

LIPSCOMB UNIVERSITY

Financial Statements

May 31, 2012 and 2011

(With Independent Auditors' Report Thereon)



LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

LIPSCOMB UNIVERSITY

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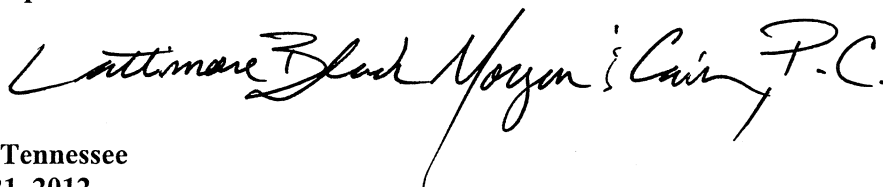
INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
Lipscomb University:

We have audited the accompanying statements of financial position of Lipscomb University (the University) as of May 31, 2012 and 2011, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lipscomb University as of May 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Brentwood, Tennessee
September 21, 2012

LIPSCOMB UNIVERSITY
Statements of Financial Position

May 31, 2012 and 2011

	<u>Assets</u>	
	<u>2012</u>	<u>2011</u>
Assets:		
Cash and cash equivalents	\$ 1,629,478	\$ 4,655,194
Accounts receivable, net	1,708,677	1,312,835
Investments, excluding real estate	69,530,237	70,618,548
Real estate investments	12,062,217	10,262,279
Prepaid expenses and other assets	1,848,623	1,586,408
Student loans receivable	2,438,338	2,317,758
Property and equipment, net	<u>121,540,632</u>	<u>115,816,655</u>
	<u>\$ 210,758,202</u>	<u>\$ 206,569,677</u>
 <u>Liabilities and Net Assets</u>		
Liabilities:		
Current portion of notes and loans payable	\$ 158,931	\$ 158,931
Current portion of bonds payable	3,551,667	3,030,000
Student accounts and deposits collected in advance	3,340,202	4,833,171
Accounts payable, including construction payables of \$1,401,145 and \$1,897,730 in 2012 and 2011, respectively	2,690,054	3,563,142
Accrued expenses and liabilities	9,408,726	7,001,028
Accrued unrealized loss on swap agreements	12,461,016	8,235,150
Deferred revenue	1,282,552	1,079,657
Annuities payable	2,131,127	2,747,993
Construction line of credit	771,102	-
Notes and loans payable, excluding current portion	1,629,240	1,788,171
Bonds payable, excluding current portion	67,457,222	67,120,000
Accrued postretirement benefit obligation	5,483,107	5,341,930
Federal student loans refundable	<u>2,218,764</u>	<u>2,240,634</u>
Total liabilities	<u>112,583,710</u>	<u>107,139,807</u>
Net assets:		
Unrestricted:		
Undesignated	15,957,369	10,589,651
Designated for student loans	288,707	288,686
Funds functioning as endowment	7,507,507	13,130,860
Designated for pension and postretirement benefit plans	(6,464,974)	(5,959,654)
Designated for plant facilities	<u>(5,316,600)</u>	<u>(1,362,141)</u>
Total unrestricted	11,972,009	16,687,402
Temporarily restricted	48,210,510	46,004,078
Permanently restricted	<u>37,991,973</u>	<u>36,738,390</u>
Total net assets	<u>98,174,492</u>	<u>99,429,870</u>
	<u>\$ 210,758,202</u>	<u>\$ 206,569,677</u>

See accompanying notes to the financial statements.

LIPSCOMB UNIVERSITY

Statements of Activities and Changes in Net Assets

Years ended May 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Changes in unrestricted net assets:		
Revenues and other support:		
Tuition and education fees	\$ 101,974,205	\$ 89,823,281
Less financial aid	<u>(19,410,562)</u>	<u>(18,161,761)</u>
Net tuition and fees	82,563,643	71,661,520
Private gifts	1,771,722	1,013,681
Endowment draw for operations	2,050,000	2,535,161
Auxiliary enterprises revenue	14,886,811	14,701,826
Rental income	881,650	898,543
Other income	2,076,931	1,946,885
Satisfaction of restrictions	<u>5,856,924</u>	<u>5,733,974</u>
Total revenues and other support	<u>110,087,681</u>	<u>98,491,590</u>
Expenses:		
Instruction	42,025,517	35,200,498
Institutional support	22,482,119	20,662,030
Student services	17,343,628	15,805,216
Auxiliary enterprises	12,063,970	11,737,153
Academic support	10,365,915	9,079,267
Public services	<u>2,321,281</u>	<u>2,009,578</u>
Total expenses	<u>106,602,430</u>	<u>94,493,742</u>
Change in unrestricted net assets from operating activities	<u>3,485,251</u>	<u>3,997,848</u>
Nonoperating activities:		
Investment gain (loss) after the application of endowment draws	(5,211,981)	4,842,604
Loss on interest rate swap agreements	(4,225,868)	(403,015)
Change in postretirement benefit obligation	(141,177)	2,646
Change in defined benefit retirement plan obligation	(364,143)	221,305
Satisfaction of restrictions, capital gifts	<u>1,742,525</u>	<u>1,820,199</u>
Change in unrestricted net assets from nonoperating activities	<u>(8,200,644)</u>	<u>6,483,739</u>
Increase (decrease) in unrestricted net assets	<u>(4,715,393)</u>	<u>10,481,587</u>
Changes in temporarily restricted net assets:		
Private gifts	6,821,563	3,865,322
Adjustments of actuarial liability for annuities payable	216,127	(336,572)
Investment income, net	1,066,885	2,718,246
Other income	1,652,529	980,751
Government and other grants	213,661	275,412
Net assets released from restrictions	<u>(7,764,333)</u>	<u>(7,608,283)</u>
Increase (decrease) in temporarily restricted net assets	<u>2,206,432</u>	<u>(105,124)</u>
Changes in permanently restricted net assets:		
Private gifts	1,897,697	2,383,893
Investment income (loss), net	(954,715)	117,950
Adjustments of actuarial liability for annuities payable	145,717	(104,292)
Transfers and changes in value of split interest agreements	<u>164,884</u>	<u>54,110</u>
Increase in permanently restricted net assets	<u>1,253,583</u>	<u>2,451,661</u>
Increase (decrease) in net assets	(1,255,378)	12,828,124
Net assets at beginning of year	<u>99,429,870</u>	<u>86,601,746</u>
Net assets at end of year	<u>\$ 98,174,492</u>	<u>\$ 99,429,870</u>

See accompanying notes to the financial statements.

LIPSCOMB UNIVERSITY

Statements of Cash Flows

Years ended May 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ <u>(1,255,378)</u>	\$ <u>12,828,124</u>
Adjustments to reconcile change in net assets to cash flows provided by operating activities:		
Depreciation and amortization	6,121,344	5,802,455
Provision for uncollectible accounts	117,552	41,440
Loss on interest rate swap agreements	4,225,866	403,015
Loss on disposal of property and equipment	-	186,502
Net (gain) loss on investments, excluding real estate	3,432,360	(9,907,701)
Net (gain) loss on sale of real estate investments	-	(52,356)
Gifts restricted for investments and plant facilities	(5,684,459)	(6,072,421)
(Increase) decrease in operating assets:		
Accounts receivable	(513,394)	(175,658)
Prepaid expenses and other assets	(262,215)	(102,836)
Increase (decrease) operating liabilities:		
Student accounts and dormitory deposits collected in advance	(1,492,969)	356,097
Accounts payable	(1,369,673)	(418,854)
Accrued expenses and liabilities	550,222	(382,117)
Deferred revenue	202,895	(205,165)
Annuities payable	(616,866)	48,743
Accrued postretirement benefit obligation	<u>141,177</u>	<u>(2,646)</u>
Total adjustments	<u>4,851,840</u>	<u>(10,481,502)</u>
Net cash provided by operating activities	<u>3,596,462</u>	<u>2,346,622</u>
Cash flows from investing activities:		
Purchases of plant facilities	(10,960,870)	(7,820,400)
Proceeds from sale of investments	41,379,350	82,943,912
Purchases of investments	(43,723,401)	(79,786,114)
Proceeds from sale of real estate investments	-	1,405,500
Purchase of real estate investments	(330,326)	(447,070)
Net increase (decrease) in federal student loans refundable	(21,870)	28,085
Change in student loans receivable, net	<u>(120,580)</u>	<u>35,956</u>
Net cash used by investing activities	<u>(13,777,697)</u>	<u>(3,640,131)</u>
Cash flows from financing activities:		
Proceeds from construction line of credit	771,102	-
Payments of notes and loans payable	(158,931)	(158,931)
Proceeds from bonds payable	4,000,000	-
Payments of bonds payable	(3,141,111)	(2,910,000)
Gifts restricted for investments and plant facilities	<u>5,684,459</u>	<u>6,072,421</u>
Net cash provided by financing activities	<u>7,155,519</u>	<u>3,003,490</u>
Increase (decrease) in cash and cash equivalents	(3,025,716)	1,709,981
Cash and cash equivalents at beginning of year	<u>4,655,194</u>	<u>2,945,213</u>
Cash and cash equivalents at end of year	<u>\$ 1,629,478</u>	<u>\$ 4,655,194</u>

See accompanying notes to the financial statements.

LIPSCOMB UNIVERSITY

Notes to the Financial Statements

May 31, 2012 and 2011

(1) Nature of operations

Lipscomb University (the University) is a private, not-for-profit, co-educational, church-related university of approximately 4,300 students seeking undergraduate, graduate and doctoral degrees. The University also provides pre-kindergarten through high school education for approximately 1,300 additional students. The President and the Board of Trustees, the governing board of the University, have oversight responsibility for all of the University's financial affairs.

(2) Summary of significant accounting policies

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

(a) Basis of presentation

For external accounting and reporting purposes, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, 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. The University has chosen to provide further classification information about unrestricted net assets on the statements of financial position. The sub-classifications are as follows:

Undesignated - Represents the cumulative results of unrestricted activities of the University that are also undesignated by the Board.

Designated for student loans - Represents University funds designated to serve as revolving loan funds for students.

Funds functioning as endowment - Represents amounts designated by the Board of Trustees to generate income to support operating needs. Such amounts include cumulative unrestricted gains (losses) on endowment investments.

Designated for pension and postretirement benefit plans - Represents the benefit obligations in excess of plan assets related to the pension and postretirement benefit plans (see Notes 13 and 14).

Designated for plant facilities - Represents the residual equity (deficit) of net capital assets less any related debt and adjusted for the interest rate swaps. Plant gifts of \$35,301,909 and \$32,662,914 at May 31, 2012 and 2011, respectively, are included in temporarily restricted net assets.

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.

LIPSCOMB UNIVERSITY

Notes to the Financial Statements

May 31, 2012 and 2011

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the University.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or specific purposes are reported as temporarily or permanently restricted support. When a restricted gift's purpose is fulfilled, the University reports the support as satisfaction of restrictions. Contributions restricted for capital improvements are released from temporarily restricted net assets over the life of the applicable asset to offset annual depreciation recognized in changes in unrestricted net assets.

(b) Cash equivalents

The University considers all highly-liquid investments with original maturities of less than three months to be cash equivalents.

(c) Receivables and credit policies

The University reports accounts 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, analyses of accounts receivable by payor source and aging of receivables, as well as 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 collection agencies or attorneys 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.

(d) Investments

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are stated at their fair values in the statements of financial position. Real estate investments are stated at their original cost to the University or the appraised value at the date of the gift. Investment income reported in the statements of activities includes interest, dividends, and realized and unrealized gains and losses, net of investment expenses. Investment income (loss) is reported in the period earned as an increase (decrease) in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions. Investment income (loss) that is restricted by the donor is reported as an increase (decrease) in unrestricted net assets if the restrictions are met or expire in the year in which the income is earned. All other donor-restricted investment income is reported as an increase in temporarily or permanently restricted net assets unless otherwise specified by the donor.

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Notes to the Financial Statements

May 31, 2012 and 2011

During 2012 and 2011, the University's spending policy allowed for a 5.0% and 5.5% annual draw from endowment earnings, 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 donor agreements. The Board of Trustees, at their discretion, authorized additional net draws for special projects of \$550,000 and \$835,000 during 2012 and 2011, respectively.

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

(e) Property and equipment

Property and equipment are stated at cost. Donated assets are recorded at their estimated market value at the date of the gift. Depreciation is provided over the assets' estimated useful lives using the straight-line method.

Disbursements for maintenance and repairs are expensed when incurred. Disbursements for renewals or betterments are capitalized. When property and equipment is retired or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in the statements of activities.

(f) Fair value of interest rate swap agreements

The University uses derivatives to manage risks related to interest rate movements. Interest rate swap contracts designated and qualifying as cash flow hedges are reported at fair value. The gain or loss on the effective portion of the hedge is included in the statements of activities and changes in net assets. The University's interest rate risk management strategy is intended to stabilize cash flow requirements by maintaining interest rate swap contracts to convert variable-rate debt to a synthetic fixed rate.

(g) Life income and gift annuities

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.

The University is the named trustee for certain estates and trusts of friends of the University and currently pays the trust income to the named beneficiaries. In such cases where the University is not the sole beneficiary, only the University's portion is included in these financial statements. As of May 31, 2012 and 2011, assets under such split-interest agreements total \$900,355 (or \$703,051 net of liabilities) and \$1,036,150 (or \$808,652 net of liabilities), respectively, and are included in investments on the statements of financial position.

LIPSCOMB UNIVERSITY

Notes to the Financial Statements

May 31, 2012 and 2011

(h) Income taxes

The University is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3) and, accordingly, no provision for income taxes is included in the financial statements. As of May 31, 2012 and 2011, the University has accrued no interest and no penalties related to uncertain tax positions. It is the University's policy to recognize interest and/or penalties related to income tax matters in income tax expense. The University files U.S. Federal information tax returns and is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended after May 31, 2008.

(i) Revenue recognition

Student tuition and educational fees are recorded as revenues during the year the related academic services are rendered. Student tuition and educational fees received in advance of services to be rendered are recorded as deferred revenue. Financial aid provided by the University for tuition and educational fees is reflected as a reduction of tuition and educational fees. Financial aid does not include payments made to students for services rendered to the University.

(j) Advertising costs

Advertising and promotion costs are expensed as incurred. The University incurred advertising costs of \$969,505 and \$799,758 for the years ended May 31, 2012 and 2011, respectively.

(k) Long-lived assets

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.

(l) Federal student loans refundable

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

(m) Intentions to give

The University is of the opinion that all intentions to give do not meet the criteria of unconditional promises to give. Accordingly, the University generally records intentions to give only when the related gifts are actually received. As of May 31, 2012 and 2011, the University had received current intentions to give future gifts of approximately \$22,739,000 and \$2,903,000, respectively, which will be primarily restricted for construction projects, faculty chairs or student scholarships when received.

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Notes to the Financial Statements

May 31, 2012 and 2011

(n) Program efforts

The University's primary program services are instruction and student services. Expenses reported as academic support, institutional support, and auxiliary enterprises are incurred in support of these primary program services. Institutional support includes fund-raising expenses of approximately \$2,916,000 and \$2,572,000 in 2012 and 2011, respectively. For purposes of reporting fund-raising expenses, the University includes only those fund-raising costs incurred by its development office and expenses incurred for capital campaigns.

(o) Allocation of costs in the statements of activities and changes in net assets

Costs related to the operation and maintenance of physical plant, including depreciation of plant assets, are allocated to operating programs and supporting activities 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.

(p) 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.

(q) Events occurring after reporting date

The University's management has evaluated events and transactions that occurred between May 31, 2012 and September 21, 2012, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(r) Reclassifications

Certain items in the 2011 financial statements have been reclassified to conform to the 2012 presentation. These reclassifications had no effect on net assets or changes in net assets as previously reported.

(3) Credit risks and concentrations

The University generally maintains cash on deposit with financial institutions in excess of federally insured amounts. The University has not experienced any losses in such accounts and management believes the University is not exposed to any significant credit risk related to cash.

LIPSCOMB UNIVERSITY

Notes to the Financial Statements

May 31, 2012 and 2011

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 statements of financial position.

The University holds life insurance policies with various insurance companies. As of May 31, 2012 and May 31, 2011, two insurance companies, rated A+ (Superior) and B++ (Good) by A.M. Best, hold approximately 33% of the cash value of life insurance policies owned by the University.

(4) Accounts receivable

A summary of accounts receivable as of May 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Student accounts receivable	\$ 2,103,973	\$ 1,697,313
Other accounts receivable	<u>223,343</u>	<u>230,938</u>
Subtotal	2,327,316	1,928,251
Less allowance for uncollectible accounts	<u>(618,639)</u>	<u>(615,416)</u>
Accounts receivable, net	\$ <u>1,708,677</u>	\$ <u>1,312,835</u>

(5) Investments

A summary of investments as of May 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Short-term investments	\$ 8,846,004	\$ 6,115,724
Mutual funds	17,142,293	19,199,573
Marketable equity securities	4,464,149	5,568,063
Corporate bonds and government securities	5,599,564	5,440,636
Limited partnerships, private equity and other investment funds	31,547,816	32,521,539
Life insurance policies	1,746,446	1,602,607
Commodity contract	<u>183,965</u>	<u>170,406</u>
	\$ <u>69,530,237</u>	\$ <u>70,618,548</u>

Certain investments are combined in a common investment pool. Interests in the pooled investment fund are adjusted at the end of each quarter, utilizing the unit method of allocating interests. Investment income is allocated monthly.

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Notes to the Financial Statements

May 31, 2012 and 2011

The following schedule summarizes the investment gains and (losses) in the statements of activities for the years ended May 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 747,132	\$ 785,399
Unrealized gain (loss) on investments, net	(3,050,672)	9,836,783
Realized gain (loss) on investments, net	(381,688)	70,918
Payments to beneficiaries	(185,609)	(275,321)
Investment management fees	<u>(178,974)</u>	<u>(203,818)</u>
	<u>\$ (3,049,811)</u>	<u>\$ 10,213,961</u>

The above investment return is classified in the statement of activities and changes in net assets as follows:

	<u>2012</u>	<u>2011</u>
Endowment draw for operations	\$ 2,050,000	\$ 2,535,161
Unrestricted investment gain (loss) after the application of endowment draws	(5,211,981)	4,842,604
Temporarily restricted	1,066,885	2,718,246
Permanently restricted	<u>(954,715)</u>	<u>117,950</u>
	<u>\$ (3,049,811)</u>	<u>\$ 10,213,961</u>

(6) Fair value measurements

Financial Accounting Standards Board ("FASB") Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* ("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.

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;
- 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.

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Notes to the Financial Statements

May 31, 2012 and 2011

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 for assets measured at fair value. There have been no changes in the methodologies used at May 31, 2012 and 2011.

- (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 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) *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. Certain investments in limited partnerships have time restrictions ranging from 45 days to 100 days related to the withdrawal of funds. Additionally, two limited partnership investments have capital call commitments totaling approximately \$2,129,000 at May 31, 2012.
- (v) *Life insurance policies*: Valued at the cash value of the underlying insurance policies.
- (vi) *Interest rate swaps*: The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.
- (vii) *Commodity contracts*: Fair value for forward commodity purchase and sale contracts is estimated based on exchange-quoted prices.

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.

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Notes to the Financial Statements

May 31, 2012 and 2011

The following tables sets forth by level, within the fair value hierarchy, the University's financial instruments at fair value as of May 31, 2012 and 2011:

	<u>Fair Value Measurements as of May 31, 2012 using the following inputs</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term investments	\$ 8,846,004	\$ 8,846,004	\$ -	\$ -
Mutual funds:				
Large cap	3,375,964	3,375,964	-	-
Mid cap	1,698,301	1,698,301	-	-
International	7,300,442	7,300,442	-	-
Real estate	23,605	23,605	-	-
Commodities	2,389,671	2,389,671	-	-
Exchange traded	<u>2,354,310</u>	<u>2,354,310</u>	<u>-</u>	<u>-</u>
Total mutual funds	17,142,293	17,142,293	-	-
Marketable equity securities	4,464,149	4,464,149	-	-
Corporate bonds and government securities	5,599,564	5,599,564	-	-
Limited partnerships, private equity and other investment funds	31,547,816	-	9,125,406	22,422,410
Life insurance policies	1,746,446	-	-	1,746,446
Commodities contract	<u>183,965</u>	<u>-</u>	<u>183,965</u>	<u>-</u>
Total investments	\$ <u>69,530,237</u>	\$ <u>36,052,010</u>	\$ <u>9,309,371</u>	\$ <u>24,168,856</u>
Interest rate swaps	\$ <u>(12,461,016)</u>	\$ <u>-</u>	\$ <u>(12,461,016)</u>	\$ <u>-</u>

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May 31, 2012 and 2011

Fair Value Measurements as of May 31, 2011 using the following inputs

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term investments	\$ 6,115,724	\$ 6,115,724	\$ -	\$ -
Mutual funds:				
Large cap	4,751,982	4,751,982	-	-
Mid cap	2,790,020	2,790,020	-	-
Small cap	1,520,000	1,520,000	-	-
International	6,324,825	6,324,825	-	-
Real estate	21,305	21,305	-	-
Commodities	1,141,159	1,141,159	-	-
Exchange traded	<u>2,650,282</u>	<u>2,650,282</u>	<u>-</u>	<u>-</u>
Total mutual funds	19,199,573	19,199,573	-	-
Marketable equity securities	5,568,063	5,568,063	-	-
Corporate bonds and government securities	5,440,636	5,440,636	-	-
Limited partnerships, private equity and other investment funds	32,521,539	-	12,314,026	20,207,513
Life insurance policies	1,602,607	-	-	1,602,607
Commodity contract	<u>170,406</u>	<u>-</u>	<u>170,406</u>	<u>-</u>
Total investments	\$ <u>70,618,548</u>	\$ <u>36,323,996</u>	\$ <u>12,484,432</u>	\$ <u>21,810,120</u>
Interest rate swaps	\$ <u>(8,235,150)</u>	\$ <u>-</u>	\$ <u>(8,235,150)</u>	\$ <u>-</u>

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May 31, 2012 and 2011

The following table provides a summary of changes in fair value of the University's Level 3 assets for the years ended May 31, 2012 and 2011:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Limited Partnership Interests	Life Insurance Policies	Total
Balance at May 31, 2010	\$ 17,405,044	\$ 1,729,386	\$ 19,134,430
Realized gains (losses)	247,929	-	247,929
Unrealized gains (losses) relating to instruments still held at the reporting date	1,677,450	-	1,677,450
Purchases, sales, issuances and settlements, net	<u>877,090</u>	<u>(126,779)</u>	<u>750,311</u>
Balance at May 31, 2011	20,207,513	1,602,607	21,810,120
Realized gains (losses)	397,160	-	397,160
Unrealized gains (losses) relating to instruments still held at the reporting date	(633,661)	143,839	(489,822)
Purchases, sales, issuances and settlements, net	<u>2,451,398</u>	<u>-</u>	<u>2,451,398</u>
Balance at May 31, 2012	<u>\$ 22,422,410</u>	<u>\$ 1,746,446</u>	<u>\$ 24,168,856</u>

(7) Real estate investments

A summary of real estate investments as of May 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Properties adjacent to the University	\$ 14,746,054	\$ 11,999,015
Properties not adjacent to the University	<u>1,347,396</u>	<u>1,350,400</u>
	16,093,450	13,349,415
Accumulated depreciation on real estate investments	<u>(4,031,233)</u>	<u>(3,087,136)</u>
	<u>\$ 12,062,217</u>	<u>\$ 10,262,279</u>

Depreciation expense on these properties amounted to \$387,864 and \$276,975 for the years ended May 31, 2012 and 2011, respectively.

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May 31, 2012 and 2011

(8) Property and equipment

A summary of property and equipment as of May 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Buildings and campus	\$ 170,044,529	\$ 163,359,300
Computer equipment and software	3,532,613	3,533,664
Furniture, fixtures and office equipment	13,542,729	12,835,957
General equipment	8,498,571	8,464,428
Laboratory equipment	4,020,731	3,763,344
Automobiles	485,581	451,281
Construction in progress	<u>6,137,337</u>	<u>2,609,542</u>
	206,262,091	195,017,516
Accumulated depreciation	<u>(84,721,459)</u>	<u>(79,200,861)</u>
	<u>\$ 121,540,632</u>	<u>\$ 115,816,655</u>

Depreciation expense on these assets amounted to \$5,733,480 and \$5,525,480 for the years ended May 31, 2012 and 2011, respectively.

As of May 31, 2012, the University had construction contracts totaling approximately \$2,549,000 to be paid at various stages of completion through fiscal year 2013.

The University has retainage related to construction projects of approximately \$197,000 and \$58,000 at May 31, 2012 and 2011, respectively, which is included in accrued expenses and liabilities.

(9) Line of credit

The University had a \$3,000,000 line of credit available with a bank at May 31, 2011 that matured in January 2012. The line of credit was renewed through January 2013, and the available line was reduced to \$1,500,000. Borrowings bear interest at 30 day LIBOR plus 1.5% and are unsecured. The University had no borrowings under this line as of May 31, 2012 or 2011.

During 2012, the University obtained a \$5,000,000 construction line of credit with a bank. The maximum amount available under this line is \$2,000,000 through December 31, 2012; \$4,000,000 for the period from January 1, 2013 through May 31, 2013; \$5,000,000 from June 1, 2013 through September 30, 2014; and \$3,000,000 from October 1, 2014 through October 1, 2015, the maturity of the line of credit. Proceeds may be used for the renovation, improvement, and construction of certain capital projects. Borrowings bear interest at 30 day LIBOR plus 2.25% and are secured by certain brokerage accounts of the University. The University owed \$771,102 as of May 31, 2012 under this line.

The construction line of credit is subject to certain negative pledge agreements and compliance with certain financial ratios and restrictions including investment, leverage, and cash flow ratios. The University was in compliance with these requirements as of May 31, 2012.

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Notes to the Financial Statements

May 31, 2012 and 2011

(10) Notes and loans payable

A summary of notes and loans payable as of May 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Note payable to bank, due June 2013, principal payments of \$13,244 due monthly plus interest at a rate of 30 day LIBOR plus .40% (0.64% at May 31, 2012); secured by property.	\$ 1,788,171	\$ 1,947,102
Less current portion	<u>(158,931)</u>	<u>(158,931)</u>
Notes and loans payable, excluding current portion	<u>\$ 1,629,240</u>	<u>\$ 1,788,171</u>

A summary of future maturities of notes and loans payable as of May 31, 2012 is as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 158,931
2014	<u>1,629,240</u>
	<u>\$ 1,788,171</u>

(11) Bonds payable

A summary of bonds payable as of May 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Tax-Exempt Variable Rate Demand Revenue Bonds Series 2009; due in annual payments of varying amounts through November 2028; bearing interest at a variable rate (0.22% as of May 31, 2012).	\$ 67,120,000	\$ 70,150,000
Tax-Exempt Educational Facilities Revenue Bonds Series 2011; due in equal monthly payments of \$22,222 plus interest at a fixed rate of 3.78% per annum through December 2026.	<u>3,888,889</u>	<u>-</u>
Total bonds payable	71,008,889	70,150,000
Less current portion	<u>(3,551,667)</u>	<u>(3,030,000)</u>
Bonds payable, excluding current portion	<u>\$ 67,457,222</u>	<u>\$ 67,120,000</u>

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The Series 2009 variable rate demand revenue refunding bonds are secured by an irrevocable letter of credit with SunTrust Bank which matures on August 15, 2014. SunTrust Bank's letter of credit is backed by a confirming letter of credit issued by the Federal Home Loan Bank of Atlanta. The refunding bonds are also subject to the provisions of a remarketing agreement. Should the University be unable to renew the letter of credit, comply with the terms of the remarketing agreement, or comply with its financial covenants or other provisions of the bond indenture, the principal payments under the refunding bonds could be accelerated or penalties could be assessed to the University.

The Series 2011 fixed rate revenue bonds are issued by The Health and Educational Facilities Board of the Metropolitan Government of Nashville and Davidson County, TN to SunTrust Bank. The bonds are backed by a promissory note with SunTrust Bank, which matures on December 1, 2026.

The terms of the above agreements subject the University to certain negative pledge agreements and compliance with certain financial ratios and restrictions including investment, leverage, and cash flow ratios. The University was in compliance with these requirements as of May 31, 2012.

A summary of future maturities of bonds payable as of May 31, 2012 is as follows:

<u>Year</u>	<u>Amount</u>
2013	3,551,667
2014	4,071,667
2015	4,391,667
2016	4,611,667
2017	4,631,667
2018 and later years	<u>49,750,554</u>
	<u>\$ 71,008,889</u>

Subsequent to May 31, 2012, the University refinanced its 2009 Series and 2011 Series bonds with a new bond issue. See Note 21.

(12) Interest rate swap agreements

Lipscomb University has entered into three interest rate swap agreements with a commercial bank for the purpose of hedging its interest rate risk on its outstanding bond issues. These agreements terminate between November 2023 and November 2028 and have a combined original notional amount of \$81,160,000 and current notional amounts of \$65,420,000 as of May 31, 2012. The fair value of the University's obligations under swap agreements amounted to \$12,461,016 and \$8,235,150 at May 31, 2012 and 2011, respectively.

The University's Series 2009 bond issuances have three components that determine the University's effective interest rate: (1) the University pays interest at rates reset weekly by SunTrust Bank which closely tracks the SIFMA (Securities Industry and Financial Markets Association) index, which is a composite of tax exempt bonds; (2) the University receives 67% of one month LIBOR from SunTrust Bank; and (3) the University pays a 3.43% fixed rate to SunTrust Bank per the weighted average of Lipscomb's three swap agreements.

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Notes to the Financial Statements

May 31, 2012 and 2011

The effective all-in rate of interest (when all three interest variables are combined) of Lipscomb University is 5.45% for fiscal years 2012 and 2011.

Interest expense on the University's lines of credit and notes and loans payable amounted to approximately \$24,000 and \$23,000 for 2012 and 2011, respectively. Interest expense on the bonds payable, including letter of credit fees, amounted to approximately \$3,844,000 and \$3,906,000 for the years ended May 31, 2012 and 2011, respectively. Total interest expense was approximately \$3,868,000 and \$3,929,000 for 2012 and 2011, respectively.

(13) Employee benefit plans

(a) Defined contribution plan

The University sponsors a defined contribution pension plan covering substantially all employees. 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 \$1,687,661 and \$1,554,376 for 2012 and 2011, respectively.

(b) Defined benefit plan

The University has a contributory, defined benefit retirement plan covering certain salaried employees hired prior to August 1, 1990. The University had approximately 140 participants in the plan at May 31, 2012. The University makes annual contributions to the plan according to the actuarial funding agreement. The assets of the plan are primarily invested in United States 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 benefit obligations, fair value of plan assets, and funded status at May 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Fair value of plan assets	\$ 5,800,740	\$ 5,834,605
Benefit obligation	<u>6,782,607</u>	<u>6,447,047</u>
Funded status	\$ <u>(981,867)</u>	\$ <u>(612,442)</u>

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Notes to the Financial Statements

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Weighted-average assumptions used to determine benefit obligations at May 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Discount rate	<u>5.0 %</u>	<u>5.5 %</u>
Rate of compensation increase	<u>5.0 %</u>	<u>5.0 %</u>

Weighted-average assumptions used to determine net cost for the years ended May 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Discount rate	<u>5.0 %</u>	<u>5.5 %</u>
Expected long-term rate of return on plan assets	<u>8.0 %</u>	<u>8.0 %</u>
Rate of compensation increase	<u>5.0 %</u>	<u>5.0 %</u>

A summary of other information related to this plan for 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Pension expense	\$ <u>558,633</u>	\$ <u>648,389</u>
Benefits paid	\$ <u>265,864</u>	\$ <u>244,417</u>

During 2012 and 2011, the plan paid settlements of \$140,524 and \$861,596, respectively. Additionally, the University contributed \$475,163 to the Plan during 2012. No such contributions were made to the plan in 2011.

Benefit payments, which include expected future service, as appropriate, are estimated to be paid for the next ten years as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 633,000
2014	647,000
2015	663,000
2016	425,000
2017	425,000
2018 through 2022	2,267,000

The plan's weighted-average asset allocations at May 31, 2012 and 2011 by asset category are as follows:

<u>Asset Category</u>	<u>2012</u>	<u>2011</u>
Equity securities	43.8 %	60.1 %
Fixed income	13.9 %	13.8 %
Limited partnerships, private equity and other investment funds	31.6 %	20.0 %
Other	<u>10.7 %</u>	<u>6.1 %</u>
Total	<u>100.0 %</u>	<u>100.0 %</u>

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Notes to the Financial Statements

May 31, 2012 and 2011

The University's investment policies and strategies for the pension 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.

(14) Health plans

Health insurance plan

Prior to May 1, 2012, the University provided group health insurance coverage for active employees through a fully-insured insurance contract. For active employees, 38% of the plan was funded by the employees and 62% by the University.

Effective, May 1, 2012, Lipscomb University adopted a self-insured insurance plan. Under the plan, the University is self-insured up to \$100,000 per individual claim for covered employees. Amounts in excess of \$100,000 per claim are covered by a stop-loss policy purchased by the University. The University makes contributions periodically to the plan's trust account based on prior claims experience.

Postretirement benefit plan

Certain of the University's employees or former employees are covered under a postretirement benefit plan. The University had approximately 130 retirees covered by the plan at May 31, 2012. Lifetime claims of an individual in excess of \$2,000,000 are the obligation of the retiree. Total costs of the plan were \$349,430 and \$368,857 in 2012 and 2011, respectively. The University funds 100% of the plan for retirees before August 1, 1994 and funds a percentage of such costs for retirees after August 1, 1994 based on years of service to the University. Employees hired after August 1, 1993 may participate in the retiree plan, but have to fund the full premium.

The following presents the plan's funded status reconciled with amounts recognized in the University's statement of financial position as of May 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Accrued postretirement benefit obligation:		
For retirees	\$ 2,702,625	\$ 2,958,520
For active employees	<u>2,780,482</u>	<u>2,383,410</u>
Accrued postretirement benefit obligation	\$ <u>5,483,107</u>	\$ <u>5,341,930</u>

The accumulated postretirement benefit obligation was reduced by approximately \$126,248 and \$309,000 during 2012 and 2011, respectively, as the result of actuarial revaluations.

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Notes to the Financial Statements

May 31, 2012 and 2011

Net periodic postretirement benefit costs for 2012 and 2011 include the following components:

	<u>2012</u>	<u>2011</u>
Service cost	\$ 24,454	\$ 22,767
Interest cost	282,367	304,594
Recognized prior service income	(35,139)	(35,139)
Recognized net losses	<u>77,748</u>	<u>76,635</u>
Net periodic postretirement benefit cost	\$ <u>349,430</u>	\$ <u>368,857</u>

Benefit payments, which include expected future service, as appropriate, are expected to be paid for the next ten years as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 293,600
2014	314,200
2015	336,200
2016	359,700
2017	384,900
2018 through 2022	2,368,300

The disclosures above were determined through actuarial valuation. For measurement purposes at May 31, 2012, a 6.0% annual rate of increase in the per capita cost of covered benefits (health care cost trend) was assumed. This rate was assumed to decrease .25% per year until reaching an ultimate level of 3.0%. The discount rate used in determining the accumulated postretirement benefit obligation was 5.0% and 5.5% at May 31, 2012 and 2011, respectively.

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 \$567,595 and \$789,115 at May 31, 2012 and 2011, respectively, and would increase the net periodic postretirement benefit cost by \$46,858 in 2012 and \$39,223 in 2011.

(15) Net assets

Temporarily restricted net assets as of May 31, 2012 and 2011 are committed for the following purposes:

	<u>2012</u>	<u>2011</u>
Annuity and life income funds which convert to unrestricted net assets upon maturity	\$ 2,778,648	\$ 3,054,646
Scholarships and instruction	9,301,531	9,462,399
Capital improvements	35,301,909	32,662,914
Other programs	<u>828,422</u>	<u>824,119</u>
	\$ <u>48,210,510</u>	\$ <u>46,004,078</u>

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Notes to the Financial Statements

May 31, 2012 and 2011

Permanently restricted net assets are held in perpetuity with the income from assets expendable to support certain programs. As of May 31, 2012 and 2011 permanently restricted net assets consist of investments totaling \$37,991,973 and \$36,738,390, respectively, to be held in perpetuity, the income of which is expendable for both specific and general purposes.

(16) Endowment

The University's endowment consists of approximately 510 individual funds established for a variety of purposes. The 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.

As prescribed by the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), the University intends to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of 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 expenditures 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
- (7) The investment policies of the University.

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May 31, 2012 and 2011

The endowment pool market value to net asset analysis as of May 31, 2012 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment pool:				
Donor-restricted	\$ -	\$ 10,329,304	\$ 37,991,973	\$ 48,321,277
Board-designated	<u>7,507,507</u>	<u>-</u>	<u>-</u>	<u>7,507,507</u>
	7,507,507	10,329,304	37,991,973	55,828,784
Other net assets	<u>4,464,502</u>	<u>37,881,206</u>	<u>-</u>	<u>42,345,708</u>
Total	<u>\$ 11,972,009</u>	<u>\$ 48,210,510</u>	<u>\$ 37,991,973</u>	<u>\$ 98,174,492</u>

The endowment pool market value to net asset analysis as of May 31, 2011 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment pool:				
Donor-restricted	\$ -	\$ 10,452,665	\$ 36,506,446	\$ 46,959,111
Board-designated	<u>13,130,860</u>	<u>-</u>	<u>-</u>	<u>13,130,860</u>
	13,130,860	10,452,665	36,506,446	60,089,971
Other net assets	<u>3,556,542</u>	<u>35,551,413</u>	<u>231,944</u>	<u>39,339,899</u>
Total	<u>\$ 16,687,402</u>	<u>\$ 46,004,078</u>	<u>\$ 36,738,390</u>	<u>\$ 99,429,870</u>

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Changes in endowment net assets for the fiscal years ended May 31, 2012 and 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2010	\$ <u>8,428,458</u>	\$ <u>9,341,048</u>	\$ <u>34,206,456</u>	\$ <u>51,975,962</u>
Investment return:				
Investment income	126,373	197,366	65,739	389,478
Net appreciation (depreciation) - realized and unrealized	<u>7,084,940</u>	<u>2,891,587</u>	<u>(141,060)</u>	<u>9,835,467</u>
Total investment return	<u>7,211,313</u>	<u>3,088,953</u>	<u>(75,321)</u>	<u>10,224,945</u>
Contributions	26,250	-	2,375,311	2,401,561
Appropriation of endowment assets for expenditure	<u>(2,535,161)</u>	<u>(1,977,336)</u>	<u>-</u>	<u>(4,512,497)</u>
Endowment net assets, May 31, 2011	<u>13,130,860</u>	<u>10,452,665</u>	<u>36,506,446</u>	<u>60,089,971</u>
Investment return:				
Investment income	128,341	30,990	248,467	407,798
Net appreciation (depreciation) - realized and unrealized	<u>(3,718,494)</u>	<u>1,837,536</u>	<u>(646,972)</u>	<u>(2,527,930)</u>
Total investment return	<u>(3,590,153)</u>	<u>1,868,526</u>	<u>(398,505)</u>	<u>(2,120,132)</u>
Contributions	16,800	-	1,884,032	1,900,832
Appropriation of endowment assets for expenditure	<u>(2,050,000)</u>	<u>(1,991,887)</u>	<u>-</u>	<u>(4,041,887)</u>
Endowment net assets, May 31, 2012	\$ <u>7,507,507</u>	\$ <u>10,329,304</u>	\$ <u>37,991,973</u>	\$ <u>55,828,784</u>

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(17) Lease commitments

The University leases classroom space, vehicles and various equipment under operating leases. Rent expense under these leases amounted to approximately \$1,173,000 and \$944,000 in 2012 and 2011, respectively.

A summary of approximate future minimum payments under these operating leases as of May 31, 2012 is as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 1,290,000
2014	783,000
2015	411,000
2016	337,000
2017	<u>337,000</u>
	<u>\$ 3,158,000</u>

It is expected that in the normal course of business, leases that expire will likely be renewed or replaced by other leases; thus, it is anticipated that future lease payments will not be less than the commitments for 2013.

In years prior to 2011, the University entered into real estate sale/leaseback transactions whereby the University sold certain investment properties, with a cost of approximately \$2,400,000 and accumulated depreciation of approximately \$500,000, for \$3,640,000. The properties were subsequently leased back from the purchasers. Additionally, the University entered into agreements that allow the University the option to repurchase the properties during periods ranging from four to eight years. The agreements also provide that the University will pay the purchaser an amount equal to between 3.0% and 5.0% of the appreciated market value if the University does not repurchase the property. As a result of the continuing involvement in the property due to the repurchase option, the University deferred the resulting gains and has recognized a liability equal to the sales proceeds received. The University will recognize any gains on sale of the respective properties when the repurchase options expire and the continuing involvement is complete. During 2012 and 2011, lease expense related to these properties amounted to approximately \$330,000 and \$210,000, respectively, and rental income under the subleases amounted to approximately \$325,000 and \$222,000, respectively.

Approximate future minimum rental payments due under the leases are as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 370,000
2014	370,000
2015	349,000
2016	297,000
2017	228,000
Thereafter	<u>215,000</u>
	<u>\$ 1,829,000</u>

LIPSCOMB UNIVERSITY

Notes to the Financial Statements

May 31, 2012 and 2011

The related properties under the sale/leaseback transactions are subleased to third parties. The above lease expense will be offset by approximate rental income due under the subleases as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 343,320
2014	343,320
2015	327,937
2016	281,206
2017	230,368
Thereafter	<u>205,517</u>
	<u>\$ 1,731,668</u>

(18) Contingent liabilities

The University is sometimes involved in legal actions arising in the normal course of operations. In the opinion of management, there are currently no matters pending which will have a material adverse effect on the University's financial position.

In addition to the sales/leaseback transactions discussed in Note 17, the University has entered into agreements that allow the University the option to purchase certain properties being rented from third parties for periods of up to eight years. The agreements also provide that the University will pay the owner an amount equal to between 3.0% and 5.0% of the appreciated market value if the University does not purchase the property.

(19) 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 considered to be arm's length.

(20) Supplemental disclosures of cash flow statement information

	<u>2012</u>	<u>2011</u>
Approximate interest paid	\$ <u>3,833,000</u>	\$ <u>3,931,000</u>

(21) Subsequent event

On September 1, 2012, the University refinanced its 2011 and 2009 bonds with a \$71,000,000 bond refunding (Series 2012) through The Health and Educational Facilities Board of the Metropolitan Government of Nashville and Davidson County, Tennessee. The principal payments for the Series 2012 refunding bonds are \$2,840,000 per year for 25 years beginning November 1, 2012 and ending on November 1, 2036. The variable interest rate on the bonds is 77% times (30 day LIBOR + 2.25%). Under the terms of the Series 2012 bonds, a Letter of Credit is no longer required, the Minimum Investment Ratio bank covenant was eliminated, and the bonds are no longer repriced and remarketed weekly.