

LIPSCOMB UNIVERSITY

Consolidated Financial Statements

May 31, 2022 and 2021

(With Independent Auditors' Report Thereon)



LIPSCOMB UNIVERSITY

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1 - 2
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities and Changes in Net Assets	4
Consolidated Statements of Cash Flows	5 - 6
Consolidated Statements of Functional Expenses	7 - 8
Notes to the Consolidated Financial Statements	9 - 40

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Lipscomb University:

Opinion

We have audited the accompanying consolidated financial statements of Lipscomb University (the "University"), which comprise the consolidated statements of financial position as of May 31, 2022 and 2021, 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.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the University as of May 31, 2022 and 2021, and the changes in their net assets and their consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

LBMC, PC

Brentwood, Tennessee
September 30, 2022

LIPSCOMB UNIVERSITY

Consolidated Statements of Financial Position

May 31, 2022 and 2021

Assets

	<u>2022</u>	<u>2021</u>
Assets:		
Cash and cash equivalents	\$ 10,943,353	\$ 12,346,171
Accounts receivable, net	13,374,170	12,133,731
Student loans receivable	1,171,370	2,578,550
Contributions receivable, net	25,041,404	28,116,466
Prepaid expenses and other assets	1,608,904	1,256,047
Cash from bond proceeds restricted for capital projects	4,132,745	9,290,992
Investments, excluding real estate	111,558,352	114,062,903
Real estate investments	19,565,613	21,212,751
Operating lease right-of-use assets	3,586,046	5,334,092
Finance lease right-of-use assets	23,969,155	26,907,082
Property and equipment, net	<u>269,105,298</u>	<u>269,561,094</u>
	<u>\$ 484,056,410</u>	<u>\$ 502,799,879</u>

Liabilities and Net Assets

Liabilities:		
Student accounts and deposits collected in advance	\$ 708,017	\$ 1,090,963
Accounts payable, including construction payables of \$28,938 and \$925,099 in 2022 and 2021, respectively.	2,384,366	3,516,414
Refundable government grants	-	1,248,268
Accrued expenses and liabilities	12,838,922	13,663,944
Deferred revenue	11,655,138	12,280,560
Annuities payable	2,386,665	2,604,160
Operating lease liabilities	3,723,786	5,452,275
Finance lease liabilities	24,939,629	27,790,769
Note payable	1,500,000	1,700,000
Bonds payable	202,541,377	203,952,325
Accrued pension benefit liability	403,250	377,615
Accrued postretirement benefit obligation	5,202,031	6,123,991
Federal student loans refundable	<u>1,177,588</u>	<u>1,482,884</u>
Total liabilities	<u>269,460,769</u>	<u>281,284,168</u>
Net assets:		
Without donor restrictions	89,200,529	93,778,686
With donor restrictions	<u>125,395,112</u>	<u>127,737,025</u>
Total net assets	<u>214,595,641</u>	<u>221,515,711</u>
	<u>\$ 484,056,410</u>	<u>\$ 502,799,879</u>

See accompanying notes to the consolidated financial statements.

LIPSCOMB UNIVERSITY

Consolidated Statements of Activities and Changes in Net Assets

Years ended May 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Changes in net assets without donor restrictions:		
Revenues and other support:		
Tuition and education fees, net of scholarships totaling \$55,620,923 and \$51,728,047 in 2022 and 2021, respectively.	\$ 110,698,146	\$ 107,331,488
Auxiliary enterprises revenue	22,209,107	18,603,458
Contributions	479,875	1,324,372
Endowment draw for operations from board-designated endowment	800,000	850,561
Rental income	2,831,740	2,063,885
Other income	6,139,236	3,645,480
Net assets released from restrictions	<u>21,524,579</u>	<u>19,367,561</u>
Total revenues and other support	<u>164,682,683</u>	<u>153,186,805</u>
Expenses:		
Program:		
Instruction	64,487,984	60,265,331
Academic support	18,177,400	15,097,961
Auxiliary enterprises	19,240,706	15,964,817
Student services	32,875,585	27,908,838
Public services	<u>1,265,716</u>	<u>1,329,066</u>
Total program expenses	136,047,391	120,566,013
Management and general:		
Institutional support	<u>35,748,186</u>	<u>33,955,850</u>
Total expenses	<u>171,795,577</u>	<u>154,521,863</u>
Change in net assets without donor restrictions from operating activities	<u>(7,112,894)</u>	<u>(1,335,058)</u>
Non-operating activities:		
Investment return, net	(89,499)	6,040,634
Endowment draws for operations from board-designated endowment	(800,000)	(850,561)
Change in postretirement benefit obligation	954,070	78,342
Change in defined benefit retirement plan obligation	(25,635)	862,394
Retirement plan minimum contribution	(266,589)	(267,388)
Retirement incentive plan expense	(28,946)	(216,298)
Contribution of net assets from acquisition	-	5,459,294
Net assets released from restrictions for capital gifts	<u>2,836,935</u>	<u>12,585,562</u>
Change in net assets without donor restrictions from non-operating activities	<u>2,580,336</u>	<u>23,691,979</u>
Change in net assets without donor restrictions	<u>(4,532,558)</u>	<u>22,356,921</u>
Changes in net assets with donor restrictions:		
Contributions	11,218,863	14,138,334
Contribution of net assets from acquisition	-	1,310,045
Investment return, net	(758,331)	19,151,083
Federal and state grants	9,953,238	11,455,950
Adjustments of actuarial liability for annuities payable	286,966	(406,516)
Other income	1,273,266	713,717
Net assets released from restrictions	<u>(24,361,514)</u>	<u>(31,953,123)</u>
Change in net assets with donor restrictions	<u>(2,387,512)</u>	<u>14,409,490</u>
Change in net assets	(6,920,070)	36,766,411
Net assets at beginning of year	<u>221,515,711</u>	<u>184,749,300</u>
Net assets at end of year	<u>\$ 214,595,641</u>	<u>\$ 221,515,711</u>

See accompanying notes to the consolidated financial statements.

LIPSCOMB UNIVERSITY

Consolidated Statements of Cash Flows

Years ended May 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ <u>(6,920,070)</u>	\$ <u>36,766,411</u>
Adjustments to reconcile change in net assets to cash flows provided (used) by operating activities:		
Depreciation and amortization	12,974,388	10,620,261
Provision for uncollectible accounts	(8,230)	991,225
Amortization of bond issuance costs and bond discount (premiums), net	(465,948)	(465,949)
Loss on disposal of property and equipment	-	362
Net (gain) loss on investments, excluding real estate	2,038,849	(24,288,375)
Net (gain) loss on sale of real estate investments	(1,239,733)	(665,802)
Gifts restricted for investments and plant facilities	(2,567,468)	(7,420,844)
Non-cash gifts of fixed assets	38,141	-
Contribution recognized for AGST acquisition, net of cash acquired in AGST acquisition	-	(6,476,341)
Forgiveness of Paycheck Protection Program loan	-	(200,000)
(Increase) decrease in operating assets, net of acquisition:		
Accounts receivable	(1,232,209)	(923,802)
Contributions receivable	3,075,062	1,483,500
Prepaid expenses and other assets	(352,857)	(124,802)
Increase (decrease) in operating liabilities, net of acquisition:		
Student accounts and deposits collected in advance	(382,946)	(163,523)
Accounts payable	(1,756,423)	(657,884)
Refundable government grants	(1,248,268)	(1,333,756)
Accrued expenses and liabilities	(805,465)	(2,256,438)
Deferred revenue and refund liabilities	(625,422)	973,871
Annuities payable	(217,495)	363,049
Accrued postretirement benefit obligation	(921,960)	(33,801)
Accrued pension benefit liability	<u>25,635</u>	<u>(862,394)</u>
Total adjustments	<u>6,327,651</u>	<u>(31,441,443)</u>
Net cash provided (used) by operating activities	<u>(592,419)</u>	<u>5,324,968</u>
Cash flows from investing activities:		
Purchases of plant facilities	(9,159,630)	(30,838,330)
Proceeds from short term investments from bond proceeds restricted for capital projects, net	-	21,439,713
Proceeds from sale of investments	48,036,319	31,717,544
Purchases of investments	(47,570,617)	(31,597,006)
Proceeds from sale of real estate investments	3,445,958	784,587
Purchases of real estate investments	(1,228,606)	(968,039)
Net decrease in federal student loans refundable	(305,296)	(247,424)
Change in student loans receivable, net	<u>1,407,180</u>	<u>(672,488)</u>
Net cash used by investing activities	<u>(5,374,692)</u>	<u>(10,381,443)</u>

See accompanying notes to the consolidated financial statements.

LIPSCOMB UNIVERSITY

Consolidated Statements of Cash Flows, continued

Years ended May 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from financing activities:		
Proceeds from line of credit	5,500,000	11,000,000
Payments on line of credit	(5,500,000)	(11,000,000)
Payments on notes payable	(200,000)	-
Payments of bonds payable	(945,000)	(900,000)
Payments of finance lease liabilities	(2,016,422)	(2,225,716)
Gifts restricted for investments and plant facilities	<u>2,567,468</u>	<u>7,420,844</u>
Net cash provided (used) by financing activities	<u>(593,954)</u>	<u>4,295,128</u>
Decrease in cash, cash equivalents and restricted cash	(6,561,065)	(761,347)
Cash, cash equivalents and restricted cash at beginning of year	<u>21,637,163</u>	<u>22,398,510</u>
Cash, cash equivalents and restricted cash at end of year	<u>\$ 15,076,098</u>	<u>\$ 21,637,163</u>

Supplemental disclosures of cash flow statement information

	<u>2022</u>	<u>2021</u>
Approximate interest paid	<u>\$ 10,880,000</u>	<u>\$ 11,062,000</u>

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

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 10,943,353	\$ 12,346,171
Cash from bond proceeds restricted for capital projects	<u>4,132,745</u>	<u>9,290,992</u>
	<u>\$ 15,076,098</u>	<u>\$ 21,637,163</u>

See accompanying notes to the consolidated financial statements.

LIPSCOMB UNIVERSITY

Consolidated Statements of Functional Expenses

Year ended May 31, 2022

	Programs						Management and General	
	Instruction	Academic Support	Auxiliary Enterprises	Student Services	Public Services	Total Program Services	Institutional Support	Total
Salaries and wages	\$ 38,796,435	\$ 6,952,375	\$ 1,159,096	\$ 12,086,826	\$ 702,375	\$ 59,697,107	\$ 12,234,825	\$ 71,931,932
Fringe benefits	10,449,313	1,978,695	258,668	4,079,793	210,802	16,977,271	4,100,646	21,077,917
Professional and administrative	1,536,890	2,057,083	643,156	3,425,288	72,405	7,734,822	6,078,065	13,812,887
Special events	730,065	243,508	128,394	183,799	158,885	1,444,651	1,583,139	3,027,790
Operation of plant	3,061,716	397,748	2,273,937	906,049	-	6,639,450	2,099,749	8,739,199
Depreciation and amortization	4,545,484	590,505	3,375,931	1,345,139	-	9,857,059	3,117,329	12,974,388
Interest	486,979	3,425,562	4,166,520	144,111	-	8,223,172	2,095,493	10,318,665
Food service	-	-	4,885,310	-	-	4,885,310	-	4,885,310
Student Assistance (HEERF)	-	-	-	3,332,868	-	3,332,868	-	3,332,868
Other operating costs	<u>4,881,102</u>	<u>2,531,924</u>	<u>2,349,694</u>	<u>7,371,712</u>	<u>121,249</u>	<u>17,255,681</u>	<u>4,438,940</u>	<u>21,694,621</u>
Total expenses	<u>\$ 64,487,984</u>	<u>\$ 18,177,400</u>	<u>\$ 19,240,706</u>	<u>\$ 32,875,585</u>	<u>\$ 1,265,716</u>	<u>\$ 136,047,391</u>	<u>\$ 35,748,186</u>	<u>\$ 171,795,577</u>

See accompanying notes to the consolidated financial statements.

LIPSCOMB UNIVERSITY

Consolidated Statements of Functional Expenses

Year ended May 31, 2021

	Programs						Management and General	Total
	Instruction	Academic Support	Auxiliary Enterprises	Student Services	Public Services	Total Program Services	Institutional Support	
Salaries and wages	\$ 37,452,274	\$ 5,652,991	\$ 884,214	\$ 11,257,762	\$ 908,134	\$ 56,155,375	\$ 11,681,321	\$ 67,836,696
Fringe benefits	10,791,375	1,750,905	243,700	3,747,033	269,088	16,802,101	3,600,125	20,402,226
Professional and administrative	916,412	1,241,646	334,447	2,490,980	91,125	5,074,610	6,969,786	12,044,396
Special events	497,256	282,338	63,175	352,789	14,102	1,209,660	413,974	1,623,634
Operation of plant	3,355,786	435,951	2,492,342	993,073	-	7,277,152	2,301,424	9,578,576
Depreciation and amortization	3,711,088	482,109	2,756,226	1,100,917	-	8,050,340	2,569,921	10,620,261
Interest	497,645	2,406,789	2,412,429	147,267	-	5,464,130	1,629,161	7,093,291
Food service	-	-	4,324,127	-	-	4,324,127	-	4,324,127
Student Assistance (HEERF)	-	-	-	2,750,262	-	2,750,262	-	2,750,262
Other operating costs	<u>3,043,495</u>	<u>2,845,232</u>	<u>2,454,157</u>	<u>5,068,755</u>	<u>46,617</u>	<u>13,458,256</u>	<u>4,790,138</u>	<u>18,248,394</u>
Total expenses	<u>\$ 60,265,331</u>	<u>\$ 15,097,961</u>	<u>\$ 15,964,817</u>	<u>\$ 27,908,838</u>	<u>\$ 1,329,066</u>	<u>\$ 120,566,013</u>	<u>\$ 33,955,850</u>	<u>\$ 154,521,863</u>

See accompanying notes to the consolidated financial statements.

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

(1) Nature of operations

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

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

In December 2020, the University executed a merger agreement with the Institute for Christian Studies, Austin, Texas d/b/a Austin Graduate School of Theology ("AGST") with the University as the surviving corporation. See Note 22.

(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 subsidiaries. The University's subsidiaries include Sound Emporium Studios, LLC, which serves recording artists and producers, and provides educational learning opportunities for the University's music students, and AGST which extends the University's christian educational programs to Austin, Texas. All significant intercompany accounts and transactions have been eliminated.

(b) Cash equivalents

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

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

(c) Accounts and student loan receivables and credit policies

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

(d) 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.

(e) Investments

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

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

The University holds real estate that it classifies as an investment. These investment properties are primarily located near the main campus of the University. Certain of these properties are leased to students or other parties. The real estate properties held for investment are reported on the consolidated statements of financial position at cost, less depreciation. The University evaluates the real estate for impairment on an annual basis or as potential impairment indicators arise. No impairment of these properties was identified in fiscal years 2022 and 2021.

(f) Property and equipment

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

The estimated useful lives of fixed assets are as follows:

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

Costs associated with the development of software for internal use are capitalized and amortized over the software's useful life. Amortization begins when the software is ready for its intended use.

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.

(g) Leases

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

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

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.

(h) Annuities payable

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

(i) 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:

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

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, some 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.

(j) **Revenue from contracts with customers**

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

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.

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

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 and 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.

(k) 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.

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

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, 2022 and 2021, 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.

(l) Advertising costs

Advertising and promotion costs are expensed as incurred. The University incurred advertising costs of \$1,512,819 and \$2,043,533 for the years ended May 31, 2022 and 2021, respectively.

(m) 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.

(n) 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.

(o) 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.

(p) 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, the changes in postretirement and defined benefit retirement plan obligations, retirement plan minimum contribution, and retirement incentive plan expense. Additionally, amounts representing the satisfaction of restrictions from capital gifts are included in non-operating activities.

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

(q) 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 \$3,776,373 and \$4,021,892 in 2022 and 2021, respectively. For purposes of reporting fundraising expenses, the University includes only those fundraising costs incurred by its development office and expenses incurred for any capital campaigns.

(r) 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.

(s) Recently issued accounting pronouncements

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* ("ASU 2020-07"). ASU 2020-07 is to clarify the presentation and disclosure of contributed nonfinancial assets with an intention to provide the reader of the financial statements a clearer understanding of what type of nonfinancial assets were received and how they are used and recognized by the not-for-profit entity. The guidance is effective for the University beginning June 1, 2022. Management of the University is currently evaluating the impact adoption ASU 2020-07 will have on its consolidated financial statements and disclosures.

(t) Events occurring after reporting date

The University's management has evaluated events and transactions that occurred between May 31, 2022 and September 30, 2022, which is the date that the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

(3) Liquidity and availability

The following table reflects the University's financial assets as of May 31, 2022 and 2021 reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statements of financial position date:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 10,943,353	\$ 12,346,171
Cash from bond proceeds restricted for capital projects	4,132,745	9,290,992
Accounts receivable, net	13,374,170	12,133,731
Student loans receivable	1,171,370	2,578,550
Contributions receivable, net	25,041,404	28,116,466
Investments, excluding real estate	<u>111,558,352</u>	<u>114,062,903</u>
Financial assets at end of year	<u>166,221,394</u>	<u>178,528,813</u>
Less: assets unavailable for general expenditure within one year:		
Board-designated endowment	17,710,382	18,993,983
Cash and short-term investments from bond proceeds restricted for capital projects	4,132,745	9,290,992
Portion of donor restricted endowment to be held in perpetuity	84,833,537	85,014,203
Investments held in charitable remainder trusts	4,759,672	5,559,348
Investments held in insured gift annuities	1,564,958	1,657,432
Student loans receivable due in greater than one year	1,112,739	1,308,691
Contributions receivable due in greater than one year	<u>15,542,629</u>	<u>27,171,002</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 36,564,732</u>	<u>\$ 29,533,162</u>

As part of the University's liquidity management plan, it structures its financial assets to be available as its obligations come due. Cash is held in interest bearing bank accounts and is invested in short and intermediate term fixed income investments, certificates of deposit, and money market funds. Additionally, the University has a \$10,000,000 operating line of credit (Note 11) available with a bank which could be utilized by the University for operations as needed.

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

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

(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, 2022, three insurance companies, rated A- and better by A.M. Best, held approximately 59% of the cash value of life insurance policies owned by the University. As of May 31, 2021, four insurance companies, rated A- and better by A.M. Best, held approximately 66% of the cash value of life insurance policies owned by the University.

As of May 31, 2022 and 2021, approximately 67% and 63%, respectively, of the University's contributions receivable were due from four donors. During 2021 and 2022, there were no donors that contributed greater than 10% of total private gifts.

(5) Accounts receivable

A summary of accounts receivable as of May 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Tuition and fees receivable	\$ 13,136,083	\$ 13,229,562
Accounts and other receivables	1,268,872	1,352,758
Grants receivable	<u>1,622,453</u>	<u>458,405</u>
Subtotal	16,027,408	15,040,725
Less allowance for uncollectible accounts	<u>(2,653,238)</u>	<u>(2,906,994)</u>
	<u>\$ 13,374,170</u>	<u>\$ 12,133,731</u>

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

(6) Contributions receivable

A summary of contributions receivable as of May 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Unconditional promises due in:		
Less than one year	\$ 13,409,232	\$ 1,000,437
One year to five years	11,919,726	26,304,091
Over five years	<u>12,665,927</u>	<u>14,214,599</u>
	37,994,885	41,519,127
Less discount for net present value	(12,776,193)	(13,385,752)
Less allowance for uncollectible contributions receivable	<u>(177,288)</u>	<u>(16,909)</u>
	<u>\$ 25,041,404</u>	<u>\$ 28,116,466</u>

Contributions receivable have been discounted using rates generally ranging from 0.11% to 5.00% as of May 31, 2022 and 2021. The weighted average discount rate of pledges outstanding as of May 31, 2022 and 2021 was 3.41% and 3.24%, respectively. The majority of the University's unconditional promises to give are restricted by donors for scholarships, endowments and the acquisition of property and equipment.

(7) Fair value measurements

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

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

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.

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

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, 2022 and 2021.

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

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.

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

The following tables set forth by level, within the fair value hierarchy, the University's financial instruments at fair value as of May 31, 2022 and 2021:

Fair Value Measurements as of <u>May 31, 2022 using the following inputs</u>				
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term investments	\$ 11,508,114	\$ 11,508,114	\$ -	\$ -
Mutual funds:				
Large cap	32,742,407	32,742,407	-	-
Mid cap	3,674,936	3,674,936	-	-
International	2,155,203	2,155,203	-	-
Fixed income	584,730	584,730	-	-
Exchange traded	<u>7,104,101</u>	<u>7,104,101</u>	<u>-</u>	<u>-</u>
Total mutual funds	46,261,377	46,261,377	-	-
Marketable equity securities	54,196	54,196	-	-
Common trust funds	22,358,566	-	22,358,566	-
Corporate bonds and government securities	423,652	423,652	-	-
Limited partnerships, private equity and other investment funds	28,721,840	-	-	28,721,840
Life insurance policies	<u>2,230,607</u>	<u>-</u>	<u>-</u>	<u>2,230,607</u>
Total investments	\$ <u>111,558,352</u>	\$ <u>58,247,339</u>	\$ <u>22,358,566</u>	\$ <u>30,952,447</u>

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

Fair Value Measurements as of
May 31, 2021 using the following inputs

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term investments	\$ 1,933,623	\$ 1,933,623	\$ -	\$ -
Mutual funds:				
Large cap	36,740,143	36,740,143	-	-
Mid cap	6,733,290	6,733,290	-	-
International	2,455,042	2,455,042	-	-
Exchange traded	<u>10,111,960</u>	<u>10,111,960</u>	<u>-</u>	<u>-</u>
Total mutual funds	56,040,435	56,040,435	-	-
Marketable equity securities	52,350	52,350	-	-
Common trust funds	25,875,549	-	25,875,549	-
Corporate bonds and government securities	2,357,975	2,357,975	-	-
Limited partnerships, private equity and other investment funds	25,479,409	-	-	25,479,409
Life insurance policies	<u>2,323,562</u>	<u>-</u>	<u>-</u>	<u>2,323,562</u>
Total investments	<u>\$ 114,062,903</u>	<u>\$ 60,384,383</u>	<u>\$ 25,875,549</u>	<u>\$ 27,802,971</u>

The following table provides a summary of changes in fair value of the University's Level 3 assets for the years ended May 31, 2022 and 2021:

Fair Value Measurements Using Significant
Unobservable Inputs (Level 3)

	<u>Total</u>	<u>Limited Partnership Interest, Private Equity and Other</u>	<u>Life Insurance Policies</u>
Balance at May 31, 2020	\$ 23,718,502	\$ 21,458,554	\$ 2,259,948
Realized losses	(522,113)	(522,113)	-
Unrealized gains relating to instruments still held at the reporting date	4,503,568	4,439,954	63,614
Purchases, sales and settlements, net	<u>103,014</u>	<u>103,014</u>	<u>-</u>
Balance at May 31, 2021	27,802,971	25,479,409	2,323,562
Realized gains	1,948,683	1,312,130	636,553
Unrealized gains relating to instruments still held at the reporting date	2,959,817	2,901,545	58,272
Purchases, sales and settlements, net	<u>(1,759,024)</u>	<u>(971,244)</u>	<u>(787,780)</u>
Balance at May 31, 2022	<u>\$ 30,952,447</u>	<u>\$ 28,721,840</u>	<u>\$ 2,230,607</u>

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

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, 2022 and 2021:

<u>Category of Investment</u>	<u>2022</u>				<u>2021</u>
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	Redemption Frequency (if Currently Eligible)	<u>Redemption Notice Period</u>	<u>Fair Value</u>
Private Equity	\$ 10,414,601	\$ 4,761,319	No immediate redemption	N/A	\$ 6,759,020
Real Estate	4,612,136	4,933,215	No immediate redemption	N/A	4,385,782
Equity Long/Short and Absolute Return Hedge Funds	12,290,103	-	Quarterly to Annually	90 days	12,872,583
International Equity	15,921,530	-	Semi-monthly	30 days	18,178,604
Core Equity	6,112,783	-	Semi-monthly	30 days	6,339,137
Fixed Income	324,252	-	Semi-monthly	30 days	1,357,808
Other	<u>1,405,000</u>	<u>-</u>	No immediate redemption	N/A	<u>1,462,023</u>
Total	<u>\$ 51,080,405</u>	<u>\$ 9,694,534</u>			<u>\$ 51,354,957</u>

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

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 8% of such investments in this category were in liquidation at May 31, 2022 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 3% of such investments in this category were in liquidation at May 31, 2022 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.

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

(8) Property and equipment

A summary of property and equipment as of May 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Buildings and campus	\$ 366,246,050	\$ 357,233,025
Computer equipment and software	9,929,120	9,385,449
Furniture, fixtures and office equipment	20,622,358	19,737,041
General equipment	7,901,203	7,731,595
Laboratory equipment	6,090,279	5,924,751
Vehicles	862,929	859,904
Construction in progress	<u>3,213,860</u>	<u>5,024,836</u>
	414,865,799	405,896,601
Accumulated depreciation	<u>(145,760,501)</u>	<u>(136,335,507)</u>
	<u>\$ 269,105,298</u>	<u>\$ 269,561,094</u>

Depreciation expense on property and equipment amounted to \$11,209,625 and \$8,755,033 for the years ended May 31, 2022 and 2021, respectively.

As of May 31, 2022, the University had no commitments remaining under construction contracts. As of May 31, 2021, the University had commitments remaining under construction contracts totaling approximately \$1,153,000 that were completed in 2022. There was no retainage payable related to construction projects at May 31, 2022 and 2021.

(9) Leases

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

The components of lease expense for May 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Operating lease expense	\$ 1,966,332	\$ 2,263,129
Finance lease expense:		
Amortization of right-of-use assets	1,326,006	1,324,574
Interest on lease liabilities	<u>1,299,193</u>	<u>1,428,910</u>
Total finance lease expense	2,625,199	2,753,484
Sublease income	660,066	723,578

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

Supplemental cash flow information related to leases for May 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 1,946,775	\$ 2,226,463
Operating cash flows from finance leases	1,201,598	1,270,273
Financing cash flows from finance leases	2,114,016	2,384,353
ROU assets obtained in exchange for new lease obligations:		
Operating leases	\$ -	\$ 54,268
Finance leases	116,022	946,295

Additional supplemental information regarding assumptions for operating and finance leases is as follows for May 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Weighted-average remaining lease term (years)		
Operating leases	4.44	4.58
Finance leases	1.37	2.25
Weighted-average discount rate		
Operating leases	4.90 %	4.84 %
Finance leases	5.00 %	5.00 %

As of May 31, 2022, the maturity of lease liabilities is as follows:

<u>Maturity</u>	<u>Finance</u>	<u>Operating</u>	<u>Total</u>
2023	\$ 15,152,185	\$ 1,537,302	\$ 16,689,487
2024	7,143,391	718,702	7,862,093
2025	3,463,398	465,602	3,929,000
2026	385,449	386,544	771,993
2027	77,483	398,140	475,623
Thereafter	<u>83,939</u>	<u>653,434</u>	<u>737,373</u>
Total undiscounted cash flows	26,305,845	4,159,724	30,465,569
Less: present value discount	<u>(1,366,216)</u>	<u>(435,938)</u>	<u>(1,802,154)</u>
Total lease liabilities	<u>\$ 24,939,629</u>	<u>\$ 3,723,786</u>	<u>\$ 28,663,415</u>

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

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 master 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.

(10) Accrued expenses and liabilities

A summary of accrued expenses and liabilities as of May 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Accrued payroll and benefits	\$ 3,828,865	\$ 3,965,461
Financing liability on sale-leaseback property	6,144,039	6,512,476
Accrued interest	1,567,866	1,576,540
Accrued health claims payable	443,178	474,639
Agency liabilities	389,532	617,572
Other current liabilities	<u>465,442</u>	<u>517,256</u>
	<u>\$ 12,838,922</u>	<u>\$ 13,663,944</u>

The financing liability on the sale-leaseback property represents proceeds received from the respective sale at the sale date plus the expected value of purchase options to be paid at the end of the respective lease. The University sold certain properties to third-parties that were subsequently leased back from the purchaser. Embedded in the sale-leaseback property contracts are repurchase options that may be exercised, resulting in the University's continued involvement with the properties. As a result of the repurchase options and continuing involvement, the original assets maintained by the University were not derecognized and continue to be depreciated. The University also recorded a liability when the assets were sold to the third parties equal to the proceeds received from the respective sales at the sale date. 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. The sale-leaseback property contracts terminate at various times in fiscal years 2023 through 2025. At termination, the University may renew the lease with or without the purchase options, exercise its option and repurchase the property or terminate the contract without purchase. If terminated without purchasing the property, the University will derecognize the liability and recognize a gain or loss.

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

(11) Lines of credit

The University has a \$10,000,000 revolving line of credit available with a bank at May 31, 2022. The outstanding balance of the line bears interest at a rate equal to 1-month LIBOR plus 1.50% per year. The line is set to mature on September 30, 2022 and is unsecured. The University had no outstanding borrowings under the line at May 31, 2022 and 2021. In September 2022, the line of credit was extended to mature on September 30, 2025 and amended to bear interest at a rate equal to the term secured overnight financing rate plus 1.6% per annum.

(12) Note payable

The University has an unsecured note payable to an individual with a balance outstanding of \$1,500,000 and \$1,700,000 as of May 31, 2022 and 2021, respectively. Annual interest-only payments are due at a fixed rate of 8%. Each anniversary of the note payable, which originated in February 2019, the note holder may elect to receive \$200,000 or an amount equal to any other annual amounts not previously requested, with 90 days notice prior to the anniversary of the note payable. All remaining principal is due at maturity in February 2029. During 2022, the holder of the note payable requested a principal payment totaling \$200,000. The University anticipates making an additional principal payment of \$500,000 during 2024 with the remainder expected to be paid at the maturity of the note payable.

(13) Bonds payable

A summary of bonds payable as of May 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Revenue Refunding and Improvement Bonds (Lipscomb University Project) Series 2019A; due in annual payments ranging from \$1,035,000 to \$9,890,000 beginning October 2034 through October 2058, plus interest at fixed rates ranging from 4% to 5.25%; plus unamortized premium of \$9,708,045 and \$9,978,925 at May 31, 2022 and 2021, respectively, based on an effective interest rate of 4.45%, less debt issuance costs of \$1,007,434 and \$1,034,802 at May 31, 2022 and 2021, respectively.	\$ 118,700,611	\$ 118,944,124
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 \$157,697 and \$169,985 at May 31, 2022 and 2021, respectively.	19,842,303	19,830,015

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

Public Revenue Bonds (Lipscomb University Project) Series 2016A; due in annual payments ranging from \$610,000 to \$6,970,000 per year through October 2045; bearing interest at a fixed rate of 5%; plus unamortized premium of \$6,223,386 and \$6,485,607 at May 31, 2022 and 2021, respectively, based on an effective interest rate of 4.15%, less debt issuance costs of \$659,923 and \$687,420 at May 31, 2022 and 2021, respectively.	<u>63,998,463</u>	<u>65,178,186</u>
Total bonds payable	\$ <u>202,541,377</u>	\$ <u>203,952,325</u>

A summary of future annual minimum payments of bonds payable as of May 31, 2022 is as follows:

<u>Year</u>	<u>Amount</u>
2023	\$ 1,200,000
2024	1,495,000
2025	1,815,000
2026	2,150,000
2027	2,495,000
2028 and later years	<u>179,280,000</u>
Par amount of bonds payable	188,435,000
Unamortized bond premium	<u>15,931,431</u>
Subtotal bonds payable	204,366,431
Unamortized debt issuance costs	<u>(1,825,054)</u>
Total bonds payable	\$ <u>202,541,377</u>

The terms of the master trust indenture agreement for the bonds payable include negative pledge agreements and requires the University to maintain an annual coverage ratio. The University was in compliance with these terms as of May 31, 2022 and 2021.

The University capitalizes interest cost incurred on funds used to construct property and equipment. The capitalized interest is recorded as part of the asset to which it relates. Capitalized interest relating to construction projects funded with tax-exempt borrowings are reduced by interest earned on the unspent bond proceeds. The net capitalized interest is amortized over the asset's estimated useful life. Net interest cost capitalized was approximately \$87,000 and \$3,525,000 during the years ended May 31, 2022 and 2021, respectively.

Total interest cost incurred on the University's lines of credit, note payable, and bonds payable, inclusive of capitalized interest, was approximately \$10,406,000 and \$10,618,000 during the years ended May 31, 2022 and 2021, respectively, net of amortized bond premium of approximately \$533,000 for the years ended May 31, 2022 and 2021, respectively.

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

(14) Employee benefit plans

(a) Defined contribution plan

The University sponsors a defined contribution retirement plan covering substantially all full-time employees who have been employed at least one year. During fiscal year 2021, the University matched employee contributions up to 3% of an employee's compensation, subject to IRS limitations. Effective August 1, 2021, the University increased this matching contribution to 5%. The University made contributions to the plan of \$1,969,005 and \$1,138,890 for fiscal years 2022 and 2021, respectively.

(b) Defined benefit plan

The University has a defined benefit retirement plan covering certain salaried employees hired prior to August 1, 1990. The University had approximately 84 participants in the plan at May 31, 2022. 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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Fair value of plan assets	\$ 2,878,009	\$ 4,192,346
Benefit obligation	<u>3,281,259</u>	<u>4,569,961</u>
Funded status	\$ <u>(403,250)</u>	\$ <u>(377,615)</u>

Weighted-average assumptions used to determine benefit obligations at May 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Discount rate	<u>3.50 %</u>	<u>3.50 %</u>
Rate of compensation increase	<u>5.00 %</u>	<u>5.00 %</u>

Weighted-average assumptions used to determine net cost for the years ended May 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Discount rate	<u>3.50 %</u>	<u>3.50 %</u>
Expected long-term rate of return on plan assets	<u>6.00 %</u>	<u>6.00 %</u>
Rate of compensation increase	<u>5.00 %</u>	<u>5.00 %</u>

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

A summary of other information related to this plan for fiscal years 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Pension expense	\$ <u>137,816</u>	\$ <u>169,802</u>
Benefits paid	\$ <u>277,423</u>	\$ <u>679,879</u>
Actuarial (gain) loss	\$ <u>(13,102)</u>	\$ <u>(77,112)</u>
Changes in assumptions	\$ <u>-</u>	\$ <u>248,820</u>
Settlements	\$ <u>1,135,993</u>	\$ <u>-</u>

Expected benefit payments, including future service and pay, as appropriate, are estimated at May 31, 2022 to be paid for the next ten years as follows:

<u>Year</u>	<u>Amount</u>
2023	\$ 314,000
2024	308,000
2025	300,000
2026	289,000
2027	278,000
2028 through 2032	1,204,000

The plan's weighted-average asset allocations at May 31, 2022 and 2021 by asset category are as follows:

<u>Asset Category</u>	<u>2022</u>	<u>2021</u>
Equity securities	69 %	66 %
Fixed income	2 %	10 %
Limited partnerships, private equity and other investment funds	13 %	12 %
Cash equivalents	<u>16 %</u>	<u>12 %</u>
Total	<u>100 %</u>	<u>100 %</u>

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

The disclosures above were determined through actuarial valuation.

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

(c) Early retirement incentive plan

During 2020, the University offered a one-time early retirement incentive plan to full-time employees who met certain age and years of service requirements. The plan pays each participant an amount equal to 50% of the employee's annual compensation in equal monthly installments over a period of 31 months beginning in June 2020. The plan also allows eligible participants to continue their medical insurance coverage until age 65. The University has recognized a liability for 27 employees that accepted the early retirement incentive totaling approximately \$261,000 and \$661,000 at May 31, 2022 and 2021, respectively, for the outstanding obligation under the plan, which is included in accrued payroll and benefits within accrued expenses and liabilities in the accompanying consolidated statements of financial position.

(15) Health plans

Health insurance plan

The University has adopted a self-insured health insurance plan under which the University is self-insured up to \$175,000 per individual claim for covered employees. Amounts in excess of \$175,000 per claim are covered by a stop-loss policy purchased by the University. The self-insured health insurance plan is administered by a third party who acts as the University's agent in making benefit payments on the University's behalf. The total liability for outstanding health claims, including claims incurred but not reported, was approximately \$443,000 and \$475,000 at May 31, 2022 and 2021, 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 179 retirees covered by the plan at May 31, 2022. Total costs of the plan were \$226,930 and \$507,316 in fiscal years 2022 and 2021, respectively. For participants hired before August 1, 1993, the University funds 100% of the plan for retirees who retire with 40 or more years of service at retirement and funds a percentage of such costs for retirees who retire with 25-39 years of service to the University. Employees hired between August 1, 1993 and August 31, 2017 may participate in the postretirement benefit plan, but have to fund the full premium.

The following table presents the plan's funded status reconciled with amounts recognized in the University's statements of financial position as of May 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Accrued postretirement benefit obligation:		
For retirees	\$ 3,204,271	\$ 3,573,809
For active employees	<u>1,997,760</u>	<u>2,550,182</u>
Accrued postretirement benefit obligation	<u>\$ 5,202,031</u>	<u>\$ 6,123,991</u>

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

Net periodic postretirement benefit costs for fiscal years 2022 and 2021 include the following components:

	<u>2022</u>	<u>2021</u>
Service cost	\$ 32,110	\$ 44,541
Interest cost	207,748	209,590
Recognized prior service cost	(64,227)	193,048
Recognized net losses	<u>51,299</u>	<u>60,137</u>
Net periodic postretirement benefit cost	\$ <u>226,930</u>	\$ <u>507,316</u>

Expected benefit payments, including future service, as appropriate, are expected as of May 31, 2022 to be paid for the next ten years as follows:

<u>Year</u>	<u>Amount</u>
2023	\$ 353,000
2024	323,000
2025	323,000
2026	324,000
2027	319,000
2028 through 2032	1,533,000

The benefit payments listed in the above table were determined through actuarial valuation. For measurement purposes at May 31, 2022, a 4.20% annual rate of increase in the per capita cost of covered benefits (health care cost trend) was assumed. This rate is assumed to decrease 0.10% per year to an ultimate trend rate of 4.0% for Active and Medicare integrated plans. The discount rate used in determining the accumulated postretirement benefit obligation was 4.25% and 3.50% at May 31, 2022 and 2021, 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 \$612,000 and \$796,000 at May 31, 2022 and 2021, respectively, and would increase the net periodic postretirement benefit cost by approximately \$38,000 in 2022 and \$40,000 in 2021.

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

The Board of Trustees has designated that certain types of support received not be used for current operating purposes. Such designations may be terminated at the discretion of the Board and do not represent donor restrictions. Board designated net assets consisted of a board-designated endowment totaling \$17,710,382 and \$18,993,983 as of May 31, 2022 and 2021, respectively.

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

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

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

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Capital improvements	\$ 20,099,966	\$ 21,468,310
Academic instruction and support	32,191,536	35,685,610
Student financial aid	320,077	955,926
Student services	1,422,127	1,418,187
Other	<u>948,314</u>	<u>717,426</u>
	<u>54,982,020</u>	<u>60,245,459</u>
Subject to passage of time:		
Annuity and life income funds	<u>3,878,555</u>	<u>4,105,695</u>
Endowment subject to spending policy and appropriation:		
Academic instruction and support	24,757,988	23,015,236
Student financial aid	41,486,929	40,078,746
Other	<u>289,620</u>	<u>291,889</u>
	<u>66,534,537</u>	<u>63,385,871</u>
	<u>\$ 125,395,112</u>	<u>\$ 127,737,025</u>

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

	<u>2022</u>	<u>2021</u>
Capital improvements	\$ 2,836,935	\$ 12,585,562
Academic instruction and support	7,160,820	8,986,616
Student financial aid	4,259,195	3,385,153
Student services	5,870,430	3,735,977
Other	<u>4,234,134</u>	<u>3,259,815</u>
	24,361,514	31,953,123
Released for operating activities	<u>21,524,579</u>	<u>19,367,561</u>
Released for non-operating activities	<u>\$ 2,836,935</u>	<u>\$ 12,585,562</u>

(18) Endowment

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

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

The University has interpreted the State of Tennessee's Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University retains in perpetuity (a) the original value of gifts to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts are subject to appropriation for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the University and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the University; and
- (7) The investment policies of the University.

Changes in endowment net assets for the fiscal years ended May 31, 2022 and 2021 are as follows:

<u>May 31, 2022</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 18,993,983	\$ 85,014,203	\$104,008,186
Investment return, net	(434,245)	(719,771)	(1,154,016)
Contributions	42,279	3,029,202	3,071,481
Transfers and other	(91,635)	91,635	-
Appropriation of endowment assets pursuant to spending-rate policy	-	(2,581,732)	(2,581,732)
Distributions from board-designated endowment for special endowment draw	<u>(800,000)</u>	<u>-</u>	<u>(800,000)</u>
Endowment net assets, end of year	<u>\$ 17,710,382</u>	<u>\$ 84,833,537</u>	<u>\$102,543,919</u>

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

May 30, 2021	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 11,746,492	\$ 67,953,854	\$ 79,700,346
Investment return, net	5,731,849	17,510,245	23,242,094
Contributions	2,366,203	2,271,584	4,637,787
Appropriation of endowment assets pursuant to spending-rate policy	-	(2,721,480)	(2,721,480)
Distributions from board-designated endowment for special endowment draw	<u>(850,561)</u>	<u>-</u>	<u>(850,561)</u>
Endowment net assets, end of year	\$ <u>18,993,983</u>	\$ <u>85,014,203</u>	\$ <u>104,008,186</u>

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

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

Funds with Deficiencies - The University has approximately 650 donor endowed funds. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. As of May 31, 2022, the University had approximately 46 endowment funds that were considered underwater by approximately \$790,000. As of May 31, 2021, the University had approximately 17 endowment funds that were considered underwater by approximately \$671,000. The University will continue to monitor these funds and make adjustments as deemed necessary to protect the value of the endowment.

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

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

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 an annual draw from the donor restricted endowment equal to 4.0% and 4.5% of the average market value of the donor restricted endowment over the preceding five fiscal years for the years ended May 31, 2022 and 2021, respectively (actual draws were \$2,581,732 and \$2,721,480 for the years ending May 31, 2022 and 2021, respectively). The use of earnings drawn from restricted endowment funds is restricted as stipulated in the corresponding donor agreements.

For the University's board-designated endowment, earnings are unrestricted in purpose. Spending from the board-designated endowment is discretionary and the University does not currently allow for a general withdrawal for spending. The Board of Trustees, at its discretion, can authorize additional net draws for special projects. During fiscal year 2022, a special endowment draw totaling \$800,000 was made from the AGST quasi-endowment for AGST support. On April 30, 2022, the Board of Trustees approved a draw of the remainder of the AGST quasi-endowment to be used for AGST support in fiscal year 2023. During fiscal year 2021, an additional special endowment draw from the board-designated endowment of \$850,561 was made for support of the Lipscomb LEADS program and AGST.

(19) Revenues

The University's revenue from contracts with customers is included in tuition and education fees and auxiliary enterprises revenue as presented in the consolidated statements of activities and changes in net assets. There were no impairment losses on receivables or contract assets from contracts with customers during the years ended May 31, 2022 and 2021.

Disaggregation of revenues

A summary of revenue from contracts with customers related to tuition and education fees, net for the years ended May 31, 2022 and 2021 disaggregated by the major classification of student type is as follows:

<u>Student Classification</u>	<u>2022</u>	<u>2021</u>
Undergraduate tuition	\$ 39,066,580	\$ 39,744,815
Graduate tuition	38,102,178	37,292,112
Academy tuition	18,093,558	15,963,250
Education fee revenue	<u>15,435,827</u>	<u>14,331,311</u>
Total	\$ <u>110,698,143</u>	\$ <u>107,331,488</u>

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

A summary of revenue from contracts with customers related to auxiliary enterprises revenue for the years ended May 31, 2022 and 2021 disaggregated by type is as follows:

<u>Revenue Classification</u>	<u>2022</u>	<u>2021</u>
Housing	\$ 12,188,037	\$ 11,236,746
Food service	7,664,442	6,968,284
Other	<u>2,356,628</u>	<u>398,428</u>
Total	<u>\$ 22,209,107</u>	<u>\$ 18,603,458</u>

Contract balances

A summary of receivables and contract liabilities from contracts with customers at May 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Student accounts receivable, net	\$ <u>10,482,845</u>	\$ <u>10,322,568</u>
Student loans receivable	\$ <u>1,171,370</u>	\$ <u>2,578,550</u>
Other receivables from contracts with customers	\$ <u>65,885</u>	\$ <u>99,878</u>
Student accounts and deposits collected in advance	\$ <u>708,017</u>	\$ <u>1,090,963</u>
Deferred revenue	\$ <u>11,655,138</u>	\$ <u>12,280,560</u>

Substantially all of the deferred revenue at May 31, 2021 was recognized as revenue during fiscal year 2022 as generally all performance obligations are met within three months of the fiscal year end. Additionally, amounts of deferred revenue at May 31, 2022 represent cash received from students during fiscal year 2022 primarily for academic services to be provided in the subsequent year.

(20) Contingent liabilities

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

(21) Related party transactions

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

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

(22) Austin Graduate School of Theology

The combination with AGST discussed in Note 1 has been accounted for under ASC 958-805, *Not-For-Profit Entities: Mergers and Acquisitions*, which defines a combination of one or more not-for-profit activities as either a merger or an acquisition. The University has accounted for the combination as an acquisition.

A summary of assets acquired and liabilities assumed as of December 31, 2020 are as follows:

Cash and cash equivalents	\$ 292,998
Investments	2,673,574
Accounts receivable	1,547
Land and buildings	4,025,000
Accrued expenses	(23,780)
Paycheck Protection Loan Program loan	<u>(200,000)</u>
Net assets acquired in merger	\$ <u>6,769,339</u>

As a result of the acquisition, the University recognized a contribution without donor restriction totaling \$5,459,294 and a contribution with donor restrictions totaling \$1,310,045, of which approximately \$1,070,000 was to be held in the University's endowment with the remaining assets restricted for certain purposes.

(23) COVID-19

During 2022 and 2021, the United States, as well as many other countries around the world, continued to experience the infectious disease (COVID-19), impacting individuals, governments, businesses and financial markets with unprecedented disruption and risk.

During 2021 and 2020, the University received federal and state grants that were specifically aimed at assisting institutions and other organizations in mitigating some of the impact related to the pandemic. The University was eligible for and received funding under The Higher Education Emergency Relief Fund ("HEERF") which provided financial relief to students and institutions impacted by the pandemic. Grants made under HEERF consisted of funds for emergency financial aid grants to students and funds for institutional use that could be used to prepare and respond to COVID-19. The HEERF funds contained two components, an institutional award and a student aid award. The student aid portion was to be distributed to students in the form of emergency financial aid grants to generally cover any component of the cost of attendance for the distribution of education or emergency costs that arose due to COVID-19. The institutional portion could be used for multiple items, but largely to cover lost revenue, defray and pay for expenses related to the disruption of campus operations due to COVID-19, and reimburse for costs associated with a transition to distance education environment, among other items.

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

May 31, 2022 and 2021

At May 31, 2021, the University had been granted approximately \$13,523,000 in HEERF awards, including approximately \$6,084,000 for student relief and approximately \$7,440,000 in institutional support. During 2021, the University had met the conditions for expenditure and recognized federal grant revenue totaling approximately \$6,700,000. The University had drawn approximately \$7,948,000 of the available funds and approximately \$1,248,000 was outstanding and recognized as a refundable grant liability at May 31, 2021. During 2022, the University met the conditions for expenditure and recognized the remaining HEERF funds.

In addition to the HEERF grants, the University received other federal and state funding that assisted the University with mitigating the effects of COVID-19. Management continues to closely monitor the situation and has implemented strategies designed to mitigate the impacts of these conditions.