THE UNIVERSITY OF THE SOUTH

FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2020 and 2019

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

THE UNIVERSITY OF THE SOUTH

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

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

Report on Financial Statements

We have audited the accompanying financial statements of The University of the South (the "University"), which comprise the statements of financial position as of June 30, 2020 and 2019, 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 audits 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, 2020 and 2019, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2020 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
October 7, 2020

THE UNIVERSITY OF THE SOUTH
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
Cash and cash equivalents	$ 87,380,555	$ 77,305,416
Restricted cash	421,321	744,350
Accounts and notes receivable, net	2,234,061	2,504,011
Inventories	482,194	508,901
Prepaid expenses	931,539	1,232,151
Contributions receivable, net	32,317,303	35,721,470
Investments, at fair value	406,277,625	405,007,852
Funds held in trust by others	24,033,182	24,345,846
Intangible, net	3,711,268	4,020,778
Property, plant. and equipment, net	205,447,214	197,259,640
Total Assets	$ 763,236,262	$ 748,650,415
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 3,432,126	$ 2,694,060
Accrued salaries and wages	2,439,359	2,354,561
Deferred revenue	2,032,071	1,258,156
Annuities payable	10,058,761	6,169,814
Refundable government advances	1,670,983	2,239,855
Postretirement benefit liability	4,348,233	4,164,292
Asset retirement obligation	3,034,029	-
Notes payable	48,159	95,970
Bonds payable, net	88,782,500	92,938,292
Total Liabilities	115,846,221	111,915,000
Net Assets:		
Without donor restrictions	256,018,632	252,912,187
With donor restrictions	391,371,409	383,823,228
Total Net Assets	647,390,041	636,735,415
Total Liabilities and Net Assets	$ 763,236,262	$ 748,650,415

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 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
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	$ 256,018,632	$ 391,371,409	$ 647,390,041

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, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues:			
Comprehensive fees, net	$ 64,564,563	$ -	$ 64,564,563
Contributions	10,661,149	8,063,231	18,724,380
Investment returns, net:			
Endowment spending	18,806,076	1,728,607	20,534,683
Other investment income	1,222,327	203,222	1,425,549
Royalty income	1,133,022	1,721	1,134,743
Sales and service income	1,615,868	6,360	1,622,228
Auxiliary enterprises	11,887,116	-	11,887,116
Government grants	328,053	316,899	644,952
Other	2,127,363	244,787	2,372,150
Net assets released for operations	3,369,828	(3,369,828)	-
Total operating revenues	115,715,365	7,194,999	122,910,364
Operating expenses:			
Instructional	36,349,239	-	36,349,239
Academic support	10,580,175	-	10,580,175
Research	307,794	-	307,794
Student services	17,071,949	-	17,071,949
Institutional support	23,869,556	-	23,869,556
Auxiliary services	19,794,165	-	19,794,165
Total operating expenses	107,972,878	-	107,972,878
Net increase from operations	7,742,487	7,194,999	14,937,486
Nonoperating items:			
Contributions restricted for endowment and similar funds	102,210	6,218,978	6,321,188
Contributions restricted for property, plant, and equipment	92,145	3,865,908	3,958,053
Net assets released for capital expenditures	3,624,484	(3,624,484)	-
Investment returns, net, less than appropriated for expenditure	(2,181,319)	(5,135,446)	(7,316,765)
Change in value of split-interest agreements	106,372	119,841	226,213
Change in donor restrictions	(206,559)	206,559	-
Total nonoperating items	1,537,333	1,651,356	3,188,689
Increase in net assets	9,279,820	8,846,355	18,126,175
Net assets, beginning of year	252,912,187	374,976,873	627,889,060
Net assets, end of year	$ 262,192,007	$ 383,823,228	$ 646,015,235

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, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	$ 10,654,626	$ 18,126,175
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	6,616,469	6,635,893
Accretion of asset retirement obligation	3,034,029	-
Amortization of intangible assets and bond issuance costs	446,925	335,894
Loss on disposal of property, plant, and equipment	-	104,829
Gains on investments	(21,546,550)	(13,748,974)
Provision for postretirement benefit obligation	470,793	809,924
Actuarial change on annuities payable	1,079,282	500,985
Postretirement employer contributions	(286,852)	(300,330)
Contributions restricted for long-term investment	(11,212,428)	(10,317,862)
Change in assets and liabilities:		
Accounts and notes receivable, net	269,950	203,899
Contributions receivable, net	3,085,266	(9,135,203)
Inventories	26,707	(44,529)
Prepaid expenses	300,612	220,953
Accounts payable and accrued expenses	738,066	733,551
Accrued salaries and wages	84,798	(406,680)
Deferred revenue	773,915	644,585
Refundable government advances	(568,872)	22,874
Net cash from operating activities	(6,033,264)	(5,614,016)
Cash flows from investing activities:		
Purchases of investments and additions to funds held in trust by others	(162,663,011)	(93,422,434)
Proceeds from sales and maturities of investments and funds held in trust by others	173,350,866	108,716,796
Net change in short-term investments	10,220,487	357,887
Purchases of property, plant, and equipment	(14,804,043)	(5,806,867)
Proceeds from disposals of property, plant, and equipment	-	795,000
Net cash from investing activities	6,104,299	10,640,382
Cash flows from financing activities:		
Contributions restricted for long-term investment:		
Endowment	9,888,429	6,321,188
Investment in property, plant, and equipment	1,323,999	3,958,053
Net change in pledges receivable restricted for long-term investment	-	38,621
Net gifts (payments) on annuities payable	2,809,665	(936,469)
Amortization of bond premium	(207,210)	(176,213)
Principal repayments on bonds payable	(4,085,997)	(3,952,065)
Principal repayments on notes payable	(47,811)	(47,811)
Proceeds from bonds payable	-	22,274,000
Payments for bond issuance costs	-	(52,500)
Net cash from financing activities	9,681,075	27,426,804
Net change in cash and cash equivalents and restricted cash	9,752,110	32,453,170
Cash and cash equivalents and restricted cash, beginning of year	78,049,766	45,596,596
Cash and cash equivalents and restricted cash, end of year	$ 87,801,876	$ 78,049,766
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 2,691,422	$ 2,620,428

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

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 reflects scholarship allowances reducing comprehensive fees by $38,610,421 and $36,649,497 at June 30, 2020 and 2019, 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 include $1,094,094 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.

Note 1—Summary of significant accounting policies (continued)

Deferred revenue of $2,032,071 and $1,258,156 as of June 30, 2020 and 2019, 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 includes $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:

	2020	2019
Sewanee Inn	$ 3,800,766	$ 4,550,580
Non-board related dining services	2,086,510	2,760,374
Rental and lease income	2,280,461	2,328,087
Summer conferences	537,920	1,156,907
Golf and tennis	316,551	297,650
Bookstore lease	181,190	226,946
Child care center	129,623	172,839
Telecommunications	53,076	91,747
Other	176,575	301,986
	$ 9,562,672	$ 11,887,116

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:	2020	2019
Cash and cash equivalents	$ 87,380,555	$ 77,305,416
Restricted cash	421,321	744,350
	$ 87,801,876	$ 78,049,766

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

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

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, 2020 and 2019. The University does not have any intangibles with indefinite lives.

Property, Plant, and Equipment – Plant assets are stated at cost or estimated fair value at dates of gifts, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of buildings and building improvements (20 to 60 years), land improvements (20 years), and equipment and books (5 to15 years). Plant operation and maintenance charges are allocated based on square footage of buildings and the usage, depreciation expense is allocated based on the use of the facility. 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.

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, 2020 and 2019, refundable government advances totaled $1,670,983 and $2,239,855, 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 inasmuch as the receivables are due from numerous students. The University places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers $250,000 for substantially all depository accounts. At June 30, 2020, the University had $3,158,084 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.

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, 2020 and 2019, the University reported $723,000 and $615,000, 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 the 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 Issued 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 will be classified as either finance or operating. This distinction will be relevant for the pattern of revenue recognition in the statement of activities. This standard will be effective for the University's fiscal year ending June 30, 2022. The University is presently evaluating the impact of the ASU on the University's financial statements.

Note 2—Accounts and notes receivable

Accounts and notes receivable consist of the following at June 30, 2020 and 2019:

	2020	2019
Accounts receivable:		
Students and trade	$ 711,219	$ 647,032
Less allowance for doubtful accounts	(146,174)	(75,455)
Total accounts receivable, net	565,045	571,577
Notes receivable:		
Students loans	1,324,206	1,577,183
Other notes receivable	220,336	204,127
	1,544,542	1,781,310
Less allowance for doubtful loans	(13,939)	(12,003)
Total notes receivable, net	1,530,603	1,769,307
Other receivable:	138,413	163,127
Total accounts and notes receivable, net	$ 2,234,061	$ 2,504,011

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, 2020 and 2019, student loans represented 0.20% and 0.25% 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 $1,171,805 in refunds.

At June 30, 2020 and 2019, student loans consisted of the following:

	2020	2019
Federal government loans (Perkins)	$ 1,284,870	$ 1,530,663
Insitutional loans	39,336	46,520
	$ 1,324,206	$ 1,577,183
Allowance for doubtful accounts - student loans:		
Beginning of year	$ 12,003	$ 27,826
Increases	1,936	383
Recoveries credited to expense	-	(16,206)
End of year	$ 13,939	$ 12,003

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.

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, 2020 and 2019, these loan programs consisted of the following loan balances:

	2020	2019
Employee loans (ELP)	$ 84,624	$ 57,726
Advanced degree loans (ADL)	110,527	110,651
Other	25,185	35,750
	$ 220,336	$ 204,127

No allowance for doubtful accounts is recorded for the ELP or the ADL program. The University is contingently liable for loans made to parents of students by a local financial institution (SEAL loans) with an aggregate balance of $3,000 and $10,620 at June 30, 2020 and 2019, respectively. Historically, these loans have been repaid by the borrowers, and the University has not been called upon to perform under these guarantees with few exceptions. Accordingly, the University has not recognized a guarantee liability in the financial statements as of June 30, 2020 and 2019.

Note 3—Contributions receivable

Contributions receivable are summarized as follows at June 30, 2020 and 2019:

	2020	2019
Unconditional pledges for:		
Building programs	$ 2,309,586	$ 3,414,751
Endowment	2,855,929	3,779,868
Restricted scholarship and operating	4,635,903	5,616,686
Total	9,801,418	12,811,305
Less:		
Pledges discount to present value	(627,270)	(797,334)
Pledges allowance	(466,379)	(605,270)
Pledges receivable, net	8,707,769	11,408,701
Contributions receivable, other:		
Split-interest agreements	19,732,086	20,050,986
Trust mortgage receivable, net	3,877,448	4,261,783
Total contributions receivable, net	$ 32,317,303	$ 35,721,470
Amounts due, before discount and allowance, in:		
Less than one year	$ 9,172,632	$ 10,086,263
One to five years	6,280,918	8,293,971
More than five years	17,957,402	18,743,840
Total	$ 33,410,952	$ 37,124,074

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 June 30, 2020 and .8% to 6.8% at June 30, 2019. At June 30, 2020 and 2019, the trust mortgage receivable is recorded net of a present value discount of $384,335 and $569,569, respectively based on a discount rate of 3.83%.

As of June 30, 2020, 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, 2020 and 2019, the University's contributions receivable included $591,667 and $1,060,000, respectively, of contributions receivable from members of the Board of Regents.

Split-interest agreements, as noted above, consist of charitable-remainder trusts and remainder interests in life estates. A charitable-remainder trust is an arrangement in which a donor establishes and funds a trust with specified distributions to be made to a designated beneficiary or beneficiaries over the trust's term. Upon termination, the University receives the assets remaining in the trust. The University's charitable-remainder interests in life estates 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 $100,000 in pledges for split-interest agreements in fiscal year 2019 and no pledges for split-interest agreements in fiscal year 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.

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, 2020 and 2019:

	2020		2019	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Operating funds:				
Temporary investments	$ 1,028	$ 1,028	$ 9,995,825	$ 10,221,516
Endowment and similar funds:				
Cash and temporary investments	27,504,131	27,912,097	14,440,998	14,774,842
Equities	42,772,781	53,380,354	36,289,568	46,900,712
Fixed income	37,094,752	38,052,905	28,853,409	29,243,878
Hedge funds	158,161,268	201,157,277	181,389,285	215,513,257
Private partnerships	71,523,073	88,354,177	62,308,532	85,115,407
Real assets	1,649,440	1,649,440	1,650,266	1,650,266
Cash value of life insurance policies	1,592,179	1,592,179	1,587,974	1,587,974
Funds held in trust by others	21,420,111	24,033,182	22,301,114	24,345,846
Less amounts applicable to annuity and life income funds	(17,308,626)	(19,639,366)	(9,743,397)	(13,662,034)
Total investments held as endowment and similar funds	344,410,137	416,493,273	349,073,574	415,691,664
Annuity and life income funds	17,308,626	19,639,366	9,743,397	13,662,034
Annuity and life income funds held as cash	(5,821,832)	(5,821,832)	-	-
Total all funds	$ 355,896,931	$ 430,310,807	$ 358,816,971	$ 429,353,698

Investment returns, net, for 2020 and 2019 consisted of the following:

	2020	2019
Gains on endowment, net	$ 21,865,451	$ 13,601,867
Other external endowment related income	43,988	38,894
Other non-endowment related gains (losses)	(738)	1,002,706
Total net investment return	21,908,701	14,643,467
Included in the statement of activities as investment return designated for current operations:		
Endowment spending	(21,784,765)	(20,534,683)
Other investment income	(925,634)	(1,425,549)
Investment returns, net, less than appropriated for expenditure	$ (801,698)	$ (7,316,765)

For fiscal years ended June 30, 2020 and 2019, the University paid $1,117,491 and $1,115,731, respectively, investment management fees, which are netted against gains on endowment.

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 Ac*t – 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, 2020 and 2019, was $419,515,040 and $408,769,263, 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, 2020 and 2019 were $95,143,326 and $93,454,210, respectively. Gains and losses on board-designated endowments are shown as net assets without donor restrictions.

Note 5—Endowment and similar funds (continued)

A schedule of endowment and similar funds' net asset composition as of June 30, 2020 and 2019 follows:

		With Donor Restrictions		
	Without Donor Restrictions	Purpose/Time Restrictions	Perpetual in Nature	Total
2020				
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)
	$ 95,206,730	$144,321,034	$ 179,987,276	$ 419,515,040
2019				
True endowment	$ -	$ -	$ 170,504,885	$ 170,504,885
Board designated endowments	60,803,007	2,334,965	-	63,137,972
Net gains	32,680,928	142,973,168	-	175,654,096
Deficiencies in donor-restricted endowment funds	-	(527,690)	-	(527,690)
	$ 93,483,935	$144,780,443	$ 170,504,885	$ 408,769,263

Note 5—Endowment and similar funds (continued)

Changes in endowment and similar funds' net assets for the years ended June 30, 2020 and 2019, are as follows:

		With Donor Restrictions		
	Without Donor Restrictions	Purpose/Time Restrictions	Perpetual in Nature	Total
Endowment net assets, June 30, 2018	$ 95,185,364	$ 150,079,450	$ 165,721,045	$ 410,985,859
Investment Return, net of investment expenses	3,516,277	10,037,845	-	13,554,122
New gifts	102,336	-	3,063,805	3,166,141
Pledge payments	10,000	-	716,320	726,320
Other transfers, net	30,000	-	1,003,715	1,033,715
	142,336	-	4,783,840	4,926,176
Appropriation of endowment assets for expenditure	(5,158,938)	(15,336,852)	-	(20,495,790)
Copyright amortization	(201,104)	-	-	(201,104)
	(5,360,042)	(15,336,852)	-	(20,696,894)
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	15,886,994	-	20,972,060
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
	2,341,611	-	9,482,391	11,824,002
Appropriation of endowment assets for expenditure	(5,394,372)	(16,346,403)	-	(21,740,775)
Copyright amortization	(309,510)	-	-	(309,510)
	(5,703,882)	(16,346,403)	-	(22,050,285)
Endowment net assets, June 30, 2020	$ 95,206,730	$ 144,321,034	$ 179,987,276	$ 419,515,040

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. As of June 30, 2020 and 2019, there were 70 and 67 donor-designated endowment funds, respectively, that had a market value below the original contribution value. The aggregate contribution value for the 70 and 67 named endowment funds totaled $20,631,935 and $19,666,163, respectively. The market value for this group of underwater endowment funds was $20,133,658 or 98% of the original contribution value as of June 30, 2020 and $19,138,473 or 97% of the original contribution value as of June 30, 2019. The individual market to contribution value range for the 70 underwater funds was 90% to 99% as of June 30, 2020. For the 67 underwater funds was 90% to 99% as of June 30, 2019.

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

The 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. The 67 underwater donor-designated endowment funds for 2019 consist of 30,685 units, which represent 5% of the total number of units within the pooled-endowment funds. (There were total units of 623,644 and 604,506 in the pooled discretionary endowment group as of June 30, 2020 and 2019, respectively – see page 20 "Pooled Investments" section). The University is applying the standard unitized spending rate to the 70 and the 67 underwater accounts as of June 30, 2020 and 2019, 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 and 67 underwater endowment funds resulted in a spending distribution of $1,002,154 and $959,725 in fiscal year 2020 and 2019, respectively.

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

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

Note 5—Endowment and similar funds (continued)

Spending Formula — The University's total return strategy for its invested assets is utilized in the determination of the rate of spending from the pooled portion of the endowment fund. The spending rate for the pooled-endowment funds is determined by the Board of Regents by resolution from time to time. For fiscal years 2020 and 2019, the spending rate was 5.45% and 5.10%, respectively. Using these spending rates, $20,625,453 and $19,417,015 of total return was available from these funds for operating purposes in 2020 and 2019, respectively.

A breakdown of the total endowment support used for operations and reinvestment in fiscal years 2020 and 2019 is shown below:

	2020	2019
Appropriated investment return from pooled investments	$ 20,625,452	$ 19,417,016
Outside Trust Income	1,115,323	1,078,774
	$ 21,740,775	$ 20,495,790

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, 2020 and 2019:

	2020	2019
Investments in pooled funds, at fair value	$ 389,780,599	$ 378,364,260
Total number of units	623,644	604,506
Market value per unit	625.01	623.70
Average annual earnings per unit	33.09	32.56

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, 2020 and 2019 was $24,033,182 and $24,345,846, respectively. The University records these trusts at fair market value. The fair value of funds held in trust by others decreased $312,663 in 2020 and increased $47,649 in 2019. Income received from these funds for fiscal years 2020 and 2019 totaled approximately $1,115,323 and $1,078,774, respectively.

Note 6—Annuity and life income funds

At June 30, 2020 and 2019, investments for annuity and life income funds included:

		With Donor Restrictions			
2020	**Without Donor Restrictions**	**Purpose/Time Restrictions**	**Perpetual in Nature**	**Annuity Payment Liability**	**Total at Fair Value**
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	$ 201,590	$ 4,762,089	$ 4,616,926	$ 10,058,761	$ 19,639,366

		With Donor Restrictions			
2019	**Without Donor Restrictions**	**Purpose/Time Restrictions**	**Perpetual in Nature**	**Annuity Payment Liability**	**Total at Fair Value**
Pooled income trusts	$ -	$ -	$ 70,320	$ -	$ 70,320
Charitable gift annuities	312,003	(166,377)	1,769,663	6,169,814	8,085,103
Cash value of life insurance	-	480,719	1,107,255	-	1,587,974
Unrealized gains on annuity and life income funds	-	3,918,637	-	-	3,918,637
Net Assets	$ 312,003	$ 4,232,979	$ 2,947,238	$ 6,169,814	$ 13,662,034

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 2020 and 2019 was $3,224,781 and $230,000, 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 increase in fair value of charitable gift annuities for fiscal years 2020 and 2019 was $1,026,562 and $445,094, respectively.

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 2020 and 2019. 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 2020 and 2019 was $52,720 and $55,891, respectively.

Note 7—Property, plant, and equipment

Property, plant, and equipment consist of the following at June 30, 2020 and 2019:

	2020	2019
Land and land improvements	$ 19,676,302	$ 19,676,302
Buildings and building improvements	233,749,559	233,551,578
Equipment and books	38,907,334	40,494,638
Construction in progress	20,130,471	6,213,000
	312,463,666	299,935,518
Less accumulated depreciation	(107,016,452)	(102,675,878)
Total property, plant, and equipment, net	$ 205,447,214	$ 197,259,640

Depreciation expense at June 30, 2020 and 2019 was $6,616,469 and $6,635,893, respectively. The estimated cost to complete outstanding projects at June 30, 2020 is approximately $6,500,000 related primarily to the Cleveland Annex/Carnegie Hall renovation project.

Note 8—Intangible assets

Acquired intangible assets consist of the following at June 30, 2020 and 2019:

	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
2020			
Tennessee Williams Copyrights	$ 7,785,781	$ (4,074,513)	$ 3,711,268
2019			
Tennessee Williams Copyrights	$ 7,785,781	$ (3,765,003)	$ 4,020,778

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

Note 9—Pension plan and postretirement benefits

Retirement benefits for substantially all full-time employees are individually provided through a pension plan and additionally through funded programs with the Teachers Insurance and Annuity Association, the College Retirement Equity Fund, Fidelity Investments, and, for some Episcopal clergy employees, the Church Pension Fund. Under individual programs, the University and plan participants make monthly contributions to the various programs to purchase individual retirement accounts. The University's share of the cost of pension plan and individual plan benefits was $4,462,571 and $4,234,944 in fiscal years 2020 and 2019, respectively.

There are 86 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 194 retired employees and 65 spouses receiving the postretirement healthcare benefits (annual benefits range from $994 to $1,433 per employee or $1,998 to $2,866 for an employee and spouse). The status of the plan at June 30, 2020 and 2019 was as follows:

	2020	2019
A. Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 4,164,292	$ 3,654,698
Service cost	88,412	82,115
Interest cost	120,626	131,420
Benefits paid (net of participant contributions)	(286,852)	(300,330)
Actuarial loss	261,755	596,389
Benefit obligation at end of year	$ 4,348,233	$ 4,164,292
B. Change in Plan Assets		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contributions	286,852	300,330
Benefits paid (net of participant contributions)	(286,852)	(300,330)
Fair value of plan assets at end of year	$ -	$ -
C. Funded Status		
Funded status (benefit obligation)	$ (4,348,233)	$ (4,164,292)
Net amount recognized in statements of financial position	$ (4,348,233)	$ (4,164,292)

Note 9—Pension plan and postretirement benefits (continued)

	2020	2019
D. Amounts Not Yet Reflected in Net Periodic Benefit Cost and Included in Unrestricted Net Assets		
Accumulated loss	$ (361,424)	$ (118,682)
Unrestricted net assets	(361,424)	(118,682)
Net periodic benefit cost in excess of cumulative employer contributions	(3,986,809)	(4,045,610)
Net amount recognized in statements of financial position	$ (4,348,233)	$ (4,164,292)
E. Components of Net Periodic Benefit Cost		
Service cost	$ 88,412	$ 82,115
Interest cost	120,626	131,420
Recognized Actuarial (Gain)/Loss	19,013	(7,960)
Net periodic post-retirement benefit cost	$ 228,051	$ 205,575
F. Other Changes Recognized in Unrestricted Net Assets		
Net loss arising during the period	$ (361,424)	$ (118,682)
Total recognized in unrestricted net assets	$ (361,424)	$ (118,682)

The change in the weighted average discount from 3.00% at June 30, 2019 to 2.25% at June 30, 2020 resulted in an unrecognized actuarial loss of $357,577.

H. Expected Cash Flows

Expected employer contributions for the next fiscal year:	$ 259,435
Expected benefit payments for fiscal year ending in:	
2022	$ 269,367
2023	271,771
2024	274,957
2025	278,399
2026-30	1,261,962

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

Note 10—Asset retirement obligation

Accounting standards define a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation does not defer recognition of a liability. The obligation to perform the asset retirement activity is unconditional and, accordingly, a liability should be recognized. Accounting standards also provide guidance with respect to the criteria to be used to determine whether sufficient information exists to reasonably estimate the fair value of an asset retirement obligation. Based on the guidance, management of the University determined that sufficient information was available to reasonably estimate the fair value of known asset retirement obligations. The liability incurred date is presumed to be the date upon which the legal requirement to perform the asset retirement activity was enacted. As of June 30, 2020, $3,034,029 of conditional asset retirement obligations for asbestos removal are included on the statements of financial position.

Note 11—Bonds payable

Bonds payable are summarized as follows at June 30, 2020 and 2019:

	2020	2019
$38,675,000 tax-exempt bond (2012 Issue) plus unamortized premium of $1,179,481 at June 30, 2020, bearing interest with a fixed rate ranging from 2% to 4% with final maturity in 2032.	$ 32,985,000	$ 34,785,000
$25,590,000 tax-exempt bond (2014 Issue) plus unamortized premium of $1,425,264 at June 30, 2020, bearing interest with a fixed rate ranging from 2% to 5% with final maturity in 2034.	20,665,000	21,995,000
$6,335,000 tax-exempt bond (2015A Issue) plus unamortized premium of $542,774 at June 30, 2020, 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.	2,545,000	3,005,000
$3,000,000 tax-exempt bond (2016 Issue), mortgage-type repayment schedule 2.28% APR with final payment in 2031.	2,329,643	2,510,640
$1,200,000 tax-exempt bond (2017 Issue), mortgage-type repayment schedule 2.50% APR with final payment in 2024.	182,060	497,060
$22,274,000 tax-exempt bond (2019 Issue), mortgage-type repayment schedule 3.29% APR with final payment in 2039.	22,274,000	22,274,000
Par amount of bonds payable	87,315,703	91,401,700
Unamortized net premium	3,147,519	3,354,729
Bond issue charges	(1,680,722)	(1,818,137)
Total bonds payable	$ 88,782,500	$ 92,938,292

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

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 were 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, 2020 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 Issue	2014 Issue	2015A Issue	2015B Issue	2016 Issue	2017 Issue	2019 Issue	Total
2021	$ 2,425,000	$ 820,000	$ -	$ 470,000	$ 185,320	$ 120,000	$ 135,000	$ 4,155,320
2022	2,470,000	880,000	-	480,000	189,592	62,060	140,000	4,221,652
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
Thereafter	20,475,000	15,825,000	6,335,000	65,000	1,359,432	-	21,544,000	65,603,432
Total	$ 32,985,000	$ 20,665,000	$ 6,335,000	$ 2,545,000	$ 2,329,643	$ 182,060	$ 22,274,000	$ 87,315,703

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 $134,790 for fiscal years 2020 and 2019, respectively.

	Gross Carrying Amount	Accumulated Amortization	Net Bond Issue Charges
2020			
Bond issue charges	$ 2,893,890	$ (1,213,168)	$ 1,680,722
2019			
Bond issue charges	$ 2,893,890	$ (1,075,753)	$ 1,818,137

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

2021	$ 137,415
2022	137,415
2023	137,415
2024	137,415
2025	134,498
Thereafter	996,564
	$ 1,680,722

Note 12—Leases

During 1990, the University and Methodist Hospital of Middle Tennessee ("Methodist") signed a 30-year agreement under which the University transferred to Methodist its title to the Emerald-Hodgson Hospital facility, equipment, and furnishings, and leased to Methodist the land on which the hospital is situated. No rent or other monetary consideration is payable under the agreement. In return for the building and equipment, the University received Methodist's commitment to provide 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.

The University leases the University Book and Supply Store to Barnes & Noble College Bookstore, Inc., under a five-year operating lease which was first signed effective March 12, 2003. A new lease recently extended the contract to April 30, 2023. The lease payments are based on a percentage of net sales. The University received payments of $184,772 and $226,946 in fiscal years 2020 and 2019, respectively, in connection with this lease.

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.

Note 13—Fair value measurements (continued)

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
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 following table summarizes fair value disclosures and measurements at June 30, 2019:

	Level 1	Level 2	Level 3	NAV	Total Fair Value
Investments					
Cash and cash equivalents	$ 14,774,842	$ -	$ -	$ -	$ 14,774,842
Equities					
U.S. Equities	46,900,712	-	-	-	46,900,712
Fixed Income					
U.S. Government Bonds	39,465,394	-	-	-	39,465,394
Limited Partnerships					
Global Equities	-	-	-	153,096,484	153,096,484
Hedge Fund	-	-	-	62,416,773	62,416,773
Private Equity	-	-	-	85,115,407	85,115,407
Real Assets	1,650,266	-	-	-	1,650,266
Other	-	1,587,974	-	-	1,587,974
Total Investments	$ 102,791,214	$ 1,587,974	$ -	$ 300,628,664	$ 405,007,852
Funds Held in Trust by Others	$ 377,041	$ 23,968,805	$ -	$ -	$ 24,345,846

Note 13—Fair value measurements (continued)

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

2020

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
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	$ 289,511,454	$ 41,486,343		

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

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

Note 13—Fair value measurements (continued)

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

2019

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited Partnerships[a]:				
Hedge Funds	$ 7,113,026	$ -	Annually	46-90 Days
Diversified Strategies	26,164	-	Quarterly-Illiquid	Over 365 Days
Relative Value	18,735,899	-	Annually	90-180 Days
Private Credit Distressed Debt	2,745,521	6,393,451	Illiquid	
Special Situations	25,182,823	-	Semi-Annually	46-90 Days
U.S. Equity	587	-	Illiquid	
European Equity	8,612,753	-	Quarterly	46-90 Days
Global Equity – Developed	129,432,582	-	Quarterly	46-90 Days
Global Equity – Emerging	23,663,902	-	Monthly-Quarterly	46-90 Days
Private Equity	3,168,101	855,000	Illiquid[b]	
U.S. Private Equity	9,427,241	8,465,647	Illiquid[b]	
Leveraged Buyout	3,042,656	1,105,940	Illiquid[b]	
Diversified Strategies	17,690,492	2,420,327	Illiquid[b	
Venture Capital	17,787,009	2,698,420	Illiquid[b]	
Natural Resources	5,277,804	5,069,972	Illiquid[b]	
Partnerships	7,276,926	5,979,071	Illiquid[b]	
Private Credit	18,841,644	10,593,667	Illiquid[b]	
Other	2,603,534	971,412	Illiquid[b]	
Total	$ 300,628,664	$ 44,552,907		

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

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

Note 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 $1,530,603 and $1,769,307 at June 30, 2020 and 2019, 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, 2020 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, 2020 and 2019 of $107,742,218 and $101,690,993, 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, 2020 and 2019, expenses of $2,425,762 and $2,768,586 were related to fund-raising activities and are classified in the statements of activities under institutional support.

Note 15—Lines of credit

At June 30, 2020 and 2019, 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, 2020, 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. 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, 2020 and 2019:

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

2019	Instructional	Academic Support	Research	Student Services	Auxiliary Services	Institutional Support	Total
Salaries and Benefits	$ 25,166,770	$ 5,616,726	$ 123,779	$ 8,872,291	$ 5,195,810	$ 15,116,245	$ 60,091,621
Operation and Maintenance of Plant	2,691,769	870,743	-	1,716,559	279,451	496,708	6,055,230
Depreciation	799,683	1,034,904	-	723,029	3,092,530	985,747	6,635,893
Interest	254,004	349,183	-	333,004	1,298,424	316,836	2,551,451
Other non-compensation expenses	7,437,013	2,708,619	184,015	5,427,066	9,927,950	6,954,020	32,638,683
	$ 36,349,239	$ 10,580,175	$ 307,794	$ 17,071,949	$ 19,794,165	$ 23,869,556	$ 107,972,878

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:

	2020	2019
Subject to expenditure for specific purpose:		
Student financial aid	$ 81,736,589	$ 80,188,032
Academic support	46,330,085	49,310,748
Institutional support	33,441,006	31,605,939
Instructional	19,938,596	20,966,841
Plant operations	12,385,519	16,090,022
Student services	4,101,166	3,855,571
Other	1,146,840	1,375,934
	199,079,801	203,393,087
Subject to the spending policy and appropriation:		
Restricted in perpetuity, the income from which is expendable to support:		
Student financial aid	110,997,294	101,907,690
Institutional support	33,791,632	33,038,877
Academic support	24,104,255	22,946,454
Academic instruction	14,931,097	14,817,263
Student services	5,791,771	5,268,651
Plant operations	1,953,252	1,924,875
Purchases of property and equipment	164,567	181,393
Other	557,740	344,938
	192,291,608	180,430,141
	$ 391,371,409	$ 383,823,228

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 2020 and 2019 is as follows:

	2020	2019
Instructional	$ 665,771	$ 839,095
Academic support	3,009,339	912,908
Research	204,482	164,683
Student services	449,673	300,917
Institutional support	763,215	1,152,051
Scholarships	546,097	174
Auxiliary services	518,617	-
Property, plant, and equipment	4,120,535	3,624,484
	$ 10,277,729	$ 6,994,312

Note 18—Liquidity

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 statement of financial position date:

	2020	2019
Cash and cash equivalents	$ 87,380,555	$ 77,305,416
Restricted cash	421,321	744,350
Accounts and notes receivable, net	2,234,061	2,504,011
Contributions receivable, net	32,317,303	35,721,470
Investments, at fair value	406,277,625	405,007,852
Funds held in trust by others	24,033,182	24,345,846
Financial assets at end of year	552,664,047	545,628,945
(Less)/plus assets (unavailable)/available for general expenditures within one year:		
Board authorized endowment spending	20,506,300	20,606,300
Notes and loan receivables	(1,530,603)	(1,769,307)
Investments held as endowment and similar funds	(392,459,063)	(381,124,302)
Contributions receivable for general expenditures due in more than one year	(31,699,062)	(30,909,336)
Assets held in trust by others	(24,033,182)	(24,345,846)
Restricted cash	(421,321)	(744,350)
Annuity and life income funds	(19,639,366)	(13,662,034)
Financial assets available to meet cash needs for general expenditures within one year	$ 103,387,750	$ 113,680,070

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 $95,143,326 and $93,454,210 at June 30, 2020 and 2019, respectively, are subject to an annual spending rate as described in Note 5. Although the University does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary. As described in Note 15, the University also has two lines of credit that are available for general operating needs.

Note 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 October 7, 2020, the issuance date of the University's financial statements, and have determined that there are no subsequent events that require disclosure.