LIPSCOMB UNIVERSITY

Consolidated Financial Statements

May 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

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, 2019 and 2018, 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, 2019 and 2018, 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 20, 2019

LIPSCOMB UNIVERSITY

Consolidated Statements of Financial Position

May 31, 2019 and 2018

Assets

	2019	2018
Assets:		
Cash and cash equivalents	$ 10,989,688	$ 11,143,349
Accounts receivable, net	13,128,494	12,407,762
Student loans receivable	2,049,064	2,302,284
Contributions receivable, net	32,412,489	33,307,850
Prepaid expenses and other assets	1,886,396	993,512
Cash from bond proceeds restricted for capital projects	37,766,193	-
Short-term investments of bond proceeds restricted for capital projects	33,559,599	-
Investments, excluding real estate	89,583,116	94,294,118
Real estate investments	12,970,488	9,502,210
Operating lease right-of-use assets	9,377,414	-
Finance lease right-of-use assets	32,651,176	-
Property and equipment, net	210,365,896	196,356,376
	$ 486,740,013	$ 360,307,461

Liabilities and Net Assets

	2019	2018
Liabilities:		
Student accounts and deposits collected in advance	$ 4,418,594	$ 4,991,484
Accounts payable, including construction payables of $1,344,837 and $1,785,500 in 2019 and 2018, respectively	4,429,411	4,868,503
Accrued expenses and liabilities	13,512,557	12,085,771
Accrued unrealized loss on swap agreements	-	3,676,836
Deferred revenue	11,053,960	10,073,180
Refund liabilities	349,855	-
Annuities payable	2,401,402	2,578,353
Obligations under capital leases	-	2,224,027
Operating lease liabilities	9,406,983	-
Finance lease liabilities	32,058,484	-
Notes payable	1,700,000	5,921,687
Bonds payable	206,538,062	105,407,503
Accrued pension benefit liability	793,809	245,609
Accrued postretirement benefit obligation	5,717,238	6,451,293
Federal student loans refundable	1,978,811	1,966,581
Total liabilities	294,359,166	160,490,827
Net assets:		
Without donor restrictions	80,519,429	94,629,850
With donor restrictions	111,861,418	105,186,784
Total net assets	192,380,847	199,816,634
	$ 486,740,013	$ 360,307,461

See accompanying notes to the consolidated financial statements.

LIPSCOMB UNIVERSITY

Consolidated Statements of Activities and Changes in Net Assets

Years ended May 31, 2019 and 2018

	2019	2018
Changes in net assets without donor restrictions:		
Revenues and other support:		
Tuition and education fees, net of scholarships totaling $42,450,950 and $38,092,934 in 2019 and 2018, respectively.	$ 104,422,802	$ 102,533,602
Auxiliary enterprises revenue	21,539,886	20,785,410
Contributions	1,599,713	1,532,970
Endowment draw for operations	3,126,948	1,400,000
Rental income	2,945,387	2,105,611
Other income	6,469,324	6,766,767
Net assets released from restrictions	12,143,150	11,759,438
Total revenues and other support	152,247,210	146,883,798
Expenses:		
Program:		
Instruction	64,606,405	60,346,732
Academic support	16,980,716	14,758,365
Auxiliary enterprises	17,081,323	16,341,077
Student services	27,178,207	23,517,495
Public services	1,995,962	1,863,750
Total program expenses	127,842,613	116,827,419
Management and general:		
Institutional support	31,175,141	29,032,601
Total expenses	159,017,754	145,860,020
Change in net assets without donor restrictions from operating activities	(6,770,544)	1,023,778
Non-operating activities:		
Investment return, net	(2,195,896)	4,027,436
Endowment draws for operations	(3,126,948)	(1,400,000)
Gain on interest rate swap agreements	231,976	2,077,846
Change in postretirement benefit obligation	734,055	(1,131,050)
Change in defined benefit retirement plan obligation	(548,200)	(45,053)
Retirement plan minimum contribution	(295,969)	(112,660)
Net assets released from restrictions for capital gifts	-	6,766,712
Change in net assets without donor restrictions from non-operating activities	(5,200,982)	10,183,231
Change in net assets without donor restrictions	(11,971,526)	11,207,009
Changes in net assets with donor restrictions:		
Contributions	13,208,962	21,570,095
Investment return, net	2,321,629	3,001,320
Government and other grants	2,231,834	1,724,275
Adjustments of actuarial liability for annuities payable	105,359	(159,061)
Transfers and changes in value of split interest	24,039	28,325
Other income	950,000	337,536
Net assets released from restrictions	(12,167,189)	(18,554,475)
Change in net assets with donor restrictions	6,674,634	7,948,015
Change in net assets	(5,296,892)	19,155,024
Net assets at beginning of year	199,816,634	180,661,610
Cumulative-effect adjustment for accounting changes (Note 2)	(2,138,895)	-
Net assets at end of year	$ 192,380,847	$ 199,816,634

See accompanying notes to the consolidated financial statements.

LIPSCOMB UNIVERSITY

Consolidated Statements of Cash Flows

Years ended May 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ (5,296,892)	$ 19,155,024
Adjustments to reconcile change in net assets to cash flows provided (used) by operating activities:		
Depreciation and amortization	8,835,452	7,746,297
Provision for uncollectible accounts	383,621	255,906
Net gain on interest rate swap agreements	(231,976)	(2,077,846)
Amortization of bond issuance costs and bond discount (premiums), net	(55,631)	(220,432)
Net (gain) loss on investments, excluding real estate	3,768,956	(4,673,975)
Net gain on sale of real estate investments	(1,159)	(529,849)
Gifts restricted for investments and plant facilities	(2,571,710)	(14,855,934)
Non-cash gifts of fixed assets	-	(10,872)
(Increase) decrease in operating assets:		
Accounts receivable	(1,104,353)	(2,344,011)
Contributions receivable, net	895,361	(10,286,704)
Prepaid expenses and other assets	(892,884)	166,461
Increase (decrease) in operating liabilities:		
Student accounts and deposits collected in advance	(572,890)	(11,525)
Accounts payable	1,571	278,114
Accrued expenses and liabilities	315,382	21,144
Deferred revenue and refund liabilities	1,330,635	208,086
Annuities payable	(176,951)	37,667
Accrued postretirement benefit obligation	(734,055)	1,131,050
Accrued pension benefit liability	548,200	45,053
Total adjustments	9,737,569	(25,121,370)
Net cash provided (used) by operating activities	4,440,677	(5,966,346)
Cash flows from investing activities:		
Purchases of plant facilities	(21,807,871)	(16,140,454)
Purchases of short term investments with bond proceeds restricted for capital projects, net	(33,559,599)	-
Proceeds from sale of investments	39,674,675	123,022,027
Purchases of investments	(38,732,629)	(123,394,211)
Proceeds from sale of real estate investments	7,888	1,018,941
Purchases of real estate investments	(5,529,092)	(948,465)
Net decrease in federal student loans refundable	12,230	23,710
Change in student loans receivable, net	253,220	(181,218)
Initial direct costs/prepayments of finance lease ROU assets	(127,454)	-
Net cash used by investing activities	(59,808,632)	(16,599,670)

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows, continued

Years ended May 31, 2019 and 2018

	2019	2018
Cash flows from financing activities:		
Proceeds from notes payable	1,700,000	-
Payments of notes and loans payable	(5,921,687)	(150,730)
Proceeds from bonds payable	147,906,388	8,490,825
Payments of bonds payable	(45,442,898)	(1,091,892)
Payment of debt issuance costs	(1,277,300)	-
Payments of interest rate swap termination	(3,444,860)	-
Payments of capital leases	-	(407,204)
Payments of finance lease liabilities	(3,110,866)	-
Gifts restricted for investments and plant facilities	2,571,710	14,855,934
Net cash provided by financing activities	92,980,487	21,696,933
Increase (decrease) in cash, cash equivalents and restricted cash	37,612,532	(869,083)
Cash, cash equivalents and restricted cash at beginning of year	11,143,349	12,012,432
Cash, cash equivalents and restricted cash at end of year	$ 48,755,881	$ 11,143,349

Supplemental disclosures of cash flow statement information

	2019	2018
Approximate interest paid	$ 4,886,000	$ 5,138,000

During 2018, the University was gifted certain assets for its wholly-owned subsidiary, Sound Emporium Studios, LLC. Through this gift, which was the satisfaction of a $2,000,000 donor pledge receivable and additional contributions of approximately $229,000, the University received assets, including land and a building valued at $2,000,000, property and equipment of approximately $266,000 and accounts receivable totaling approximately $51,000. The University also assumed certain accounts payable and accrued expenses of approximately $90,000.

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:

	2019	2018
Cash and cash equivalents	$ 10,989,688	$ 11,143,349
Cash from bond proceeds restricted for capital projects	37,766,193	-
	$ 48,755,881	$ 11,143,349

See accompanying notes to the consolidated financial statements.

LIPSCOMB UNIVERSITY

Consolidated Statements of Functional Expenses

Years ended May 31, 2019 and 2018

2019

	Programs						Management and General	
	Instruction	Academic Support	Auxiliary Enterprises	Student Services	Public Services	Total Program Services	Institutional Support	Total
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	5,864,527	874,565	4,852,400	1,897,805	-	13,489,297	734,790	14,224,087
Depreciation	1,687,379	140,836	1,928,144	956,239	6,921	4,719,519	3,150,574	7,870,093
Interest	9,327	1,839,447	2,252,793	-	-	4,101,567	1,112,530	5,214,097
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

2018

	Programs						Management and General	
	Instruction	Academic Support	Auxiliary Enterprises	Student Services	Public Services	Total Program Services	Institutional Support	Total
Salaries and wages	$ 35,206,969	$ 5,781,263	$ 1,359,482	$ 9,316,830	$ 932,024	$ 52,596,568	$ 10,631,759	$ 63,228,327
Fringe benefits	9,927,936	1,752,716	259,477	2,829,259	235,160	15,004,548	3,078,390	18,082,938
Professional and administrative	2,031,193	1,268,476	255,802	2,540,628	225,373	6,321,472	4,572,866	10,894,338
Special events	520,979	249,931	291,130	840,639	145,434	2,048,113	1,338,847	3,386,960
Operation of plant	4,875,441	727,064	4,034,014	1,577,729	-	11,214,248	610,863	11,825,111
Depreciation	1,661,624	111,370	1,855,323	846,281	8,072	4,482,670	2,943,989	7,426,659
Interest	10,561	1,311,840	1,905,975	-	-	3,228,376	1,590,019	4,818,395
Food service	-	-	4,304,700	-	-	4,304,700	-	4,304,700
Other operating costs	6,112,029	3,555,705	2,075,174	5,566,129	317,687	17,626,724	4,265,868	21,892,592
Total expenses	$ 60,346,732	$ 14,758,365	$ 16,341,077	$ 23,517,495	$ 1,863,750	$ 116,827,419	$ 29,032,601	$ 145,860,020

See accompanying notes to the consolidated financial statements.

(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 with an enrollment of approximately 4,600 students seeking undergraduate, graduate and doctoral degrees. The University also provides early childhood through high school education for approximately 1,200 additional students 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 Board of Trustees is comprised of 30 members that 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 August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard changes certain presentation and disclosure requirements of not-for-profit entities. The primary changes are a reduction in the number of net asset classes from three to two (with donor restrictions and without donor restrictions), reporting of underwater amounts of donor-restricted endowment funds in net assets with donor restrictions, requiring enhanced disclosures about how a not-for-profit entity manages its liquidity and requiring reporting of expenses by functional and natural classification, as well as enhanced endowment disclosures. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. It was adopted effective June 1, 2018 and has been retrospectively applied to the 2018 consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is comprehensive new guidance that supersedes all existing revenue recognition guidance. ASU 2014-09 requires revenue to be recognized when the University transfers promised goods or services to customers in an amount that reflects the consideration to which the University expects to be entitled in exchange for those goods or services. This standard also significantly expands the disclosure requirements for revenue recognition. ASU 2014-09 is effective for fiscal years beginning after December 15, 2017 and has been adopted effective June 1, 2018. The University has applied this standard utilizing a modified retrospective approach which requires prospective application of the new guidance with disclosure of results under the old guidance in the first year of adoption. The primary impact of adoption of ASU 2014-09 related to additional enhanced disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, as amended, which requires lessees to recognize substantially all leases on-balance sheet and disclose key information about leasing arrangements. ASU 2016-02 establishes a right-of-use ("ROU") model that requires a lessee to recognize a ROU asset and lease liability on the consolidated statement of financial position for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the consolidated statement of activities and changes in net assets. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018. The University elected to early adopt ASU 2016-02 effective June 1, 2018 utilizing a modified retrospective approach which requires prospective application of the new guidance with disclosure of results under the old guidance in the first year of adoption. The University adopted the package of practical expedients available at transition that retained the lease classification and initial direct costs for any leases that existed prior to adoption of the standard. Contracts entered into prior to the adoption were not reassessed for leases or embedded leases. For lease and non-lease components, the University has elected to account for both as a single lease component.

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. The standard did not materially impact the University's consolidated change in net assets and had no impact on cash flows.

In August 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 is intended to address diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017. It was adopted effective June 1, 2018 and has been retrospectively applied to the 2018 consolidated financial statements.

(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 contemporary 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) 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, 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.

(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. 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
Automobiles	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 determines whether an arrangement is or contains a lease at lease inception. On the commencement date, operating leases are recorded as operating lease 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.

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.

(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. Interest rate swap contracts designated and qualifying as cash flow hedges were reported at fair value at May 31, 2018. The gain or loss on the effective portion of the hedge was included in the consolidated statements of activities and changes in net assets during 2018. During 2019, the derivative contracts held by the University were terminated and there were no derivative instruments outstanding at May 31, 2019.

(j) 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.

(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.**

The University reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

(l) <u>Revenue from contracts with customers</u>

Prior to the adoption of ASU 2014-09 on June 1, 2018, the University recognized tuition and fee revenue as well as auxiliary enterprise revenues when persuasive evidence of an arrangement existed, the fees were fixed or determinable, the product or service had been delivered and collectibility was assured. The University considered the terms of each arrangement to determine the appropriate accounting treatment.

Subsequent to the adoption of ASU 2014-09, 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.

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 are 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.

(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, 2019 and 2018, 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 $3,163,284 and $1,438,661 for the years ended May 31, 2019 and 2018, 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.

(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 and the changes in postretirement and defined benefit retirement plan obligations. 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 $5,463,000 and $4,724,000 in 2019 and 2018, 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) Recently issued accounting pronouncements

In June 2018, the FASB issued 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. ASU No. 2018-08 is effective for the University's fiscal year beginning June 1, 2019 for transactions in which the University serves as a resource recipient, and for its fiscal year beginning June 1, 2020, for transactions in which the University serves as a resource provider. Early adoption is permitted.

In March 2017, the FASB issued ASU 2017-07, *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. ASU 2017-07 is effective for the University's fiscal year beginning June 1, 2019 and will be applied prospectively. Early adoption is permitted.

The University is currently assessing the impact that ASU 2018-08 and 2017-07 will have on its consolidated financial statements and related disclosures.

(v) Reclassifications

Certain reclassifications have been made to the 2018 consolidated financial statements in order for them to conform to the 2019 presentation. These reclassifications had no effect on total net assets or changes in net assets as previously reported. The 2018 reclassifications primarily relate to grossing up accounts receivable and deferred revenue for approximately $8,000,000 for tuition for students attending summer academic periods and, additionally, reclassifying approximately $8,000,000 from real estate investments to property and equipment representing the value of land for which the University placed the properties into use as land for new building projects.

(w) Events occurring after reporting date

The University's management has evaluated events and transactions that occurred between May 31, 2019 and September 20, 2019, which is the date that the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

(3) Liquidity and Availability

The following table reflects the University's financial assets as of May 31, 2019 and 2018 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:

	2019	2018
Cash and cash equivalents	$ 10,989,688	$ 11,143,349
Cash from bond proceeds restricted for capital projects	37,766,193	-
Short-term investments from bond proceeds restricted for capital projects	33,559,599	-
Accounts receivable, net	13,128,494	12,407,762
Student loans receivable	2,049,064	2,302,284
Contributions receivable, net	32,412,489	33,307,850
Investments, excluding real estate	89,583,116	94,294,118
Financial assets at end of year	219,488,643	153,455,363
Less: assets unavailable for general expenditure within one year:		
Board-designated endowment	15,438,563	20,273,808
Cash and short-term investments from bond proceeds restricted for capital projects	71,325,792	-
Subject to appropriation and satisfaction of restrictions	66,589,268	64,763,030
Investments held in charitable remainder trusts	4,074,021	4,956,913
Investments held in insured gift annuities	436,310	551,498
Student receivables due in greater than one year	1,799,071	2,073,583
Contribution receivables due in greater than one year	29,224,678	32,403,648
Financial assets available to meet cash needs for general expenditures within one year	$ 30,600,940	$ 28,432,883

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 of $15,438,563 and $20,273,808 at May 31, 2019 and 2018, respectively, is subject to the University's spending policy as described in Note 20. Management does not intend to spend from the board-designated endowment other than amounts appropriate for general expenditure 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. 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 $5,000,000 operating line of credit available with a bank which could be utilized by the University for operations as needed.

(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, 2019 and 2018, four insurance companies, rated A- and better by A.M. Best, held approximately 68% and 67%, respectively, of the cash value of life insurance policies owned by the University.

As of May 31, 2019 and 2018, approximately 78% and 87%, respectively, of the University's contributions receivable were due from five donors. During 2019, approximately 29% of private gifts were from two donors. During 2018, approximately 54% of private gifts were from two donors.

(5) Accounts receivable

A summary of accounts receivable as of May 31, 2019 and 2018 is as follows:

	2019	2018
Tuition and fees receivable	$ 12,172,983	$ 11,345,693
Accounts and other receivables	2,304,218	1,965,421
Grants receivable	229,880	416,649
Subtotal	14,707,081	13,727,763
Less allowance for uncollectible accounts	(1,578,587)	(1,320,001)
	$ 13,128,494	$ 12,407,762

(6) Contributions receivable

A summary of contributions receivable as of May 31, 2019 and 2018 is as follows:

	2019	2018
Unconditional promises expected to be collected in:		
Less than one year	$ 3,540,191	$ 904,202
One year to five years	22,164,370	21,751,578
Over five years	22,072,909	22,447,295
	47,777,470	45,103,075
Less discount for net present value	(15,101,486)	(11,532,577)
Less allowance for uncollectible contributions receivable	(263,495)	(262,648)
	$ 32,412,489	$ 33,307,850

Contributions receivable have been discounted using rates generally ranging from 2.51% to 5.00% as of May 31, 2019 and 2018. The weighted average discount rate of pledges outstanding as of May 31, 2019 and 2018 was 4.75%. 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.

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, 2019 and 2018.

(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) *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.

(v) *Life insurance policies*: Valued at the cash value of the underlying insurance policies. The policies are not available for immediate liquidity.

(vi) *Common trust fund*s: Valued at the net asset value of units of the common trust fund.

(vii) *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.

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, 2019 and 2018:

	Fair Value Measurements as of May 31, 2019 using the following inputs			
	Total	Level 1	Level 2	Level 3
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	4,268,607	4,268,607	-	-
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	2,165,608	-	-	2,165,608
Total investments	$ 89,583,116	$ 40,939,117	$ 26,934,746	$ 21,709,253

	Fair Value Measurements as of May 31, 2018 using the following inputs			
	Total	**Level 1**	**Level 2**	**Level 3**
Short-term investments	$ 1,532,771	$ 1,532,771	$ -	$ -
Mutual funds:				
Large cap	20,663,097	20,663,097	-	-
Mid cap	4,699,459	4,699,459	-	-
International	4,879,989	4,879,989	-	-
Fixed income	5,948,075	5,948,075	-	-
Exchange traded	5,273,339	5,273,339	-	-
Total mutual funds	41,463,959	41,463,959	-	-
Marketable equity securities	541,140	541,140	-	-
Common trust funds	27,358,924	-	27,358,924	-
Corporate bonds and government securities	418,534	418,534	-	-
Limited partnerships, private equity and other investment funds	20,815,875	6,027,414	-	14,788,461
Life insurance policies	2,162,915	-	-	2,162,915
Total investments	$ 94,294,118	$ 49,983,818	$ 27,358,924	$ 16,951,376
Interest rate swaps	$ (3,676,836)	$ -	$ (3,676,836)	$ -

The following table provides a summary of changes in fair value of the University's Level 3 assets for the years ended May 31, 2019 and 2018:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Total	Limited Partnership Interest, private Equity and Other	Life Insurance Policies
Balance at May 31, 2017	$ 16,084,162	$ 13,962,725	$ 2,121,437
Realized gains	893,387	766,253	127,134
Unrealized gains (losses) relating to instruments still held at the reporting date	405,621	265,778	139,843
Purchases, sales and settlements, net	(431,794)	(206,295)	(225,499)
Balance at May 31, 2018	16,951,376	14,788,461	2,162,915
Realized gains (losses)	(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	3,861,281	4,456,329	(595,048)
Balance at May 31, 2019	$ 21,709,253	$ 19,543,645	$ 2,165,608

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.

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, 2019 and 2018:

	2019				2018
Category of Investment	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period	Fair Value
Private Equity	$ 4,745,864	$ 5,510,720	No immediate redemption	N/A	$ 4,656,026
Real Estate	3,913,522	3,960,295	No immediate redemption	N/A	2,243,963
Equity Long/Short and Absolute Return Hedge Funds	10,278,910	-	Monthly to Annually	30 - 100 days	9,721,803
International Equity	19,643,553	-	Monthly	30 days	19,146,693
Fixed Income	7,291,192	-	Monthly	30 days	5,804,605
Other	605,350	-	No immediate redemption	N/A	574,295
Total	$46,478,391	$ 9,471,015			$ 42,147,385

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 65% of such investments in this category were in liquidation at May 31, 2019 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 10% of such investments in this category were in liquidation at May 31, 2019 with final liquidation to occur upon the disposition of the last investment.

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, 2019 and 2018 is as follows:

	2019	2018
Buildings and campus	$ 282,066,065	$ 274,392,688
Computer equipment and software	3,975,496	3,491,465
Furniture, fixtures and office equipment	17,767,567	18,313,098
General equipment	8,447,365	8,386,876
Laboratory equipment	5,152,797	6,016,640
Vehicles	844,800	786,857
Construction in progress	16,640,430	4,997,207
	334,894,520	316,384,831
Accumulated depreciation	(124,528,624)	(120,028,455)
	$ 210,365,896	$ 196,356,376

Depreciation expense on property and equipment amounted to $7,607,561 and $7,224,322 for the years ended May 31, 2019 and 2018, respectively.

As of May 31, 2019 and 2018, the University had commitments remaining under construction contracts totaling approximately $17,594,000 and $11,060,000 that were at various stages of completion through fiscal years 2019 and 2018, respectively.

Subsequent to May 31, 2019, the University entered into a contract for the construction of a parking garage for a total estimated cost of approximately $8,000,000.

(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 are as follows for May 31, 2019:	
Operating lease expense	$ 2,775,865
Finance lease expense:	
Amortization of right-of-use assets	766,638
Interest on lease liabilities	1,575,358
Total finance lease expense	2,341,996
Sublease income	663,436

Supplemental cash flow information related to leases are as follows for May 31, 2019:	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 2,731,704
Operating cash flows from finance leases	1,261,129
Financing cash flows from finance leases	3,425,094
ROU assets obtained in exchange for lease obligations:	
Operating leases	$ 11,653,265
Finance leases	35,169,349

Additional supplemental information regarding assumptions for operating and finance leases is as follows for May 31, 2019:	
Weighted-average remaining lease term (years)	
Operating leases	5.49
Finance leases	2.92
Weighted-average discount rate	
Operating leases	4.78 %
Finance leases	5.03 %

As of May 31, 2019, the maturity of lease liabilities is as follows:

Maturity	Finance	Operating	Total
2020	$ 6,481,874	$ 2,518,022	$ 8,999,896
2021	12,028,921	2,193,604	14,222,525
2022	4,920,173	1,911,450	6,831,623
2023	7,665,741	1,510,682	9,176,423
2024	3,637,415	710,233	4,347,648
Thereafter	1,191,023	1,903,690	3,094,713
Total undiscounted cash flows	35,925,147	10,747,681	46,672,828
Less: present value discount	(3,866,663)	(1,340,698)	(5,207,361)
Total lease liabilities	$ 32,058,484	$ 9,406,983	$ 41,465,467

Rent expense during 2018, prior to the adoption of ASU 2016-02, under operating leases for classroom space, vehicles and various equipment was approximately $2,150,000. The University has property leasing arrangements under which the University has a future option to purchase the underlying property (leasehold properties) and arrangements in which the University previously sold the properties and subsequently leased the property back from the purchaser with a future option to repurchase the property (sale/leaseback properties). Rent expense during 2018, prior to the adoption of ASU 2016-02, under these lease arrangements was approximately $1,308,000.

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.

During 2018, rental income under all lessor activities amounted to approximately $1,029,000.

(10) Capital lease obligations prior to June 1, 2018

The University entered into capital lease agreements to finance the acquisition of certain equipment and real estate.

The University's obligation under these capital leases as of May 31, 2018 was as follows:

Minimum lease payments payable	$ 2,451,271
Less: portion representing interest	227,244
Capital lease obligations	$ 2,224,027

Property and equipment utilized under capital leases was comprised of the following at May 31, 2018:

Land	$	685,849
Buildings		1,600,313
General equipment		1,093,735
		3,379,897
Less: accumulated amortization		519,540
	$	2,860,357

Amortization expense associated with assets under capital leases totaled $153,773 during 2018.

Capital leased assets referenced above include land and a building related to an Italian villa located in Florence, Italy. The villa provides unique educational opportunities for University students to study abroad. The University has the right to purchase the villa at the end of the initial five-year lease term, in December 2020.

Subsequent to the adoption of ASU 2016-02, capital lease obligations are classified as finance leases (see Note 9).

(11) Accrued expenses and liabilities

A summary of accrued expenses and liabilities as of May 31, 2019 and 2018 is as follows:

		2019		2018
Accrued payroll and benefits	$	4,048,584	$	4,646,894
Financing liability on sale-leaseback property		6,039,195		4,643,167
Accrued interest		1,558,675		833,335
Accrued health claims payable		599,434		601,295
Agency liabilities		419,160		411,518
Other current liabilities		847,509		949,562
	$	13,512,557	$	12,085,771

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. In prior years, 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.

(12) Line of credit

The University has a $5,000,000 revolving line of credit available with a bank at May 31, 2019. 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 in January 2020 and is unsecured. The University had no outstanding borrowings under the line at May 31, 2019 and 2018. The terms of the line of credit includes certain negative pledge agreements, a debt service coverage ratio and minimum unrestricted liquidity requirements. The University was in compliance with these terms as of May 31, 2019 and 2018.

(13) Notes payable

A summary of notes payable as of May 31, 2019 and 2018 is as follows:

	2019	2018
Note payable to a bank, due August 2023, with monthly payments of $15,996, including interest at a fixed rate of 4.05%. Secured by real property. Repaid in 2019.	$ -	$ 921,687
Note payable to a bank, due March 2026 with 84 monthly principal payments beginning April 1, 2019. Interest is due monthly at a rate equal to the 1-month LIBOR plus 1.95% per year (3.86% at May 31, 2019). Secured by real property. Repaid in 2019.	-	5,000,000
Note payable to certain individuals, principal due February 2029, with interest payable annually at a fixed rate of 8%; unsecured.	1,700,000	-
Total notes payable	$ 1,700,000	$ 5,921,687

(14) Bonds payable

During 2019, the University issued series 2019A and 2019B revenue refunding and improvement bonds. Proceeds from the bonds are to fund capital projects, purchase properties for future growth and refund the 2016B and 2013 series bonds and certain notes payable.

A summary of bonds payable as of May 31, 2019 and 2018 is as follows:

	2019	2018
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 $10,520,686, based on an effective interest rate of 4.45%, less debt issuance costs of $1,075,698 at May 31, 2019.	$ 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 $194,562 at May 31, 2019.	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 $7,010,049 and $7,272,271 at May 31, 2019 and 2018, respectively, based on an effective interest rate of 4.15%, less debt issuance costs of $742,413 and $769,910 at May 31, 2019 and 2018, respectively.	67,287,637	68,233,361
Revenue Bonds (Lipscomb University Project) Series 2016B; repaid in 2019; bearing interest at a rate equal to 67% of the sum of 30-day LIBOR plus 1.75%; less debt issuance costs of $189,307 at May 31, 2018.	-	33,480,669
Revenue Bonds (Lipscomb University Project) Series 2013; repaid in 2019; bearing interest at a fixed rate of 3.79%; net of unamortized debt issuance costs of $26,389 at May 31,2018.	-	3,693,473
Total bonds payable	$ 206,538,062	$ 105,407,503

A summary of future annual minimum payments of bonds payable as of May 31, 2019 is as follows:

Year	Amount
2020	$ 740,000
2021	900,000
2022	945,000
2023	1,200,000
2024	1,495,000
2025 and later years	185,740,000
Par amount of bonds payable	191,020,000
Unamortized bond premium	17,530,735
Subtotal bonds payable	208,550,735
Unamortized debt issuance costs	(2,012,673)
Total bonds payable	$ 206,538,062

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. All other bond financial covenants were terminated in 2019 with the repayment of the related obligations. The University was in compliance with these terms as of May 31, 2019 and 2018.

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 and is amortized over the asset's estimated useful life. Interest cost capitalized was $1,202,572 and $251,127 during the years ended May 31, 2019 and 2018, respectively.

Total interest cost incurred, inclusive of capitalized interest, was $5,856,884 and $5,065,521 during the years ended May 31, 2019 and 2018, respectively.

Interest expense on the University's lines of credit and notes payable was approximately $267,000 and $228,000 for 2019 and 2018, respectively. Interest expense on the bonds payable was approximately $4,976,000 and $3,664,000 for the years ended May 31, 2019 and 2018, respectively. Total interest expense was approximately $4,654,000 and $4,818,000 for 2019 and 2018, respectively.

(15) Interest rate swap agreements

The University previously entered into interest rate swap agreements with a commercial bank for the purpose of hedging its interest rate risk on its outstanding bonds. These agreements were to terminate between November 2023 and November 2028 and had a combined original notional amount of $81,160,000 and current notional amount of $41,245,000 as of May 31, 2018. The fair value of the University’s obligations under swap agreements was $3,676,836 at May 31, 2018. During 2019, the interest rate swap agreements were terminated for approximately $3,445,000 in conjunction with the Series 2019 Bond refunding.

(16) Employee benefit plans

(a) Defined contribution plans

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 $3,103,639 and $2,817,548 for fiscal years 2019 and 2018, respectively. Additionally, the University sponsored a tax-deferred annuity plan which allowed employee contributions for full-time employees upon hire; however, the University did not match any employee contributions under the plan. During 2018, the tax-deferred annuity plan was merged into the defined contribution retirement plan.

(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 105 participants in the plan at May 31, 2019. 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, 2019 and 2018:

	2019	2018
Fair value of plan assets	$ 3,993,783	$ 6,291,975
Benefit obligation	4,787,592	6,537,584
Funded status	$ (793,809)	$ (245,609)

Weighted-average assumptions used to determine benefit obligations at May 31, 2019 and 2018 are as follows:

	2019	2018
Discount rate	4.25 %	4.25 %
Rate of compensation increase	5.00 %	5.00 %

Weighted-average assumptions used to determine net cost for the years ended May 31, 2019 and 2018 are as follows:

	2019	2018
Discount rate	4.25 %	4.25 %
Expected long-term rate of return on plan assets	7.50 %	7.50 %
Rate of compensation increase	5.00 %	5.00 %

A summary of other information related to this plan for 2019 and 2018 is as follows:

	2019	2018
Pension expense	$ 326,107	$ 395,105
Benefits paid	$ 252,499	$ 293,508
Actuarial (gain) loss	$ 281,648	$ 92,633
Lump-sum settlements	$ 2,107,971	$ -

Expected benefit payments, including future service and pay, as appropriate, are estimated at May 31, 2019 to be paid for the next ten years as follows:

Year	Amount
2020	$ 609,000
2021	598,000
2022	586,000
2023	573,000
2024	559,000
2025 through 2029	2,449,000

The plan's weighted-average asset allocations at May 31, 2019 and 2018 by asset category are as follows:

Asset Category	2019	2018
Equity securities	67 %	54 %
Fixed income	14 %	10 %
Limited partnerships, private equity and other investment funds	15 %	9 %
Cash equivalents	4 %	27 %
Total	100 %	100 %

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.

(17) 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, which provides for up to $1 million lifetime maximum reimbursement per covered individual. 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 $599,000 and $601,000 at May 31, 2019 and 2018, 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 150 retirees covered by the plan at May 31, 2019. Lifetime claims of an individual in excess of $2,000,000 are the obligation of the retiree. Total costs of the plan were $702,390 and $503,434 in 2019 and 2018, respectively. The University funds 100% of the plan for retirees who retired before August 1, 1994 and funds a percentage of such costs for retirees who retired after August 1, 1994 based on years of service to the University. Employees hired after August 1, 1993 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, 2019 and 2018:

	2019	2018
Accrued postretirement benefit obligation:		
For retirees	$ 2,825,710	$ 2,627,087
For active employees	2,891,528	3,824,206
Accrued postretirement benefit obligation	$ 5,717,238	$ 6,451,293

The accumulated postretirement benefit obligation was increased by approximately $77,000 during 2018 as a result of actuarial revaluations.

Net periodic postretirement benefit costs for 2019 and 2018 include the following components:

	2019	2018
Service cost	$ 27,826	$ 26,692
Interest cost	267,156	245,255
Recognized prior service cost	287,229	99,181
Recognized net losses	120,179	132,306
Net periodic postretirement benefit cost	$ 702,390	$ 503,434

Expected benefit payments, including future service, as appropriate, are expected as of May 31, 2019 to be paid for the next ten years as follows:

Year	Amount
2020	$ 347,256
2021	326,364
2022	331,540
2023	329,739
2024	308,997
2025 through 2029	1,570,656

The benefit payments listed in the above table were determined through actuarial valuation. For measurement purposes at May 31, 2019, a 4.50% annual rate of increase in the per capita cost of covered benefits (health care cost trend) was assumed. This rate was assumed to decrease 0.25% per year until reaching an ultimate level of 3.0%. The discount rate used in determining the accumulated postretirement benefit obligation was 3.50% and 4.25% at May 31, 2019 and 2018, 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 approximately $722,000 and $871,000 at May 31, 2019 and 2018, respectively, and would increase the net periodic postretirement benefit cost by approximately $35,000 in 2019 and $32,000 in 2018.

(18) 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 $15,438,563 and $20,273,808 as of May 31, 2019 and 2018, respectively.

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

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

	2019	2018
Subject to expenditure for specified purpose:		
Capital improvements	$ 30,928,278	$ 29,627,135
Academic instruction and support	15,090,420	14,806,953
Student financial aid	247,963	(164,545)
Student services	937,395	957,433
Other	2,761,267	2,099,179
	49,965,323	47,326,155
Subject to passage of time:		
Annuity and life income funds	2,669,338	3,259,970
Endowment subject to spending policy and appropriation:		
Academic instruction and support	7,716,704	5,031,729
Student financial aid	51,201,718	49,254,987
Other	308,335	313,943
	59,226,757	54,600,659
	$ 111,861,418	$ 105,186,784

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

	2019	2018
Capital improvements	$ -	$ 6,766,712
Academic instruction and support	5,148,637	5,004,173
Student financial aid	3,091,050	2,466,398
Student services	1,255,172	1,027,284
Other	2,648,291	3,261,583
	12,143,150	18,526,150
Released for operating activities	12,143,150	11,759,438
Released for non-operating activities	$ -	$ 6,766,712

(20) 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.

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 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; and
(7) The investment policies of the University.

Changes in endowment net assets for the fiscal years ended May 31, 2019 and 2018 are as follows:

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	(650,000)	(2,762,404)	(3,412,404)
Special endowment draw	(2,476,948)	-	(2,476,948)
Endowment net assets, end of year	$ 15,438,563	$ 66,589,268	$ 82,027,831

May 31, 2018	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 17,856,550	$ 61,168,581	$ 79,025,131
Investment return, net	3,317,258	2,962,401	6,279,659
Contributions	500,000	3,196,609	3,696,609
Appropriation of endowment assets pursuant to spending-rate policy	(950,000)	(2,564,561)	(3,514,561)
Special endowment draw	(450,000)	-	(450,000)
Endowment net assets, end of year	$ 20,273,808	$ 64,763,030	$ 85,036,838

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 - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor of UPMIFA requires the University to retain as a fund of perpetual duration. As of May 31, 2019, the University had approximately 120 endowment funds that were considered underwater by approximately $1,650,000. As of May 31, 2018, the University had approximately 64 endowment funds that were considered underwater by approximately $1,250,000.

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.

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 scheduled unrestricted endowment draw of $650,000 in fiscal year 2019 and a final scheduled unrestricted endowment draw of $350,000 in fiscal year 2020 (actual draws were $650,000 and $950,000 for the years ending May 31, 2019 and 2018, respectively). The spending policy also allows for an annual draw from the restricted endowment equal five to five percent of the average market value of the total endowment ove the preceeding five fiscal years (actual draws were $2,762,404 and $2,564,561 for the years ending May 31, 2019 and 2018, 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 2019, the Board of Trustees authorized an additional special endowment draw of $2,476,948 for marketing and fundraising, which was offset by a $500,000 repayment from a prior special endowment draw. During 2018, an additional draw of $450,000 was authorized, which was offset by a $500,000 repayment from a prior special endowment draw.

(21) Revenues

The University's revenue from contracts with customers are 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 fiscal 2019.

Disaggregation of revenues

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

Student Classification	Tuition and Education Fees, Net
Undergraduate tuition	$ 42,039,558
Graduate tuition	33,502,369
Academy tuition	14,575,318
Education fee revenue	14,305,557
Total	$ 104,422,802

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

Revenue Classification	Amount
Housing	$ 11,680,192
Food Service	7,293,953
Other	2,565,741
Total	$ 21,539,886

Contract balances

A summary of receivables and contract liabilities from contracts with customers is as follows:

	May 31, 2019	June 1, 2018
Student accounts receivable, net	$ 10,594,396	$ 10,025,692
Student loans receivable	$ 2,049,064	$ 2,302,284
Other receivables from contracts with customers	$ 78,472	$ 56,509
Student accounts and deposits collected in advance	$ 4,418,594	$ 4,991,484
Deferred revenue	$ 11,053,960	$ 10,073,180

Substantially all of the deferred revenue at June 1, 2018 was recognized as revenue during 2019 as generally all performance obligations are met within two-three months of the fiscal year end. Additionally, amounts of deferred revenue at May 31, 2019 represent cash received from students during fiscal year 2019 primarily for academic services to be provided in the subsequent year.

(22) 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 $300,000 related to the University's lease of an Italian villa. This letter of credit is unused at May 31, 2019.

(23) 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.