

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

#### Tennessee Williams Copyrights

The copyrights are being amortized as the royalty income is realized. The fair value at June 30, 2017 of \$11,300,000 was estimated based on average annual income applied to a market multiple and is classified as a Level 2 fair value measurement.

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

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

#### Bonds Payable

The bonds payable reflected in the financial statements bear interest at fixed rates. The carrying value of the bonds will differ from their fair value depending on current market rates. The fair values at June 30, 2017 and 2016 of \$87,844,024 and \$90,282,336, respectively, was estimated by calculating the net present value of the future payment stream using the current market interest rate.

### **Note 13—Fund-raising costs**

In each of the fiscal years ending June 30, 2017 and 2016, expenses of \$2,881,503 and \$2,920,876 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, 2017 and 2016, the University had an unused line-of-credit of \$5,000,000 with a financial institution. There are no compensating balance requirements under the line of credit, nor any related fees. The line of credit expires on January 31, 2020.



**THE UNIVERSITY OF THE SOUTH**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2017 AND 2016*

**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 2017 and 2016, is as follows:

|                               | <u>2017</u>          | <u>2016</u>         |
|-------------------------------|----------------------|---------------------|
| Instructional                 | \$ 660,476           | \$ 446,676          |
| Academic support              | 1,490,645            | 1,801,624           |
| Research                      | 82,156               | 147,429             |
| Student services              | 345,609              | 318,965             |
| Institutional support         | 1,491,307            | 1,299,830           |
| Scholarships                  | 8,035,386            | 648,135             |
| Property, plant and equipment | 2,490,401            | 1,423,066           |
|                               | <u>\$ 14,595,980</u> | <u>\$ 6,085,725</u> |

**Note 16—Net assets**

Temporarily restricted net assets are comprised of the following:

|   | <u>2017</u>           | <u>2016</u>           |
|---|-----------------------|-----------------------|
| Unappropriated accumulated total return of donor-restricted endowment funds | \$ 148,975,971        | \$ 131,202,408        |
| Restricted annuity and life income gifts                                    | 3,395,124             | 2,439,753             |
| Restricted contribution receivable  | 21,581,159            | 18,459,358            |
| Restricted gifts for capital projects                                       | 9,234,446             | 8,864,822             |
| Restricted for academics and research                                       | 4,322,813             | 4,611,351             |
| Restricted for special projects   | 4,173,947             | 11,203,200            |
| Restricted for scholarships and student services                            | 1,312,237             | 1,681,980             |
|   | <u>\$ 192,995,697</u> | <u>\$ 178,462,872</u> |

Permanently restricted net assets are comprised of the following:

|  | <u>2017</u>           | <u>2016</u>           |
|--|-----------------------|-----------------------|
| Permanently restricted endowment funds   | \$ 154,777,455        | \$ 148,508,586        |
| Restricted annuity and life income gifts | 3,036,705             | 2,868,326             |
| Restricted contribution receivable       | 5,363,854             | 5,247,459             |
| Restricted for loans                     | 455,512               | 454,901               |
|  | <u>\$ 163,633,526</u> | <u>\$ 157,079,272</u> |

**THE UNIVERSITY OF THE SOUTH**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2017 AND 2016*

---

**Note 17—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 18—Subsequent events**

The University has evaluated subsequent events through September 26, 2017, 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, 2017, and the statements of activities and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated September 26, 2017.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

*Cherry Bekaert LLP*

Charlotte, North Carolina  
September 26, 2017

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

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

### **Report on Compliance for Each Major Federal Program**

We have audited The University of the South's (the "University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2017. The University's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the University's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### **Opinion on Each Major Federal Program**

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2017.

## **Report on Internal Control over Compliance**

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

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

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

## **Purpose of this Report**

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

*Cherry Bekaert LLP*

Charlotte, North Carolina  
September 26, 2017

**THE UNIVERSITY OF THE SOUTH**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE YEAR ENDED JUNE 30, 2017

---

**Section I. Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?            \_\_\_ yes             X  no

**Federal Awards**

Internal control over major programs:

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

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

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

Identification of major programs:

| <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, 2017*

---

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

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

\$750,000

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, 2017*

---

**Section II. Financial Statement Findings**

None reported for the year ended June 30, 2017.

**THE UNIVERSITY OF THE SOUTH**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

*FOR THE YEAR ENDED JUNE 30, 2017*

---

**Section III. Federal Award Findings and Questioned Costs**

None reported for the year ended June 30, 2017.

**THE UNIVERSITY OF THE SOUTH**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

*FOR THE YEAR ENDED JUNE 30, 2017*

---

**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, 2017

| <u>Grantor/Program Title</u>                                  | <u>Federal CFDA<br/>Number</u> | <u>Expenditures</u>  |
|---|--------------------------------|----------------------|
| <b>Student Financial Assistance Cluster:</b>                  |                                |                      |
| <b><u>U.S. Department of Education</u></b>                    |                                |                      |
| Federal Perkins Loan Program                                  | 84.038                         | \$ 2,785,562         |
| Federal Work-Study Program                                    | 84.033                         | 172,030              |
| Federal Supplemental Educational<br>Opportunity Grant Program | 84.007                         | 182,657              |
| Federal Direct Student Loans                                  | 84.268                         | 6,994,126            |
| Federal Pell Grant Program                                    | 84.063                         | <u>1,275,581</u>     |
| Total U.S. Department of Education                            |                                | <u>11,409,956</u>    |
| Total Student Financial Assistance Cluster                    |                                | <u>11,409,956</u>    |
| <b>Research and Development Cluster:</b>                      |                                |                      |
| <b><u>U.S Fish and Wildlife Service</u></b>                   |                                |                      |
| State Wildlife Grants: Zigler grant                           | 15.634                         | 6,113                |
| <b><u>National Park System</u></b>                            |                                |                      |
| Research and Training Programs: Sherwood grant                | 15.945                         | <u>16,479</u>        |
| Total Research and Development Cluster                        |                                | <u>22,592</u>        |
| Total Federal Awards Expended                                 |                                | <u>\$ 11,432,548</u> |

# THE UNIVERSITY OF THE SOUTH

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2017

---

### **Note 1—Basis of Presentation**

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

### **Note 2—Summary of Significant Accounting Policies**

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

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

### **Note 3—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 \$126,652. The balance of loans outstanding under the Federal Perkins Loan Program was \$2,113,207 as of June 30, 2017.

Cash on hand at June 30, 2017, under the Perkins Loan Program was \$307,068.

### **Note 4—Federal Direct Student Loan Program**

During the fiscal year ended June 30, 2017, the University processed \$6,994,126 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, 2017.