LIPSCOMB UNIVERSITY

Financial Statements

May 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

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

LIPSCOMB UNIVERSITY

Table of Contents

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

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
Lipscomb University:

We have audited the accompanying statements of financial position of Lipscomb University (the University) as of May 31, 2008 and 2007, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lipscomb University as of May 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Lattimore Black Morgan + Cain, PC

Brentwood, Tennessee
October 13, 2008

LIPSCOMB UNIVERSITY

Statements of Financial Position

May 31, 2008 and 2007

Assets

	2008	2007
Cash and cash equivalents	$ 1,613,344	$ 2,521,584
Accounts receivable, net	1,465,120	790,880
Investments, excluding real estate	96,373,650	108,998,051
Real estate investments	11,749,785	10,816,054
Prepaid expenses and other assets	2,921,696	4,369,701
Cash value of life insurance policies	2,165,790	3,014,227
Student loans receivable	2,521,710	2,305,498
Property and equipment, net	103,095,947	83,747,142
	$ 221,907,042	$ 216,563,137

Liabilities and Net Assets

	2008	2007
Liabilities:		
Current portion of notes and loans payable	$ 1,913,391	$ 2,050,000
Current portion of bonds payable	2,100,000	1,900,000
Student accounts and dormitory deposits collected in advance	2,725,031	2,984,952
Accounts payable	3,115,362	1,574,575
Accrued expenses and liabilities	7,208,724	4,436,922
Deferred revenue	999,184	686,851
Actuarial liability for annuities payable	3,436,515	3,553,904
Notes and loans payable, excluding current portion	4,484,575	4,014,000
Bonds payable, excluding current portion	73,660,000	64,600,000
Accrued postretirement benefit obligation	4,706,989	4,741,533
Federal student loans refundable	2,188,103	2,181,775
Total liabilities	106,537,874	92,724,512
Net assets:		
Unrestricted:		
Undesignated	2,103,595	3,592,422
Designated for student loans	288,568	289,265
Funds functioning as endowment	34,881,361	41,199,550
Designated for plant facilities	(1,576,612)	2,824,987
Total unrestricted	35,696,912	47,906,224
Temporarily restricted	48,032,518	46,081,815
Permanently restricted	31,639,738	29,850,586
Total net assets	115,369,168	123,838,625
	$ 221,907,042	$ 216,563,137

See accompanying notes to the financial statements.

LIPSCOMB UNIVERSITY

Statements of Activities and Changes in Net Assets

Years ended May 31, 2008 and 2007

	2008	2007
Changes in unrestricted net assets:		
Revenues and other support:		
Tuition and education fees	$ 52,349,165	$ 46,969,713
Less financial aid	(11,927,019)	(11,198,019)
Net tuition and fees	40,422,146	35,771,694
Private gifts	1,990,990	4,233,380
Investment/endowment income (loss), net	(652,884)	14,591,488
Auxiliary enterprises revenue	11,202,074	10,311,115
Increase in cash value of life insurance	100,644	179,009
Rental income	795,997	757,635
Other income	1,185,285	864,336
Satisfaction of restrictions	5,171,999	6,110,243
Total revenues and other support	60,216,251	72,818,900
Expenses:		
Instruction	24,732,722	22,225,254
Institutional support	16,128,788	12,634,363
Student services	11,784,501	10,530,689
Auxiliary enterprises	7,124,801	7,391,823
Academic support	8,998,879	6,824,052
Public services	871,897	697,531
Loss on interest rate swap agreements	2,783,975	882,546
Total expenses	72,425,563	61,186,258
Increase (decrease) in unrestricted net assets before effect of adoption of FASB Statement No. 158	(12,209,312)	11,632,642
Effect of adoption of recognition provisions of FASB Statement No. 158 (Note 3)	-	(2,328,663)
Increase (decrease) in unrestricted net assets	(12,209,312)	9,303,979
Changes in temporarily restricted net assets:		
Private gifts	4,307,925	3,798,240
Adjustments of actuarial liability for annuities payable	39,455	(177,747)
Investment income, net	720,164	2,006,449
Other income	1,096,852	959,720
Government and other grants	792,863	371,856
Net assets released from restrictions	(5,006,556)	(5,748,093)
Increase in temporarily restricted net assets	1,950,703	1,210,425
Changes in permanently restricted net assets:		
Private gifts	1,721,022	1,135,054
Investment income, net	306,671	351,246
Adjustments of actuarial liability for annuities payable	(73,098)	106,536
Net assets released from restrictions, including changes in value of split interest agreements	(165,443)	(362,150)
Increase in permanently restricted net assets	1,789,152	1,230,686
Increase (decrease) in net assets	(8,469,457)	11,745,090
Net assets at beginning of year	123,838,625	112,093,535
Net assets at end of year	$ 115,369,168	$ 123,838,625

See accompanying notes to the financial statements.

LIPSCOMB UNIVERSITY

Statements of Cash Flows

Years ended May 31, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Increase (decrease) in net assets	$ (8,469,457)	$ 11,745,090
Adjustments to reconcile increase (decrease) in net assets to cash flows used by operating activities:		
Depreciation and amortization	4,924,647	4,161,603
Provision for uncollectible accounts	125,147	16,993
Loss on interest rate swap agreements	2,783,975	882,546
Loss on disposal of property and equipment	737,768	-
Net (gain) loss on investments	3,315,054	(14,659,656)
Gifts restricted for investments and plant facilities	(6,028,947)	(4,933,294)
Non-cash gifts of securities and real estate	(699,055)	(1,700,977)
(Increase) decrease in operating assets:		
Accounts receivable	(799,387)	(92,117)
Prepaid expenses and other assets	(1,335,970)	(431,862)
Increase (decrease) in operating liabilities:		
Student accounts and dormitory deposits collected in advance	(259,921)	599,356
Accounts payable	1,540,787	90,349
Accrued expenses and liabilities	2,167,074	216,148
Deferred revenue	312,333	225,815
Actuarial liability for annuities payable	(117,389)	79,308
Accrued postretirement benefit obligation	(34,544)	1,563,451
Total adjustments	6,631,572	(13,982,337)
Net cash used by operating activities	(1,837,885)	(2,237,247)
Cash flows from investing activities:		
Purchases of plant facilities	(24,125,307)	(7,765,206)
Proceeds from sale of investments	108,268,250	127,122,108
Purchases of investments	(98,259,848)	(141,225,880)
Proceeds from sale of real estate investments	165,681	104,876
Purchase of real estate investments	(1,380,597)	(1,985,828)
Net increase in federal student loans refundable	6,328	39,308
Collection (disbursements) of student loans, net	(216,212)	55,279
Decrease in cash value of life insurance policies	848,437	275,463
Net cash used by investing activities	(14,693,268)	(23,379,880)
Cash flows from financing activities:		
Proceeds from notes and loans payable	2,383,966	1,623,825
Payments of notes and loans payable	(2,050,000)	(50,000)
Proceeds from bonds payable	11,160,000	23,000,000
Payments of bonds payable	(1,900,000)	(1,910,000)
Gifts restricted for investments and plant facilities	6,028,947	4,933,294
Net cash provided by financing activities	15,622,913	27,597,119
Increase (decrease) in cash	(908,240)	1,979,992
Cash and cash equivalents at beginning of year	2,521,584	541,592
Cash and cash equivalents at end of year	$ 1,613,344	$ 2,521,584

See accompanying notes to the financial statements.

(1) Nature of operations

Lipscomb University (the University) is a private, not-for-profit, co-educational, church-related university of approximately 2,700 students seeking undergraduate and graduate degrees. The University also provides pre-kindergarten through high school education for approximately 1,400 additional students. The President and the Board of Trustees, the governing board of the University, have oversight responsibility for all of the University's financial affairs.

(2) Summary of significant accounting policies

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

(a) Basis of presentation

For external accounting and reporting purposes, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. The University has chosen to provide further classification information about unrestricted net assets on the statements of financial position. The sub-classifications are as follows:

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

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

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

Designated for plant facilities - Represents the residual equity of net capital assets less any related debt and adjusted for the interest rate swaps. Plant gifts of $33,557,457 and $31,531,938 at May 31, 2008 and 2007, respectively, are included in temporarily restricted net assets.

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

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

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

(b) Cash equivalents

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

(c) Receivables and credit policies

The University reports accounts receivable, net of an allowance for doubtful accounts, at the amount which represents management's estimate of the amount that ultimately will be collected. The University reviews the adequacy of its allowance for uncollectible accounts on an ongoing basis, using historical payment trends, analyses of accounts receivable by payor source and aging of receivables, as well as review of specific accounts, and makes adjustments in the allowance as necessary. A late payment fee is assessed when a student has not made financial arrangements to pay their account balance in full. Interest charges are applied to accounts in internal collections. Accounts are sent to collection agencies or attorneys after the University has exhausted all other efforts in collecting the balance.

In addition, as the University determines that federal Perkins student loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education.

(d) Investments

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

The University's spending policy allows for a 5.5% annual draw from endowment earnings. Earnings drawn from funds functioning as endowment are unrestricted in purpose. The use of earnings drawn from restricted endowment funds is restricted as stipulated in the donor agreements. During 2008 and 2007, the Board of Trustees authorized additional draws of $2,617,786 and $2,250,000, respectively.

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

(e) Property and equipment

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

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

(f) Fair value of interest rate swap agreements

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

(g) Life income and gift annuities

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

The University is the named trustee for certain estates and trusts of friends of the University and currently pays the trust income to the named beneficiaries. In such cases where the University is not the sole beneficiary, only the University's portion is included in these financial statements. As of May 31, 2008 and 2007, assets under such split-interest agreements total $1,185,404 (net of liabilities of $645,788) and $1,875,712 (net of liabilities of $1,178,364), respectively, and are included in investments on the statements of financial position.

(h) Capitalized interest

The University capitalizes interest costs related to debt incurred in conjunction with various construction projects. See note 8.

(i) Income taxes

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

(j) Revenue recognition

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

(k) Advertising costs

Advertising and promotion costs are expensed as incurred. The University incurred advertising costs of $407,925 and $426,634 for the years ended May 31, 2008 and 2007, respectively.

(l) Long-lived assets

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

(m) Federal student loans refundable

Funds provided by the 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 Government and are therefore recorded as liabilities.

(n) Intentions to give

The University is of the opinion that all intentions to give do not meet the criteria of unconditional promises to give. Accordingly, the University generally records intentions to give only when the related gifts are actually received. As of May 31, 2008 and 2007, the University had received current intentions to give future gifts of approximately $7,326,000 and $3,625,000, respectively, which will be primarily restricted for construction projects when received.

(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 fund-raising expenses of $2,191,813 and $1,507,591 in 2008 and 2007, respectively. For purposes of reporting fund-raising expenses, the University includes only those fund-raising costs incurred by its development office and expenses incurred for capital campaigns.

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

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

The Uniform Prudent Management Institutional Funds Act was enacted in Tennessee effective July 1, 2007. In August 2008, the Staff of the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 117-1 *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* ("FSP 117-1"). This FSP is effective for years ending after December 15, 2008; therefore, it would apply to the University's 2009 fiscal year financial statements.

The FSP requires disclosure of the governing board's interpretation of the law that underlies the organization's net asset classification of donor-restricted endowment funds, a description of the organization's policies for the appropriation of endowment assets for expenditures (its endowment spending policies), and a description of the organization's endowment investment policies.

(3) Change in accounting principle

In September 2006, the FASB issued Statement on Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS 158). This statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multi-employer plan) as an asset or liability in the statement of financial position and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets of a not-for-profit organization. FAS 158 was effective for employers without publicly traded equity securities with fiscal years ending after June 15, 2007. The University implemented the early adoption of the financial statement presentation and disclosure requirements of FAS 158 effective June 1, 2006. The effect of adopting the FAS is shown on the statement of activities. The implementation of FAS 158 increased the accrued postretirement benefit liability by approximately $1,400,000 and recognized past service costs related to the University's pension liability of approximately $900,000 resulting in a decrease of approximately $2,300,000 in unrestricted net assets as of May 31, 2007.

(4) 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 statements of financial position.

The University holds life insurance policies with various insurance companies. One insurance company, which is rated A (Excellent) by A.M. Best, holds approximately 47% and 64%, respectively, of the cash value of life insurance policies owned by the University as of May 31, 2008 and 2007.

(5) Accounts receivable

A summary of accounts receivable as of May 31, 2008 and 2007 is as follows:

	2008	2007
Student accounts receivable	$ 1,794,828	$ 1,373,706
Other accounts receivable	470,292	300,938
Subtotal	2,265,120	1,674,644
Less allowance for uncollectible accounts	(800,000)	(883,764)
Accounts receivable, net	$ 1,465,120	$ 790,880

Student receivables increased primarily because of the Maymester growth in 2008 from the Learning Collaborative Inc.'s (LCI's) Graduate Education program. The LCI program grew by 1,081 hours at $599 per hour in the month of May 2008 versus May 2007. This LCI receivable increase is offset by a corresponding increase in a liability payment to LCI at May 31, 2008.

Other accounts receivable includes amounts due from Federal award programs of $102,728 and $94,919 at May 31, 2008 and 2007, respectively.

(6) Investments

A summary of investments as of May 31, 2008 and 2007 is as follows:

	2008	2007
Short-term investments	$ 13,113,969	$ 22,377,967
Mutual funds	50,198,300	45,157,555
Marketable equity securities	23,918,057	30,070,676
Corporate bonds and government securities	2,572,831	4,454,435
Limited partnership interests in equity securities	6,407,509	6,812,379
Other	162,984	125,039
	$ 96,373,650	$ 108,998,051

Investments of approximately $8,200,000 and $19,000,000 at 2008 and 2007 are restricted for construction and related expenditures in connection with the Educational Facilities Revenue Refunding Bonds, (Lipscomb University Project) Series 2006 and 2008 (see note 11).

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 and (losses) in the statements of activities for the years ended May 31, 2008 and 2007:

	2008	2007
Interest and dividends	$ 4,788,558	$ 3,224,887
Realized/unrealized gain (loss) on investments, net	(3,315,054)	14,659,656
Payments to beneficiaries	(871,084)	(736,716)
Investment management fees	(228,469)	(198,644)
	$ 373,951	$ 16,949,183

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

	2008	2007
Unrestricted, including funds functioning as endowment	$ (652,884)	$ 14,591,488
Temporarily restricted	720,164	2,006,449
Permanently restricted	306,671	351,246
	$ 373,951	$ 16,949,183

For additional information see note 21.

(7) Real estate investments

A summary of real estate investments as of May 31, 2008 and 2007 is as follows:

	2008	2007
Properties adjacent to the University	$ 11,931,410	$ 11,794,313
Properties not adjacent to the University	2,583,896	1,506,114
	14,515,306	13,300,427
Accumulated depreciation on real estate investments	(2,765,521)	(2,484,373)
	$ 11,749,785	$ 10,816,054

Depreciation expense on these properties amounted to $281,148 and $261,920 for the years ended May 31, 2008 and 2007, respectively.

(8) Property and equipment

A summary of property and equipment as of May 31, 2008 and 2007 is as follows:

	2008	2007
Buildings and campus	$ 123,092,622	$ 117,445,183
Computer equipment and software	4,192,602	5,195,770
Furniture, fixtures and office equipment	4,673,148	4,202,938
General equipment	7,119,030	6,921,734
Laboratory equipment	2,295,899	2,296,618
Library books and equipment	6,163,441	5,849,700
Automobiles	355,337	285,769
Construction in progress	20,760,544	4,224,006
	168,652,623	146,421,718
Accumulated depreciation	(65,556,676)	(62,674,576)
	$ 103,095,947	$ 83,747,142

Depreciation expense on these assets amounted to $4,643,463 and $3,899,683 for the years ended May 31, 2008 and 2007, respectively.

Capitalized interest on construction projects amounted to $467,972 and $90,167 for the years ended May 31, 2008 and 2007, respectively.

Construction in progress at May 31, 2008 consisted primarily of additions or improvements to the Burton Health Sciences Center, the Willard Collins Alumni Auditorium, the Thomas James McMeen Music Center, the Village (Apartment-Style Housing), the Intermodal Facility (Parking Garage), and the Bennett Campus Center. Construction in progress at May 31, 2007 consisted primarily of the Burton Health Sciences Center, Willard Collins Alumni Auditorium, the Thomas James McMeen Music Center, and the Bennett Campus Center.

At May 31, 2008, the University had construction contracts related to the facilities mentioned above. These contracts, totaling approximately $5,747,000, are to be paid at various stages of completion through fiscal year 2009.

The University has retainage related to construction projects of approximately $655,000 and $50,000 at May 31, 2008 and 2007, respectively, which is included in accrued expenses and liabilities.

(9) Line of credit

The University has a $3,000,000 line of credit available with a bank at May 31, 2008, which matures in December 2008 and bears interest at LIBOR plus 0.375%. The University had no borrowings under this line as of May 31, 2008 or 2007.

(10) Notes and loans payable

A summary of notes and loans payable as of May 31, 2008 and 2007 is as follows:

	2008	2007
Note payable to bank, with interest payable monthly at 5.70%; principal due in various installments through October 2012.	$ 314,000	$ 364,000
Note payable to bank, due in June 2013; bearing interest, payable monthly, at LIBOR issue date rate (May 29, 2008) plus .40% (2.87% at May 31, 2008); requiring monthly payments of $13,244 of principal plus accrued interest, secured by real property.	2,383,966	-
Line of credit with a bank in the original amount of $8,000,000 with interest payable monthly at LIBOR renewal date rate (May 1, 2008) plus .40% (3.22% at May 31, 2008); principal due in various installments through May 2011.	3,700,000	5,700,000
Total notes and loans payable	6,397,966	6,064,000
Less current portion	(1,913,391)	(2,050,000)
Notes and loans payable, excluding current portion	$ 4,484,575	$ 4,014,000

A summary of future maturities of notes and loans payable as of May 31, 2008 is as follows:

Year	Amount
2009	$ 1,913,931
2010	1,218,931
2011	1,223,931
2012	223,931
2013	223,931
2014 and later years	1,593,311
	$ 6,397,966

(11) Bonds payable

A summary of bonds payable as of May 31, 2008 and 2007 is as follows:

	2008	2007
Educational Facilities Revenue Refunding Bonds Series 2003; due in annual payments of varying amounts through February 2023; bearing interest at a variable rate (1.60% as of May 31, 2008); secured by an irrevocable letter of credit expiring on February 15, 2013; see Note 12.	$ 34,400,000	$ 36,200,000
Educational Facilities Revenue Bonds Series 2003B; due in annual payments of varying amounts through November 2023; bearing interest at a variable rate (1.60% as of May 31, 2008); secured by an irrevocable letter of credit expiring on November 15, 2008; see Note 12.	7,200,000	7,300,000
Variable Rate Demand Revenue Bonds Series 2006; due in annual payments of varying amounts through July 2028; bearing interest at a variable rate (1.60% as of May 31, 2008); secured by an irrevocable letter of credit expiring on November 15, 2011; see Note 12.	23,000,000	23,000,000
Variable Rate Demand Revenue Bonds Series 2008; due in annual payments of varying amounts through October 2027; bearing interest at a variable rate (1.60% as of May 31, 2008); secured by an irrevocable letter of credit expiring on November 15, 2013; see Note 12.	11,160,000	-
Total bonds payable	75,760,000	66,500,000
Less current portion	(2,100,000)	(1,900,000)
Bonds payable, excluding current portion	$ 73,660,000	$ 64,600,000

A summary of future maturities of bonds payable as of May 31, 2008 is as follows:

Year	Amount
2009	$ 2,100,000
2010	2,500,000
2011	2,810,000
2012	2,930,000
2013	3,284,000
2014 and later years	62,136,000
	$ 75,760,000

The Educational Facilities Revenue Bonds (David Lipscomb University Project) Series 2003B were issued for the purpose of financing the construction and furnishings of a 148 bed addition to the Johnson Residence Hall and are cross-collateralized with the Series 2003 bond agreement.

The bond proceeds from the Variable Rate Demand Revenue Bonds (Lipscomb University Project) Series 2006 and 2008 are for the Lipscomb University Project which consists primarily of additions or improvements to the Burton Health Sciences Center, the Willard Collins Alumni Auditorium, the Thomas James McMeen Music Center, the Village (Apartment-Style Housing), the Intermodal Facility (Parking Garage), and the Bennett Campus Center.

Under the terms of the aforementioned agreements, the University is subject to compliance with certain financial ratios and restrictions, including investment, leverage, and cash flow ratios. The University was in compliance with related financial ratios and restrictions as of May 31, 2008 and 2007.

(12) Interest rate swap agreements

Lipscomb University has entered into three interest rate swap agreements with a commercial bank for the purpose of hedging its interest rate risk on all its outstanding bond issues. The fair value of the University's swap agreements is reported within the accrued expenses and liabilities and prepaid expenses and other assets on the statements of financial position, respectively in 2008 and 2007.

The first swap agreement was executed in May 2003 for the University's Educational Facilities Revenue Refunding Bonds Series 2003 and also the Educational Facilities Revenue Bonds Series 2003B. This agreement terminates in November 2023 and has an original notional amount of $47,000,000 and a current notional amount of $41,600,000. The fair value of the first agreement is $(477,003) and $1,170,713 as of May 31, 2008 and 2007, respectively.

The second swap agreement was executed in May 2006 for the University's Variable Rate Demand Revenue Bond Series 2006. This agreement terminates in November 2028 and has an original (and current) notional amount of $23,000,000. The fair value of the second agreement is $(2,117,781) and $(1,051,435) as of May 31, 2008 and 2007, respectively.

The third swap agreement was executed in January 2008 for the University's Variable Rate Demand Revenue Bond Series 2008. This agreement terminates in November 2027 and has an original (and current) notional amount of $11,160,000. The fair value of the third agreement is $(69,913) as of May 31, 2008.

All of the University's swap agreements have three components that determine the University's effective interest rate: (1) the University pays interest at rates reset weekly by SunTrust Bank based on the SIFMA (Securities Industry and Financial Markets Association) index, which is a composite of tax exempt bonds; (2) the University receives 67% of one month LIBOR from SunTrust Bank; and (3) the University pays a 3.43% fixed rate to SunTrust Bank per the weighted average of Lipscomb's three swap agreements (the May 2003 swap has a fixed rate of 3.17%, the May 2006 swap has a fixed rate of 4.07%, and the January 2008 swap has a fixed rate of 3.19%).

The effective all-in rate of interest (when all three interest variables are combined) of Lipscomb University is 4.10% for fiscal year 2008. In addition, as of October 13, 2008, the effective rate of interest was 4.99%. This fluctuation in interest rates was due to the unusual situation where the weekly reset rates significantly exceeded 67% of one month LIBOR.

(13) Employee benefit plans

(a) Defined contribution plan

The University sponsors a defined contribution pension plan covering substantially all employees. The University matches employee contributions up to 7% of the employee's compensation, subject to IRS limitations. The University made contributions to the plan of $1,133,339 and $1,038,526 in 2008 and 2007, respectively.

(b) Defined benefit plan

The University has a contributory, defined benefit retirement plan covering certain salaried employees hired prior to August 1, 1990. The University makes annual contributions to the plan according to the actuarial funding agreement. The assets of the plan are primarily invested in United States Government and corporate bonds, equity securities, and mutual funds.

The following table sets forth the plan's benefit obligations, fair value of plan assets, and funded status at May 31, 2008 and 2007:

	2008	2007
Fair value of plan assets	$ 7,958,007	$ 8,186,654
Benefit obligation	6,442,492	6,240,353
Funded status	$ 1,515,515	$ 1,946,301
Prepaid benefit cost recognized in the financial statements, included in prepaid expenses and other assets	$ 1,515,515	$ 1,946,301

Weighted-average assumptions used to determine benefit obligations at May 31, 2008 and 2007 were as follows:

	2008	2007
Discount rate	6.0 %	6.0 %
Rate of compensation increase	5.0 %	5.0 %

Weighted-average assumptions used to determine net cost for the years ended May 31, 2008 and 2007 were as follows:

	2008	2007
Discount rate	6.0 %	6.0 %
Expected long-term rate of return on plan assets	8.0 %	8.0 %
Rate of compensation increase	5.0 %	5.0 %

A summary of other information related to this plan for 2008 and 2007 is as follows:

	2008	2007
Pension income (expense)	$ 385,596	$ 874,183
Employer contribution	$ -	$ 678
Benefits paid	$ 203,751	$ 173,330
Settlements	$ -	$ 91,827

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

Year	Amount
2009	$ 367,514
2010	376,135
2011	532,429
2012	562,139
2013	553,214
2014 through 2018	1,710,089

The plan weighted-average asset allocations at May 31, 2008 and 2007 by asset category are as follows:

Asset Category	2008	2007
Equity securities	66.3 %	67.1 %
Fixed income	10.4 %	11.1 %
Other	23.3 %	21.8 %
Total	100.0 %	100.0 %

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

The disclosures above were determined through actuarial valuation.

(14) Health plans

Group health insurance

The University provides group health insurance coverage for active employees through a fully insured contract with CIGNA Healthcare. For active employees, 38% of the plan is funded by the employees and 62% by the employer.

Postretirement benefit plan

Certain of the University's employees or former employees are covered under a postretirement benefit plan. At May 31, 2008, the University's portion of the members covered by the plan included approximately 120 retirees. Lifetime claims of an individual in excess of $2,000,000 are the obligation of the retiree. Total costs of the plan were $346,666 and $351,884 in 2008 and 2007, respectively. The employer funds 100% of the plan for retirees before August 1, 1994 and funds a percentage of such costs for retirees after August 1, 1994 based on years of service to the University. Employees hired after August 1, 1993 may participate in the retiree plan, but will have to fund all of the premium.

The following presents the plan's funded status reconciled with amounts recognized in the University's statement of financial position as of May 31, 2008 and 2007:

	2008	2007
Accrued postretirement benefit obligation:		
For retirees	$ 2,858,320	$ 2,971,827
For active employees	1,848,669	1,769,706
Funded status/accrued postretirement benefit obligation	$ 4,706,989	$ 4,741,533

Net periodic postretirement benefit costs for 2008 and 2007 include the following components:

	2008	2007
Service cost	$ 28,031	$ 29,705
Interest cost	273,568	269,582
Recognized prior service (income) cost	(35,139)	(35,139)
Recognized net (gains) losses	80,206	87,736
Net periodic postretirement benefit cost	$ 346,666	$ 351,884

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

Year	Amount
2009	$ 386,000
2010	413,100
2011	442,000
2012	472,000
2013	506,000
2014 through 2018	3,113,100

The disclosures above were determined through actuarial valuation. For measurement purposes at May 31, 2008, a 6.50% annual rate of increase in the per capita cost of covered benefits (health care cost trend) was assumed. This rate was assumed to decrease .25% per year until reaching an ultimate level of 3.0%. The discount rate used in determining the accumulated postretirement benefit obligation was 6.0% at May 31, 2008.

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 $538,268 and $490,934 at May 31, 2008 and 2007, respectively, and would increase the net periodic postretirement benefit cost by $29,759 in 2008 and $33,279 in 2007.

(15) Net assets

Temporarily restricted net assets as of May 31, 2008 and 2007 are committed for the following purposes:

	2008	2007
Annuity and life income funds which convert to unrestricted net assets upon maturity	$ 5,495,950	$ 5,659,907
Scholarships and instruction	8,169,044	8,084,135
Capital improvements	33,557,457	31,531,938
Other programs	810,067	805,835
	$ 48,032,518	$ 46,081,815

Permanently restricted net assets are held in perpetuity with the income from assets expendable to support certain programs. A summary of the permanently restricted net assets by the program for which the related income is expendable as of May 31, 2008 and 2007 is as follows:

	2008	2007
Investments to be held in perpetuity, the income from, which is expendable for both specific and general purposes	$ 31,149,887	$ 29,179,152
Annuity and life income funds, which will be held in perpetuity upon maturity	489,851	671,434
	$ 31,639,738	$ 29,850,586

The endowment pool market value to net asset analysis as of May 31, 2008 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment pool	$ 34,881,361	$ 12,415,844	$ 31,448,871	$ 78,746,076
Other net assets	815,551	35,616,674	190,867	36,623,092
Total	$ 35,696,912	$ 48,032,518	$ 31,639,738	$ 115,369,168

The endowment pool market value to net asset analysis as of May 31, 2007 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment pool	$ 41,199,550	$ 10,552,042	$ 29,781,392	$ 81,532,984
Other net assets	6,706,674	35,529,773	69,194	42,305,641
Total	$ 47,906,224	$ 46,081,815	$ 29,850,586	$ 123,838,625

For additional information see note 21.

(16) Contingent liabilities

The University is involved in various legal actions arising in the normal course of operations. In the opinion of management, such matters will not have a material adverse effect on the University's financial position. As these matters develop, it is reasonably possible management's estimate of their effect could change and an accrual for additional liabilities could be required.

(17) Related party transactions

The University sometimes purchases goods or services from companies or organizations that are affiliated with or owned, directly or indirectly, by members of the Board of Trustees.

(18) Supplemental disclosures of cash flow statement information

	2008	2007
Approximate interest paid, net of capitalized interest of $467,972 and $90,167 in 2008 and 2007, respectively	$ 2,833,000	$ 2,853,000

(19) Interest expense

Interest expense on notes and loans payable amounted to approximately $26,000 and $37,000 for 2008 and 2007, respectively. Interest expense on the bonds payable amounted to approximately $2,670,000 and $2,914,000 for the years ended May 31, 2008 and 2007, respectively. Total interest expense was approximately $2,695,000 and $2,951,000 for 2008 and 2007, respectively.

(20) Reconciliation of operating results to fund accounting basis (unaudited)

While the accompanying financial statements are prepared in accordance with Statements of Financial Accounting Standards (SFAS) No. 117, Financial Statements for Not-for-Profit Organizations, the underlying accounts are kept on a fund accounting basis, in order to monitor the University's fiduciary responsibilities on a more detailed basis. A reconciliation of the results between the change in unrestricted net assets and the fund accounting basis is as follows:

	2008	2007
Increase (decrease) in unrestricted net assets	$ (12,209,312)	$ 9,303,979
Depreciation expense	4,643,463	3,899,683
Investment (income) loss	6,678,637	(9,554,017)
Capitalized expenditures from current funds	(820,727)	(1,237,197)
Principal debt repayments from current funds	(1,950,000)	(1,960,000)
Plant gift amortization	(1,472,039)	(983,641)
Loss on disposal of fixed assets	737,768	-
Gifts to LU2010 plan	(568,500)	(1,850,566)
Gifts to Quasi endowment	(235,505)	-
Expenditures for LU2010 initiatives	1,994,052	-
EPA Audit preparation requirements	103,259	-
Non-cash retirement plan adjustments	396,242	(743,924)
FAS 158 retirement plan adjustments	-	2,328,663
Interest rate swap agreement	2,783,975	882,546
Other	28,218	(8)
Current unrestricted operating fund surplus (fund accounting basis)	$ 109,531	$ 85,518

(21) Subsequent event

During September and October 2008, the United States and the global economy experienced unprecedented market events. These conditions resulted in significant declines in the fair value of marketable securities and other investments. As of October 13, 2008, the University's investments had decreased by approximately $18,740,000 from the fair values which were reported at May 31, 2008. In management's opinion, there are no significant impairments in investments since May 31, 2008 which should be classified as other than temporary.