

THE UNIVERSITY OF THE SOUTH

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

***As of and for the Years Ended June 30, 2021
and 2020***

And Report of Independent Auditor

THE UNIVERSITY OF THE SOUTH

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Report of Independent Auditor

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

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, 2021 and 2020, 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, 2021 and 2020, 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 financial responsibility supplemental schedule – U.S. Department of Education and 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*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 30, 2021 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Greenville, South Carolina
September 30, 2021

THE UNIVERSITY OF THE SOUTH
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2021 AND 2020

	2021	2020
ASSETS		
Cash and cash equivalents	\$ 83,380,766	\$ 87,380,555
Restricted cash	263,325	421,321
Accounts and notes receivable, net	3,391,452	2,234,061
Inventories	505,828	482,194
Prepaid expenses	1,146,143	931,539
Contributions receivable, net	34,156,773	32,317,303
Investments, at fair value	512,242,275	406,277,625
Funds held in trust by others	29,283,515	24,033,182
Intangible, net	3,614,428	3,711,268
Property, plant and equipment, net	205,895,888	205,447,214
Total Assets	\$ 873,880,393	\$ 763,236,262
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 3,490,259	\$ 3,432,126
Accrued salaries and wages	2,522,277	2,439,359
Deferred revenue	865,471	2,032,071
Annuities payable	10,990,819	10,058,761
Refundable government advances	1,324,287	1,670,983
Postretirement benefit liability	3,987,451	4,348,233
Asset retirement obligation	3,158,237	3,034,029
Notes payable	-	48,159
Bonds payable, net	84,508,906	88,782,500
Total Liabilities	110,847,707	115,846,221
Net Assets:		
Without donor restrictions	289,787,083	256,018,632
With donor restrictions	473,245,603	391,371,409
Total Net Assets	763,032,686	647,390,041
Total Liabilities and Net Assets	\$ 873,880,393	\$ 763,236,262

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

THE UNIVERSITY OF THE SOUTH
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2021

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

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

THE UNIVERSITY OF THE SOUTH
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues:			
Comprehensive fees, net	\$ 62,460,196	\$ -	\$ 62,460,196
Contributions	5,780,452	3,424,311	9,204,763
Investment returns, net:	-	-	-
Endowment spending	19,926,785	1,857,980	21,784,765
Other investment income	800,966	124,668	925,634
Royalty income	1,698,251	-	1,698,251
Sales and service income	1,121,657	-	1,121,657
Auxiliary enterprises	9,562,672	-	9,562,672
Government grants	373,750	1,483,874	1,857,624
Other	1,977,813	132,263	2,110,076
Net assets released for operations	6,157,194	(6,157,194)	-
Total operating revenues	109,859,736	865,902	110,725,638
Operating expenses:			
Instructional	34,508,935	-	34,508,935
Academic support	11,357,732	-	11,357,732
Research	328,156	-	328,156
Student services	15,861,420	-	15,861,420
Institutional support	26,574,535	-	26,574,535
Auxiliary services	18,648,490	-	18,648,490
Total operating expenses	107,279,268	-	107,279,268
Net increase in net assets from operations	2,580,468	865,902	3,446,370
Nonoperating items:			
Contributions restricted for endowment and similar funds	3,874	9,884,555	9,888,429
Contributions restricted for property, plant and equipment	38,670	1,285,329	1,323,999
Addition of asset retirement obligation	(2,883,573)	-	(2,883,573)
Net assets released for capital expenditures	4,120,535	(4,120,535)	-
Investment returns, net, less than appropriated for expenditure	(376,140)	(425,558)	(801,698)
Change in value of split-interest agreements	(377,389)	58,488	(318,901)
Total nonoperating items	525,977	6,682,279	7,208,256
Total increase in net assets	3,106,445	7,548,181	10,654,626
Net assets, beginning of year	252,912,187	383,823,228	636,735,415
Net assets, end of year	<u>\$ 256,018,632</u>	<u>\$ 391,371,409</u>	<u>\$ 647,390,041</u>

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

THE UNIVERSITY OF THE SOUTH
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 115,642,645	\$ 10,654,626
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	6,468,792	6,616,469
Accretion of asset retirement obligation	135,597	3,034,029
Amortization of intangible assets and bond issuance costs	234,255	446,925
Amortization of bond premium	(250,689)	(207,210)
Gain on disposal of property, plant and equipment	(536,698)	-
Gains on investments	(122,823,006)	(21,546,550)
Provision for postretirement benefit obligation	(101,347)	470,793
Actuarial change on annuities payable	(291,569)	1,079,282
Postretirement employer contributions	(259,435)	(286,852)
Contributions restricted for long-term investment	(4,167,159)	(11,212,428)
Change in assets and liabilities:		
Accounts and notes receivable, net	(1,157,391)	269,950
Contributions receivable, net	1,447,321	3,085,266
Inventories	(23,634)	26,707
Prepaid expenses	(214,604)	300,612
Accounts payable and accrued expenses	58,133	738,066
Accrued salaries and wages	82,918	84,798
Deferred revenue	(1,166,600)	773,915
Refundable government advances	(346,696)	(568,872)
Payments for abatement of asset retirement of obligation	(11,389)	-
Net cash from operating activities	<u>(7,280,556)</u>	<u>(6,240,474)</u>
Cash flows from investing activities:		
Purchases of investments and additions to funds held in trust by others	(86,431,369)	(162,663,011)
Proceeds from sales and maturities of investments and funds held in trust by others	94,752,601	173,350,866
Net change in short-term investments	-	10,220,487
Purchases of property, plant and equipment	(6,927,268)	(14,804,043)
Proceeds from sale of property, plant and equipment	546,500	-
Net cash from investing activities	<u>1,940,464</u>	<u>6,104,299</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment:		
Endowment	3,750,384	9,888,429
Investment in property, plant and equipment	416,775	1,323,999
Net gifts on annuities payable	1,223,627	2,809,665
Principal repayments on bonds payable	(4,160,320)	(4,085,997)
Principal repayments on notes payable	(48,159)	(47,811)
Net cash from financing activities	<u>1,182,307</u>	<u>9,681,075</u>
Net change in cash and cash equivalents and restricted cash	(4,157,785)	9,752,110
Cash and cash equivalents and restricted cash, beginning of year	87,801,876	78,049,766
Cash and cash equivalents and restricted cash, end of year	<u>\$ 83,644,091</u>	<u>\$ 87,801,876</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 2,871,984</u>	<u>\$ 2,691,422</u>

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

THE UNIVERSITY OF THE SOUTH

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 1—Summary of significant accounting policies

The University of the South (the “University”) is a not-for-profit educational institution composed of the School of Theology and the College of Arts and Sciences located in Sewanee, Tennessee. The University is governed by the Episcopal Church through a Board of Trustees (the “Trustees”) that arises principally from 28 dioceses of the Church and a Board of Regents elected by the Trustees.

Basis of Financial Statements – The financial statements of the University have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Based on the existence or absence of donor-imposed restrictions, the University classifies resources into two categories: without donor restrictions and with donor restrictions.

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

Without Donor Restrictions – Net assets without donor restrictions are free of donor-imposed restrictions. All revenues, gains, and losses that are not restricted by donors are included in this classification. All expenditures are reported in the without donor restrictions class of net assets, including expenditures funded by restricted contributions. Expenditures funded by restricted contributions are reported in the without donor restrictions net asset class because the use of restricted contributions in accordance with donors’ stipulations results in the release of such restrictions.

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

Revenue Recognition – The University’s revenue recognition policies include the recording of student comprehensive fees, which include the cost of tuition, room and board, and fees, as revenue in the fiscal year that the related academic services are rendered. Comprehensive fees received in advance of services to be rendered are recorded as unearned income. Net comprehensive fees reflect scholarship allowances reducing comprehensive fees by \$43,411,633 and \$38,610,421 at June 30, 2021 and 2020, respectively. In addition, students who officially withdraw from all courses during the semester will receive a partial refund in accordance with the University’s refund policy. Historically, refunds of tuition have been approximately 0.25% of the total amount billed. Refunds issued reduce the amount of revenue recognized.

Revenues from non-exchange transactions (contributions and government grants) may be subject to conditions, in the form of both a barrier to entitlement and a refund of amounts paid (or a release from obligation to make future payments). Revenues from conditional non-exchange transactions are recognized when the barrier is satisfied. Revenues from government grants for June 30, 2021 and 2020, included \$3,025,021 and \$1,094,094, respectively, of Higher Education Emergency Relief Fund (“HEERF”) funds received by the University for emergency aid for students and to cover institutional expenses due to the COVID-19 pandemic.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 1—Summary of significant accounting policies (continued)

Deferred revenue of \$865,471 and \$2,032,071 as of June 30, 2021 and 2020, respectively, represents performance obligations associated with payments received for enrollment deposits and prepayments for the advent semester, rental housing deposits, and prepayments for School of Theology programs. As discussed in Note 2, deferred revenue as of June 30, 2020 also included \$1,310,452 in amounts from room and board refunds that were elected to be applied toward future semesters.

The operations of various auxiliary services provided by the University, excluding the revenues derived from residential and dining halls which are included in the comprehensive fee, are combined and include the following:

	<u>2021</u>	<u>2020</u>
Sewanee Inn	\$ 1,834,369	\$ 3,800,766
Non-board related dining services	1,432,199	2,086,510
Rental and lease income	2,488,555	2,280,461
Summer conferences	399,375	537,920
Golf and tennis	314,106	316,551
Bookstore lease	207,839	181,190
Child care center	202,912	129,623
Telecommunications	26,435	53,076
Other	182,104	176,575
	<u>\$ 7,087,894</u>	<u>\$ 9,562,672</u>

Cash and Cash Equivalents – Cash and cash equivalents are liquid assets with minimal interest rate risk and maturities of three months or less when purchased. Such assets primarily consist of depository account balances and money market funds.

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

Reconciliation of Cash to Statement of Cash Flows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 83,380,766	\$ 87,380,555
Restricted cash	263,325	421,321
	<u>\$ 83,644,091</u>	<u>\$ 87,801,876</u>

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

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

THE UNIVERSITY OF THE SOUTH

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 1—Summary of significant accounting policies (continued)

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

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

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, 2021 and 2020. The University does not have any intangibles with indefinite lives.

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

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

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

THE UNIVERSITY OF THE SOUTH

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 1—Summary of significant accounting policies (continued)

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, 2021 and 2020, refundable government advances totaled \$1,324,287 and \$1,670,983, respectively.

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

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

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

Concentrations of Credit Risk – Financial instruments that potentially subject the University to concentrations of credit risk and market risk consist principally of cash equivalents, investments, and student loans receivable. The University places its cash equivalents and investments with financial institutions and limits the amount of credit exposure to any one financial institution. The University requires each student and/or student's parents to guarantee payment of student loans receivable, but does not require collateral. The University's student loans receivable do not represent significant concentrations of market risk because as the receivables are due from numerous students. The University places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts. At June 30, 2021, the University had \$2,579,510 of cash on deposit in excess of the insured limits.

Fair Value Measurements – Assets recorded at fair value in the statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value (See Note 13). Level inputs are as follows:

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

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

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

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 1—Summary of significant accounting policies (continued)

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, 2021 and 2020, the University reported \$699,000 and \$723,000, respectively, as incurred but not reported claims. These claims have been included in accounts payable and accrued expenses in the statements of financial position.

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

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

Recently Adopted Accounting Pronouncements – In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases are classified as either finance or operating. This distinction is relevant for the pattern of revenue recognition in the statement of activities. The University adopted this standard effective July 1, 2020, and the adoption had no material effect on the University’s financial statements.

Note 2—Accounts and notes receivable

Accounts and notes receivable consist of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Accounts receivable:		
Students and trade	\$ 661,707	\$ 711,219
Less allowance for doubtful accounts	(145,848)	(146,174)
Total accounts receivable, net	<u>515,859</u>	<u>565,045</u>
Notes receivable:		
Students loans	1,079,046	1,324,206
Other notes receivable	186,995	220,336
	<u>1,266,041</u>	<u>1,544,542</u>
Less allowance for doubtful loans	(8,392)	(13,939)
Total notes receivable, net	<u>1,257,649</u>	<u>1,530,603</u>
Other receivable:		
HEERF funding	1,425,831	-
Other receivable	192,113	138,413
Total other receivable	<u>1,617,944</u>	<u>138,413</u>
Total accounts and notes receivable, net	<u>\$ 3,391,452</u>	<u>\$ 2,234,061</u>

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 2—Accounts and notes receivable (continued)

Student Notes Receivable – The University makes uncollateralized loans to students based on financial need. Student loans are funded through federal government loan programs or institutional resources. Perkins loans were granted by the University under the federally funded Perkins loan program. These funds were disbursed based upon the demonstration of exceptional financial need presented by the student. Upon graduation, the students have a nine-month grace period on the Perkins loan and a six-month grace period on the institutional loan until repayment is required, at which time the loans will also begin accruing interest. Perkins and institutional loan amounts are then repaid through the University’s billing service, Campus Partners. Under federal law, the authority for institutions to make new Perkins loans to students ended on September 30, 2017, and final disbursements to students were permitted through June 30, 2018. Subsequent to June 30, 2018, the University’s Perkins loan program activities consist of servicing the outstanding loans. Student loans are considered past due when payment has not been received in over 30 days. At June 30, 2021 and 2020, student loans represented 0.12% and 0.20% of total assets, respectively.

Due to COVID-19, the University closed its facilities on March 22, 2020, and students completed their classes online. As a result of this closure, the University issued \$2,618,207 of room and board refunds. The University gave students three options as to the use of their refunds: 1) donate the money to the University, 2) defer to fees until next fall, or 3) receive a refund, resulting in \$136,050 in donations to the University, \$1,310,452 in deferred revenue, and \$1,171,705 in refunds.

At June 30, 2021 and 2020, student loans consisted of the following:

	<u>2021</u>	<u>2020</u>
Federal government loans (Perkins)	\$ 1,062,775	\$ 1,284,870
Institutional loans	16,271	39,336
	<u>\$ 1,079,046</u>	<u>\$ 1,324,206</u>
Allowance for doubtful accounts - student loans:		
Beginning of year	\$ 13,939	\$ 12,003
Increases	-	1,936
Recoveries credited to expense	(5,547)	-
End of year	<u>\$ 8,392</u>	<u>\$ 13,939</u>

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

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

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 2—Accounts and notes receivable (continued)

The Advanced Degree Loan Program (“ADL”) is a loan for full-time staff members of the University who have been employed for at least three years of continuous service. Upon completion of the degree, 10% of the loan will be forgiven one year after the completion date, and 10% cancellation each year after. The loan can be completely cancelled over a ten-year period. In the event the staff member terminates employment prior to repayment of the loan, the balance of the loan is due and payable. At June 30, 2021 and 2020, these loan programs consisted of the following loan balances:

	<u>2021</u>	<u>2020</u>
Employee loans (ELP)	\$ 65,817	\$ 84,624
Advanced degree loans (ADL)	101,244	110,527
Other	19,934	25,185
	<u>\$ 186,995</u>	<u>\$ 220,336</u>

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

Note 3—Contributions receivable

Contributions receivable are summarized as follows at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Unconditional pledges for:		
Building programs	\$ 2,011,587	\$ 2,309,586
Endowment	2,437,798	2,855,929
Restricted scholarship and operating	4,079,675	4,635,903
Total	<u>8,529,060</u>	<u>9,801,418</u>
Less:		
Pledges discount to present value	(505,252)	(627,270)
Pledges allowance	<u>(392,717)</u>	<u>(466,379)</u>
Pledges receivable, net	7,631,091	8,707,769
Contributions receivable, other:		
Split-interest agreements	23,018,877	19,732,086
Trust mortgage receivable, net	<u>3,506,805</u>	<u>3,877,448</u>
Total contributions receivable, net	<u>\$ 34,156,773</u>	<u>\$ 32,317,303</u>
Amounts due, before discount and allowance, in:		
Less than one year	\$ 11,139,792	\$ 9,172,632
One to five years	5,262,466	6,280,918
More than five years	18,652,484	17,957,402
Total	<u>\$ 35,054,742</u>	<u>\$ 33,410,952</u>

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 3—Contributions receivable (continued)

Contributions receivable are recorded at the net present value of the estimated future cash flows from the contributions. The imputed interest rates range from .34% to 6.8% at for fiscal year 2021 and 2020. At June 30, 2021 and 2020, the trust mortgage receivable is recorded net of a present value discount of \$323,547 and \$452,904, respectively based on a discount rate of 3.83%.

As of June 30, 2021, 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, 2021 and 2020, the University's contributions receivable included \$533,667 and \$591,667, respectively, of contributions receivable from members of the Board of Regents.

Split-interest agreements, as noted above, consist of charitable-remainder trusts and remainder interests in life estates. A charitable-remainder trust is an arrangement in which a donor establishes and funds a trust with specified distributions to be made to a designated beneficiary or beneficiaries over the trust's term. Upon termination, the University receives the assets remaining in the trust. The University's charitable-remainder interests in life estates consist of properties in which designated individuals have a life interest. Upon termination of that interest, the University will receive the property.

Under these arrangements, the University recorded no contributions receivables for split-interest agreements in fiscal years 2021 and 2020. Charitable-remainder trusts are valued by the University at fair value, which closely approximates the present value of future cash flows. Charitable-remainder interests in life estates are valued at fair value, if available, and at cost when fair values are not readily determinable.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

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, 2021 and 2020:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Operating funds:				
Temporary investments	\$ 1,028	\$ 1,028	\$ 1,028	\$ 1,028
Endowment and similar funds:				
Cash and temporary investments	32,018,661	32,847,903	27,504,131	27,912,097
Equities	51,084,345	76,412,877	42,772,781	53,380,354
Fixed income	37,259,982	38,020,374	37,094,752	38,052,905
Global equities	90,442,805	151,919,195	116,241,334	135,397,355
Hedge fund	62,598,483	83,485,654	54,096,264	65,759,922
Private equity	67,248,298	126,161,815	59,346,743	88,354,177
Real assets	1,648,615	1,648,615	1,649,440	1,649,440
Cash value of life insurance policies	1,744,814	1,744,814	1,592,179	1,592,179
Funds held in trust by others	22,635,265	29,283,515	21,420,111	24,033,182
Less amounts applicable to annuity and life income funds	(21,979,663)	(25,294,936)	(17,308,626)	(19,639,366)
Total investments held as endowment and similar funds	344,702,633	516,230,854	344,410,137	416,493,273
Annuity and life income funds	21,979,663	25,294,936	17,308,626	19,639,366
Annuity and life income funds held as cash	-	-	(5,821,832)	(5,821,832)
Total all funds	<u>\$ 366,682,296</u>	<u>\$ 541,525,790</u>	<u>\$ 355,896,931</u>	<u>\$ 430,310,807</u>

Investment returns, net, for 2021 and 2020 consisted of the following:

	2021	2020
Gains on endowment, net	\$ 121,473,751	\$ 21,865,451
Other external endowment related income	28,094	43,988
Other non-endowment related gains (losses)	2,964,524	(738)
Total net investment return	124,466,369	21,908,701
Included in the statement of activities as investment return designated for current operations:		
Endowment spending	(23,808,550)	(21,784,765)
Other investment income	(41,245)	(925,634)
Investment returns, net, less than appropriated for expenditure	<u>\$ 100,616,574</u>	<u>\$ (801,698)</u>

For fiscal years ended June 30, 2021 and 2020, the University paid \$1,864,077 and \$1,117,491, respectively, investment management fees, which are netted against gains on endowment.

THE UNIVERSITY OF THE SOUTH

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 5—Endowment and similar funds

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

Interpretation of the Uniform Prudent Management of Institutional Funds Act – The Board of Regents of the University has interpreted applicable state laws as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as net assets with donor restrictions held in perpetuity (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the endowment held in perpetuity made in accordance with the applicable donor gift agreement. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions held in perpetuity is classified as net assets with donor restrictions with purpose/time restrictions until those amounts are appropriated for expenditure by the University. The University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

The fair value of the endowment and similar funds, including the Tennessee Williams Copyrights discussed further in Notes 8 and 13, as of June 30, 2021 and 2020, was \$519,143,301 and \$419,515,040, respectively. Board-designated endowments are shown as net assets without donor restrictions since they are restricted by the Board of Regents and not the donor. In some cases, the restriction on the original gift may not have been lifted and those gifts will be reflected under net assets with donor restrictions until this has occurred. The fair value of board-designated endowments as of June 30, 2021 and 2020 were \$119,447,803 and \$95,206,730, respectively. Gains and losses on board-designated endowments are shown as net assets without donor restrictions.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 5—Endowment and similar funds (continued)

A schedule of endowment and similar funds' net asset composition as of June 30, 2021 and 2020 follows:

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose/Time Restrictions	Perpetual in Nature	
<u>2021</u>				
True endowment	\$ -	\$ -	\$ 183,571,107	\$ 183,571,107
Board-designated endowments	63,057,558	2,334,965	-	65,392,523
Net gains	56,390,245	213,789,426	-	270,179,671
Deficiencies in donor-restricted endowment funds	-	-	-	-
	<u>\$ 119,447,803</u>	<u>\$ 216,124,391</u>	<u>\$ 183,571,107</u>	<u>\$ 519,143,301</u>
<u>2020</u>				
True endowment	\$ -	\$ -	\$ 179,987,276	\$ 179,987,276
Board designated endowments	62,835,109	2,334,965	-	65,170,074
Net gains	32,371,621	142,484,346	-	174,855,967
Deficiencies in donor-restricted endowment funds	-	(498,277)	-	(498,277)
	<u>\$ 95,206,730</u>	<u>\$ 144,321,034</u>	<u>\$ 179,987,276</u>	<u>\$ 419,515,040</u>

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 5—Endowment and similar funds (continued)

Changes in endowment and similar funds' net assets for the years ended June 30, 2021 and 2020, are as follows:

	Without Donor Restrictions	Purpose/Time Restrictions	Perpetual in Nature	Total
Endowment Net Assets June 30, 2019	\$ 93,483,935	\$ 144,780,443	\$ 170,504,885	\$ 408,769,263
Investment Return, net of investment expenses	5,085,066	15,930,984	-	21,016,050
New gifts	5,926	-	6,936,904	6,942,830
Pledge payments	10,000	-	917,746	927,746
Other transfers, net	2,325,685	-	1,627,741	3,953,426
	<u>2,341,611</u>	<u>-</u>	<u>9,482,391</u>	<u>11,824,002</u>
Appropriation of endowment assets for expenditure	(5,394,372)	(16,390,393)	-	(21,784,765)
Copyright amortization	(309,510)	-	-	(309,510)
	<u>(5,703,882)</u>	<u>(16,390,393)</u>	<u>-</u>	<u>(22,094,275)</u>
Endowment Net Assets June 30, 2020	95,206,730	144,321,034	179,987,276	419,515,040
Investment Return, net of investment expenses	29,882,112	89,748,419	-	119,630,531
New gifts	9,289	-	2,665,305	2,674,594
Pledge payments	10,000	-	736,242	746,242
Other transfers, net	300,000	-	182,284	482,284
	<u>319,289</u>	<u>-</u>	<u>3,583,831</u>	<u>3,903,120</u>
Appropriation of endowment assets for expenditure	(5,863,488)	(17,945,062)	-	(23,808,550)
Copyright amortization	(96,840)	-	-	(96,840)
	<u>(5,960,328)</u>	<u>(17,945,062)</u>	<u>-</u>	<u>(23,905,390)</u>
Endowment Net Assets June 30, 2021	<u>\$ 119,447,803</u>	<u>\$ 216,124,391</u>	<u>\$ 183,571,107</u>	<u>\$ 519,143,301</u>

THE UNIVERSITY OF THE SOUTH

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 5—Endowment and similar funds (continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original contribution level (“underwater endowments”). In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions.

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

At June 30, 2021, the University had no underwater endowments. As of June 30, 2020, there were 70 donor-designated endowment funds that had a market value below the original contribution value. The aggregate contribution value for 70 named endowment funds totaled \$20,631,935. The fair value for this group of underwater endowment funds \$20,133,658 or 98% of the original contribution value as of June 30, 2020. The 70 underwater donor-designated endowment funds for 2020 consist of 32,214 units, which represent 5% of the total number of units within the pooled-endowment funds. (There were total units of 629,057 and 623,644 in the pooled discretionary endowment group as of June 30, 2021 and 2020, respectively – see page 20 “Pooled Investments” section). The University is applying the standard unitized spending rate to the 70 underwater accounts as of June 30, 2020, 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 70 underwater endowment funds resulted in a spending distribution of \$1,002,154 in fiscal year 2020.

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

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

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 5—Endowment and similar funds (continued)

Spending Formula — The University’s total return strategy for its invested assets is utilized in the determination of the rate of spending from the pooled portion of the endowment fund. The spending rate for the pooled-endowment funds is determined by the Board of Regents by resolution from time to time. For fiscal years 2021 and 2020, the spending rate was 5.77% and 5.45%, respectively. Using these spending rates, \$22,526,008 and \$20,669,442 of total return was available from these funds for operating purposes in 2021 and 2020, respectively.

A breakdown of the total endowment support used for operations and reinvestment in fiscal years 2021 and 2020 is shown below:

	2021	2020
Appropriated investment return from pooled investments	\$ 22,526,008	\$ 20,669,442
Outside Trust Income	1,282,542	1,115,323
	<u>\$ 23,808,550</u>	<u>\$ 21,784,765</u>

Pooled Investments – The University accounts for its pooled investments on the unit market value basis. Each fund subscribes to or disposes of units on the basis of market value per unit at the beginning of each quarter in which the transaction takes place. Pooled investments were as follows as of June 30, 2021 and 2020:

	2021	2020
Investments in pooled funds, at fair value	\$ 484,184,316	\$ 389,780,599
Total number of units	629,057	623,644
Market value per unit	769.70	625.01
Average annual earnings per unit	32.88	33.09

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, 2021 and 2020 was \$29,283,515 and \$24,033,182, respectively. The University records these trusts at fair market value. The fair value of funds held in trust by others increased \$5,250,333 in 2021 and decreased \$312,663 in 2020. Income received from these funds for fiscal years 2021 and 2020 totaled approximately \$1,282,542 and \$1,115,323, respectively.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 6—Annuity and life income funds

At June 30, 2021 and 2020, investments for annuity and life income funds included:

	Without Donor Restrictions	With Donor Restrictions		Annuity Payment Liability	Total at Fair Value
		Purpose/Time Restrictions	Perpetual in Nature		
2021					
Pooled income trusts	\$ -	\$ -	\$ 11,829	\$ -	\$ 11,829
Charitable gift annuities	158,573	(268,116)	5,442,453	10,990,819	16,323,729
Cash value of life insurance	-	536,936	1,207,878	-	1,744,814
Unrealized gains on annuity and life income funds	-	7,214,564	-	-	7,214,564
Net Assets	<u>\$ 158,573</u>	<u>\$ 7,483,384</u>	<u>\$ 6,662,160</u>	<u>\$ 10,990,819</u>	<u>\$ 25,294,936</u>
2020					
Pooled income trusts	\$ -	\$ -	\$ 70,320	\$ -	\$ 70,320
Charitable gift annuities	201,590	(219,097)	3,463,845	10,058,761	13,505,099
Cash value of life insurance	-	509,418	1,082,761	-	1,592,179
Unrealized gains on annuity and life income funds	-	4,471,768	-	-	4,471,768
Net Assets	<u>\$ 201,590</u>	<u>\$ 4,762,089</u>	<u>\$ 4,616,926</u>	<u>\$ 10,058,761</u>	<u>\$ 19,639,366</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 statements of financial position.

A charitable gift annuity is an arrangement between a donor and a not-for-profit organization in which the donor contributes assets to the organization in exchange for a promise by the organization to pay a fixed amount for a specified period of time to the donor or to individuals or organizations designated by the donor. Contribution revenue for charitable gift annuities for fiscal years 2021 and 2020 was \$1,125,181 and \$3,224,781, respectively.

The assets related to the charitable gift annuities are recorded at fair value. The liability to the annuitant is recorded at the net present value of estimated future cash flows using the Internal Revenue Code, *Charitable Mid-Term Federal Rate*. The fair value of charitable gift annuities decreased for fiscal year 2021 by \$147,481 and increased for fiscal year 2020 by \$1,026,562.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 6—Annuity and life income funds (continued)

A charitable remainder trust is an arrangement in which a donor establishes and funds a trust with specified distributions to be made to a designated beneficiary or beneficiaries over the trust's term. Upon termination, the University receives the assets remaining in the trust. The University received none as contribution revenue for charitable remainder trusts in fiscal years 2021 and 2020. The assets related to charitable remainder trusts are recorded at fair value. The liability to the interim beneficiary is recorded at net present value of estimated future cash flows using the Internal Revenue Code, *Charitable Mid-Term Federal Rate*. The increase in fair value for fiscal years 2021 and 2020 was \$49,019 and \$52,720, respectively.

Note 7—Property, plant, and equipment

Property, plant, and equipment consist of the following at June 30, 2021 and 2020:

	2021	2020
Land and land improvements	\$ 20,136,652	\$ 19,676,302
Buildings and building improvements	254,174,684	233,749,559
Equipment and books	38,813,784	38,907,334
Construction in progress	4,933,252	20,130,471
	<u>318,058,372</u>	<u>312,463,666</u>
Less accumulated depreciation	(112,162,484)	(107,016,452)
Total property, plant, and equipment, net	<u>\$ 205,895,888</u>	<u>\$ 205,447,214</u>

Depreciation expense at June 30, 2021 and 2020 was \$6,468,792 and \$6,616,469, respectively. The estimated cost to complete outstanding projects at June 30, 2021 is approximately \$2,500,000 related primarily to the Cleveland Annex/Carnegie Hall renovation project.

Note 8—Intangible assets

Acquired intangible assets consist of the following at June 30, 2021 and 2020:

	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
2021			
Tennessee Williams Copyrights	\$ 7,785,781	\$ (4,171,353)	\$ 3,614,428
2020			
Tennessee Williams Copyrights	\$ 7,785,781	\$ (4,074,513)	\$ 3,711,268

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.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

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 \$879,497 and \$4,462,571 in fiscal years 2021 and 2020, respectively. The University suspended all employer contributions during 2021 in order to reduce costs due to the COVID-19 pandemic.

There are 72 current employees of the University that are eligible for a postretirement healthcare benefits provided by the University. The eligible group includes those employees that began their work for the University before September 30, 1995. There are currently 147 retired employees and 54 spouses receiving the postretirement healthcare benefits (annual benefits range from \$994 to \$1,462 per employee or \$1,998 to \$2,923 for an employee and spouse). The status of the plan at June 30, 2021 and 2020 was as follows:

	<u>2021</u>	<u>2020</u>
A. Change in Benefit Obligation		
Benefit obligation at beginning of year	\$ 4,348,233	\$ 4,164,292
Service cost	109,967	88,412
Interest cost	94,917	120,626
Benefits paid (net of participant contributions)	(259,435)	(286,852)
Actuarial (gain) loss	(306,231)	261,755
Benefit obligation at end of year	<u>\$ 3,987,451</u>	<u>\$ 4,348,233</u>
B. Change in Plan Assets		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	259,435	286,852
Benefits paid (net of participant contributions)	(259,435)	(286,852)
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
C. Funded Status		
Funded status (benefit obligation)	<u>\$ (3,987,451)</u>	<u>\$ (4,348,233)</u>
Net amount recognized in statements of financial position	<u>\$ (3,987,451)</u>	<u>\$ (4,348,233)</u>

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 9—Pension plan and postretirement benefits (continued)

	<u>2021</u>	<u>2020</u>
D. Amounts Not Yet Reflected in Net Periodic Benefit		
Cost and Included in Net Assets Without Donor Restrictions		
Accumulated loss	\$ (55,192)	\$ (361,424)
Unrestricted net assets	(55,192)	(361,424)
Net periodic benefit cost in excess of cumulative employer contributions	(3,932,259)	(3,986,809)
Net amount recognized in statements of financial position	<u>\$ (3,987,451)</u>	<u>\$ (4,348,233)</u>
E. Components of Net Periodic Benefit Cost		
Service cost	\$ 109,967	\$ 88,412
Interest cost	94,917	120,626
Recognized Actuarial (Gain)/Loss	-	19,013
Net periodic post-retirement benefit cost	<u>\$ 204,884</u>	<u>\$ 228,051</u>
F. Other Changes Recognized in Net Assets Without Donor Restrictions		
Net loss arising during the period	\$ (55,192)	\$ (361,424)
Total recognized in net assets without donor restrictions	<u>\$ (55,192)</u>	<u>\$ (361,424)</u>

The change in the weighted average discount from 2.50% at June 30, 2020 to 2.25% at June 30, 2021 resulted in an unrecognized actuarial gain of \$120,058.

H. Expected Cash Flows

Expected employer contributions for the next fiscal year:	\$ 257,117
Expected benefit payments for fiscal year ending in:	
2023	\$ 261,554
2024	268,579
2025	272,541
2026	263,573
2027-31	1,170,488

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

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 10—Asset retirement obligation

Accounting standards define a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation does not defer recognition of a liability. The obligation to perform the asset retirement activity is unconditional and, accordingly, a liability should be recognized. Accounting standards also provide guidance with respect to the criteria to be used to determine whether sufficient information exists to reasonably estimate the fair value of an asset retirement obligation. Based on the guidance, management of the University determined that sufficient information was available to reasonably estimate the fair value of known asset retirement obligations. The liability incurred date is presumed to be the date upon which the legal requirement to perform the asset retirement activity was enacted. The conditional asset retirement obligations for asbestos removal for fiscal years 2021 and 2020, was \$3,158,237 and \$3,034,029, respectively.

Note 11—Bonds payable

Bonds payable are summarized as follows at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
\$38,675,000 tax-exempt bond (2012 Issue) plus unamortized premium of \$1,039,650 at June 30, 2021, bearing interest with a fixed rate ranging from 2% to 4% with final maturity in 2032.	\$ 30,560,000	\$ 32,985,000
\$25,590,000 tax-exempt bond (2014 Issue) plus unamortized premium of \$1,345,235 at June 30, 2021, bearing interest with a fixed rate ranging from 2% to 5% with final maturity in 2034.	19,845,000	20,665,000
\$6,335,000 tax-exempt bond (2015A Issue) plus unamortized premium of \$511,945 at June 30, 2021, 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.	2,075,000	2,545,000
\$3,000,000 tax-exempt bond (2016 Issue), mortgage-type repayment schedule 2.28% APR with final payment in 2031.	2,144,324	2,329,643
\$1,200,000 tax-exempt bond (2017 Issue), mortgage-type repayment schedule 2.50% APR with final payment in 2024.	57,059	182,060
\$22,274,000 tax-exempt bond (2019 Issue), mortgage-type repayment schedule 3.29% APR with final payment in 2039.	<u>22,139,000</u>	<u>22,274,000</u>
Par amount of bonds payable	83,155,383	87,315,703
Unamortized net premium	2,896,830	3,147,519
Bond issue charges	<u>(1,543,307)</u>	<u>(1,680,722)</u>
Total bonds payable	<u>\$ 84,508,906</u>	<u>\$ 88,782,500</u>

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

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 11—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.

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. Additional principal payments have been made on this bond and it is expected the bond will be paid by fiscal year 2022.

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

The University was in compliance at June 30, 2021 with all covenants.

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

	2012	2014	2015A	2015B	2016	2017	2019	
	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Total
2022	\$ 2,470,000	\$ 880,000	\$ -	\$ 480,000	\$ 189,592	\$ 57,059	\$ 140,000	\$ 4,216,651
2023	2,500,000	955,000	-	495,000	193,962	-	145,000	4,288,962
2024	2,530,000	1,050,000	-	510,000	198,331	-	150,000	4,438,331
2025	2,585,000	1,135,000	-	525,000	203,006	-	160,000	4,608,006
2026	2,635,000	1,240,000	475,000	65,000	207,686	-	425,000	5,047,686
Thereafter	17,840,000	14,585,000	5,860,000	-	1,151,747	-	21,119,000	60,555,747
Total	\$ 30,560,000	\$ 19,845,000	\$ 6,335,000	\$ 2,075,000	\$ 2,144,324	\$ 57,059	\$ 22,139,000	\$ 83,155,383

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 11—Bonds payable (continued)

Bond issue charges were incurred on the 2012, 2014, 2015A, 2015B, 2018, and 2019-bond issues. Amortization expense was \$137,415 and \$137,415 for fiscal years 2021 and 2020, respectively.

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Bond Issue Charges</u>
<u>2021</u>			
Bond issue charges	\$ 2,893,890	\$ (1,350,583)	\$ 1,543,307
<u>2020</u>			
Bond issue charges	\$ 2,893,890	\$ (1,213,168)	\$ 1,680,722

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

2022	\$ 137,415
2023	137,415
2024	137,413
2025	134,498
2026	134,498
Thereafter	862,068
	<u>\$ 1,543,307</u>

Note 12—Commitments

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

The University outsources the operations of the University Book and Supply Store to Barnes & Noble College Bookstore, Inc., under a five-year operating agreement which was first signed effective March 12, 2003. A new agreement recently extended the contract to April 30, 2023. The contract payments are based on a percentage of net sales. The University received payments of \$207,839 and \$184,772 in fiscal years 2021 and 2020, respectively, in connection with this agreement.

Note 13—Fair value measurements

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

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 13—Fair value measurements (continued)

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

	Level 1	Level 2	Level 3	NAV	Total Fair Value
Investments					
Cash and cash equivalents	\$ 32,847,903	\$ -	\$ -	\$ -	\$ 32,847,903
Equities					
U.S. Equities	76,412,877	-	-	-	76,412,877
Fixed Income					
U.S. Government Bonds	38,021,402	-	-	-	38,021,402
Hedge Funds and Limited Partnerships					
Global Equities	-	-	-	151,919,195	151,919,195
Hedge Fund	-	-	-	83,485,654	83,485,654
Private Equity	-	-	-	126,161,815	126,161,815
Real Assets	1,648,615	-	-	-	1,648,615
Other	-	1,744,814	-	-	1,744,814
Total Investments	\$ 148,930,797	\$ 1,744,814	\$ -	\$ 361,566,664	\$ 512,242,275
Funds Held in Trust					
by Others	\$ 529,325	\$ 28,754,190	\$ -	\$ -	\$ 29,283,515

The following table summarizes fair value disclosures and measurements at June 30, 2020:

	Level 1	Level 2	Level 3	NAV	Total Fair Value
Investments					
Cash and cash equivalents	\$ 22,090,265	\$ -	\$ -	\$ -	\$ 22,090,265
Equities					
U.S. Equities	53,380,354	-	-	-	53,380,354
Fixed Income					
U.S. Government Bonds	38,053,933	-	-	-	38,053,933
Hedge Funds and Limited Partnerships					
Global Equities	-	-	-	135,397,355	135,397,355
Hedge Fund	-	-	-	65,759,922	65,759,922
Private Equity	-	-	-	88,354,177	88,354,177
Real Assets	1,649,440	-	-	-	1,649,440
Other	-	1,592,179	-	-	1,592,179
Total Investments	\$ 115,173,992	\$ 1,592,179	\$ -	\$ 289,511,454	\$ 406,277,625
Funds Held in Trust					
by Others	\$ 470,469	\$ 23,562,713	\$ -	\$ -	\$ 24,033,182

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 13—Fair value measurements (continued)

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

2021

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

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

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

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 13—Fair value measurements (continued)

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

2020

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Limited Partnerships ^(a) :				
Hedge Funds	\$ 7,432,044	\$ -	Annually	46-90 Days
Developed Markets	9,736,935		Quarterly	0-45 Days
Diversified Strategies	2,779		Quarterly-Illiquid	0-45 Days
Relative Value	13,182,381		Annually	46-90 Days
Special Situations	26,254,850		Semi-Annually	46-90 Days
U.S. Equity	382		Illiquid	Over 365 Days
European Equity	9,150,552		Quarterly	46-90 Days
Global Equity – Developed	115,660,699		Quarterly	46-90 Days
Global Equity – Emerging	19,736,655		Monthly-Quarterly	46-90 Days
Private Equity	3,738,361	1,080,000	Illiquid ^(b)	
U.S. Private Equity	13,087,619	8,368,518	Illiquid ^(b)	
Leveraged Buyout	2,007,928	1,066,643	Illiquid ^(b)	
Diversified Strategies	14,933,573	1,437,474	Illiquid ^(b)	
Venture Capital	14,714,872	5,911,920	Illiquid ^(b)	
Natural Resources	5,378,771	4,226,190	Illiquid ^(b)	
Partnerships	7,104,234	6,882,288	Illiquid ^(b)	
Private Credit	25,694,790	8,961,973	Illiquid ^(b)	
Other	1,694,029	3,551,337	Illiquid ^(b)	
Total	<u>\$ 289,511,454</u>	<u>\$ 41,486,343</u>		

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

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

THE UNIVERSITY OF THE SOUTH

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 13—Fair value measurements (continued)

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

Cash and Cash Equivalents and Restricted Cash – Cash is reflected at carrying value, which is considered its fair value.

Accounts and Notes Receivable – Accounts and notes receivable consist primarily of student loans and short-term receivables. The loans receivable of \$1,257,659 and \$1,530,603 at June 30, 2021 and 2020, 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.

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 net asset values as determined by the investment managers.

Tennessee Williams Copyrights – The copyrights are being amortized as the royalty income is realized. The fair value at June 30, 2021 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.

Asset Retirement Obligation – The carrying value of the asset retirement obligation is based upon a risk-adjusted borrowing rate of 4.68% and an average inflation rate of 2.29%.

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, 2021 and 2020 of \$94,987,734 and \$107,742,218, respectively, was estimated by calculating the net present value of the future payment stream using the current market interest rate.

Note 14—Fund-raising costs

In each of the fiscal years ending June 30, 2021 and 2020, expenses of \$1,933,181 and \$2,425,762 were related to fund-raising activities and are classified in the statements of activities under institutional support.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 15—Lines of credit

At June 30, 2021 and 2020, the University had an unused line of credit of \$5,000,000 with a financial institution. There are no compensating balance requirements under the line of credit, nor any related fees. During the year ended June 30, 2021, the line of credit was extended through January 31, 2023.

During the year ended June 30, 2020, the University executed another line of credit of \$20,000,000 with a financial institution. No balance was outstanding on this line of credit at June 30, 2021 and 2020. There are no compensating balance requirements under the line of credit, nor any related fees. The line of credit expires on May 31, 2023.

Note 16—Expenses

Expenses by function and nature consist of the following for the years ended June 30, 2021 and 2020:

2021	Instructional	Academic Support	Research	Student Services	Auxiliary Services	Institutional Support	Total
Salaries and Benefits	\$ 22,746,570	\$ 5,692,662	\$ 69,599	\$ 8,055,913	\$ 5,549,464	\$ 14,644,979	\$ 56,759,187
Operation and Maintenance of Plant	2,446,764	791,488	-	1,560,318	254,016	863,771	5,916,357
Depreciation	822,192	991,111	-	766,018	3,110,231	779,240	6,468,792
Interest	221,924	293,024	-	936,091	1,148,293	272,652	2,871,984
Other non-compensation expenses	2,904,300	2,811,664	82,484	3,226,558	7,336,024	12,879,860	29,240,890
	\$ 29,141,750	\$ 10,579,949	\$ 152,083	\$ 14,544,898	\$ 17,398,028	\$ 29,440,502	\$ 101,257,210

2020	Instructional	Academic Support	Research	Student Services	Auxiliary Services	Institutional Support	Total
Salaries and Benefits	\$ 25,232,807	\$ 6,064,282	\$ 189,707	\$ 8,758,973	\$ 5,467,634	\$ 15,751,254	\$ 61,464,657
Operation and Maintenance of Plant	2,168,113	701,349	-	1,382,621	225,088	765,400	5,242,571
Depreciation	799,161	1,007,886	-	732,705	3,203,291	873,426	6,616,469
Interest	241,013	324,186	-	587,446	1,237,952	300,825	2,691,422
Other non-compensation expenses	6,067,841	3,260,029	138,449	4,399,675	8,514,525	8,883,630	31,264,149
	\$ 34,508,935	\$ 11,357,732	\$ 328,156	\$ 15,861,420	\$ 18,648,490	\$ 26,574,535	\$ 107,279,268

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

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

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

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specific purpose:		
Student financial aid	\$ 118,759,480	\$ 81,736,589
Academic support	62,025,588	46,330,085
Institutional support	44,492,789	33,441,006
Instructional	28,366,171	19,938,596
Plant operations	12,558,129	12,385,519
Student services	6,316,568	4,101,166
Other	2,677,437	1,146,840
	<u>275,196,162</u>	<u>199,079,801</u>
Subject to the spending policy and appropriation:		
Restricted in perpetuity, the income from which is expendable to support:		
Student financial aid	112,928,821	110,997,294
Institutional support	34,394,767	33,791,632
Academic support	24,401,713	24,104,255
Academic instruction	16,486,879	14,931,097
Student services	6,096,801	5,791,771
Plant operations	1,970,401	1,953,252
Purchases of property and equipment	164,915	164,567
Other	1,605,144	557,740
	<u>198,049,441</u>	<u>192,291,608</u>
	<u>\$ 473,245,603</u>	<u>\$ 391,371,409</u>

Net assets are released from donor restrictions when expenses are incurred to satisfy the restricted purposes or by occurrence of other events as specified by the donors. The purpose of the restricted contributions released due to satisfaction of program restrictions during fiscal years 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Instructional	\$ 477,064	\$ 665,771
Academic support	4,326,770	3,009,339
Research	73,712	204,482
Student services	43,253	449,673
Institutional support	2,832,480	763,215
Scholarships	940,525	546,097
Auxiliary services	1,125,094	518,617
Property, plant, and equipment	1,467,868	4,120,535
	<u>\$ 11,286,766</u>	<u>\$ 10,277,729</u>

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 18—Liquidity and availability of resources

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

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

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 83,380,766	\$ 87,380,555
Restricted cash	263,325	421,321
Accounts and notes receivable, net	3,391,452	2,234,061
Contributions receivable, net	34,156,773	32,317,303
Investments, at fair value	512,242,275	406,277,625
Funds held in trust by others	<u>29,283,515</u>	<u>24,033,182</u>
Financial assets at end of year	662,718,106	552,664,047
(Less)/plus assets (unavailable)/available for general expenditures within one year:		
Board authorized endowment spending	21,740,775	20,506,300
Notes and loan receivables	(1,257,649)	(1,530,603)
Investments held as endowment and similar funds	(486,946,302)	(392,459,063)
Contributions receivable for general expenditures due in more than one year	(34,041,097)	(31,699,062)
Assets held in trust by others	(29,283,515)	(24,033,182)
Restricted cash	(263,325)	(421,321)
Annuity and life income funds	<u>(25,294,936)</u>	<u>(19,639,366)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 107,372,057</u>	<u>\$ 103,387,750</u>

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

In addition to the amounts in the table above, the University's board-designated endowment of \$119,447,803 and \$95,206,730 at June 30, 2021 and 2020, respectively, are subject to an annual spending rate as described in Note 5. Although the University does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary. As described in Note 15, the University also has two lines of credit that are available for general operating needs.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 19—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 20—Subsequent events

The University has evaluated subsequent events through September 30, 2021, the issuance date of the University's financial statements, and have determined that there are no subsequent events that require disclosure.

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 21—Financial responsibility – U.S. Department of Education

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

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

	Pre- Implementation	Post- Implementation	Total
Property, plant and equipment (PP&E)			
PP&E, net of accumulated depreciation as of June 30, 2020:			
(1) Land, buildings, equipment, furniture and software	\$ 184,585,414	\$ 731,329	\$ 185,316,743
(2) Construction in process ("CIP")	6,213,000	13,917,471	20,130,471
Total PP&E, net of accumulated depreciation as of June 30, 2020	<u>190,798,414</u>	<u>14,648,800</u>	<u>205,447,214</u>
Fiscal year ended June 30, 2020 activity:			
(1) Land, buildings, equipment, furniture and software			
Additions	-	1,020,141	1,020,141
CIP placed in service	-	21,104,344	21,104,344
Disposals	(9,802)	-	(9,802)
Depreciation	(6,298,515)	(170,275)	(6,468,790)
Sub-total Land, buildings, equipment, furniture and software	<u>(6,308,317)</u>	<u>21,954,210</u>	<u>15,645,893</u>
(2) CIP:			
Additions	-	5,907,125	5,907,125
CIP placed in service	(5,502,630)	(15,601,714)	(21,104,344)
Sub-total CIP	<u>(5,502,630)</u>	<u>(9,694,589)</u>	<u>(15,197,219)</u>
Total PP&E, net of accumulated depreciation at June 30, 2021	<u>178,987,467</u>	<u>26,908,421</u>	<u>205,895,888</u>
Comprised of:			
Land, buildings, equipment, furniture and software	178,277,097	22,685,539	200,962,636
CIP	710,370	4,222,882	4,933,252
Total PP&E, net of accumulated depreciation at June 30, 2021	<u>\$ 178,987,467</u>	<u>\$ 26,908,421</u>	<u>\$ 205,895,888</u>

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 21—Financial responsibility – U.S. Department of Education (continued)

The University's pre-implementation and post-implementation debt and line of credit amounts are as follows:

Debt and Line of Credit	Allowable Debt		Total
	Pre-Implementation	Post-Implementation	
Debt at June 30, 2020:			
(1) PP&E	\$ 65,041,703	\$ -	\$ 65,041,703
(2) CIP	22,274,000	-	22,274,000
(3) Bond issuance charges and unamortized net premium	1,466,797	-	1,466,797
Total at June 30, 2020	<u>88,782,500</u>	<u>-</u>	<u>88,782,500</u>
Fiscal year ended June 30, 2021 activity:			
(1) PP&E			
Payments	(4,025,320)	-	(4,025,320)
Additions	-	-	-
Sub-total PP&E	<u>(4,025,320)</u>	<u>-</u>	<u>(4,025,320)</u>
(2) CIP			
Payments	(135,000)	-	(135,000)
Sub-total CIP	<u>(135,000)</u>	<u>-</u>	<u>(135,000)</u>
(3) Bond issuance charges and unamortized net premium			
Amortization	(113,274)	-	(113,274)
Sub-total bond issuance charges and unamortized net premium	<u>(113,274)</u>	<u>-</u>	<u>(113,274)</u>
Debt at June 30, 2021	<u>\$ 84,508,906</u>	<u>\$ -</u>	<u>\$ 84,508,906</u>
Allowable debt comprised of:			
(1) PP&E	\$ 61,016,383	\$ -	\$ 61,016,383
(2) CIP	22,139,000	-	22,139,000
(3) Bond issuance charges and unamortized net premium	1,353,523	-	1,353,523
Sub-total allowable debt	<u>84,508,906</u>	<u>-</u>	<u>84,508,906</u>
(5) Non-allowable debt for operations	-	-	-
Total debt at June 30, 2021	<u>\$ 84,508,906</u>	<u>\$ -</u>	<u>\$ 84,508,906</u>

THE UNIVERSITY OF THE SOUTH
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 21—Financial responsibility – U.S. Department of Education (continued)

The University’s non-operating activity for the fiscal year ended June 30, 2021, broken by its non-operating losses and gains are as follows:

From the non-operating section of the statement of activities, without donor restrictions:	Gain/(Loss)	Financial Responsibility Supplemental Schedule Category	
		Non-Operating and Net Investment (loss)	Non-operating Revenue and Other Gains
Net return on investments, net of amount			
appropriated for endowment spending payout	\$ 23,579,783		
Adjustment: add investment returns appropriated for spending from board-designated endowments	21,752,505		
Adjusted investment returns	45,332,288	-	45,332,288
Contributions	41,338	-	41,338
Net Assets released for capital expenditures	1,467,868	-	1,467,868
Change in value of split-interest agreements	957,805	-	957,805
Adjusted total non-operating items	<u>\$ 47,799,299</u>	<u>\$ -</u>	<u>\$ 47,799,299</u>

SUPPLEMENTAL SCHEDULE

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

JUNE 30, 2021 AND 2020

Primary Reserve Ratio:	Components	Totals	
Expendable Net Assets:			
Net assets without donor restrictions		\$ 289,787,083	[A]
Net assets with donor restrictions		473,245,603	[A]
Unsecured related party receivable		-	None
Property, plant and equipment, net - Total		205,895,888	[D]
Property, plant and equipment pre-implementation	\$ -		[D]
Property, plant and equipment post-implementation with outstanding	178,277,097		[D]
Property, plant and equipment post-implementation without	22,685,539		[D]
Construction in progress	4,933,252		[D]
Lease right-of-use asset, net - Total		-	N/A
Lease right-of-use asset, pre-implementation	-		N/A
Lease right-of-use asset, post-implementation	-		N/A
Long-term debt - for long term purposes		84,508,906	[D]
Long-term debt - for long term purposes pre-implementation	84,508,906		[D]
Long-term debt - for long term purposes post-implementation	-		[D]
Line of credit for construction in progress	-		[D]
Lease right-of-use asset liability		-	N/A
Pre-implementation right-of-use asset liability	-		N/A
Post-implementation right-of-use asset liability	-		N/A
Annuities, term endowments and life income with donor restrictions		7,483,384	[F]
Annuities with donor restrictions	7,483,384		[F]
Net assets with donor restrictions: other, for purpose or time	267,712,778		Computation
Net assets with donor restrictions: restricted in perpetuity		198,049,441	[C]
Total Expendable Net Assets		\$ 436,112,879	
Total Expenses and Losses:			
Total expenses without donor restrictions		\$ 101,257,210	[B]
Non-operating and net investment (loss)	-	-	[D]
Other components of net periodic pension costs		-	[E]
Change in value of split-interest agreements		-	[D]
Other losses		-	[D]
Net investment losses	-		[D]
Pension-related changes other than net periodic costs	(306,231)		[E]
Total Expenses and Losses		\$ 101,257,210	

Financial Statement Reference Definitions:

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

THE UNIVERSITY OF THE SOUTH
FINANCIAL RESPONSIBILITY SCHEDULE – U.S. DEPARTMENT OF EDUCATION (CONTINUED)

JUNE 30, 2021 AND 2020

Equity Ratio:	Components	Totals	
Modified Net Assets:			
Net assets without donor restrictions		\$ 289,787,083	[A]
Net assets with donor restrictions		473,245,603	[A]
Total Modified Net Assets		\$ 763,032,686	
Modified Assets:			
Total assets		873,880,393	[A]
Total Modified Assets		\$ 873,880,393	
Net Income Ratio:			
	Components	Totals	
Change in net assets without donor restrictions		\$ 33,768,451	[B]
Total revenues without donor restrictions and gains without donor restrictions:			
Total operating revenues and other additions (gains)		\$ 108,978,867	[B]
Investment return appropriated for spending		21,752,505	[D]
Non-operating revenue and other gains		47,799,299	[D]
Total revenues without donor restrictions and gains without donor restrictions		\$ 135,025,661	[D]

Financial Statement Reference Definitions:

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

COMPLIANCE SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of the South (the “University”), which comprise the statement of financial position as of June 30, 2021, 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 30, 2021.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Cherry Bekaert LLP

Greenville, South Carolina
September 30, 2021

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

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

Report on Compliance for Each Major Federal Program

We have audited The University of the South's (the "University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the University's major federal program for the year ended June 30, 2021. The University's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2021.

Report on Internal Control over Compliance

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

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

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

Purpose of this Report

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

Cherry Bekaert LLP

Greenville, South Carolina
September 30, 2021

THE UNIVERSITY OF THE SOUTH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2021

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>Assistance Listing #</u>	<u>Program Name</u>
84.425E	Higher Education Emergency Relief Funding – Student Aid Portion
84.425F	Higher Education Emergency Relief Funding – Institutional Portion

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 (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2021

Section II. Financial Statement Findings

None reported for the year ended June 30, 2021.

Section III. Federal Award Findings and Questioned Costs

None reported for the year ended June 30, 2021.

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, 2021

<u>Grantor/Program Title</u>	<u>Federal Assistance Listing Number</u>	<u>Expenditures</u>
<u>U.S. Department of Education</u>		
Student Financial Assistance Cluster:		
Federal Perkins Loan Program	84.038	\$ 1,284,870
Federal Work-Study Program	84.033	193,946
Federal Supplemental Educational Opportunity Grant Program	84.007	181,432
Federal Direct Student Loans	84.268	6,513,563
Federal Pell Grant Program	84.063	1,357,271
Total Student Financial Assistance Cluster		<u>9,531,082</u>
COVID-19 Relief - Higher Education Emergency Relief Fund		
Student Aid Portion	84.425E	547,998
Institutional Portion	84.425F	2,477,023
Total Higher Education Emergency Relief Funding		<u>3,025,021</u>
Total U.S. Department of Education		<u>12,556,103</u>
Research and Development Cluster:		
<u>Department of the Interior</u>		
U.S. Geological Survey - Research and Data Collection	15.808	17,511
Cooperative Research and Training Programs - Resources of the National Park System	15.945	22,729
<u>National Endowment for the Humanities (NEH)</u>		
Promotion of the Humanities - Division of Preservation and Access	45.149	(625)
<u>Corporation for National and Community Service (CNCS)</u>		
Volunteers in Service to America	94.013	391,113
<u>Department of Health and Human Services</u>		
Garrett Lee Smith (GLS) Campus Suicide Prevention	93.243	27,440
<u>Department of Justice</u>		
Grants to Reduce Domestic Violence, Dating Violence, Sexual Violence	16.525	33,487
Total Research and Development Cluster		<u>491,656</u>
Total Federal Awards Expended		<u>\$ 13,047,759</u>

THE UNIVERSITY OF THE SOUTH

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2021

Note 1—Basis of presentation

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

Note 2—Summary of significant accounting policies

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

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

Note 3—Federal Perkins Loan Program

The Federal Perkins Loan Program is administered directly by the University. Balances and transactions relating to this program are included in the University’s financial statements. The Schedule under CFDA #84.038 represents the balance of loans outstanding under the Federal Perkins Loan Program of \$1,062,775 as of June 30, 2021.

Under the Perkins Loan Program, cash on hand at June 30, 2021 was \$263,325.

Note 4—Federal Direct Student Loan Program

During the fiscal year ended June 30, 2021, the University processed \$6,513,563 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, 2021.

Note 5—Higher Education Emergency Relief Fund (HEERF)

The University received funding through the Higher Education Emergency Relief Fund in the amount of \$3,025,021 during the year ended June 30, 2021. At June 30, 2021, the components are as follows:

HEERF II - Student Portion	\$ 547,998
HEERF II - Institution Portion	1,051,191
HEERF III - Institution Portion	1,425,832
	<u>\$ 3,025,021</u>