

LIPSCOMB UNIVERSITY

Financial Statements

May 31, 2014 and 2013

(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 financial statements of Lipscomb University (the University) which are comprised of the statements of financial position as of May 31, 2014 and 2013, 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, 2014 and 2013, 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.

Restatement for medical plan net assets

As described in Note 22 to the financial statements, the prior year financial statements excluded certain assets and liabilities related to the University's self-insured medical plan which were originally considered by management to be part of a separate plan. During the current year, management's interpretation of regulatory guidance was changed and the plan assets were determined to be the general assets and obligations of the University. Accordingly, amounts reported for cash, accrued expenses and operating expenses have been restated in the 2013 financial statements. Our opinion is not modified with respect to that matter.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
September 26, 2014

LIPSCOMB UNIVERSITY

Statements of Financial Position

May 31, 2014 and 2013

Assets

	<u>2014</u>	(As restated) <u>2013</u>
Assets:		
Cash and cash equivalents	\$ 7,670,392	\$ 4,277,237
Accounts receivable, net	2,233,824	2,115,561
Investments, excluding real estate	81,438,135	73,725,827
Real estate investments	12,499,247	13,114,009
Prepaid expenses and other assets	2,178,436	2,117,046
Student loans receivable	2,384,455	2,535,234
Property and equipment, net	<u>127,216,227</u>	<u>126,362,694</u>
	<u>\$ 235,620,716</u>	<u>\$ 224,247,608</u>

Liabilities and Net Assets

Liabilities:		
Current portion of notes and loans payable	\$ 134,133	\$ 1,629,240
Current portion of bonds payable	3,270,213	2,840,000
Student accounts and deposits collected in advance	4,008,382	3,758,551
Accounts payable, including construction payables of \$40,363 and \$924,182 in 2014 and 2013, respectively	1,977,707	2,920,214
Accrued expenses and liabilities	9,559,398	9,184,031
Accrued unrealized loss on swap agreements	8,143,990	9,704,204
Deferred revenue	1,430,822	1,230,812
Annuities payable	2,001,565	2,041,553
Construction line of credit	-	2,745,409
Notes and loans payable, excluding current portion	1,354,981	-
Bonds payable, excluding current portion	66,928,535	65,320,000
Accrued postretirement benefit obligation	5,362,169	5,143,169
Federal student loans refundable	<u>2,192,810</u>	<u>2,238,311</u>
Total liabilities	<u>106,364,705</u>	<u>108,755,494</u>

Net assets:		
Unrestricted:		
Undesignated	23,830,401	19,678,197
Designated for student loans	288,827	288,722
Funds functioning as endowment	14,098,944	10,872,529
Designated for pension and postretirement benefit plans	(4,913,231)	(5,195,322)
Designated for plant facilities	<u>1,357,643</u>	<u>(713,687)</u>
Total unrestricted	34,662,584	24,930,439
Temporarily restricted	50,555,080	49,978,870
Permanently restricted	<u>44,038,347</u>	<u>40,582,805</u>
Total net assets	<u>129,256,011</u>	<u>115,492,114</u>
	<u>\$ 235,620,716</u>	<u>\$ 224,247,608</u>

See accompanying notes to the financial statements.

LIPSCOMB UNIVERSITY

Statements of Activities and Changes in Net Assets

Years ended May 31, 2014 and 2013

		(As restated)
	<u>2014</u>	<u>2013</u>
Changes in unrestricted net assets:		
Revenues and other support:		
Tuition and education fees	\$ 121,131,249	\$ 110,775,492
Less financial aid	<u>(28,666,031)</u>	<u>(24,250,834)</u>
Net tuition and fees	92,465,218	86,524,658
Private gifts	1,867,186	2,960,316
Endowment draw for operations	1,500,000	1,775,000
Auxiliary enterprises revenue	17,891,094	16,073,154
Rental income	1,273,867	1,056,838
Other income	3,402,821	3,255,418
Satisfaction of restrictions	<u>6,382,151</u>	<u>5,436,201</u>
Total revenues and other support	<u>124,782,337</u>	<u>117,081,585</u>
Expenses:		
Instruction	50,756,976	44,841,747
Institutional support	25,263,494	24,330,818
Student services	19,710,487	18,802,255
Auxiliary enterprises	12,261,634	11,817,859
Academic support	12,808,179	12,197,145
Public services	<u>2,313,481</u>	<u>2,272,048</u>
Total expenses	<u>123,114,251</u>	<u>114,261,872</u>
Change in unrestricted net assets from operating activities	<u>1,668,086</u>	<u>2,819,713</u>
Non-operating activities:		
Investment gain (loss) after the application of endowment draws	3,798,020	3,900,875
Gain (loss) on interest rate swap agreements	1,560,215	2,756,812
Change in postretirement benefit obligation	(219,000)	339,938
Change in defined benefit retirement plan obligation	501,090	929,714
Satisfaction of restrictions, capital gifts	<u>2,423,734</u>	<u>1,817,875</u>
Change in unrestricted net assets from non-operating activities	<u>8,064,059</u>	<u>9,745,214</u>
Increase in unrestricted net assets	<u>9,732,145</u>	<u>12,564,927</u>
Changes in temporarily restricted net assets:		
Private gifts	6,018,047	6,897,965
Adjustments of actuarial liability for annuities payable	(324,692)	(259,850)
Investment income, net	2,400,227	1,837,618
Other income	71,292	33,305
Government and other grants	1,543,515	525,291
Net assets released from restrictions	<u>(9,132,179)</u>	<u>(7,265,969)</u>
Increase in temporarily restricted net assets	<u>576,210</u>	<u>1,768,360</u>
Changes in permanently restricted net assets:		
Private gifts	3,065,571	2,477,899
Investment income (loss), net	57,402	101,112
Adjustments of actuarial liability for annuities payable	6,275	(72)
Transfers and changes in value of split interest agreements	<u>326,294</u>	<u>11,893</u>
Increase in permanently restricted net assets	<u>3,455,542</u>	<u>2,590,832</u>
Increase in net assets	13,763,897	16,924,119
Net assets at beginning of year	<u>115,492,114</u>	<u>98,567,995</u>
Net assets at end of year	<u>\$ 129,256,011</u>	<u>\$ 115,492,114</u>

See accompanying notes to the financial statements.

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Statements of Cash Flows

Years ended May 31, 2014 and 2013

	<u>2014</u>	(As restated) <u>2013</u>
Cash flows from operating activities:		
Increase in net assets	\$ <u>13,763,897</u>	\$ <u>16,924,119</u>
Adjustments to reconcile change in net assets to cash flows provided by operating activities:		
Depreciation and amortization	7,259,531	6,879,600
Provision for uncollectible accounts	160,762	122,306
Net (gain) loss on interest rate swap agreements	(1,560,214)	(2,756,812)
Loss on disposal of property and equipment	(15,000)	-
Net (gain) loss on investments, excluding real estate	(7,447,363)	(7,841,483)
Gifts restricted for investments and plant facilities	(4,438,451)	(5,351,897)
(Increase) decrease in operating assets:		
Accounts receivable	(279,025)	(529,190)
Prepaid expenses and other assets	(61,390)	(268,423)
Increase (decrease) in operating liabilities:		
Student accounts and deposits collected in advance	249,831	418,349
Accounts payable	(18,325)	230,160
Accrued expenses and liabilities	375,367	(672,864)
Deferred revenue	200,010	(51,740)
Annuities payable	(39,988)	(89,574)
Accrued postretirement benefit obligation	<u>219,000</u>	<u>(339,938)</u>
Total adjustments	<u>(5,395,255)</u>	<u>(10,251,506)</u>
Net cash provided by operating activities	<u>8,368,642</u>	<u>6,672,613</u>
Cash flows from investing activities:		
Proceeds from sale of equipment	15,000	-
Purchases of plant facilities	(8,696,933)	(11,783,248)
Proceeds from sale of investments	18,682,305	39,947,311
Purchases of investments	(18,947,250)	(36,301,419)
Proceeds from sale of real estate investments	590,000	-
Purchases of real estate investments	(315,551)	(970,206)
Net increase (decrease) in federal student loans refundable	(45,501)	19,547
Change in student loans receivable, net	<u>150,779</u>	<u>(96,896)</u>
Net cash used by investing activities	<u>(8,567,151)</u>	<u>(9,184,911)</u>
Cash flows from financing activities:		
Proceeds from construction line of credit	-	1,974,307
Payments of notes and loans payable	(140,126)	(158,931)
Proceeds from bonds payable	2,304,591	71,000,000
Payments of bonds payable	(3,011,252)	(73,848,888)
Gifts restricted for investments and plant facilities	<u>4,438,451</u>	<u>5,351,897</u>
Net cash provided by financing activities	<u>3,591,664</u>	<u>4,318,385</u>
Increase in cash and cash equivalents	3,393,155	1,806,087
Cash and cash equivalents at beginning of year	<u>4,277,237</u>	<u>2,471,150</u>
Cash and cash equivalents at end of year	<u>\$ <u>7,670,392</u></u>	<u>\$ <u>4,277,237</u></u>

See accompanying notes to the financial statements.

LIPSCOMB UNIVERSITY

Notes to the Financial Statements

May 31, 2014 and 2013

(1) Nature of operations

Lipscomb University (the University) is a private, 501(c)(3) not-for-profit, educational, church-related university of approximately 4,500 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 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 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 13 and 14).

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 approximately \$37,742,000 and \$37,319,000 at May 31, 2014 and 2013, 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.

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

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

(b) Cash equivalents

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

(c) Receivables and credit policies

The University reports accounts receivable, net of an allowance for doubtful accounts, at the amount which represents management's estimate of the amount that ultimately will be collected. The University reviews the adequacy of its allowance for uncollectible accounts on an ongoing basis, using historical payment trends, analysis 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. 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 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) 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 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 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.

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Notes to the Financial Statements

May 31, 2014 and 2013

The University's spending policy allows for a 5.0% annual draw from endowment earnings. However, during 2014 and 2013, the Board of Trustees restricted the annual unrestricted endowment draw amount to the lesser of 4.5% or \$1,500,000 (actual draw was \$1,500,000 for each annual period). 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. The Board of Trustees, at their discretion, authorized additional net draws for special projects of \$480,000 during 2013. No such additional draws were authorized for 2014.

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

(e) Property and equipment

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

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

(f) Fair value of interest rate swap agreements

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

(g) 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.

(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.

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Notes to the Financial Statements

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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, 2014 and 2013, assets under such split-interest agreements total \$409,937 (or \$307,453 net of liabilities) and \$386,535 (or \$289,901 net of liabilities), respectively, and are included in investments on the statements of financial position.

(i) Income taxes

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

As of May 31, 2014 and 2013, 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, 2010.

(j) Revenue recognition

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

(k) Advertising costs

Advertising and promotion costs are expensed as incurred. The University incurred advertising costs of \$752,867 and \$841,656 for the years ended May 31, 2014 and 2013, 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.

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(n) Intentions to give

The University is of the opinion that all intentions to give do not meet the criteria of unconditional promises to give. Accordingly, the University generally records intentions to give only when the related gifts are actually received. As of May 31, 2014 and 2013, the University had received current intentions to give future gifts of approximately \$44,354,489 and \$42,778,000, respectively, which will be primarily restricted for construction projects, faculty chairs or student scholarships when received.

(o) Program efforts

The University's primary program services are instruction and student services. Expenses reported as academic support, institutional support, and auxiliary enterprises are incurred in support of these primary program services. Institutional support includes fund-raising expenses of approximately \$3,334,000 and \$3,176,000 in 2014 and 2013, respectively. For purposes of reporting fund-raising expenses, the University includes only those fund-raising costs incurred by its development office and expenses incurred for capital campaigns.

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

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

(q) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(r) Events occurring after reporting date

The University's management has evaluated events and transactions that occurred between May 31, 2014 and September 26, 2014, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements. See Note 21.

(s) Reclassifications

Certain items in the 2013 financial statements have been reclassified to conform to the 2014 presentation. These reclassifications had no effect on net assets or changes in net assets as previously reported.

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Notes to the Financial Statements

May 31, 2014 and 2013

(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, 2014 and May 31, 2013, two insurance companies, rated A+ (Superior) by A.M. Best, hold approximately 37% and 35%, respectively, of the cash value of life insurance policies owned by the University.

(4) Accounts receivable

A summary of accounts receivable as of May 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Student accounts receivable	\$ 2,910,173	\$ 2,720,631
Other accounts receivable	<u>211,666</u>	<u>122,183</u>
Subtotal	3,121,839	2,842,814
Less allowance for uncollectible accounts	<u>(888,015)</u>	<u>(727,253)</u>
Accounts receivable, net	\$ <u>2,233,824</u>	\$ <u>2,115,561</u>

(5) Investments

A summary of investments as of May 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Short-term investments	\$ 7,368,606	\$ 7,062,551
Mutual funds	31,522,953	26,146,345
Marketable equity securities	3,939,518	3,556,504
Corporate bonds and government securities	6,339,200	6,374,848
Limited partnerships, private equity and other investment funds	30,033,451	28,564,618
Life insurance policies	2,034,092	1,867,710
Commodity contract	<u>200,315</u>	<u>153,251</u>
	\$ <u>81,438,135</u>	\$ <u>73,725,827</u>

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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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 647,313	\$ 856,224
Unrealized gain (loss) on investments, net	8,289,703	6,354,124
Realized gain (loss) on investments, net	(842,339)	1,487,359
Payments to beneficiaries	(151,197)	(861,335)
Investment management fees	<u>(187,831)</u>	<u>(221,767)</u>
	<u>\$ 7,755,649</u>	<u>\$ 7,614,605</u>

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

	<u>2014</u>	<u>2013</u>
Endowment draw for operations	\$ 1,500,000	\$ 1,775,000
Unrestricted investment gain (loss) after the application of endowment draws	3,798,020	3,900,875
Temporarily restricted	2,400,227	1,837,618
Permanently restricted	<u>57,402</u>	<u>101,112</u>
	<u>\$ 7,755,649</u>	<u>\$ 7,614,605</u>

(6) Fair value measurements

Financial Accounting Standards Board ("FASB") Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* ("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.

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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, 2014 and 2013.

- (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.
- (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 \$1,100,000 at May 31, 2014.

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Notes to the Financial Statements

May 31, 2014 and 2013

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, 2014 and 2013:

	<u>Fair Value Measurements as of May 31, 2014 using the following inputs</u>			
	<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>	<u>-</u>	<u>-</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	96,339	6,242,861	-
Limited partnerships, private equity and other investment 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>-</u>	<u>200,315</u>	<u>-</u>
Total investments	<u>\$ 81,438,135</u>	<u>\$ 42,927,416</u>	<u>\$ 16,470,992</u>	<u>\$ 22,039,727</u>
Interest rate swaps	<u>\$ (8,143,990)</u>	<u>\$ -</u>	<u>\$ (8,143,990)</u>	<u>\$ -</u>

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Fair Value Measurements as of May 31, 2013 using the following inputs

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term investments	\$ 7,062,551	\$ 7,062,551	\$ -	\$ -
Mutual funds:				
Large cap	10,263,655	10,263,655	-	-
Mid cap	2,460,572	2,460,572	-	-
International	9,350,699	9,350,699	-	-
Commodities	1,816,735	1,816,735	-	-
Exchange traded	<u>2,254,684</u>	<u>2,254,684</u>	<u>-</u>	<u>-</u>
Total mutual funds	26,146,345	26,146,345	-	-
Marketable equity securities	3,556,504	3,556,504	-	-
Corporate bonds and government securities	6,374,848	91,515	6,283,333	-
Limited partnerships, private equity and other investment funds	28,564,618	-	8,612,142	19,952,476
Life insurance policies	1,867,710	-	-	1,867,710
Commodity contract	<u>153,251</u>	<u>-</u>	<u>153,251</u>	<u>-</u>
Total investments	\$ <u>73,725,827</u>	\$ <u>36,856,915</u>	\$ <u>15,048,726</u>	\$ <u>21,820,186</u>
Interest rate swaps	\$ <u>(9,704,204)</u>	\$ <u>-</u>	\$ <u>(9,704,204)</u>	\$ <u>-</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, 2014 and 2013:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Limited Partnership Interests	Life Insurance Policies	Total
Balance at May 31, 2012	\$ 22,422,410	\$ 1,746,446	\$ 24,168,856
Realized gains (losses)	721,769	-	721,769
Unrealized gains (losses) relating to instruments still held at the reporting date	674,211	121,264	795,475
Purchases, sales, issuances and settlements, net	<u>(3,865,914)</u>	<u>-</u>	<u>(3,865,914)</u>
Balance at May 31, 2013	19,952,476	1,867,710	21,820,186
Realized gains (losses)	636,332	-	636,332
Unrealized gains (losses) 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	<u>\$ 20,005,635</u>	<u>\$ 2,034,092</u>	<u>\$ 22,039,727</u>

(7) Real estate investments

A summary of real estate investments as of May 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Properties adjacent to the University	\$ 16,446,074	\$ 16,129,523
Properties not adjacent to the University	<u>756,396</u>	<u>1,347,396</u>
	17,202,470	17,476,919
Accumulated depreciation on real estate investments	<u>(4,703,223)</u>	<u>(4,362,910)</u>
	<u>\$ 12,499,247</u>	<u>\$ 13,114,009</u>

Depreciation expense on these properties amounted to \$340,313 and \$331,677 for the years ended May 31, 2014 and 2013, respectively.

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(8) Property and equipment

A summary of property and equipment as of May 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Buildings and campus	\$ 190,436,683	\$ 182,100,773
Computer equipment and software	3,143,005	3,047,667
Furniture, fixtures and office equipment	16,788,028	15,649,178
General equipment	7,708,577	7,487,985
Laboratory equipment	4,006,412	4,068,458
Automobiles	552,915	528,548
Construction in progress	<u>724,912</u>	<u>3,035,195</u>
	223,360,532	215,917,804
Accumulated depreciation	<u>(96,144,305)</u>	<u>(89,555,110)</u>
	<u>\$ 127,216,227</u>	<u>\$ 126,362,694</u>

Depreciation expense on these assets amounted to \$6,919,218 and \$6,547,923 for the years ended May 31, 2014 and 2013, respectively.

As of May 31, 2013, the University had construction contracts totaling approximately \$3,254,000 that were at various stages of completion through fiscal year 2014. The retainage payable related to construction projects at May 31, 2013 was approximately \$63,700, 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 construction contracts.

(9) Line of credit

The University had a \$1,500,000 operating line of credit available with a bank that matured April 30, 2014, and there were no borrowings under this line as of May 31, 2014. Subsequent to year end, the University replaced this operating line of credit with a new \$7,500,000 facility (Note 21).

During 2012, the University obtained a \$5,000,000 construction line of credit with a bank. Proceeds were to be used for the renovation, improvement, and construction of certain capital projects. Borrowings bore interest at the 30 day LIBOR plus 2.25% and are secured by certain brokerage accounts of the University. The University owed \$2,745,409 under this line as of May 31, 2013. The outstanding balance was refinanced during 2014 with proceeds from a Revenue Bond (Note 11).

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Notes to the Financial Statements

May 31, 2014 and 2013

(10) Notes and loans payable

A summary of notes and loans payable as of May 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Note payable to a bank, originally due June 2013 with monthly principal payments of \$13,224, plus interest at a variable rate. The note payables was amended in 2014. Under the amended terms, the note payable is due August 2023, requires monthly payments of \$15,996 including interest at a rate of 4.05% and is secured by real property.	\$ 1,489,114	\$ 1,629,240
Less current portion	<u>(134,133)</u>	<u>(1,629,240)</u>
Notes and loans payable, excluding current portion	\$ <u>1,354,981</u>	\$ <u>-</u>

A summary of future maturities of notes and loans payable as of May 31, 2014 is as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 134,133
2016	139,667
2017	145,430
2018	151,431
2019	157,679
2020 and later years	<u>760,774</u>
	\$ <u>1,489,114</u>

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Notes to the Financial Statements

May 31, 2014 and 2013

(11) Bonds payable

A summary of bonds payable as of May 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</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, 2014).	\$ 65,320,000	\$ 68,160,000
Revenue Bonds (Lipscomb University Project) Series 2013 ("Series 2013"); due in monthly payments of \$50,626 through December 2023; bearing a fixed interest rate of 3.79%.	<u>4,878,748</u>	<u>-</u>
Total bonds payable	70,198,748	68,160,000
Less current portion	<u>(3,270,213)</u>	<u>(2,840,000)</u>
Bonds payable, excluding current portion	<u>\$ 66,928,535</u>	<u>\$ 65,320,000</u>

A summary of future maturities of bonds payable as of May 31, 2014 is as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 3,270,213
2016	3,286,600
2017	3,304,506
2018	3,322,673
2019	3,341,550
2020 and later years	<u>53,673,206</u>
	<u>\$ 70,198,748</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, 2014 and 2013.

(12) Interest rate swap agreements

Lipscomb University has entered into three interest rate swap agreements with a commercial bank for the purpose of hedging its interest rate risk on 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 \$58,430,000 as of May 31, 2014. The fair value of the University's obligations under swap agreements amounted to \$8,143,990 and \$9,704,204 at May 31, 2014 and 2013, 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 4.96% and 5.25% for fiscal years 2014 and 2013, respectively.

Interest expense on the University's lines of credit and notes and loans payable amounted to approximately \$81,000 and \$77,000 for 2014 and 2013, respectively. Interest expense on the bonds payable, including letter of credit fees, amounted to approximately \$3,430,000 and \$3,653,000 for the years ended May 31, 2014 and 2013, respectively. Total interest expense was approximately \$3,511,000 and \$3,730,000 for 2014 and 2013, respectively.

(13) Employee benefit plans

(a) Defined contribution plan

The University sponsors a defined contribution pension plan covering substantially all employees. The University matches employee contributions up to 7% of an employee's compensation, subject to IRS limitations. The University made contributions to the plan of \$2,021,983 and \$1,961,980 for 2014 and 2013, 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 had approximately 120 participants in the plan at May 31, 2014. 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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Fair value of plan assets	\$ 6,488,512	\$ 6,276,934
Benefit obligation	<u>6,039,574</u>	<u>6,329,087</u>
Funded status	\$ <u>448,938</u>	\$ <u>(52,153)</u>

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Notes to the Financial Statements

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Weighted-average assumptions used to determine benefit obligations at May 31, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Discount rate	<u>4.75 %</u>	<u>5.0 %</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, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Discount rate	<u>4.75 %</u>	<u>5.0 %</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 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Pension expense	\$ <u>568,500</u>	\$ <u>531,915</u>
Benefits paid	\$ <u>343,959</u>	\$ <u>237,962</u>
Actuarial (gain)/loss	\$ <u>(475,055)</u>	\$ <u>(592,305)</u>

During 2014 and 2013, the plan paid additional distributions of \$189,385 and \$162,606, respectively. Additionally, the University contributed \$103,186 to the Plan during 2013. No contributions were made to the Plan during 2014.

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>
2015	\$ 407,000
2016	424,000
2017	427,000
2018	428,000
2019	399,000
2020 through 2024	1,998,000

The plan's weighted-average asset allocations at May 31, 2014 and 2013 by asset category are as follows:

<u>Asset Category</u>	<u>2014</u>	<u>2013</u>
Equity securities	55.0 %	54.0 %
Fixed income	14.0 %	14.0 %
Limited partnerships, private equity and other investment funds	25.0 %	25.0 %
Other	<u>6.0 %</u>	<u>7.0 %</u>
Total	<u>100.0 %</u>	<u>100.0 %</u>

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

The disclosures above were determined through actuarial valuation.

(14) Health plans

Health insurance plan

Lipscomb 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 \$340,000 and \$460,000 at May 31, 2014 and 2013, respectively.

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, 2014. Lifetime claims of an individual in excess of \$2,000,000 are the obligation of the retiree. Total costs of the plan were \$422,761 and \$421,435 in 2014 and 2013, 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 statements of financial position as of May 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Accrued postretirement benefit obligation:		
For retirees	\$ 2,895,569	\$ 2,772,104
For active employees	<u>2,466,600</u>	<u>2,371,065</u>
Accrued postretirement benefit obligation	<u>\$ 5,362,169</u>	<u>\$ 5,143,169</u>

The accumulated postretirement benefit obligation was reduced by approximately \$346,000 and \$126,000 during 2014 and 2013, respectively, as the result of actuarial revaluations.

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Net periodic postretirement benefit costs for 2014 and 2013 include the following components:

	<u>2014</u>	<u>2013</u>
Service cost	\$ 30,042	\$ 29,723
Interest cost	255,843	252,025
Recognized prior service income	(35,139)	(35,139)
Recognized net losses	<u>172,015</u>	<u>174,826</u>
Net periodic postretirement benefit cost	\$ <u>422,761</u>	\$ <u>421,435</u>

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>
2015	\$ 301,000
2016	306,000
2017	315,000
2018	331,000
2019	344,000
2020 through 2024	1,952,000

The disclosures above were determined through actuarial valuation. For measurement purposes at May 31, 2014, 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 4.75% and 5.0% at May 31, 2014 and 2013, 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 \$218,184 and \$405,019 at May 31, 2014 and 2013, respectively, and would increase the net periodic postretirement benefit cost by \$11,545 in 2014 and \$29,155 in 2013.

(15) Net assets

Temporarily restricted net assets as of May 31, 2014 and 2013 are committed for the following purposes:

	<u>2014</u>	<u>2013</u>
Annuity and life income funds which convert to unrestricted net assets upon maturity	\$ 2,848,993	\$ 2,616,081
Scholarships and instruction	9,260,876	9,044,986
Capital improvements	37,742,477	37,319,246
Other programs	<u>702,734</u>	<u>998,557</u>
	\$ <u>50,555,080</u>	\$ <u>49,978,870</u>

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As of May 31, 2014 and 2013, permanently restricted net assets consist of investments totaling \$44,038,347 and \$40,582,805, respectively, that are to be held in perpetuity, the income of which is expendable for both specific and general purposes.

(16) 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 Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University 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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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>20,563,640</u>	<u>40,189,050</u>	<u>172,733</u>	<u>60,925,423</u>
Total	<u>\$ 34,662,584</u>	<u>\$ 50,555,080</u>	<u>\$ 44,038,347</u>	<u>\$ 129,256,011</u>

The endowment pool market value to net asset analysis as of May 31, 2013 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment pool:				
Donor-restricted	\$ -	\$ 11,121,805	\$ 40,280,209	\$ 51,402,014
Board-designated	<u>10,872,529</u>	<u>-</u>	<u>-</u>	<u>10,872,529</u>
	10,872,529	11,121,805	40,280,209	62,274,543
Other net assets	<u>14,057,910</u>	<u>38,857,065</u>	<u>302,596</u>	<u>53,217,571</u>
Total	<u>\$ 24,930,439</u>	<u>\$ 49,978,870</u>	<u>\$ 40,582,805</u>	<u>\$ 115,492,114</u>

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Changes in endowment net assets for the fiscal years ended May 31, 2014 and 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2012	\$ <u>7,507,507</u>	\$ <u>10,329,304</u>	\$ <u>37,991,973</u>	\$ <u>55,828,784</u>
Investment return:				
Investment income	93,920	23,054	203,629	320,603
Net appreciation (depreciation) - realized and unrealized	<u>5,044,952</u>	<u>2,458,770</u>	<u>(392,850)</u>	<u>7,110,872</u>
Total investment return	<u>5,138,872</u>	<u>2,481,824</u>	<u>(189,221)</u>	<u>7,431,475</u>
Contributions	1,150	-	2,477,457	2,478,607
Appropriation of endowment assets for expenditure	<u>(1,775,000)</u>	<u>(1,689,323)</u>	<u>-</u>	<u>(3,464,323)</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>

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(17) Lease commitments

The University leases classroom space, vehicles and various equipment under operating leases. Rent expense under these leases amounted to approximately \$1,502,000 and \$1,396,000 in 2014 and 2013, respectively.

A summary of approximate future minimum payments under these operating leases as of May 31, 2014 is as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 1,358,000
2016	1,334,000
2017	1,284,000
2018	833,000
2019	<u>184,000</u>
	<u>\$ 4,993,000</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 2015.

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 2014 and 2013, lease expense related to these properties amounted to approximately \$535,000 and \$386,000, respectively, and rental income under the subleases amounted to approximately \$444,000 and \$325,000, respectively.

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

<u>Year</u>	<u>Amount</u>
2015	\$ 539,000
2016	486,000
2017	418,000
2018	326,000
2019	130,000
Thereafter	<u>80,000</u>
	<u>\$ 1,979,000</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>
2015	\$ 460,000
2016	413,000
2017	362,000
2018	260,000
2019	138,000
Thereafter	<u>105,000</u>
	<u>\$ 1,738,000</u>

During 2010, 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. 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.

In 2012, the University entered into agreements that allow 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.

(18) 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.

(19) 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 considered to be arm's length.

(20) Supplemental disclosures of cash flow statement information

	<u>2014</u>	<u>2013</u>
Approximate interest paid	\$ <u>3,489,000</u>	\$ <u>3,730,000</u>

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(21) Subsequent event

In August 2014, Lipscomb University obtained a \$7,500,000 revolving line of credit with a bank. The outstanding balance of the line bears interest at a rate equal to 1-month LIBOR plus 1.70% per year. The line matures in October 2019 and is secured by certain investments held by the University.

Subsequent to May 31, 2014, the University signed a construction contract totaling approximately \$8,000,000 for the construction of an academic building.

(22) Restatement of net assets

During 2012, the University adopted a self-insured medical plan (Note 14). Upon adoption, management determined that the medical plan represented a separate entity and the assets and liabilities of the plan were excluded from the University's financial statements. During 2014, the University determined that the medical plan should be included within the activities of the University based upon an interpretation of regulatory guidance. Accordingly, the University has restated the financial statements as of and for the year ended May 31, 2013 to record the Plan's assets and obligations. The following financial statement line items for the year ended May 31, 2013 were affected by the change.

	<u>As originally reported</u>	<u>Prior period adjustment</u>	<u>As restated</u>
<u>Statement of financial position</u>			
Cash and cash equivalents	\$ 3,495,404	\$ 781,833	\$ 4,277,237
Accrued expenses	\$ 9,559,717	\$ (375,686)	\$ 9,184,031
Unrestricted net assets	\$ 23,772,920	\$ 1,157,519	\$ 24,930,439
<u>Statement of activities and changes in net assets</u>			
Institutional support expense	\$ 25,094,834	\$ (764,016)	\$ 24,330,818
Change in net assets	16,160,103	764,016	16,924,119
Net assets at beginning of the year	<u>98,174,492</u>	<u>393,503</u>	<u>98,567,995</u>
Net assets at end of the year	<u>\$114,334,595</u>	<u>\$ 1,157,519</u>	<u>\$115,492,114</u>