LIPSCOMB UNIVERSITY

Consolidated Financial Statements

May 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

MAKE A GOOD BUSINESS BETTER

LIPSCOMB UNIVERSITY

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LBMC MAKE A GOOD BUSINESS BETTER

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, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, and cash flows 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, 2018 and 2017, 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 28, 2018

LIPSCOMB UNIVERSITY

Consolidated Statements of Financial Position

May 31, 2018 and 2017

Assets

	2018	2017
Assets:		
Cash and cash equivalents	$ 11,143,349	$ 12,012,432
Accounts receivable, net	4,395,453	2,256,784
Student loans receivable	2,302,284	2,121,066
Contributions receivable, net	33,307,850	25,247,982
Investments, excluding real estate	94,294,118	89,247,959
Real estate investments	17,617,184	17,679,786
Prepaid expenses and other assets	993,512	1,159,973
Property and equipment, net	188,241,402	179,336,020
	$ 352,295,152	$ 329,062,002

Liabilities and Net Assets

	2018	2017
Liabilities:		
Student accounts and deposits collected in advance	$ 4,991,484	$ 5,003,009
Accounts payable, including construction payables of $1,785,500 and $4,073,873 in 2018 and 2017, respectively	4,868,503	6,878,762
Accrued expenses and liabilities	12,085,771	11,974,148
Accrued unrealized loss on swap agreements	3,676,836	5,754,682
Deferred revenue	2,060,871	1,852,785
Annuities payable	2,578,353	2,540,686
Obligations under capital leases	2,224,027	2,631,231
Notes payable	5,921,687	6,072,417
Bonds payable	105,407,503	98,229,002
Accrued pension benefit liability	245,609	200,556
Accrued postretirement benefit obligation	6,451,293	5,320,243
Federal student loans refundable	1,966,581	1,942,871
Total liabilities	152,478,518	148,400,392
Net assets:		
Unrestricted:		
Undesignated	36,332,864	31,398,004
Designated for student loans	257,210	257,210
Funds functioning as endowment	20,273,808	17,856,550
Designated for pension and postretirement benefit plans	(6,696,902)	(5,520,799)
Designated for plant facilities	44,462,870	39,431,876
Total unrestricted	94,629,850	83,422,841
Temporarily restricted	50,586,126	45,880,300
Permanently restricted	54,600,658	51,358,469
Total net assets	199,816,634	180,661,610
	$ 352,295,152	$ 329,062,002

See accompanying notes to the consolidated financial statements.

LIPSCOMB UNIVERSITY

Consolidated Statements of Activities and Changes in Net Assets

Years ended May 31, 2018 and 2017

	2018	2017
Changes in unrestricted net assets:		
Revenues and other support:		
Tuition and education fees	$ 140,626,536	$ 138,084,598
Less financial aid	(38,092,934)	(35,528,573)
Net tuition and fees	102,533,602	102,556,025
Private gifts	1,532,970	4,061,236
Endowment draw for operations	950,000	1,250,000
Auxiliary enterprises revenue	20,785,410	20,872,847
Rental income	2,105,611	1,683,089
Other income	6,766,767	4,979,898
Satisfaction of restrictions	11,759,438	7,866,627
Total revenues and other support	146,433,798	143,269,722
Expenses:		
Instruction	60,346,732	58,876,711
Institutional support	31,669,330	29,323,069
Student services	23,517,495	21,726,924
Auxiliary enterprises	14,852,070	13,496,859
Academic support	13,610,643	14,974,278
Public services	1,863,750	2,664,111
Total expenses	145,860,020	141,061,952
Change in unrestricted net assets from operating activities	573,778	2,207,770
Non-operating activities:		
Investment income, net after the application of endowment draws	3,077,436	6,449,618
Gain on interest rate swap agreements	2,077,846	2,050,055
Change in postretirement benefit obligation	(1,131,050)	94,167
Change in defined benefit retirement plan obligation	(45,053)	500,005
Retirement plan minimum contribution	(112,660)	-
Retirement incentive plan expense	-	(114,750)
Satisfaction of restrictions, capital gifts	6,766,712	3,370,773
Change in unrestricted net assets from non-operating activities	10,633,231	12,349,868
Increase in unrestricted net assets	11,207,009	14,557,638
Changes in temporarily restricted net assets:		
Private gifts	18,398,751	12,278,009
Adjustments of actuarial liability for annuities payable	(164,122)	122,508
Investment income, net	2,963,861	2,464,712
Other income	337,536	47,282
Government and other grants	1,724,275	1,516,594
Net assets released from restrictions	(18,554,475)	(11,255,979)
Increase in temporarily restricted net assets	4,705,826	5,173,126
Changes in permanently restricted net assets:		
Private gifts	3,171,344	2,660,046
Investment income, net	37,459	57,537
Adjustments of actuarial liability for annuities	5,061	9,968
Transfers and changes in value of split interest	28,325	18,579
Increase in permanently restricted net assets	3,242,189	2,746,130
Increase in net assets	19,155,024	22,476,894
Net assets at beginning of year	180,661,610	158,184,716
Net assets at end of year	$ 199,816,634	$ 180,661,610

See accompanying notes to the consolidated financial statements.

LIPSCOMB UNIVERSITY

Consolidated Statements of Cash Flows

Years ended May 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Increase in net assets	$ 19,155,024	$ 22,476,894
Adjustments to reconcile change in net assets to cash flows provided (used) by operating activities:		
Depreciation	7,746,297	6,757,169
Provision for uncollectible accounts	255,906	418,452
Net gain on interest rate swap agreements	(2,077,846)	(2,050,055)
Amortization of bond issuance costs and bond discount (premiums), net	(220,432)	(221,630)
Net (gain) loss on investments, excluding real estate	(4,673,975)	(8,709,058)
Net loss on sale of real estate investments	(529,849)	9,500
Gifts restricted for investments and plant facilities	(14,855,934)	(10,052,734)
Non-cash gifts of fixed assets	(10,872)	(3,000)
(Increase) decrease in operating assets:		
Accounts receivable	(2,344,011)	(852,664)
Contributions receivable, net	(10,286,704)	(2,847,113)
Prepaid expenses and other assets	166,461	(424,320)
Increase (decrease) in operating liabilities:		
Student accounts and deposits collected in advance	(11,525)	(384,939)
Accounts payable	278,114	(52,794)
Accrued expenses and liabilities	21,144	(619,235)
Deferred revenue	208,086	(79,784)
Annuities payable	37,667	1,093,204
Accrued postretirement benefit obligation	1,131,050	(94,167)
Accrued pension benefit liability	45,053	(500,005)
Total adjustments	(25,121,370)	(18,613,173)
Net cash provided (used) by operating activities	(5,966,346)	3,863,721
Cash flows from investing activities:		
Purchases of plant facilities	(16,140,454)	(35,266,830)
Proceeds from sale of investments	123,022,027	13,903,145
Purchases of investments	(123,394,211)	(11,890,465)
Proceeds from sale of real estate investments	1,018,941	136,500
Purchases of real estate investments	(948,465)	(1,576,465)
Net decrease in federal student loans refundable	23,710	(186,777)
Change in student loans receivable, net	(181,218)	(150,724)
Net cash used by investing activities	(16,599,670)	(35,031,616)
Cash flows from financing activities:		
Payments of notes and loans payable	(150,730)	(144,676)
Proceeds from bonds payable	8,490,825	2,593,156
Cash from bond proceeds restricted for capital projects	-	24,777,072
Payments of bonds payable	(1,091,892)	(163,659)
Payment of debt issuance costs	-	(30,000)
Payments of capital leases	(407,204)	(400,606)
Gifts restricted for investments and plant facilities	14,855,934	10,052,734
Net cash provided by financing activities	21,696,933	36,684,021
Increase (decrease) in cash and cash equivalents	(869,083)	5,516,126
Cash and cash equivalents at beginning of year	12,012,432	6,496,306
Cash and cash equivalents at end of year	$ 11,143,349	$ 12,012,432

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, church-related university located in Nashville, Tennessee with an enrollment of approximately 4,600 students seeking undergraduate, graduate and doctoral degrees. The University also provides pre-kindergarten 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 28 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) 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.

(b) 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 consolidated 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 of Trustees.

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 16 and 17).

Designated for plant facilities - Represents the residual equity or deficit of net capital assets less any related debt and adjusted for the interest rate swaps.

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

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

All contributions are reported as unrestricted net assets 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.

(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) Revenue and support 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 reported as a reduction of tuition and educational fees. Financial aid does not include payments made to students for services rendered to the University.

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.

Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity. Contributions of property and equipment without donor stipulations concerning the use of such assets are reported as unrestricted revenue. The University does not impose a time restriction on the use of contributed long-lived assets unless specified by donors. Contributions of cash or other assets to be used to acquire property and equipment with such donor stipulations are reported as temporarily restricted net assets; the restrictions are considered to be released upon the acquisition of such assets.

(f) Investments and endowment

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. Investment income reported in the consolidated 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 (loss) is earned. All other donor-restricted investment income (loss) is reported as an increase (decrease) in temporarily or permanently restricted net assets unless otherwise specified by the donor.

The University's spending policy allows for an annual unrestricted endowment draw amount of the lesser of 4.5% or $1,500,000 (actual draws were $950,000 and $1,250,000 for the years ending May 31, 2018 and 2017, respectively) and an annual 5.0% draw from the restricted endowment. It is the University's intent to incrementally eliminate the unrestricted draw through 2021. 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 2018, the Board of Trustees authorized an additional draw of $450,000 which was offset by a $500,000 repayment from a prior special endowment draw. No such draw was authorized for 2017.

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

(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 assets' estimated useful life using the straight-line method.

The estimated useful lives of fixed assets are as follows:

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

(i) 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 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 the consolidated statements of financial position. As of May 31, 2018 and 2017, assets under such split-interest agreements totaled $383,053 (or $287,290 net of liabilities) and $372,346 (or $279,260 net of liabilities), respectively, and are included in investments on the consolidated statements of financial position.

(j) 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.

As of May 31, 2018 and 2017, the University had accrued no interest or 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.

(k) Advertising costs

Advertising and promotion costs are expensed as incurred. The University incurred advertising costs of $1,438,661 and $1,506,832 for the years ended May 31, 2018 and 2017, respectively.

(l) 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.

(m) 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.

(n) 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.

(o) 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 fundraising expenses of approximately $4,724,000 and $4,216,000 in 2018 and 2017, 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.

(p) Allocation of costs in the consolidated 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.

(q) 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.

(r) New accounting standards

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 (donor restricted and non-donor restricted), 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. This standard is effective for fiscal years beginning after December 15, 2017 and will be adopted by the University for fiscal year 2019. The University expects the impact of adoption to be in the form of additional disclosures.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09, along with subsequent amendments, supersedes most existing revenue recognition guidance and outlines a single comprehensive standard for revenue recognition across all industries. In addition, ASU 2014-09 requires expanded quantitative and qualitative disclosures, including disclosure about the nature, amount, timing and uncertainty of revenue. This standard is effective for fiscal years beginning after December 15, 2017 and will be adopted by the University for fiscal year 2019. The University continues to evaluate its population of revenue sources to assess the potential effects ASU 2014-09 will have on its consolidated financial statements and related disclosures; however, the University expects the primary impact to be in the form of additional financial statement disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the balance sheet. This standard is effective for fiscal years beginning after December 15, 2018 and will be adopted by the University for fiscal year 2020. The adoption of ASU 2016-02 will increase total assets and total liabilities. The University is currently evaluating the effect of adoption on the University's consolidated financial statements.

(s) Events occurring after reporting date

The University's management has evaluated events and transactions that occurred between May 31, 2018 and September 28, 2018, 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) 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.

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, 2018 and 2017, four insurance companies, rated A- and better by A.M. Best, held approximately 67% and 68%, respectively, of the cash value of life insurance policies owned by the University.

(4) Accounts receivable

A summary of accounts receivable as of May 31, 2018 and 2017 is as follows:

	2018	2017
Student accounts receivable	$ 3,333,384	$ 3,143,703
Other receivables	2,382,070	725,725
Subtotal	5,715,454	3,869,428
Less allowance for uncollectible accounts	(1,320,001)	(1,612,644)
	$ 4,395,453	$ 2,256,784

(5) Contributions receivable

A summary of contributions receivable as of May 31, 2018 and 2017 is as follows:

	2018	2017
Unconditional promises expected to be collected in:		
Less than one year	$ 904,202	$ 1,937,451
One year to five years	21,751,578	16,498,542
Over five years	22,447,295	15,740,040
	45,103,075	34,176,033
Less discount for net present value	(11,532,577)	(8,609,390)
Less allowance for uncollectible contributions receivable	(262,648)	(318,661)
	$ 33,307,850	$ 25,247,982

Such contributions receivable as of May 31, 2018 and 2017 are to be utilized for the following purposes:

	2018	2017
Unrestricted	$ 4,095,670	$ 3,307,289
Operations and scholarships	3,023,659	4,900,304
Acquisition of property and equipment	25,815,521	16,636,420
Endowment	373,000	403,969
	$ 33,307,850	$ 25,247,982

Contributions receivable have been discounted using rates generally ranging from 2.80% to 5.00% as of May 31, 2018 and 2017. The weighted average discount rate of pledges outstanding as of May 31, 2018 and 2017 was 4.58% and 4.75%, respectively.

(6) Investments, excluding real estate

A summary of investments as of May 31, 2018 and 2017 is as follows:

	2018	2017
Short-term investments	$ 1,532,771	$ 3,915,375
Mutual funds	41,463,959	47,672,781
Marketable equity securities	541,140	4,365,739
Common trust funds	27,358,924	-
Corporate bonds and government securities	418,534	3,615,390
Limited partnerships, private equity and other funds	20,815,875	27,557,237
Life insurance policies	2,162,915	2,121,437
	$ 94,294,118	$ 89,247,959

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.

The following schedule summarizes the investment gains (losses) in the consolidated statements of activities for the years ended May 31, 2018 and 2017:

	2018	2017
Interest and dividends	$ 2,108,790	$ 1,683,648
Unrealized gain (loss) on investments, net	(2,386,887)	8,543,839
Realized gain on investments, net	7,611,952	165,219
Investment management fees	(305,099)	(170,839)
	$ 7,028,756	$ 10,221,867

The above investment returns are classified in the consolidated statement of activities and changes in net assets as follows:

	2018	2017
Endowment draw for operations	$ 950,000	$ 1,250,000
Unrestricted investment gain (loss) after the application of endowment draws	3,077,436	6,449,618
Temporarily restricted	2,963,861	2,464,712
Permanently restricted	37,459	57,537
	$ 7,028,756	$ 10,221,867

(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, 2018 and 2017.

(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.**

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

(vi) ***Collective trust funds*****: Valued at the net asset value of units of the collective 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, 2018 and 2017:

	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)	$ -

	Fair Value Measurements as of May 31, 2017 using the following inputs			
	Total	Level 1	Level 2	Level 3
Short-term investments	$ 3,915,375	$ 3,915,375	$ -	$ -
Mutual funds:				
Large cap	23,495,820	23,495,820	-	-
International	18,648,685	18,648,685	-	-
Exchange traded	5,528,276	5,528,276	-	-
Total mutual funds	47,672,781	47,672,781	-	-
Marketable equity securities	4,365,739	4,365,739	-	-
Corporate bonds and government securities	3,615,390	3,615,390	-	-
Limited partnerships, private equity and other investment funds	27,557,237	-	13,594,512	13,962,725
Life insurance policies	2,121,437	-	-	2,121,437
Total investments	$ 89,247,959	$ 59,569,285	$ 13,594,512	$ 16,084,162
Interest rate swaps	$ (5,754,682)	$ -	$ (5,754,682)	$ -

The following table provides a summary of changes in fair value of the University's Level 3 assets for the years ended May 31, 2018 and 2017:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Total	Limited Partnership Interest, private Equity and Other	Life Insurance Policies
Balance at May 30, 2016	$ 16,469,517	$ 14,443,321	$ 2,026,196
Realized gains	548,402	529,919	18,483
Unrealized (losses) gains relating to instruments still held at the reporting date	(104,073)	(224,012)	119,939
Purchases, sales and settlements, net	(829,684)	(786,503)	(43,181)
Balance at May 31, 2017	16,084,162	13,962,725	2,121,437
Realized gains	893,387	766,253	127,134
Unrealized (losses) gains 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

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, 2018 and 2017:

	2018				2017
Category of Investment	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period	Fair Value
Private Equity	$ 4,656,026	$ 6,528,000	Not permitted during life of the funds	N/A	$ 5,136,660
Real Estate	2,243,963	5,594,000	No immediate redemption	N/A	1,170,240
Equity Long/Short and Absolute Return Hedge Funds	9,721,803	-	Monthly to Annually	30 - 100 days	8,103,818
International Equity	19,146,693	-	Monthly	5 days notice	8,560,973
Domestic Equity	-	-	Monthly	30 days notice	4,085,995
Fixed Income	5,804,605	-	Monthly	30 days notice	-
Other	574,295	-	No immediate redemption	N/A	499,551
Total	$42,147,385	$ 12,122,000			$ 27,557,237

Private Equity - This category includes investments in private equity funds and funds-of-funds that invest 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. Substantially all such investments held at May 31, 2018 are scheduled to be liquidated within the next three years.

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 20% of such investments in this category were in liquidation at May 31, 2018 with final liquidation to occur within the next two years.

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 - Investments in this category include funds that seek to achieve long-term capital appreciation by investing primarily in the equity securities of non-U.S. issuers whose equity market capitalizations exceed $5 billion.

Domestic Equity - The underlying investments in this category consist primarily of domestic equity securities focused on a long-term growth strategy.

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) Real estate investments

A summary of real estate investments as of May 31, 2018 and 2017 is as follows:

	2018	2017
Properties adjacent to the University	$ 23,713,012	$ 22,766,248
Properties not adjacent to the University	423,104	910,495
	24,136,116	23,676,743
Accumulated depreciation on real estate investments	(6,518,932)	(5,996,957)
	$ 17,617,184	$ 17,679,786

Real estate investments include properties that are rented to third parties. Such properties are recorded at cost and depreciated over each properties' estimated useful life. Depreciation expense on these properties totaled $521,975 and $481,045 for the years ended May 31, 2018 and 2017, respectively. Additionally, certain of the real estate investment properties are subject to sale/leaseback transactions (see Note 20).

(9) Property and equipment

A summary of property and equipment as of May 31, 2018 and 2017 is as follows:

	2018	2017
Buildings and campus	$ 264,842,542	$ 234,418,837
Computer equipment and software	3,491,465	3,265,515
Furniture, fixtures and office equipment	18,313,098	18,823,460
General equipment	8,386,876	7,896,345
Laboratory equipment	6,016,640	5,976,171
Automobiles	786,857	697,425
Construction in progress	4,997,207	20,586,491
	306,834,685	291,664,244
Accumulated depreciation	(118,593,283)	(112,328,224)
	$ 188,241,402	$ 179,336,020

Depreciation expense on property and equipment amounted to $7,224,322 and $6,276,124 for the years ended May 31, 2018 and 2017, respectively.

As of May 31, 2018 and 2017, the University had commitments remaining under construction contracts totaling approximately $11,060,000 and $6,172,000 that were at various stages of completion through fiscal years 2018 and 2017, respectively. The retainage payable related to construction projects at May 31, 2017 was approximately $467,000, which is included in accrued expenses and liabilities in the accompany consolidated statements of financial position. There was no retainage payable related to construction projects at May 31, 2018.

(10) Lines of credit

At May 31, 2018, the University had a $2,500,000 revolving line of credit available with a bank. The outstanding balance of the line bore interest at a rate equal to 1-month LIBOR plus 1.50% per year. The line was set to mature in January 2019 and was unsecured. The University had no outstanding borrowings under the line at May 31, 2018 and 2017. The terms of the line of credit included 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, 2018 and 2017.

In August 2018, the University amended the terms of the revolving line of credit to increase the available line from $2,500,000 to $5,000,000 and extend the maturity date from January 2019 to January 2020. All other terms and conditions of the line of credit were unchanged from the original line of credit.

(11) Notes payable

A summary of notes payable as of May 31, 2018 and 2017 is as follows:

	2018	2017
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.	$ 921,687	$ 1,072,417
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, 2018). Secured by real property.	5,000,000	5,000,000
Total notes payable	$ 5,921,687	$ 6,072,417

A summary of future minimum annual payments of notes payable as of May 31, 2018 is as follows:

Year	Amount
2019	$ 185,888
2020	335,723
2021	351,658
2022	363,706
2023	376,879
2024 and later years	4,307,833
	$ 5,921,687

The term loans due to a bank include 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, 2018 and 2017.

(12) Bonds payable

A summary of bonds payable as of May 31, 2018 and 2017 is as follows:

	2018	2017
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 based upon effective interest rate of 4.15% of $7,272,271 and $7,534,492 and less debt issuance costs of $769,910 and $797,407 at May 31, 2018 and 2017, respectively.	$ 68,233,361	$ 69,387,086
Revenue Bonds (Lipscomb University Project) Series 2016B; due in monthly payments ranging from $9,963 to $329,630 beginning May 2019 through May 2039; bearing interest at a rate equal to 67% of the sum of 30-day LIBOR plus 1.75% (2.98% as of May 31, 2018); less debt issuance costs of $189,307 and $198,321 at May 31, 2018 and 2017, respectively.	33,480,669	24,981,829
Revenue Bonds (Lipscomb University Project) Series 2013; due in monthly payments ranging from $13,638 to $25,828 through December 2033, bearing interest at a fixed rate of 3.79%; net of unamortized debt issuance costs of $26,389 and $31,667 at May 31, 2018 and 2017, respectively.	3,693,473	3,860,087
Total bonds payable	$ 105,407,503	$ 98,229,002

A summary of future annual minimum payments of bonds payable as of May 31, 2018 is as follows:

Year	Amount
2019	$ 1,119,481
2020	1,160,100
2021	1,331,764
2022	1,423,144
2023	1,483,032
2024 and later years	98,889,982
	$ 105,407,503

The terms of the bonds payable include certain negative pledge agreements, including a debt incurrence test, as well as a debt service coverage ratio and minimum unrestricted liquidity requirements. The University was in compliance with these terms as of May 31, 2018 and 2017.

(13) Interest rate swap agreements

The University has 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 terminate between November 2023 and November 2028 and have 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 and $5,754,682 at May 31, 2018 and 2017, respectively.

The University's bonds have three components that determined the University’s effective interest rate: (1) the University pays a variable rate of interest as defined in the Master Trust Indenture; (2) the University receives 67% of one month LIBOR from the bank; and (3) the University pays 3.58% to the bank per the weighted average of the University's interest rate swap agreements.

The effective all-in rate of interest (when all three interest variables are combined) of Lipscomb University was 5.03% and 5.26% for fiscal years 2018 and 2017, respectively.

Interest expense on the University's lines of credit and notes payable was approximately $228,000 and $192,000 for 2018 and 2017, respectively. Interest expense on the bonds payable was approximately $3,664,000 and $3,281,000 for the years ended May 31, 2018 and 2017, respectively. Total interest expense was approximately $4,818,000 and $4,435,000 for 2018 and 2017, respectively.

(14) Capital lease obligations

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

The University's obligation under these capital leases is as follows:

	2018	2017
Minimum lease payments payable	$ 2,451,271	$ 2,944,670
Less: portion representing interest	227,244	313,439
Capital lease obligations	$ 2,224,027	$ 2,631,231

Future minimum annual lease payments payable under the capital leases as of May 31, 2018 are as follows:

Year	Amount
2019	$ 493,398
2020	493,398
2021	1,163,158
2022	104,399
2023	98,459
2024 and later years	98,459
	$ 2,451,271

Property and equipment utilized under capital leases is comprised of the following at May 31, 2018 and 2017:

	2018	2017
Land	$ 685,849	$ 685,849
Buildings	1,600,313	1,600,313
General equipment	1,093,735	1,093,735
	3,379,897	3,379,897
Less: accumulated amortization	519,540	365,767
	$ 2,860,357	$ 3,014,130

Amortization expense associated with assets under capital leases totaled $153,773 and $147,833 during 2018 and 2017, respectively.

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.

(15) Accrued expenses and liabilities

A summary of accrued expenses and liabilities as of May 31, 2018 and 2017 is as follows:

	2018	2017
Accrued payroll and benefits	$ 4,646,894	$ 4,346,287
Deferred gains on sale/leaseback transactions and other property repurchase agreements	4,643,167	4,883,031
Accrued interest	833,335	808,065
Accrued health claims payable	601,295	435,394
Agency liabilities	411,518	398,122
Other current liabilities	949,562	1,103,249
	$ 12,085,771	$ 11,974,148

(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 $2,817,548 and $2,574,801 for fiscal years 2018 and 2017, 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 110 participants in the plan at May 31, 2018. 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, 2018 and 2017:

	2018	2017
Fair value of plan assets	$ 6,291,975	$ 6,135,240
Benefit obligation	6,537,584	6,335,796
Funded status	$ (245,609)	$ (200,556)

Weighted-average assumptions used to determine benefit obligations at May 31, 2018 and 2017 are as follows:

	2018	2017
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, 2018 and 2017 are as follows:

	2018	2017
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 2018 and 2017 is as follows:

	2018	2017
Pension expense	$ 395,105	$ 371,396
Benefits paid	$ 293,508	$ 529,400
Actuarial (gain) loss	$ 92,633	$ (222,394)

Expected benefit payments, including future service and pay, as appropriate, are estimated at May 31, 2018 to be paid for the next ten years as follows:

Year	Amount
2019	$ 2,137,000
2020	641,000
2021	630,000
2022	319,000
2023	606,000
2024 through 2028	2,752,000

The plan's weighted-average asset allocations at May 31, 2018 and 2017 by asset category are as follows:

Asset Category	2018	2017
Equity securities	54 %	55 %
Fixed income	10 %	14 %
Limited partnerships, private equity and other investment funds	9 %	24 %
Cash equivalents	27 %	- %
Other	- %	7 %
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.

(c) Retirement incentive plan

During 2015, the University offered a one-time retirement incentive plan to full-time employees who met certain age and years of service requirements. The plan pays out a specified percentage of the eligible employee's compensation based on years of service that will be paid in equal annual installments over a period of five years. The plan also allows eligible employees to continue their current fringe benefits, including health insurance, for five years. The University recognized a liability totaling approximately $508,000 and $787,000 at May 31, 2018 and 2017, respectively, for the outstanding obligation under the plan which is included with accrued expenses and liabilities in the accompanying consolidated statements of financial position.

(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 $115,000 per individual claim for covered employees. Amounts in excess of $115,000 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 $601,000 and $435,000 at May 31, 2018 and 2017, 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 130 retirees covered by the plan at May 31, 2018. Lifetime claims of an individual in excess of $2,000,000 are the obligation of the retiree. Total costs of the plan were $503,434 and $354,743 in 2018 and 2017, 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, 2018 and 2017:

	2018	2017
Accrued postretirement benefit obligation:		
For retirees	$ 2,627,087	$ 2,593,577
For active employees	3,824,206	2,726,666
Accrued postretirement benefit obligation	$ 6,451,293	$ 5,320,243

The accumulated postretirement benefit obligation was reduced (increased) by approximately ($77,000) and $66,000 during 2018 and 2017, respectively, as the result of actuarial revaluations. Additionally, effective January 1, 2018, the plan was amended to eliminate the total lifetime limit of claims of $100,000 per participant. The plan also changed from a self-insured plan to being fully insured. Primarily due to these changes, the accumulated postretirement benefit obligation increased by approximately $1,042,000 in 2018.

Net periodic postretirement benefit costs for 2018 and 2017 include the following components:

	2018	2017
Service cost	$ 26,692	$ 22,437
Interest cost	245,255	222,908
Recognized prior service (income) cost	99,181	(35,139)
Recognized net losses	132,306	144,537
Net periodic postretirement benefit cost	$ 503,434	$ 354,743

Expected benefit payments, including future service, as appropriate, are expected as of May 31, 2018 to be paid for the next ten years as follows:

Year	Amount
2019	$ 334,000
2020	329,000
2021	342,000
2022	355,000
2023	350,000
2024 through 2028	1,969,000

The benefit payments listed in the above table were determined through actuarial valuation. For measurement purposes at May 31, 2018, a 5.00% 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 4.25% at May 31, 2018 and 2017.

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 $871,000 and $219,000 at May 31, 2018 and 2017, respectively, and would increase the net periodic postretirement benefit cost by approximately $32,000 in 2018 and $17,000 in 2017.

(18) Net assets

Temporarily restricted net assets as of May 31, 2018 and 2017 are committed for the following purposes:

	2018	2017
Annuity and life income funds which convert to unrestricted net assets upon maturity	$ 3,259,970	$ 3,063,446
Scholarships and instruction	17,828,841	16,997,174
Capital improvements	27,398,135	23,432,223
Other programs	2,099,180	2,387,457
	$ 50,586,126	$ 45,880,300

As of May 31, 2018 and 2017, permanently restricted net assets consisted primarily of investments and contributions receivable totaling $54,600,658 and $51,358,469, respectively, that are to be held in perpetuity, the income of which is expendable for both specific and general purposes.

(19) 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.

The endowment pool market value to net asset analysis as of May 31, 2018 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment pool:				
Donor-restricted	$ -	$ 10,236,025	$ 54,527,004	$ 64,763,029
Board-designated	20,273,808	-	-	20,273,808
Total endowment	$ 20,273,808	$ 10,236,025	$ 54,527,004	$ 85,036,837

The endowment pool market value to net asset analysis as of May 31, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment pool:				
Donor-restricted	$ -	$ 9,877,230	$ 51,291,351	$ 61,168,581
Board-designated	17,856,550	-	-	17,856,550
Total endowment	$ 17,856,550	$ 9,877,230	$ 51,291,351	$ 79,025,131

Changes in endowment net assets for the fiscal years ended May 31, 2018 and 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2016	$ 10,647,122	$ 9,540,537	$ 48,572,103	$ 68,759,762
Investment return:				
Investment income	1,461,430	-	-	1,461,430
Net appreciation (depreciation) - realized and unrealized	5,951,614	2,669,485	-	8,621,099
Total investment return	7,413,044	2,669,485	-	10,082,529
Contributions	1,046,384	-	2,719,248	3,765,632
Appropriation of endowment assets for expenditure	(1,250,000)	(2,332,792)	-	(3,582,792)
Endowment net assets, May 31, 2017	17,856,550	9,877,230	51,291,351	79,025,131

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2017 (Cont.)	17,856,550	9,877,230	51,291,351	79,025,131
Investment return:				
Investment income	1,540,999	-	-	1,540,999
Net appreciation (depreciation) - realized and unrealized	1,813,588	2,923,356	-	4,736,944
Total investment return	3,354,587	2,923,356	-	6,277,943
Contributions	12,671	-	3,235,653	3,248,324
Appropriation of endowment assets for expenditure	(950,000)	(2,564,561)	-	(3,514,561)
Endowment net assets, May 31, 2018	$ 20,273,808	$ 10,236,025	$ 54,527,004	$ 85,036,837

(20) Lease commitments

The University leases classroom space, vehicles and various equipment under operating leases. Rent expense under these leases was approximately $2,150,000 and $1,878,000 in 2018 and 2017, respectively.

A summary of approximate future minimum payments under these operating leases as of May 31, 2018 are as follows:

Year	Amount
2019	$ 2,562,000
2020	2,022,000
2021	1,687,000
2022	1,559,000
2023	1,330,000
Thereafter	2,694,000
	$ 11,854,000

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 2019.

The University has also entered into certain property leasing arrangements for 49 properties totaling an acquired value of $25,665,000 that were either leased with a future option to purchase (leasehold properties) or were sold and subsequently leased back from the purchaser with a future option to purchase (sale/leaseback properties).

The University leases 34 leasehold properties from third parties for periods of up to eight years. The lease agreements include an option to purchase the property at any time during the lease agreement calculated at the lessors' acquired value (approximately $20,612,000 at May 31, 2018) plus a rate of four percent per year.

The sale/leaseback properties, which cover 15 properties with an acquired value of $5,053,000, were sold and subsequently leased back from the purchaser and are subject to sale/leaseback accounting treatment. These sale/leaseback agreements provide the University with an option to repurchase the properties during periods ranging from four to eight years from the purchase date with the acquisition price increasing at a rate of four percent per year. As a result of the continuing involvement in the sale/leaseback properties due to the repurchase option, the University deferred the resulting gains and has recognized a liability equal to the sales proceeds received totaling approximately $4,643,000 and $4,883,000 at May 31, 2018 and 2017, respectively. The University will recognize any gains on the sale of the properties when the corresponding repurchase options expire and the repurchase options are not exercised.

During 2018 and 2017, lease expense related to all leasing arrangements combined amounted to approximately $1,308,000 and $1,223,000, respectively, and rental income under all subleases amounted to approximately $1,029,000 and $897,000, respectively.

Approximate future minimum rental payments due under the leasing arrangements as of May 31, 2018 are as follows:

Year	Leaseholds	Sale/Leasebacks	Total
2019	$ 912,000	$ 222,000	$ 1,134,000
2020	859,000	171,000	1,030,000
2021	571,000	103,000	674,000
2022	278,000	39,000	317,000
2023	198,000	17,000	215,000
	$ 2,818,000	$ 552,000	$ 3,370,000

Approximate future minimum rental income under the leasing arrangements as of May 31, 2018 are expected to be as follows:

Year	Leaseholds	Sale/Leasebacks	Total
2019	$ 663,000	$ 228,000	$ 891,000
2020	565,000	167,000	732,000
2021	357,000	108,000	465,000
2022	168,000	30,000	198,000
2023	97,000	9,000	106,000
	$ 1,850,000	$ 542,000	$ 2,392,000

All leasing agreements 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. Management has determined that any potential liability related to this commitment is not material to the consolidated financial statements as a whole.

(21) 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, 2018.

(22) 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.

(23) Supplemental disclosures of cash flow statement information

	2018	2017
Approximate interest paid	$ 5,138,000	$ 5,284,000

During 2017, the University incurred capital lease obligations of $50,914 for the acquisition of equipment.

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.