

LIPSCOMB UNIVERSITY

Financial Statements

May 31, 2010 and 2009

(With Independent Auditors' Report Thereon)



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

LIPSCOMB UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
Lipscomb University:

We have audited the accompanying statements of financial position of Lipscomb University (the University) as of May 31, 2010 and 2009, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lipscomb University as of May 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Lattimore Black Morgan + Cain, PC

Brentwood, Tennessee
September 10, 2010

LIPSCOMB UNIVERSITY

Statements of Financial Position

May 31, 2010 and 2009

<u>Assets</u>		
	<u>2010</u>	<u>2009</u>
Assets:		
Cash and cash equivalents	\$ 2,945,213	\$ 1,367,581
Accounts receivable, net	1,178,617	2,185,685
Investments, excluding real estate	63,868,642	60,686,711
Real estate investments	10,872,054	12,711,122
Prepaid expenses and other assets	1,483,572	1,450,867
Student loans receivable	2,353,714	2,456,830
Property and equipment, net	<u>111,810,507</u>	<u>112,693,730</u>
	<u>\$ 194,512,319</u>	<u>\$ 193,552,526</u>
 <u>Liabilities and Net Assets</u>		
Liabilities:		
Current portion of notes and loans payable	\$ 158,931	\$ 2,918,931
Current portion of bonds payable	2,910,000	1,500,000
Student accounts and dormitory deposits collected in advance	4,477,074	3,829,020
Accounts payable	2,084,263	1,587,760
Accrued expenses and liabilities	13,509,523	14,312,043
Deferred revenue	1,284,822	1,019,253
Actuarial liability for annuities payable	2,699,250	2,737,853
Notes and loans payable, excluding current portion	1,947,102	3,298,528
Bonds payable, excluding current portion	70,150,000	72,160,000
Deferred gain on sale of investment real estate	1,132,480	-
Accrued postretirement benefit obligation	5,344,576	4,761,024
Federal student loans refundable	<u>2,212,549</u>	<u>2,182,136</u>
Total liabilities	<u>107,910,570</u>	<u>110,306,548</u>
 Net assets:		
Unrestricted:		
Undesignated	7,256,565	5,492,069
Designated for student loans	288,658	288,624
Funds functioning as endowment	8,428,458	7,562,752
Designated for pension and postretirement benefit plans	(6,183,605)	(6,291,854)
Designated for plant facilities	<u>(3,761,736)</u>	<u>(7,021,221)</u>
Total unrestricted	6,028,340	30,370
Temporarily restricted	46,286,680	50,814,746
Permanently restricted	<u>34,286,729</u>	<u>32,400,862</u>
Total net assets	<u>86,601,749</u>	<u>83,245,978</u>
	<u>\$ 194,512,319</u>	<u>\$ 193,552,526</u>

See accompanying notes to the financial statements.

LIPSCOMB UNIVERSITY

Statements of Activities and Changes in Net Assets

Years ended May 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Changes in unrestricted net assets:		
Revenues and other support:		
Tuition and education fees	\$ 73,960,890	\$ 62,559,609
Less financial aid	<u>(15,328,583)</u>	<u>(13,781,534)</u>
Net tuition and fees	58,632,307	48,778,075
Private gifts	1,711,796	1,999,775
Investment/endowment gain (loss), net	5,085,396	(21,157,219)
Auxiliary enterprises revenue	12,765,703	12,143,439
Rental income	854,619	738,217
Other income	1,697,358	1,641,145
Satisfaction of restrictions	<u>9,136,968</u>	<u>4,131,971</u>
Total revenues and other support	<u>89,884,147</u>	<u>48,275,403</u>
Expenses:		
Instruction	30,705,285	28,299,999
Institutional support	19,554,663	19,897,945
Student services	13,180,732	12,513,639
Auxiliary enterprises	9,933,400	9,898,534
Academic support	8,525,900	7,689,893
Public services	1,396,520	1,089,769
Loss on interest rate swap agreements	<u>589,677</u>	<u>4,577,761</u>
Total expenses	<u>83,886,177</u>	<u>83,967,540</u>
Increase (decrease) in unrestricted net assets	<u>5,997,970</u>	<u>(35,692,137)</u>
Changes in temporarily restricted net assets:		
Private gifts	3,027,871	4,141,042
Adjustments of actuarial liability for annuities payable	(250,527)	644,976
Investment income (loss), net	302,208	(2,386,683)
Other income	1,020,325	867,804
Government and other grants	500,732	3,463,770
Net assets released from restrictions	<u>(9,128,675)</u>	<u>(4,117,874)</u>
Increase (decrease) in temporarily restricted net assets	<u>(4,528,066)</u>	<u>2,613,035</u>
Changes in permanently restricted net assets:		
Private gifts	1,425,306	1,241,239
Investment income (loss), net	509,141	(257,658)
Adjustments of actuarial liability for annuities payable	(40,287)	(13,572)
Net assets released from restrictions, including changes in value of split interest agreements	<u>(8,293)</u>	<u>(14,097)</u>
Increase in permanently restricted net assets	<u>1,885,867</u>	<u>955,912</u>
Increase (decrease) in net assets	3,355,771	(32,123,190)
Net assets at beginning of year	<u>83,245,978</u>	<u>115,369,168</u>
Net assets at end of year	<u>\$ 86,601,749</u>	<u>\$ 83,245,978</u>

See accompanying notes to the financial statements.

LIPSCOMB UNIVERSITY

Statements of Cash Flows

Years ended May 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ <u>3,355,771</u>	\$ <u>(32,123,190)</u>
Adjustments to reconcile increase (decrease) in net assets to cash flows provided by operating activities:		
Depreciation and amortization	5,507,901	5,816,555
Provision for uncollectible accounts	746,902	105,105
Loss on disposal of property and equipment	205,496	-
Net (gain) loss on investments, excluding real estate	(6,095,564)	23,804,419
Net loss on real estate investments	658,832	-
Gifts restricted for investments and plant facilities	(4,453,177)	(5,782,764)
(Increase) decrease in operating assets:		
Accounts receivable	260,166	(825,670)
Prepaid expenses and other assets	(32,705)	1,470,829
Increase (decrease) operating liabilities:		
Student accounts and dormitory deposits collected in advance	648,054	1,103,989
Accounts payable	496,503	(1,527,602)
Accrued expenses and liabilities	(802,520)	11,681,080
Deferred revenue	265,569	20,069
Actuarial liability for annuities payable	(38,603)	(698,662)
Accrued postretirement benefit obligation	<u>583,552</u>	<u>54,035</u>
Total adjustments	<u>(2,049,594)</u>	<u>35,221,383</u>
Net cash provided by operating activities	<u>1,306,177</u>	<u>3,098,193</u>
Cash flows from investing activities:		
Purchases of plant facilities	(4,530,993)	(15,341,327)
Proceeds from sale of investments	75,716,150	45,690,334
Purchases of investments	(72,802,514)	(35,991,108)
Proceeds from sale of real estate investments	2,788,758	-
Purchase of real estate investments	(775,226)	(1,263,025)
Net increase (decrease) in federal student loans refundable	30,413	(5,967)
Collection of student loans, net	<u>103,116</u>	<u>64,880</u>
Net cash provided (used) by investing activities	<u>529,704</u>	<u>(6,846,213)</u>
Cash flows from financing activities:		
Payments of notes and loans payable	(4,111,426)	(180,507)
Proceeds from bonds payable	74,560,000	-
Payments of bonds payable	(75,160,000)	(2,100,000)
Gifts restricted for investments and plant facilities	<u>4,453,177</u>	<u>5,782,764</u>
Net cash provided (used) by financing activities	<u>(258,249)</u>	<u>3,502,257</u>
Increase (decrease) in cash and cash equivalents	1,577,632	(245,763)
Cash and cash equivalents at beginning of year	<u>1,367,581</u>	<u>1,613,344</u>
Cash and cash equivalents at end of year	\$ <u><u>2,945,213</u></u>	\$ <u><u>1,367,581</u></u>

See accompanying notes to the financial statements.

LIPSCOMB UNIVERSITY

Notes to the Financial Statements

May 31, 2010 and 2009

(1) Nature of operations

Lipscomb University (the University) is a private, not-for-profit, co-educational, church-related university of approximately 3,700 students seeking undergraduate and graduate degrees. The University also provides pre-kindergarten through high school education for approximately 1,400 additional students. The President and the Board of Trustees, the governing board of the University, have oversight responsibility for all of the University's financial affairs.

(2) Summary of significant accounting policies

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

(a) Accounting codification

On June 29, 2009, the Financial Accounting Standards Board ("FASB") issued Statement on Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* ("SFAS 168"). SFAS 168 is effective for periods ending after September 15, 2009 and makes the *FASB Accounting Standards Codification* ("ASC") the sole source of authoritative accounting technical literature for nongovernmental entities in the United States of America.

(b) Basis of presentation

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

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

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

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

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

Designated for pension and postretirement benefit plans - Represents the benefit obligations in excess of plan assets related to the pension and postretirement benefit plans (see Notes 14 and 15).

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Designated for plant facilities - Represents the residual equity (deficit) of net capital assets less any related debt and adjusted for the interest rate swaps. Plant gifts of \$34,056,347 and \$37,767,740 at May 31, 2010 and 2009, respectively, are included in temporarily restricted net assets.

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

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

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

(c) **Cash equivalents**

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

(d) **Receivables and credit policies**

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

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

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Notes to the Financial Statements

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(e) Investments

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

The University's spending policy allows for a 5.5% annual draw from endowment earnings. Earnings drawn from funds functioning as endowment are unrestricted in purpose. The use of earnings drawn from restricted endowment funds is restricted as stipulated in the donor agreements. During 2010 and 2009, the Board of Trustees, at their discretion, authorized additional draws for special projects of \$2,277,931 and \$1,946,026, respectively.

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

(f) Property and equipment

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

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

(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.

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Notes to the Financial Statements

May 31, 2010 and 2009

(h) Life income and gift annuities

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

The University is the named trustee for certain estates and trusts of friends of the University and currently pays the trust income to the named beneficiaries. In such cases where the University is not the sole beneficiary, only the University's portion is included in these financial statements. As of May 31, 2010 and 2009, assets under such split-interest agreements total \$904,035 (or \$570,690 net of liabilities) and \$825,243 (or \$454,043 net of liabilities), respectively, and are included in investments on the statements of financial position.

(i) Capitalized interest

The University capitalizes interest costs related to debt incurred in conjunction with various construction projects (see Note 9).

(j) Income taxes

The University is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3), and, accordingly, no provision for income taxes is included in the financial statements. As of May 31, 2010, the University has accrued no interest and no 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, 2006.

(k) Revenue recognition

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

(l) Advertising costs

Advertising and promotion costs are expensed as incurred. The University incurred advertising costs of \$582,053 and \$459,030 for the years ended May 31, 2010 and 2009, respectively.

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Notes to the Financial Statements

May 31, 2010 and 2009

(m) 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.

(n) Federal student loans refundable

Funds provided by the Government under the Federal Perkins Loan program are loaned to qualified students and may be reloaned after collection. These funds are ultimately refundable to the Government and are therefore recorded as liabilities.

(o) Intentions to give

The University is of the opinion that all intentions to give do not meet the criteria of unconditional promises to give. Accordingly, the University generally records intentions to give only when the related gifts are actually received. As of May 31, 2010 and 2009, the University had received current intentions to give future gifts of approximately \$564,000 and \$3,807,000, respectively, which will be primarily restricted for construction projects when received.

(p) Program efforts

The University's primary program services are instruction and student services. Expenses reported as academic support, institutional support, and auxiliary enterprises are incurred in support of these primary program services. Institutional support includes fund-raising expenses of \$2,352,249 and \$2,300,408 in 2010 and 2009, 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.

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

Costs related to the operation and maintenance of physical plant, including depreciation of plant assets, are allocated to operating programs and supporting activities based on periodic inventories of facilities. Interest expense on external debt is allocated to the activities which have most directly benefited from the proceeds of the external debt.

(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.

LIPSCOMB UNIVERSITY

Notes to the Financial Statements

May 31, 2010 and 2009

(s) Events occurring after reporting date

The University's management has evaluated events and transactions that occurred between May 31, 2010 and September 10, 2010, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(t) Reclassifications

Certain items in the 2009 financial statements have been reclassified to conform to the presentation of the 2010 financial statements. These reclassifications had no effect on net assets available for benefits as previously reported.

(3) Change in accounting estimate

Effective June 1, 2009, the University reevaluated and increased its estimate of the useful lives of certain buildings and campus facilities with a cost of approximately \$56,557,000 from 40 to 60 years. This change had the effect of increasing the change in net assets by approximately \$536,000 during 2010.

(4) Credit risks and concentrations

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

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

The University holds life insurance policies with various insurance companies. As of May 31, 2010, two insurance companies, rated A (Excellent) and A++ (Superior) by A.M. Best, hold approximately 39% of the cash value of life insurance policies owned by the University. As of May 31, 2009, one insurance company, which was rated A (Excellent) by A.M. Best, held approximately 39% of the cash value of life insurance policies owned by the University.

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Notes to the Financial Statements

May 31, 2010 and 2009

(5) Accounts receivable

A summary of accounts receivable as of May 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Student accounts receivable	\$ 1,793,081	\$ 1,834,729
Other accounts receivable	<u>333,378</u>	<u>1,191,686</u>
Subtotal	2,126,459	3,026,415
Less allowance for uncollectible accounts	<u>(947,842)</u>	<u>(840,730)</u>
Accounts receivable, net	<u>\$ 1,178,617</u>	<u>\$ 2,185,685</u>

Other accounts receivable included amounts due from Federal award programs of \$885,307 as of May 31, 2009.

(6) Investments

A summary of investments as of May 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Short-term investments	\$ 20,919,977	\$ 2,704,251
Mutual funds	34,125,764	34,984,149
Marketable equity securities	1,557,108	16,048,614
Corporate bonds and government securities	844,955	113,990
Limited partnership interests in equity securities	4,567,475	4,746,436
Life insurance policies	1,729,386	1,963,899
Other	<u>123,977</u>	<u>125,372</u>
	<u>\$ 63,868,642</u>	<u>\$ 60,686,711</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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Interest and dividends	\$ 631,196	\$ 1,061,075
Unrealized gain (loss) on investments, net	8,665,552	(19,828,372)
Realized loss on investments, net	(2,569,987)	(3,976,047)
Payments to beneficiaries	(613,050)	(837,155)
Investment management fees	<u>(216,966)</u>	<u>(221,061)</u>
	<u>\$ 5,896,745</u>	<u>\$ (23,801,560)</u>

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May 31, 2010 and 2009

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

	<u>2010</u>	<u>2009</u>
Unrestricted, including funds functioning as endowment	\$ 5,085,396	\$ (21,157,219)
Temporarily restricted	302,208	(2,386,683)
Permanently restricted	<u>509,141</u>	<u>(257,658)</u>
	<u>\$ 5,896,745</u>	<u>\$ (23,801,560)</u>

(7) Fair value measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, 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 FASB 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.

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The following is a description of the valuation methodologies used for asset measurement measured at fair value. There have been no changes in the methodologies used at May 31, 2010 and 2009.

- (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.

The University invests in a mutual fund that uses derivative financial instruments to hedge against adverse changes in interest rates and foreign exchange rates. The underlying investments of the derivative fund are valued by the trustee/custodian based on the last prior sales price on the principal board of trade or other contracts market or by quotations from the contra party bank.

- (iii) *Marketable equity securities, corporate bonds and government securities:* Valued at the closing price reported on the active market on which the individual securities are traded.
- (iv) *Limited partnerships:* Valued at fair value based on the beginning of year value of the University's interest plus actual contributions and allocated investment income less actual distributions and allocated administrative expenses.
- (v) *Life insurance policies:* Valued at the cash value of the underlying insurance policies.
- (vi) *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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May 31, 2010 and 2009

The following tables sets forth by level, within the fair value hierarchy, the University's financial instruments at fair value as of May 31, 2010 and 2009:

Fair Value Measurements as of May 31, 2010 using the following inputs

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term investments	\$ 20,919,977	\$ 20,919,977	\$ -	\$ -
Mutual funds:				
Mid cap	5,385,845	-	5,385,845	-
Small cap	2,876,371	-	2,876,371	-
International	21,144,698	270,382	10,637,217	10,237,099
Hedge funds	2,600,470	-	-	2,600,470
Exchange traded	<u>2,118,380</u>	<u>2,118,380</u>	<u>-</u>	<u>-</u>
Total mutual funds	34,125,764	2,388,762	18,899,433	12,837,569
Marketable equity securities	1,557,108	1,557,108	-	-
Corporate bonds and government securities	844,955	844,955	-	-
Limited partnership interests	4,567,475	-	-	4,567,475
Life insurance policies	1,729,386	-	-	1,729,386
Other	<u>123,977</u>	<u>123,977</u>	<u>-</u>	<u>-</u>
Total investments	\$ <u>63,868,642</u>	\$ <u>25,834,779</u>	\$ <u>18,899,433</u>	\$ <u>19,134,430</u>
Interest rate swaps	\$ <u>(7,832,135)</u>	\$ <u>-</u>	\$ <u>(7,832,135)</u>	\$ <u>-</u>

Fair Value Measurements as of May 31, 2009 using the following inputs

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term investments	\$ 2,704,251	\$ 2,704,251	\$ -	\$ -
Mutual funds, including hedge funds	34,984,149	3,041,017	19,699,970	12,243,162
Marketable equity securities	16,048,614	16,048,614	-	-
Corporate bonds and government securities	113,990	113,990	-	-
Limited partnership interests	4,746,436	-	-	4,746,436
Life insurance policies	1,963,899	-	-	1,963,899
Other	<u>125,372</u>	<u>125,372</u>	<u>-</u>	<u>-</u>
Total investments	\$ <u>60,686,711</u>	\$ <u>22,033,244</u>	\$ <u>19,699,970</u>	\$ <u>18,953,497</u>
Interest rate swaps	\$ <u>(7,242,458)</u>	\$ <u>-</u>	\$ <u>(7,242,458)</u>	\$ <u>-</u>

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May 31, 2010 and 2009

The following table provides a summary of changes in fair value of the University's Level 3 assets for the years ended May 31, 2010 and 2009:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Limited Partnership Interests	Mutual Funds	Life Insurance Policies	Total
Balance at May 31, 2008	\$ 4,744,061	\$ 16,119,876	\$ 2,165,790	\$ 23,029,727
Realized gains (losses)	(18,568)	-	-	(18,568)
Unrealized gains (losses) relating to instruments still held at the reporting date	(1,290,556)	(2,128,745)	-	(3,419,301)
Purchases, sales, issuances and settlements, net	<u>1,311,499</u>	<u>(1,747,969)</u>	<u>(201,891)</u>	<u>(638,361)</u>
Balance at May 31, 2009	4,746,436	12,243,162	1,963,899	18,953,497
Realized gains (losses)	(613,565)	701,021	-	87,456
Unrealized gains (losses) relating to instruments still held at the reporting date	9,101	2,256,832	-	2,265,933
Purchases, sales, issuances and settlements, net	<u>425,503</u>	<u>(2,363,446)</u>	<u>(234,513)</u>	<u>(2,172,456)</u>
Balance at May 31, 2010	<u>\$ 4,567,475</u>	<u>\$ 12,837,569</u>	<u>\$ 1,729,386</u>	<u>\$ 19,134,430</u>

(8) Real estate investments

A summary of real estate investments as of May 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Properties adjacent to the University	\$ 12,540,333	\$ 13,194,438
Properties not adjacent to the University	<u>1,346,399</u>	<u>2,583,896</u>
	13,886,732	15,778,334
Accumulated depreciation on real estate investments	<u>(3,014,678)</u>	<u>(3,067,212)</u>
	<u>\$ 10,872,054</u>	<u>\$ 12,711,122</u>

Depreciation expense on these properties amounted to \$299,181 and \$301,691 for the years ended May 31, 2010 and 2009, respectively.

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(9) Property and equipment

A summary of property and equipment as of May 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Buildings and campus	\$ 156,439,917	\$ 146,162,899
Computer equipment and software	3,566,073	3,563,204
Furniture, fixtures and office equipment	5,929,699	5,774,504
General equipment	8,189,215	7,561,609
Laboratory equipment	3,164,717	2,890,386
Library books and equipment	6,223,396	6,357,997
Automobiles	385,137	380,437
Construction in progress	<u>2,121,763</u>	<u>9,461,986</u>
	186,019,917	182,153,022
Accumulated depreciation	<u>(74,209,410)</u>	<u>(69,459,292)</u>
	<u>\$ 111,810,507</u>	<u>\$ 112,693,730</u>

Depreciation expense on these assets amounted to \$5,208,720 and \$5,514,864 for the years ended May 31, 2010 and 2009, respectively.

Capitalized interest on construction projects amounted to \$319,837 for the year ended May 31, 2009.

As of May 31, 2010, the University had construction contracts totaling approximately \$1,983,000 to be paid at various stages of completion through fiscal year 2011.

The University has retainage related to construction projects of approximately \$42,000 and \$426,000 at May 31, 2010 and 2009, respectively, which is included in accrued expenses and liabilities.

(10) Line of credit

The University has a \$3,000,000 line of credit available with a bank at May 31, 2010 that matures in January 2011. Borrowings bear interest at LIBOR plus 1.5% and are unsecured. The University had no borrowings under this line as of May 31, 2010 or 2009.

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Notes to the Financial Statements

May 31, 2010 and 2009

(11) Notes and loans payable

A summary of notes and loans payable as of May 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Note payable to bank, due June 2013, with interest payable monthly at a rate based on LIBOR (1.00% at May 31, 2010); secured by property.	\$ 2,106,033	\$ 2,258,459
Note payable to bank, due October 2012, with interest payable monthly at 5.70%; secured by property. Repaid in 2010.	-	259,000
Note payable to bank, due May 2011, with interest payable monthly at a rate based on LIBOR (.81% at May 31, 2009); unsecured. Repaid in 2010.	<u>-</u>	<u>3,700,000</u>
Total notes and loans payable	2,106,033	6,217,459
Less current portion	<u>(158,931)</u>	<u>(2,918,931)</u>
Notes and loans payable, excluding current portion	\$ <u>1,947,102</u>	\$ <u>3,298,528</u>

A summary of future maturities of notes and loans payable as of May 31, 2010 is as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 158,931
2012	158,931
2013	158,931
2014	<u>1,629,240</u>
	\$ <u>2,106,033</u>

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May 31, 2010 and 2009

(12) Bonds payable

A summary of bonds payable as of May 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Variable Rate Demand Revenue Bonds Series 2009; due in annual payments of varying amounts through November 2028; bearing interest at a variable rate (5.35% as of May 31, 2010)	\$ 73,060,000	\$ -
Educational Facilities Revenue Refunding Bonds Series 2003; refinanced during 2010.	-	32,500,000
Educational Facilities Revenue Bonds Series 2003B; refinanced during 2010.	-	7,000,000
Variable Rate Demand Revenue Bonds Series 2006; refinanced during 2010.	-	23,000,000
Variable Rate Demand Revenue Bonds Series 2008; refinanced during 2010.	<u>-</u>	<u>11,160,000</u>
Total bonds payable	73,060,000	73,660,000
Less current portion	<u>(2,910,000)</u>	<u>(1,500,000)</u>
Bonds payable, excluding current portion	\$ <u>70,150,000</u>	\$ <u>72,160,000</u>

During 2009, the remarketing agent was unable to sell all of the 2003, 2006 and 2008 demand bonds due to the turmoil in financial credit markets; therefore, some bonds were tendered for payment by bondholders and were held by SunTrust Bank at May 31, 2009. On August 1, 2009, the University refinanced all of the aforementioned bonds through the issuance of Series 2009 variable rate demand revenue refunding bonds in the amount of \$74,560,000 by the Health and Education Board of the Metropolitan Government of Nashville and Davidson County, Tennessee and these new bonds were successfully remarketed.

The Series 2009 variable rate demand revenue refunding bonds are secured by an irrevocable letter of credit with SunTrust Bank which matures on August 15, 2012. SunTrust Bank's letter of credit is backed by a confirming letter of credit issued by the Federal Home Loan Bank of Atlanta. The refunding bonds are also subject to the provisions of a remarketing agreement. Should the University be unable to renew the letter of credit, comply with the terms of the remarketing agreement, or comply with its financial covenants or other provisions of the bond indenture, the principal payments under the refunding bonds could be accelerated or penalties could be assessed to the University.

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Under the terms of the aforementioned agreements, the University is subject to a negative pledge agreement and compliance with certain financial ratios and restrictions including investment, leverage, and cash flow ratios. The University was in compliance with these requirements as of May 31, 2010.

A summary of future maturities of bonds payable, based on the refinancing on August 1, 2009 as discussed below, is as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 2,910,000
2012	3,030,000
2013	3,285,000
2014	3,805,000
2015	4,125,000
2016 and later years	<u>55,905,000</u>
	<u>\$ 73,060,000</u>

(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. The fair value of the University's swap agreements is reported within the accrued expenses and liabilities on the statements of financial position and amounted to (\$7,832,135) and (\$7,242,458) at May 31, 2010 and 2009, respectively.

The first swap agreement was executed in May 2003 for the University's Educational Facilities Revenue Refunding Bonds Series 2003 and also the Educational Facilities Revenue Bonds Series 2003B. This agreement terminates in November 2023 and has an original notional amount of \$47,000,000 and a current notional amount of \$37,300,000 at May 31, 2010. The fair value of the first agreement is (\$2,828,516) and (\$2,546,918) as of May 31, 2010 and 2009, respectively.

The second swap agreement was executed in May 2006 for the University's Variable Rate Demand Revenue Bond Series 2006. This agreement terminates in November 2028 and has an original notional amount of \$23,000,000 and a current notional amount of \$22,900,000 at May 31, 2010. The fair value of the second agreement is (\$4,105,684) and (\$3,907,184) as of May 31, 2010 and 2009, respectively.

The third swap agreement was executed in January 2008 for the University's Variable Rate Demand Revenue Bond Series 2008. This agreement terminates in November 2027 and has an original notional amount of \$11,160,000 and a current notional amount of \$10,960,000 at May 31, 2010. The fair value of the third agreement is (\$897,935) and (\$788,356) as of May 31, 2010 and 2009, respectively.

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

The effective all-in rate of interest (when all three interest variables are combined) of Lipscomb University is 4.59% for fiscal year 2010 and 4.96% for fiscal year 2009.

Interest expense on notes and loans payable amounted to approximately \$414,000 and \$288,000 for 2010 and 2009, respectively. Interest expense on the bonds payable amounted to approximately \$3,795,000 and \$3,070,000 for the years ended May 31, 2010 and 2009, respectively. Total interest expense was approximately \$4,209,000 and \$3,358,000 for 2010 and 2009, respectively.

(14) Employee benefit plans

(a) Defined contribution plan

The University sponsors a defined contribution pension plan covering substantially all employees. The University matches employee contributions up to 7% of the employee's compensation, subject to IRS limitations. The University made contributions to the plan of \$1,376,502 and \$1,236,362 for 2010 and 2009, respectively.

(b) Defined benefit plan

The University has a contributory, defined benefit retirement plan covering certain salaried employees hired prior to August 1, 1990. The University makes annual contributions to the plan according to the actuarial funding agreement. The assets of the plan are primarily invested in United States Government and corporate bonds, equity securities, and mutual funds, which are considered to be Level 1 investments in accordance with the ASC 820 hierarchy.

The following table sets forth the plan's benefit obligations, fair value of plan assets, and funded status at May 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Fair value of plan assets	\$ 5,874,241	\$ 5,483,406
Benefit obligation	<u>6,713,270</u>	<u>7,014,236</u>
Funded status	\$ <u>(839,029)</u>	\$ <u>(1,530,830)</u>
Prepaid (accrued) benefit cost recognized in the financial statements	\$ <u>(839,029)</u>	\$ <u>(1,530,830)</u>

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Weighted-average assumptions used to determine benefit obligations at May 31, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Discount rate	<u>6.0 %</u>	<u>6.0 %</u>
Rate of compensation increase	<u>4.0 %</u>	<u>5.0 %</u>

Weighted-average assumptions used to determine net cost for the years ended May 31, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Discount rate	<u>6.0 %</u>	<u>6.0 %</u>
Expected long-term rate of return on plan assets	<u>8.0 %</u>	<u>8.0 %</u>
Rate of compensation increase	<u>4.0 %</u>	<u>5.0 %</u>

A summary of other information related to this plan for 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Pension expense	\$ <u>416,165</u>	\$ <u>423,635</u>
Benefits paid	\$ <u>238,256</u>	\$ <u>276,484</u>

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>
2011	\$ 654,466
2012	647,767
2013	648,262
2014	691,612
2015	430,577
2016 through 2020	1,914,081

The plan weighted-average asset allocations at May 31, 2010 and 2009 by asset category are as follows:

<u>Asset Category</u>	<u>2010</u>	<u>2009</u>
Equity securities	65.3 %	62.8 %
Fixed income	8.6 %	10.2 %
Other	<u>26.1 %</u>	<u>27.0 %</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.

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(15) Health plans

Group health insurance

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

Postretirement benefit plan

Certain of the University's employees or former employees are covered under a postretirement benefit plan. The University had approximately 140 retirees covered by the plan at May 31, 2010. Lifetime claims of an individual in excess of \$2,000,000 are the obligation of the retiree. Total costs of the plan were \$401,597 and \$347,166 in 2010 and 2009, respectively. The University funds 100% of the plan for retirees before August 1, 1994 and funds a percentage of such costs for retirees after August 1, 1994 based on years of service to the University. Employees hired after August 1, 1993 may participate in the retiree plan, but have to fund the full premium.

The following presents the plan's funded status reconciled with amounts recognized in the University's statement of financial position as of May 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Accrued postretirement benefit obligation:		
For retirees	\$ 2,957,402	\$ 2,676,082
For active employees	<u>2,387,174</u>	<u>2,084,942</u>
Funded status/accrued postretirement benefit obligation	\$ <u>5,344,576</u>	\$ <u>4,761,024</u>

Net periodic postretirement benefit costs for 2010 and 2009 include the following components:

	<u>2010</u>	<u>2009</u>
Service cost	\$ 31,274	\$ 27,482
Interest cost	309,761	276,289
Recognized prior service income	(35,139)	(35,139)
Recognized net losses	<u>95,701</u>	<u>78,534</u>
Net periodic postretirement benefit cost	\$ <u>401,597</u>	\$ <u>347,166</u>

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Notes to the Financial Statements

May 31, 2010 and 2009

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>
2011	\$ 286,300
2012	306,400
2013	327,800
2014	350,800
2015	375,300
2016 through 2020	2,309,600

The disclosures above were determined through actuarial valuation. For measurement purposes at May 31, 2010, 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 6.0% at May 31, 2010.

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 \$505,416 and \$739,949 at May 31, 2010 and 2009, respectively, and would increase the net periodic postretirement benefit cost by \$25,599 in 2010 and \$39,784 in 2009.

(16) Net assets

Temporarily restricted net assets as of May 31, 2010 and 2009 are committed for the following purposes:

	<u>2010</u>	<u>2009</u>
Annuity and life income funds which convert to unrestricted net assets upon maturity	\$ 2,000,866	\$ 3,007,386
Scholarships and instruction	9,409,382	9,224,207
Capital improvements	34,056,347	37,767,740
Other programs	<u>820,085</u>	<u>815,413</u>
	<u>\$ 46,286,680</u>	<u>\$ 50,814,746</u>

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Permanently restricted net assets are held in perpetuity with the income from assets expendable to support certain programs. A summary of the permanently restricted net assets by the program for which the related income is expendable as of May 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Investments to be held in perpetuity, the income from, which is expendable for both specific and general purposes	\$ 34,220,386	\$ 32,285,968
Annuity and life income funds, which will be held in perpetuity upon maturity	<u>66,343</u>	<u>114,894</u>
	<u>\$ 34,286,729</u>	<u>\$ 32,400,862</u>

(17) Endowment

The University's endowment consists of approximately 480 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.

During 2007, the state of Tennessee adopted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). As prescribed by UPMIFA, the University intends to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditures by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

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May 31, 2010 and 2009

The endowment pool market value to net asset analysis as of May 31, 2010 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment pool:				
Donor-restricted	\$ -	\$ 9,341,048	\$ 34,206,456	\$ 43,547,504
Board-designated	<u>8,428,458</u>	<u>-</u>	<u>-</u>	<u>8,428,458</u>
	8,428,458	9,341,048	34,206,456	51,975,962
Other net assets	<u>(2,400,118)</u>	<u>36,945,632</u>	<u>80,273</u>	<u>34,625,787</u>
Total	\$ <u>6,028,340</u>	\$ <u>46,286,680</u>	\$ <u>34,286,729</u>	\$ <u>86,601,749</u>

The endowment pool market value to net asset analysis as of May 31, 2009 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment pool:				
Donor-restricted	\$ -	\$ 11,981,760	\$ 32,330,173	\$ 44,311,933
Board-designated	<u>7,562,752</u>	<u>-</u>	<u>-</u>	<u>7,562,752</u>
	7,562,752	11,981,760	32,330,173	51,874,685
Other net assets	<u>(7,532,382)</u>	<u>38,832,986</u>	<u>70,689</u>	<u>31,371,293</u>
Total	\$ <u>30,370</u>	\$ <u>50,814,746</u>	\$ <u>32,400,862</u>	\$ <u>83,245,978</u>

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Changes in endowment net assets for the fiscal years ended May 31, 2010 and 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2008	\$ <u>34,881,361</u>	\$ <u>12,415,844</u>	\$ <u>31,448,871</u>	\$ <u>78,746,076</u>
Investment return:				
Investment income	354,803	56,900	320,604	732,307
Net appreciation (depreciation) - realized and unrealized	<u>(22,501,421)</u>	<u>(2,703,326)</u>	<u>(736,432)</u>	<u>(25,941,179)</u>
Total investment return	<u>(22,146,618)</u>	<u>(2,646,426)</u>	<u>(415,828)</u>	<u>(25,208,872)</u>
Contributions	-	350,000	1,297,130	1,647,130
Appropriation of endowment assets for expenditure	(5,930,867)	1,862,342	-	(4,068,525)
Transfers to board- designated endowment	<u>758,876</u>	<u>-</u>	<u>-</u>	<u>758,876</u>
Endowment net assets, May 31, 2009	<u>7,562,752</u>	<u>11,981,760</u>	<u>32,330,173</u>	<u>51,874,685</u>
Investment return:				
Investment income	165,708	178,719	65,698	410,125
Net appreciation (depreciation) - realized and unrealized	<u>6,336,972</u>	<u>(4,633,108)</u>	<u>21,067</u>	<u>1,724,931</u>
Total investment return	<u>6,502,680</u>	<u>(4,454,389)</u>	<u>86,765</u>	<u>2,135,056</u>
Contributions	420,204	-	1,789,518	2,209,722
Appropriation of endowment assets for expenditure	(6,057,178)	1,813,677	-	(4,243,501)
Transfers to board- designated endowment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, May 31, 2010	\$ <u>8,428,458</u>	\$ <u>9,341,048</u>	\$ <u>34,206,456</u>	\$ <u>51,975,962</u>

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(18) Lease commitments

The University leases vehicles and various office equipment under operating leases. Rent expense under these leases amounted to \$943,574 and \$908,159 in 2010 and 2009, respectively.

A summary of approximate future minimum payments under these operating leases as of May 31, 2010 is as follows:

	<u>Amount</u>
2011	\$ 1,016,000
2012	935,000
2013	778,000
2014	296,000
2015	156,000
Thereafter	<u>296,000</u>
	\$ <u>3,477,000</u>

It is expected that in the normal course of business, leases that expire will be renewed or replaced by other leases; thus, it is anticipated that future lease payments will not be less than the commitments for 2011.

During 2010, the University entered into real estate sale/leaseback transactions whereby the University sold certain investment properties for their fair value of \$2,283,000. The investment properties had depreciated values of approximately \$1,078,000. The properties were subsequently leased back from the purchasers. Additionally, the University entered into agreements that allow the University the option to repurchase the properties during periods ranging from four to eight years. 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 gain of approximately \$1,205,000 and is recognizing the gain in proportion to future lease payments. During 2010, the University recognized approximately \$72,000 of the deferred gain.

Future minimum rental payments due under the leases are as follows:

2011	\$ 157,873
2012	157,873
2013	157,873
2014	142,273
2015	120,219
Thereafter	<u>208,106</u>
	\$ <u>944,217</u>

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The related properties under the sale/leaseback transactions are subleased to third parties. The above lease expense will be offset by payments due under the subleases as follows:

2011	\$	132,612
2012		132,612
2013		132,612
2014		121,612
2015		109,252
Thereafter		<u>214,197</u>
	\$	<u>842,897</u>

During 2010, lease expense related to these properties amounted to \$76,404. Rental income under the subleases amounted to \$132,612.

(19) 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.

(20) Related party transactions

The University sometimes purchases goods or services from companies or organizations that are affiliated with or owned, directly or indirectly, by members of the Board of Trustees. Transactions with related parties are considered to be arm's length.

(21) Supplemental disclosures of cash flow statement information

	<u>2010</u>	<u>2009</u>
Approximate interest paid, net of capitalized interest of \$319,837 in 2009	\$ <u>3,545,000</u>	\$ <u>3,145,000</u>

During 2010, the University recorded a deferred gain of approximately \$1,205,000 related to the sale/leaseback transaction discussed in Note 18.

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

While the accompanying financial statements are prepared in accordance with ASC Topic 958, *Not-for-Profit Entities*, the underlying accounts are kept on a fund accounting basis, in order to monitor the University's fiduciary responsibilities on a more detailed basis. A reconciliation of the results between the change in unrestricted net assets and the fund accounting basis is as follows:

	<u>2010</u>	<u>2009</u>
Increase (decrease) in unrestricted net assets	\$ 5,997,970	\$ (35,692,137)
Depreciation expense	5,209,167	5,514,076
Non-operating investment (income) loss	(526,639)	27,541,604
Capitalized expenditures from current funds	(1,130,195)	(1,449,679)
Principal payments on long-term debt	(5,911,426)	(2,280,507)
Capital gifts recognized	(1,802,613)	(1,099,526)
Gifts to unrestricted - designated funds	(801,334)	(266,325)
Restricted funds for special projects, net	(871,551)	44,999
Non-cash retirement plan adjustments	(108,249)	3,100,380
Interest rate swap adjustment (gain) loss	589,677	4,577,761
Capital projects fund - pharmacy	(243,712)	-
Other	<u>49,900</u>	<u>130,094</u>
Current unrestricted operating fund surplus - fund accounting basis	\$ <u>450,995</u>	\$ <u>120,740</u>