THE UNIVERSITY OF THE SOUTH

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

JUNE 30, 2009 AND 2008

THE UNIVERSITY OF THE SOUTH

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CROSSLIN & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

We have audited the accompanying statements of financial position of The University of the South (the University) as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note E to the financial statements, the University adopted FASB Staff Position (FSP) No. FAS 117-1 *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds,* which changed its method of accounting for net assets effective July 1, 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2009, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Regents
The University of the South

Our audit was performed for the purpose of forming an opinion on the basic financial statements of The University of the South taken as a whole. The accompanying schedule of expenditures of federal and state awards for the year ended June 30, 2009 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Crosslin & Associates, P.C.

Nashville, Tennessee
October 5, 2009

THE UNIVERSITY OF THE SOUTH
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008

	2009	2008
ASSETS		
Cash and cash equivalents	$ 348,518	$ 394,005
Restricted cash	10,374	323,071
Accounts and notes receivable, net	4,101,824	5,706,126
Inventories	612,939	495,535
Deferred charges	24,162	1,850
Pledges receivable and bequests in probate, net	34,584,800	42,678,809
Investments, at fair value	267,716,857	334,443,260
Funds held in trust by others	18,722,954	23,552,816
Intangible assets, net	6,904,623	7,151,565
Collections (see Note A)	-	-
Property, plant and equipment, net	125,430,150	123,084,642
Total assets	$ 458,457,201	$ 537,831,679
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 2,235,576	$ 4,919,037
Accrued salaries and wages	1,421,590	1,319,943
Unearned fees and other deferred credits	1,551,835	2,057,434
Annuities payable	5,791,194	3,734,487
Refundable government advances	2,798,010	2,828,309
Postretirement benefit liability	4,435,189	4,303,349
Bonds payable	39,601,415	41,144,339
Total liabilities	57,834,809	60,306,898
NET ASSETS		(As Restated)
Unrestricted:		
Current operations	234,168	227,703
Designated for specific purposes	18,396,160	18,310,749
Funds functioning as endowment	28,350,175	26,517,206
Realized net gains on funds functioning as endowment	17,461,164	21,385,569
Unrealized net (losses) gains on funds functioning as endowment	(473,943)	8,837,112
Deficiencies in endowment and similar funds	(7,611,760)	-
Unrealized net losses on annuity and life income funds	(1,101,559)	-
Annuity and life income funds	350,555	404,653
Invested in property, plant and equipment	90,129,787	86,630,685
Total unrestricted	145,734,747	162,313,677
Temporarily restricted:		
Unexpended funds received for restricted purposes	8,848,677	12,044,812
Funds functioning as endowment	2,334,965	2,334,965
Realized net gains on endowment and similar funds	91,717,268	100,797,318
Unrealized net gains (losses) on endowment and similar funds	(2,281,867)	41,652,934
Unrealized net gains on annuity and life income funds	62,009	921,310
Pledges receivable and bequests in probate	29,198,064	35,793,752
Annuity and life income funds	443,062	445,357
Total temporarily restricted	130,322,178	193,990,448
Permanently restricted:		
Loan funds	427,177	417,866
Pledges receivable and bequests in probate	5,386,736	6,885,057
Annuity and life income funds	2,149,113	2,236,650
Endowment funds	116,602,441	111,681,083
Total permanently restricted	124,565,467	121,220,656
Total net assets	400,622,392	477,524,781
Total liabilities and net assets	$ 458,457,201	$ 537,831,679

The Notes to Financial Statements are an integral part of these statements.

THE UNIVERSITY OF THE SOUTH
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Tuition and fees	$ 54,080,885	$ -	$ -	$ 54,080,885
Less institutional scholarships	(16,597,271)	-	-	(16,597,271)
Net tuition and fees	37,483,614	-	-	37,483,614
Contributions	3,865,571	1,668,347	-	5,533,918
Investment income:				
Endowment spending payout:				
Income	2,570,024	981,942	252,092	3,804,058
Appropriated gains	10,942,773	-	-	10,942,773
Other investment income	641,984	18,928	-	660,912
Sales and service income	2,839,289	49,407	-	2,888,696
Auxiliary enterprises	17,842,281	-	-	17,842,281
Government grants	1,281,190	-	-	1,281,190
Other	958,778	88,129	-	1,046,907
Net assets released for operations	1,664,887	(1,662,387)	(2,500)	-
Total operating revenues	80,090,391	1,144,366	249,592	81,484,349
OPERATING EXPENSES				
Instructional	25,461,527	-	-	25,461,527
Academic support	8,702,136	-	-	8,702,136
Research	112,355	-	-	112,355
Student services	12,987,385	-	-	12,987,385
Institutional support	16,295,115	-	-	16,295,115
Scholarships	2,380,868	-	-	2,380,868
Auxiliary services	13,395,911	-	-	13,395,911
Total operating expenses	79,335,297	-	-	79,335,297
Net increase from operations	755,094	1,144,366	249,592	2,149,052
NONOPERATING ITEMS				
Contributions restricted for endowment and similar funds	70,750	-	3,188,317	3,259,067
Contributions restricted for property, plant and equipment	658,312	575,486	-	1,233,798
Net assets released for capital expenditures	4,943,109	(4,943,109)	-	-
Investment earnings:				
Permanently restricted endowment income	-	-	10,859	10,859
Net losses on endowment and other investments, net of amount appropriated for endowment spending payout	(21,645,818)	(60,756,666)	(791,713)	(83,194,197)
Change in value of split-interest agreements	(1,043,164)	545,150	137,046	(360,968)
Change in donor restrictions	(317,213)	(233,497)	550,710	-
Total nonoperating items	(17,334,024)	(64,812,636)	3,095,219	(79,051,441)
(Decrease) increase in net assets	(16,578,930)	(63,668,270)	3,344,811	(76,902,389)
Net assets, beginning of year	162,313,677	193,990,448	121,220,656	477,524,781
Net assets, end of year	$ 145,734,747	$ 130,322,178	$ 124,565,467	$ 400,622,392

The Notes to Financial Statements are an integral part of this statement.

THE UNIVERSITY OF THE SOUTH
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008
(As Restated)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Tuition and fees	$ 50,762,914	$ -	$ -	$ 50,762,914
Less institutional scholarships	(14,491,194)	-	-	(14,491,194)
Net tuition and fees	36,271,720	-	-	36,271,720
Contributions	4,441,042	1,193,484	403,034	6,037,560
Investment income:				
Endowment spending payout:				
Income	5,285,685	858,712	219,676	6,364,073
Appropriated gains	7,361,743	-	-	7,361,743
Other investment income	1,668,514	15,079	-	1,683,593
Sales and service income	4,058,339	3,032	-	4,061,371
Auxiliary enterprises	16,961,606	-	-	16,961,606
Government grants	162,587	-	-	162,587
Other	882,200	40,523	-	922,723
Net assets released for operations	1,203,953	(1,204,558)	605	-
Total operating revenues	78,297,389	906,272	623,315	79,826,976
OPERATING EXPENSES				
Instructional	24,128,021	-	-	24,128,021
Academic support	8,064,136	-	-	8,064,136
Research	136,396	-	-	136,396
Student services	11,396,218	-	-	11,396,218
Institutional support	16,553,192	-	-	16,553,192
Scholarships	2,226,263	-	-	2,226,263
Auxiliary services	13,244,836	-	-	13,244,836
Total operating expenses	75,749,062	-	-	75,749,062
Net increase from operations	2,548,327	906,272	623,315	4,077,914
NONOPERATING ITEMS				
Contributions restricted for endowment and similar funds	690,988	-	13,297,774	13,988,762
Contributions restricted for property, plant and equipment	1,507,896	4,669,100	-	6,176,996
Net assets released for capital expenditures	15,056,312	(15,056,312)	-	-
Investment earnings:				
Permanently restricted endowment income	-	-	7,240	7,240
Net losses on endowment and other investments, net of amount appropriated for endowment spending payout	(4,548,074)	(7,023,210)	(67,049)	(11,638,333)
Change in value of split-interest agreements	(70,957)	1,127,413	(34,109)	1,022,347
Change in donor restrictions	(1,745,148)	1,432,131	313,017	-
Total nonoperating items	10,891,017	(14,850,878)	13,516,873	9,557,012
Increase (decrease) in net assets before cumulative effect of adoption of FSP No. FAS 117-1	13,439,344	(13,944,606)	14,140,188	13,634,926
Cumulative effect of adoption of FSP No. FAS 117-1 (Note E)	(150,496,995)	150,496,995	-	-
Increase (decrease) in net assets	(137,057,651)	136,552,389	14,140,188	13,634,926
Net assets, beginning of year	299,371,328	57,438,059	107,080,468	463,889,855
Net assets, end of year	$ 162,313,677	$ 193,990,448	$ 121,220,656	$ 477,524,781

The Notes to Financial Statements are an integral part of this statement.

THE UNIVERSITY OF THE SOUTH
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) increase in net assets	$ (76,902,389)	$ 13,634,926
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Depreciation	3,671,649	3,800,996
Amortization	246,942	350,956
Gain on disposal of property, plant and equipment	(126,758)	(232,610)
Realized and unrealized loss (gains) on investments	83,194,197	11,638,333
Appropriated gains	(10,942,773)	(7,361,743)
Provision for postretirement benefit obligation	397,959	(260,761)
Actuarial change on annuities payable	634,795	(194,031)
Postretirement employer contributions	(266,119)	(279,404)
Contributions restricted for long-term investment	(4,492,865)	(20,165,758)
Change in assets and liabilities:		
Accounts and notes receivable, net	1,604,302	(1,446,798)
Pledges receivable and bequests in probate, net	(7,488)	1,361,749
Inventories	(117,404)	46,881
Deferred charges	(22,312)	(1,850)
Accounts payable and accrued expenses	(2,683,461)	2,110,277
Accrued salaries and wages	101,647	157,080
Unearned fees and other deferred credits	(505,599)	(351,635)
Refundable government advances	(30,299)	(27,169)
Deposits and agency funds	-	(12,762)
Net cash (used in) provided by operating activities	(6,245,976)	2,766,677
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in restricted cash	312,697	164,745
Purchases of investments and additions to funds held in trust by others	(44,402,630)	(64,290,318)
Proceeds from sales and maturities of investments and funds held in trust by others	46,602,371	63,312,097
Net change in short-term investments	3,952,268	5,322,746
Purchases of property, plant and equipment	(6,088,779)	(21,883,005)
Proceeds from sale of property, plant and equipment	198,380	233,610
Net cash provided by (used in) investing activities	574,307	(17,140,125)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment:		
Endowment	3,259,067	13,988,762
Investment in property, plant and equipment	1,233,798	6,176,996
Decrease (increase) in pledges receivable restricted for long-term investment	1,254,329	(3,855,132)
Payments on annuities payable	(501,480)	(728,303)
Additions to annuities payable	1,923,392	256,340
Amortization of bond premium	(7,924)	(7,924)
Principal repayments on bonds payable	(1,535,000)	(1,420,000)
Net cash provided by financing activities	5,626,182	14,410,739
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(45,487)	37,291
CASH AND CASH EQUIVALENTS, beginning of year	394,005	356,714
CASH AND CASH EQUIVALENTS, end of year	$ 348,518	$ 394,005
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 1,559,392	$ 1,636,546

The Notes to Financial Statements are an integral part of these statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The University of the South (the University) is an educational institution composed of the School of Theology and the College of Arts and Sciences. The University is governed by the Episcopal Church through a Board of Trustees that arises principally from twenty-eight dioceses of the Church, and a Board of Regents elected by the Trustees.

The operations of various auxiliary services provided by the University are combined and include principally the following:

Food services	Telecommunications
Student housing	Sewanee Golf and Tennis Club
Rentals and land leases	Sewanee Inn and Rebel's Rest
Child Care Center	Summer conferences
Stirling's Coffee House	Bookstore commission

Basis of Financial Statements

The financial statements of the University have been prepared on the accrual basis of accounting.

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

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

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

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Expiration of Restrictions

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

Cash and Cash Equivalents

The University considers all cash balances maintained at the University and in financial institutions to be cash equivalents, excluding amounts held as investments.

Restricted Cash

Restricted cash is comprised of Federal Perkins Loan collections, Federal grants, flexible spending accounts, and University matching funds used for future lending.

Inventories

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

Pledges Receivable and Bequests in Probate

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 fair value, which is the estimated present value of the future cash flows, net of allowances. Pledges made that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. Conditional pledges are recorded when donor stipulations are substantially met.

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

Funds Held in Trust by Others

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. Net realized and unrealized gains and losses on endowment and similar fund investments are reported as increases or decreases in temporarily restricted net assets unless use is permanently restricted by explicit donor stipulations or by law. Net realized and unrealized gains and losses on funds functioning as endowment and other investment income are reported as increases or decreases in unrestricted net assets. Investment transactions in equity and debt securities are recorded as of the trade date.

Property, Plant and Equipment

Plant assets are stated at cost or estimated fair value at dates of gifts, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of buildings (40 to 60 years), land improvements (20 years) and equipment and books (5 to 15 years). Depreciation and operation and maintenance charges are allocated to appropriate functional expense categories. Plant disposals are removed from the records at time of disposal. The University lifts the restrictions on contributions for long-lived assets at the time the assets are acquired.

Intangible Assets

Intangible assets with finite lives are amortized over their estimated useful lives. Intangible assets are subject to impairment testing annually. If the impairment testing indicates the carrying values exceed fair value, the carrying values of these assets are reduced to fair value.

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.

A. 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, 2009 and 2008, refundable government advances totaled $2,798,010 and $2,828,309, respectively.

Postretirement Benefits

The University accounts for postretirement benefits on the accrual basis.

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.

Concentration of Risk

The University generates revenue predominantly from tuition and fees, investment income, gifts, and contributions. In planning and budgeting during a fiscal year, significant reliance is placed on meeting tuition, gift, investment earnings and contribution goals in order for the University to sustain successful operations. In the event that enrollment or gifts and contributions significantly decrease in any one year, operations could be affected.

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.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value Measurements

Effective July 1, 2008, the University adopted SFAS No. 157, *Fair Value Measurements*, which established a framework for measuring fair value in accordance with GAAP, and expands disclosures regarding the use of fair value measures. The adoption of SFAS No. 157 did not have an impact on the University's financial position or changes in net assets. Assets recorded at fair value in the statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value (Note L). Level inputs, as defined by SFAS No. 157, 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 or liability at the reporting date.

Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. These reclassifications have no effect on previously reported total net assets. However, the effect of adoption of FSP No. FAS 117-1 resulted in a decrease in unrestricted net assets and an increase in temporarily restricted net assets in the amount of $150,496,995, effective July 1, 2007 (Note E).

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, 2009 and 2008, the University reported $379,000 and $293,000, respectively, as incurred but not reported claims. These claims have been included in accounts payable and accrued expense in the statements of financial position.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Estimates

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

B. ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable consist of the following at June 30, 2009 and 2008:

	2009	2008
Accounts and notes:		
Students and trade	$ 621,002	$ 870,987
Employee notes	34,342	26,952
	655,344	897,939
Less allowance for doubtful accounts	(22,000)	(20,553)
Total accounts and notes receivable, net	633,344	877,386
Loans:		
Federal Perkins Loans	2,787,636	2,505,239
Student loans	215,431	210,832
Employee Educational Assistance loans	318,188	319,838
	3,321,255	3,035,909
Less allowance for doubtful loans	(18,715)	(18,394)
Total loans receivable, net	3,302,540	3,017,515
Other:		
Other	165,940	1,811,225
Total accounts and notes receivable, net	$ 4,101,824	$ 5,706,126

B. ACCOUNTS AND NOTES RECEIVABLE - Continued

The University is contingently liable for loans made to parents of students by a local financial institution (SEAL loans) with an aggregate balance of $3,772,163 and $4,366,283 at June 30, 2009 and 2008, respectively. Historically, these loans have been repaid by the borrowers and the University has not been called upon to perform under these guarantees. Accordingly, the University has not recognized a guarantee liability in the financial statements as of June 30, 2009 and 2008.

C. PLEDGES RECEIVABLE AND BEQUESTS IN PROBATE

Pledges receivable and bequests in probate are summarized as follows at June 30, 2009 and 2008:

	2009	2008
Unconditional pledges for:		
Building programs	$ 2,206,588	$ 3,422,000
Endowment	266,357	305,274
Total	2,472,945	3,727,274
Bequests in probate:		
Split-interest agreements	32,103,858	38,419,984
Other	200,000	1,019,384
Total	34,776,803	43,166,642
Less:		
Discount to present value	(131,923)	(373,877)
Allowance	(60,080)	(113,956)
Pledges receivable and bequests in probate, net	$ 34,584,800	$ 42,678,809
Amounts due in:		
Less than one year	$ 21,787,273	$26,864,781
One to five years	1,526,661	3,576,346
More than five years	11,462,869	12,725,515
	$ 34,776,803	$43,166,642

C. PLEDGES RECEIVABLE AND BEQUESTS IN PROBATE - Continued

As of June 30, 2009, 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.

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

The University received $1,653,291 and $6,152,261 for fiscal 2009 and 2008, respectively, under these arrangements. Charitable remainder trusts are valued by the University at fair value, which closely approximates the present value of future cash flows. Charitable lead trusts are valued at the present value of future cash flows. Charitable remainder interest in life estates is valued at fair value, if available, and at cost when fair values are not readily determinable.

D. 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, 2009 and 2008:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Operating funds:				
Temporary investments	$ 30,578,005	$ 30,578,005	$ 32,494,881	$ 32,494,881
Endowment and similar funds:				
Cash and temporary investments	11,247,599	11,246,213	4,979,098	4,979,098
Equities	137,242,521	117,127,463	145,135,012	158,674,815
Bonds	38,540,165	41,797,812	43,494,256	50,350,390
Hedge funds	24,192,000	32,991,885	25,350,000	41,154,383
Real asset/opportunistic funds	30,180,108	22,851,208	28,401,121	33,035,148
Cash value of life insurance policies	1,061,420	1,061,420	983,576	983,576
Real estate	1,693,917	1,693,917	1,699,000	1,699,000
Funds held in trust by others	20,920,927	18,722,954	23,203,314	23,552,816
Less amounts applicable to annuity and life income funds	(8,826,838)	(7,787,288)	(6,925,947)	(7,847,202)
Total investments held as endowment and similar funds	256,251,819	239,705,584	266,319,430	306,582,024
Annuity and life income funds	8,826,838	7,787,288	6,925,947	7,847,202
Plant funds:				
Short-term investments	8,368,934	8,368,934	11,071,969	11,071,969
Total all funds	$ 304,025,596	$ 286,439,811	$ 316,812,227	$ 357,996,076

E. ENDOWMENT AND SIMILAR FUNDS

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

In August 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position (FSP) No. FAS 117-1, *Endowments of Not for Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP No. FAS 117-1). FSP No. FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The State of Tennessee's State Uniform Prudent Management of Institutional Funds Act (SUPMIFA) became effective July 1, 2007. FSP No. FAS 117-1 also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated funds functioning as endowment) whether or not the organization is subject to UPMIFA.

Interpretation of the Uniform Prudent Management of Institutional Funds Act

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

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

E. ENDOWMENT AND SIMILAR FUNDS - Continued

The fair value of the endowment and similar funds, including the Tennessee Williams Copyrights discussed further in Note H, as of June 30, 2009 and 2008, was $246,098,443 and $313,206,187, respectively. Funds functioning as endowment are shown as unrestricted net assets since they are restricted by the Board and not the donor. In some cases, the restriction on the original gift may not have been lifted and those gifts will be reflected under temporarily restricted net assets until this has occurred. When combined with their portion of unrealized and realized net gains (losses), funds functioning as endowment as of June 30, 2009 and 2008, were $49,620,578 and $61,171,663, respectively. Realized and unrealized gains and losses on funds functioning as endowment are shown as unrestricted.

A schedule of endowment and similar funds net asset composition as of June 30, 2009 and 2008, follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2009				
True endowment	$ -	$ -	$116,602,441	$ 116,602,441
Funds functioning as endowment	28,350,175	2,334,965	-	30,685,140
Unrealized net losses	(473,943)	(2,281,867)	-	(2,755,810)
Realized net gains	17,461,164	91,717,268	-	109,178,432
Deficiencies in donor-restricted endowment funds	(7,611,760)	-	-	(7,611,760)
	$ 37,725,636	$ 91,770,366	$116,602,441	$ 246,098,443
2008				
True endowment	$ -	$ -	$111,681,083	$111,681,083
Funds functioning as endowment	26,517,206	2,334,965	-	28,852,171
Unrealized net gains	8,837,112	41,652,934	-	50,490,046
Realized net gains	21,385,569	100,797,318	-	122,182,887
	$ 56,739,887	$144,785,217	$111,681,083	$313,206,187

E. ENDOWMENT AND SIMILAR FUNDS - Continued

Changes in endowment and similar funds net assets for the years ended June 30, 2009 and 2008 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2007	$ 209,754,336	$ 2,334,965	$102,805,757	$ 314,895,058
Effect of adoption of FSP No. FAS 117-1	(150,496,995)	150,496,995	-	-
Endowment net assets after reclassification	59,257,341	152,831,960	102,805,757	314,895,058
Investment return:				
Investment income	5,285,910	-	218,767	5,504,677
Net realized and unrealized losses	(907,179)	(2,034,311)	-	(2,941,490)
Contributions	690,988	-	8,152,134	8,843,122
Appropriated gains	(2,270,621)	(5,091,122)	-	(7,361,743)
Appropriated investment income	(5,285,685)	-	-	(5,285,685)
Other changes:				
Transfer to funds functioning as endowment	800,000	-	-	800,000
Interperiod transfers	-	-	417,263	417,263
Reclassifications	(494,513)	(921,310)	87,162	(1,328,661)
Copyright amortization	(336,354)	-	-	(336,354)
Endowment net assets, June 30, 2008	56,739,887	144,785,217	111,681,083	313,206,187
Investment return:				
Investment income	2,570,271	-	251,139	2,821,410
Net realized and unrealized losses	(18,716,572)	(44,118,377)	-	(62,834,949)
Contributions	70,750	-	2,960,490	3,031,240
Appropriated gains	(2,046,299)	(8,896,474)	-	(10,942,773)
Appropriated investment income	(2,570,024)	-	-	(2,570,024)
Other changes:				
Transfer to funds functioning as endowment	2,000,000	-	-	2,000,000
Interperiod transfers	-	-	942,947	942,947
Reclassifications	(91,022)	-	766,782	675,760
Copyright amortization	(231,355)	-	-	(231,355)
Endowment net assets, June 30, 2009	$ 37,725,636	$ 91,770,366	$116,602,441	$ 246,098,443

E. ENDOWMENT AND SIMILAR FUNDS - Continued

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original contribution level. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of June 30, 2009, there were 177 donor designated endowment funds that had a market value below the original contribution value. The aggregate contribution value for the 177 named endowment funds totaled $38,543,122. The market value for this group of "underwater" endowment funds was $30,931,362 or 80% of the original contribution value (the individual market to contribution value range for the 177 "underwater" funds was 67% to 99% as of June 30, 2009).

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 177 "underwater" donor designated endowment funds consist of 66,739 units, which represent 14% of the total number of units within the pooled endowment funds (total units of 469,287 in the pooled discretionary endowment group as of June 30, 2009 – see footnote E "*Pooled Investments*" section). With the exception of one of the 177 "underwater" donor designated funds where the donor specifically stated that earnings or total return spending distributions shall be reinvested into the fund if the market or fair value drops below the original contribution value, the University is applying the standard unitized spending rate to the remaining 176 "underwater" accounts. The University does not decrease the total return spending rate (5.1% of a moving 12 quarter market value average for fiscal year 2009) 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 176 "underwater" endowment funds resulted in a spending distribution of $1,898,093 in fiscal year 2009.

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 6.0%, or the current spending rate, as measured over rolling five-year periods. It is recognized that this objective may be difficult to attain in every five-year period, but should be attainable over a series of rolling five-year periods.

E. ENDOWMENT AND SIMILAR FUNDS - Continued

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.

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 5.2% of a moving twelve quarter average ending March 31 of the year prior to the beginning the new budget year for fiscal year 2007-08; 5.1% for fiscal year 2008-09; and 5.0% for subsequent fiscal years. Using this formula, $14,244,426 and $12,886,626 of total return was available from these funds for operating purposes in 2009 and 2008, respectively. Of this amount, $4,956,419 and $7,554,693, less $1,654,766 and $2,029,809 in management fees, came from actual earnings and $10,942,773 and $7,361,743 came from appropriated gains in 2009 and 2008, respectively.

A breakdown of the total endowment support used for operations and reinvestment in 2009 and 2008 is shown below:

	2009	2008
Net pooled income actual earnings	$ 3,301,653	$ 5,524,884
*Other endowment investment earnings	502,405	839,189
Total investment earnings	3,804,058	6,364,073
Plus gains appropriated	10,942,773	7,361,743
	$14,746,831	$13,725,816

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

Pooled Investments

The University accounts for its pooled investments on the unit market value basis. Each fund subscribes to or disposes of units on the basis of market value per unit at the beginning of each quarter in which the transaction takes place. Pooled investments were as follows as of June 30, 2009 and 2008:

	2009	2008
Investments in pooled funds, at fair value	$225,354,494	$287,442,235
Total number of units	469,287	452,691
Market value per unit	$480.21	$634.96
Average annual earnings per unit	$31.02	$29.59

E. ENDOWMENT AND SIMILAR FUNDS - Continued

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. The fair value of perpetually held trusts in which the University had a beneficial interest as of June 30, 2009 and 2008, was $18,722,954 and $23,552,816, respectively. The University records these trusts at fair market value. Change in fair value (decrease) of funds held in trust by others was $(4,829,862) in 2009 and $(2,424,635) in 2008. Income received from these funds for fiscal years 2009 and 2008 totaled approximately $970,768 and $1,324,222, respectively.

F. ANNUITY AND LIFE INCOME FUNDS

At June 30, 2009 and 2008, investments for annuity and life income funds included:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Annuity Payment Liability	Total at Fair Value
2009					
Pooled income trusts	$ -	$ 22,921	$ 257,162	$ 92,914	$ 372,997
Charitable gift annuities	350,555	(13,944)	1,264,616	5,791,194	7,392,421
Cash value of life insurance	-	434,085	627,335	-	1,061,420
Unrealized (losses) gains on annuity and life income funds	(1,101,559)	62,009	-	-	(1,039,550)
	$(751,004)	$ 505,071	$2,149,113	$5,884,108	$ 7,787,288
2008					
Pooled income trusts	$ -	$ 21,971	$ 246,227	$ 104,745	$ 372,943
Charitable gift annuities	404,653	19,674	1,410,559	3,734,487	5,569,373
Cash value of life insurance	-	403,712	579,864	-	983,576
Unrealized (losses) gains on annuity and life income funds	-	921,310	-	-	921,310
	$ 404,653	$1,366,667	$2,236,650	$3,839,232	$7,847,202

F. ANNUITY AND LIFE INCOME FUNDS - Continued

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. Contribution revenue for pooled income trusts for fiscal 2009 and 2008 was $11,831 and $10,877, respectively. The University records the assets related to pooled income trusts at fair value. The liability to the interim beneficiary is recorded at fair value, which is the net present value of estimated future cash flows using the Internal Revenue Code, *Charitable Mid-Term Federal Rate*.

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 2009 and 2008 was $237,710 and $191,708, 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 change in fair value (decrease) of charitable gift annuities for fiscal 2009 and 2008 was $228,749 and $(539,878), respectively.

A charitable remainder trust is an arrangement in which a donor establishes and funds a trust with specified distributions to be made to a designated beneficiary or beneficiaries over the trust's term. Upon termination, the University receives the assets remaining in the trust. The University did not receive any contribution revenue for charitable remainder trusts in fiscal 2009 or 2008. The assets related to charitable remainder trusts are recorded at fair value. The liability to the interim beneficiary is recorded at fair value which is the net present value of estimated future cash flows using the Internal Revenue Code, *Charitable Mid-Term Federal Rate*. The change in the fair value (decrease) for fiscal 2009 and 2008 was $(524,830) and $(514,299), respectively.

G. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following at June 30, 2009 and 2008:

	2009	2008
Land and land improvements	$ 10,381,030	$ 10,381,030
Buildings	116,910,141	116,930,591
Equipment and books	38,550,200	40,471,765
Construction in progress	24,003,483	18,953,491
	189,844,854	186,736,877
Less accumulated depreciation	(64,414,704)	(63,652,235)
Total property, plant and equipment, net	$ 125,430,150	$ 123,084,642

The estimated cost to complete outstanding projects is approximately $6.4 million.

H. INTANGIBLE ASSETS

Acquired intangible assets consist of the following at June 30, 2009 and 2008:

	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
2009			
Tennessee Williams Copyrights	$7,785,781	$(1,392,923)	$6,392,858
Bond issue charges	634,771	(123,006)	511,765
Total	$8,420,552	$(1,515,929)	$6,904,623
2008			
Tennessee Williams Copyrights	$7,785,781	$(1,161,568)	$6,624,213
Bond issue charges	634,771	(107,419)	527,352
Total	$8,420,552	$(1,268,987)	$7,151,565

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 $10,500,000.

H. INTANGIBLE ASSETS - Continued

Bond issue charges were incurred on the 1990, 1994, 2003 and 2005 bond issues. These charges are included in intangible assets, net of accumulated amortization. Amortization expense was $15,587 and $14,602 for fiscal years 2009 and 2008, respectively.

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

2010	$ 197,296
2011	201,956
2012	203,697
2013	204,661
2014	185,385

I. PENSION PLAN AND POSTRETIREMENT BENEFITS

Retirement benefits for substantially all full-time employees are individually provided through a pension plan and additionally through funded programs with the Teachers Insurance and Annuity Association, the College Retirement Equity Fund, Fidelity Investments, and, for some Episcopal clergy employees, the Church Pension Fund. Under individual programs, the University and Plan participants make monthly contributions to the various programs to purchase individual retirement accounts. The University's share of the cost of pension plan and individual plan benefits was $3,106,163 and $2,949,640 in fiscal 2009 and 2008, respectively.

There are 315 current and former employees of the University that are eligible for a post-retirement health care benefit provided by the University. The eligible group includes those employees that began their work for the University before September 30, 1995. There are currently 116 retired employees and 53 spouses receiving the post-retirement health care benefit (annual benefits range from $994 to $1,433 per employee or $1,988 to $2,866 for an employee and spouse). The status of the plan at June 30, 2009 and 2008, was as follows:

	2009	2008
A. Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 4,303,349	$ 4,843,514
Service cost	90,126	105,192
Interest cost	282,337	288,448
Participants contributions	51,902	49,067
Benefits paid	(318,021)	(328,471)
Actuarial loss (gain)	25,496	(654,401)
Benefit obligation at end of year	$ 4,435,189	$ 4,303,349

I. PENSION PLAN AND POSTRETIREMENT BENEFITS - Continued

	2009	2008
B. Change in Plan Assets		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contributions	266,119	279,404
Participant contributions	51,902	49,067
Benefits paid	(318,021)	(328,471)
Fair value of plan assets at end of year	$ -	$ -
C. Funded Status		
Funded status (benefit obligation)	$(4,435,189)	$(4,303,349)
Employer contributions between measurement date and fiscal year-end	-	-
Net amount recognized in statements of financial position	$(4,435,189)	$(4,303,349)
D. Amounts Not Yet Reflected in Net Periodic Benefit cost and Included in Unrestricted Net Assets		
Transition obligation asset (obligation)	$ -	$ -
Prior service credit (cost)	-	-
Accumulated gain (loss)	211,641	237,137
Unrestricted net assets	211,641	237,137
Net periodic benefit cost in excess of cumulative employer contributions	(4,646,830)	(4,540 ,486)
Net amount recognized in statements of financial position	$(4,435,189)	$(4,303,349)
E. Components of Net Periodic Benefit Cost		
Service cost	$ 90,126	$ 105,192
Interest cost	282,337	288,448
Expected return on plan assets	-	-
Amortization of prior service cost	-	-
Recognized actuarial gain (loss)	-	-
Net periodic postretirement benefit cost	$ 372,463	$ 393,640

I. PENSION PLAN AND POSTRETIREMENT BENEFITS - Continued

	2009	2008
F. Other Changes Recognized in Unrestricted Net Assets		
Prior service cost arising during the period	$ -	$ -
Net loss (gain) arising during the period	25,496	(654,401)
Amortization of prior service (cost) credit	-	-
Amortization of gain (loss)	-	-
Total recognized in unrestricted net assets	$ 25,496	$(654,401)
G. Key Assumptions and Trend Rate Sensitivity		
Weighted average discount rate at June 30	6.55%	6.85%
Initial health care cost trend rate	8.00%	8.00%
Ultimate trend rate	4.50%	5.00%
Year ultimate trend is reached	2028	2014

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

J. BONDS PAYABLE

Bonds payable are summarized as follows at June 30, 2009 and 2008:

	2009	2008
$7,500,000 bond bearing interest at a swapped rate of 3.85% at June 30, 2009 and 2008 (1990 Issue), with final maturity in 2010	$ 1,300,000	$ 1,900,000
$7,500,000 bond bearing interest at a swapped rate of 3.85% at June 30, 2009 and 2008 (1994 Issue), with final maturity in 2013	4,100,000	4,700,000
$7,180,000 bond bearing interest at fixed rates from 3.60% to 5.00% (1998 Series A Issue), with final maturity in 2018	4,405,000	4,740,000
$7,185,000 bond bearing interest at a swapped rate of 3.85% at June 30, 2009 and 2008 (1998 Series B Issue), with final maturity in 2018	6,430,000	6,430,000
$10,000,000 bond bearing interest at a floating rate set by a remarketing agent, 2.50% and 1.53% at June 30, 2009 and 2008, respectively (2003 Issue), with final maturity in 2027	10,000,000	10,000,000
$13,200,000 bond, plus unamortized premium of $166,415 at June 30, 2009, bearing interest at fixed rates from 3.50% to 5.00% (2005 Issue), with final maturity in 2030	13,366,415	13,374,339
	$39,601,415	$41,144,339

The University has borrowed an original aggregate of $52,565,000 by means of tax-exempt bond issues by the Health and Educational Facilities Board of the County of Franklin, Tennessee. The University received the bond proceeds under loan agreements between itself and the issuer. All payments due are general obligations of the University. These funds financed 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.

J. BONDS PAYABLE - Continued

Bondholders of the 1990, 1994, 1998 Series B, and 2003 issues may demand that the bonds be repurchased at any interest payment date. A remarketing agent is employed to purchase and resell any bonds purchased under the demand purchase option. The University may at any time convert the bonds from floating rate bonds with a demand purchase option to fixed term, fixed rate bonds. The bonds are callable at par at any interest due date.

Mandatory redemption on the 1990 issue began in September 1992, and will continue until final maturity in 2010. Mandatory redemption on the 1994 issue began in January 1996, to continue until final maturity in 2013. This issue is collateralized by a letter-of-credit agreement, expiring January 2011, that contains various covenants related to liquidity, leverage, and minimum net asset balances.

Mandatory redemption on the 1998 Series A portion began in September 1999 and will continue until final maturity in 2018. The Series B portion of this issue is collateralized by a letter-of-credit agreement, expiring January 2011, that contains a covenant related to leverage. The 1998 Series B bonds mature in 2018, but the University plans to make partial redemption prior to that date according to the following schedule. Mandatory redemption on the 2003 issue will begin in January 2011 and will continue until final maturity in 2027. This issue is collateralized by a letter-of-credit agreement, expiring January 2011, that contains a covenant related to debt service coverage.

Mandatory redemption on the 2005 issue will begin September 2010 and continue through 2025 with final redemption September 2030. The 2005 issue is subject to mandatory sinking fund payments on September 2023 for bonds maturing September 2024. In addition, sinking fund payments are due beginning September 2026 through September 2029 for final maturity in 2030. Bonds maturing on or after September 1, 2016 are callable at par plus accrued interest by giving forty-five days written notice on or after September 1, 2015. Principal and interest payments on bonds maturing after 2012 are insured by an assurance corporation. This issue contains various covenants related to minimum number of full-time equivalent students enrolled, minimum investment balances, maximum annual debt service and minimum net asset balances.

The University has entered into an interest rate swap contract with the intent of managing its exposure to interest rate risk. The University now has fixed rate financing with an interest rate of 3.85% through maturity for $11,830,000 of outstanding bonds payable (the 1990, 1994, and 1998 Series B Bonds issues are floating rate demand bonds, and the floating rate has been swapped in exchange for a fixed rate of 3.85% through final maturity in 2018). The estimated fair value of the interest rate swap contract is not material to the financial statements and, accordingly, has not been recorded by the University. The estimated fair value amounts have been determined by the University using available market information and appropriate valuation methodologies.

J. BONDS PAYABLE - Continued

The University was in compliance at June 30, 2009 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:

	1990 Issue	1994 Issue	1998 A Issue	1998 B Issue	2003 Issue	2005 Issue	Total
2010	$ 600,000	$ 600,000	$ 350,000	$ -	$ -	$ -	$ 1,550,000
2011	700,000	600,000	365,000	-	100,000	100,000	1,865,000
2012	-	1,400,000	385,000	-	100,000	100,000	1,985,000
2013	-	1,500,000	405,000	-	100,000	100,000	2,105,000
2014	-	-	425,000	950,000	100,000	100,000	1,575,000
Thereafter	-	-	2,475,000	5,480,000	9,600,000	12,966,415	30,521,415
	$1,300,000	$4,100,000	$4,405,000	$6,430,000	$10,000,000	$13,366,415	$39,601,415

On July 30, 2009, the University borrowed $14,400,000 by means of tax exempt bonds issued by the Health and Education Facilities Board of the County of Franklin, Tennessee. $10,000,000 of the bond proceeds was used to refinance the 2003 bond indebtedness; $4,400,000 in new debt will be used to support the renovation and construction of an addition to Snowden Hall.

The outstanding 1994 bonds, $4,100,000, were reissued on September 1, 2009 utilizing the University's S&P credit rating and liquidity support, eliminating the SunTrust Bank letter-of-credit. Effective September 1, the remarketing agent for the 1994 bonds changed from SunTrust Robinson to Morgan Keegan.

The outstanding 1998 B bonds, $6,430,000, were also reissued on September 1, 2009 utilizing the University's credit rating and liquidity support, eliminating the Regions Bank letter-of-credit. The remarketing agent for the 1998 B bonds will continue to be Morgan Keegan.

K. LEASES

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

K. LEASES - Continued

The University leases the University Book and Supply Store to Barnes & Noble College Bookstore, Inc., under an operating lease which was signed effective March 12, 2003, and which will expire on April 30, 2010. The lease may be automatically renewed for an additional five years. The lease payments are based on a percentage of net sales. The University received payments of $148,347 and $157,621 in 2009 and 2008, respectively, in connection with this lease.

L. FAIR VALUES OF FINANCIAL INSTRUMENTS

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 following table summarizes required fair value disclosures under SFAS No. 107, *Disclosures about Fair Value of Financial Instruments* and measurements at June 30, 2009 for the assets measured at fair value on a recurring basis under SFAS No. 157, *Fair Value Measurements*:

	Carrying Amount	SFAS No. 107 Estimated Fair Value	Assets Measured at Fair Value	Fair Value Measurements Using		
				Level 1	Level 2	Level 3
Assets:						
Pledges receivable and bequests in probate	$ 34,584,800	$ 34,584,800	$ 34,584,800	$ -	$32,303,858	$ 2,280,942
Investments	267,716,857	267,716,857	267,716,857	207,739,869	30,135,256	29,841,732
Funds held in trust by others	18,722,954	18,722,954	18,722,954	-	18,722,954	-
Intangible assets-copyrights	6,392,858	10,500,000	-			
Liabilities:						
Bond payable	39,601,415	41,595,502	-			

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.

L. FAIR VALUES OF FINANCIAL INSTRUMENTS - Continued

Accounts and Notes Receivable

Accounts and notes receivable consist primarily of student loans and short-term receivables. The loans receivable of $3,302,540 and $3,017,515 at June 30, 2009 and 2008, 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.

Pledges Receivable and Bequests in Probate

Pledges receivable and bequests in probate are recorded at net present value as discussed in Note A, which approximates their fair value.

Investments and Funds Held in Trust by Others

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

Tennessee Williams Copyrights

The copyrights are being amortized as the royalty income is realized. The fair value was estimated based on average annual income applied to a market multiple.

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

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

Bonds Payable

The bonds payable reflected in the financial statements bear interest at floating rate and fixed rates. Series 2003 bonds bear interest at a floating rate. Series 1990, 1994, 1998 A and B and 2005 bonds bear interest at fixed rates. The carrying value of the bonds will differ from their fair value depending on current market rates. The fair value was estimated by calculating the net present value of the future payment stream using the current market interest rate.

M. FUND-RAISING COSTS

For fiscal years ended June 30, 2009 and 2008, expenses totaling $2.5 million and $2.4 million, respectively, were related to fund-raising activities and are classified in the statements of activities under institutional support.

N. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets are released from donor restrictions when expenses are incurred to satisfy the restricted purposes or by occurrence of other events as specified by the donors. The purpose of the restricted contributions released due to satisfaction of program restrictions during fiscal 2009 and 2008, is as follows:

	2009	2008
Instructional	$ 373,966	$ 293,044
Academic support	364,158	75,988
Research	38,685	44,154
Student services	366,231	350,446
Institutional support	101,431	99,246
Scholarships	420,416	341,075
Property, plant and equipment	4,943,109	15,056,312
	$6,607,996	$16,260,265

O. 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.

P. SUBSEQUENT EVENTS

The University has evaluated subsequent events through October 5, 2009, the issuance date of the University's financial statements, and have determined that except as set forth in Note J, there are no subsequent events that require disclosure.

SUPPLEMENTARY INFORMATION

THE UNIVERSITY OF THE SOUTH
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Balance July 1, 2008
Federal Awards			
U.S. DEPARTMENT OF TRANSPORTATION/			
TN DEPARTMENT OF TRANSPORTATION			
*Federal Airport Improvement Program	20.106	Z-07-03-7718-00	$ -
Total U.S. Department of Transportation			-
U.S. DEPARTMENT OF EDUCATION			
Instructional Technology and Wireless Networking	84.116	N/A	-
*Student Financial Assistance - Cluster:			
Federal Supplemental Educational Opportunity Grant	84.007	N/A	-
Federal Family Education Loans	84.032	N/A	-
Federal Work-Study Program	84.033	N/A	-
Federal Perkins Loans	84.038	N/A	-
Federal Pell Grant Program	84.063	N/A	-
Academic Competitiveness Grant	84.375	N/A	-
National SMART Grant	84.376	N/A	-
Total Student Financial Assistance - Cluster			-
Total U.S. Department of Education			-
TOTAL FEDERAL AWARDS			-
State Awards			
TN DEPARTMENT OF TRANSPORTATION			
Airport Improvement Program	N/A	Z-08-20-0640-00	-
TOTAL STATE AWARDS			-
TOTAL FEDERAL AND STATE AWARDS			$ -

*- Denotes a major program.

The Notes to Schedule of Expenditures of Federal and State Awards are an integral part of this schedule.

Receipts	Expenditures	Balance, June 30, 2009
$ 675,150	$ 675,150	$ -
675,150	675,150	-
155,574	155,574	-
181,432	181,432	-
4,387,934	4,387,934	-
172,413	172,413	-
540,991	540,991	-
581,753	581,753	-
50,825	50,825	-
26,000	26,000	-
5,941,348	5,941,348	-
6,096,922	6,096,922	-
6,772,072	6,772,072	-
397,646	397,646	-
397,646	397,646	-
$7,169,718	$7,169,718	$ -

THE UNIVERSITY OF THE SOUTH
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2009

A. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards includes the grant activity of The University of the South and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State of Tennessee Audit Manual*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

B. LOANS OUTSTANDING

The University of the South had the following loan balances outstanding at June 30, 2009. This loan balance outstanding is also included in the federal expenditures presented in the schedule.

Cluster/Program Title	Federal CFDA Number	Amount Outstanding
Federal Perkins Loans	84.038	$2,787,636

Independent Auditors' Report 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 the financial statements of The University of the South (the University) as of and for the year ended June 30, 2009, and have issued our report thereon dated October 5, 2009. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Regents, management of The University of the South, and for filing with the Federal Audit Clearinghouse and U.S. Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Crosslin & Associates, P.C.

Nashville, Tennessee
October 5, 2009

CROSSLIN
& ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

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

Compliance

We have audited the compliance of The University of the South (the University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, The University of the South complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

To the Board of Regents
The University of the South

Internal Control Over Compliance

The management of The University of the South is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Regents, management of The University of the South, and for filing with the Federal Audit Clearinghouse and U.S. Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Crosslin & Associates, P.C.

Nashville, Tennessee
October 5, 2009

THE UNIVERSITY OF THE SOUTH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
• Material weaknesses identified?	____ yes	_X_ no
• Significant deficiencies identified that are not considered to be material weaknesses?	____ yes	_X_ none reported
Noncompliance material to financial statements noted?	____ yes	_X_ no

Federal Awards

Internal control over major programs:		
• Material weaknesses identified?	____ yes	_X_ no
• Significant deficiencies identified that are not considered to be material weaknesses?	____ yes	_X_ none reported
Type of auditors' report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	____ yes	_X_ no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
20.106	U.S. Department of Transportation - Federal Airport Improvement Program
	U.S. Department of Education - Student Financial Assistance Programs (Cluster):
84.007	Federal Supplemental Educational Opportunity Grant
84.032	Federal Family Education Loans
84.033	Federal Work-Study Program
84.038	Federal Perkins Loans
84.063	Federal Pell Grant Program
84.375	Academic Competitiveness Grant
84.376	National SMART Grant

SECTION I - SUMMARY OF AUDITORS' RESULTS - Continued

Dollar threshold used to distinguish between type A and type B programs:	$300,000
Auditee qualified as low-risk auditee?	__X__ yes _____ no

SECTION II - FINANCIAL STATEMENT FINDINGS

None reported

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None reported

THE UNIVERSITY OF THE SOUTH
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2009

None