

FISK UNIVERSITY
FINANCIAL STATEMENTS
JUNE 30, 2017

FISK UNIVERSITY

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Independent Auditor's Report

Members of the Audit Committee
Board of Trustees
Fisk University
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Fisk University (the "University"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Members of the Audit Committee
Board of Trustees
Fisk University

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fisk University as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the University's 2016 financial statements, and our report dated March 6, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Crosslin, PLLC

Nashville, Tennessee
January 16, 2018

FISK UNIVERSITY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017
(with comparative totals for 2016)

ASSETS

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 923,414	\$ 824,971
Restricted cash	844,693	1,310,541
Accounts and grants receivable, net of allowance for doubtful accounts	3,786,114	5,406,710
Contributions receivable, net	5,440,842	2,832,216
Notes receivable, less allowance for doubtful accounts	116,315	1,100,673
Prepaid expenses and other assets	1,129,461	1,144,983
Inventory	31,231	50,917
Investments in marketable securities	15,354,505	14,725,246
Investments in art collections	15,227,950	15,191,450
Investment in affiliate	49,346,725	49,330,163
Real estate held for investment	515,950	593,550
Beneficial interests in trusts and endowments	5,720,709	5,243,807
Property and equipment, at cost, net of accumulated depreciation	<u>25,991,742</u>	<u>23,736,875</u>
Total assets	<u>\$124,429,651</u>	<u>\$121,492,102</u>

LIABILITIES

Accounts payable and accrued expenses	\$ 1,385,855	\$ 1,685,072
Deposits	80,000	83,507
Deferred revenue	1,778,371	1,277,297
Notes payable	7,046,216	5,487,199
Bonds payable	5,718,956	6,225,265
Capital lease obligation	450	159,357
Advances from Federal government for Perkins loan programs	<u>165,158</u>	<u>289,312</u>
Total liabilities	<u>16,175,006</u>	<u>15,207,009</u>

NET ASSETS

Unrestricted	81,518,040	83,947,829
Temporarily restricted	6,674,324	3,360,147
Permanently restricted	<u>20,062,281</u>	<u>18,977,117</u>
Total net assets	<u>108,254,645</u>	<u>106,285,093</u>
Total liabilities and net assets	<u>\$124,429,651</u>	<u>\$121,492,102</u>

See accompanying notes to financial statements.

FISK UNIVERSITY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017
(with comparative totals for 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Operating activities:			
Revenue and other support:			
Tuition and fees	\$ 16,437,958	\$ -	\$ -
Less scholarships and fellowships	<u>(11,004,189)</u>	<u>-</u>	<u>-</u>
Net tuition and fees	5,433,769	-	-
Governmental grants and contracts	6,517,339	-	-
Private gifts and grants	5,126,507	3,403,981	-
Endowment spending payout	460,378	-	-
Sales and services of auxiliary enterprises, net	6,419,105	-	-
Other sources	389,655	-	-
Net assets released from restrictions	<u>1,021,574</u>	<u>(1,021,574)</u>	<u>-</u>
Total revenue and other support	<u>25,368,327</u>	<u>2,382,407</u>	<u>-</u>
Expenses:			
Instruction	6,325,679	-	-
Research	3,642,057	-	-
Academic support	3,458,551	-	-
Student services	3,635,848	-	-
Institutional support	5,178,316	-	-
Auxiliary enterprises	<u>5,405,508</u>	<u>-</u>	<u>-</u>
Total expenses	<u>27,645,959</u>	<u>-</u>	<u>-</u>
Net (decrease) increase in net assets from operating activities	(2,277,632)	2,382,407	-
Non-operating activities:			
Private gifts and grants	-	-	792,770
Net gain (loss) in endowment and other investments, net of amount appropriated for endowment spending payout	17,837	931,770	-
Gain on sale of property	122,400	-	-
Reclassifications	<u>(292,394)</u>	<u>-</u>	<u>292,394</u>
Net (decrease) increase in net assets from non-operating activities	<u>(152,157)</u>	<u>931,770</u>	<u>1,085,164</u>
Net (decrease) increase in net assets	(2,429,789)	3,314,177	1,085,164
Net assets at beginning of year	<u>83,947,829</u>	<u>3,360,147</u>	<u>18,977,117</u>
Net assets at end of year	<u>\$ 81,518,040</u>	<u>\$ 6,674,324</u>	<u>\$20,062,281</u>

Total	
<u>2017</u>	<u>2016</u>
\$ 16,437,958	\$ 17,935,948
<u>(11,004,189)</u>	<u>(12,337,630)</u>
5,433,769	5,598,318
6,517,339	7,840,025
8,530,488	5,640,748
460,378	963,705
6,419,105	6,967,886
389,655	297,020
-	-
<u>27,750,734</u>	<u>27,307,702</u>
6,325,679	6,330,230
3,642,057	3,640,772
3,458,551	3,111,266
3,635,848	3,871,096
5,178,316	5,328,015
<u>5,405,508</u>	<u>5,210,745</u>
<u>27,645,959</u>	<u>27,492,124</u>
104,775	(184,422)
792,770	399,854
949,607	(1,100,023)
122,400	2,305,250
-	-
<u>1,864,777</u>	<u>1,605,081</u>
1,969,552	1,420,659
<u>106,285,093</u>	<u>104,864,434</u>
<u>\$ 108,254,645</u>	<u>\$ 106,285,093</u>

See accompanying notes to financial statements.

FISK UNIVERSITY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017
(with comparative totals for 2016)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Net increase in net assets	\$ 1,969,552	\$ 1,420,659
Adjustments to reconcile net increase in net assets to net cash used in operating activities:		
Depreciation expense	1,405,015	1,577,331
Amortization expense	18,691	18,692
(Gain) loss on investments and beneficial interests in trust	(629,259)	737,893
Gain on sale of property	(122,400)	(2,305,250)
In-kind gift of art held for investment	(36,500)	-
Change in allowance for doubtful accounts	714,739	388,531
Endowed gifts reclassified to financing activities	(792,770)	(399,854)
Increase in accounts, grants and contributions receivable	(1,702,769)	(3,057,502)
Decrease in inventory, prepaid expenses and other assets	35,208	56,203
Increase (decrease) in accounts payable, accrued expenses and deferred revenue	201,857	(602,852)
Decrease in deposits	(3,507)	(909)
Net cash provided by (used in) operating activities	<u>1,057,857</u>	<u>(2,167,058)</u>
Cash flows from investing activities:		
Decrease (increase) in restricted cash	465,848	(101,999)
Net (increase) decrease in investments and beneficial interests	(493,464)	418,823
Purchase of property and equipment	(3,659,882)	(1,399,735)
Proceeds from the sale of property	200,000	2,000,000
Decrease in notes receivable	984,358	51,636
Decrease in advances from Federal government	(124,154)	(89,095)
Net (used in) provided by investing activities	<u>(2,627,294)</u>	<u>879,630</u>
Cash flows from financing activities:		
Endowed gifts reclassified from operating activities	792,790	399,854
Proceeds from the issuance of notes payable	3,280,000	1,952,693
Principal repayment of capital lease obligations	(158,907)	(152,117)
Principal repayment of bonds and notes payable	(2,245,983)	(1,065,910)
Net cash provided by financing activities	<u>1,667,880</u>	<u>1,134,520</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	98,443	(152,908)
CASH AND CASH EQUIVALENTS beginning of year	<u>824,971</u>	<u>977,879</u>
CASH AND CASH EQUIVALENTS end of year	<u>\$ 923,414</u>	<u>\$ 824,971</u>
<i>Supplemental disclosure and non-cash investing and financing activities:</i>		
Cash paid for interest	<u>\$ 392,709</u>	<u>\$ 322,684</u>

See accompanying notes to financial statements.

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

A. DESCRIPTION OF THE ORGANIZATION

Fisk University (the "University") is a private, not-for-profit, liberal arts institution of higher education. Founded in 1866, the University offers undergraduate and graduate degrees.

The University is accredited by the Southern Association of Colleges and Schools and is a member of the United Negro College Fund.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements is as follows:

Basis of Accounting

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

Basis of Presentation

The University classifies its revenues, expenses, gains, and losses into three classes of net assets based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the University and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the University and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that the University maintain them permanently. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

The amount for each of these classes of net assets is presented in the statement of financial position and the amount of change in each class of net assets is displayed in the statement of activities.

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND OTHER MATTERS - Continued

Contributions

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

The University reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations regarding how long the long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

In the event a donor makes changes to the nature of a restricted gift, which affects its classification among the net asset categories, such amounts are reflected as reclassifications in the statement of activities.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fundraising activity.

Comparative Financial Statements

The summarized financial information shown for fiscal year 2016 in the accompanying statement of financial position, statements of activities and cash flows is included to provide a basis for comparison with fiscal year 2017. Certain reclassifications have been made to fiscal year 2016 amounts to conform to the fiscal year 2017 presentation.

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND OTHER MATTERS - Continued

Use of Estimates in the Preparation of Financial Statements

Judgment and estimation is exercised by management in certain areas of the preparation of financial statements. The more significant areas include the recovery period for buildings and equipment, the allocation of certain operating and maintenance expenses to functional categories, the collection of contributions receivable, and the allowance for doubtful receivables. Management believes that such estimates have been based on reasonable assumptions and that such estimates are adequate. Actual results could differ from those estimates.

Cash, Cash Equivalents and Restricted Cash

For purposes of the statement of cash flows, the University's cash and cash equivalents include interest-bearing money market accounts and all highly liquid debt instruments with a maturity of less than three months at the date of purchase. Restricted cash balances at June 30, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Bond reserves held by trustee - restricted cash	\$667,451	\$1,055,252
Cash from Federal Perkins loan program	53,843	188,637
Other restricted cash	<u>123,399</u>	<u>66,652</u>
Total restricted cash	<u>\$844,693</u>	<u>\$1,310,541</u>

The University maintains cash balances in financial institutions that it considers to be high quality financial institutions.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value. Investments in art are stated at the most recently available independently appraised values or fair value based upon an agreement to sell certain art (Note E). All gains and losses arising from the sale, collection or other disposition of investments and ordinary income derived from investments are accounted for in the net assets group owning such assets, except for income derived from investments of permanently restricted endowment and similar funds which is accounted for as discussed in Note P.

Inventory

Inventory is valued at the lower of cost or market, on the first-in, first-out basis. Inventory consists mainly of books and other items sold in the University bookstore.

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND OTHER MATTERS - Continued

Investment in Affiliate

The University and its joint venture partner formed the Stieglitz Art Collection LLC, a limited liability company during June 2012. The University owns 50% of its membership interest, and accounts for the investment using the equity method of accounting. See Note E.

Beneficial Interest in Trusts and Endowments

Beneficial interest in trusts and endowments represent arrangements in which a donor or the University establishes and funds a trust or endowment administered by an individual or organization other than the University. Beneficial interests are recorded at their fair value.

Property, Buildings and Equipment

Property, buildings and equipment are stated at cost in the accompanying balance sheet or if contributed, at estimated fair value at the time of contribution. It is the University's policy to capitalize expenditures for these items in excess of \$1,500. Library holdings have been recorded at actual cost by the University.

During fiscal 2016, management assessed its estimates of the useful lives of the University's buildings and improvements. Management revised the original estimates for buildings from 50 year useful lives to 60 years and for improvements from 25 years to 40 years. The effect of this change in accounting estimate on the fiscal 2016 financial statements is an increase in net assets of \$335,800.

Depreciable assets are being depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	60 years
Improvements	40 years
Library holdings	10 years
Equipment and furniture	3 - 10 years

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND OTHER MATTERS - Continued

Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell, and depreciation ceases. The University did not have any impairment of long-lived assets for the years ended June 30, 2017 and 2016.

Allowance for Doubtful Accounts

Accounts, contributions, and notes receivable are reported net of allowances for doubtful accounts and include receivables from students for tuition and fees and loans extended under the Federal Perkins Loan Program. Perkins funds are disbursed based upon the demonstration of financial need presented by the student. Upon graduation, the students have a nine month grace period on the Perkins loan, at which time the loan will also begin accruing interest. Perkins loan amounts are then repaid through a third party billing service. Student loans are considered past due when payment has not been received in over 30 days. The determination of the allowances for doubtful accounts is based upon an analysis of the receivables and reflects amounts, which in management's judgment, are adequate to provide for potential uncollectible accounts or losses after giving consideration to the growth and composition of the receivable balances, past collection and loss experience and current economic conditions which could influence the ability of loan recipients to repay the amounts per the loan terms. The following allowances are recorded in the accompanying balance sheets:

	<u>2017</u>	<u>2016</u>
Student accounts and grant receivables	\$5,981,997	\$5,267,258
Federal Perkins and institutional notes receivable	\$1,363,680	\$1,363,680
Contributions receivable	\$ 100,000	\$ 100,000

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND OTHER MATTERS - Continued

Bond Issuance Costs

Costs incurred in connection with the issuance of the University's bonds payable have been capitalized and are being amortized using the straight-line method, which approximates the interest method, over the term of the loans. Effective July 1, 2016, the University adopted the provisions of FASB ASU 2015-03, *Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires the University to present debt issuance cost as a direct deduction from the carrying amount of the related liability. The adoption required retrospective application. Therefore, the bonds payable balance as of June 30, 2016 has been adjusted to present the balance net of debt issuance costs of \$59,735.

Deferred Revenue

Deferred revenue consists of cash receipts collected or billed prior to year-end, for services rendered after year-end. These receipts primarily pertain to upcoming semester fees and unearned grant revenue.

Income Taxes

The University is exempt from Federal and State income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for income taxes has been made in the accompanying financial statements. The University is not classified as a private foundation.

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.

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND OTHER MATTERS - Continued

Fair Value Measurements

Assets and liabilities recorded at fair value in the statement of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value (Note P). Level inputs, as defined by Financial Accounting Standards Board Accounting Standards Codification (ASC) 820 *Fair Value Measurements and Disclosures*, are as follows:

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

Level 2 - Inputs include quoted prices for similar assets or liabilities 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, spreads 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.

C. CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,509,965	\$ 567,247
One year to five years	1,677,708	890,309
More than five years	<u>2,647,480</u>	<u>1,958,405</u>
	5,835,153	3,415,961
Less allowance for uncollectible pledges and unamortized discount	<u>(394,311)</u>	<u>(583,745)</u>
	<u>\$ 5,440,842</u>	<u>\$ 2,832,216</u>

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

D. NOTES RECEIVABLE

Notes receivable from students at June 30, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Notes receivable - students	\$ 1,474,995	\$ 1,464,353
Less allowance for doubtful notes	<u>(1,363,680)</u>	<u>(1,363,680)</u>
	<u>\$ 111,315</u>	<u>\$ 100,673</u>

Also at June 30, 2017 and 2016, the University had a note receivable from a company totaling \$5,000 and \$1,000,000, respectively. The note is secured by certain real property. The remaining \$5,000 is due to the University on or before June 30, 2018.

E. INVESTMENTS

At June 30, 2017 and 2016, investments, stated at market value, are comprised of the following significant classifications:

	<u>2017</u>	<u>2016</u>
Certificates of deposit and money market funds	\$ 396,105	\$ 5,769,499
Mutual bond and stock funds:		
Equities	6,438,088	4,225,103
Fixed income	7,347,977	3,227,847
Complementary strategies	-	702,289
Mutual funds	<u>1,172,335</u>	<u>800,508</u>
	<u>\$15,354,505</u>	<u>\$14,725,246</u>

The return (investment income, gains and losses) on investments in marketable securities was 5.7% and 0.3% based on the average market value of such investments for fiscal years 2017 and 2016, respectively.

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

E. INVESTMENTS - Continued

The University's collections of art held for investment are stated at the most recently available independently appraised values. Investments in art collections totaled \$15,227,950 and \$15,191,450 at June 30, 2017 and 2016, respectively. The market for art is volatile and it is possible that appraised values could change materially. The collections consists of paintings, photographs, sculptures and various other pieces.

The University has a 50% membership interest in the Stieglitz Art Collection LLC (LLC), whose sole asset is the Alfred Stieglitz art collection. The operating agreement of the LLC provides for periodic rotation and display of the art collection between the University and the other 50% member, Crystal Bridges Museum of American Art. The University's investment in the LLC is accounted for using the equity method of accounting, whereby the University's share of the operations of the LLC are recorded in the statements of activities. The net equity of the LLC totaled \$98,693,450 and \$98,660,326 at June 30, 2017 and 2016, respectively.

The University also has a beneficial interest in a permanent endowment fund with a not-for-profit foundation established to benefit the display and care for the collection at the University's gallery (Note F).

F. BENEFICIAL INTERESTS IN TRUSTS AND ENDOWMENTS

During 2017 and 2016, the University received interest and dividends of \$101,754 and \$70,429, respectively, on funds held in a trust and in an endowment fund (Note D). These funds total \$5,720,709 and \$5,243,807 at June 30, 2017 and 2016, respectively. These funds are held by a financial institution and a foundation for the benefit of the University for various purposes and have been recorded in the University's financial statements as beneficial interests in trusts and endowments.

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

G. PROPERTY, BUILDINGS AND EQUIPMENT

A summary of property and equipment at June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Land and improvements	\$ 314,438	\$ 314,438
Buildings and equipment	58,034,720	55,944,958
Equipment and furniture	30,001,934	28,447,704
Library books	<u>2,002,495</u>	<u>1,986,605</u>
	90,353,857	86,693,705
Less: Accumulated depreciation	<u>(64,361,845)</u>	<u>(62,956,830)</u>
Property and equipment, net	<u>\$ 25,991,742</u>	<u>\$ 23,736,875</u>

Depreciation expense totaled \$1,405,015 and \$1,577,331 for the years ended June 30, 2017 and 2016, respectively (See Note M).

H. NOTES PAYABLE AND OBLIGATIONS UNDER CAPITAL LEASE

Notes Payable

The University has a note payable with a financial institution due in monthly payments of principal and interest of \$25,168 through August 2021. The note payable bears interest at 7.47% and is collateralized by real estate. The outstanding balance was \$1,078,550 and \$1,291,297 at June 30, 2017 and 2016, respectively.

The University also has a note payable to a financial institution due in monthly payments of \$14,744 through February 2018. The note bears no interest. The aggregate outstanding balance was \$117,954 and \$207,824 at June 30, 2017 and 2016, respectively.

During fiscal year 2015, the University entered into a revolving line-of-credit with a bank which has a maximum available borrowing limit of \$8,730,000. Interest at LIBOR plus 1.25% (3.25% and 2.5% at June 30, 2017 and 2016, respectively) on the outstanding balance is paid monthly. The line-of-credit does not provide for a maturity date and repayment of the outstanding balance is at the discretion of the University. The outstanding balance was \$5,849,712 and \$3,988,078 at June 30, 2017 and 2016, respectively, and is collateralized by the investments of the University.

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

H. NOTES PAYABLE AND OBLIGATIONS UNDER CAPITAL LEASE - Continued

The maturities of notes payable are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2018	\$ 347,148
2019	246,914
2020	266,003
2021	286,568
2022	49,871
Thereafter	<u>5,849,712</u>
	<u>\$7,046,216</u>

Capital lease obligation

The University leases certain computer software with a cost of \$456,696 from a company. This lease has been recorded in the accounts of the University as a capital lease. Under the terms of the agreement, the obligation is due in monthly payments of principal and interest of \$13,560 which includes interest at a rate of 9.92%. The monthly payments are due starting July 2014 through the lease agreement expiration in July 2017. Remaining minimum lease commitments at June 30, 2017 under the above mentioned capital lease are \$450:

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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I. BONDS PAYABLE

Bonds payable at June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Revenue bonds, Series 1998, bearing interest at a rate of 5.99%, paying interest semi-annually and maturing in varying annual principal installments through 2018.	\$ 925,000	\$ 1,350,000
Revenue bonds, Series 2000, bearing a variable interest rate, initially at 6% and currently at 3.25% and paying interest semi-annually and maturing in varying annual principal installments through 2021.	<u>4,835,000</u>	<u>4,935,000</u>
	5,760,000	6,285,000
Less: unamortized bond issuance costs	<u>(41,044)</u>	<u>(59,735)</u>
Total bonds payable, net	<u>\$ 5,718,956</u>	<u>\$ 6,225,265</u>

The maturities of bonds payable are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2018	\$ 925,000
2019	-
2020	-
2021	<u>4,835,000</u>
	5,760,000
Less: unamortized bond issuance costs	<u>(41,044)</u>
	<u>\$ 5,718,956</u>

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

I. BONDS PAYABLE - Continued

1998 Bond Issue

The Series 1998 Revenue bonds were issued by the Health and Educational Facilities Board of the Metropolitan Government of Nashville and Davidson County, Tennessee. The proceeds were loaned to the University and used for construction and renovation of certain buildings of the University. Certain revenues, equipment, land, buildings and improvements of the University collateralize the 1998 bonds. The University is required to make monthly principal and interest payments to the trustee equal to one-sixth of the next semi-annual principal and interest payment. At June 30, 2017 and 2016, \$559,662 and \$970,530, respectively, were held by the bond trustee for the aforementioned payment, and were classified as restricted cash in the accompanying statement of financial position. The loan agreement contains various covenants. The University was not in compliance with certain covenants as of June 30, 2017, however the University has obtained appropriate waiver from the bond trustee.

2000 Bond Issue

The Series 2000 Revenue bonds were issued by the Health and Educational Facilities Board of the Metropolitan Government of Nashville and Davidson County, Tennessee. The proceeds were loaned to the University and used for construction and renovation of certain buildings of the University. The 2000 bonds are collateralized by a pledge of the University's revenues and certain land, buildings and improvements of the University. Monthly principal and interest payments are to be made to the bond trustee. At June 30, 2017 and 2016, the trustee held \$107,789 and \$84,722, respectively, as repayment for the bond obligations. The above funds are classified as restricted cash in the accompanying statement of financial position. The loan agreement contains various covenants. The University was not in compliance with certain covenants as of June 30, 2017, however the University has obtained appropriate waiver from the bond trustee.

J. RETIREMENT PLAN

The University sponsors a defined contribution retirement plan covering employees who meet certain eligibility requirements. The University's contributions to the plan are discretionary. The University made \$171,860 and \$171,508 in contributions to the plan during the years ended June 30, 2017 and 2016, respectively.

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

K. COMMITMENTS AND CONTINGENCIES

The University is subject to various claims and legal actions, which arise in the ordinary course of business. In the opinion of management, the ultimate resolution of such matters will not have a material adverse effect on the University's financial position or results of operations.

Federal and State Funds

All Federal and State funds received by the University are subject to audit by the applicable governmental agencies and they can assess liabilities against the University, limit, suspend or terminate the University's participation in the various programs. Audits of certain major Federal programs have indicated that the University may not have fully complied with certain regulations governing the administration of certain programs. The ultimate outcome of these matters is not known at this time. However, the University is in the process of responding to the Federal government and believes that the resultant liability or loss of funding, if any, would not be material to its ongoing operations.

Federal Perkins Loan Program

Funds provided by the United States government under the Federal Perkins loan program are loaned to qualified students based on financial need and may be re-loaned after collection. If the program had been liquidated, the potential liability under this program to the Federal government would be \$165,518 and \$289,312 as of June 30, 2017 and 2016, respectively.

Collective Bargaining Agreement

The University has a collective bargaining agreement covering certain of its full-time, regular clerical and technical employees.

L. NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTIONS

Temporarily restricted net assets of \$6,674,324 and \$3,360,147 at June 30, 2017 and 2016, respectively, were available for instruction, research, institutional support and scholarships. Permanently restricted net assets of \$20,062,281 and \$18,977,117 at June 30, 2017 and 2016, respectively, consist of endowment funds whose income is to be used to fund scholarships, general educational support and the preservation of University art and its art gallery.

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

L. NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTIONS

During the years ended June 30, 2017 and 2016, net assets of \$1,021,574 and \$873,284, respectively, were released from donor restrictions by incurring costs and expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Substantially all temporarily restricted net assets released from restrictions in 2017 and 2016 were for operations, scholarships and grant activities.

M. FUNCTIONAL ALLOCATION OF EXPENSES

During the years ended June 30, 2017 and 2016, the University allocated the cost of certain professional fees and the operation and maintenance of physical plant, including depreciation expense of \$1,405,015 and \$1,577,331, respectively, over the cost of providing instruction, research, academic support, institutional support and auxiliary enterprises as follows:

	<u>2017</u>	<u>2016</u>
Instruction	\$1,215,907	\$1,092,221
Research	789,550	709,234
Academic support	1,129,056	1,014,205
Student services	813,236	730,511
Institutional support	1,105,370	992,928
Auxiliary enterprises	<u>2,842,379</u>	<u>2,553,242</u>
Total operation and maintenance of physical plant	<u>\$7,895,498</u>	<u>\$7,092,341</u>

Interest expense totaling \$392,709 and \$322,684 during fiscal years 2017 and 2016, respectively, has been included and allocated in the above amounts.

N. FUNDRAISING AND ADVERTISING EXPENSES

During the years ended June 30, 2017 and 2016, the University incurred fundraising expenses by its development and alumni offices of \$1,514,055 and \$1,871,021, respectively.

The University also incurred advertising costs in the amounts of \$144,603 and \$239,966 for the years ended June 30, 2017 and 2016, respectively.

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

O. OPERATING LEASES

The University leases certain equipment under non-cancelable operating leases which expire at various dates through December 2019. Rent expense under these lease arrangements amounted to \$97,937 and \$60,817 for the years ended June 30, 2017 and 2016, respectively.

Future minimum rental payments required under operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2017, are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$34,650
2019	19,066
2020	<u>5,783</u>
	<u>\$59,499</u>

P. ENDOWMENT

The University's endowment consists of individual donor-restricted funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the University has interpreted the applicable state laws as requiring the preservation 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 classified as permanently restricted net assets (a) the original value of 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 direction of the applicable donor gift instrument at the time the accumulation is added to the fund. 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 in a manner consistent with the standard

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

P. ENDOWMENT - Continued

of prudence prescribed by applicable state laws. In accordance with applicable state laws, the University, considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the University and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the University
- The investment policies of the University

Changes in Endowment Net Assets

	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2015	\$ 867,545	\$18,577,263	\$ 19,444,808
Investment return:			
Investment income	422,012	-	422,012
Net depreciation (realized and unrealized)	<u>(526,920)</u>	<u>-</u>	<u>(526,920)</u>
Total investment return	<u>(104,908)</u>	<u>-</u>	<u>(104,908)</u>
Contributions	<u>-</u>	<u>399,854</u>	<u>399,854</u>
Appropriation of endowment assets for expenditure	(963,705)	-	(963,705)
Other releases from restriction and reclassification	<u>406,016</u>	<u>-</u>	<u>406,016</u>
Endowment net assets, June 30, 2016	204,948	18,977,117	19,182,065
Investment return:			
Investment income	371,315	-	371,315
Net appreciation (realized and unrealized)	<u>1,020,833</u>	<u>-</u>	<u>1,020,833</u>
Total investment return	<u>1,392,148</u>	<u>-</u>	<u>1,392,148</u>
Contributions	<u>-</u>	<u>792,770</u>	<u>792,770</u>
Appropriation of endowment assets for expenditure	(460,378)	-	(460,378)
Other releases from restriction and reclassifications	<u>16,159</u>	<u>292,394</u>	<u>308,553</u>
Endowment net assets, June 30, 2017	<u>\$ 1,152,877</u>	<u>\$20,062,281</u>	<u>\$ 21,215,158</u>

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

P. ENDOWMENT- Continued

Return Objectives and Risk Parameters

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. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested with the objective of outperforming the S&P 500 by 50 basis points per annum, net of fees, with comparable or lower risks. The University expects its endowment funds, over time, to provide an average rate of return of at least 4% above inflation. Actual returns in any given year may vary from this amount. At June 30, 2017 and 2016, endowment assets consist of investments in marketable securities and beneficial interests in trusts and endowments.

Strategies Employed for Achieving Objectives

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 Policy and How the Investment Objectives Relate to Spending Policy

The University's current policy of appropriating for distribution annually from its endowment funds is at the discretion of the Board of Trustees, based on each year's institutional objectives, not to exceed 6% of the previous 12-calendar quarter's average market values. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long-term, the University expects the current spending policy to allow its endowment to grow at an average rate of 1% to 3% annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Q. FAIR VALUE 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 and measurements at June 30, 2017 and 2016:

				Fair Value Measurements at Reporting Date Using		
	Carrying Amount	Estimated Fair Value	Measured at Fair Value	(Level 1)	(Level 2)	(Level 3)
2017:						
Assets:						
Investments in marketable securities:						
Certificates of deposit and money market funds	\$ 396,105	\$ 396,105	\$ 396,105	\$ 396,105	\$ -	\$ -
Mutual bond and stock funds:						
Equities	6,438,088	6,438,088	6,438,088	6,438,088	-	-
Fixed income	7,347,977	7,347,977	7,347,977	7,347,977	-	-
Mutual funds	<u>1,172,335</u>	<u>1,172,335</u>	<u>1,172,335</u>	<u>1,172,335</u>	<u>-</u>	<u>-</u>
	15,354,505	15,354,505	15,354,505	15,354,505	-	-
Investments in art collections	15,227,950	15,227,950	15,227,950	-	-	15,227,950
Real estate held for investment	515,950	515,950	515,950	-	-	515,950
Beneficial interests in trusts and endowments	5,720,709	5,720,709	5,720,709	-	5,720,709	-
Liabilities:						
Notes payable	7,046,216	7,091,205	-	-	-	-
Bonds payable	5,718,956	5,796,756	-	-	-	-
Capital lease obligation	450	450	-	-	-	-

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Q. FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

				Fair Value Measurements at Reporting Date Using		
	Carrying Amount	Estimated Fair Value	Measured at Fair Value	(Level 1)	(Level 2)	(Level 3)
2016:						
Assets:						
Investments in marketable securities:						
Certificates of deposit and money market funds	\$ 5,769,499	\$ 5,769,499	\$ 5,769,499	\$ 5,769,499	\$ -	\$ -
Mutual bond and stock funds:						
Equities	4,225,103	4,225,103	4,225,103	4,225,103	-	-
Fixed income	3,227,847	3,227,847	3,227,847	3,227,847	-	-
Complementary strategies	702,289	702,289	702,289	702,289	-	-
Mutual funds	<u>800,508</u>	<u>800,508</u>	<u>800,508</u>	<u>800,508</u>	-	-
	14,725,246	14,725,246	14,725,246	14,725,246	-	-
Investments in art collections	15,191,450	15,191,450	15,191,450	-	-	15,191,450
Real estate held for investment	593,550	593,550	593,550	-	-	593,550
Beneficial interests in trusts and endowments	5,243,807	5,243,807	5,243,807	-	5,243,807	-
Liabilities:						
Notes payable	5,487,199	5,595,303	-	-	-	-
Bonds payable	6,225,265	6,356,424	-	-	-	-
Capital lease obligation	159,357	159,357	-	-	-	-

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Q. FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

Changes in Level 3 assets for the year ended June 30, 2017 and 2016, are as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Real Estate Held for Investments	Investment in Art Collections
Balance as of June 30, 2015	\$ 593,550	\$ 15,192,350
Unrealized loss	<u>-</u>	<u>(900)</u>
Balance as of June 30, 2016	593,550	15,191,450
Donated art	-	36,500
Sale of land	<u>(77,600)</u>	<u>-</u>
Balance as of June 30, 2017	<u>\$ 515,950</u>	<u>\$ 15,227,950</u>

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

Cash, cash equivalents and restricted cash, receivables, accounts payable and accrued expenses, deferred revenue and advances from the Federal government

The carrying values of these items approximate their fair values due to the short maturities of these instruments.

Investments in marketable securities, art collections and real estate and beneficial interests in trusts and endowments

Fair values are based on quoted market prices, where available, and on certain Level 2 and 3 inputs. The carrying amounts and the fair values of the University's investments and beneficial interests in trusts and endowments are presented in Notes E and F, respectively.

Bank lines-of-credit, notes payable and bonds payable

For debt instruments with variable interest rates, the fair value approximates the carrying value. For fixed rate debt, fair value was estimated using discounted cash flow analyses based on the University's current incremental borrowing rates for similar types of borrowing arrangements.

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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R. CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the University to concentrations of credit risk consist principally of cash and investments held by the University. Cash at June 30, 2017 and 2016, includes demand deposits at high quality financial institutions. The deposits possess credit risk to the extent they exceed federally insured limits; however, the University does not anticipate nonperformance by the various financial institutions and investees. The exposure to concentrations of credit risk relative to securities is dependent on the University's investment objectives and policies. An accounting risk also extends to receivables, net of allowances, which are uncollateralized.

S. SCHOLARSHIPS AND FELLOWSHIPS

Scholarships and fellowships provided for tuition and fees for the year ended June 30, 2017 and 2016 consisted of scholarships from institutional sources and funded sources from grants, endowments, and other sources as follows:

	<u>2017</u>	<u>2016</u>
Institutional Sources	\$ 9,346,296	\$ 9,618,197
Funded Sources	<u>1,657,893</u>	<u>2,719,433</u>
Total	<u>\$11,004,189</u>	<u>\$12,337,630</u>

T. SUBSEQUENT EVENTS

The University has evaluated subsequent events through January 16, 2018, the issuance date of the University's financial statements, and have determined there are no subsequent events that require disclosure.