

LIPSCOMB UNIVERSITY

Consolidated Financial Statements

May 31, 2020 and 2019

(With Independent Auditors' Report Thereon)

LBMC

**MAKE A GOOD
BUSINESS BETTER**

LIPSCOMB UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
Lipscomb University:

We have audited the accompanying consolidated financial statements of Lipscomb University (the University), which are comprised of the consolidated statements of financial position as of May 31, 2020 and 2019, and the related consolidated statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risk of material misstatements of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University as of May 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

LBMC, PC

Brentwood, Tennessee
September 10, 2020

LIPSCOMB UNIVERSITY

Consolidated Statements of Financial Position

May 31, 2020 and 2019

Assets

	<u>2020</u>	<u>2019</u>
Assets:		
Cash and cash equivalents	\$ 6,076,453	\$ 10,989,688
Accounts receivable, net	12,199,607	13,128,494
Student loans receivable	1,906,062	2,049,064
Contributions receivable, net	29,599,966	32,412,489
Prepaid expenses and other assets	1,131,245	1,886,396
Cash from bond proceeds restricted for capital projects	16,322,057	37,766,193
Short-term investments of bond proceeds restricted for capital projects	21,439,713	33,559,599
Investments, excluding real estate	87,221,491	89,583,116
Real estate investments	21,651,476	12,970,488
Operating lease right-of-use assets	7,235,319	9,377,414
Finance lease right-of-use assets	30,607,186	32,651,176
Property and equipment, net	<u>239,811,262</u>	<u>210,365,896</u>
	<u>\$ 475,201,837</u>	<u>\$ 486,740,013</u>

Liabilities and Net Assets

Liabilities:		
Student accounts and deposits collected in advance	\$ 1,254,486	\$ 4,418,594
Accounts payable, including construction payables of \$1,969,212 and \$1,344,837 in 2020 and 2019, respectively	3,549,923	4,429,411
Refundable government grants	2,582,024	-
Accrued expenses and liabilities	15,931,406	13,512,557
Deferred revenue	9,454,673	11,053,960
Refund liabilities	1,852,016	349,855
Annuities payable	2,241,111	2,401,402
Operating lease liabilities	7,318,697	9,406,983
Finance lease liabilities	30,121,818	32,058,484
Note payable	1,700,000	1,700,000
Bonds payable	205,318,274	206,538,062
Accrued pension benefit liability	1,240,009	793,809
Accrued postretirement benefit obligation	6,157,792	5,717,238
Federal student loans refundable	<u>1,730,308</u>	<u>1,978,811</u>
Total liabilities	<u>290,452,537</u>	<u>294,359,166</u>
Net assets:		
Without donor restrictions	71,421,765	80,519,429
With donor restrictions	<u>113,327,535</u>	<u>111,861,418</u>
Total net assets	<u>184,749,300</u>	<u>192,380,847</u>
	<u>\$ 475,201,837</u>	<u>\$ 486,740,013</u>

See accompanying notes to the consolidated financial statements.

LIPSCOMB UNIVERSITY

Consolidated Statements of Activities and Changes in Net Assets

Years ended May 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Changes in net assets without donor restrictions:		
Revenues and other support:		
Tuition and education fees, net of scholarships totaling \$45,158,225 and \$42,450,950 in 2020 and 2019, respectively.	\$ 105,911,069	\$ 104,422,802
Auxiliary enterprises revenue	19,887,841	21,539,886
Contributions	4,562,508	1,599,713
Endowment draw for operations	2,273,052	3,126,948
Rental income	2,708,293	2,945,387
Other income	5,233,252	6,469,324
Net assets released from restrictions	<u>11,196,138</u>	<u>12,143,150</u>
Total revenues and other support	<u>151,772,153</u>	<u>152,247,210</u>
Expenses:		
Program:		
Instruction	66,811,196	64,606,405
Academic support	15,432,841	16,980,716
Auxiliary enterprises	16,099,222	17,081,323
Student services	28,252,833	27,178,207
Public services	<u>1,914,076</u>	<u>1,995,962</u>
Total program expenses	128,510,168	127,842,613
Management and general:		
Institutional support	<u>30,982,528</u>	<u>31,175,141</u>
Total expenses	<u>159,492,696</u>	<u>159,017,754</u>
Change in net assets without donor restrictions from operating activities	<u>(7,720,543)</u>	<u>(6,770,544)</u>
Non-operating activities:		
Investment return, net	(434,510)	(2,195,896)
Endowment draws for operations	(2,273,052)	(3,126,948)
Gain on interest rate swap agreements	-	231,976
Change in postretirement benefit obligation	(372,412)	734,055
Change in defined benefit retirement plan obligation	(268,229)	(548,200)
Retirement plan minimum contribution	(207,698)	(295,969)
Retirement incentive plan expense	(1,441,531)	-
Net assets released from restrictions for capital gifts	<u>3,620,311</u>	<u>-</u>
Change in net assets without donor restrictions from non-operating activities	<u>(1,377,121)</u>	<u>(5,200,982)</u>
Change in net assets without donor restrictions	<u>(9,097,664)</u>	<u>(11,971,526)</u>
Changes in net assets with donor restrictions:		
Contributions	10,556,057	13,208,962
Investment return, net	2,571,319	2,321,629
Government and other grants	2,180,495	2,231,834
Adjustments of actuarial liability for annuities payable	484,264	105,359
Other income	490,431	950,000
Net assets released from restrictions	<u>(14,816,449)</u>	<u>(12,143,150)</u>
Change in net assets with donor restrictions	<u>1,466,117</u>	<u>6,674,634</u>
Change in net assets	(7,631,547)	(5,296,892)
Net assets at beginning of year	192,380,847	199,816,634
Cumulative-effect adjustment for lease accounting change (Note 2)	<u>-</u>	<u>(2,138,895)</u>
Net assets at end of year	<u>\$ 184,749,300</u>	<u>\$ 192,380,847</u>

See accompanying notes to the consolidated financial statements.

LIPSCOMB UNIVERSITY

Consolidated Statements of Cash Flows

Years ended May 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ <u>(7,631,547)</u>	\$ <u>(5,296,892)</u>
Adjustments to reconcile change in net assets to cash flows provided by operating activities:		
Depreciation and amortization	9,916,869	8,812,152
Provision for uncollectible accounts	780,155	383,621
Net gain on interest rate swap agreements	-	(231,976)
Amortization of bond issuance costs and bond discount (premiums), net	(465,321)	(55,631)
Net (gain) loss on investments, excluding real estate	(989,392)	1,445,128
Net gain on sale of real estate investments	(442)	(1,159)
Gifts restricted for investments and plant facilities	(3,580,366)	(2,571,710)
Non-cash gifts of fixed assets	(886,100)	-
(Increase) decrease in operating assets:		
Accounts receivable	148,732	(1,104,353)
Contributions receivable, net	2,812,523	895,361
Prepaid expenses and other assets	755,151	(892,884)
Increase (decrease) in operating liabilities:		
Student accounts and deposits collected in advance	(3,164,108)	(572,890)
Accounts payable	(1,503,863)	1,571
Refundable government grants	2,582,024	-
Accrued expenses and liabilities	2,472,658	315,382
Deferred revenue and refund liabilities	(97,126)	1,330,635
Annuities payable	(160,291)	(176,951)
Accrued postretirement benefit obligation	440,554	(734,055)
Accrued pension benefit liability	<u>446,200</u>	<u>548,200</u>
Total adjustments	<u>9,507,857</u>	<u>7,390,441</u>
Net cash provided by operating activities	<u>1,876,310</u>	<u>2,093,549</u>
Cash flows from investing activities:		
Purchases of plant facilities	(36,053,717)	(21,784,571)
Proceeds from (purchases of) short term investments from bond proceeds restricted for capital projects, net	12,119,886	(33,559,599)
Proceeds from sale of investments	45,670,990	39,376,885
Purchases of investments	(42,319,973)	(36,111,011)
Proceeds from sale of real estate investments	4,942	7,888
Purchases of real estate investments	(7,467,773)	(5,529,092)
Net decrease in federal student loans refundable	(248,503)	12,230
Change in student loans receivable, net	143,002	253,220
Initial direct costs/prepayments of finance lease ROU assets	<u>-</u>	<u>(127,454)</u>
Net cash used by investing activities	<u>(28,151,146)</u>	<u>(57,461,504)</u>

See accompanying notes to the consolidated financial statements.

LIPSCOMB UNIVERSITY

Consolidated Statements of Cash Flows, continued

Years ended May 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from financing activities:		
Proceeds from notes payable	-	1,700,000
Payments of notes and loans payable	-	(5,921,687)
Proceeds from bonds payable	-	147,906,388
Payments of bonds payable	(740,000)	(45,442,898)
Payment of debt issuance costs	(14,466)	(1,277,300)
Payments of interest rate swap termination	-	(3,444,860)
Payments of finance lease liabilities	(2,908,435)	(3,110,866)
Gifts restricted for investments and plant facilities	<u>3,580,366</u>	<u>2,571,710</u>
Net cash provided (used) by financing activities	<u>(82,535)</u>	<u>92,980,487</u>
Increase (decrease) in cash, cash equivalents and restricted cash	(26,357,371)	37,612,532
Cash, cash equivalents and restricted cash at beginning of year	<u>48,755,881</u>	<u>11,143,349</u>
Cash, cash equivalents and restricted cash at end of year	<u>\$ 22,398,510</u>	<u>\$ 48,755,881</u>

Supplemental disclosures of cash flow statement information

	<u>2020</u>	<u>2019</u>
Approximate interest paid	<u>\$ 9,584,000</u>	<u>\$ 4,886,000</u>

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated statements of financial position that sum to the total of the same shown above:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 6,076,453	\$ 10,989,688
Cash from bond proceeds restricted for capital projects	<u>16,322,057</u>	<u>37,766,193</u>
	<u>\$ 22,398,510</u>	<u>\$ 48,755,881</u>

See accompanying notes to the consolidated financial statements.

LIPSCOMB UNIVERSITY

Consolidated Statements of Functional Expenses

Years ended May 31, 2020 and 2019

	2020							Management and General	Total
	Programs						Institutional Support		
	Instruction	Academic Support	Auxiliary Enterprises	Student Services	Public Services	Total Program Services			
Salaries and wages	\$ 39,045,134	\$ 5,608,968	\$ 1,052,289	\$ 11,683,050	\$ 1,156,691	\$ 58,546,132	\$ 11,807,082	\$ 70,353,214	
Fringe benefits	11,538,517	1,846,389	238,506	3,841,421	342,452	17,807,285	3,656,663	21,463,948	
Professional and administrative	1,973,817	1,130,285	238,984	3,268,101	110,277	6,721,464	5,092,487	11,813,951	
Special events	441,197	244,992	93,639	477,740	84,878	1,342,446	848,927	2,191,373	
Operation of plant	5,045,365	744,336	4,129,845	1,695,560	-	11,615,106	707,343	12,322,449	
Depreciation and amortization	2,460,458	240,117	2,643,526	1,248,856	6,109	6,599,066	3,317,803	9,916,869	
Interest	589,785	2,090,896	2,430,850	195,171	-	5,306,702	1,196,892	6,503,594	
Food service	-	-	3,943,062	-	-	3,943,062	-	3,943,062	
Other operating costs	5,716,923	3,526,858	1,328,521	5,842,934	213,669	16,628,905	4,355,331	20,984,236	
Total expenses	\$ 66,811,196	\$ 15,432,841	\$ 16,099,222	\$ 28,252,833	\$ 1,914,076	\$ 128,510,168	\$ 30,982,528	\$ 159,492,696	

	2019							Management and General	Total
	Programs						Institutional Support		
	Instruction	Academic Support	Auxiliary Enterprises	Student Services	Public Services	Total Program Services			
Salaries and wages	\$ 37,690,109	\$ 5,893,174	\$ 1,312,425	\$ 10,468,980	\$ 962,651	\$ 56,327,339	\$ 11,031,964	\$ 67,359,303	
Fringe benefits	10,546,098	1,910,198	271,386	3,284,718	254,727	16,267,127	3,326,394	19,593,521	
Professional and administrative	1,769,832	899,654	294,953	3,029,457	244,017	6,237,913	5,577,224	11,815,137	
Special events	581,721	310,156	297,736	702,233	191,346	2,083,192	1,352,832	3,436,024	
Operation of plant	5,000,747	745,752	4,137,696	1,618,280	-	11,502,475	626,564	12,129,039	
Depreciation and amortization	2,075,786	198,758	2,249,518	1,081,930	6,921	5,612,913	3,199,239	8,812,152	
Interest	484,700	1,910,338	2,646,123	153,834	-	5,194,995	1,172,091	6,367,086	
Food service	-	-	4,339,151	-	-	4,339,151	-	4,339,151	
Other operating costs	6,457,412	5,112,686	1,532,335	6,838,775	336,300	20,277,508	4,888,833	25,166,341	
Total expenses	\$ 64,606,405	\$ 16,980,716	\$ 17,081,323	\$ 27,178,207	\$ 1,995,962	\$ 127,842,613	\$ 31,175,141	\$ 159,017,754	

See accompanying notes to the consolidated financial statements.

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2020 and 2019

(1) Nature of operations

Lipscomb University (the "University") is a private, 501(c)(3) not-for-profit, educational, religious-related university located in Nashville, Tennessee offering undergraduate, graduate and doctoral degrees. The University also provides early childhood to high school education through Lipscomb Academy.

The University is governed by a self-perpetuating Board of Trustees that has oversight responsibility to establish the general policies that govern the operations of the University, including its financial affairs. The members of the Board of Trustees may serve up to three successive four-year terms.

(2) Summary of significant accounting policies

The consolidated financial statements of the University are presented on the accrual basis. The significant accounting policies are described below.

(a) Newly adopted accounting pronouncements

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 is intended to clarify (1) when transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of contribution accounting guidance, or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is conditional. The University adopted this guidance on June 1, 2019, using the modified prospective method. The adoption did not result in a material change to the consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 requires that employers that sponsor defined benefit pension and/or other postretirement benefit plans present the service cost component in the same line item or items as other compensation costs arising from services rendered by such employees. The other components of net benefit cost are required to be presented separately from the service cost component and outside a total of income from operating activities. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the consolidated statements of activities and changes in net assets to present the other components of net benefit cost must be disclosed. The University adopted ASU 2017-07 on June 1, 2019. The adoption did not result in a material change to the consolidated financial statements.

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2020 and 2019

(b) Principles of consolidation

These consolidated financial statements include the accounts of the University and its wholly-owned subsidiary, Sound Emporium Studios, LLC. The subsidiary serves recording artists and producers, and provides educational learning opportunities for the University's music students. All significant intercompany accounts and transactions have been eliminated.

(c) Cash equivalents

The University reports all highly-liquid investments with original maturities of less than three months as cash equivalents.

(d) Accounts and student loan receivables and credit policies

The University reports accounts receivable and student loans receivable, net of an allowance for doubtful accounts, at the amount which represents management's estimate of the amount that ultimately will be collected. The University reviews the adequacy of its allowance for uncollectible accounts on an ongoing basis, using historical payment trends, analysis of accounts receivable by payor source and aging of receivables, as well as a review of specific accounts, and makes adjustments in the allowance as necessary. Interest charges are applied to accounts in internal collections. Accounts are sent to external collection agencies or attorneys for collection after the University has exhausted all other efforts in collecting the balance. In addition, as the University determines that Federal Perkins student loans receivable are uncollectible and not eligible for reimbursement by the Federal government, the loans are written off and assigned to the U.S. Department of Education.

(e) Contributions and contribution receivables

Contributions, other than conditional promises to give, are reported in the fiscal year the cash or the unconditional promise is received. Conditional promises to give are not reported until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give, with payments due to the University beyond one year, are recorded as net assets at the estimated present value of the expected future cash flows, using credit risk adjusted rates applicable to the years in which the promises are expected to be received. Amortization of the discounts is recorded as contribution revenue in the appropriate net asset class.

An allowance for uncollectible contributions receivable is provided based upon management's judgment of such factors as prior collection history, type of contributions and nature of fundraising activity and other relevant factors.

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2020 and 2019

(f) Investments

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the consolidated statements of financial position. Certain non-marketable alternative investments are reported at fair value based on information obtained from external sources at the most recent valuation date prior to the University's fiscal year end. Real estate investments are reported at their original cost to the University or the appraised value at the date of the gift. Net investment return is reported in the consolidated statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

(g) Property and equipment

Property and equipment with a value in excess of \$3,000 are reported at cost. Donated assets are recorded at their estimated market value at the date of the gift. Depreciation is recorded over the asset's estimated useful life using the straight-line method.

The estimated useful lives of fixed assets are as follows:

Buildings and campus	10-60 years
Furniture, fixtures and office equipment	10 years
General and laboratory equipment	10 years
Computer equipment and software	5 years
Vehicles	5 years

Disbursements for maintenance and repairs are expensed as incurred. Disbursements for renewals or betterments are capitalized. When property or equipment is retired or sold, the cost and the related accumulated depreciation are removed from the consolidated statements of financial position, and the resulting gain or loss is included in the consolidated statements of activities and changes in net assets.

(h) Leases

The University accounts for leases in accordance with ASU 2016-02, *Leases (Topic 842)*, as amended. The University determines whether an arrangement is or contains a lease at lease inception. On the commencement date, operating leases are recorded as operating lease right-of-use ("ROU") assets and operating lease liabilities in the consolidated statements of financial position while finance leases are recorded as finance lease ROU assets and finance lease liabilities. ROU assets represent the University's right to use leased assets over the term of the lease. Lease liabilities represent the University's contractual obligation to make lease payments over the lease term.

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Notes to the Consolidated Financial Statements

May 31, 2020 and 2019

For operating leases, the lease liability is measured as the present value of the lease payments over the lease term using either the rate implicit in the lease, if it is determinable, or the University's incremental borrowing rate if the implicit rate is not determinable. Operating ROU assets are calculated as the present value of the remaining lease payments plus unamortized initial direct costs and prepayments of rent, less any unamortized lease incentives received. Lease terms may include renewal or extension options to the extent they are reasonably certain to be exercised. Lease expense is recognized on a straight-line basis over the lease term. The University has elected not to recognize a ROU asset and lease liability for leases with an initial term of 12 months or less but includes the expense associated with short-term leases in lease expense in the consolidated statement of activities and changes in net assets.

For finance leases, the lease liability is measured on an amortized cost basis and increased to reflect interest on the liability and decreased to reflect the lease payment. Interest on the lease liability is determined each period during the lease term as the amount that results in a constant period discount rate on the remaining balance of the liability. The ROU asset is subsequently measured at cost, less any accumulated amortization and any accumulated impairment losses. Amortization on the ROU asset is recognized over the period from the commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term except for leases with a purchase option for which the University believes purchase of the asset is expected to be exercised. For assets to be acquired under such purchase options, the ROU asset is amortized over the expected life consistent with the University's policy for similar property and equipment.

ROU assets are assessed for impairment in accordance with the University's long-lived asset policy. Management reassesses lease classification and remeasures ROU assets and lease liabilities when a lease is modified and that modification is not accounted for as a separate new lease or upon certain other events that require reassessment in accordance with ASU 2016-02.

Adoption of ASU 2016-02 resulted in the recording of lease assets and lease liabilities of approximately \$35,000,000 as of June 1, 2018. Additionally, the adoption of ASU 2016-02 resulted in additional liabilities of approximately \$2,139,000 resulting from the measurement of certain sale-leaseback transactions that do not qualify for sale-leaseback accounting, recorded as a cumulative effect adjustment to net assets without donor restrictions.

(i) Fair value of interest rate swap agreements

The University previously used derivatives to manage risks related to interest rate movements until it refinanced the swaps with fixed rate debt during 2019 and the derivative contracts were terminated.

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Notes to the Consolidated Financial Statements

May 31, 2020 and 2019

(j) Annuities payable

The University's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts for which the University serves as trustee. Assets held in these trusts are included in investments. Contribution revenues are recognized at the dates the trusts are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries.

(k) Net assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor-imposed restrictions. The University has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

(l) Revenue from contracts with customers

The University identifies a contract for revenue recognition when there is approval and commitment from both parties, the rights of the parties and payment terms are identified, the contract has commercial substance and the collectibility of consideration is probable. The University evaluates each contract to determine the number of distinct performance obligations in the contract, which requires the use of judgment. Performance obligations are determined based on the nature of the services provided by the University.

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2020 and 2019

The University's primary source of revenues from contracts with customers are from tuition and education fees, net of scholarships, offered at its main campus, satellite campuses, online, and auxiliary enterprises revenue. Net tuition revenue is recognized pro-rata over the applicable period of instruction. Students enter into contracts for a particular academic period and revenue is recognized at the start of the applicable academic instruction period. The University also charges certain upfront application or other fees which are deferred and recognized over the respective academic instruction period. The University does not have costs that are capitalized to obtain or fulfill a contract with a customer. Auxiliary enterprises revenue consists primarily of housing and food service (meal plan) revenues that are recognized over the period the services are provided, which generally aligns with the academic instruction period.

Accounts receivable include student receivables representing unconditional rights to consideration from contracts with students. Students are billed at predetermined periods prior to the commencement of services being provided. Installment billing is offered by the University which may reduce the amount of cash received in advance of performing services. However, the terms of student contracts provide that the student is liable for the total contract price which minimizes any exposure to losses associated with nonpayment. The University has determined that the installment billing does not represent a significant financing component. As a result, the receivables from students are considered unconditional rights to consideration. Student billings include all educational related items, including tuition, housing, food service, educational materials, and other fees. The University does not have any contract assets. The University's contract liabilities are reported with deferred revenue in the consolidated statements of financial position. The University has established refund policies that provide for all or a portion of tuition to be refunded if a student withdraws during established refund periods. The University does not record revenue for amounts that may be refunded. The University estimates amounts subject to refund based on historical trends and such estimates are presented as refund liabilities separate from deferred revenue on the consolidated statement of financial position, when material.

Other income

Other income presented in the consolidated statements of activities and changes in net assets primarily results from revenues received from bookstore or other sales of products, athletic related income, including ticket sales, and special events. Cash collections received prior to the point in time when the goods or services are provided are recorded as deferred revenue and recognized as revenue at the point in time goods or services are provided to customers.

The University has elected the short-term contract exemption related to performance obligations under its contracts with students as all such contracts have original terms of less than one year.

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(m) Income taxes

The University is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and, accordingly, no provision for income taxes is included in the consolidated financial statements.

The University recognizes the tax benefit associated with a tax position taken for tax return purposes when it is more likely than not the position will be sustained. The University does not believe there are any material uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements.

It is the University's policy to recognize interest and/or penalties related to income tax matters in income tax expense. As of May 31, 2020 and 2019, the University had accrued no interest or penalties related to uncertain tax positions. The University is generally subject to U.S. Federal and Tennessee tax examination for three years from the date the return was filed.

(n) Advertising costs

Advertising and promotion costs are expensed as incurred. The University incurred advertising costs of \$2,092,016 and \$3,163,284 for the years ended May 31, 2020 and 2019, respectively.

(o) Long-lived assets

The University's management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change and necessitate a change in management's estimate of the recoverability of these assets.

(p) Financial instruments

The carrying value of cash and cash equivalents, investments, receivables other than student loans, prepaid expenses and other assets, accounts payable, accrued expenses and liabilities, and debt approximate fair value. A reasonable estimate of the fair value of the notes receivable from students under government loan programs and Federal student loans refundable cannot be made because the notes receivable are not saleable and can only be assigned to the U.S. Government or its designees. The fair value of notes receivable from students under University loan programs approximates carrying value.

(q) Federal student loans refundable

Funds provided by the U.S. Government under the Federal Perkins Loan program are loaned to qualified students. These funds are ultimately refundable to the U.S. Government and are, therefore, recorded as liabilities.

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(r) Operating activities

Changes in net assets without donor restrictions from operating activities in the consolidated statements of activities and changes in net assets exclude non-operating activities. Non-operating activities include the board-designated endowment investment return, net of amounts distributed to support operations in accordance with the University's spending policies, gains on interest rate swap agreements, the changes in postretirement and defined benefit retirement plan obligations, retirement plan minimum contribution, and retirement incentive plan expense. Additionally, amounts representing the satisfaction of restrictions from capital gifts are included in non-operating activities.

(s) Functional allocation of expenses

The costs of programs and management and general expenses have been summarized on a functional basis in the consolidated statements of activities and changes in net assets. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and management and general areas benefited. Costs related to the operation and maintenance of physical plant, including depreciation of plant assets, are allocated to programs and management and general expenses using square footage of plant assets based on periodic inventories of facilities. Interest expense on external debt is allocated to the activities which have most directly benefited from the proceeds of the external debt.

The University's primary program services are instruction, academic support, auxiliary enterprises and student services. Expenses reported as institutional support are incurred in support of these primary program services. Institutional support includes fundraising expenses of approximately \$4,959,000 and \$5,463,000 in 2020 and 2019, respectively. For purposes of reporting fundraising expenses, the University includes only those fundraising costs incurred by its development office and expenses incurred for capital campaigns.

(t) Use of 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 disclosure 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.

(u) Reclassifications

Certain reclassifications have been made to the 2019 consolidated financial statements in order for them to conform to the 2020 presentation. These reclassifications had no effect on net assets or changes in net assets as previously reported.

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(v) Events occurring after reporting date

The University's management has evaluated events and transactions that occurred between May 31, 2020 and September 10, 2020, which is the date that the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements. See additional information at Note 22.

(3) Liquidity and availability

The following table reflects the University's financial assets as of May 31, 2020 and 2019 reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statements of financial position date:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 6,076,453	\$ 10,989,688
Cash from bond proceeds restricted for capital projects	16,322,057	37,766,193
Short-term investments from bond proceeds restricted for capital projects	21,439,713	33,559,599
Accounts receivable, net	12,199,607	13,128,494
Student loans receivable	1,906,062	2,049,064
Contributions receivable, net	29,599,966	32,412,489
Investments, excluding real estate	<u>87,221,491</u>	<u>89,583,116</u>
Financial assets at end of year	<u>174,765,349</u>	<u>219,488,643</u>
Less: assets unavailable for general expenditure within one year:		
Board-designated endowment	11,746,492	15,438,563
Cash and short-term investments from bond proceeds restricted for capital projects	37,761,770	71,325,792
Portion of donor restricted endowment to be held in perpetuity	67,953,854	66,589,268
Investments held in charitable remainder trusts	3,863,739	4,074,021
Investments held in insured gift annuities	434,447	436,310
Student loans receivable due in greater than one year	1,560,306	1,799,071
Contributions receivable due in greater than one year	<u>27,772,405</u>	<u>29,224,678</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 23,672,336</u>	<u>\$ 30,600,940</u>

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As part of the University's liquidity management plan, it structures its financial assets to be available as its obligations come due. Cash is held in interest bearing bank accounts and is invested in short and intermediate term fixed income investments, certificates of deposit, and money market funds. Additionally, the University has a \$10,000,000 operating line of credit available with a bank which could be utilized by the University for operations as needed.

Endowment funds consist of donor-restricted endowments and funds designated by the Board of Trustees to function as endowments. Income from donor-restricted endowments is restricted for specific purposes and is not available for general expenditure. Board-designated endowment funds are subject to the University's spending policy as described in Note 18. Management does not intend to spend from the board-designated endowment other than amounts appropriated for general expenditures in accordance with the spending policy, and has deducted the funds from financial assets available in the table above. However, these amounts could be made available if necessary.

(4) Credit risks and concentrations

The University manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the University has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members, governmental agencies, foundations and donors supportive of the University's mission.

The University has significant investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

The University holds life insurance policies with various insurance companies. As of May 31, 2020 and 2019, four insurance companies, rated A- and better by A.M. Best, held approximately 67% and 68%, respectively, of the cash value of life insurance policies owned by the University.

As of May 31, 2020 and 2019, approximately 74% and 78%, respectively, of the University's contributions receivable were due from five donors. During 2019, approximately 29% of private gifts were from two donors. During 2020, there were no donors that contributed greater than 10% of total private gifts.

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(5) Accounts receivable

A summary of accounts receivable as of May 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Tuition and fees receivable	\$ 11,016,834	\$ 12,172,983
Accounts and other receivables	2,754,836	2,304,218
Grants receivable	<u>456,714</u>	<u>229,880</u>
Subtotal	14,228,384	14,707,081
Less allowance for uncollectible accounts	<u>(2,028,777)</u>	<u>(1,578,587)</u>
	<u>\$ 12,199,607</u>	<u>\$ 13,128,494</u>

(6) Contributions receivable

A summary of contributions receivable as of May 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 2,084,104	\$ 3,540,191
One year to five years	28,561,502	22,164,370
Over five years	<u>13,529,407</u>	<u>22,072,909</u>
	44,175,013	47,777,470
Less discount for net present value	(14,311,251)	(15,101,486)
Less allowance for uncollectible contributions receivable	<u>(263,796)</u>	<u>(263,495)</u>
	<u>\$ 29,599,966</u>	<u>\$ 32,412,489</u>

Contributions receivable have been discounted using rates generally ranging from 1.27% to 5.00% as of May 31, 2020 and 2019. The weighted average discount rate of pledges outstanding as of May 31, 2020 and 2019 was 3.31% and 4.75%, respectively. The majority of the University's unconditional promises to give are restricted by donors for scholarships, endowments and the acquisition of property and equipment.

(7) Fair value measurements

FASB Accounting Standards Codification Topic 820, *Fair Value Measurement* ("ASC 820"), provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below.

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the University has the ability to access.

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Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for asset measurement at fair value. There have been no changes in the methodologies used at May 31, 2020 and 2019.

- (i) **Short-term investments:** Short-term investments consist primarily of money market funds that are valued at the closing price reported on the active market on which the individual securities are traded.
- (ii) **Mutual funds:** Valued at the net asset value of shares held by the University at fiscal year end based on a quoted price in an active market.
- (iii) **Marketable equity securities, corporate bonds and government securities:** Valued at the closing price reported on the active market on which the individual securities are traded.
- (iv) **Common trust funds:** Valued at the net asset value of units of the common trust fund.
- (v) **Limited partnerships, private equity and other investment funds:** Valued at fair value based on the beginning of year value of the University's interest plus actual contributions and allocated investment income less actual distributions and allocated administrative expenses.
- (vi) **Life insurance policies:** Valued at the cash value of the underlying insurance policies. The policies are not available for immediate liquidity.

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The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the University's financial instruments at fair value as of May 31, 2020 and 2019:

	<u>Fair Value Measurements as of May 31, 2020 using the following inputs</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term investments	\$ 1,441,451	\$ 1,441,451	\$ -	\$ -
Mutual funds:				
Large cap	24,761,175	24,761,175	-	-
Mid cap	3,771,217	3,771,217	-	-
International	3,901,600	3,901,600	-	-
Fixed income	406,486	406,486	-	-
Exchange traded	<u>6,471,834</u>	<u>6,471,834</u>	-	-
Total mutual funds	39,312,312	39,312,312	-	-
Marketable equity securities	35,763	35,763	-	-
Common trust funds	22,380,864	-	22,380,864	-
Corporate bonds and government securities	332,599	332,599	-	-
Limited partnerships, private equity and other investment funds	21,458,554	-	-	21,458,554
Life insurance policies	<u>2,259,948</u>	-	-	<u>2,259,948</u>
Total investments	<u>\$ 87,221,491</u>	<u>\$ 41,122,125</u>	<u>\$ 22,380,864</u>	<u>\$ 23,718,502</u>

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Fair Value Measurements as of
May 31, 2019 using the following inputs

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term investments	\$ 1,381,106	\$ 1,381,106	\$ -	\$ -
Mutual funds:				
Large cap	20,698,233	20,698,233	-	-
Mid cap	3,663,146	3,663,146	-	-
International	3,582,877	3,582,877	-	-
Fixed income	3,933,260	3,933,260	-	-
Exchange traded	<u>4,268,607</u>	<u>4,268,607</u>	-	-
Total mutual funds	36,146,123	36,146,123	-	-
Marketable equity securities	39,907	39,907	-	-
Common trust funds	26,934,746	-	26,934,746	-
Corporate bonds and government securities	388,210	388,210	-	-
Limited partnerships, private equity and other investment funds	22,527,416	2,983,771	-	19,543,645
Life insurance policies	<u>2,165,608</u>	-	-	<u>2,165,608</u>
Total investments	<u>\$ 89,583,116</u>	<u>\$ 40,939,117</u>	<u>\$ 26,934,746</u>	<u>\$ 21,709,253</u>

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The following table provides a summary of changes in fair value of the University's Level 3 assets for the years ended May 31, 2020 and 2019:

	Fair Value Measurements Using Significant <u>Unobservable Inputs (Level 3)</u>		
	<u>Total</u>	<u>Limited Partnership Interest, private Equity and Other</u>	<u>Life Insurance Policies</u>
Balance at May 31, 2018	\$ 16,951,376	\$ 14,788,461	\$ 2,162,915
Realized gains	(12,313)	(481,006)	468,693
Unrealized gains (losses) relating to instruments still held at the reporting date	908,909	779,861	129,048
Purchases, sales and settlements, net	<u>3,861,281</u>	<u>4,456,329</u>	<u>(595,048)</u>
Balance at May 31, 2019	21,709,253	19,543,645	2,165,608
Realized gains (losses)	(626,102)	(626,102)	-
Unrealized gains (losses) relating to instruments still held at the reporting date	979,227	883,014	96,213
Purchases, sales and settlements, net	<u>1,656,124</u>	<u>1,657,997</u>	<u>(1,873)</u>
Balance at May 31, 2020	<u>\$ 23,718,502</u>	<u>\$ 21,458,554</u>	<u>\$ 2,259,948</u>

ASC 820 requires disclosures about significant quantitative information used in valuations for instruments classified as Level 3 measurements. The estimated fair values of Level 3 assets managed and held in limited partnership and other private investment fund structures are based on the most recent valuations provided by the external investment fund managers and/or general partners of the partnerships using valuation techniques as prescribed by ASC 820, such as the market approach or income approach. The use of the market approach generally consists of using comparable market transactions or values reported by the underlying portfolio managers, while the use of the income approach generally consists of the net present value of future cash flows, adjusted as appropriate for liquidity, credit, market or other risk factors. The inputs used in estimating the value of these investments may include the original transaction price, net asset value of portfolio funds or recent transactions in the same or similar instruments. The University reviewed and evaluated the values provided by the managers and agreed with the valuation methods and assumptions used to determine those values. Accordingly, no significant quantitative information was developed by management to complete valuations for these investments.

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Investments that calculate net asset value per share:

ASC 820 requires additional disclosure for certain types of investments that calculate net asset value per share but are not publicly traded to assist in understanding the nature and risk of these investments by major category. The following table summarizes the fair value and other pertinent liquidity information of investments in major categories as of May 31, 2020 and 2019:

<u>Category of Investment</u>	<u>2020</u>			<u>2019</u>	
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>	<u>Fair Value</u>
Private Equity	\$ 5,536,556	\$ 4,242,776	No immediate redemption	N/A	\$ 4,745,864
Real Estate	4,321,675	7,651,617	No immediate redemption	N/A	3,913,522
Equity Long/Short and Absolute Return Hedge Funds	9,928,748	-	Monthly to Annually	30 - 100 days	10,278,910
International Equity	14,553,836	-	Monthly	30 days	19,643,553
Fixed Income	7,827,029	-	Monthly	30 days	7,291,192
Other	<u>1,671,574</u>	<u>-</u>	No immediate redemption	N/A	<u>605,350</u>
Total	\$ <u>43,839,418</u>	\$ <u>11,894,393</u>			\$ <u>46,478,391</u>

Private Equity - This category includes investments in private equity funds and funds-of-funds that invested in emerging growth, expansion stage or financially distressed companies. The investments cannot be redeemed upon the request of the investors but are made through distributions of scheduled liquidations of the underlying holdings. Approximately 40% of such investments in this category were in liquidation at May 31, 2020 with final liquidation to occur within the next two years or until disposition of the last investment.

Real Estate - This category includes investments in real estate funds-of-funds that invest primarily in other real estate funds. The investments cannot be redeemed upon the request of the investors but are made through distributions of scheduled liquidations of the underlying holdings. Approximately 7% of such investments in this category were in liquidation at May 31, 2020 with final liquidation to occur upon the disposition of the last investment.

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Equity Long/Short and Absolute Return Hedge Funds - This category includes investments in hedge funds and hedge funds-of-funds that invest primarily in U.S. and international securities (both long and short) and other investments seeking to realize appreciation in value primarily through the allocation of capital directly and indirectly among investment funds. Certain of these investments maintain the ability to limit investor redemptions in the event that liquidity in these funds is not available to meet withdrawals. This could also occur if liquidity is available, but non-redeeming fund investors could be adversely affected by large withdrawals by other clients.

International Equity - This category includes investments in equity securities of companies in foreign countries.

Fixed Income - This category includes investment funds that invest in a diversified portfolio of primarily U.S. based fixed income securities including corporate bonds, treasury bonds and agency securities.

Other - Other investments consist of limited partnership interests that are measured at fair value based on amounts reported by the partnerships and include partnership interests for companies primarily in the real estate industry.

(8) **Property and equipment**

A summary of property and equipment as of May 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Buildings and campus	\$ 299,767,702	\$ 282,066,065
Computer equipment and software	4,069,405	3,975,496
Furniture, fixtures and office equipment	18,649,051	17,767,567
General equipment	7,706,113	8,447,365
Laboratory equipment	5,864,477	5,152,797
Vehicles	891,620	844,800
Construction in progress	<u>31,693,708</u>	<u>16,640,430</u>
	368,642,076	334,894,520
Accumulated depreciation	<u>(128,830,814)</u>	<u>(124,528,624)</u>
	<u>\$ 239,811,262</u>	<u>\$ 210,365,896</u>

Depreciation expense on property and equipment amounted to \$8,146,081 and \$7,607,561 for the years ended May 31, 2020 and 2019, respectively.

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As of May 31, 2020 and 2019, the University had commitments remaining under construction contracts totaling approximately \$20,432,000 and \$17,594,000 that were at various stages of completion through fiscal years 2020 and 2019, respectively.

The retainage payable related to construction projects at May 31, 2020 was approximately \$549,000, which is included in accrued expenses and liabilities in the accompany consolidated statements of financial position. There was no retainage payable related to construction projects at May 31, 2019.

(9) Leases

The University leases a portion of the real estate, personal property, classroom space, vehicles and various equipment used in its operations. Most real estate leases require the University to pay real estate taxes, maintenance, insurance and other similar costs and some contain purchase options. Certain of the University's real estate leases have terms that extend for several years and provide for rental rates that increase over time. Lease terms include the noncancellable portion of the underlying leases along with any reasonably certain lease periods associated with available renewal periods, termination options and purchase options.

The components of lease expense for May 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Operating lease expense	\$ 2,580,536	\$ 2,775,865
Finance lease expense:		
Amortization of right-of-use assets	1,245,391	766,638
Interest on lease liabilities	<u>1,531,040</u>	<u>1,575,358</u>
Total finance lease expense	2,776,431	2,341,996
Sublease income	711,495	663,436

Supplemental cash flow information related to leases for May 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 2,526,727	\$ 2,731,704
Operating cash flows from finance leases	1,339,727	1,261,129
Financing cash flows from finance leases	3,099,748	3,425,094
ROU assets obtained in exchange for new lease obligations:		
Operating leases	\$ 45,918	\$ 11,653,265
Finance leases	971,769	35,169,349

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Additional supplemental information regarding assumptions for operating and finance leases is as follows for May 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Weighted-average remaining lease term (years)		
Operating leases	4.99	5.49
Finance leases	2.55	2.92
Weighted-average discount rate		
Operating leases	4.81 %	4.78 %
Finance leases	5.01 %	5.03 %

As of May 31, 2020, the maturity of lease liabilities is as follows:

<u>Maturity</u>	<u>Finance</u>	<u>Operating</u>	<u>Total</u>
2021	\$ 11,598,328	\$ 2,209,996	\$ 13,808,324
2022	5,244,481	1,927,842	7,172,323
2023	7,990,050	1,518,368	9,508,418
2024	3,947,518	710,233	4,657,751
2025	3,968,717	465,602	4,434,319
Thereafter	<u>527,652</u>	<u>1,438,117</u>	<u>1,965,769</u>
Total undiscounted cash flows	33,276,746	8,270,158	41,546,904
Less: present value discount	<u>(3,154,928)</u>	<u>(951,461)</u>	<u>(4,106,389)</u>
Total lease liabilities	<u>\$ 30,121,818</u>	<u>\$ 7,318,697</u>	<u>\$ 37,440,515</u>

Sub-leasing activities:

The University's sublease portfolio as lessor primarily consists of houses that are either owned by the University, have been leased by the University subsequent to the head lease transactions, or are sale/leaseback properties. Such subleases are generally for periods of six-months or less. The sublease agreements have been determined to be operating leases. The ROU assets related to the leasehold properties were assessed for impairment in the head lease. The impact of ASU 2016-02 on the accounting for the University's lessor and sublease portfolio was not significant.

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(10) Accrued expenses and liabilities

A summary of accrued expenses and liabilities as of May 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Accrued payroll and benefits	\$ 5,185,193	\$ 4,048,584
Financing liability on sale-leaseback property	6,320,873	6,039,195
Retainage payable	548,921	-
Accrued interest	1,584,040	1,558,675
Accrued health claims payable	451,221	599,434
Agency liabilities	660,611	419,160
Other current liabilities	<u>1,180,547</u>	<u>847,509</u>
	<u>\$ 15,931,406</u>	<u>\$ 13,512,557</u>

The financing liability on the sale-leaseback property represents proceeds received from the respective sale at the sale date plus the expected value of purchase options to be paid at the end of the respective lease. The University sold certain properties to third-parties that were subsequently leased back from the purchaser. Embedded in the sale-leaseback property contracts are repurchase options that may be exercised, resulting in the University's continued involvement with the properties. As a result of the repurchase options and continuing involvement, the original assets maintained by the University were not derecognized and continue to be depreciated. The University also recorded a liability when the assets were sold to the third parties equal to the proceeds received from the respective sales at the sale date. As part of adopting ASU 2016-02, management determined the transactions do not meet the criteria for sale-leaseback accounting and should be accounted for as financing arrangements. As such, the University has recorded a liability equal to the original proceeds received from the sales plus an amount equal to the optional purchase price likely to be exercised in the future, net of a discount. Annually, the discount is amortized to interest expense.

(11) Lines of credit

The University has a \$10,000,000 revolving line of credit available with a bank at May 31, 2020. The outstanding balance of the line bears interest at a rate equal to 1-month LIBOR plus 1.50% per year. The line is set to mature on September 30, 2022 and is unsecured. The University had no outstanding borrowings under the line at May 31, 2020. The terms of the line of credit includes a debt service coverage ratio requirement and the University was in compliance with these terms as of May 31, 2020.

The University had a \$5,000,000 unsecured revolving line of credit available with a bank at May 31, 2019 that bore interest at a rate equal to 1-month LIBOR plus 1.50% per year. The line matured in January 2020 and was not renewed. The University had no outstanding borrowings under the line at May 31, 2019.

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(12) Note payable

The University has an unsecured note payable to certain individuals with a balance outstanding of \$1,700,000 at May 31, 2020 and 2019. Annual interest-only payments are due at a fixed rate of 8%, with principal due at maturity in February 2029.

(13) Bonds payable

A summary of bonds payable as of May 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Revenue Refunding and Improvement Bonds (Lipscomb University Project) Series 2019A; due in annual payments ranging from \$1,035,000 to \$9,890,000 beginning October 2034 through October 2058, plus interest at fixed rates ranging from 4% to 5.25%; plus unamortized premium of \$10,249,805 and \$10,520,686 at May 31, 2020 and 2019, respectively, based on an effective interest rate of 4.45%, less debt issuance costs of \$1,062,169 and \$1,075,698 at May 31, 2020 and 2019, respectively.	\$ 119,187,636	\$ 119,444,987
Revenue Refunding and Improvement Bonds (Lipscomb University Project) Series 2019B; due in annual payments ranging from \$215,000 to \$2,720,000 beginning in October 2022 through October 2034; plus interest at fixed rates ranging from 4.11% to 4.41%, based on an effective interest rate of 4.33%; less debt issuance costs of \$182,274 and \$194,562 at May 31, 2020 and 2019, respectively.	19,817,726	19,805,438
Public Revenue Bonds (Lipscomb University Project) Series 2016A; due in annual payments ranging from \$610,000 to \$6,970,000 per year through October 2045; bearing interest at a fixed rate of 5%; plus unamortized premium of \$6,747,828 and \$7,010,049 at May 31, 2020 and 2019, respectively, based on an effective interest rate of 4.15%, less debt issuance costs of \$714,916 and \$742,413 at May 31, 2020 and 2019, respectively.	<u>66,312,912</u>	<u>67,287,637</u>
Total bonds payable	\$ <u>205,318,274</u>	\$ <u>206,538,062</u>

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A summary of future annual minimum payments of bonds payable as of May 31, 2020 is as follows:

<u>Year</u>	<u>Amount</u>
2021	\$ 900,000
2022	945,000
2023	1,200,000
2024	1,495,000
2025	1,815,000
2026 and later years	<u>183,925,000</u>
Par amount of bonds payable	190,280,000
Unamortized bond premium	<u>16,997,633</u>
Subtotal bonds payable	207,277,633
Unamortized debt issuance costs	<u>(1,959,359)</u>
Total bonds payable	\$ <u>205,318,274</u>

The terms of the master trust indenture agreement for the bonds payable include negative pledge agreements and requires the University to maintain an annual coverage ratio. The University was in compliance with these terms as of May 31, 2020 and 2019.

The University capitalizes interest cost incurred on funds used to construct property and equipment. The capitalized interest is recorded as part of the asset to which it relates. Capitalized interest relating to construction projects funded with tax-exempt borrowings are reduced by interest earned on the unspent bond proceeds. The net capitalized interest is amortized over the asset's estimated useful life. Net interest cost capitalized was approximately \$3,171,000 and \$1,203,000 during the years ended May 31, 2020 and 2019, respectively.

Total interest cost incurred on the University's lines of credit, note payable, and bonds payable, inclusive of capitalized interest, was approximately \$9,009,000 and \$5,857,000 during the years ended May 31, 2020 and 2019, respectively, net of amortized bond premium of approximately \$533,000 and \$306,000 for the years ended May 31, 2020 and 2019, respectively.

(14) Employee benefit plans

(a) Defined contribution plan

The University sponsors a defined contribution retirement plan covering substantially all full-time employees who have been employed at least one year. The University matches employee contributions up to 7% of an employee's compensation, subject to IRS limitations. The University made contributions to the plan of \$2,852,056 and \$2,807,670 for fiscal years 2020 and 2019, respectively.

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(b) Defined benefit plan

The University has a defined benefit retirement plan covering certain salaried employees hired prior to August 1, 1990. The University had approximately 100 participants in the plan at May 31, 2020. The University makes annual contributions to the plan according to the actuarial funding agreement. The assets of the plan are primarily invested in U.S. Government and corporate bonds, equity securities, and mutual funds, which are considered to be Level 1 investments in accordance with the fair value hierarchy.

The following table sets forth the plan's fair value of plan assets, benefit obligations and funded status at May 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Fair value of plan assets	\$ 3,668,321	\$ 3,993,783
Benefit obligation	<u>4,908,330</u>	<u>4,787,592</u>
Funded status	\$ <u>(1,240,009)</u>	\$ <u>(793,809)</u>

Weighted-average assumptions used to determine benefit obligations at May 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Discount rate	<u>4.25 %</u>	<u>4.25 %</u>
Rate of compensation increase	<u>5.00 %</u>	<u>5.00 %</u>

Weighted-average assumptions used to determine net cost for the years ended May 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Discount rate	<u>4.25 %</u>	<u>4.25 %</u>
Expected long-term rate of return on plan assets	<u>7.50 %</u>	<u>7.50 %</u>
Rate of compensation increase	<u>5.00 %</u>	<u>5.00 %</u>

A summary of other information related to this plan for 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Pension expense	\$ <u>391,604</u>	\$ <u>326,107</u>
Benefits paid	\$ <u>803,701</u>	\$ <u>252,499</u>
Actuarial (gain) loss	\$ <u>533,587</u>	\$ <u>281,648</u>
Lump-sum settlements	\$ <u>-</u>	\$ <u>2,107,971</u>

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Expected benefit payments, including future service and pay, as appropriate, are estimated at May 31, 2020 to be paid for the next ten years as follows:

<u>Year</u>	<u>Amount</u>
2021	\$ 431,000
2022	413,000
2023	393,000
2024	366,000
2025	343,000
2026 through 2030	1,354,000

The plan's weighted-average asset allocations at May 31, 2020 and 2019 by asset category are as follows:

<u>Asset Category</u>	<u>2020</u>	<u>2019</u>
Equity securities	73 %	67 %
Fixed income	11 %	14 %
Limited partnerships, private equity and other investment funds	12 %	15 %
Cash equivalents	<u>4 %</u>	<u>4 %</u>
Total	<u>100 %</u>	<u>100 %</u>

The University's investment policies and strategies for the defined benefit plan use target allocations for the individual asset categories. The University's investment goals are to maximize returns subject to specific risk management policies.

The disclosures above were determined through actuarial valuation.

(c) Early retirement incentive plan

During 2020, the University offered a one-time early retirement incentive plan to full-time employees who met certain age and years of service requirements. The plan pays each participant an amount equal to 50% of the employee's annual compensation in equal monthly installments over a period of 31 months beginning in June 2020. The plan also allows eligible participants to continue their medical insurance coverage until age 65. The University recognized a liability, for 28 employees that accepted the early retirement incentive, totaling approximately \$937,000 at May 31, 2020 for the outstanding obligation under the plan, which is included with accrued expenses and liabilities in the accompanying consolidated statements of financial position.

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(15) Health plans

Health insurance plan

The University adopted a self-insured health insurance plan during 2012. Under the plan, the University is self-insured up to \$175,000 per individual claim for covered employees. Amounts in excess of \$175,000 per claim are covered by a stop-loss policy purchased by the University. The self-insured health insurance plan is administered by a third party who acts as the University's agent in making benefit payments on the University's behalf. The total liability for outstanding health claims, including claims incurred but not reported, was approximately \$451,000 and \$599,000 at May 31, 2020 and 2019, respectively.

Postretirement benefit plan

Certain of the University's employees or former employees are covered under a postretirement healthcare benefit plan. The University had approximately 160 retirees covered by the plan at May 31, 2020. Lifetime claims of an individual in excess of \$2,000,000 are the obligation of the retiree. Total costs of the plan were \$549,450 and \$702,390 in 2020 and 2019, respectively. For participants hired before August 1, 1993, the University funds 100% of the plan for retirees who retire with 40 or more years of service at retirement and funds a percentage of such costs for retirees who retire with 25-39 years of service to the University. Employees hired between August 1, 1993 and August 31, 2017 may participate in the postretirement benefit plan, but have to fund the full premium.

The following table presents the plan's funded status reconciled with amounts recognized in the University's statements of financial position as of May 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Accrued postretirement benefit obligation:		
For retirees	\$ 3,164,104	\$ 2,825,710
For active employees	<u>2,993,688</u>	<u>2,891,528</u>
Accrued postretirement benefit obligation	<u>\$ 6,157,792</u>	<u>\$ 5,717,238</u>

Net periodic postretirement benefit costs for 2020 and 2019 include the following components:

	<u>2020</u>	<u>2019</u>
Service cost	\$ 68,142	\$ 27,826
Interest cost	194,079	267,156
Recognized prior service cost	287,229	287,229
Recognized net losses	<u>-</u>	<u>120,179</u>
Net periodic postretirement benefit cost	<u>\$ 549,450</u>	<u>\$ 702,390</u>

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Expected benefit payments, including future service, as appropriate, are expected as of May 31, 2020 to be paid for the next ten years as follows:

<u>Year</u>	<u>Amount</u>
2021	\$ 341,926
2022	333,778
2023	328,739
2024	316,946
2025	317,278
2026 through 2030	1,600,407

The benefit payments listed in the above table were determined through actuarial valuation. For measurement purposes at May 31, 2020, a 4.40% annual rate of increase in the per capita cost of covered benefits (health care cost trend) was assumed. This rate was assumed to decrease 0.10% per year until reaching an ultimate level of 4.0%. The discount rate used in determining the accumulated postretirement benefit obligation was 3.50% at May 31, 2020 and 2019.

The health care cost trend rate assumption has a significant effect on the amounts reported. Increasing the assumed health care cost trend by one percentage point in each year would increase the accrued postretirement benefit obligation by approximately \$834,000 and \$722,000 at May 31, 2020 and 2019, respectively, and would increase (decrease) the net periodic postretirement benefit cost by approximately \$(32,000) in 2020 and \$35,000 in 2019.

(16) Nature and amount of net assets without donor restrictions

The Board of Trustees has designated that certain types of support received not be used for current operating purposes. Such designations may be terminated at the discretion of the Board and do not represent donor restrictions. Board designated net assets consisted of a board-designated endowment totaling \$11,746,492 and \$15,438,563 as of May 31, 2020 and 2019, respectively.

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(17) Nature and amount of net assets with donor restrictions

Net asset with donor restrictions are available for the following purposes at May 31:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Capital improvements	\$ 29,609,331	\$ 30,928,278
Academic instruction and support	15,646,052	15,090,420
Student financial aid	617,242	247,963
Student services	766,890	937,395
Other	<u>2,928,217</u>	<u>2,761,267</u>
	<u>49,567,732</u>	<u>49,965,323</u>
Subject to passage of time:		
Annuity and life income funds	<u>3,082,779</u>	<u>2,669,338</u>
Endowment subject to spending policy and appropriation:		
Academic instruction and support	21,500,237	21,176,219
Student financial aid	38,892,336	37,742,203
Other	<u>284,451</u>	<u>308,335</u>
	<u>60,677,024</u>	<u>59,226,757</u>
	<u>\$ 113,327,535</u>	<u>\$ 111,861,418</u>

The University released net assets with donor restrictions for the following purposes during the years ended May 31:

	<u>2020</u>	<u>2019</u>
Capital improvements	\$ 3,620,311	\$ -
Academic instruction and support	3,543,185	5,148,637
Student financial aid	2,926,245	3,091,050
Student services	1,649,070	1,255,172
Other	<u>3,077,638</u>	<u>2,648,291</u>
	14,816,449	12,143,150
Released for operating activities	<u>11,196,138</u>	<u>12,143,150</u>
Released for non-operating activities	<u>\$ 3,620,311</u>	<u>\$ -</u>

(18) Endowment

The University's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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The University has interpreted the State of Tennessee's Uniform Prudent Management of Institutional Funds Act ("UPMIFA") 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 retains in perpetuity (a) the original value of gifts to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts are subject to appropriation for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, 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; and
- (7) The investment policies of the University.

Changes in endowment net assets for the fiscal years ended May 31, 2020 and 2019 are as follows:

May 31, 2020	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 15,438,563	\$ 66,589,268	\$ 82,027,831
Investment return, net	275,907	1,518,964	1,794,871
Contributions	1,215	1,115,639	1,116,854
Transfers and other	(1,696,141)	1,696,141	-
Appropriation of endowment assets pursuant to spending-rate policy	-	(2,966,158)	(2,966,158)
Distributions from board-designated endowment pursuant to distribution policy	(350,000)	-	(350,000)
Distributions from board-designated endowment for special endowment draw	<u>(1,923,052)</u>	<u>-</u>	<u>(1,923,052)</u>
Endowment net assets, end of year	<u>\$ 11,746,492</u>	<u>\$ 67,953,854</u>	<u>\$ 79,700,346</u>

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May 31, 2019	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 20,273,808	\$ 64,763,030	\$ 85,036,838
Investment return, net	(3,138,657)	2,554,153	(584,504)
Contributions	1,430,360	2,034,489	3,464,849
Appropriation of endowment assets pursuant to spending-rate policy	-	(2,762,404)	(2,762,404)
Distributions from board-designated endowment pursuant to distribution policy	(650,000)	-	(650,000)
Distributions from board-designated endowment for special endowment draw	<u>(2,476,948)</u>	<u>-</u>	<u>(2,476,948)</u>
Endowment net assets, end of year	<u>\$ 15,438,563</u>	<u>\$ 66,589,268</u>	<u>\$ 82,027,831</u>

Endowment income distributed to funds may be a combination of capital appreciation and yield pursuant to the University's total return investment policy.

Endowment net assets without donor restrictions identified in the tables above represent Board designated net assets.

Funds with Deficiencies - The University has approximately 650 donor endowed funds. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. As of May 31, 2020, the University had approximately 160 endowment funds that were considered underwater by approximately \$2,110,000. As of May 31, 2019, the University had approximately 120 endowment funds that were considered underwater by approximately \$1,650,000. The University will continue to monitor these funds and make adjustments as deemed necessary to protect the value of the endowment.

Return Objectives and Risk Parameters - Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period as well as Board-designated funds. The University has adopted investment and spending policies for endowment assets that attempt to maintain the purchasing power of the endowment assets in perpetuity and achieve investment returns sufficient to sustain the level of spending necessary to support ongoing University operations. Under the University's investment policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce a total rate of return, net of investment expense, over a rolling ten-year period that exceeds the rate of inflation by 5% per year on average. A secondary investment objective of the endowment is to constrain the volatility of the endowment through a program of broad diversification. In practice, the endowment should have a standard deviation similar to market volatility of certain portfolio comparative indices as measured over trailing three- and five-year periods.

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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's asset allocation policy is to provide a diversified strategic mix of asset classes that places emphasis on investments in equity securities and funds, fixed income securities and funds, and diversifiers to achieve its long-term return objective within a prudent risk framework.

Spending Policy - The University's spending policy allows for a final scheduled board-designated endowment draw of \$350,000 in fiscal year 2020 and there was an actual draw of \$650,000 in fiscal year 2019. The spending policy also allows for an annual draw from the donor restricted endowment equal to five percent of the average market value of the total endowment over the preceding five fiscal years (actual draws were \$2,966,158 and \$2,762,404 for the years ending May 31, 2020 and 2019, respectively). Earnings drawn from funds functioning as endowment are unrestricted in purpose. The use of earnings drawn from restricted endowment funds is restricted as stipulated in the corresponding donor agreements. The Board of Trustees, at its discretion, can authorize additional net draws for special projects. During 2020, the Board of Trustees authorized an additional special endowment draw from the board-designated endowment of \$1,923,052 for marketing and fundraising. During 2019, an additional special endowment draw from the board-designated endowment of \$2,476,948 was authorized for marketing and fundraising, which was offset by a \$500,000 repayment from a prior special endowment draw.

(19) Revenues

The University's revenue from contracts with customers is included in tuition and education fees and auxiliary enterprises revenue as presented in the consolidated statements of activities and changes in net assets. There were no impairment losses on receivables or contract assets from contracts with customers during the years ended May 31, 2020 and 2019.

Disaggregation of revenues

A summary of revenue from contracts with customers related to tuition and education fees, net for the years ended May 31, 2020 and 2019 disaggregated by the major classification of student type is as follows:

<u>Student Classification</u>	<u>2020</u>	<u>2019</u>
Undergraduate tuition	\$ 39,353,904	\$ 42,039,558
Graduate tuition	36,396,650	33,502,369
Academy tuition	15,562,664	14,575,318
Education fee revenue	<u>14,597,851</u>	<u>14,305,557</u>
Total	\$ <u>105,911,069</u>	\$ <u>104,422,802</u>

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A summary of revenue from contracts with customers related to auxiliary enterprises revenue for the years ended May 31, 2020 and 2019 disaggregated by type is as follows:

<u>Revenue Classification</u>	<u>2020</u>	<u>2019</u>
Housing	\$ 10,922,710	\$ 11,680,192
Food service	6,797,452	7,293,953
Other	<u>2,167,679</u>	<u>2,565,741</u>
Total	<u>\$ 19,887,841</u>	<u>\$ 21,539,886</u>

Contract balances

A summary of receivables and contract liabilities from contracts with customers at May 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Student accounts receivable, net	\$ <u>8,988,057</u>	\$ <u>10,594,396</u>
Student loans receivable	\$ <u>1,906,062</u>	\$ <u>2,049,064</u>
Other receivables from contracts with customers	\$ <u>45,990</u>	\$ <u>78,472</u>
Student accounts and deposits collected in advance	\$ <u>1,254,486</u>	\$ <u>4,418,594</u>
Deferred revenue	\$ <u>9,454,673</u>	\$ <u>11,053,960</u>

Substantially all of the deferred revenue at May 31, 2019 was recognized as revenue during 2020 as generally all performance obligations are met within two-three months of the fiscal year end. Additionally, amounts of deferred revenue at May 31, 2020 represent cash received from students during fiscal year 2020 primarily for academic services to be provided in the subsequent year.

(20) Contingent liabilities

The University is sometimes involved in legal actions arising in the normal course of operations. Although it is not possible to predict the ultimate resolution or financial liability with respect to any pending or threatened litigation, in the opinion of management, there are currently no matters pending or threatened which will have a material adverse effect on the University's consolidated financial position.

The University has a standby letter of credit totaling approximately \$330,000 at May 31, 2020 related to the University's lease of an Italian villa. This letter of credit was unused at May 31, 2020 and 2019.

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(21) Related party transactions

The University sometimes purchases goods or services or rents certain property from companies or organizations that are affiliated with or owned, directly or indirectly, by members of the Board of Trustees. Transactions with related parties are consummated at arm's length in accordance with the terms of the University's conflict of interest policy.

(22) Current economic conditions and subsequent events

Infectious disease outbreak

As of the date this report was available to be issued, the United States, as well as many other countries around the world, was experiencing an infectious disease (COVID-19) outbreak, impacting individuals, governments, businesses and financial markets with unprecedented disruption and risk. While it is not possible to predict the impacts of the outbreak on the University's financial condition and results of operations, the University has experienced significant disruptions including market value fluctuations of investments, uncertain levels of student enrollment and donor giving. In March 2020, the University suspended on-campus operations and students were transitioned to a remote learning environment through the end of the academic term. In addition, all summer classes were conducted remotely and summer camps and other events cancelled or postponed. As a result of these actions, the University provided certain refunds relating to room and board charges of approximately \$2,400,000 which reduced auxiliary enterprise revenue during 2020, of which approximately \$1,900,000 was accrued as refunds payable in the consolidated statement of financial position at May 31, 2020.

In response to the effects of the COVID-19 outbreak, the University received Coronavirus Aid, Relief, and Economic Act funding from the Higher Education Emergency Relief Fund which was established for emergency aid grants to students for expenses related to the disruption of campus operations due to COVID-19 and direct aid to higher educational institutions to cover certain costs associated with the significant changes to the delivery of instruction due to COVID-19. The University was awarded \$2,582,024 during 2020 which is included as a refundable government grant in the consolidated statement of financial position at May 31, 2020. One-half of these funds will be recognized as donor restricted support in 2021 as the University makes distributions to students for emergency grants. The other half of these funds will be recognized as the institutional portion to cover the costs related to changes in methods of instruction and other allowable costs.

Management is closely monitoring the situation and has implemented strategies designed to mitigate the impacts of these conditions. At the time this report was available to be issued, the University has started the academic year on-campus and experienced stable enrollment. While the University continues to work to mitigate COVID-19 related impacts, the financial impact and duration of these uncertainties cannot be reasonably estimated.

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Merger with Austin Graduate School of Theology

On August 27, 2020, the Board of Trustees of the University approved a plan of merger with the Austin Graduate School of Theology ("AGST"). By merging AGST with the University, the University can further expand its Christian educational programs, offerings and outreach, resulting in greater opportunities for both on-campus and online students. Pursuant to the terms of the plan of merger, AGST will become a wholly-owned subsidiary of the University upon consummation of the merger. The merger is subject to a number of closing conditions, including, but not limited to, satisfactory due diligence by the University and approval of the transaction by certain state authorities and accreditation bodies, with closing to be completed no later than May 31, 2021. No consideration will be exchanged as part of the merger. AGST's estimated net assets, which will be recorded by the University as an inherent contribution upon closing of the merger, are estimated to be approximately \$5,000,000.