

**LIPSCOMB UNIVERSITY**

**Financial Statements**

**May 31, 2015 and 2014**

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

**LBMC**

**MAKE A GOOD  
BUSINESS BETTER**

# LIPSCOMB UNIVERSITY

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## INDEPENDENT AUDITORS' REPORT

The Board of Trustees of  
Lipscomb University:

We have audited the accompanying financial statements of Lipscomb University (the University) which are comprised of the statements of financial position as of May 31, 2015 and 2014, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risk of material misstatements of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the University as of May 31, 2015 and 2014, 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.

Emphasis of a matter regarding restatement for change in contributions receivable

As described in Note 23 to the financial statements, during 2015 the University's management evaluated the outstanding donor intentions to give and determined that certain of these contributions receivable should have been reported as unconditional promises to give to the University. Accordingly, the University has increased the beginning net assets by approximately \$16,782,000 to reflect the net contributions receivable at June 1, 2013. Our opinion is not modified with respect to that matter.

Emphasis of a matter for change in accounting principle

As described in Note 23 to the financial statements, the University changed its policy for releasing temporarily restricted net assets designated for capital improvements. Our opinion is not modified with respect to that matter.

*LBMC, PC*

Brentwood, Tennessee  
September 4, 2015

LIPSCOMB UNIVERSITY

Statements of Financial Position

May 31, 2015 and 2014

	<u>Assets</u>	
	<u>2015</u>	(As restated) <u>2014</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 7,620,322	\$ 7,670,392
Accounts receivable, net	2,107,769	2,233,824
Contributions receivable, net	18,245,649	18,204,359
Investments, excluding real estate	86,508,521	81,438,135
Real estate investments	14,277,449	12,499,247
Prepaid expenses and other assets	1,750,195	2,178,436
Student loans receivable	2,162,130	2,384,455
Property and equipment, net	<u>131,153,842</u>	<u>127,216,227</u>
	<u>\$ 263,825,877</u>	<u>\$ 253,825,075</u>
 <u>Liabilities and Net Assets</u>		
<b>Liabilities:</b>		
Current portion of notes payable	\$ 139,625	\$ 134,133
Current portion of bonds payable	3,285,194	3,270,213
Current portion of capital lease obligations	98,458	-
Student accounts and deposits collected in advance	4,668,971	4,008,382
Accounts payable, including construction payables of \$2,180,486 and \$40,363 in 2015 and 2014, respectively	4,143,910	1,977,707
Accrued expenses and liabilities	10,668,216	9,559,398
Accrued unrealized loss on swap agreements	7,998,236	8,143,990
Deferred revenue	1,376,480	1,430,822
Annuities payable	1,736,016	2,001,565
Obligations under capital lease, less current portion	787,672	-
Revolving and construction lines of credit	3,404,039	-
Notes payable, excluding current portion	1,216,195	1,354,981
Bonds payable, excluding current portion	63,646,090	66,928,535
Accrued postretirement benefit obligation	5,419,774	5,362,169
Federal student loans refundable	<u>2,217,315</u>	<u>2,192,810</u>
Total liabilities	<u>110,806,191</u>	<u>106,364,705</u>
<b>Net assets:</b>		
Unrestricted:		
Undesignated	24,650,933	26,521,640
Designated for student loans	288,827	288,827
Funds functioning as endowment	14,439,810	14,098,944
Designated for pension and postretirement benefit plans	(5,368,359)	(4,913,231)
Designated for plant facilities	<u>35,181,331</u>	<u>31,635,440</u>
Total unrestricted	69,192,542	67,631,620
Temporarily restricted	36,855,888	34,894,730
Permanently restricted	<u>46,971,256</u>	<u>44,934,020</u>
Total net assets	<u>153,019,686</u>	<u>147,460,370</u>
	<u>\$ 263,825,877</u>	<u>\$ 253,825,075</u>

See accompanying notes to the financial statements.

LIPSCOMB UNIVERSITY

Statements of Activities and Changes in Net Assets

Years ended May 31, 2015 and 2014

		(As restated)
	2015	2014
Changes in unrestricted net assets:		
Revenues and other support:		
Tuition and education fees	\$ 126,381,973	\$ 120,856,346
Less financial aid	<u>(30,164,162)</u>	<u>(28,858,219)</u>
Net tuition and fees	96,217,811	91,998,127
Private gifts	185,789	886,896
Endowment draw for operations	1,500,000	1,500,000
Auxiliary enterprises revenue	18,641,782	18,075,590
Rental income	1,489,097	1,273,867
Other income	3,699,128	3,544,132
Satisfaction of restrictions	<u>7,957,524</u>	<u>6,063,897</u>
Total revenues and other support	<u>129,691,131</u>	<u>123,342,509</u>
Expenses:		
Instruction	56,772,570	52,180,432
Institutional support	24,713,888	23,767,360
Student services	20,425,133	19,719,649
Auxiliary enterprises	13,202,194	12,841,153
Academic support	13,443,521	12,774,417
Public services	<u>1,901,342</u>	<u>1,710,821</u>
Total expenses	<u>130,458,648</u>	<u>122,993,832</u>
Change in unrestricted net assets from operating activities	<u>(767,517)</u>	<u>348,677</u>
Non-operating activities:		
Investment income, net after the application of endowment draws	1,675,894	3,835,711
Gain on interest rate swap agreements	145,753	1,560,215
Change in postretirement benefit obligation	(57,605)	(219,000)
Change in defined benefit retirement plan obligation	(397,523)	501,090
Retirement incentive plan expense	(982,519)	-
Satisfaction of restrictions, capital gifts	<u>1,944,439</u>	<u>2,423,734</u>
Change in unrestricted net assets from non-operating activities	<u>2,328,439</u>	<u>8,101,750</u>
Increase in unrestricted net assets	<u>1,560,922</u>	<u>8,450,427</u>
Changes in temporarily restricted net assets:		
Private gifts	8,898,797	8,480,943
Adjustments of actuarial liability for annuities payable	(19,215)	(320,548)
Investment income, net	1,576,480	2,383,510
Other income	83,460	71,292
Government and other grants	1,362,552	1,543,515
Net assets released from restrictions	<u>(9,940,916)</u>	<u>(8,991,643)</u>
Increase in temporarily restricted net assets	<u>1,961,158</u>	<u>3,167,069</u>
Changes in permanently restricted net assets:		
Private gifts	1,894,989	3,005,576
Investment income, net	123,139	57,402
Adjustments of actuarial liability for annuities	(19,845)	2,022
Transfers and changes in value of split interest	<u>38,953</u>	<u>504,012</u>
Increase in permanently restricted net assets	<u>2,037,236</u>	<u>3,569,012</u>
Increase in net assets	5,559,316	15,186,508
Net assets at beginning of year	<u>147,460,370</u>	<u>132,273,862</u>
Net assets at end of year	<u>\$ 153,019,686</u>	<u>\$ 147,460,370</u>

See accompanying notes to the financial statements.

LIPSCOMB UNIVERSITY

Statements of Cash Flows

Years ended May 31, 2015 and 2014

	<u>2015</u>	(As restated) <u>2014</u>
Cash flows from operating activities:		
Increase in net assets	\$ <u>5,559,316</u>	\$ <u>15,186,508</u>
Adjustments to reconcile change in net assets to cash flows provided by operating activities:		
Depreciation	7,848,819	7,259,531
Provision for uncollectible accounts	206,888	160,762
Net gain on interest rate swap agreements	(145,753)	(1,560,214)
(Gain) loss on disposal of property and equipment	121,160	(15,000)
Net (gain) loss on investments, excluding real estate	(3,970,811)	(7,317,140)
Net (gain) loss on sale of real estate investments	(26,499)	-
Gifts restricted for investments and plant facilities	(4,934,133)	(4,438,451)
(Increase) decrease in operating assets:		
Accounts receivable	(80,833)	(279,025)
Contributions receivable	(41,290)	(1,422,611)
Prepaid expenses and other assets	428,241	(61,390)
Increase (decrease) in operating liabilities:		
Student accounts and deposits collected in advance	660,589	249,831
Accounts payable	26,087	(58,688)
Accrued expenses and liabilities	1,108,818	375,367
Deferred revenue	(54,342)	200,010
Annuities payable	(265,549)	(39,988)
Accrued postretirement benefit obligation	<u>57,605</u>	<u>219,000</u>
Total adjustments	<u>938,997</u>	<u>(6,728,006)</u>
Net cash provided by operating activities	<u>6,498,313</u>	<u>8,458,502</u>
Cash flows from investing activities:		
Proceeds from sale of equipment	-	15,000
Purchases of plant facilities	(8,388,669)	(8,656,570)
Proceeds from sale of investments	44,743,646	18,682,305
Purchases of investments	(45,843,222)	(19,077,473)
Proceeds from sale of real estate investments	287,500	590,000
Purchases of real estate investments	(2,433,424)	(315,551)
Net increase (decrease) in federal student loans refundable	24,505	(45,501)
Change in student loans receivable, net	<u>222,325</u>	<u>150,779</u>
Net cash used by investing activities	<u>(11,387,339)</u>	<u>(8,657,011)</u>
Cash flows from financing activities:		
Proceeds from lines of credit	3,404,039	-
Payments of notes and loans payable	(133,294)	(140,126)
Proceeds from bonds payable	-	2,304,591
Payments of bonds payable	(3,267,464)	(3,011,252)
Payments of capital leases	(98,458)	-
Gifts restricted for investments and plant facilities	<u>4,934,133</u>	<u>4,438,451</u>
Net cash provided by financing activities	<u>4,838,956</u>	<u>3,591,664</u>
Increase (decrease) in cash and cash equivalents	(50,070)	3,393,155
Cash and cash equivalents at beginning of year	<u>7,670,392</u>	<u>4,277,237</u>
Cash and cash equivalents at end of year	<u>\$ <u>7,620,322</u></u>	<u>\$ <u>7,670,392</u></u>

See accompanying notes to the financial statements.

# LIPSCOMB UNIVERSITY

## Notes to the Financial Statements

May 31, 2015 and 2014

### (1) Nature of operations

Lipscomb University (the University) is a private, 501(c)(3) not-for-profit, educational, church-related university located in Nashville, Tennessee with an enrollment of approximately 4,600 students seeking undergraduate, graduate and doctoral degrees. The University also provides pre-kindergarten through high school education for approximately 1,300 additional students through Lipscomb Academy.

The University is governed by a self-sustaining Board of Trustees that has oversight responsibility to establish the general policies that govern the operations of the University, including its financial affairs. The Board of Trustees is comprised of 31 members that may serve up to three successive four-year terms.

### (2) Summary of significant accounting policies

The financial statements of the University are presented on the accrual basis. The significant accounting policies 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 of Trustees.

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

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

Designated for pension and postretirement benefit plans - Represents the benefit obligations in excess of plan assets related to the pension and postretirement benefit plans (see Notes 15 and 16).

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



# LIPSCOMB UNIVERSITY

## Notes to the Financial Statements

May 31, 2015 and 2014

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 reported as unrestricted net assets unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or specific purposes are reported as temporarily or permanently restricted support. When a restricted gift's purpose is fulfilled, the University reports the support as satisfaction of restrictions.

(b) Cash equivalents

The University reports all highly-liquid investments with original maturities of less than three months as 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, 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 collections 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) Revenue and support recognition

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

Contributions, other than conditional promises to give, are reported in the fiscal year the cash or the unconditional promise is received. Conditional promises to give are not reported until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

# LIPSCOMB UNIVERSITY

## Notes to the Financial Statements

May 31, 2015 and 2014

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

### (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 statements of financial position. Real estate investments are reported at their original cost to the University or the appraised value at the date of the gift. Investment income reported in the statements of activities includes interest, dividends, and realized and unrealized gains and losses, net of investment expenses. Investment income (loss) is reported in the period earned as an increase (decrease) in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions. Investment income (loss) that is restricted by the donor is reported as an increase (decrease) in unrestricted net assets if the restrictions are met or expire in the year in which the income (loss) is earned. All other donor-restricted investment income (loss) is reported as an increase (decrease) in temporarily or permanently restricted net assets unless otherwise specified by the donor.

The University's spending policy allows for an annual unrestricted endowment draw amount of the lesser of 4.5% or \$1,500,000 (actual draw was \$1,500,000 for each annual period) and an annual 5.0% draw from the restricted endowment. 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. There were no such additional draws authorized for 2015 and 2014.

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

# LIPSCOMB UNIVERSITY

## Notes to the Financial Statements

May 31, 2015 and 2014

(f) Property and equipment

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

Disbursements for maintenance and repairs are reported 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 statements of financial position, and the resulting gain or loss is included in the statements of activities.

(g) 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.

(h) Prepaid expenses and other assets

Prepaid expenses and other assets include debt issuance costs which are amortized on a straight-line basis over the scheduled repayment period of the related debt.

(i) Life income and gift annuities

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

The University is the named trustee for certain estates and trusts of friends of the University and pays the trust income to the named beneficiaries. In such cases where the University is not the sole beneficiary, only the University's portion is included in the statements of financial position. As of May 31, 2015 and 2014, assets under such split-interest agreements totaled \$403,332 (or \$302,499 net of liabilities) and \$409,937 (or \$307,453 net of liabilities), respectively, and are included in investments on the statements of financial position.

# LIPSCOMB UNIVERSITY

## Notes to the Financial Statements

May 31, 2015 and 2014

(j) Income taxes

The University is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and, accordingly, no provision for income taxes is included in the financial statements.

As of May 31, 2015 and 2014, the University had accrued no interest or penalties related to uncertain tax positions. It is the University's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The University files U.S. Federal information tax returns and is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended after May 31, 2011.

(k) Advertising costs

Advertising and promotion costs are expensed as incurred. The University incurred advertising costs of \$1,096,886 and \$752,867 for the years ended May 31, 2015 and 2014, 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 U.S. Government under the Federal Perkins Loan program are loaned to qualified students and may be reloaned after collection. These funds are ultimately refundable to the U.S. Government and are, therefore, recorded as liabilities.

(n) 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 approximately \$3,480,000 and \$3,334,000 in 2015 and 2014, 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.

Notes to the Financial Statements

May 31, 2015 and 2014

(o) 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 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.

(p) 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.

(q) Events occurring after reporting date

The University's management has evaluated events and transactions that occurred between May 31, 2015 and September 4, 2015, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Credit risks and concentrations

The University generally maintains cash on deposit with financial institutions in excess of federally insured amounts. The University has not experienced any losses in such accounts and management believes the University is not exposed to any significant credit risk related to cash.

The University has significant investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur and that such changes could materially affect the amounts reported in the statements of financial position.

The University holds life insurance policies with various insurance companies. As of May 31, 2015 and May 31, 2014, two insurance companies, rated A- by A.M. Best, hold approximately 41% and 37%, respectively, of the cash value of life insurance policies owned by the University.

LIPSCOMB UNIVERSITY

Notes to the Financial Statements

May 31, 2015 and 2014

(4) Accounts receivable

A summary of accounts receivable as of May 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Student accounts receivable	\$ 2,782,226	\$ 2,910,173
Other accounts receivable	<u>433,231</u>	<u>211,666</u>
Subtotal	3,215,457	3,121,839
Less allowance for uncollectible accounts	<u>(1,107,688)</u>	<u>(888,015)</u>
Accounts receivable, net	\$ <u>2,107,769</u>	\$ <u>2,233,824</u>

(5) Contributions receivable

A summary of contributions receivable as of May 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 627,618	\$ 913,290
One year to five years	7,182,407	6,814,673
Over five years	<u>12,326,080</u>	<u>13,199,909</u>
	20,136,105	20,927,872
Less discount for net present value	(1,754,419)	(2,086,204)
Less allowance for uncollectible contributions receivable	<u>(136,037)</u>	<u>(637,309)</u>
	\$ <u>18,245,649</u>	\$ <u>18,204,359</u>

Such contributions receivable as of May 31, 2015 and 2014 are to be utilized for the following purposes:

	<u>2015</u>	<u>2014</u>
Unrestricted	\$ 2,223,988	\$ 2,691,238
Operations and scholarships	3,406,733	2,380,134
Acquisition of property and equipment	12,093,380	12,237,314
Endowment	<u>521,548</u>	<u>895,673</u>
	\$ <u>18,245,649</u>	\$ <u>18,204,359</u>

Contributions receivable have been discounted using rates ranging from 0.12% to 4.43% as of May 31, 2015 and 2014.

LIPSCOMB UNIVERSITY

Notes to the Financial Statements

May 31, 2015 and 2014

(6) Investments

A summary of investments as of May 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Short-term investments	\$ 9,134,722	\$ 7,368,606
Mutual funds	39,162,611	31,522,953
Marketable equity securities	4,114,877	3,939,518
Corporate bonds and government securities	3,314,296	6,339,200
Limited partnerships, private equity and other funds	28,843,636	30,033,451
Life insurance policies	1,938,379	2,034,092
Commodity contracts	<u>-</u>	<u>200,315</u>
	<u>\$ 86,508,521</u>	<u>\$ 81,438,135</u>

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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 1,089,208	\$ 647,313
Unrealized gain on investments, net	169,587	8,289,703
Realized gain (loss) on investments, net	3,801,223	(972,562)
Investment management fees	<u>(184,505)</u>	<u>(187,831)</u>
	<u>\$ 4,875,513</u>	<u>\$ 7,776,623</u>

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

	<u>2015</u>	<u>2014</u>
Endowment draw for operations	\$ 1,500,000	\$ 1,500,000
Unrestricted investment gain (loss) after the application of endowment draws	1,675,894	3,835,711
Temporarily restricted	1,576,480	2,383,510
Permanently restricted	<u>123,139</u>	<u>57,402</u>
	<u>\$ 4,875,513</u>	<u>\$ 7,776,623</u>

Notes to the Financial Statements

May 31, 2015 and 2014

(7) Fair value measurements

Financial Accounting Standards Board ("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;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for asset measurement for assets measured at fair value. There have been no changes in the methodologies used at May 31, 2015 and 2014.

- (i) *Short-term investments*: Short-term investments consist primarily of money market funds that are valued at the closing price reported on the active market on which the individual securities are traded.
- (ii) *Mutual funds*: Valued at the net asset value of shares held by the University at year end based on a quoted price in an active market.
- (iii) *Marketable equity securities, corporate bonds and government securities*: Valued at the closing price reported on the active market on which the individual securities are traded.



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- (iv) *Limited partnerships, private equity and other investment funds:* Valued at fair value based on the beginning of year value of the University's interest plus actual contributions and allocated investment income less actual distributions and allocated administrative expenses. Certain investments in limited partnerships have time restrictions ranging from 45 days to 100 days or no immediate liquidity related to the withdrawal of funds. Additionally, two limited partnership investments have capital call commitments totaling approximately \$598,000 at May 31, 2015.

Limited partnership interests make up the majority of the University's Level 3 investments. These investments are valued by the general partners of the partnerships using valuation techniques as prescribed by FASB 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.

- (v) *Life insurance policies:* Valued at the cash value of the underlying insurance policies. The policies are not available for immediate liquidity.
- (vi) *Commodity contracts:* Fair value for forward commodity purchase and sale contracts is estimated based on exchange-quoted prices.
- (vii) *Interest rate swaps:* The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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The following tables sets forth by level, within the fair value hierarchy, the University's financial instruments at fair value as of May 31, 2015 and 2014:

Fair Value Measurements as of May 31, 2015 using the following inputs				
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term investments	\$ 9,134,722	\$ 9,134,722	\$ -	\$ -
Mutual funds:				
Large cap	17,105,714	17,105,714	-	-
Mid cap	3,454,772	3,454,772	-	-
International	15,357,297	15,357,297	-	-
Hedge	36,986	36,986	-	-
Exchange traded	<u>3,207,842</u>	<u>3,207,842</u>	-	-
Total mutual funds	39,162,611	39,162,611	-	-
Marketable equity securities	4,114,877	4,114,877	-	-
Corporate bonds and government securities	3,314,296	3,314,296	-	-
Limited partnerships, private equity and other funds	28,843,636	-	11,596,066	17,247,570
Life insurance policies	<u>1,938,379</u>	-	-	<u>1,938,379</u>
Total investments	\$ <u>86,508,521</u>	\$ <u>55,726,506</u>	\$ <u>11,596,066</u>	\$ <u>19,185,949</u>
Interest rate swaps	\$ <u>(7,998,236)</u>	\$ -	\$ <u>(7,998,236)</u>	\$ -

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Fair Value Measurements as of May 31, 2014 using the following inputs				
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term investments	\$ 7,368,606	\$ 7,368,606	\$ -	\$ -
Mutual funds:				
Large cap	12,877,538	12,877,538	-	-
Mid cap	3,248,497	3,248,497	-	-
International	12,652,762	12,652,762	-	-
Real estate	9,111	9,111	-	-
Exchange traded	<u>2,735,045</u>	<u>2,735,045</u>	-	-
Total mutual funds	31,522,953	31,522,953	-	-
Marketable equity securities	3,939,518	3,939,518	-	-
Corporate bonds and government securities	6,339,200	6,339,200	-	-
Limited partnerships, private equity and other funds	30,033,451	-	10,027,816	20,005,635
Life insurance policies	2,034,092	-	-	2,034,092
Commodities contract	<u>200,315</u>	-	<u>200,315</u>	-
Total investments	\$ <u>81,438,135</u>	\$ <u>49,170,277</u>	\$ <u>10,228,131</u>	\$ <u>22,039,727</u>
Interest rate swaps	\$ <u>(8,143,990)</u>	\$ -	\$ <u>(8,143,990)</u>	\$ -

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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, 2015 and 2014:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Limited Partnership Interests	Life Insurance Policies	Total
Balance at May 31, 2013	\$ 19,952,476	\$ 1,867,710	\$ 21,820,186
Realized gains	636,332	-	636,332
Unrealized gains relating to instruments still held at the reporting date	981,040	166,382	1,147,422
Purchases, sales, issuances and settlements, net	<u>(1,564,213)</u>	<u>-</u>	<u>(1,564,213)</u>
Balance at May 31, 2014	20,005,635	2,034,092	22,039,727
Realized gains	1,219,090	125,074	1,344,164
Unrealized gains relating to instruments still held at the reporting date	777,838	112,387	890,225
Purchases, sales, issuances and settlements, net	<u>(4,754,993)</u>	<u>(333,174)</u>	<u>(5,088,167)</u>
Balance at May 31, 2015	<u>\$ 17,247,570</u>	<u>\$ 1,938,379</u>	<u>\$ 19,185,949</u>

(8) Real estate investments

A summary of real estate investments as of May 31, 2015 and 2014 is as follows:

	2015	2014
Properties adjacent to the University	\$ 18,879,497	\$ 16,446,074
Properties not adjacent to the University	<u>495,396</u>	<u>756,396</u>
	19,374,893	17,202,470
Accumulated depreciation on real estate investments	<u>(5,097,444)</u>	<u>(4,703,223)</u>
	<u>\$ 14,277,449</u>	<u>\$ 12,499,247</u>

Depreciation expense on these properties amounted to \$394,221 and \$340,313 for the years ended May 31, 2015 and 2014, respectively.

Certain of the real estate investment properties are subject to sales/leaseback transactions (Note 19).

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(9) Property and equipment

A summary of property and equipment as of May 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Buildings and campus	\$ 192,622,542	\$ 190,436,683
Computer equipment and software	3,166,642	3,143,005
Furniture, fixtures and office equipment	17,715,287	16,788,028
General equipment	7,945,633	7,708,577
Laboratory equipment	4,752,323	4,006,412
Automobiles	565,138	552,915
Construction in progress	<u>7,071,135</u>	<u>724,912</u>
	233,838,700	223,360,532
Accumulated depreciation	<u>(102,684,858)</u>	<u>(96,144,305)</u>
	<u>\$ 131,153,842</u>	<u>\$ 127,216,227</u>

Depreciation expense on property and equipment amounted to \$7,454,598 and \$6,919,218 for the years ended May 31, 2015 and 2014, respectively.

As of May 31, 2015, the University had commitments remaining under construction contracts totaling approximately \$9,640,000 that were at various stages of completion through fiscal year 2015. The retainage payable related to construction projects at May 31, 2015 was approximately \$180,000, which is included in accrued expenses and liabilities in the accompany statements of financial position. As of May 31, 2014, the University had completed all prior commitments under construction contracts.

(10) Lines of credit

The University has a \$7,500,000 revolving line of credit available with a bank. The outstanding balance of the line bears interest at a rate equal to 1-month LIBOR plus 1.70% per year (1.88% at May 31, 2015). The line matures in October 2019 and is secured by certain investments held by the University. The University had outstanding borrowings under the line of \$2,500,263 at May 31, 2015. This line of credit is scheduled to be utilized generally for construction projects.

The University has a construction line of credit available with a bank with a maximum available line of \$7,500,000. Advances are allowed until the earlier of the completion of the construction project or December 31, 2015. Interest is due monthly at a rate equal to the 1-month LIBOR plus 1.50% per year (1.68% at May 31, 2015). At December 31, 2015, the line of credit will convert to a term loan with principal payable in 240 equal monthly installments beginning June 1, 2016. The University owed \$903,776 under the line at May 31, 2015. The line is to be utilized to renovate the High Rise Residence Hall and is secured by real property.

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(11) Notes payable

A summary of notes payable as of May 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Note payable to a bank, due August 2023, with monthly payments of \$15,996, including interest at a fixed rate of 4.05%. Secured by real property.	\$ 1,355,820	\$ 1,489,114
Less current portion	<u>(139,625)</u>	<u>(134,133)</u>
Notes payable, excluding current portion	\$ <u>1,216,195</u>	\$ <u>1,354,981</u>

A summary of future maturities of notes payable as of May 31, 2015 is as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 139,625
2017	145,386
2018	151,385
2019	157,631
2020	164,135
2021 and later years	<u>597,658</u>
	\$ <u>1,355,820</u>

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## Notes to the Financial Statements

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### (12) Bonds payable

A summary of bonds payable as of May 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Revenue Refunding Bonds (Lipscomb University Project) Series 2012 ("Series 2012"); due in annual payments of \$2,840,000 through November 1, 2036, plus interest at a rate equal to 77% of the sum of LIBOR plus 2.25% multiplied by a margin rate factor as defined in the bond agreement (1.84% as of May 31, 2015).	\$ 62,480,000	\$ 65,320,000
Revenue Bonds (Lipscomb University Project) Series 2013 ("Series 2013"); due in monthly payments of \$50,626 through December 2023, including interest at a fixed rate of 3.79%.	<u>4,451,284</u>	<u>4,878,748</u>
Total bonds payable	66,931,284	70,198,748
Less current portion	<u>(3,285,194)</u>	<u>(3,270,213)</u>
Bonds payable, excluding current portion	\$ <u>63,646,090</u>	\$ <u>66,928,535</u>

A summary of future maturities of bonds payable as of May 31, 2015 is as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 3,285,194
2017	3,301,537
2018	3,319,588
2019	3,338,345
2020	3,357,604
2021 and later years	<u>50,329,016</u>
	\$ <u>66,931,284</u>

The terms of the above agreements subject the University to certain negative pledge agreements and compliance with certain financial ratios and restrictions, including debt service and leverage ratios and minimum unrestricted liquidity requirements. The University was in compliance with these requirements as of May 31, 2015 and 2014.

### (13) 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 its outstanding bond issues. These agreements terminate between November 2023 and November 2028 and have a combined original notional amount of \$81,160,000 and current notional amount of \$54,305,000 as of May 31, 2015. The fair value of the University's obligations under swap agreements amounted to \$7,998,236 and \$8,143,990 at May 31, 2015 and 2014, respectively.

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The University's bond issuances have three components that determined the University's effective interest rate: (1) the University pays a variable rate of interest as defined in the respective bond agreements; (2) the University receives 67% of one month LIBOR from SunTrust Bank; and (3) the University pays 3.43% to SunTrust Bank per the weighted average of the University's three swap agreements.

The effective all-in rate of interest (when all three interest variables are combined) of Lipscomb University is 4.86% and 4.96% for fiscal years 2015 and 2014, respectively.

Interest expense on the University's lines of credit and notes payable amounted to approximately \$106,000 and \$81,000 for 2015 and 2014, respectively. Interest expense on the bonds payable, amounted to approximately \$3,331,000 and \$3,430,000 for the years ended May 31, 2015 and 2014, respectively. Total interest expense was approximately \$3,437,000 and \$3,511,000 for 2015 and 2014, respectively.

### (14) Capital lease obligations

The University entered into a capital lease agreement to finance the acquisition of certain musical equipment during 2015. The cost of equipment utilized under the capital lease was \$984,588 with accumulated depreciation of \$98,458 at May 31, 2015. The capital lease obligation totaled \$886,130 at May 31, 2015.

Future minimum annual lease payments payable under the capital lease as of May 31, 2015 are as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 98,458
2017	98,458
2017	98,458
2019	98,458
2020	98,458
2021 and later years	<u>393,840</u>
	<u>\$ 886,130</u>

### (15) Employee benefit plans

#### (a) Defined contribution plans

The University sponsors a defined contribution retirement plan covering substantially all full-time employees who have been employed at least one year. The University matches employee contributions up to 7% of an employee's compensation, subject to IRS limitations. The University made contributions to the plan of \$2,256,612 and \$2,021,983 for fiscal years 2015 and 2014, respectively. Additionally, the University sponsors a tax-deferred annuity plan which allows employee contributions for full-time employees upon hire; however, no University contributions are required.



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(b) Defined benefit plan

The University has a contributory, defined benefit retirement plan covering certain salaried employees hired prior to August 1, 1990. The University had approximately 120 participants in the plan at May 31, 2015. 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, 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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Fair value of plan assets	\$ 6,574,492	\$ 6,488,512
Benefit obligation	<u>6,523,077</u>	<u>6,039,574</u>
Funded status	\$ <u>51,415</u>	\$ <u>448,938</u>

Weighted-average assumptions used to determine benefit obligations at May 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Discount rate	<u>4.5 %</u>	<u>4.75 %</u>
Rate of compensation increase	<u>5.0 %</u>	<u>5.0 %</u>

Weighted-average assumptions used to determine net cost for the years ended May 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Discount rate	<u>4.5 %</u>	<u>4.75 %</u>
Expected long-term rate of return on plan assets	<u>7.5 %</u>	<u>7.5 %</u>
Rate of compensation increase	<u>5.0 %</u>	<u>5.0 %</u>

A summary of other information related to this plan for 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Pension expense	\$ <u>390,408</u>	\$ <u>568,500</u>
Change of mortality table	\$ <u>365,678</u>	\$ <u>-</u>
Benefits paid	\$ <u>242,850</u>	\$ <u>343,959</u>
Actuarial (gain)/loss	\$ <u>(168,334)</u>	\$ <u>(475,055)</u>

During 2014, the plan paid additional distributions of \$189,385. There were no additional distributions paid from the plan in 2015. No contributions were made to the Plan during 2015 and 2014.

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

<u>Year</u>	<u>Amount</u>
2016	\$ 462,000
2017	447,000
2018	455,000
2019	500,000
2020	507,000
2021 through 2025	2,392,000

The plan's weighted-average asset allocations at May 31, 2015 and 2014 by asset category are as follows:

<u>Asset Category</u>	<u>2015</u>	<u>2014</u>
Equity securities	55.0 %	55.0 %
Fixed income	14.0 %	14.0 %
Limited partnerships, private equity and other investment funds	25.0 %	25.0 %
Other	<u>6.0 %</u>	<u>6.0 %</u>
Total	<u>100.0 %</u>	<u>100.0 %</u>

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.

### (c) Retirement incentive plan

During 2015, the University offered a one-time retirement incentive plan to full-time employees who met certain age and years of service requirements. The Plan covers a specified percentage of the eligible employees compensation based on years of service that will be paid in equal annual installments over a period of five years. The Plan also allows eligible employees to continue their current fringe benefits, including health insurance, for the next five years. The University recognized a liability totaling approximately \$983,000 at May 31, 2015 for the outstanding obligation under the plan which is included with accrued expenses and liabilities in the accompanying 2015 statement of financial position.

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(16) 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 \$100,000 per individual claim for covered employees. Amounts in excess of \$100,000 per claim are covered by a stop-loss policy purchased by the University, which provides for up to \$1 million lifetime maximum reimbursement per covered individual. The self-insured health insurance plan is administered by a third party who acts as the University's agent in making benefit payments on the University's behalf. The total liability for outstanding health claims, including claims incurred but not reported, was approximately \$347,000 and \$340,000 at May 31, 2015 and 2014, respectively.

Postretirement benefit plan

Certain of the University's employees or former employees are covered under a postretirement benefit plan. The University had approximately 130 retirees covered by the plan at May 31, 2015. Lifetime claims of an individual in excess of \$2,000,000 are the obligation of the retiree. Total costs of the plan were \$398,559 and \$422,761 in 2015 and 2014, respectively. The University funds 100% of the plan for retirees who retired before August 1, 1994 and funds a percentage of such costs for retirees who retired after August 1, 1994 based on years of service to the University. Employees hired after August 1, 1993 may participate in the postretirement benefit plan, but have to fund the full premium.

The following presents the plan's funded status reconciled with amounts recognized in the University's statements of financial position as of May 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Accrued postretirement benefit obligation:		
For retirees	\$ 2,730,269	\$ 2,895,569
For active employees	<u>2,689,505</u>	<u>2,466,600</u>
Accrued postretirement benefit obligation	\$ <u>5,419,774</u>	\$ <u>5,362,169</u>

The accumulated postretirement benefit obligation was reduced by approximately \$125,000 and \$346,000 during 2015 and 2014, respectively, as the result of actuarial revaluations.

Net periodic postretirement benefit costs for 2015 and 2014 include the following components:

	<u>2015</u>	<u>2014</u>
Service cost	\$ 27,799	\$ 30,042
Interest cost	249,112	255,843
Recognized prior service income	(35,139)	(35,139)
Recognized net losses	<u>156,787</u>	<u>172,015</u>
Net periodic postretirement benefit cost	\$ <u>398,559</u>	\$ <u>422,761</u>

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

<u>Year</u>	<u>Amount</u>
2016	\$ 295,000
2017	311,000
2018	324,000
2019	359,000
2020	367,000
2021 through 2025	1,986,000

The disclosures above were determined through actuarial valuation. For measurement purposes at May 31, 2015, a 6.25% 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 4.50% and 4.75% at May 31, 2015 and 2014, respectively.

The health care cost trend rate assumption has a significant effect on the amounts reported. Increasing the assumed health care cost trend by one percentage point in each year would increase the accrued postretirement benefit obligation by approximately \$227,000 and \$218,000 at May 31, 2015 and 2014, respectively, and would increase the net periodic postretirement benefit cost by approximately \$6,100 in 2015 and \$11,500 in 2014.

(17) Net assets

Temporarily restricted net assets as of May 31, 2015 and 2014 are committed for the following purposes:

	<u>2015</u>	<u>2014</u>
Annuity and life income funds which convert to unrestricted net assets upon maturity	\$ 2,438,124	\$ 2,848,993
Scholarships and instruction	13,601,484	11,641,012
Capital improvements	20,104,335	19,701,992
Other programs	<u>711,945</u>	<u>702,733</u>
	<u>\$ 36,855,888</u>	<u>\$ 34,894,730</u>

As of May 31, 2015 and 2014, permanently restricted net assets consisted primarily of investments and contributions receivable totaling \$46,971,256 and \$44,934,020, respectively, that are to be held in perpetuity, the income of which is expendable for both specific and general purposes.

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(18) Endowment

The University's endowment consists of approximately 550 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University has interpreted the State of Tennessee's State Uniform Prudent Management of Institutional Funds Act ("SUPMIFA"), as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditures by the University in a manner consistent with the standard of prudence prescribed by SUPMIFA. In accordance with SUPMIFA, 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.

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The endowment pool market value to net asset analysis as of May 31, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment pool:				
Donor-restricted	\$ -	\$ 10,594,774	\$ 46,408,392	\$ 57,003,166
Board-designated	<u>14,439,810</u>	<u>-</u>	<u>-</u>	<u>14,439,810</u>
	14,439,810	10,594,774	46,408,392	71,442,976
Other net assets	<u>54,752,732</u>	<u>26,261,114</u>	<u>562,864</u>	<u>81,576,710</u>
Total	\$ <u>69,192,542</u>	\$ <u>36,855,888</u>	\$ <u>46,971,256</u>	\$ <u>153,019,686</u>

The endowment pool market value to net asset analysis as of May 31, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment pool:				
Donor-restricted	\$ -	\$ 10,366,030	\$ 43,865,614	\$ 54,231,644
Board-designated	<u>14,098,944</u>	<u>-</u>	<u>-</u>	<u>14,098,944</u>
	14,098,944	10,366,030	43,865,614	68,330,588
Other net assets	<u>53,532,676</u>	<u>24,528,700</u>	<u>1,068,406</u>	<u>79,129,782</u>
Total	\$ <u>67,631,620</u>	\$ <u>34,894,730</u>	\$ <u>44,934,020</u>	\$ <u>147,460,370</u>

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Changes in endowment net assets for the fiscal years ended May 31, 2015 and 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2013	\$ <u>10,872,529</u>	\$ <u>11,121,805</u>	\$ <u>40,280,209</u>	\$ <u>62,274,543</u>
Investment return:				
Investment income	66,539	273,482	246,510	586,531
Net appreciation (depreciation) - realized and unrealized	<u>4,659,876</u>	<u>685,540</u>	<u>(106,452)</u>	<u>5,238,964</u>
Total investment return	<u>4,726,415</u>	<u>959,022</u>	<u>140,058</u>	<u>5,825,495</u>
Contributions	-	-	3,445,347	3,445,347
Appropriation of endowment assets for expenditure	<u>(1,500,000)</u>	<u>(1,714,797)</u>	<u>-</u>	<u>(3,214,797)</u>
Endowment net assets, May 31, 2014	<u>14,098,944</u>	<u>10,366,030</u>	<u>43,865,614</u>	<u>68,330,588</u>
Investment return:				
Investment income	588,415	-	24,653	613,068
Net appreciation (depreciation) - realized and unrealized	<u>1,252,451</u>	<u>2,165,796</u>	<u>-</u>	<u>3,418,247</u>
Total investment return	<u>1,840,866</u>	<u>2,165,796</u>	<u>24,653</u>	<u>4,031,315</u>
Contributions	-	-	2,518,125	2,518,125
Appropriation of endowment assets for expenditure	<u>(1,500,000)</u>	<u>(1,937,052)</u>	<u>-</u>	<u>(3,437,052)</u>
Endowment net assets, May 31, 2015	\$ <u>14,439,810</u>	\$ <u>10,594,774</u>	\$ <u>46,408,392</u>	\$ <u>71,442,976</u>

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(19) Lease commitments

The University leases classroom space, vehicles and various equipment under operating leases. Rent expense under these leases amounted to approximately \$1,986,000 and \$1,502,000 in 2015 and 2014, respectively.

A summary of approximate future minimum payments under these operating leases as of May 31, 2015 is as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 2,021,000
2017	1,880,000
2018	1,242,000
2019	506,000
2020	<u>77,000</u>
	<u>\$ 5,726,000</u>

It is expected that in the normal course of business, leases that expire will likely be renewed or replaced by other leases; thus, it is anticipated that future lease payments will not be less than the commitments for 2016.

The University also leases certain real estate from third parties, including certain real estate that is subject to sale/leaseback accounting treatment (discussed below). Additionally, certain of this real estate is subleased. During 2015 and 2014, lease expense related to these properties amounted to approximately \$659,000 and \$535,000, respectively, and rental income under the subleases amounted to approximately \$628,200 and \$444,000, respectively.

Approximate future minimum rental payments due under the leases, including sale/leaseback agreements, are as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 657,000
2017	573,000
2018	458,000
2019	235,000
2020	142,000
Thereafter	<u>28,000</u>
	<u>\$ 2,093,000</u>



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Approximate future minimum rental income under the leases are expected to be as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 579,000
2017	499,000
2018	404,000
2019	242,000
2020	119,000
Thereafter	<u>28,000</u>
	\$ <u>1,871,000</u>

In prior years, the University entered into real estate sale/leaseback transactions whereby the University sold certain investment properties for \$3,640,000. The properties were subsequently leased back from the purchasers. Such properties are included in the University's real estate investments (Note 8). Additionally, the University entered into agreements that allow the University the option to repurchase the properties during periods ranging from four to eight years from the purchase date. The agreements also provide that the University will pay the purchaser an amount equal to between 3.0% and 5.0% of the appreciated market value if the University does not repurchase the property. As a result of the continuing involvement in the property due to the repurchase option, the University deferred the resulting gains and has recognized a liability equal to the sales proceeds received. The University will recognize any gains on sale of the respective properties when the repurchase options expire and the continuing involvement is complete. Additionally, the University entered into agreements that allow for the University the option to purchase certain properties being rented from third parties for periods of up to eight years. The agreements also provide that the University will pay the owner an amount equal to between 3.0% and 5.0% of the appreciated market value if the University does not purchase the property.

(20) Contingent liabilities

The University is sometimes involved in legal actions arising in the normal course of operations. In the opinion of management, there are currently no matters pending which will have a material adverse effect on the University's 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.

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(22) Supplemental disclosures of cash flow statement information

	<u>2015</u>	<u>2014</u>
Approximate interest paid	\$ <u>3,424,000</u>	\$ <u>3,489,000</u>

During 2015, the University incurred capital lease obligations of \$984,588 for the acquisition of musical equipment.

(23) Restatement of net assets and change in accounting policy

Net assets as of June 1, 2013 were restated to record certain pledge contributions receivable totaling approximately \$16,782,000, net of applicable discounts and allowances for doubtful pledges. Management originally considered the pledges as intentions to give which have historically been recorded as contributions when the cash was received.

During 2015, the University changed its policy for releasing net assets designated for capital improvements from temporarily restricted net assets. Previously, the University implied a time restriction of gifts of long lived assets and these net assets were released from temporarily restricted net assets over the life of the applicable capital improvement to offset annual depreciation recognized in unrestricted net assets. The University's new policy releases these net assets when the expenditure for the capital improvement occurs. The University's management believes this new policy is more consistent with the industry practice. As a result of the change, the University reclassified approximately \$31,000,000 from temporarily restricted net assets to unrestricted net assets.

The following financial statement line items for the year ended May 31, 2014 were affected by the restatement and change in accounting policy.

	<u>As originally reported</u>	<u>Prior period adjustment</u>	<u>As restated</u>
<u>Statement of financial position</u>			
Contributions receivable, net	\$ <u>-</u>	\$ <u>18,204,359</u>	\$ <u>18,204,359</u>
Net assets:			
Unrestricted net assets	34,662,584	32,969,036	67,631,620
Temporarily restricted net assets	50,555,080	(15,660,350)	34,894,730
Permanently restricted net assets	<u>44,038,347</u>	<u>895,673</u>	<u>44,934,020</u>
Total net assets	<u>\$129,256,011</u>	<u>\$ 18,204,359</u>	<u>\$147,460,370</u>

Statement of activities and changes in net assets

Private gift revenue	\$ <u>10,950,804</u>	\$ <u>1,422,611</u>	\$ <u>12,373,415</u>
Change in net assets	13,763,897	1,422,611	15,186,508
Net assets at beginning of the year	<u>115,492,114</u>	<u>16,781,748</u>	<u>132,273,862</u>
Net assets at end of the year	<u>\$129,256,011</u>	<u>\$ 18,204,359</u>	<u>\$147,460,370</u>