THE UNIVERSITY OF THE SOUTH

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

As of and for the Years Ended June 30, 2018 and 2017

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

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

Report on Financial Statements

We have audited the accompanying financial statements of The University of the South (the "University"), which comprise the statements of financial position as of June 30, 2018 and 2017, 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, 2018 and 2017, 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 October 8, 2018 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
October 8, 2018

THE UNIVERSITY OF THE SOUTH
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 45,233,497	$ 41,101,565
Restricted cash	363,099	307,068
Accounts and notes receivable, net	2,707,910	2,890,514
Inventories	464,372	456,900
Prepaid expenses	1,453,104	962,694
Contributions receivable, net	26,360,056	26,945,013
Investments, at fair value	407,184,988	390,391,592
Funds held in trust by others	24,298,197	23,109,217
Intangible, net	4,221,882	4,404,101
Property, plant and equipment, net	198,988,495	201,193,488
Total Assets	$ 711,275,600	$ 691,762,152
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 1,960,509	$ 2,067,530
Accrued salaries and wages	2,761,241	3,253,649
Deferred revenue	613,571	703,528
Annuities payable	6,605,298	6,147,724
Refundable government advances	2,216,981	2,418,463
Postretirement benefit liability	3,654,698	4,139,817
Notes payable	143,781	187,261
Bonds payable	74,710,281	77,558,963
Total Liabilities	92,666,360	96,476,935
Net assets		
Unrestricted	243,410,815	238,655,994
Temporarily restricted	200,451,242	192,995,697
Permanently restricted	174,747,183	163,633,526
Total Net Assets	618,609,240	595,285,217
Total Liabilities and Net Assets	$ 711,275,600	$ 691,762,152

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

THE UNIVERSITY OF THE SOUTH
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues				
Comprehensive fees	$ 96,226,937	$ -	$ -	$ 96,226,937
Less institutional scholarships	(32,824,893)	-	-	(32,824,893)
Net comprehensive fees	63,402,044	-	-	63,402,044
Contributions	5,396,187	4,502,325	-	9,898,512
Investment income:				
Endowment spending	20,692,697	1,648,770	-	22,341,467
Other investment income	667,213	52,663	1,267	721,143
Royalty income	1,218,050	-	-	1,218,050
Sales and service income	1,477,439	8,740	-	1,486,179
Auxiliary enterprises	11,220,533	-	-	11,220,533
Government grants	284,955	59,428	-	344,383
Other	1,665,860	323,875	-	1,989,735
Net assets released for operations	3,028,205	(3,028,205)	-	-
Total operating revenues	109,053,183	3,567,596	1,267	112,622,046
Operating expenses				
Instructional	35,071,081	-	-	35,071,081
Academic support	11,133,490	-	-	11,133,490
Research	239,315	-	-	239,315
Student services	16,385,635	-	-	16,385,635
Institutional support	25,130,750	-	-	25,130,750
Auxiliary services	19,700,252	-	-	19,700,252
Total operating expenses	107,660,523	-	-	107,660,523
Net increase from operations	1,392,660	3,567,596	1,267	4,961,523
Nonoperating items				
Contributions restricted for endowment and similar funds	347,028	990,055	9,605,711	10,942,794
Contributions restricted for property, plant and equipment	10,015	4,282,735	-	4,292,750
Net assets released for capital expenditures	2,132,661	(2,132,661)	-	-
Net gains on endowment and other investments less appropriated gains (losses) for expenditure	498,837	2,170,297	(328,342)	2,340,792
Change in value of split-interest agreements	3,223	299,715	483,226	786,164
Change in donor restrictions	370,397	(1,722,192)	1,351,795	-
Total nonoperating items	3,362,161	3,887,949	11,112,390	18,362,500
Increase in net assets	4,754,821	7,455,545	11,113,657	23,324,023
Net assets, beginning of year	238,655,994	192,995,697	163,633,526	595,285,217
Net assets, end of year	$ 243,410,815	$ 200,451,242	$ 174,747,183	$ 618,609,240

THE UNIVERSITY OF THE SOUTH

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Permanently 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	1,354,357	317,789	-	1,672,146
Net assets released for operations	12,105,579	(12,105,579)	-	-
Total operating revenues (losses)	113,735,393	(1,470,291)	1,915	112,267,017
Operating expenses				
Instructional	35,803,329	-	-	35,803,329
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
Total operating expenses	102,591,932	-	-	102,591,932
Net increase (decrease) from operations	11,143,461	(1,470,291)	1,915	9,675,085
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 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	-
Total nonoperating items	7,961,070	16,003,116	6,552,339	30,516,525
Increase (decrease) in net assets	19,104,531	14,532,825	6,554,254	40,191,610
Net assets, beginning of year	219,551,463	178,462,872	157,079,272	555,093,607
Net assets, end of year	$ 238,655,994	$ 192,995,697	$ 163,633,526	$ 595,285,217

THE UNIVERSITY OF THE SOUTH
STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	$ 23,324,023	$ 40,191,610
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	6,385,182	6,006,703
Amortization of intangible assets and bond issuance costs	314,092	445,354
Loss on disposal of property, plant and equipment	26,523	29,308
Gains on investments	(24,738,703)	(23,647,586)
Provision for postretirement benefit obligation	221,159	208,571
Actuarial change on annuities payable	(332,330)	(514,260)
Postretirement employer contributions	(706,278)	(548,134)
Contributions restricted for long-term investment	(15,235,544)	(7,088,509)
Change in assets and liabilities:		
Accounts and notes receivable, net	182,604	2,125,844
Contributions receivable, net	1,371,121	(2,841,506)
Inventories	(7,472)	10,375
Prepaid expenses	(490,410)	(156,569)
Accounts payable and accrued expenses	(107,021)	(3,728,805)
Accrued salaries and wages	(492,408)	(524,145)
Deferred revenue	(89,957)	(343,064)
Refundable government advances	(201,482)	(13,254)
Net cash from operating activities	(10,576,901)	9,611,933
Cash flows from investing activities		
Decrease in restricted cash	(56,031)	(158,838)
Purchases of investments and additions to funds held in trust by others	(173,187,358)	(378,213,777)
Proceeds from sales and maturities of investments and funds held in trust by others	179,706,629	362,324,008
Net change in short-term investments	(549,108)	(2,765,305)
Purchases of property, plant and equipment	(4,206,712)	(8,367,914)
Net cash from investing activities	1,707,420	(27,181,826)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment:		
Endowment	10,942,794	4,508,846
Investment in property, plant and equipment	4,292,750	2,579,663
Net change in pledges receivable restricted for long-term investment	-	(178,000)
Additions to annuities payable	789,904	1,152,433
Amortization of bond premium	(127,039)	(80,604)
Principal repayments on bonds payable	(4,036,016)	(3,389,218)
Principal repayments on notes payable	(43,480)	(47,811)
Proceeds from bonds payable	1,200,000	3,000,000
Payments for bond issuance costs	(17,500)	-
Net cash from financing activities	13,001,413	7,545,309
Net change in cash and cash equivalents	4,131,932	(10,024,584)
Cash and cash equivalents, beginning of year	41,101,565	51,126,149
Cash and cash equivalents, end of year	$ 45,233,497	$ 41,101,565
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 2,575,932	$ 2,703,437

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

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.

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, 2018 and 2017. 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).

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, 2018 and 2017, refundable government advances totaled $2,216,981 and $2,418,463, 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, 2018, the University had $3,249,711 on deposit in excess of the insured limits.

Note 1—Summary of significant accounting policies (continued)

Fair Value Measurements – Assets recorded at fair value in the 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, 2018 and 2017, the University reported $592,000 and $518,000, 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.

Note 2—Accounts and notes receivable

Accounts and notes receivable consist of the following at June 30, 2018 and 2017:

	2018	2017
Accounts receivable:		
Students and trade	$ 691,006	$ 628,695
Less allowance for doubtful accounts	(149,268)	(182,613)
Total accounts receivable, net	541,738	446,082
Notes receivable:		
Students loans	1,944,965	2,178,684
Other notes receivable	211,895	203,595
	2,156,860	2,382,279
Less allowance for doubtful loans	(27,826)	(28,038)
Total notes receivable, net	2,129,034	2,354,241
Other:		
Other	37,138	90,191
Total accounts and notes receivable, net	$ 2,707,910	$ 2,890,514

<u>Student Notes Receivable</u>

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, 2018 and 2017, student loans represented 0.27% and 0.32% of total assets, respectively.

At June 30, 2018 and 2017, student loans consisted of the following:

	2018	2017
Federal government loans (Perkins)	$ 1,889,040	$ 2,113,207
Institutional loans	55,925	65,477
	$ 1,944,965	$ 2,178,684
Allowance for doubtful accounts – Institutional loans:		
Beginning of year	$ 28,038	$ 25,867
Increases	-	2,171
Write-offs	-	-
Provisions credited to expense	(212)	-
End of year	$ 27,826	$ 28,038

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, 2018 and 2017, these loan programs consisted of the following loan balances:

	2018	2017
Employee Loan Program (ELP)	$ 74,110	$ 71,084
Advanced Degree Loans (ADL)	97,432	102,011
Other	40,353	30,500
	$ 211,895	$ 203,595

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 $11,450 and $20,090 at June 30, 2018 and 2017, 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, 2018 and 2017.

Note 3—Contributions receivable

Contributions receivable are summarized as follows at June 30, 2018 and 2017:

	2018	2017
Unconditional pledges for:		
Building programs	$ 3,315,521	$ 4,503,854
Endowment	1,972,839	1,897,488
Restricted scholarship and operating	1,470,676	2,177,472
Total	6,759,036	8,578,814
Less:		
Pledges discount to present value (range from .33% to 6.88%)	(94,666)	(459,927)
Pledges allowance	(129,089)	(212,485)
Pledges receivable, net	6,535,281	7,906,402
Contributions receivable, other:		
Split-interest agreements	19,824,775	19,038,611
Total contributions receivable, net	$ 26,360,056	$ 26,945,013
Amounts due, before discount and allowance, in:		
Less than one year	$ 9,231,421	$ 2,700,685
One to five years	3,769,559	5,878,129
More than five years	13,582,831	19,038,611
Total	$ 26,583,811	$ 27,617,425

As of June 30, 2018, the University had not received any conditional promises.

The University receives contributed services from alumni and other volunteers who assist in fundraising efforts through their participation in various fundraising 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, 2018 and 2017, the University's contributions receivable included $510,000 and $710,000, 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 2018 and no pledges for split-interest agreements in fiscal year 2017. 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.

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, 2018 and 2017:

	2018		2017	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Operating funds:				
Temporary investments	$ 10,494,001	$ 10,579,403	$ 9,998,797	$ 10,030,295
Endowment and similar funds:				
Cash and temporary investments	23,768,190	23,768,190	21,267,505	21,267,505
Equities	34,999,818	45,817,751	45,702,726	53,667,338
Fixed income	22,511,938	22,453,368	30,180,868	30,233,880
Hedge funds	196,512,964	231,219,014	183,083,397	210,299,129
Private partnerships	51,214,887	70,114,251	45,589,920	61,716,269
Real assets	1,651,091	1,651,091	1,653,249	1,653,249
Cash value of life insurance policies	1,581,920	1,581,920	1,523,927	1,523,927
Funds held in trust by others	21,380,151	24,298,197	19,646,340	23,109,217
Less amounts applicable to annuity and life income funds	(10,434,600)	(14,139,806)	(9,853,722)	(12,741,249)
Total investments held as endowment and similar funds	353,680,360	417,343,379	348,793,007	400,759,560
Annuity and life income funds	10,434,600	14,139,806	9,853,722	12,741,249
Total all funds	$364,114,960	$431,483,185	$358,646,729	$413,500,809

Investment returns for 2018 and 2017 consisted of the following:

	2018	2017
Gains on endowment	$ 24,119,381	$ 42,859,665
Other external endowment related income	39,560	48,378
Other non-endowment related gains	523,318	206,504
Amount appropriated for expenditure	(22,341,467)	(19,466,961)
Investment return in excess of appropriated for expenditure	$ 2,340,792	$ 23,647,586

For fiscal years ended June 30, 2018 and 2017, the University paid $1,638,472 and $1,504,794, respectively, in investment management fees, which are netted against investment returns.

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 Notes 8 and 12, as of June 30, 2018 and 2017, was $410,985,858 and $395,006,424, 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, 2018 and 2017, were $95,185,363 and $91,491,694, respectively. Gains and losses on board designated endowments are shown as unrestricted.

Note 5—Endowment and similar funds (continued)

A schedule of endowment and similar funds' net asset composition as of June 30, 2018 and 2017 follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2018				
True endowment	$ -	$ -	$ 165,721,045	$ 165,721,045
Board designated endowments	60,861,776	2,334,965	-	63,196,741
Net gains	34,323,587	147,966,037	-	182,289,624
Deficiencies in donor-restricted endowment funds	(221,552)	-	-	(221,552)
	$94,963,811	$150,301,002	$ 165,721,045	$ 410,985,858
2017				
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 endowment funds	(238,696)	-	-	(238,696)
	$91,252,998	$148,975,971	$ 154,777,455	$ 395,006,424

Note 5—Endowment and similar funds (continued)

Changes in endowment and similar funds' net assets for the years ended June 30, 2018 and 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2016	$ 78,062,325	$ 131,202,408	$ 148,508,586	$ 357,773,319
Investment Return:				
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
	8,041,511	-	6,063,992	14,105,503
Appropriation of endowment assets for expenditure	(4,313,400)	(15,153,561)	-	(19,466,961)
Copyright Amortization	(313,481)	-	-	(313,481)
	(4,626,881)	(15,153,561)	-	(19,780,442)
Endowment net assets, June 30, 2017	91,252,998	148,975,971	154,777,455	395,006,423
Investment Return, net of investment expenses	6,389,796	17,997,381		24,387,177
New gifts	142,354	-	9,352,447	9,494,801
Pledge payments	-	-	533,148	533,148
Transfer to board designated endowment	3,000,000	-	-	3,000,000
Other transfers, net	30,000	-	1,057,995	1,087,995
	3,172,354	-	10,943,590	14,115,944
Appropriation of endowment assets for expenditure	(5,669,117)	(16,672,350)	-	(22,341,467)
Copyright Amortization	(182,219)	-	-	(182,219)
	(5,851,336)	(16,672,350)	-	(22,523,686)
Endowment net assets, June 30, 2018	$ 94,963,811	$ 150,301,002	$ 165,721,045	$ 410,985,858

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 U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets. As of June 30, 2018 and 2017, there were 27 and 35 donor-designated endowment funds, respectively, that had a fair value below the original contribution value. The aggregate contribution value for the 27 and 35 named endowment funds totaled $9,069,833 and $6,854,337, respectively. The fair value for this group of "underwater" endowment funds was $8,848,281 or 98% of the original contribution value as of June 30, 2018 and $6,615,641 or 97% of the original contribution value as of June 30, 2017. The individual fair to contribution value range for the 27 "underwater" funds was 88% to 99% as of June 30, 2018. For the 35 "underwater" funds was 91% to 99% as of June 30, 2017.

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 fair 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 fair 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 fair value of the pooled investments on December 31 of the preceding fiscal year.

The 27 "underwater" donor-designated endowment funds for 2018 consist of 13,872 units, which represent 2% of the total number of units within the pooled endowment funds. 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. (There were total units of 596,482 and 582,893 in the pooled discretionary endowment group as of June 30, 2018 and 2017, respectively – see Note 5 "Pooled Investments" section). The University is applying the standard unitized spending rate to the 27 and the 35 "underwater" accounts as of June 30, 2018 and 2017, 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 fair 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 27 and 35 "underwater" endowment funds resulted in a spending distribution of $176,521 and $596,577 in fiscal year 2018 and 2017, 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.

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 2018 and fiscal year 2017, the spending rate was 5.79% and 5.58%, respectively. Using these spending rates, $21,166,889 and $18,376,305 of total return was available from these funds for operating purposes in 2018 and 2017, respectively. Fiscal year 2018 spending included a donation of $1,500,000 to St. Andrews Sewanee School, a private Episcopal boarding and day school located in Sewanee, Tennessee. The fiscal year spending rate for University-related operating purposes was 5.38%.

A breakdown of the total endowment support used for operations and reinvestment in fiscal 2018 and 2017 is shown below:

	2018	2017
Appropriated investment return from pooled investments	$ 21,166,889	$ 18,376,305
Oil and Gas Royalties	39,560	48,378
Outside Trust Income	1,135,018	1,042,278
	$ 22,341,467	$ 19,466,961

Pooled Investments

The University accounts for its pooled investments on the unit fair value basis. Each fund subscribes to or disposes of units on the basis of fair value per unit at the beginning of each quarter in which the transaction takes place. Pooled investments were as follows as of June 30, 2018 and 2017:

	2018	2017
Investments in pooled funds, at fair value	$ 380,480,387	$ 365,895,558
Total number of units	596,482	581,362
Fair value per unit	637.87	629.38
Average annual earnings per unit	32.45	32.89

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, 2018 and 2017 was $24,298,197 and $23,109,217, respectively. The University records these trusts at fair value. The fair value of funds held in trust by others increased $1,188,980 in 2018 and $1,106,490 in 2017. Income received from these funds for fiscal years 2018 and 2017 totaled approximately $1,135,010 and $1,090,656, respectively.

Note 6—Annuity and life income funds

At June 30, 2018 and 2017, investments for annuity and life income funds included:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Annuity Payment Liability	Total at Fair Value
2018					
Pooled income trusts	$ -	$ -	$ 130,320	$ -	$ 130,320
Charitable gift annuities	310,111	(110,486)	1,917,437	6,605,298	8,722,360
Cash value of life insurance	-	507,216	1,074,704	-	1,581,920
Unrealized gains on annuity and life income funds	-	3,705,206	-	-	3,705,206
Net Assets	$ 310,111	$ 4,101,936	$ 3,122,461	$ 6,605,298	$ 14,139,806

	Unrestricted	Temporarily Restricted	Permanently Restricted	Annuity Payment Liability	Total at Fair Value
2017					
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	-	2,887,527	-	-	2,887,527
	$ 161,697	$ 3,395,123	$ 3,036,705	$ 6,147,724	$ 12,741,249

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 2018 and 2017 was $720,096 and $642,929, respectively.

Note 6—Annuity and life income funds (continued)

The assets related to the charitable gift annuities are recorded at fair value. The liability to the annuitant is recorded at the net present value of estimated future cash flows using the Internal Revenue Code, *Charitable Mid-Term Federal Rate*. The increase in fair value of charitable gift annuities for fiscal 2018 and 2017 was $501,155 and $379,853, 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 2018 and 2017. 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 2018 and 2017 was $58,894 and $63,413, respectively.

Note 7—Property, plant, and equipment

Property, plant, and equipment consist of the following at June 30, 2018 and 2017:

	2018	2017
Land and land improvements	$ 19,676,302	$ 18,859,335
Buildings	231,882,265	215,408,056
Equipment and books	42,583,345	44,377,576
Construction in progress	4,026,623	18,214,032
	298,168,535	296,858,999
Less accumulated depreciation	(99,180,040)	(95,665,511)
Total property, plant, and equipment, net	$ 198,988,495	$ 201,193,488

Depreciation expense at June 30, 2018 and 2017 was $6,385,182 and $6,006,703, respectively. The estimated cost to complete outstanding projects at June 30, 2018 is approximately $200,000 related primarily to renovation of various campus facilities.

Note 8—Intangible assets

Acquired intangible assets consist of the following at June 30, 2018 and 2017:

	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
2018			
Tennessee Williams Copyrights	$ 7,785,781	$ (3,563,899)	$ 4,221,882
2017			
Tennessee Williams Copyrights	$ 7,785,781	$ (3,381,680)	$ 4,404,101

Note 8—Intangible assets (continued)

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

Note 9—Pension plan and postretirement benefits

Retirement benefits for substantially all full-time employees are individually provided through a pension plan and additionally through funded programs with the Teachers Insurance and Annuity Association, the College Retirement Equity Fund, Fidelity Investments, and, for some Episcopal clergy employees, the Church Pension Fund. Under individual programs, the University and Plan participants make monthly contributions to the various programs to purchase individual retirement accounts. The University's share of the cost of pension plan and individual plan benefits was $4,005,424 and $3,910,704 in fiscal 2018 and 2017, respectively.

There are 99 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 175 retired employees and 59 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, 2018 and 2017 was as follows:

	2018	2017
A. Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 4,139,817	$ 4,479,380
Service cost	91,737	90,058
Interest cost	129,422	118,513
Benefits paid (net of participant contributions)	(315,193)	(339,628)
Actuarial gain	(391,085)	(208,506)
Benefit obligation at end of year	$ 3,654,698	$ 4,139,817
B. Change in Plan Assets		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contributions	315,193	339,628
Benefits paid (net of participant contributions)	(315,193)	(339,628)
Fair value of plan assets at end of year	$ -	$ -
C. Funded Status		
Funded status (benefit obligation)	$ (3,654,698)	$ (4,139,817)

Note 9—Pension plan and postretirement benefits (continued)

	2018	2017
D. Amounts Not Yet Reflected in Net Periodic Benefit Cost and Included in Unrestricted Net Assets		
Accumulated gain	$ 485,667	$ 94,582
Unrestricted net assets	$ 485,667	$ 94,582
Net periodic benefit cost in excess of cumulative employer contributions	$ (4,140,365)	$ (4,234,399)
Net amount recognized in statements of financial position	$ (3,654,698)	$ (4,139,817)
E. Components of Net Periodic Benefit Cost		
Service cost	$ 91,737	$ 90,058
Interest cost	129,422	118,513
Net periodic postretirement benefit cost	$ 221,159	$ 208,571
F. Other Changes Recognized in Unrestricted Net Assets		
Net gain arising during the period	$ 391,085	$ 208,506
Total recognized in unrestricted net assets	$ 391,085	$ 208,506
G. Key Assumptions and Trend Rate Sensitivity		
Weighted average discount at June 30	3.75%	3.25%
Immediate health care cost trend rate	6.90%	7.20%
Ultimate trend rate	4.50%	4.50%
Year ultimate trend is reached	2031	2031

The change in the weighted average discount from 3.25% at June 30, 2017 to 3.75% at June 30, 2018 resulted in an unrecognized actuarial gain of $237,762.

H. Expected Cash Flows

Expected employer contributions for the next fiscal year:	$ 300,330
Expected benefit payments for fiscal year ending in:	
2020	$ 293,590
2021	284,622
2022	276,429
2023	264,828
2024-28	1,264,900

Increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation by $263,109 at June 30, 2018, and decreasing the assumed health care cost trend rates by one percentage point in each year would decrease the accumulated postretirement benefit obligation by $223,507 at June 30, 2018.

Note 9—Pension plan and postretirement benefits (continued)

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

Note 10—Bonds payable

Bonds payable are summarized as follows at June 30, 2018 and 2017:

	2018	2017
$7,185,000 tax-exempt bond (1998 Series B Issue) bearing interest at a swapped rate of 3.85% at June 30, 2018 and 2017, with final maturity in 2018.	$ 1,200,000	$ 2,390,000
$38,675,000 tax-exempt bond (2012 Issue) plus unamortized premium of $1,477,115 at June 30, 2018, bearing interest with a fixed rate ranging from 2% to 4% with final maturity in 2032.	35,775,000	36,655,000
$25,590,000 tax-exempt bond (2014 Issue) plus unamortized premium of $1,574,198 at June 30, 2018, bearing interest with a fixed rate ranging from 2% to 5% with final maturity in 2033.	22,845,000	23,765,000
$6,335,000 tax-exempt bond (2015A Issue) plus unamortized premium of $606,668 at June 30, 2018, 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.	3,460,000	3,910,000
$3,000,000 tax-exempt bond (2016 Issue), mortgage-type repayment schedule 2.28% APR with final payment in 2031.	2,687,706	2,860,782
$1,200,000 tax-exempt bond (2017 Issue), mortgage-type repayment schedule 2.50% APR with final payment in 2024.	777,060	-
Par amount of bonds and notes payable	73,079,766	75,915,782
Unamortized net premium	3,530,942	3,657,981
Bond issue charges	(1,900,427)	(2,014,800)
Total bonds and notes payable	$ 74,710,281	$ 77,558,963

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.

Note 10—Bonds payable (continued)

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

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

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

In October, 2017, the University borrowed $1,200,000 by means of tax-exempt bonds issued by the Health and Education Facilities Board of the County of Franklin, Tennessee. The bond proceeds were used to complete renovations of the DuPont Library. The University was in compliance at June 30, 2018, 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:

	1998B Issue	2012 Issue	2014 Issue	2015A Issue	2015B Issue	2016 Issue	2017 Issue	Total
2019	$ 1,200,000	$ 990,000	$ 850,000	$ -	$ 455,000	$ 177,065	$ 120,000	$ 3,792,065
2020	-	1,800,000	1,330,000	-	460,000	180,997	120,000	3,890,997
2021	-	2,425,000	820,000	-	470,000	185,320	120,000	4,020,320
2022	-	2,470,000	880,000	-	480,000	189,592	120,000	4,139,592
2023	-	2,500,000	955,000	-	495,000	193,962	120,000	4,263,962
Thereafter		25,590,000	18,010,000	6,335,000	1,100,000	1,760,769	177,060	52,972,829
Total	$ 1,200,000	$ 35,775,000	$ 22,845,000	$ 6,335,000	$ 3,460,000	$ 2,687,706	$ 777,060	$ 73,079,766

Note 10—Bonds payable (continued)

Bond issue charges were incurred on the 2012, 2014, 2015A, 2015B and 2017 bond issues. Amortization expense was $131,873 for fiscal years 2018 and 2017.

	Gross Carrying Amount	Accumulated Amortization	Net Bond Issue Charges
2018			
Bond issue charges	$ 2,841,390	$ (940,963)	$ 1,900,427
2017			
Bond issue charges	$ 2,823,890	$ (809,090)	$ 2,014,800

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

2019	$ 134,790
2020	134,790
2021	134,790
2022	134,790
2023	134,790
Thereafter	1,226,477
	$ 1,900,427

Note 11—Leases

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

The University leases the University Book and Supply Store to Barnes & Noble College Bookstore, Inc., under a five-year operating lease which was first signed effective March 12, 2003. The most recent five-year lease expired on April 30, 2018 and has been automatically extended for a year. The lease payments are based on a percentage of net sales. The University received payments of $200,651 and $246,773 in fiscal years 2018 and 2017, respectively, in connection with this lease.

Note 12—Fair value measurements

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

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

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

Note 12—Fair value measurements (continued)

The following table summarizes fair value disclosures and measurements at June 30, 2017:

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

Set forth below is additional information pertaining to alternative investments:

2018:

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

Note 12—Fair value measurements (continued)

2017:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds[a]:				
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[b]	
U.S. Private Equity	4,413,377	9,574,332	Illiquid[b]	
Venture Capital	17,259,857	1,609,000	Illiquid[b]	
Natural Resources	3,839,773	8,281,900	Illiquid[b]	
Real Estate Private Partnerships	5,515,345	4,306,034	Illiquid[b]	
Private Credit	5,515,431	11,855,229	Illiquid[b]	
Total	$272,015,398	$44,738,495		

(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:

<u>Cash and Cash Equivalents and Restricted Cash</u>

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

<u>Accounts and Notes Receivable</u>

Accounts and notes receivable consist primarily of student loans and short-term receivables. The loans receivable of $2,129,034 and $2,354,241 at June 30, 2018 and 2017, 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.

<u>Contributions Receivable</u>

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

Note 12—Fair value measurements (continued)

Investments and Funds Held in Trust by Others

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

Tennessee Williams Copyrights

The copyrights are being amortized as the royalty income is realized. The fair value at June 30, 2018 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, 2018 and 2017 of $83,507,895 and $87,844,024, 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, 2018 and 2017, expenses of $2,695,254 and $2,881,503, respectively, were related to fundraising activities and are classified in the statements of activities under institutional support.

Note 14—Line of credit

At June 30, 2018 and 2017, the University had an unused line of credit of $5,000,000 with a financial institution. There are no compensating balance requirements under the line of credit, nor any related fees. The line of credit expires on January 31, 2020.

Note 15—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 2018 and 2017 is as follows:

	2018	2017
Instructional	$ 406,026	$ 660,476
Academic support	950,695	1,490,645
Research	91,442	82,156
Student services	200,250	345,609
Institutional support	1,141,235	1,491,307
Scholarships	238,557	8,035,386
Property, plant and equipment	2,132,661	2,490,401
	$ 5,160,866	$ 14,595,980

Note 16—Net assets

Temporarily restricted net assets are comprised of the following:

	2018	2017
Unappropriated accumulated total return of donor-restricted endowment funds	$ 150,301,002	$ 148,975,971
Restricted annuity and life income gifts	4,101,936	3,395,124
Restricted contribution receivable	20,512,976	21,581,159
Restricted gifts for capital projects	13,728,489	9,234,446
Restricted for academics and research	5,071,863	4,322,813
Restricted for special projects	4,968,537	4,173,947
Restricted for scholarships and student services	1,766,439	1,312,237
	$ 200,451,242	$ 192,995,697

Permanently restricted net assets are comprised of the following:

	2018	2017
Permanently restricted endowment funds	$ 165,721,045	$ 154,777,455
Restricted annuity and life income gifts	3,122,461	3,036,705
Restricted contribution receivable	5,847,080	5,363,854
Restricted for loans	56,597	455,512
	$ 174,747,183	$ 163,633,526

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 October 8, 2018, the issuance date of the University's financial statements and have determined 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, 2018, and the statements of activities and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated October 8, 2018.

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
October 8, 2018

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, 2018. 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, 2018.

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
October 8, 2018

THE UNIVERSITY OF THE SOUTH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2018

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	____ yes	_X_ no
• Significant deficiency(ies) identified?	____ yes	_X_ none reported
Noncompliance material to financial statements noted?	____ yes	_X_ no

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	____ yes	_X_ no
• Significant deficiency(ies) identified?	____ yes	_X_ none reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	____ yes	_X_ no

Identification of major programs:

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

Dollar threshold used to distinguish between Type A and Type B Programs	$750,000	
Auditee qualified as low-risk auditee?	_X_ yes	___ no

Section II. Financial Statement Findings

None reported for the year ended June 30, 2018.

Section III. Federal Award Findings and Questioned Costs

None reported for the year ended June 30, 2018.

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, 2018

Grantor/Program Title	Federal CFDA Number	Expenditures
Student Financial Assistance Cluster:		
U.S. Department of Education		
Federal Perkins Loan Program	84.038	$ 2,195,408
Federal Work-Study Program	84.033	177,979
Federal Supplemental Educational Opportunity Grant Program	84.007	181,432
Federal Direct Student Loans	84.268	7,508,965
Federal Pell Grant Program	84.063	1,308,928
Total U.S. Department of Education		11,372,712
Total Student Financial Assistance Cluster		11,372,712
Research and Development Cluster:		
U.S Fish and Wildlife Service		
State Wildlife Grants: Zigler grant	15.634	15,751
Department of Health and Human Services		
Garrett Lee Smith (GLS) Campus Suicide Prevention	93.243	51,188
Total Research and Development Cluster		66,939
Total Federal Awards Expended		$ 11,439,651

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% de minimum indirect cost rate as allowed under the Uniform Guidance.

Note 3—Federal Perkins Loan Program

The Federal Perkins Loan Program is administered directly by the University. Balances and transactions relating to this program are included in the University's financial statements. The Schedule under CFDA #84.038 includes current year loan advances to students amounting to $82,201. The balance of loans outstanding under the Federal Perkins Loan Program was $2,195,408 as of June 30, 2018.

Cash on hand at June 30, 2018 under the Perkins Loan Program was $363,099.

Note 4—Federal Direct Student Loan Program

During the fiscal year ended June 30, 2018, the University processed $7,508,965 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, 2018.