THE UNIVERSITY OF THE SOUTH

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

JUNE 30, 2011 AND 2010

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CROSSLIN
&ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's 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, 2011 and 2010, 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 audit 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, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2011, 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, 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 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 awards for the year ended June 30, 2011, 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
September 14, 2011

THE UNIVERSITY OF THE SOUTH
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
Cash and cash equivalents	$ 5,103,295	$ 2,314,724
Restricted cash	336,509	141,831
Accounts and notes receivable, net	3,696,501	4,020,993
Inventories	412,482	476,827
Deferred charges	30,142	44,882
Pledges receivable and bequests in probate, net	40,575,793	35,334,690
Investments, at fair value	329,279,737	293,265,157
Funds held in trust by others	22,547,453	19,712,096
Intangible assets, net	6,350,074	6,594,678
Collections (see Note A)	-	-
Property, plant and equipment, net	133,900,671	132,043,645
Total assets	$ 542,232,657	$ 493,949,523
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 1,598,545	$ 2,272,767
Accrued salaries and wages	1,234,696	1,443,324
Unearned fees and other deferred credits	1,657,987	1,684,940
Annuities payable	4,518,363	5,451,909
Refundable government advances	2,740,983	2,761,851
Postretirement benefit liability	4,419,261	4,927,785
Bonds payable	40,270,012	42,242,937
Total liabilities	56,439,847	60,785,513
NET ASSETS		
Unrestricted:		
Current operations	310,484	304,169
Designated for specific purposes	17,800,346	17,777,137
Funds functioning as endowment	33,114,901	32,274,768
Realized net gains on funds functioning as endowment	17,549,379	15,215,891
Unrealized net gains on funds functioning as endowment	10,459,640	4,056,347
Deficiencies in endowment and similar funds	(459,837)	(1,601,482)
Unrealized net losses on annuity and life income funds	-	(182,075)
Annuity and life income funds	373,186	342,539
Invested in property, plant and equipment	94,050,669	92,401,256
Total unrestricted	173,198,768	160,588,550
Temporarily restricted:		
Unexpended funds received for restricted purposes	9,908,884	11,111,269
Funds functioning as endowment	2,334,965	2,334,965
Realized net gains on endowment and similar funds	79,735,701	76,154,270
Unrealized net gains on endowment and similar funds	47,249,365	19,874,746
Unrealized net (losses) gains on annuity and life income funds	(20,530)	495,374
Pledges receivable and bequests in probate	34,562,655	29,658,682
Annuity and life income funds	847,504	461,751
Total temporarily restricted	174,618,544	140,091,057
Permanently restricted:		
Loan funds	443,738	434,690
Pledges receivable and bequests in probate	6,013,138	5,676,008
Annuity and life income funds	2,793,197	2,195,727
Endowment funds	128,725,425	124,177,978
Total permanently restricted	137,975,498	132,484,403
Total net assets	485,792,810	433,164,010
Total liabilities and net assets	$ 542,232,657	$ 493,949,523

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

THE UNIVERSITY OF THE SOUTH
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Tuition and fees	$ 57,629,334	$ -	$ -	$ 57,629,334
Less institutional scholarships	(20,542,170)	-	-	(20,542,170)
Net tuition and fees	37,087,164	-	-	37,087,164
Contributions	4,443,364	1,268,769	100,000	5,812,133
Investment income:				
Endowment spending payout:				
Income	4,551,949	1,084,583	237,442	5,873,974
Appropriated gains	8,483,316	-	-	8,483,316
Other investment income	442,415	11,440	12,080	465,935
Sales and service income	3,177,886	15,859	-	3,193,745
Auxiliary enterprises	18,683,063	-	-	18,683,063
Government grants	521,541	-	-	521,541
Other	998,015	60,580	-	1,058,595
Net assets released for operations	1,896,827	(1,892,927)	(3,900)	-
Total operating revenues	80,285,540	548,304	345,622	81,179,466
OPERATING EXPENSES				
Instructional	26,666,981	-	-	26,666,981
Academic support	8,692,866	-	-	8,692,866
Research	200,766	-	-	200,766
Student services	12,400,656	-	-	12,400,656
Institutional support	17,006,896	-	-	17,006,896
Scholarships	2,639,885	-	-	2,639,885
Auxiliary services	13,159,775	-	-	13,159,775
Total operating expenses	80,767,825	-	-	80,767,825
Net increase from operations	(482,285)	548,304	345,622	411,641
NONOPERATING ITEMS				
Contributions restricted for endowment and similar funds	87,812	-	3,114,465	3,202,277
Contributions restricted for property, plant and equipment	1,512,903	1,039,621	-	2,552,524
Net assets released for capital expenditures	1,374,716	(1,374,716)	-	-
Investment earnings:				
Net gains on endowment and other investments, net of amount appropriated for endowment spending payout	10,100,321	35,046,610	331,594	45,478,525
Change in value of split-interest agreements	27,449	381,048	575,336	983,833
Change in donor restrictions	(10,698)	(1,113,380)	1,124,078	-
Total nonoperating items	13,092,503	33,979,183	5,145,473	52,217,159
Increase in net assets	12,610,218	34,527,487	5,491,095	52,628,800
Net assets, beginning of year	160,588,550	140,091,057	132,484,403	433,164,010
Net assets, end of year	$ 173,198,768	$ 174,618,544	$ 137,975,498	$ 485,792,810

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

THE UNIVERSITY OF THE SOUTH
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Tuition and fees	$ 55,771,929	$ -	$ -	$ 55,771,929
Less institutional scholarships	(18,043,202)	-	-	(18,043,202)
Net tuition and fees	37,728,727	-	-	37,728,727
Contributions	4,153,173	1,121,884	299,572	5,574,629
Investment income:				
Endowment spending payout:				
Income	2,664,305	1,026,266	251,052	3,941,623
Appropriated gains	10,610,272	-	-	10,610,272
Other investment income	368,974	40,241	12,002	421,217
Sales and service income	2,944,624	114,664	-	3,059,288
Auxiliary enterprises	17,956,251	-	-	17,956,251
Government grants	165,709	40,577	-	206,286
Other	925,367	67,680	-	993,047
Net assets released for operations	2,016,010	(2,010,610)	(5,400)	-
Total operating revenues	79,533,412	400,702	557,226	80,491,340
OPERATING EXPENSES				
Instructional	24,374,035	-	-	24,374,035
Academic support	8,155,167	-	-	8,155,167
Research	319,470	-	-	319,470
Student services	11,840,558	-	-	11,840,558
Institutional support	16,793,709	-	-	16,793,709
Scholarships	2,582,205	-	-	2,582,205
Auxiliary services	13,117,740	-	-	13,117,740
Total operating expenses	77,182,884	-	-	77,182,884
Net increase from operations	2,350,528	400,702	557,226	3,308,456
NONOPERATING ITEMS				
Contributions restricted for endowment and similar funds	69,125	-	6,385,967	6,455,092
Contributions restricted for property, plant and equipment	3,640,741	432,869	-	4,073,610
Net assets released for capital expenditures	6,704,535	(6,704,535)	-	-
Investment earnings:				
Net gains on endowment and other investments, net of amount appropriated for endowment spending payout	9,721,034	8,486,573	261,215	18,468,822
Change in value of split-interest agreements	(7,118)	11,898	230,858	235,638
Change in donor restrictions	(7,625,042)	7,141,372	483,670	-
Total nonoperating items	12,503,275	9,368,177	7,361,710	29,233,162
Increase in net assets	14,853,803	9,768,879	7,918,936	32,541,618
Net assets, beginning of year	145,734,747	130,322,178	124,565,467	400,622,392
Net assets, end of year	$ 160,588,550	$ 140,091,057	$ 132,484,403	$ 433,164,010

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, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 52,628,800	$ 32,541,618
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	4,122,226	3,846,971
Amortization	244,604	309,945
(Gain) loss on disposal of property, plant and equipment	(23,906)	4,073
Realized and unrealized gains on investments	(45,478,524)	(18,468,822)
Appropriated gains	(8,483,316)	(10,610,272)
Provision for postretirement benefit obligation	(251,520)	754,081
Actuarial change on annuities payable	(959,290)	158,851
Postretirement employer contributions	(257,004)	(261,485)
Contributions restricted for long-term investment	(5,754,801)	(10,528,702)
Change in assets and liabilities:		
Accounts and notes receivable, net	324,492	80,831
Pledges receivable and bequests in probate, net	(43,455)	(330,808)
Inventories	64,345	136,112
Deferred charges	14,740	(20,720)
Accounts payable and accrued expenses	(674,222)	37,191
Accrued salaries and wages	(208,628)	21,734
Unearned fees and other deferred credits	(26,953)	133,105
Refundable government advances	(20,868)	(36,159)
Net cash used in operating activities	(4,783,280)	(2,232,456)
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in restricted cash	(194,678)	(131,457)
Purchases of investments and additions to funds held in trust by others	(204,106,943)	(96,168,409)
Proceeds from sales and maturities of investments and funds held in trust by others	207,069,960	95,436,743
Net change in short-term investments	7,258,352	1,616,557
Purchases of property, plant and equipment	(4,893,920)	(9,709,362)
Proceeds from sale of property, plant and equipment	77,500	5,242
Net cash provided by (used in) investing activities	5,210,271	(8,950,686)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment:		
Endowment	3,202,277	6,455,092
Investment in property, plant and equipment	2,552,524	4,073,610
(Increase) decrease in pledges receivable restricted for long-term investment	(307,115)	1,237,679
Payments on annuities payable	-	(522,542)
Additions to annuities payable	25,744	24,406
Amortization of bond premium	(7,924)	(7,924)
Proceeds from issuance of bonds	-	4,400,000
Gifts of property and equipment	(1,138,926)	(760,419)
Principal repayments on bonds payable	(1,965,000)	(1,750,554)
Net cash provided by financing activities	2,361,580	13,149,348
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,788,571	1,966,206
CASH AND CASH EQUIVALENTS, beginning of year	2,314,724	348,518
CASH AND CASH EQUIVALENTS, end of year	$ 5,103,295	$ 2,314,724
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 1,139,845	$ 1,594,643

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.

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. 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 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. 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.

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.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

Refundable Government Advances

The Perkins Loan Program is a campus-based program providing revolving loan funds for financial assistance to eligible postsecondary school students based on financial need. The U.S. Department of Education provides funds along with the University, which are used to make loans to eligible students at low interest rates. At June 30, 2011 and 2010, refundable government advances totaled $2,740,983 and $2,761,851, 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.

The University accounts for the effect of any uncertain tax positions based on a more likely than not threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a cumulative probability assessment that aggregates the estimated tax liability for all uncertain tax positions. 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.

Concentration of Risk

The University generates revenue predominantly from tuition and fees, investment income, gifts, auxiliary enterprises and contributions. In planning and budgeting during a fiscal year, significant reliance is placed on meeting tuition, gift, auxiliary, 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.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Fair Value Measurements

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

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

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

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

Self-Insurance

The University provides certain employee healthcare benefits primarily through employer contributions, participant contributions, and excess loss insurance and manages those programs through a third-party administrator. Self-insurance claims filed and claims incurred but not reported are accrued based upon management's estimates using a third-party advisor and historical experience. As of June 30, 2011 and 2010, the University reported $305,000 and $424,912, respectively, as incurred but not reported claims. These claims have been included in accounts payable and accrued expense in the statements of financial position.

Allocation of Expenses

Expenses are reported in the statements of activities in functional categories after the allocation of plant operation and maintenance expense, depreciation expense, and interest expense. These expenses are allocated to program and supporting activities based on a percentage allocation and periodic assessment of facilities usage and square footage.

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.

Reclassifications

Certain reclassifications have been made to the financial statements for fiscal 2010 to conform to the presentation adopted for fiscal 2011.

B. ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable consist of the following at June 30, 2011 and 2010:

	2011	2010
Accounts receivable:		
Students and trade	$ 443,486	$ 661,885
Employee	1,891	16,455
	445,377	678,340
Less allowance for doubtful accounts	(27,000)	(21,900)
Total accounts receivable, net	418,377	656,440
Notes receivable:		
Student loans	2,600,173	2,832,006
Other notes receivable	334,544	320,502
	2,934,717	3,152,508
Less allowance for doubtful loans	(31,653)	(19,821)
Total notes receivable, net	2,903,064	3,132,687
Other:		
Other	375,060	231,866
Total accounts and notes receivable, net	$ 3,696,501	$ 4,020,993

B. ACCOUNTS AND NOTES RECEIVABLE - Continued

Student Loans Receivable

The University makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Perkins loans are granted by the University under the Federally funded Perkins loan program. These funds are disbursed based upon the demonstration of exceptional financial need presented by the student. Upon graduation, the students have a nine month grace period on the Perkins loan and a six month grace period on the Institutional loan until repayment is required, at which time the loans will also begin accruing interest. Perkins and Institutional loan amounts are then repaid through our billing service, Campus Partners. Student loans are considered past due when payment has not been received in over 30 days. At June 30, 2011 and 2010, student loans represented 0.48% and 0.57% of total assets, respectively.

At June 30, 2011 and 2010, student loans consisted of the following:

	2011	2010
Federal government loans (Perkins)	$2,404,494	$2,620,018
Institutional loans	195,679	211,988
	$2,600,173	$2,832,006
Allowance for doubtful accounts – Institutional loans:		
Beginning of year	$ 19,821	$ 18,714
Increases	842	225
Write-offs	(3,410)	(3,518)
Provisions charged to expense	14,400	4,400
End of year	$ 31,653	$ 19,821

As June 30, 2011 and 2010, the following amounts were past due under student loan programs:

Perkins	60-90	90-120	120-180	180+
2011	$1,468	$2,698	$1,125	$59,922
2010	1,092	2,318	1,794	49,773
Institutional				
2011	$449	$926	$ -	$10,707
2010	-	-	939	10,991

B. ACCOUNTS AND NOTES RECEIVABLE - Continued

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

Other Notes Receivable

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

The Advanced Degree Loan Program (ADL) is a loan for full-time staff members of the University who have been employed for at least three years of continuous service. Upon completion of the degree, 10% of the loan will be forgiven one year after the completion date, and 10% cancellation each year after. The loan can be completely cancelled over a 10 year period. In the event the staff member terminates employment prior to repayment of the loan, the balance of the loan is due and payable. At June 30, 2011 and 2010, these loan programs consisted of the following loan balances:

	2011	2010
Employee loans (ELP)	$204,719	$197,576
Advanced degree loans (ADL)	129,825	122,926
	$334,544	$320,502

No allowance for doubtful accounts is recorded for the Employee Loan Program or the Advanced Degree Loan Program.

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 $2,364,767 and $3,902,485 at June 30, 2011 and 2010, 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, 2011 and 2010.

C. PLEDGES RECEIVABLE AND BEQUESTS IN PROBATE

Pledges receivable and bequests in probate are summarized as follows at June 30, 2011 and 2010:

	2011	2010
Unconditional pledges for:		
Building programs	$ 1,522,381	$ 1,174,519
Endowment	20,000	60,747
Total	1,542,381	1,235,266
Bequests in probate:		
Split-interest agreements	39,113,124	34,222,310
Other	100,000	-
Total	40,755,505	35,457,576
Less:		
Discount to present value	(124,362)	(70,486)
Allowance	(55,350)	(52,400)
Pledges receivable and bequests in probate, net	$ 40,575,793	$ 35,334,690
Amounts due in:		
Less than one year	$26,516,582	$22,131,990
One to five years	1,770,170	1,168,283
More than five years	12,468,753	12,157,303
	$40,755,505	$35,457,576

C. PLEDGES RECEIVABLE AND BEQUESTS IN PROBATE - Continued

As of June 30, 2011, 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 $299,572 for fiscal 2010, under these arrangements. There were no amounts received in fiscal 2011 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, 2011 and 2010:

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Operating funds:				
Temporary investments	$ 24,034,529	$ 24,034,529	$ 28,878,483	$ 28,878,483
Endowment and similar funds:				
Cash and temporary investments	24,270,424	24,229,161	7,877,707	7,877,725
Equities	96,852,880	103,382,751	111,921,140	111,024,478
Fixed income	77,862,207	77,514,404	43,388,019	44,924,583
Commodities	6,000,000	5,762,951	-	-
Foreign exchange	3,500,000	3,543,124	-	-
Hedge funds	32,030,323	40,417,498	24,596,770	36,150,007
Private partnerships	35,090,097	41,105,360	32,851,800	33,843,819
Real assets	1,683,750	1,683,750	24,646,174	20,490,686
Cash value of life insurance policies	1,150,795	1,150,795	1,126,884	1,126,884
Funds held in trust by others	20,763,866	22,547,453	20,128,926	19,712,096
Less amounts applicable to annuity and life income funds	(8,605,759)	(8,585,230)	(8,534,584)	(8,847,883)
Total investments held as endowment and similar funds	290,598,583	312,752,017	258,002,836	266,302,395
Annuity and life income funds	8,605,759	8,585,230	8,534,584	8,847,883
Plant funds:				
Short-term investments	6,455,414	6,455,414	8,948,492	8,948,492
Total all funds	$ 329,694,285	$ 351,827,190	$ 304,364,395	$ 312,977,253

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.

Interpretation of the Uniform Prudent Management of Institutional Funds Act

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

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

The fair value of the endowment and similar funds, including the Tennessee Williams Copyrights discussed further in Note H, as of June 30, 2011 and 2010, was $318,709,539 and $272,487,483, 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, 2011 and 2010, were $64,287,921 and $56,121,085, respectively. Realized and unrealized gains and losses on funds functioning as endowment are shown as unrestricted.

E. ENDOWMENT AND SIMILAR FUNDS - Continued

A schedule of endowment and similar fund's net asset composition as of June 30, 2011 and 2010, follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2011				
True endowment	$ -	$ -	$128,725,425	$ 128,725,425
Funds functioning as endowment	33,114,901	2,334,965	-	35,449,866
Unrealized net gains	10,459,640	47,249,365	-	57,709,005
Realized net gains	17,549,379	79,735,701	-	97,285,080
Deficiencies in donor-restricted endowment funds	(459,837)	-	-	(459,837)
	$ 60,664,083	$129,320,031	$128,725,425	$ 318,709,539
2010				
True endowment	$ -	$ -	$124,177,978	$ 124,177,978
Funds functioning as endowment	32,274,768	2,334,965	-	34,609,733
Unrealized net losses	4,056,347	19,874,746	-	23,931,093
Realized net gains	15,215,891	76,154,270	-	91,370,161
Deficiencies in donor-restricted endowment funds	(1,601,482)	-	-	(1,601,482)
	$ 49,945,524	$98,363,981	$124,177,978	$ 272,487,483

E. ENDOWMENT AND SIMILAR FUNDS - Continued

Changes in endowment and similar funds net assets for the years ended June 30, 2011 and 2010, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2009	$ 37,725,636	$ 91,770,366	$116,602,441	$ 246,098,443
Investment return:				
Investment income	2,664,557	-	250,141	2,914,698
Net realized and unrealized gains	10,316,713	15,190,504	-	25,507,217
Contributions	69,125	-	6,373,909	6,443,034
Appropriated gains	(2,013,383)	(8,596,889)	-	(10,610,272)
Appropriated investment income	(2,664,305)	-	-	(2,664,305)
Other changes:				
Transfer to funds functioning as endowment	4,054,952	-	-	4,054,952
Interperiod transfers	-	-	502,722	502,722
Reclassifications	-	-	448,765	448,765
Copyright amortization	(207,771)	-	-	(207,771)
Endowment net assets, June 30, 2010	49,945,524	98,363,981	124,177,978	272,487,483
Investment return:				
Investment income	4,551,949	-	236,575	4,788,524
Net realized and unrealized gains	12,893,388	36,541,440	-	49,434,828
Contributions	77,050	-	3,111,071	3,188,121
Appropriated gains	(2,897,926)	(5,585,390)	-	(8,483,316)
Appropriated investment income	(4,551,949)	-	-	(4,551,949)
Other changes:				
Transfer to funds functioning as endowment	873,616	-	-	873,616
Interperiod transfers	-	-	1,088,706	1,088,706
Reclassifications	-	-	111,095	111,095
Copyright amortization	(227,569)	-	-	(227,569)
Endowment net assets, June 30, 2011	$ 60,664,083	$ 129,320,031	$128,725,425	$ 318,709,539

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, 2011 and 2010, there were 44 and 93 donor designated endowment funds, respectively, that had a market value below the original contribution value. The aggregate contribution value for the 44 and 93 named endowment funds totaled \$8,972,861 and \$25,169,747 respectively. The market value for this group of "underwater" endowment funds was \$8,513,024 or 95% of the original contribution value as of June 30, 2011 and \$23,568,265 or 94% of the original contribution value as of June 30, 2010. The individual market to contribution value range for the 44 "underwater" funds was 88% to 99% as of June 30, 2011. For the 93 "underwater" funds, the range was 83% to 99% as of June 30, 2010.

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 44 "underwater" donor designated endowment funds for 2011 consist of 14,032 units, which represent 3% of the total number of units within the pooled endowment funds. The 93 "underwater" donor designated endowment funds for 2010 consist of 41,376 units, which represent 8% of the total number of units within the pooled endowment funds. (There were total units of 486,957 and 489,611 in the pooled discretionary endowment group as of June 30, 2011 and 2010, respectively – see footnote E "Pooled Investments" section). With the exception of one of the 93 "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 44 and the remaining 92 "underwater" accounts as of June 30, 2011 and 2010, respectively. The University does not decrease the total return spending rate (5.0% of a moving 12 quarter market value average) 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 44 and 92 "underwater" endowment funds resulted in a spending distribution of \$396,601 and \$1,117,678 in fiscal year 2011 and 2010, respectively.

E. ENDOWMENT AND SIMILAR FUNDS - Continued

Return Objectives, Risk Parameters and Strategies

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Regents, the endowment assets are invested in a manner that will produce intended results, while assuming a moderate level of investment risk. The long-term investment objective of the pooled portion of the Endowment is to attain an average annual inflation-adjusted total return (net of investment management fees) of at least 5.0%, or the current spending rate, as measured over rolling five-year periods. It is recognized that this objective may be difficult to attain in every five-year period, but should be attainable over a series of rolling five-year periods.

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

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 by resolution from time to time. For fiscal 2011 and 2010, the spending rate was 5.0% of a moving twelve quarter average ending March 31 of the year prior to the beginning of the new budget year. Using this formula, $13,555,656 and $14,056,345 of total return was available from these funds for operating purposes in 2011 and 2010, respectively. Of this amount, $6,949,573 and $5,335,729, less $1,877,233 and $1,889,656 in management fees, came from actual earnings and $8,483,316 and $10,610,272 came from appropriated gains in 2011 and 2010, respectively.

A breakdown of the total endowment support used for operations and reinvestment in fiscal 2011 and 2010 is shown below:

	2011	2010
Net pooled income actual earnings	$ 5,072,340	$ 3,446,073
*Other endowment investment earnings	801,634	495,550
Total investment earnings	5,873,974	3,941,623
Plus gains appropriated	8,483,316	10,610,272
	$14,357,290	$14,551,895

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

E. ENDOWMENT AND SIMILAR FUNDS - Continued

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, 2011 and 2010:

	2011	2010
Investments in pooled funds, at fair value	$288,598,876	$251,885,649
Total number of units	486,957	489,611
Market value per unit	$592.66	$514.46
Average annual earnings per unit	$28.23	$29.69

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, 2011 and 2010, was $22,547,453 and $19,712,096, respectively. The University records these trusts at fair market value. Increase in fair value of funds held in trust by others was $2,835,357 in 2011 and $989,142 in 2010. Income received from these funds for fiscal years 2011 and 2010 totaled approximately $970,433 and $1,003,300, respectively.

F. ANNUITY AND LIFE INCOME FUNDS

At June 30, 2011 and 2010, 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
2011					
Pooled income trusts	$ -	$ 24,920	$ 274,567	$ 73,509	$ 372,996
Charitable gift annuities	373,186	372,103	1,818,316	4,518,364	7,081,969
Cash value of life insurance	-	450,481	700,314	-	1,150,795
Unrealized (losses) gains on annuity and life income funds	-	(20,530)	-	-	(20,530)
	$373,186	$ 826,974	$2,793,197	$4,591,873	$ 8,585,230

F. ANNUITY AND LIFE INCOME FUNDS - Continued

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Annuity Payment Liability	Total at Fair Value
2010					
Pooled income trusts	$ -	$ 23,885	$ 266,455	$ 82,658	$ 372,998
Charitable gift annuities	342,539	(3,010)	1,243,264	5,451,909	7,034,702
Cash value of life insurance	-	440,876	686,008	-	1,126,884
Unrealized (losses) gains on annuity and life income funds	(182,075)	495,374	-	-	313,299
	$ 160,464	$ 957,125	$2,195,727	$5,534,567	$8,847,883

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 2011 and 2010 was $9,148 and $10,256, 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 2011 and 2010 was $14,156 and $12,058, 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 decrease in fair value of charitable gift annuities for fiscal 2011 and 2010 was $590,955 and $29,761, 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 2011 or 2010. 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 decrease in fair value for fiscal 2011 and 2010 was $380,012 and $237, respectively.

G. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30, 2011 and 2010:

	2011	2010
Land and land improvements	$ 10,928,247	$ 10,859,058
Buildings	151,618,134	140,456,973
Equipment and books	41,677,566	39,626,898
Construction in progress	1,417,596	9,036,172
	205,641,543	199,979,101
Less accumulated depreciation	(71,740,872)	(67,935,456)
Total property, plant and equipment, net	$ 133,900,671	$ 132,043,645

The estimated cost to complete outstanding projects is approximately $9,400,000, related primarily to construction of the conference center and renovations to the golf course and various other campus facilities.

H. INTANGIBLE ASSETS

Acquired intangible assets consist of the following at June 30, 2011 and 2010:

	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
2011			
Tennessee Williams Copyrights	$7,785,781	$(1,828,263)	$5,957,518
Bond issue charges	551,353	(158,797)	392,556
Total	$8,337,134	$(1,987,060)	$6,350,074
2010			
Tennessee Williams Copyrights	$7,785,781	$(1,600,694)	$6,185,087
Bond issue charges	551,353	(141,762)	409,591
Total	$8,337,134	$(1,742,456)	$6,594,678

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 $10,800,000.

H. INTANGIBLE ASSETS - Continued

Bond issue charges were incurred on the 1990, 1994, 2005 and 2009 bond issues. These charges are included in intangible assets, net of accumulated amortization. Amortization expense was $17,035 and $16,055 for fiscal years 2011 and 2010, respectively.

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

2012	$213,397
2013	216,336
2014	197,360
2015	199,705
2016	199,705

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 $3,257,999 and $3,095,149 in fiscal 2011 and 2010, respectively.

There are 177 current employees of the University that are eligible for a post-retirement health care benefit provided by the University. The eligible group includes those employees that began their work for the University before September 30, 1995. There are currently 156 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, 2011 and 2010, was as follows:

	2011	2010
A. Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 4,927,785	$ 4,435,189
Service cost	114,911	103,267
Interest cost	239,978	277,609
Benefits paid (net of participant contributions)	(257,004)	(261,485)
Actuarial (gain) loss	(606,409)	373,205
Benefit obligation at end of year	$ 4,419,261	$ 4,927,785

I. PENSION PLAN AND POSTRETIREMENT BENEFITS - Continued

	2011	2010
B. Change in Plan Assets		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contributions	257,004	261,485
Benefits paid (net of participant contributions)	(257,004)	(261,485)
Fair value of plan assets at end of year	$ -	$ -
C. Funded Status		
Funded status (benefit obligation)	$(4,419,261)	$(4,927,785)
Net amount recognized in statements of financial position	$(4,419,261)	$(4,927,785)
D. Amounts Not Yet Reflected in Net Periodic Benefit cost and Included in Unrestricted Net Assets		
Accumulated gain (loss)	$ 444,844	$(161,564)
Unrestricted net assets	444,844	(161,564)
Net periodic benefit cost in excess of cumulative employer contributions	(4,864,105)	(4,766,221)
Net amount recognized in statements of financial position	$(4,419,261)	$(4,927,785)
E. Components of Net Periodic Benefit Cost		
Service cost	$ 114,911	$ 103,267
Interest cost	239,978	277,609
Net periodic postretirement benefit cost	$ 354,889	$ 380,876

I. PENSION PLAN AND POSTRETIREMENT BENEFITS - Continued

	2011	2010
F. Other Changes Recognized in Unrestricted Net Assets		
Net (gain) loss arising during the period	$(606,409)	$373,205
Total recognized in unrestricted net assets	$(606,409)	$373,205
G. Key Assumptions and Trend Rate Sensitivity		
Weighted average discount rate at June 30	4.75%	5.05%
Immediate health care cost trend rate	8.00%	7.80%
Ultimate trend rate	4.50%	4.50%
Year ultimate trend is reached	2030	2028
H. Expected Cash Flows		
Expected employer contributions for the next fiscal year	$335,673	
Expected benefit payments for fiscal year ending in:		
2012	$ 335,673	
2013	351,737	
2014	347,200	
2015	348,427	
2016	343,304	
2017-2021	1,655,653	

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) and totaled $419,422 and $398,941 in 2011 and 2010, respectively.

J. BONDS PAYABLE

Bonds payable are summarized as follows at June 30, 2011 and 2010:

	2011	2010
$7,500,000 bond bearing interest at a swapped rate of 3.85% at June 30, 2011 and 2010 (1990 Issue), with final maturity in 2010	$ -	$ 700,000
$7,500,000 bond bearing interest at a swapped rate of 3.85% at June 30, 2011 and 2010 (1994 Issue), with final maturity in 2013	2,900,000	3,500,000
$7,180,000 bond bearing interest at fixed rates from 3.60% to 5.00% (1998 Series A Issue), with final maturity in 2018	3,690,000	4,055,000
$7,185,000 bond bearing interest at a swapped rate of 3.85% at June 30, 2011 and 2010 (1998 Series B Issue), with final maturity in 2018	6,430,000	6,430,000
$13,200,000 bond, plus unamortized premium of $150,565 at June 30, 2011, bearing interest at fixed rates from 3.50% to 5.00% (2005 Issue), with final maturity in 2030	13,250,565	13,358,490
$14,400,000 bond, bearing interest at a rate of 69.50% of the monthly LIBOR rate plus the Applicable Margin rate of 1.50% (2009 Issue), with final maturity in 2027	13,999,447	14,199,447
	$40,270,012	$42,242,937

The University has borrowed an original aggregate of $56,965,000 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 1994, and 1998 Series B issues may demand that the bonds be repurchased at any interest payment date. A remarketing agent is employed to purchase and resell any bonds purchased under the demand purchase option. The University may at any time convert the bonds from floating rate bonds with a demand purchase option to fixed term, fixed rate bonds. The bonds are callable at par at any interest due date.

Mandatory redemption on the 1990 issue began in September 1992, and reached final maturity September 2010. Mandatory redemption on the 1994 issue began in January 1996, to continue until final maturity in 2013. The outstanding 1994 bonds 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, 2009 the remarketing agent for the 1994 bonds changed from SunTrust Robinson to Morgan Keegan.

Mandatory redemption on the 1998 Series A portion began in September 1999 and will continue until final maturity in 2018. The outstanding 1998 Series B bonds 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 Series B bonds continues to be Morgan Keegan. 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 2005 issue began September 2010 and will 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.

In July 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 were used to redeem the 2003 bond indebtedness; $4,400,000 in new debt was used to support the renovation and construction of an addition to Snowden Hall. Mandatory redemption on the 2009 issue began in January 2010 and will continue until final maturity in 2027. First Tennessee has the right upon 180 days advance written notice to declare the entire principal balance, with accrued interest, due and payable at any time after January 1, 2016.

J. BONDS PAYABLE - Continued

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 $9,330,000 of outstanding bonds payable (the 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.

The University was in compliance at June 30, 2011 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:

	1994 Issue	1998 A Issue	1998 B Issue	2005 Issue	2009 Issue	Total
2012	$1,400,000	$ 385,000	$ -	$ 100,000	$ 200,000	$ 2,085,000
2013	1,500,000	405,000	-	100,000	400,000	2,405,000
2014	-	425,000	950,000	100,000	400,000	1,875,000
2015	-	445,000	1,000,000	200,000	800,000	2,445,000
2016	-	470,000	1,045,000	200,000	800,000	2,515,000
Thereafter	-	1,560,000	3,435,000	12,550,565	11,399,447	28,945,012
	$2,900,000	$3,690,000	$6,430,000	$13,250,565	$13,999,447	$40,270,012

K. LEASES

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

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 expired on April 30, 2010. The original lease could be automatically renewed for an additional five years. The University exercised the option on the contract until April 30, 2011. The lease payments are based on a percentage of net sales. The University received payments of $130,175 and $135,825 in 2011 and 2010, respectively, in connection with this lease.

L. FAIR VALUE MEASUREMENTS

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on the University's assessment of available market information and appropriate valuation methodologies. The University evaluates fair value measurement inputs annually at June 30. If transfers are made between levels, the transfers into and out of levels are recognized at June 30 of each year. The following table summarizes fair value disclosures and measurements at June 30, 2011 and 2010:

2011:

	Carrying Amount	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	$ 40,575,793	$ 40,575,793	$ 40,575,793	$ -	$39,213,123	$ 1,362,670
Investments:						
Equities:						
U.S. Large Cap	52,786,193	52,786,193	52,786,193	52,786,193	-	-
U.S. Small/Mid Cap	14,764,698	14,764,698	14,764,698	14,764,498	200	-
International	35,831,860	35,831,860	35,831,860	35,831,860	-	-
Commodities Mutual Fund	5,762,951	5,762,951	5,762,951	5,762,951	-	
Core Fixed Income	77,514,404	77,514,404	77,514,404	77,514,404	-	-
Foreign Exchange Strategies	3,543,124	3,543,124	3,543,124	3,543,124	-	-
Real Assets	1,683,750	1,683,750	1,683,750	1,683,750	-	-
Cash and Equivalents	54,719,104	54,719,104	54,719,104	54,719,104	-	-

L. FAIR VALUE MEASUREMENTS - Continued

2011:

	Carrying Amount	Estimated Fair Value	Assets Measured at Fair Value	Fair Value Measurements Using Level 1	Level 2	Level 3
Hedge Funds:						
Diversified Strategies	$ 4,289,744	$ 4,289,744	$ 4,289,744	$ -	$ 3,000,000	$ 1,289,744
Equity Long Bias	12,472,408	12,472,408	12,472,408	-	12,426,794	45,614
Event-Driven	9,782,678	9,782,678	9,782,678	-	9,441,751	340,927
Opportunistic	6,000,000	6,000,000	6,000,000	-	6,000,000	-
Real Estate	5,517,540	5,517,540	5,517,540	-	5,517,540	-
Relative Value	2,355,128	2,355,128	2,355,128	-	-	2,355,128
Private Partnerships:						
Non-U.S. Private Equity	10,755,312	10,755,312	10,755,312	-	-	10,755,312
U.S. Private Equity	6,998,150	6,998,150	6,998,150	-	-	6,998,150
U.S. Venture Capital	15,188,766	15,188,766	15,188,766	-	-	15,188,766
Natural Resources	4,201,993	4,201,993	4,201,993	-	-	4,201,993
Real Estate	3,961,139	3,961,139	3,961,139	-	-	3,961,139
Other	1,150,795	1,150,795	1,150,795	-	1,150,795	-
Total Investments	329,279,737	329,279,737	329,279,737	246,605,884	37,537,080	45,136,773
Funds held in trust by others	22,547,453	22,547,453	22,547,453	-	22,547,453	-
Intangible assets-copyrights	5,957,518	10,800,000	-	-	-	-
Liabilities:						
Bond payable	40,270,012	51,428,103	-	-	-	-

L. FAIR VALUE MEASUREMENTS - Continued

2010:

	Carrying Amount	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	$ 35,334,690	$ 35,334,690	$ 35,334,690	$ -	$34,222,310	$ 1,112,380
Investments:						
Equities:						
U.S. Large Cap	34,627,348	34,627,348	34,627,348	34,627,348	-	-
U.S. Small/Mid Cap	26,052,738	26,052,738	26,052,738	25,741,841	310,897	-
International	50,344,392	50,344,392	50,344,392	50,344,392	-	-
Core Fixed Income	44,924,583	44,924,583	44,924,583	44,541,279	383,304	-
Real Assets	20,490,686	20,490,686	20,490,686	20,490,686	-	-
Cash and Equivalents	45,704,700	45,704,700	45,704,700	45,704,700	-	-
Hedge Funds:						
Relative Value	5,829,295	5,829,295	5,829,295	-	-	5,829,295
Equity Long Bias	17,184,610	17,184,610	17,184,610	-	16,782,088	402,522
Event-Driven	13,136,102	13,136,102	13,136,102	-	11,644,018	1,492,084
Private Partnerships:						
Non-U.S. Private Equity	8,870,630	8,870,630	8,870,630	-	-	8,870,630
U.S. Private Equity	7,560,618	7,560,618	7,560,618	-	-	7,560,618
U.S. Venture Capital	10,755,302	10,755,302	10,755,302	-	-	10,755,302
Natural Resources	3,844,831	3,844,831	3,844,831	-	-	3,844,831
Real Estate	2,812,438	2,812,438	2,812,438	-	-	2,812,438
Other	1,126,884	1,126,884	1,126,884	-	1,126,884	-
Total Investments	293,265,157	293,265,157	293,265,157	221,450,246	30,247,191	41,567,720
Funds held in trust by others	19,712,096	19,712,096	19,712,096	-	19,712,096	-
Intangible assets-copyrights	6,185,087	10,650,000	-	-	-	-
Liabilities:						
Bonds payable	42,242,937	53,994,736	-	-	-	-

L. FAIR VALUE MEASUREMENTS - Continued

Changes in Level 3 assets for the years ended June 30, 2010 and 2011 are as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
		Investments	
	Pledges receivable and Bequests in Probate	Hedge Funds	Private Partnerships
Balance as of June 30, 2009	$ 2,280,942	$ 5,330,937	$ 24,510,795
Total gains (losses) included in change in net assets	(229,399)	923,687	2,537,450
Purchases	200,000	-	5,717,831
Sales	(1,139,163)	(425,330)	(718,423)
Transfers*	-	1,894,607	1,796,166
Balance as of June 30, 2010	1,112,380	7,723,901	33,843,819
Total gains (losses) included in change in net assets	(56,824)	733,732	4,762,278
Purchases	590,000	-	5,404,993
Sales	(282,886)	(4,802,795)	(2,905,730)
Transfers*	-	376,575	-
Balance as of June 30, 2011	$ 1,362,670	$ 4,031,413	$ 41,105,360

*Transfers from Level 2 to Level 3 resulting from certain illiquid holdbacks and lack of observable market data for certain investments.

The amount of total investment gains for the period included in change in net assets attributable to the change in unrealized gains relating to assets still held at June 30, 2011 and 2010, were $4,541,788 and $3,097,645, respectively.

L. FAIR VALUE MEASUREMENTS - Continued

Set forth below is additional information pertaining to alternative investments:

2011:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds[a]:				
Equity Long Bias	$12,472,408		Monthly-Quarterly	30-60 Days
Event-Driven	9,782,678		Annual	45-90 Days
Opportunistic	6,000,000		Monthly-Quarterly	5-45 Days
Diversified Strategies	4,289,744		Quarterly	45 Days
Relative Value	2,355,128		N/A Illiquid Holdback	
Real Estate	5,517,540		Semi-Annual	90 Days
Non-U.S. Private Equity[b]	10,755,312	$ 2,072,350		
U.S. Private Equity[c]	6,998,150	2,717,933		
Venture Capital[d]	15,188,766	7,501,766		
Natural Resources[e]	4,201,993	1,825,000		
Real Estate[f]	3,961,139	2,427,645		
Total	$81,522,858	$16,544,694		

2010:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds[a]:				
Relative Value	$ 5,829,295		Quarterly	90 Days
Equity Long Bias	17,184,610		Quarterly-Annual	30-60 Days
Event-Driven	13,136,102		Quarterly-Annual	45-90 Days
Non-U.S. Private Equity[b]	8,870,630	$ 2,997,276		
U.S. Private Equity[c]	7,560,618	3,119,910		
Venture Capital[d]	10,755,302	10,202,019		
Natural Resources[e]	3,844,831	2,047,500		
Real Estate[f]	2,812,438	3,253,492		
Total	$69,993,826	$21,620,197		

L. FAIR VALUE MEASUREMENTS - Continued

[a] As of June 30, 2011 and 2010, this category includes investments in 21 and 20 hedge funds, respectively, that invest in multi-faceted, domestic and international companies operating in various industries. Each hedge fund employs its own strategies in determining investment opportunities. The fair values of the investments in the category have been estimated using the net asset value per share of the investments. Investments representing approximately 10% and 12% as of June 30, 2011 and 2010, respectively, of the value of the investments in this category cannot be redeemed at will because they are in the process of being liquidated or contain illiquid segments. The remaining redemption frequencies range from monthly to annual at June 30, 2011 and from quarterly to annual at June 30, 2010. From 5 to 90 days' notice and from 30 to 90 days' notice for redemption at June 30, 2011 and 2010, respectively, is required. At June 30, 2011, one diversified strategy investment has a 2-year lock-up period whereby a 2% fee is incurred if an amount greater than 10% of the account balance is withdrawn on a date other than the 1-year or 2-year anniversary.

[b] This category includes six investments whose underlying funds engage in private equity transactions such as financing and buyouts. These funds invest primarily in global companies, operating in a multitude of industries. These 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 the funds will be liquidated over 2 to 9 years with the exception of one fund. That fund is open-ended and allows annual redemptions based on an investor's redeemable interest which is the component of the investor's interest in the liquid portion of the fund that is not committed to longer term investments.

[c] This category includes six investments whose underlying funds engage in private equity transactions, such as growth equity financing, buyouts, and recapitalizations. These funds invest in U.S. companies operating in a number of different industries. These 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 the funds will be liquidated over 1 to 8 years.

[d] This category includes six investments whose underlying funds have a multi-industry focus, investing primarily in early stage technology and healthcare companies in the U.S. These 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 the funds will be liquidated over 6 to 9 years.

L. FAIR VALUE MEASUREMENTS - Continued

(e) This category includes three investments whose underlying funds have a global geographic focus and invest in a range of industries that include oil and gas private equity, oilfield services, timber, and clean energy. These 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 the funds will be liquidated over 3 to 9 years.

(f) This category includes three investments whose underlying funds have a global geographic focus and invest in commercial and residential real estate properties. These 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 the funds will be liquidated over 3 to 5 years.

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

Cash and Cash Equivalents and Restricted Cash

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

Accounts and Notes Receivable

Accounts and notes receivable consist primarily of student loans and short-term receivables. The loans receivable of $2,903,064 and $3,132,687 at June 30, 2011 and 2010, 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 Notes A and C, which approximates their fair value.

Investments and Funds Held in Trust by Others

The fair value of investments, as disclosed in Notes A and 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.

L. FAIR VALUE MEASUREMENTS - Continued

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 2009 bonds bear interest at a fixed percentage of the monthly LIBOR rate plus a fixed margin 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, 2011 and 2010, expenses totaling $2.0 million and $1.9 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 2011 and 2010, is as follows:

	2011	2010
Instructional	$ 662,936	$ 563,271
Academic support	230,996	385,437
Research	11,597	66,459
Student services	364,145	257,506
Institutional support	164,388	268,572
Scholarships	462,765	474,765
Property, plant and equipment	1,374,716	6,704,535
	$3,271,543	$8,720,545

O. LINE-OF-CREDIT

At June 30, 2011 and 2010, 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.

P. 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.

Q. SUBSEQUENT EVENTS

The University has evaluated subsequent events through September 14, 2011, the issuance date of the University's financial statements, and have determined that there are no subsequent events that require disclosure.

SUPPLEMENTARY INFORMATION

THE UNIVERSITY OF THE SOUTH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
*RESEARCH AND DEVELOPMENT CLUSTER			
National Science Foundation			
ARRA-RUI: Guerbert Alcohols as Mesogen-Inducing Groups	47.082	N/A	$ 54,743
ARRA-MRI-R2: Acquisition of a High Performance Liquid Chromatography/Tandem Mass Spectrometry System	47.082	N/A	350,000
RCN-UBE: Establishing an Ecological Research/Education Network at Primarily Undergraduate Institutions/Passed through Ohio Wesleyan University	47.074	N/A	5,963
Total National Science Foundation			410,706
National Institutes of Health			
Glycodiversification of Angucycline Antibiotics	93.855	N/A	51,047
Total National Institutes of Health			51,047
Total Research and Development Cluster			461,753
*STUDENT FINANCIAL ASSISTANCE CLUSTER			
U.S. Department of Education			
Federal Supplemental Educational Opportunity Grants	84.007	N/A	181,432
Federal Family Education Loans	84.032	N/A	5,572,542
Federal Work-Study Program	84.033	N/A	172,030
Federal Perkins Loans	84.038	N/A	129,500
Federal Pell Grant Program	84.063	N/A	979,292
Academic Competitiveness Grants	84.375	N/A	48,775
National SMART Grants	84.376	N/A	72,000
Total U.S. Department of Education			7,155,571
Total Student Financial Assistance Cluster			7,155,571

THE UNIVERSITY OF THE SOUTH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued
YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
OTHER FEDERAL PROGRAMS			
U.S. Department of Transportation/			
Tennessee Department of Transportation			
Federal Airport Improvement Program	20.106	Z-07-03-7718-00	$ 20,904
Total U.S. Department of Transportation			20,904
Total Federal Awards			$7,638,228

*Denotes a major program.

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

A. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal 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*.

B. LOANS OUTSTANDING

The University of the South had the following loan balances outstanding at June 30, 2011. 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	$2,404,494

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CERTIFIED PUBLIC ACCOUNTANTS

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, 2011, and have issued our report thereon dated September 14, 2011. 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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To the Board of Regents
The University of the South

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
September 14, 2011

CROSSLIN
&ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on 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 University of the South's (the University) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2011. 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 of the University's compliance with those requirements.

In our opinion, The University of the South complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

To the Board of Regents
The University of the South

Internal Control Over Compliance

Management of The University of the South is responsible for establishing and maintaining effective internal control over compliance with the 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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
September 14, 2011

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?	____ 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?	____ 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
	Research and Development Custer:
	National Science Foundation:
47.082	ARRA-RUI: Guerbert Alcohols as Mesogen-Inducing Groups
47.082	ARRA-MRI-R2: Acquisition of a High Performance Liquid Chromatography/Tandem Mass Spectrometry System
47.074	RCN-UBE: Establishing an Ecological Research/Education Network at Primarily Undergraduate Institutions/Passed through Ohio Wesleyan University
93.855	National Institutes of Health: Glycodiversification of Angucycline Antibiotics

SECTION I - SUMMARY OF AUDITORS' RESULTS - Continued

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
	Student Financial Assistance Cluster:
	U.S. Department of Education:
84.007	Federal Supplemental Educational Opportunity Grants
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 Grants
84.376	National SMART Grants

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