

**LIPSCOMB UNIVERSITY**

**Consolidated Financial Statements**

**May 31, 2021 and 2020**

**(With Independent Auditors' Report Thereon)**



# **LIPSCOMB UNIVERSITY**

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## INDEPENDENT AUDITORS' REPORT

The Board of Trustees of  
Lipscomb University:

We have audited the accompanying consolidated financial statements of Lipscomb University (the University), which are comprised of the consolidated statements of financial position as of May 31, 2021 and 2020, and the related consolidated statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risk of material misstatements of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University as of May 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*LBMC, PC*

Brentwood, Tennessee  
September 8, 2021

**LIPSCOMB UNIVERSITY**

**Consolidated Statements of Financial Position**

**May 31, 2021 and 2020**

**Assets**

	<u><b>2021</b></u>	<u><b>2020</b></u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 12,346,171	\$ 6,076,453
Accounts receivable, net	12,133,731	12,199,607
Student loans receivable	2,578,550	1,906,062
Contributions receivable, net	28,116,466	29,599,966
Prepaid expenses and other assets	1,256,047	1,131,245
Cash from bond proceeds restricted for capital projects	9,290,992	16,322,057
Short-term investments of bond proceeds restricted for capital projects	-	21,439,713
Investments, excluding real estate	114,062,903	87,221,491
Real estate investments	21,212,751	21,651,476
Operating lease right-of-use assets	5,334,092	7,235,319
Finance lease right-of-use assets	26,907,082	30,607,186
Property and equipment, net	<u>269,561,094</u>	<u>239,811,262</u>
	<u><b>\$ 502,799,879</b></u>	<u><b>\$ 475,201,837</b></u>

**Liabilities and Net Assets**

<b>Liabilities:</b>		
Student accounts and deposits collected in advance	\$ 1,090,963	\$ 1,254,486
Accounts payable, including construction payables of \$925,099 and \$1,969,212 in 2021 and 2020, respectively	3,516,414	3,549,923
Refundable government grants	1,248,268	2,582,024
Accrued expenses and liabilities	13,663,944	15,931,406
Deferred revenue	12,280,560	9,454,673
Refund liabilities	-	1,852,016
Annuities payable	2,604,160	2,241,111
Operating lease liabilities	5,452,275	7,318,697
Finance lease liabilities	27,790,769	30,121,818
Note payable	1,700,000	1,700,000
Bonds payable	203,952,325	205,318,274
Accrued pension benefit liability	377,615	1,240,009
Accrued postretirement benefit obligation	6,123,991	6,157,792
Federal student loans refundable	<u>1,482,884</u>	<u>1,730,308</u>
<b>Total liabilities</b>	<u><b>281,284,168</b></u>	<u><b>290,452,537</b></u>
<b>Net assets:</b>		
Without donor restrictions	93,778,686	71,421,765
With donor restrictions	<u>127,737,025</u>	<u>113,327,535</u>
<b>Total net assets</b>	<u><b>221,515,711</b></u>	<u><b>184,749,300</b></u>
	<u><b>\$ 502,799,879</b></u>	<u><b>\$ 475,201,837</b></u>

See accompanying notes to the consolidated financial statements.

**LIPSCOMB UNIVERSITY**

**Consolidated Statements of Activities and Changes in Net Assets**

**Years ended May 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Changes in net assets without donor restrictions:		
Revenues and other support:		
Tuition and education fees, net of scholarships totaling \$51,728,047 and \$45,158,225 in 2021 and 2020, respectively.	\$ 107,331,488	\$ 105,911,069
Auxiliary enterprises revenue	18,603,458	19,887,841
Contributions	1,324,372	4,562,508
Endowment draw for operations from board-designated endowment	850,561	2,273,052
Rental income	2,063,885	2,708,293
Other income	3,645,480	5,233,252
Net assets released from restrictions	<u>19,367,561</u>	<u>11,196,138</u>
Total revenues and other support	<u>153,186,805</u>	<u>151,772,153</u>
Expenses:		
Program:		
Instruction	60,265,331	66,811,196
Academic support	15,097,961	15,432,841
Auxiliary enterprises	15,964,817	16,099,222
Student services	27,908,838	28,252,833
Public services	<u>1,329,066</u>	<u>1,914,076</u>
Total program expenses	120,566,013	128,510,168
Management and general:		
Institutional support	<u>33,955,850</u>	<u>30,982,528</u>
Total expenses	<u>154,521,863</u>	<u>159,492,696</u>
Change in net assets without donor restrictions from operating activities	<u>(1,335,058)</u>	<u>(7,720,543)</u>
Non-operating activities:		
Investment return, net	6,040,634	(434,510)
Endowment draws for operations from board-designated endowment	(850,561)	(2,273,052)
Change in postretirement benefit obligation	78,342	(372,412)
Change in defined benefit retirement plan obligation	862,394	(268,229)
Retirement plan minimum contribution	(267,388)	(207,698)
Retirement incentive plan expense	(216,298)	(1,441,531)
Contribution of net assets from acquisition	5,459,294	-
Net assets released from restrictions for capital gifts	<u>12,585,562</u>	<u>3,620,311</u>
Change in net assets without donor restrictions from non-operating activities	<u>23,691,979</u>	<u>(1,377,121)</u>
Change in net assets without donor restrictions	<u>22,356,921</u>	<u>(9,097,664)</u>
Changes in net assets with donor restrictions:		
Contributions	14,138,334	10,556,057
Contribution of net assets from acquisition	1,310,045	-
Investment return, net	19,151,083	2,571,319
Federal and state grants	11,455,950	2,180,495
Adjustments of actuarial liability for annuities payable	(406,516)	484,264
Other income	713,717	490,431
Net assets released from restrictions	<u>(31,953,123)</u>	<u>(14,816,449)</u>
Change in net assets with donor restrictions	<u>14,409,490</u>	<u>1,466,117</u>
Change in net assets	36,766,411	(7,631,547)
Net assets at beginning of year	<u>184,749,300</u>	<u>192,380,847</u>
Net assets at end of year	<u>\$ 221,515,711</u>	<u>\$ 184,749,300</u>

See accompanying notes to the consolidated financial statements.

**LIPSCOMB UNIVERSITY**

**Consolidated Statements of Cash Flows**

**Years ended May 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ <u>36,766,411</u>	\$ <u>(7,631,547)</u>
Adjustments to reconcile change in net assets to cash flows provided by operating activities:		
Depreciation and amortization	10,620,261	9,916,869
Provision for uncollectible accounts	991,225	780,155
Amortization of bond issuance costs and bond discount (premiums), net	(465,949)	(465,321)
Loss on disposal of property and equipment	362	-
Net gain on investments, excluding real estate	(24,288,375)	(989,392)
Net gain on sale of real estate investments	(665,802)	(442)
Gifts restricted for investments and plant facilities	(7,420,844)	(3,580,366)
Non-cash gifts of fixed assets	-	(886,100)
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	(923,802)	148,732
Contributions receivable	1,483,500	2,812,523
Prepaid expenses and other assets	(124,802)	755,151
Increase (decrease) in operating liabilities, net of acquisition:		
Student accounts and deposits collected in advance	(163,523)	(3,164,108)
Accounts payable	(657,884)	(1,503,863)
Refundable government grants	(1,333,756)	2,582,024
Accrued expenses and liabilities	(2,256,438)	2,472,658
Deferred revenue and refund liabilities	973,871	(97,126)
Annuities payable	363,049	(160,291)
Accrued postretirement benefit obligation	(33,801)	440,554
Accrued pension benefit liability	(862,394)	446,200
<b>Total adjustments</b>	<u>(31,441,443)</u>	<u>9,507,857</u>
<b>Net cash provided by operating activities</b>	<u>5,324,968</u>	<u>1,876,310</u>
<b>Cash flows from investing activities:</b>		
Purchases of plant facilities	(30,838,330)	(36,053,717)
Proceeds from (purchases of) short term investments from bond proceeds restricted for capital projects, net	21,439,713	12,119,886
Proceeds from sale of investments	31,717,544	45,670,990
Purchases of investments	(31,597,006)	(42,319,973)
Proceeds from sale of real estate investments	784,587	4,942
Purchases of real estate investments	(968,039)	(7,467,773)
Net decrease in federal student loans refundable	(247,424)	(248,503)
Change in student loans receivable, net	(672,488)	143,002
<b>Net cash used by investing activities</b>	<u>(10,381,443)</u>	<u>(28,151,146)</u>

See accompanying notes to the consolidated financial statements.

**LIPSCOMB UNIVERSITY**

**Consolidated Statements of Cash Flows, continued**

**Years ended May 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Cash flows from financing activities:		
Payments of bonds payable	(900,000)	(740,000)
Payment of debt issuance costs	-	(14,466)
Payments of finance lease liabilities	(2,225,716)	(2,908,435)
Gifts restricted for investments and plant facilities	<u>7,420,844</u>	<u>3,580,366</u>
Net cash provided (used) by financing activities	<u>4,295,128</u>	<u>(82,535)</u>
Decrease in cash, cash equivalents and restricted cash	(761,347)	(26,357,371)
Cash, cash equivalents and restricted cash at beginning of year	<u>22,398,510</u>	<u>48,755,881</u>
Cash, cash equivalents and restricted cash at end of year	<u>\$ 21,637,163</u>	<u>\$ 22,398,510</u>

**Supplemental disclosures of cash flow statement information**

	<u>2021</u>	<u>2020</u>
Approximate interest paid	<u>\$ 11,062,000</u>	<u>\$ 9,584,000</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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 12,346,171	\$ 6,076,453
Cash from bond proceeds restricted for capital projects	<u>9,290,992</u>	<u>16,322,057</u>
	<u>\$ 21,637,163</u>	<u>\$ 22,398,510</u>

See accompanying notes to the consolidated financial statements.

**LIPSCOMB UNIVERSITY**

**Consolidated Statements of Functional Expenses**

**Years ended May 31, 2021 and 2020**

	2021								
	Programs						Management and General		
	Instruction	Academic Support	Auxiliary Enterprises	Student Services	Public Services	Program Services	Institutional Support	Total	
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>	
	2020								
	Programs						Management and General		
	Instruction	Academic Support	Auxiliary Enterprises	Student Services	Public Services	Program Services	Institutional Support	Total	
Salaries and wages	\$ 39,045,134	\$ 5,608,968	\$ 1,052,289	\$ 11,683,050	\$ 1,156,691	\$ 58,546,132	\$ 11,807,082	\$ 70,353,214	
Fringe benefits	11,538,517	1,846,389	238,506	3,841,421	342,452	17,807,285	3,656,663	21,463,948	
Professional and administrative	1,973,817	1,130,285	238,984	3,268,101	110,277	6,721,464	5,092,487	11,813,951	
Special events	441,197	244,992	93,639	477,740	84,878	1,342,446	848,927	2,191,373	
Operation of plant	5,045,365	744,336	4,129,845	1,695,560	-	11,615,106	707,343	12,322,449	
Depreciation and amortization	2,460,458	240,117	2,643,526	1,248,856	6,109	6,599,066	3,317,803	9,916,869	
Interest	589,785	2,090,896	2,430,850	195,171	-	5,306,702	1,196,892	6,503,594	
Food service	-	-	3,943,062	-	-	3,943,062	-	3,943,062	
Other operating costs	<u>5,716,923</u>	<u>3,526,858</u>	<u>1,328,521</u>	<u>5,842,934</u>	<u>213,669</u>	<u>16,628,905</u>	<u>4,355,331</u>	<u>20,984,236</u>	
Total expenses	<u>\$ 66,811,196</u>	<u>\$ 15,432,841</u>	<u>\$ 16,099,222</u>	<u>\$ 28,252,833</u>	<u>\$ 1,914,076</u>	<u>\$ 128,510,168</u>	<u>\$ 30,982,528</u>	<u>\$ 159,492,696</u>	

See accompanying notes to the consolidated financial statements.



# **LIPSCOMB UNIVERSITY**

## **Notes to the Consolidated Financial Statements**

**May 31, 2021 and 2020**

### **(1) Nature of operations**

Lipscomb University (the "University") is a private, 501(c)(3) not-for-profit, educational, religious-related university located in Nashville, Tennessee 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 entered into 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. By combining AGST with the University, the University can further expand its Christian educational programs, offerings and outreach, resulting in greater opportunities for both on-campus and online students. All of AGST's assets and liabilities were transferred to the University at the closing of the transaction. 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, 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, 2021 and 2020**

**(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.

**(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, 2021 and 2020

The University holds real estate that it classifies as an investment. This investment property is primarily located near the main campus of the University. Certain of these properties are leased to students or other parties. The real estate held for investment is reported on the consolidated statement 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 2021 and 2020.

(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, 2021 and 2020

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, 2021 and 2020

***Net Assets Without Donor Restrictions*** – Net assets available for use in general operations and not subject to donor-imposed restrictions. The University has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

***Net Assets With Donor Restrictions*** – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

(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, 2021 and 2020

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 or 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**

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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, 2021 and 2020, 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 \$2,043,533 and \$2,092,016 for the years ended May 31, 2021 and 2020, 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, 2021 and 2020**

**(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 \$4,021,892 and \$4,959,000 in 2021 and 2020, respectively. For purposes of reporting fundraising expenses, the University includes only those fundraising costs incurred by its development office and expenses incurred for capital campaigns.

**(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) Events occurring after reporting date**

The University's management has evaluated events and transactions that occurred between May 31, 2021 and September 8, 2021, 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, 2021 and 2020**

**(3) Liquidity and availability**

The following table reflects the University's financial assets as of May 31, 2021 and 2020 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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 12,346,171	\$ 6,076,453
Cash from bond proceeds restricted for capital projects	9,290,992	16,322,057
Short-term investments from bond proceeds restricted for capital projects	-	21,439,713
Accounts receivable, net	12,133,731	12,199,607
Student loans receivable	2,578,550	1,906,062
Contributions receivable, net	28,116,466	29,599,966
Investments, excluding real estate	<u>114,062,903</u>	<u>87,221,491</u>
Financial assets at end of year	<u>178,528,813</u>	<u>174,765,349</u>
Less: assets unavailable for general expenditure within one year:		
Board-designated endowment	18,993,983	11,746,492
Cash and short-term investments from bond proceeds restricted for capital projects	9,290,992	37,761,770
Portion of donor restricted endowment to be held in perpetuity	85,014,203	67,953,854
Investments held in charitable remainder trusts	5,559,348	3,863,739
Investments held in insured gift annuities	1,657,432	434,447
Student loans receivable due in greater than one year	1,308,691	1,560,306
Contributions receivable due in greater than one year	<u>27,171,002</u>	<u>27,772,405</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 29,533,162</u>	<u>\$ 23,672,336</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 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, and has deducted the funds from financial assets available in the table above. However, these amounts could be made available if necessary.

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Notes to the Consolidated Financial Statements

May 31, 2021 and 2020

(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, 2021 and 2020, four insurance companies, rated A- and better by A.M. Best, held approximately 66% and 67%, respectively, of the cash value of life insurance policies owned by the University.

As of May 31, 2021 and 2020, approximately 63% and 74%, of the University's contributions receivable were due from five donors. During 2020 and 2021, 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, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Tuition and fees receivable	\$ 13,229,562	\$ 11,016,834
Accounts and other receivables	1,352,758	2,754,836
Grants receivable	<u>458,405</u>	<u>456,714</u>
Subtotal	15,040,725	14,228,384
Less allowance for uncollectible accounts	<u>(2,906,994)</u>	<u>(2,028,777)</u>
	\$ <u>12,133,731</u>	\$ <u>12,199,607</u>

**LIPSCOMB UNIVERSITY**

**Notes to the Consolidated Financial Statements**

**May 31, 2021 and 2020**

**(6) Contributions receivable**

A summary of contributions receivable as of May 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,000,437	\$ 2,084,104
One year to five years	26,304,091	28,561,502
Over five years	<u>14,214,599</u>	<u>13,529,407</u>
	41,519,127	44,175,013
Less discount for net present value	(13,385,752)	(14,311,251)
Less allowance for uncollectible contributions receivable	<u>(16,909)</u>	<u>(263,796)</u>
	<u>\$ 28,116,466</u>	<u>\$ 29,599,966</u>

Contributions receivable have been discounted using rates generally ranging from .11% to 5.00% as of May 31, 2021 and 2020. The weighted average discount rate of pledges outstanding as of May 31, 2021 and 2020 was 3.24% and 3.31%, 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

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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, 2021 and 2020.

- (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.

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Notes to the Consolidated Financial Statements

May 31, 2021 and 2020

The following tables set forth by level, within the fair value hierarchy, the University's financial instruments at fair value as of May 31, 2021 and 2020:

Fair Value Measurements as of <u>May 31, 2021 using the following inputs</u>				
	<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>

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Fair Value Measurements as of  
May 31, 2020 using the following inputs

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term investments	\$ 1,441,451	\$ 1,441,451	\$ -	\$ -
Mutual funds:				
Large cap	24,761,175	24,761,175	-	-
Mid cap	3,771,217	3,771,217	-	-
International	3,901,600	3,901,600	-	-
Fixed income	406,486	406,486	-	-
Exchange traded	<u>6,471,834</u>	<u>6,471,834</u>	<u>-</u>	<u>-</u>
Total mutual funds	39,312,312	39,312,312	-	-
Marketable equity securities	35,763	35,763	-	-
Common trust funds	22,380,864	-	22,380,864	-
Corporate bonds and government securities	332,599	332,599	-	-
Limited partnerships, private equity and other investment funds	21,458,554	-	-	21,458,554
Life insurance policies	<u>2,259,948</u>	<u>-</u>	<u>-</u>	<u>2,259,948</u>
Total investments	\$ <u>87,221,491</u>	\$ <u>41,122,125</u>	\$ <u>22,380,864</u>	\$ <u>23,718,502</u>

**LIPSCOMB UNIVERSITY**

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The following table provides a summary of changes in fair value of the University's Level 3 assets for the years ended May 31, 2021 and 2020:

	<b>Fair Value Measurements Using Significant Unobservable Inputs (Level 3)</b>		
	<b><u>Total</u></b>	<b><u>Limited Partnership Interest, private Equity and Other</u></b>	<b><u>Life Insurance Policies</u></b>
Balance at May 31, 2019	\$ 21,709,253	\$ 19,543,645	\$ 2,165,608
Realized gains	(626,102)	(626,102)	-
Unrealized gains (losses) relating to instruments still held at the reporting date	979,227	883,014	96,213
Purchases, sales and settlements, net	<u>1,656,124</u>	<u>1,657,997</u>	<u>(1,873)</u>
Balance at May 31, 2020	23,718,502	21,458,554	2,259,948
Realized gains (losses)	(522,113)	(522,113)	-
Unrealized gains (losses) 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	<u>\$ 27,802,971</u>	<u>\$ 25,479,409</u>	<u>\$ 2,323,562</u>

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.

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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, 2021 and 2020:

<u>Category of Investment</u>	<u>2021</u>				<u>2020</u>
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>	<u>Fair Value</u>
Private Equity	\$ 6,759,020	\$ 3,134,896	No immediate redemption	N/A	\$ 5,536,556
Real Estate	4,385,782	7,874,252	No immediate redemption	N/A	4,321,675
Equity Long/Short and Absolute Return Hedge Funds	12,872,583	-	Monthly to Annually	30 - 100 days	9,928,748
International Equity	18,178,604	-	Monthly	30 days	14,553,836
Fixed Income	7,696,945	-	Monthly	30 days	7,827,029
Other	<u>1,462,023</u>	<u>-</u>	No immediate redemption	N/A	<u>1,671,574</u>
Total	<u>\$ 51,354,957</u>	<u>\$ 11,009,148</u>			<u>\$ 43,839,418</u>

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 27% of such investments in this category were in liquidation at May 31, 2021 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 6% of such investments in this category were in liquidation at May 31, 2021 with final liquidation to occur upon the disposition of the last investment.



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## Notes to the Consolidated Financial Statements

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**Equity Long/Short and Absolute Return Hedge Funds** - This category includes investments in hedge funds and hedge funds-of-funds that invest primarily in U.S. and international securities (both long and short) and other investments seeking to realize appreciation in value primarily through the allocation of capital directly and indirectly among investment funds. Certain of these investments maintain the ability to limit investor redemptions in the event that liquidity in these funds is not available to meet withdrawals. This could also occur if liquidity is available, but non-redeeming fund investors could be adversely affected by large withdrawals by other clients.

**International Equity** - This category includes investments in equity securities of companies in foreign countries.

**Fixed Income** - This category includes investment funds that invest in a diversified portfolio of primarily U.S. based fixed income securities including corporate bonds, treasury bonds and agency securities.

**Other** - Other investments consist of limited partnership interests that are measured at fair value based on amounts reported by the partnerships and include partnership interests for companies primarily in the real estate industry.

### (8) **Property and equipment**

A summary of property and equipment as of May 31, 2021 and 2020 is as follows:

	<b><u>2021</u></b>	<b><u>2020</u></b>
Buildings and campus	\$ 357,233,025	\$ 299,767,702
Computer equipment and software	9,385,449	4,069,405
Furniture, fixtures and office equipment	19,737,041	18,649,051
General equipment	7,731,595	7,706,113
Laboratory equipment	5,924,751	5,864,477
Vehicles	859,904	891,620
Construction in progress	<u>5,024,836</u>	<u>31,693,708</u>
	405,896,601	368,642,076
Accumulated depreciation	<u>(136,335,507)</u>	<u>(128,830,814)</u>
	<b><u>\$ 269,561,094</u></b>	<b><u>\$ 239,811,262</u></b>

Depreciation expense on property and equipment amounted to \$8,755,033 and \$8,146,081 for the years ended May 31, 2021 and 2020, respectively.

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As of May 31, 2021 and 2020, the University had commitments remaining under construction contracts totaling approximately \$1,153,000 and \$20,432,000 that were at various stages of completion through fiscal years 2021 and 2020, respectively.

There was no retainage payable related to construction projects at May 31, 2021. The retainage payable related to construction projects at May 31, 2020 was approximately \$549,000, which is included in accrued expenses and liabilities in the accompany consolidated statements of financial position.

### (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, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Operating lease expense	\$ 2,263,129	\$ 2,580,536
Finance lease expense:		
Amortization of right-of-use assets	1,324,574	1,245,391
Interest on lease liabilities	<u>1,428,910</u>	<u>1,531,040</u>
Total finance lease expense	2,753,484	2,776,431
Sublease income	723,578	711,495

Supplemental cash flow information related to leases for May 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 2,226,463	\$ 2,526,727
Operating cash flows from finance leases	1,270,273	1,339,727
Financing cash flows from finance leases	2,384,353	3,099,748
ROU assets obtained in exchange for new lease obligations:		
Operating leases	\$ 54,268	\$ 45,918
Finance leases	946,295	971,769

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Additional supplemental information regarding assumptions for operating and finance leases is as follows for May 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Weighted-average remaining lease term (years)		
Operating leases	4.58	4.99
Finance leases	2.25	2.55
Weighted-average discount rate		
Operating leases	4.84 %	4.81 %
Finance leases	5.00 %	5.01 %

As of May 31, 2021, the maturity of lease liabilities is as follows:

<u>Maturity</u>	<u>Finance</u>	<u>Operating</u>	<u>Total</u>
2022	\$ 4,623,164	\$ 1,946,775	\$ 6,569,939
2023	15,924,758	1,537,302	17,462,060
2024	5,890,343	718,702	6,609,045
2025	3,432,982	465,602	3,898,584
2026	371,369	386,544	757,913
Thereafter	<u>161,422</u>	<u>1,051,575</u>	<u>1,212,997</u>
Total undiscounted cash flows	30,404,038	6,106,500	36,510,538
Less: present value discount	<u>(2,613,269)</u>	<u>(654,225)</u>	<u>(3,267,494)</u>
Total lease liabilities	<u>\$ 27,790,769</u>	<u>\$ 5,452,275</u>	<u>\$ 33,243,044</u>

**Sub-leasing activities:**

The University's sublease portfolio as lessor primarily consists of houses that are either owned by the University, have been leased by the University subsequent to the head lease transactions, or are sale/leaseback properties. Such subleases are generally for periods of six-months or less. The sublease agreements have been determined to be operating leases. The ROU assets related to the leasehold properties were assessed for impairment in the head lease.

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Notes to the Consolidated Financial Statements

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(10) Accrued expenses and liabilities

A summary of accrued expenses and liabilities as of May 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Accrued payroll and benefits	\$ 3,965,461	\$ 5,185,193
Financing liability on sale-leaseback property	6,512,476	6,320,873
Retainage payable	-	548,921
Accrued interest	1,576,540	1,584,040
Accrued health claims payable	474,639	451,221
Agency liabilities	617,572	660,611
Other current liabilities	<u>517,256</u>	<u>1,180,547</u>
	<u>\$ 13,663,944</u>	<u>\$ 15,931,406</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 2022 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.

(11) Lines of credit

The University has a \$10,000,000 revolving line of credit available with a bank at May 31, 2021. 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, 2021. However, in June 2021, Lipscomb drew \$4,000,000 on its line of credit for cyclical summer cash flow needs, which was repaid in August 2021.

**LIPSCOMB UNIVERSITY**

**Notes to the Consolidated Financial Statements**

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**(12) Note payable**

The University has an unsecured note payable to an individual with a balance outstanding of \$1,700,000 at May 31, 2021 and 2020. 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. As of May 31, 2021, the holder of the note payable has not made any demand for principal payments and the University does not anticipate any principal payments will be requested prior to the maturity of the note payable.

**(13) Bonds payable**

A summary of bonds payable as of May 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</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 \$9,978,925 and \$10,249,805 at May 31, 2021 and 2020, respectively, based on an effective interest rate of 4.45%, less debt issuance costs of \$1,034,802 and \$1,062,169 at May 31, 2021 and 2020, respectively.	\$ 118,944,124	\$ 119,187,636
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 \$169,985 and \$182,274 at May 31, 2021 and 2020, respectively.	19,830,015	19,817,726
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 \$6,485,607 and \$6,747,828 at May 31, 2021 and 2020, respectively, based on an effective interest rate of 4.15%, less debt issuance costs of \$687,420 and \$714,916 at May 31, 2021 and 2020, respectively.	<u>65,178,186</u>	<u>66,312,912</u>
Total bonds payable	<u>\$ 203,952,325</u>	<u>\$ 205,318,274</u>

**LIPSCOMB UNIVERSITY**

**Notes to the Consolidated Financial Statements**

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A summary of future annual minimum payments of bonds payable as of May 31, 2021 is as follows:

<u>Year</u>	<u>Amount</u>
2022	\$ 945,000
2023	1,200,000
2024	1,495,000
2025	1,815,000
2026	2,150,000
2027 and later years	<u>181,775,000</u>
Par amount of bonds payable	189,380,000
Unamortized bond premium	<u>16,464,532</u>
Subtotal bonds payable	205,844,532
Unamortized debt issuance costs	<u>(1,892,207)</u>
Total bonds payable	<u>\$ 203,952,325</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, 2021 and 2020.

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 \$3,525,000 and \$3,171,000 during the years ended May 31, 2021 and 2020, respectively.

Total interest cost incurred on the University's lines of credit, note payable, and bonds payable, inclusive of capitalized interest, was approximately \$10,618,000 and \$9,009,000 during the years ended May 31, 2021 and 2020, respectively, net of amortized bond premium of approximately \$533,000 for the years ended May 31, 2021 and 2020, respectively.

**(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. The University matched employee contributions up to 3% and 7% of an employee's compensation, subject to IRS limitations, for fiscal years 2021 and 2020, respectively. The University made contributions to the plan of \$1,138,890 and \$2,852,056 for fiscal years 2021 and 2020, respectively.

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**Notes to the Consolidated Financial Statements**

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**(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 75 participants in the plan at May 31, 2021. 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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Fair value of plan assets	\$ 4,192,346	\$ 3,668,321
Benefit obligation	<u>4,569,961</u>	<u>4,908,330</u>
Funded status	\$ <u>(377,615)</u>	\$ <u>(1,240,009)</u>

Weighted-average assumptions used to determine benefit obligations at May 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Discount rate	<u>3.50 %</u>	<u>4.25 %</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, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Discount rate	<u>3.50 %</u>	<u>4.25 %</u>
Expected long-term rate of return on plan assets	<u>7.50 %</u>	<u>7.50 %</u>
Rate of compensation increase	<u>5.00 %</u>	<u>5.00 %</u>

A summary of other information related to this plan for 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Pension expense	\$ <u>169,802</u>	\$ <u>391,604</u>
Benefits paid	\$ <u>679,879</u>	\$ <u>803,701</u>
Actuarial (gain) loss	\$ <u>(77,112)</u>	\$ <u>533,587</u>
Changes in assumptions	\$ <u>248,820</u>	\$ <u>-</u>

# LIPSCOMB UNIVERSITY

## Notes to the Consolidated Financial Statements

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Expected benefit payments, including future service and pay, as appropriate, are estimated at May 31, 2021 to be paid for the next ten years as follows:

<u>Year</u>	<u>Amount</u>
2022	\$ 427,000
2023	417,000
2024	409,000
2025	398,000
2026	384,000
2027 through 2031	1,685,000

The plan's weighted-average asset allocations at May 31, 2021 and 2020 by asset category are as follows:

<u>Asset Category</u>	<u>2021</u>	<u>2020</u>
Equity securities	66 %	73 %
Fixed income	10 %	11 %
Limited partnerships, private equity and other investment funds	12 %	12 %
Cash equivalents	<u>12 %</u>	<u>4 %</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.

### (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 \$661,000 at May 31, 2021 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.



**LIPSCOMB UNIVERSITY**

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**(15) Health plans**

**Health insurance plan**

The University adopted a self-insured health insurance plan during 2012. Under the plan, the University is self-insured up to \$175,000 per individual claim for covered employees. Amounts in excess of \$175,000 per claim are covered by a stop-loss policy purchased by the University. 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 \$475,000 and \$451,000 at May 31, 2021 and 2020, 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 189 retirees covered by the plan at May 31, 2021. Lifetime claims of an individual in excess of \$2,000,000 are the obligation of the retiree. Total costs of the plan were \$507,316 and \$549,450 in 2021 and 2020, 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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Accrued postretirement benefit obligation:		
For retirees	\$ 3,573,809	\$ 3,164,104
For active employees	<u>2,550,182</u>	<u>2,993,688</u>
Accrued postretirement benefit obligation	<u>\$ 6,123,991</u>	<u>\$ 6,157,792</u>

Net periodic postretirement benefit costs for 2021 and 2020 include the following components:

	<u>2021</u>	<u>2020</u>
Service cost	\$ 44,541	\$ 68,142
Interest cost	209,590	194,079
Recognized prior service cost	193,048	287,229
Recognized net losses	<u>60,137</u>	<u>-</u>
Net periodic postretirement benefit cost	<u>\$ 507,316</u>	<u>\$ 549,450</u>

LIPSCOMB UNIVERSITY

Notes to the Consolidated Financial Statements

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Expected benefit payments, including future service, as appropriate, are expected as of May 31, 2021 to be paid for the next ten years as follows:

<u>Year</u>	<u>Amount</u>
2022	\$ 380,000
2023	355,000
2024	334,000
2025	333,000
2026	332,000
2027 through 2031	1,593,000

The benefit payments listed in the above table were determined through actuarial valuation. For measurement purposes at May 31, 2021, a 4.30% annual rate of increase in the per capita cost of covered benefits (health care cost trend) was assumed. This rate is assumed to decrease .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 3.50% at May 31, 2021 and 2020.

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 \$796,000 and \$834,000 at May 31, 2021 and 2020, respectively, and would increase (decrease) the net periodic postretirement benefit cost by approximately \$40,000 in 2021 and \$(32,000) in 2020.

(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 \$18,993,983 and \$11,746,492 as of May 31, 2021 and 2020, respectively.

**LIPSCOMB UNIVERSITY**

**Notes to the Consolidated Financial Statements**

**May 31, 2021 and 2020**

**(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>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Capital improvements	\$ 21,468,310	\$ 29,609,331
Academic instruction and support	35,685,610	15,646,052
Student financial aid	955,926	617,242
Student services	1,418,187	766,890
Other	<u>717,426</u>	<u>2,928,217</u>
	<u>60,245,459</u>	<u>49,567,732</u>
Subject to passage of time:		
Annuity and life income funds	<u>4,105,695</u>	<u>3,082,779</u>
Endowment subject to spending policy and appropriation:		
Academic instruction and support	23,015,236	21,500,237
Student financial aid	40,078,746	38,892,336
Other	<u>291,887</u>	<u>284,451</u>
	<u>63,385,869</u>	<u>60,677,024</u>
	<u>\$ 127,737,023</u>	<u>\$ 113,327,535</u>

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

	<u>2021</u>	<u>2020</u>
Capital improvements	\$ 12,585,562	\$ 3,620,311
Academic instruction and support	8,986,616	3,543,185
Student financial aid	3,385,153	2,926,245
Student services	3,735,977	1,649,070
Other	<u>3,259,815</u>	<u>3,077,638</u>
	31,953,123	14,816,449
Released for operating activities	<u>19,367,561</u>	<u>11,196,138</u>
Released for non-operating activities	<u>\$ 12,585,562</u>	<u>\$ 3,620,311</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.

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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, 2021 and 2020 are as follows:

<u>May 31, 2021</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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
Transfers and other	-	-	-
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>

LIPSCOMB UNIVERSITY

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May 30, 2020	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 15,438,563	\$ 66,589,268	\$ 82,027,831
Investment return, net	275,907	1,518,964	1,794,871
Contributions	1,215	1,115,639	1,116,854
Transfers and other	(1,696,141)	1,696,141	-
Appropriation of endowment assets pursuant to spending-rate policy	-	(2,966,158)	(2,966,158)
Distributions from board-designated endowment pursuant to distribution policy	(350,000)	-	(350,000)
Distributions from board-designated endowment for special endowment draw	<u>(1,923,052)</u>	<u>-</u>	<u>(1,923,052)</u>
Endowment net assets, end of year	\$ <u>11,746,492</u>	\$ <u>67,953,854</u>	\$ <u>79,700,346</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, 2021, the University had approximately 17 endowment funds that were considered underwater by approximately \$671,000. As of May 31, 2020, the University had approximately 160 endowment funds that were considered underwater by approximately \$2,110,000. 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, 2021 and 2020

**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 allowed for a final scheduled board-designated endowment draw of \$350,000 in fiscal year 2020. The spending policy also allows for an annual draw from the donor restricted endowment equal to 4.5% and 5.0% percent of the average market value of the total endowment over the preceding five fiscal years for the years ended May 31, 2021 and 2020, respectively (actual draws were \$2,721,480 and \$2,966,158 for the years ending May 31, 2021 and 2020, respectively). Earnings drawn from funds functioning as endowment are unrestricted in purpose. The use of earnings drawn from restricted endowment funds is restricted as stipulated in the corresponding donor agreements. The Board of Trustees, at its discretion, can authorize additional net draws for special projects. During 2021, the Board of Trustees authorized an additional special endowment draw from the board-designated endowment of \$850,561 for support of the Lipscomb LEADS program and AGST. During 2020, an additional special endowment draw from the board-designated endowment of \$1,923,052 for marketing and fundraising.

### (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, 2021 and 2020.

#### *Disaggregation of revenues*

A summary of revenue from contracts with customers related to tuition and education fees, net for the years ended May 31, 2021 and 2020 disaggregated by the major classification of student type is as follows:

<u>Student Classification</u>	<u>2021</u>	<u>2020</u>
Undergraduate tuition	\$ 39,744,816	\$ 39,353,904
Graduate tuition	37,292,112	36,396,650
Academy tuition	15,963,250	15,562,664
Education fee revenue	<u>14,331,310</u>	<u>14,597,851</u>
Total	\$ <u>107,331,488</u>	\$ <u>105,911,069</u>

**LIPSCOMB UNIVERSITY**

**Notes to the Consolidated Financial Statements**

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A summary of revenue from contracts with customers related to auxiliary enterprises revenue for the years ended May 31, 2021 and 2020 disaggregated by type is as follows:

<u>Revenue Classification</u>	<u>2021</u>	<u>2020</u>
Housing	\$ 11,236,746	\$ 10,922,710
Food service	6,968,284	6,797,452
Other	<u>398,428</u>	<u>2,167,679</u>
Total	\$ <u>18,603,458</u>	\$ <u>19,887,841</u>

***Contract balances***

A summary of receivables and contract liabilities from contracts with customers at May 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Student accounts receivable, net	\$ <u>10,322,568</u>	\$ <u>8,988,057</u>
Student loans receivable	\$ <u>2,578,550</u>	\$ <u>1,906,062</u>
Other receivables from contracts with customers	\$ <u>99,878</u>	\$ <u>45,990</u>
Student accounts and deposits collected in advance	\$ <u>1,090,963</u>	\$ <u>1,254,486</u>
Deferred revenue	\$ <u>12,280,560</u>	\$ <u>9,454,673</u>

Substantially all of the deferred revenue at May 31, 2020 was recognized as revenue during 2021 as generally all performance obligations are met within two-three months of the fiscal year end. Additionally, amounts of deferred revenue at May 31, 2021 represent cash received from students during fiscal year 2021 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 companies or organizations that are affiliated with or owned, directly or indirectly, by members of the Board of Trustees. Transactions with related parties are consummated at arm's length in accordance with the terms of the University's conflict of interest policy.

# LIPSCOMB UNIVERSITY

## Notes to the Consolidated Financial Statements

May 31, 2021 and 2020

### (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 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

On March 11, 2020, the World Health Organization declared the outbreak of the Coronavirus (COVID-19) a pandemic. As of the date this report was available to be issued, the United States, as well as many other countries around the world, continue 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 are 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 provides financial relief to students and institutions impacted by the pandemic. Grants made under HEERF consist of funds for emergency financial aid grants to students and funds for institutional use that can 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 must 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 can 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, 2021 and 2020**

At May 31, 2021, the University has 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. At May 31, 2020, the University had drawn approximately \$2,582,000 but not met the conditions for recognition of federal funds and recognized a refundable grant liability for the full amount of funds that had been received by that date. Additionally, during 2021, AGST received approximately \$500,000 in HEERF funding which was all utilized during 2021.

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.