LIPSCOMB UNIVERSITY

Financial Statements

May 31, 2016 and 2015

(With Independent Auditors' Report Thereon)

LBMC MAKE A GOOD BUSINESS BETTER

LIPSCOMB UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
Lipscomb University:

We have audited the accompanying financial statements of Lipscomb University (the University) which are comprised of the statements of financial position as of May 31, 2016 and 2015, 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

LBMC, PC

Brentwood, Tennessee
September 1, 2016

LIPSCOMB UNIVERSITY

Statements of Financial Position

May 31, 2016 and 2015

Assets

	2016	2015
Assets:		
Cash and cash equivalents	$ 6,496,306	$ 7,620,322
Accounts receivable, net	1,822,572	2,107,769
Student loans receivable	1,970,342	2,162,130
Contributions receivable, net	22,400,869	18,245,649
Investments, excluding real estate	82,551,581	86,508,521
Real estate investments	16,730,366	14,277,449
Prepaid expenses and other assets	735,653	937,288
Cash from bond proceeds restricted for capital projects	24,777,072	-
Property and equipment, net	148,387,418	131,153,842
	$ 305,872,179	$ 263,012,970

Liabilities and Net Assets

	2016	2015
Liabilities:		
Student accounts and deposits collected in advance	$ 5,387,948	$ 4,668,971
Accounts payable, including construction payables of $2,169,891 and $2,180,486 in 2016 and 2015, respectively	5,027,574	4,143,910
Accrued expenses and liabilities	12,593,383	10,668,216
Accrued unrealized loss on swap agreements	7,804,737	7,998,236
Deferred revenue	1,932,569	1,376,480
Annuities payable	1,447,482	1,736,016
Obligations under capital lease	2,980,923	787,672
Revolving and construction lines of credit	5,000,000	3,502,497
Notes payable	1,217,093	1,355,820
Bonds payable	96,051,135	66,118,377
Accrued pension benefit liability	700,561	-
Accrued postretirement benefit obligation	5,414,410	5,419,774
Federal student loans refundable	2,129,648	2,217,315
Total liabilities	147,687,463	109,993,284
Net assets:		
Unrestricted:		
Undesignated	26,143,774	24,650,933
Designated for student loans	274,795	288,827
Funds functioning as endowment	10,647,122	14,439,810
Designated for pension and postretirement benefit plans	(6,114,971)	(5,368,359)
Designated for plant facilities	37,914,483	35,181,331
Total unrestricted	68,865,203	69,192,542
Temporarily restricted	40,707,174	36,855,888
Permanently restricted	48,612,339	46,971,256
Total net assets	158,184,716	153,019,686
	$ 305,872,179	$ 263,012,970

See accompanying notes to the financial statements.

LIPSCOMB UNIVERSITY

Statements of Activities and Changes in Net Assets

Years ended May 31, 2016 and 2015

	2016	2015
Changes in unrestricted net assets:		
Revenues and other support:		
Tuition and education fees	$ 133,816,344	$ 126,381,973
Less financial aid	(33,376,345)	(30,164,162)
Net tuition and fees	100,439,999	96,217,811
Private gifts	3,334,280	185,639
Endowment draw for operations	1,500,000	1,500,000
Auxiliary enterprises revenue	19,964,118	18,641,782
Rental income	1,498,606	1,489,097
Other income	4,220,126	3,702,703
Satisfaction of restrictions	8,857,076	7,957,524
Total revenues and other support	139,814,205	129,694,556
Expenses:		
Instruction	58,100,700	56,812,029
Institutional support	27,708,462	24,674,429
Student services	20,641,842	20,425,133
Auxiliary enterprises	12,824,067	13,202,194
Academic support	15,262,600	13,443,521
Public services	2,481,112	1,901,342
Total expenses	137,018,783	130,458,648
Change in unrestricted net assets from operating activities	2,795,422	(764,092)
Non-operating activities:		
Investment income (loss), net after the application of endowment draws	(5,571,187)	1,696,703
Gain on interest rate swap agreements	193,499	145,753
Change in postretirement benefit obligation	5,364	(57,605)
Change in defined benefit retirement plan obligation	(751,976)	(397,523)
Retirement incentive plan expense	(325,279)	(982,519)
Refunding expense of prepaid bond costs	(745,059)	-
Satisfaction of restrictions, capital gifts	4,071,877	1,944,439
Change in unrestricted net assets from non-operating activities	(3,122,761)	2,349,248
Increase (decrease) in unrestricted net assets	(327,339)	1,585,156
Changes in temporarily restricted net assets:		
Private gifts	13,847,262	8,898,797
Adjustments of actuarial liability for annuities payable	78,344	(21,594)
Investment income, net	1,293,747	1,577,996
Other income	4,630	79,885
Government and other grants	1,529,896	1,362,552
Net assets released from restrictions	(12,902,593)	(9,940,916)
Increase in temporarily restricted net assets	3,851,286	1,956,720
Changes in permanently restricted net assets:		
Private gifts	1,671,287	1,895,139
Investment income, net	(14,243)	100,814
Adjustments of actuarial liability for annuities	10,399	(17,466)
Transfers and changes in value of split interest	(26,360)	38,953
Increase in permanently restricted net assets	1,641,083	2,017,440
Increase in net assets	5,165,030	5,559,316
Net assets at beginning of year	153,019,686	147,460,370
Net assets at end of year	$ 158,184,716	$ 153,019,686

See accompanying notes to the financial statements.

LIPSCOMB UNIVERSITY

Statements of Cash Flows

Years ended May 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Increase in net assets	$ 5,165,030	$ 5,559,316
Adjustments to reconcile change in net assets to cash flows provided by operating activities:		
Depreciation	5,966,695	7,848,819
Provision for uncollectible accounts	133,652	206,888
Net gain on interest rate swap agreements	(193,499)	(145,753)
Amortization of bond issuance costs and bond discount (premiums)	715,076	40,309
Loss on disposal of property and equipment	46,724	121,160
Net (gain) loss on investments, excluding real estate	4,015,412	(3,970,811)
Net gain on sale of real estate investments	-	(26,499)
Gifts restricted for investments and plant facilities	(3,056,860)	(4,934,133)
(Increase) decrease in operating assets:		
Accounts receivable	151,545	(80,833)
Contributions receivable	(4,155,220)	(41,290)
Prepaid expenses and other assets	201,635	387,932
Increase (decrease) in operating liabilities:		
Student accounts and deposits collected in advance	718,977	660,589
Accounts payable	(1,286,227)	26,087
Accrued expenses and liabilities	1,925,167	1,108,818
Deferred revenue	556,089	(54,342)
Annuities payable	(288,534)	(265,549)
Accrued postretirement benefit obligation	(5,364)	57,605
Accrued pension benefit liability	700,561	-
Total adjustments	6,145,829	938,997
Net cash provided by operating activities	11,310,859	6,498,313
Cash flows from investing activities:		
Purchases of plant facilities	(18,314,240)	(8,388,669)
Proceeds from sale of investments	54,409,484	44,743,646
Purchases of investments	(54,467,956)	(45,843,222)
Proceeds from sale of real estate investments	2,140,000	287,500
Purchases of real estate investments	(5,011,385)	(2,433,424)
Net increase (decrease) in federal student loans refundable	(87,667)	24,505
Change in student loans receivable, net	191,788	222,325
Net cash used by investing activities	(21,139,976)	(11,387,339)
Cash flows from financing activities:		
Proceeds from lines of credit	8,991,300	3,404,039
Payments of notes and loans payable	(7,534,067)	(133,294)
Proceeds from bonds payable	93,103,632	-
Cash from bond proceeds restricted for capital projects	(24,777,072)	-
Payments of bonds payable	(62,875,870)	(3,267,464)
Payment of debt issuance costs	(1,010,080)	-
Payments of capital leases	(249,602)	(98,458)
Gifts restricted for investments and plant facilities	3,056,860	4,934,133
Net cash provided by financing activities	8,705,101	4,838,956
Decrease in cash and cash equivalents	(1,124,016)	(50,070)
Cash and cash equivalents at beginning of year	7,620,322	7,670,392
Cash and cash equivalents at end of year	$ 6,496,306	$ 7,620,322

See accompanying notes to the financial statements.

(1) Nature of operations

Lipscomb University (the University) is a private, 501(c)(3) not-for-profit, educational, church-related university located in Nashville, Tennessee with an enrollment of approximately 4,700 students seeking undergraduate, graduate and doctoral degrees. The University also provides pre-kindergarten through high school education for approximately 1,300 additional students through Lipscomb Academy.

The University is governed by a self-perpetuating Board of Trustees that has oversight responsibility to establish the general policies that govern the operations of the University, including its financial affairs. The Board of Trustees is comprised of 33 members that may serve up to three successive four-year terms.

(2) Summary of significant accounting policies

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

(a) Recently adopted accounting standard

In April 2015, the Financial Accounting Standards Board ("FASB") issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"), which amends the existing guidance to require that debt issuance costs be presented in the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred charge. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015. Early application is permitted. Management has elected to adopt the provision of ASU 2015-03 for the year ended May 31, 2016. Previously reported amounts of deferred charges for debt issuance costs as of May 31, 2015 have been retrospectively reclassified.

(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 of Trustees.

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

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

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

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

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

(c) Cash equivalents

The University reports all highly-liquid investments with original maturities of less than three months as 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, analysis of accounts receivable by payor source and aging of receivables, as well as a review of specific accounts, and makes adjustments in the allowance as necessary. Interest charges are applied to accounts in internal collections. Accounts are sent to external collection agencies or attorneys for collection after the University has exhausted all other efforts in collecting the balance. In addition, as the University determines that Federal Perkins student loans receivable are uncollectible and not eligible for reimbursement by the Federal government, the loans are written off and assigned to the U.S. Department of Education.

(e) Revenue and support recognition

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

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

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

(f) Investments and endowment

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

The University's spending policy allows for an annual unrestricted endowment draw amount of the lesser of 4.5% or $1,500,000 (actual draw was $1,500,000 for each of the years ending May 31, 2016 and 2015) and an annual 5.0% draw from the restricted endowment. It is the University's intent to incrementally eliminate the unrestricted draw through 2021. Earnings drawn from funds functioning as endowment are unrestricted in purpose. The use of earnings drawn from restricted endowment funds is restricted as stipulated in the corresponding donor agreements. The Board of Trustees, at its discretion, can authorize additional net draws for special projects. There were no such additional draws authorized for 2016 or 2015.

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

(g) Property and equipment

Property and equipment with a value in excess of $3,000 are reported at cost. Donated assets are recorded at their estimated market value at the date of the gift. Depreciation is recorded over the assets estimated useful life using the straight-line method.

The estimated useful lives of fixed assets as of May 31, 2016 and 2015 are as follows:

	2016	2015
Buildings and campus	10-60 years	20-60 years
Computer equipment and software	5 years	5 years
Furniture, fixtures and office equipment	10 years	5 - 7 years
General and laboratory equipment	10 years	5 - 7 years
Automobiles	5 years	5 years

Effective June 1, 2015, the University reevaluated and increased the estimated useful lives of property and equipment, including furniture and fixtures, laboratory equipment, general equipment, and certain infrastructure assets such as paving, parking lots, and roofing. This change had the effect of reducing depreciation related to such assets by approximately $2,750,000 during 2016.

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

(h) 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.

(i) Life income and gift annuities

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

The University is the named trustee for certain estates and trusts of friends of the University and pays the trust income to the named beneficiaries. In such cases where the University is not the sole beneficiary, only the University's portion is included in the statements of financial position. As of May 31, 2016 and 2015, assets under such split-interest agreements totaled $357,291 (or $269,619 net of liabilities) and $403,332 (or $302,499 net of liabilities), respectively, and are included in investments on the statements of financial position.

(j) Income taxes

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

As of May 31, 2016 and 2015, the University had accrued no interest or penalties related to uncertain tax positions. It is the University's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

(k) Advertising costs

Advertising and promotion costs are expensed as incurred. The University incurred advertising costs of $1,366,516 and $1,096,886 for the years ended May 31, 2016 and 2015, respectively.

(l) Long-lived assets

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

(m) Financial instruments

The carrying value of cash and cash equivalents, investments, receivables other than student loans, prepaid expenses and other assets, accounts payable, accrued expenses and liabilities, and debt approximate fair value. A reasonable estimate of the fair value of the notes receivable from students under government loan programs and Federal student loans refundable cannot be made because the notes receivable are not saleable and can only be assigned to the U.S. Government or its designees. The fair value of notes receivable from students under University loan programs approximates carrying value.

(n) 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.

(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 fundraising expenses of approximately $4,130,000 and $3,480,000 in 2016 and 2015, respectively. For purposes of reporting fundraising expenses, the University includes only those fundraising costs incurred by its development office and expenses incurred for capital campaigns.

(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) Reclassifications

Certain reclassifications have been made to the 2015 financial statements in order for them to conform to the 2016 presentation. These reclassifications had no effect on total net assets or changes in net assets as previously reported.

(s) Events occurring after reporting date

The University's management has evaluated events and transactions that occurred between May 31, 2016 and September 1, 2016, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Credit risks and concentrations

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

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

The University holds life insurance policies with various insurance companies. As of May 31, 2016 and 2015, two insurance companies, rated A- by A.M. Best, held approximately 42% and 41%, 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, 2016 and 2015 is as follows:

	2016	2015
Student accounts receivable	$ 2,785,216	$ 2,782,226
Other accounts receivable	273,998	433,231
Subtotal	3,059,214	3,215,457
Less allowance for uncollectible accounts	(1,236,642)	(1,107,688)
	$ 1,822,572	$ 2,107,769

(5) Contributions receivable

A summary of contributions receivable as of May 31, 2016 and 2015 is as follows:

	2016	2015
Unconditional promises expected to be collected in:		
Less than one year	$ 2,933,010	$ 627,618
One year to five years	9,677,951	7,182,407
Over five years	11,579,177	12,326,080
	24,190,138	20,136,105
Less discount for net present value	(1,652,198)	(1,754,419)
Less allowance for uncollectible contributions receivable	(137,071)	(136,037)
	$ 22,400,869	$ 18,245,649

Such contributions receivable as of May 31, 2016 and 2015 are to be utilized for the following purposes:

	2016	2015
Unrestricted	$ 1,510,719	$ 2,223,988
Operations and scholarships	4,057,891	3,406,733
Acquisition of property and equipment	16,294,471	12,093,380
Endowment	537,788	521,548
	$ 22,400,869	$ 18,245,649

Contributions receivable have been discounted using rates ranging from 0.12% to 4.43% as of May 31, 2016 and 2015.

(6) Investments, excluding real estate

A summary of investments as of May 31, 2016 and 2015 is as follows:

	2016	2015
Short-term investments	$ 7,821,433	$ 9,134,722
Mutual funds	38,654,343	39,162,611
Marketable equity securities	4,344,811	4,114,877
Corporate bonds and government securities	3,616,863	3,314,296
Limited partnerships, private equity and other funds	26,087,935	28,843,636
Life insurance policies	2,026,196	1,938,379
	$ 82,551,581	$ 86,508,521

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 (losses) in the statements of activities for the years ended May 31, 2016 and 2015:

	2016	2015
Interest and dividends	$ 1,408,958	$ 1,089,208
Unrealized gain (loss) on investments, net	(10,481,526)	169,587
Realized gain on investments, net	6,466,114	3,801,223
Investment management fees	(185,229)	(184,505)
	$ (2,791,683)	$ 4,875,513

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

	2016	2015
Endowment draw for operations	$ 1,500,000	$ 1,500,000
Unrestricted investment gain (loss) after the application of endowment draws	(5,571,187)	1,696,703
Temporarily restricted	1,293,747	1,577,996
Permanently restricted	(14,243)	100,814
	$ (2,791,683)	$ 4,875,513

(7) Fair value measurements

FASB Accounting Standards Codification Topic 820, *Fair Value Measurement* ("ASC 820"), provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below.

Level 1 -Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the University has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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

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

The following is a description of the valuation methodologies used for asset measurement at fair value. There have been no changes in the methodologies used at May 31, 2016 and 2015.

(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.

(v) *Life insurance policies*: Valued at the cash value of the underlying insurance policies. The policies are not available for immediate liquidity.

(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.

The following tables sets forth by level, within the fair value hierarchy, the University's financial instruments at fair value as of May 31, 2016 and 2015:

	Fair Value Measurements as of May 31, 2016 using the following inputs			
	Total	Level 1	Level 2	Level 3
Short-term investments	$ 7,821,433	$ 7,821,433	$ -	$ -
Mutual funds:				
Large cap	19,968,606	19,968,606	-	-
International	15,673,094	15,673,094	-	-
Hedge	14,207	14,207	-	-
Exchange traded	2,998,436	2,998,436	-	-
Total mutual funds	38,654,343	38,654,343	-	-
Marketable equity securities	4,344,811	4,344,811	-	-
Corporate bonds and government securities	3,616,863	3,616,863	-	-
Limited partnerships, private equity and other investment funds	26,087,935	-	11,644,614	14,443,321
Life insurance policies	2,026,196	-	-	2,026,196
Total investments	$ 82,551,581	$ 54,437,450	$ 11,644,614	$ 16,469,517
Interest rate swaps	$ (7,804,737)	$ -	$ (7,804,737)	$ -

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

The following table provides a summary of changes in fair value of the University's Level 3 assets for the years ended May 31, 2016 and 2015:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Limited Partnership Interest, private Equity and Other	Life Insurance Policies	Total
Balance at May 31, 2014	$ 20,005,635	$ 2,034,092	$ 22,039,727
Realized gains	1,219,090	125,074	1,344,164
Unrealized gains relating to instruments still held at the reporting date	777,838	112,387	890,225
Purchases, sales, issuances and settlements, net	(4,754,993)	(333,174)	(5,088,167)
Balance at May 31, 2015	17,247,570	1,938,379	19,185,949
Realized gains	843,368	23,215	866,583
Unrealized gains (losses) relating to instruments still held at the reporting date	(1,928,641)	142,700	(1,785,941)
Purchases, sales, issuances and settlements, net	(1,718,976)	(78,098)	(1,797,074)
Balance at May 31, 2016	$ 14,443,321	$ 2,026,196	$ 16,469,517

ASC 820 requires disclosures about significant quantitative information used in valuations for instruments classified as Level 3 measurements. The estimated fair values of Level 3 assets managed and held in limited partnership and other private investment fund structures are based on the most recent valuations provided by the external investment fund managers and/or general partners of the partnerships using valuation techniques as prescribed by 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. The University reviewed and evaluated the values provided by the managers and agreed with the valuation methods and assumptions used to determine those values. Accordingly, no significant quantitative information was developed by management to complete valuations for these investments.

Investments that calculate net asset value per share:

ASC 820 requires additional disclosure for certain types of investments that calculate net asset value per share but are not publicly traded to assist in understanding the nature and risk of these investments by major category. The table below summarizes the fair value and other pertinent liquidity information of investments in major categories as of May 31, 2016 and 2015:

	2016				2015
Category of Investment	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period	Fair Value
Private Equity	$ 5,645,580	$ 1,446,000	Not permitted during life of the funds	N/A	$ 6,688,365
Real Estate	1,202,525	2,230,000	No immediate redemption	N/A	2,306,250
Equity Long/Short and Absolute Return Hedge Funds	7,523,208	-	No immediate redemption	45 - 100 days	8,436,494
International Equity	7,389,709	-	Monthly	5 days notice	7,255,837
Domestic Equity	3,411,334	-	Monthly	30 days notice	3,397,197
Other	915,579	-	No immediate redemption	N/A	759,493
Total	$26,087,935	$ 3,676,000			$ 28,843,636

Private Equity - This category includes investments in private equity funds and funds-of-funds that invest in emerging growth, expansion stage or financially distressed companies in the United States ("U.S.") and internationally. The investments cannot be redeemed upon the request of the investors but are made through distributions of scheduled liquidations of the underlying holdings. Approximately 80% of such investments held at May 31, 2016 are scheduled to be liquidated within the next four years.

Real Estate - This category includes an investment in a real estate fund of funds that invests primarily in other real estate funds. The investment cannot be redeemed upon the request of the investors but are made through distributions of scheduled liquidations of the underlying holdings. The investment in this category is currently in liquidation with final liquidation to occur during 2017 - 2019.

Equity Long/Short and Absolute Return Hedge Funds - This category includes investments in hedge funds and hedge funds-of-funds that invest primarily in U.S. and international common stocks (both long and short) and other investments seeking to realize appreciation in value primarily through the allocation of capital directly and indirectly among investment funds. Certain of these investments maintain the ability to limit investor redemptions in the event that liquidity in these funds is not available to meet withdrawals. This could also occur if liquidity is available, but non-redeeming fund investors could be adversely affected by large withdrawals by other clients. Approximately 42% of the investments in this category at May 31, 2015 were redeemed during 2016 at prices that approximated their net asset value per share.

International Equity - Investments in this category include funds that seek to achieve long-term capital appreciation by investing primarily in the equity securities of non-U.S. issuers whose equity market capitalizations exceed $5 billion.

Domestic Equity - The underlying investments in this category consist primarily of domestic equity securities focused on a long term growth strategy.

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

(8) Real estate investments

A summary of real estate investments as of May 31, 2016 and 2015 is as follows:

	2016	2015
Properties adjacent to the University	$ 21,189,783	$ 18,879,497
Properties not adjacent to the University	1,056,495	495,396
	22,246,278	19,374,893
Accumulated depreciation on real estate investments	(5,515,912)	(5,097,444)
	$ 16,730,366	$ 14,277,449

Real estate investments include properties that are rented to third parties. Thus, such properties are recorded at cost and depreciated over each properties' estimated useful life. Depreciation expense on these properties amounted to $418,468 and $394,221 for the years ended May 31, 2016 and 2015, respectively. Additionally, certain of the real estate investment properties are subject to sales/leaseback transactions (Note 19).

(9) Property and equipment

A summary of property and equipment as of May 31, 2016 and 2015 is as follows:

	2016	2015
Buildings and campus	$ 212,154,990	$ 192,622,542
Computer equipment and software	3,210,606	3,166,642
Furniture, fixtures and office equipment	18,509,294	17,715,287
General equipment	7,895,078	7,945,633
Laboratory equipment	5,840,969	4,752,323
Automobiles	629,822	565,138
Construction in progress	7,617,640	7,071,135
	255,858,399	233,838,700
Accumulated depreciation	(107,470,981)	(102,684,858)
	$ 148,387,418	$ 131,153,842

Depreciation expense on property and equipment amounted to $5,548,227 and $7,454,598 for the years ended May 31, 2016 and 2015, respectively.

As of May 31, 2016 and 2015, the University had commitments remaining under construction contracts totaling approximately $3,435,000 and $9,640,000 that were at various stages of completion through fiscal years 2016 and 2015, respectively. The retainage payable related to construction projects at May 31, 2016 and 2015 was approximately $131,000 and $180,000, respectively, which is included in accrued expenses and liabilities in the accompany statements of financial position.

(10) Lines of credit

The University had a $7,500,000 revolving line of credit available with a bank with an outstanding balance of $2,500,263 at May 31, 2015. During 2016, the University converted the revolving line of credit into a construction line of credit with a maximum available line of $5,000,000 for which all proceeds were to be utilized to renovate McFarland Hall. Advances are allowed until the earlier of the completion of the construction project or December 31, 2016. Interest is due monthly at a rate equal to the 1-month LIBOR plus 1.95% per year (2.40% at May 31, 2016). At December 31, 2016, the line of credit will convert to a term loan with principal payable in 84 monthly installments beginning April 1, 2019. The University owed $5,000,000 under the line at May 31, 2016.

The outstanding line of credit is subject to certain negative pledge agreements and compliance with a debt service coverage ratio and minimum unrestricted liquidity requirements. The University was in compliance with these requirements as of May 31, 2016 and 2015.

During 2016, the University obtained a $2,500,000 revolving line of credit available with a bank. The outstanding balance of the line bears interest at a rate equal to 1-month LIBOR plus 1.50% per year. The line matures in May 2017 and is secured by certain investments held by the University. The University had no outstanding borrowings under the line at May 31, 2016.

The University had a construction line of credit available with a bank with a maximum available line of $7,500,000 as of May 31, 2015. The line was utilized to renovate the High Rise Residence Hall and was secured by real property. The University owed $903,776 under the line at May 31, 2015. This loan was repaid in March 2016 with the proceeds of a new bond issuance (Note 12).

(11) Notes payable

A summary of notes payable as of May 31, 2016 and 2015 is as follows:

	2016	2015
Note payable to a bank, due August 2023, with monthly payments of $15,996, including interest at a fixed rate of 4.05%. Secured by real property.	$ 1,217,093	$ 1,355,820

A summary of future minimum annual payments of notes payable as of May 31, 2016 is as follows:

Year	Amount
2017	$ 145,430
2018	151,431
2019	157,679
2020	164,184
2021	170,959
2022 and later years	427,410
	$ 1,217,093

(12) Bonds payable

A summary of bonds payable as of May 31, 2016 and 2015 is as follows:

	2016	2015
Revenue Refunding Bonds (Lipscomb University Project) 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 30-day LIBOR plus 2.25% multiplied by a margin rate factor as defined in the bond agreement; net of unamortized debt issuance costs of $770,684 at May 31, 2015. Repaid in 2016.	$ -	$ 61,709,316
Revenue Bonds (Lipscomb University Project) Series 2013; due in monthly payments of $50,626 through December 2023, including interest at a fixed rate of 3.79%; net of unamortized debt issuance costs of $36,944 and $42,222 at May 31, 2016 and 2015, respectively.	4,018,470	4,409,061
Public Revenue Bonds (Lipscomb University Project) Series 2016A; due in annual payments ranging from $610,000 to $6,970,000 per year through October 2036; bearing interest at a fixed rate of 5%; plus unamortized premium based upon effective interest rate of 4.15% of $7,796,713 and less debt issuance costs of $810,843 at May 31, 2016.	69,635,869	-
Revenue Bonds (Lipscomb University Project) Series 2016B; due in monthly payments ranging from $9,963 to $329,630 beginning May 2019 through May 2039; bearing interest at a rate equal to 67% of the sum of 30-day LIBOR plus 1.75% (4.98% as of May 31, 2016); less debt issuance costs of $190,198 at May 31, 2016.	22,396,796	-
Total bonds payable	$ 96,051,135	$ 66,118,377

A summary of future annual minimum payments of bonds payable as of May 31, 2016 is as follows:

Year	Amount
2017	$ 687,780
2018	1,625,947
2019	1,554,379
2020	1,648,321
2021	1,882,812
2022 and later years	88,651,896
	$ 96,051,135

The terms of the bonds payable subject the University to certain negative pledge agreements and compliance with a debt service coverage ratio and minimum unrestricted liquidity requirements. The University was in compliance with these requirements as of May 31, 2016 and 2015.

(13) Interest rate swap agreements

The University has entered into four interest rate swap agreements with a commercial bank for the purpose of hedging its interest rate risk on its outstanding bonds. These agreements terminate between December 2017 and November 2028 and have a combined original notional amount of $97,525,970 and current notional amount of $66,425,970 as of May 31, 2016. The fair value of the University's obligations under swap agreements amounted to $7,804,737 and $7,998,236 at May 31, 2016 and 2015, respectively.

The University's bonds have three components that determined the University's effective interest rate: (1) the University pays a variable rate of interest as defined in the Master Trust Indenture; (2) the University receives 67% of one month LIBOR from the Bank; and (3) the University pays 2.86% to the Bank per the weighted average of the University's four swap agreements.

The effective all-in rate of interest (when all three interest variables are combined) of Lipscomb University was 4.73% and 4.86% for fiscal years 2016 and 2015, respectively.

Interest expense on the University's lines of credit and notes payable amounted to approximately $215,000 and $106,000 for 2016 and 2015, respectively. Interest expense on the bonds payable amounted to approximately $1,971,000 and $3,331,000 for the years ended May 31, 2016 and 2015, respectively. Total interest expense was approximately $3,823,000 and $3,437,000 for 2016 and 2015, respectively.

(14) Capital lease obligations

The University has entered into capital lease agreements to finance the acquisition of certain equipment and real estate. The cost of equipment and real estate utilized under the capital leases totaled $3,328,983 with accumulated depreciation of $217,933 at May 31, 2016. The capital lease obligations totaled $2,980,923 at May 31, 2016.

The University's obligation under these capital leases is as follows:

	2016	2015
Minimum lease payments payable	$ 3,381,214	$ 984,588
Less: portion representing interest	400,291	-
Capital lease obligations	$ 2,980,923	$ 984,588

Future minimum annual lease payments payable under the capital leases as of May 31, 2016 are as follows:

Year	Amount
2017	$ 483,215
2018	483,215
2018	483,215
2020	483,215
2021	1,152,975
2022 and later years	295,379
	$ 3,381,214

Property and equipment utilized under capital leases at May 31, 2016 and 2015 is as follows:

	2016	2015
Land	$ 685,849	$ -
Buildings	1,600,313	-
General equipment	1,042,821	984,588
	3,328,983	984,588
Less: accumulated amortization	217,933	-
	$ 3,111,050	$ 984,588

Amortization expense associated with assets under capital leases totaled $119,475 during 2016. No amortization on such assets was recognized during 2015.

Capital leased assets referenced above include land and buildings related to an Italian villa leased beginning in 2016. The villa is located in Florence, Italy and provides unique educational opportunities for University students to study abroad. The University has the right to purchase the villa at the end of the initial five-year lease term.

(15) Employee benefit plans

(a) Defined contribution plans

The University sponsors a defined contribution retirement plan covering substantially all full-time employees who have been employed at least one year. The University matches employee contributions up to 7% of an employee's compensation, subject to IRS limitations. The University made contributions to the plan of $2,474,846 and $2,256,612 for fiscal years 2016 and 2015, respectively. Additionally, the University sponsors a tax-deferred annuity plan which allows employee contributions for full-time employees upon hire; however, the University does not match any employee contributions under the plan.

(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, 2016. The University makes annual contributions to the plan according to the actuarial funding agreement. The assets of the plan are primarily invested in U.S. Government and corporate bonds, equity securities, and mutual funds, which are considered to be Level 1 investments in accordance with the fair value hierarchy.

The following table sets forth the plan's fair value of plan assets, benefit obligations and funded status at May 31, 2016 and 2015:

	2016	2015
Fair value of plan assets	$ 6,008,284	$ 6,574,492
Benefit obligation	6,708,845	6,523,077
Funded status	$ (700,561)	$ 51,415

Weighted-average assumptions used to determine benefit obligations at May 31, 2016 and 2015 were as follows:

	2016	2015
Discount rate	4.25 %	4.50 %
Rate of compensation increase	5.0 %	5.0 %

Weighted-average assumptions used to determine net cost for the years ended May 31, 2016 and 2015 were as follows:

	2016	2015
Discount rate	4.25 %	4.50 %
Expected long-term rate of return on plan assets	7.5 %	7.5 %
Rate of compensation increase	5.0 %	5.0 %

A summary of other information related to this plan for 2016 and 2015 is as follows:

	2016	2015
Pension expense	$ 422,604	$ 390,408
Change of mortality table	$ -	$ 365,678
Benefits paid	$ 334,891	$ 242,850
Actuarial gain	$ (38,682)	$ (168,334)

During 2015, the plan paid additional distributions of $189,385. There were no additional distributions paid from the plan in 2016. No contributions were made to the plan during 2016 and 2015.

Benefit payments, which include expected future service, as appropriate, are estimated at May 31, 2016 to be paid for the next ten years as follows:

Year	Amount
2017	$ 669,000
2018	675,000
2019	717,000
2020	719,000
2021	706,000
2022 through 2026	3,286,000

The plan's weighted-average asset allocations at May 31, 2016 and 2015 by asset category are as follows:

Asset Category	2016	2015
Equity securities	55 %	55 %
Fixed income	14 %	14 %
Limited partnerships, private equity and other investment funds	25 %	25 %
Other	6 %	6 %
Total	100 %	100 %

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

The disclosures above were determined through actuarial valuation.

(c) Retirement incentive plan

During 2015, the University offered a one-time retirement incentive plan to full-time employees who met certain age and years of service requirements. The plan pays out a specified percentage of the eligible employee compensation based on years of service that will be paid in equal annual installments over a period of five years. The plan also allows eligible employees to continue their current fringe benefits, including health insurance, for five years. The University recognized a liability totaling approximately $1,097,000 and $983,000 at May 31, 2016 and 2015, respectively, for the outstanding obligation under the plan which is included with accrued expenses and liabilities in the accompanying statements of financial position.

(16) Health plans

Health insurance plan

The University adopted a self-insured health insurance plan during 2012. Under the plan, the University is self-insured up to $100,000 per individual claim for covered employees. Amounts in excess of $100,000 per claim are covered by a stop-loss policy purchased by the University, which provides for up to $1 million lifetime maximum reimbursement per covered individual. The self-insured health insurance plan is administered by a third party who acts as the University's agent in making benefit payments on the University's behalf. The total liability for outstanding health claims, including claims incurred but not reported, was approximately $432,000 and $347,000 at May 31, 2016 and 2015, respectively.

Postretirement benefit plan

Certain of the University's employees or former employees are covered under a postretirement healthcare benefit plan. The University had approximately 130 retirees covered by the plan at May 31, 2016. Lifetime claims of an individual in excess of $2,000,000 are the obligation of the retiree. Total costs of the plan were $375,081 and $398,559 in 2016 and 2015, respectively. The University funds 100% of the plan for retirees who retired before August 1, 1994 and funds a percentage of such costs for retirees who retired after August 1, 1994 based on years of service to the University. Employees hired after August 1, 1993 may participate in the postretirement benefit plan, but have to fund the full premium.

The following presents the plan's funded status reconciled with amounts recognized in the University's statements of financial position as of May 31, 2016 and 2015:

	2016	2015
Accrued postretirement benefit obligation:		
For retirees	$ 2,644,274	$ 2,730,269
For active employees	2,770,136	2,689,505
Accrued postretirement benefit obligation	$ 5,414,410	$ 5,419,774

The accumulated postretirement benefit obligation was reduced by approximately $125,000 and $346,000 during 2016 and 2015, respectively, as the result of actuarial revaluations.

Net periodic postretirement benefit costs for 2016 and 2015 include the following components:

	2016	2015
Service cost	$ 22,961	$ 27,799
Interest cost	234,211	249,112
Recognized prior service income	(35,139)	(35,139)
Recognized net losses	153,048	156,787
Net periodic postretirement benefit cost	$ 375,081	$ 398,559

Benefit payments, which include expected future service, as appropriate, are expected as of May 31, 2016 to be paid for the next ten years as follows:

Year	Amount
2017	$ 300,000
2018	312,000
2019	344,000
2020	348,000
2021	358,000
2022 through 2026	1,928,000

The benefit payments listed in the above table were determined through actuarial valuation. For measurement purposes at May 31, 2016, a 5.5% 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 4.25% and 4.50% at May 31, 2016 and 2015, respectively.

The health care cost trend rate assumption has a significant effect on the amounts reported. Increasing the assumed health care cost trend by one percentage point in each year would increase the accrued postretirement benefit obligation by approximately $218,000 and $227,000 at May 31, 2016 and 2015, respectively, and would increase the net periodic postretirement benefit cost by approximately $18,000 in 2016 and $6,100 in 2015.

(17) Net assets

Temporarily restricted net assets as of May 31, 2016 and 2015 are committed for the following purposes:

	2016	2015
Annuity and life income funds which convert to unrestricted net assets upon maturity	$ 1,665,605	$ 2,438,124
Scholarships and instruction	14,055,469	13,601,484
Capital improvements	23,309,714	20,104,335
Other programs	1,676,386	711,945
	$ 40,707,174	$ 36,855,888

As of May 31, 2016 and 2015, permanently restricted net assets consisted primarily of investments and contributions receivable totaling $48,612,339 and $46,971,256, respectively, that are to be held in perpetuity, the income of which is expendable for both specific and general purposes.

(18) Endowment

At May 31, 2016, the University's endowment consisted of approximately 560 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University has interpreted the State of Tennessee's 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; and
(7) The investment policies of the University.

The endowment pool market value to net asset analysis as of May 31, 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment pool:				
Donor-restricted	$ -	$ 9,540,537	$ 48,572,103	$ 58,112,640
Board-designated	10,647,122	-	-	10,647,122
	10,647,122	9,540,537	48,572,103	68,759,762
Other net assets	58,218,081	31,166,637	40,236	89,424,954
Total	$ 68,865,203	$ 40,707,174	$ 48,612,339	$ 158,184,716

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

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

Changes in endowment net assets for the fiscal years ended May 31, 2016 and 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2014	$ 14,098,944	$ 10,366,030	$ 43,865,614	$ 68,330,588
Investment return:				
Investment income	588,415	-	24,653	613,068
Net appreciation (depreciation) - realized and unrealized	1,252,451	2,165,796	-	3,418,247
Total investment return	1,840,866	2,165,796	24,653	4,031,315
Contributions	-	-	2,518,125	2,518,125
Appropriation of endowment assets for expenditure	(1,500,000)	(1,937,052)	-	(3,437,052)
Endowment net assets, May 31, 2015	14,439,810	10,594,774	46,408,392	71,442,976
Investment return:				
Investment income	1,176,598	-	-	1,176,598
Net appreciation (depreciation) - realized and unrealized	(5,534,286)	1,149,941	517,561	(3,866,784)
Total investment return	(4,357,688)	1,149,941	517,561	(2,690,186)
Contributions	2,065,000	-	1,646,150	3,711,150
Appropriation of endowment assets for expenditure	(1,500,000)	(2,204,178)	-	(3,704,178)
Endowment net assets, May 31, 2016	$ 10,647,122	$ 9,540,537	$ 48,572,103	$ 68,759,762

(19) Lease commitments

The University leases classroom space, vehicles and various equipment under operating leases. Rent expense under these leases amounted to approximately $1,718,000 and $1,522,000 in 2016 and 2015, respectively.

A summary of approximate future minimum payments under these operating leases as of May 31, 2016 is as follows:

Year	Amount
2017	$ 2,236,000
2018	1,843,000
2019	1,061,000
2020	580,000
2021	428,000
Thereafter	3,035,000
	$ 9,183,000

The lease commitments above include the University's SPARK conference center in downtown Nashville, Tennessee, which was entered into on May 3, 2016 with a commencement date of January 1, 2017 upon completion of certain leasehold improvements. In this approximately 20,000 square-foot facility, the University will provide academic programs, leadership development initiatives and meeting space.

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 2017.

The University leases certain real estate that is subject to sale/leaseback accounting treatment (discussed below). Additionally, certain of this real estate is subleased. During 2016 and 2015, lease expense related to these properties amounted to approximately $893,000 and $659,000, respectively, and rental income under the subleases amounted to approximately $643,000 and $628,200, respectively.

Approximate future minimum rental payments due under the leases, including sale/leaseback agreements, as of May 31, 2016 are as follows:

Year	Amount
2017	$ 1,025,000
2018	882,000
2019	691,000
2020	605,000
2021	378,000
Thereafter	312,000
	$ 3,893,000

Approximate future minimum rental income under the leases at May 31 2016 are expected to be as follows:

Year	Amount
2017	$ 895,000
2018	735,000
2019	563,000
2020	489,000
2021	451,000
Thereafter	229,000
	$ 3,362,000

The University has entered into certain sale/leaseback transactions whereby the University has sold certain investment properties which were subsequently leased back from the purchasers. The lease agreements allow the University the option to repurchase the properties during periods ranging from four to eight years from the purchase date. As a result of the continuing involvement in the properties due to the repurchase option, the University deferred the resulting gains and has recognized a liability equal to the sales proceeds received totaling $4,807,000 and $3,640,000 at May 31, 2016 and 2015, respectively. The University will recognize any gains on sale of the respective properties when the repurchase options expire and the continuing involvement is complete. 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.

Additionally, the University entered into agreements that allow for the University the option to purchase certain properties being rented from third parties for periods of up to eight years. The agreements also provide that the University will pay the owner an amount equal to between 3.0% and 5.0% of the appreciated market value if the University does not purchase the property.

(20) Contingent liabilities

The University is sometimes involved in legal actions arising in the normal course of operations. Although it is not possible to predict the ultimate resolution or financial liability with respect to any pending or threatened litigation, in the opinion of management, there are currently no matters pending or threatened which will have a material adverse effect on the University's financial position.

(21) Related party transactions

The University sometimes purchases goods or services or rents certain property from companies or organizations that are affiliated with or owned, directly or indirectly, by members of the Board of Trustees. Transactions with related parties are consummated at arm's length in accordance with the terms of the University's conflict of interest policy.

(22) Supplemental disclosures of cash flow statement information

	2016	2015
Approximate interest paid	$ 3,075,000	$ 3,424,000

During 2016 and 2015, the University incurred capital lease obligations of $2,344,395 and $984,588, respectively, for the acquisition of equipment and real estate.